The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of our Company, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

29 January 2010

The Board of Directors
International Mining Machinery Holdings Limited
UBS AG, Hong Kong Branch

Dear Sirs,

We set out below our report on the financial information of Jiamusi Coal Mining Machinery Co., Ltd. ("Jiamusi Machinery") including the income statement, the statement of changes in equity and cash flow statement of Jiamusi Machinery for the period from 1 January 2006 to 15 May 2006 (the "Relevant Period"), the statement of financial position as at 15 May 2006, and a summary of significant accounting policies and other explanatory notes (the "Financial Information") for inclusion in the Prospectus of International Mining Machinery Holdings Limited (formerly known as TJCC IMM Holdings Ltd., the "Company") dated 29 January 2010 (the "Prospectus") in connection with the proposed listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Jiamusi Machinery was incorporated as a domestic limited liability company in the People's Republic of China (the "PRC") on 4 September 2002. On 11 April 2006, Jiamusi Machinery was re-registered as a wholly foreign-owned enterprise following the acquisition of 100% equity interest in Jiamusi Machinery by International Mining Machinery Limited ("IMM Mauritius"), a subsidiary of the Company incorporated in Mauritius, from Heilongjiang Coal Mining Machinery Group Co., Ltd. ("HCMMG"), the former holding company of Jiamusi Machinery. Consequently, the Company became the holding company of Jiamusi Machinery thereon.

Jiamusi Machinery is principally engaged in the manufacture and sale of mining machinery in Mainland China the PRC. The registered office and the principal place of business of Jiamusi Machinery are located at 218 Jiefang Road, Xiangyang district, Jiamusi, the PRC. Prior to the re-registration as a wholly foreign-owned enterprise, HCMMG held 100% of the equity interest of Jiamusi Machinery and therefore was its holding company up to 15 May 2006, being the date on which IMM Mauritius obtained control over Jiamusi Machinery. Jiamusi Machinery has adopted 31 December as its financial year end date.

No audited financial statements of Jiamusi Machinery were prepared in accordance with the relevant accounting rules and financial regulations in the PRC ("PRC GAAP") for the Relevant Period.

For the purpose of this report, the directors of Jiamusi Machinery (the "Directors") have prepared the management accounts of Jiamusi Machinery for the Relevant Period, in accordance with International Financial Reporting Standards ("IFRSs") (which also include International Accounting Standards ("IASs") and Interpretations) issued by the International Accounting Standards Board (the "IASB") (the "IFRS Management Accounts").

The Directors are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion based on our audit on the Financial Information for the Relevant Period.

The Financial Information has been prepared by the Directors from the IFRS Management Accounts and in accordance with IFRSs. For the purpose of this report, we have carried out an independent audit on the Financial Information for the Relevant Period in accordance with HKSAs, and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA. No adjustments were deemed necessary to the IFRS Management Accounts in preparing this accountants report for inclusion in the Prospectus.

In our opinion, the Financial Information for the Relevant Period gives, for the purpose of this report, a true and fair view of the state of affairs of Jiamusi Machinery as at 15 May 2006 and of the results and cash flows of Jiamusi Machinery for the Relevant Period in accordance with IFRSs.

I. FINANCIAL INFORMATION

Income statement

For the period from 1 January 2006 to 15 May 2006

	Notes	RMB'000
REVENUE	4	174,407
Cost of sales		(82,514)
Gross profit		91,893
Other income and gains	4	9,961
Selling and distribution costs		(18,737)
Administrative expenses		(16,035)
Other expenses		(7,190)
Finance revenue	5	44
Finance costs	5	(2,090)
PROFIT BEFORE TAX	6	57,846
Income tax-expense	9	(14,404)
PROFIT FOR THE PERIOD		43,442
Attributable to:		
Equity holder of Jiamusi Machinery		43,442

"Profit for the period" represents the "total comprehensive income" for the Relevant Period presented. Accordingly, no statement of comprehensive income is presented.

Statement of financial position

As at 15 May 2006

	Notes	RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	13	72,021
Land use rights	14	13,011
Deferred tax assets	15	2,709
Prepayments, deposits and other receivables	16	797
		88,538
CURRENT ASSETS		
Inventories	17	88,261
Trade and bills receivables	18	227,315
Prepayments, deposits and other receivables	16	11,675
Cash and cash equivalents	19	33,180
		360,431
CURRENT LIABILITIES		
Interest-bearing loans	20	84,254
Trade payables	21	58,408
Other payables and accruals	22	79,987
Tax payable		83,649
		306,298
NET CURRENT ASSETS		54,133
TOTAL ASSETS LESS CURRENT LIABILITIES		142,671
NET ASSETS		142,671
EQUITY		
Equity attributable to the equity holder of Jiamusi Machinery		
Paid-up capital	23	69,980
Reserves	24	72,691
Total equity		142,671

Statement of changes in equity

For the period from 1 January 2006 to 15 May 2006

	Equity attributable to the equity holder of Jiamusi Machinery				
	Paid-up capital	Capital reserve	Statutory reserve Fund	Retained earnings	Total equity
	RMB'000 (Note 23)	RMB'000 (Note 24)	RMB'000 (Note 24)	RMB'000	RMB'000
At 1 January 2006	69,980	16,417	9,401	3,431	99,229
Profit for the period	—	—	—	43,442	43,442
Transfer from retained earnings	—	—	3,267	(3,267)	—
At 15 May 2006	69,980	16,417	12,668	43,606	142,671

Cash flow statement

For the period from 1 January 2006 to 15 May 2006

	Notes	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		57,846
Adjustments for:		
Finance costs	5	2,090
Finance revenue	5	(44)
Loss on disposal of items of property, plant and equipment	6	149
Depreciation of items of property plant and equipment	6	2,606
Amortisation of land use rights	6	123
Impairment of trade receivables	6	5,876
Write-down of inventories to net realisable value	6	1,030
		69,676
Decrease in inventories		4,550
Increase in trade and bills receivables		(37,589)
Increase in prepayments, deposits and other receivables		(2,023)
Decrease in trade payables		(9,741)
Decrease in other payables and accruals		(30,157)
		(5,284)
Income tax paid		—
Net cash outflow from operating activities		(5,284)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	5	44
Purchases of items of property, plant and equipment		(1,484)
Net cash outflow from investing activities		(1,440)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash inflow from financing activities		—
NET DECREASE IN CASH AND CASH EQUIVALENTS		(6,724)
Cash and cash equivalents at beginning of the period		39,904
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		33,180

II. NOTES TO FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The Financial Information incorporates the financial statements of Jiamusi Machinery for the period from 1 January 2006 to 15 May 2006 to present the results and financial position of Jiamusi Machinery before the Company obtained control in Jiamusi Machinery.

The Financial Information has been prepared in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance. For the purpose of preparing and presenting the Financial Information, Jiamusi Machinery has early adopted the IFRSs, which are effective for the accounting period beginning on 1 January 2009, except for IAS 39 & IFRS 7 (Amendments) Reclassification of Financial Assets, which are effective from 1 July 2008 but should not be applied retroactively, throughout the Relevant Period.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE IFRSs

Jiamusi Machinery has not applied the following new and revised IFRSs, which have been issued but are not yet effective, in this Financial Information.

IFRS 1 (Revised)	*First-time Adoption of IFRSs*[1]
IFRS 3 (Revised)	*Business Combinations* [1]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement — Eligible Hedged Items*[1]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 18	*Transfers of Assets from Customers*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment — Group Cash-settled Share-based Payment Transactions*[3]
IAS 32 Amendment	*Classifications of Rights Issues*[4]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[5]
IAS 24 (Revised)	*Related Party Transactions*[6]
IFRIC 14	*Prepayments of a Minimum Funding Requirement*[6]
IFRS 9	*Financial Instruments*[7]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for transfer of assets from customers received on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

Apart from the above, IASB has also issued *Improvements to IFRSs 2009** which sets out amendments to a number of IFRSs resulting from its annual improvements project published in April 2009. Except for the amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 which are effective for annual periods beginning on or after 1 July 2009, the remaining amendments are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

* The improvements to IFRSs 2009 includes amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16.

Jiamusi Machinery is in the process of making an assessment of the impact of these new and revised IFRSs and IFRICs upon initial application. The Directors anticipate that these new and revised IFRSs and IFRICs are unlikely to have any significant impact on Jiamusi Machinery's results of operations and financial position.

2.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted by Jiamusi Machinery in arriving at the Financial Information set out in this report, which conform with the IFRSs, are set out below:

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to Jiamusi Machinery and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred and the title has passed to the buyer, provided that Jiamusi Machinery maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) Rendering of services

Revenue from the rendering of services is recognised when such services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity; and

(c) Interest income

Interest income on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, *i.e.*, assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of these assets. The capitalisation of such borrowing costs cease when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Foreign currencies

The functional and presentation currency of Jiamusi Machinery is RMB.

Foreign currency transactions are initially recorded using the functional currency rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the reporting date. All differences are taken to the income statement. Non-monetary items that are measured in items of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. Where the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

➢ where the deferred tax liabilities arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

➢ in respect of taxable temporary differences associated with investments in subsidiaries and an associate where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

➢ where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

➢ in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 to 40 years
Plant and machinery	10 years
Office equipment	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery under construction or installation and testing which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction or installation and testing and capitalised borrowing costs on related borrowed funds during the period of construction or installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when Jiamusi Machinery can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses. Land use rights are amortised on the straight-line basis over the lease terms of 50 years.

Impairment of non-financial assets other than goodwill

When an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined, net of depreciation/amortisation had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Jiamusi Machinery assesses whether a contract contains an embedded derivative when Jiamusi Machinery first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivative are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

Jiamusi Machinery determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that Jiamusi Machinery commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" above.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and a discounted cash flow analysis.

Impairment of financial assets

Jiamusi Machinery assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (*i.e.*, the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to Jiamusi Machinery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that Jiamusi Machinery will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss has been occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. In addition, Jiamusi Machinery evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- ➢ the rights to receive cash flows from the asset have expired;
- ➢ Jiamusi Machinery retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- ➢ Jiamusi Machinery has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where Jiamusi Machinery has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of Jiamusi Machinery's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that Jiamusi Machinery could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of Jiamusi Machinery's continuing involvement is the amount of the transferred asset that Jiamusi Machinery may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of Jiamusi Machinery's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade payables, other payables and accruals and interest-bearing loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any interest charged on these financial liabilities.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognising gains or losses on them on a different basis; (ii) the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial liability contains an embedded derivative that would need to be separately recorded.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of statements of financial position, cash and cash equivalents comprise cash on hand and at banks and term deposits, which are not restricted as to use.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The costs of raw materials comprise the purchasing costs of the materials and other costs incurred in bringing the materials to their present locations and conditions. The costs of work in progress and finished goods comprise direct materials, direct labour and an appropriate proportion of manufacturing overheads.

Net realisable value is based on estimated selling prices, less estimated costs to be incurred to completion and disposal.

Provisions

A provision is recognised when Jiamusi Machinery has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by Jiamusi Machinery on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to Jiamusi Machinery, other than legal title, are accounted for as finance leases. At the inception of finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where Jiamusi Machinery is the lessee, rentals payable under the operating leases, net of any incentives received from the lessor, are charged to the income statement on the straight-line basis over the lease terms.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Related parties

A party is considered to be related to Jiamusi Machinery if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, Jiamusi Machinery; (ii) has an interest in Jiamusi Machinery that gives it significant influence over Jiamusi Machinery; or (iii) has joint control over Jiamusi Machinery;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of Jiamusi Machinery or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of Jiamusi Machinery, or of any entity that is a related party of Jiamusi Machinery.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of Jiamusi Machinery's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are discussed below.

(i) Impairment of trade receivables

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

(ii) Impairment of property, plant and equipment

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

(iii) Useful lives of property, plant and equipment

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

(iv) Net realisable value of inventories

Net realisable value of an inventory is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

(v) Deferred tax assets

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

(vi) Warranty expenses

Jiamusi Machinery offers a twelve-month warranty for its products, during which free warranty service for the repair and maintenance of parts or components under normal usage is provided to customers. Management estimates the warranty provision based on the historical cost data for repairs and maintenance and sales.

3. SEGMENT INFORMATION

Jiamusi Machinery's revenue and profit for the Relevant Period were mainly derived from the sale of mining machinery to customers in the Mainland China. The principal assets employed by Jiamusi Machinery are located in Mainland China. Accordingly, Jiamusi Machinery's operating activities are attributable to a single business segment and location, and no segment information has been presented for the Relevant Period.

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold after various types of government surcharges, where applicable.

	RMB'000
Revenue	
Sales of Roadheader products	161,085
Aftermarket parts and services	13,322
	174,407
Other income and gains	
Interest expenses waived by banks*	9,895
Others	66
	9,961

* During the period ended 15 May 2006, Jiamusi Machinery entered into a written agreement with the Industrial and Commercial Bank of China ("ICBC"). Pursuant to the agreement, ICBC waived the overdue interest on loans due by Jiamusi Machinery amounting to RMB9,895,000, accumulated from previous years.

5. FINANCE REVENUE AND FINANCE COSTS

	RMB'000
Finance revenue	
Interest income	44
Finance costs	
Loan interest	2,000
Interest arising from discounted bills	90
Total finance costs	2,090

6. PROFIT BEFORE TAX

Jiamusi Machinery's profit before tax is arrived at after charging:

	RMB'000
Cost of inventories sold	73,420
Cost of services provided	9,094
Employee benefits expense (including Directors' remuneration as set out in Note 7)	
Wages and salaries	15,032
Pension scheme contributions	1,649
	16,681
Research and development costs	119
Auditors' remuneration	215
Depreciation of items of property, plant and equipment (Note 13)	2,606
Amortisation of land use rights (Note 14)	123
Impairment of trade receivables (Note 18)	5,876
Write-down of inventories to net realisable value	1,030
Product warranty provision	177
Loss on disposal of items of property, plant and equipment	149

7. DIRECTORS' REMUNERATION

Directors' remuneration for the Relevant Period, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	RMB'000
Salaries, allowances and benefits in kind	523
Retirement benefit scheme contributions	16
	539

The remuneration of each of the Directors for the Relevant Period is set out below:

	Salaries, allowances and benefits in kind	Retirement benefit scheme contributions	Total
	RMB'000	RMB'000	RMB'000
Executive directors			
Mr. Chunzhao Zhang	119	4	123
Mr. Zishan Li	119	3	122
Mr. Shijun Gao	95	3	98
Mr. Fenglin Wang	95	3	98
Mr. Xiaoguang Huang	95	3	98
	523	16	539

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

8. FIVE HIGHEST PAID EMPLOYEES

An analysis of the five highest paid employees within Jiamusi Machinery during the Relevant Period is as follows:

	Number of employees
Director	1
Non-directors	4
	5

Details of the remuneration of the above non-directors, highest paid employees are as follows:

	RMB'000
Salaries, allowances and benefits in kind	405
Retirement benefit scheme contributions	13
	418

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees
Nil to HK$1,000,000	4

During the Relevant Period, no directors or highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by Jiamusi Machinery to the non-directors, highest paid individuals as an inducement to join or upon joining Jiamusi Machinery or as compensation for loss of office.

9. TAX

Jiamusi Machinery was initially registered as a PRC domestic enterprise and subject to PRC corporate income tax ("CIT") on the taxable income as reported in its PRC statutory accounts adjusted in accordance with the relevant PRC income tax rules governing the domestic enterprises. The applicable CIT rate was 33%.

Jiamusi Machinery was converted from a PRC domestic enterprise to a foreign investment enterprise ("FIE") on 11 April 2006. According to the applicable PRC income tax law governing the FIEs and foreign enterprises, a FIE is subject to a statutory income tax rate of 33%, comprising 30% state tax plus 3% local tax. Additionally, a manufacturing FIE may be entitled to a five-year tax holiday (*i.e.* two-year CIT full exemption followed by a three-year 50% CIT exemption) starting from its first profitable year. Pursuant to a written approval dated 10 July 2006 issued by the local in-charged tax authority, with effect from 11 April 2006, Jiamusi Machinery was recognised as a manufacturing FIE and therefore entitled to enjoy the five-year tax holiday. As Jiamusi Machinery recorded taxable profit for the year ended 31 December 2006, the five-year tax holiday period commenced in 2006. Therefore, Jiamusi Machinery was exempted from CIT for the years ended 31 December 2006 (full CIT exemption started from 11 April 2006 when Jiamusi Machinery became a FIE) and 31 December 2007 and would entitle to a 50% exemption of CIT for the years ended/ending 31 December 2008, 2009 and 2010.

The major components of income tax charges for the Relevant Period is as follows:

	RMB'000
Current tax	
— Income tax in Mainland China for the period	11,877
— Deferred tax (Note 15)	2,527
Total tax charges for the period	14,404

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate for the country in which Jiamusi Machinery is domiciled to the income tax expense/(income) at the effective tax rate is as follows:

	RMB'000
Profit before tax	57,846
Tax at the applicable tax rate (33%)	19,089
Income not subject to tax*	(8,386)
Expenses not deductible for tax	1,112
Effect in tax rate change	2,589
Tax charge at the Jiamusi Machinery's effective rate	14,404

* Pursuant to a written approval dated 10 July 2006 issued by the local in-charged tax authority, Jiamusi Machinery was recognised as a manufacturing FIE with effect from 11 April 2006 onwards. Therefore, income for the Relevant Period generated from 11 April 2006 onwards was exempted from tax.

10. DIVIDENDS

No dividends have been paid or declared by Jiamusi Machinery during the Relevant Period.

11. EARNINGS PER SHARE

Information of earnings per share is not presented as such information is not meaningful given the purpose of this report.

12. RETIREMENT BENEFITS AND ACCOMMODATION BENEFITS

Retirement benefits

As stipulated by the PRC regulations, Jiamusi Machinery participates in a defined contribution retirement scheme. All formal employees are entitled to an annual pension equivalent to a fixed proportion of the average basic salary amount of their last employment at their retirement date. Jiamusi Machinery is required to make contributions to the local social security bureau at a rate of 20% of the average basic salaries of the employees under the employment to whom the defined contribution retirement scheme is applicable. Jiamusi Machinery has no obligations for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

Accommodation benefits

According to the relevant PRC rules and regulations, Jiamusi Machinery and its employees are each required to make contributions, which are in proportion to the salaries and wages of the employees to an accommodation fund administered by the Public Accumulation Funds Administration Centre. There are no further obligations on Jiamusi Machinery, except for contributions to the accommodation fund.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2006	58,971	78,546	4,959	5,145	—	147,621
Additions	—	—	—	—	687	687
Transfers	—	260	21	—	(281)	—
Disposals	(185)	(454)	(72)	(69)	—	(780)
At 15 May 2006	58,786	78,352	4,908	5,076	406	147,528
Accumulated depreciation:						
At 1 January 2006	24,655	43,406	3,197	2,274	—	73,532
Charge for the period	466	1,547	212	381	—	2,606
Disposals	(121)	(381)	(70)	(59)	—	(631)
At 15 May 2006	25,000	44,572	3,339	2,596	—	75,507
Net book value:						
At 15 May 2006	33,786	33,780	1,569	2,480	406	72,021

At 15 May 2006, Jiamusi Machinery's buildings with net book value of approximately RMB22,727,000 were pledged as security for interest-bearing loans granted to Jiamusi Machinery as set out in Note 20 to the Financial Information.

14. LAND USE RIGHTS

	RMB'000
At cost:	
At the beginning and end of the period	16,417
Accumulated amortisation:	
At the beginning of the period	(3,283)
Charge for the period	(123)
At end of period	(3,406)
Net book value:	
At the end of period	13,011

The leasehold land is held under a long-term lease and is situated in Mainland China.

At 15 May 2006, Jiamusi Machinery's land use rights with a net carrying amount of approximately RMB13,011,000 were pledged to bank for interest-bearing loans as set out in Note 20 to the Financial Information.

15. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised and their movements during the Relevant Period:

	Decelerated tax on property, plant and equipment depreciation	Provision against obsolete inventories	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2006	998	4,238	5,236
Deferred tax credited/(charged) to the income statement during the period (Note 9)	(93)	155	62
Effect in tax rate change (Note 9)	(277)	(2,312)	(2,589)
Gross deferred tax assets at 15 May 2006	628	2,081	2,709

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	RMB'000
Non-current portion	
Prepayments for purchases of property, plant and equipment	797
Current portion	
Prepayments	10,895
Deposits and other receivables	780
	11,675
Total	12,472

The carrying amounts of the prepayments, deposits and other receivables approximate to their fair values.

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

17. INVENTORIES

	RMB'000
Raw materials	32,486
Work in progress	42,862
Finished goods	26,785
	102,133
Less: Provision for obsolete inventories	(13,872)
	88,261

18. TRADE AND BILLS RECEIVABLES

	RMB'000
Trade receivables	163,380
Bills receivable	69,811
Less: Impairment provision	(5,876)
	227,315

Jiamusi Machinery grants different credit periods to customers. The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. Certain customers are required to make partial payment before or upon delivery. In the opinion of the Directors, Jiamusi Machinery has effectively granted an average credit period of 30 days to 180 days to the customers after taking into account the practice of the industry in which Jiamusi Machinery conducted its business. Jiamusi Machinery seeks to maintain strict control over its outstanding receivables and keep close monitoring on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. Jiamusi Machinery's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

Trade receivables are unsecured and non-interest-bearing. The carrying amounts of trade receivables and bills receivable approximate to their fair values.

An aged analysis of trade receivables as at 15 May 2006 based on the invoice date, net of provision, is as follows:

	RMB'000
Outstanding balances with ages:	
Within 90 days	110,245
91 to 180 days	46,611
181 to 365 days	51
1 to 2 years	597
	157,504

Movement in the provision for impairment of trade receivables during the period ended 15 May 2006 is as follows:

	RMB'000
At 1 January 2006	—
Impairment of trade receivables (Note 6)	5,876
At 15 May 2006	5,876

The provision for impairment of trade receivables of Jiamusi Machinery during the period ended 15 May 2006 was individually impaired trade receivables.

The carrying amounts of the trade and bills receivables approximate to their fair values. The bills receivable were all mature within 180 days from the reporting date.

As at 15 May 2006, bills receivable of RMB25,956,000 were pledged to bank for interest-bearing bank loans as set out in Note 20 to the Financial Information.

The analysis of trade receivables that were not considered to be impaired is as follow:

	Total	Neither past due nor impaired	Past due but not impaired		
			< 90 days	91 to 180 days	181 to 360 days
		RMB'000	RMB'000	RMB'000	RMB'000
At 15 May 2006	157,504	128,744	24,604	3,939	217

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with Jiamusi Machinery. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. Jiamusi Machinery does not hold any collateral or other credit enhancements over these balances.

19. CASH AND CASH EQUIVALENTS

	RMB'000
Cash and bank balances	33,180

All cash and bank balances are denominated in RMB. Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. The carrying amounts of the cash and cash equivalents approximate to their fair values.

20. INTEREST-BEARING LOANS

	Note	RMB'000
Bank loans:		
Secured	(a)	84,254
Repayable within one year		84,254
The bank loans bear interest at rates per annum in the range of		6.90% to 8.28%

The carrying amounts of Jiamusi Machinery's borrowings approximate to their fair values.

(a) As at 15 May 2006, loans of RMB84,254,000 were of which:

(i) loans of RMB25,956,000 were secured by Jiamusi Machinery's bills receivable, with an aggregate carrying value of RMB25,956,000 as set out in Note 18 to the Financial Information; and

(ii) loans of RMB58,298,000 in 2006 were secured by Jiamusi Machinery's buildings and land use rights, which had carrying values on 15 May 2006 of approximately RMB22,727,000 and RMB13,011,000, respectively, as set out in Note 13 and Note 14 to the Financial Information.

21. TRADE PAYABLES

	RMB'000
Trade payables	58,408

An aged analysis of the trade payables as at 15 May 2006, based on the invoice date, is as follows:

	RMB'000
Outstanding balances with ages:	
Within 90 days	41,017
91 - 180 days	793
181 - 365 days	1,159
1 - 2 years	451
2 - 3 years	247
Over 3 years	14,741
	58,408

The trade payables are non-interest-bearing and are normally settled on terms of 0 to 180 days. The carrying amounts of the trade payables approximate to their fair values.

22. OTHER PAYABLES AND ACCRUALS

	RMB'000
Advances from customers	4,634
Payroll payable	2,637
Welfare payable	457
Other payable	49,683
Accrued expenses	1,897
Value-added tax payable	20,679
	79,987

The carrying amounts of the accrued liabilities and other payables approximate to their fair values.

Other payables are non-interest-bearing and have an average term of three months.

23. PAID-UP CAPITAL

	RMB'000
Registered and paid-up capital	69,980

24. RESERVES

(a) Capital reserve

The capital reserve represents the land use right granted by the government in 1995. The land use right was valued at RMB16,417,000 and was approved by the Heilongjiang Coal Industry Administrative Bureau.

(b) Surplus reserve

Statutory surplus reserve and statutory reserve fund

In accordance with the Company Law of the PRC and the respective articles of association of Jiamusi Machinery, Jiamusi Machinery was required to allocate 10% of its profits after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of its registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR can be capitalised as paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Subsequent to the re-registration of Jiamusi Machinery as a FIE on 11 April 2006, allocation to the SSR is no longer required. According to the relevant PRC regulations applicable to FIE Jiamusi Machinery is required to allocate certain portion (not less than 10%), as determined by the board of directors, of its profit after tax in accordance with PRC GAAP to the statutory reserve fund (the "SRF") until such reserve reaches 50% of the registered capital.

The SSR and the SRF are non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-up capital.

25. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

	RMB'000
Salaries, allowances and benefits in kind	1,095
Retirement benefit scheme contributions	36
	1,131

26. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Jiamusi Machinery's principal financial instruments comprise interest-bearing loans, trade and other payables. The main purpose of these financial instruments is to raise finance for Jiamusi Machinery's operations. Jiamusi Machinery has various financial assets such as trade and bills receivables as well as deposits and other receivables, which arise directly from its operations. The particular recognition methods adopted are disclosed in the accounting policy associated with each item.

It is, and has been the Relevant Period, Jiamusi Machinery's policy that no trading in financial instruments shall be undertaken.

The main risks arising from Jiamusi Machinery's financial instruments are interest rate risk, foreign currency risk, credit risk, significant concentration of credit risk and liquidity risk. Jiamusi Machinery does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board reviews and agrees policies for managing each of the risks which are summarised below:

Interest rate risk
Jiamusi Machinery's exposure to market risk for changes in interest rates relates primarily to its interest-bearing bank and other borrowings. Jiamusi Machinery does not use derivative financial instruments to hedge its interest rate risk. Since Jiamusi Machinery's bank loans all bear fixed interest and are due within one year, its exposure to risk of changes in market interest rates is low.

Foreign currency risk
Since Jiamusi Machinery operates in Mainland China and its transactions are carried out in RMB, Jiamusi Machinery's financial assets and liabilities are not subject to foreign currency risk. Jiamusi Machinery has not entered into any hedging transactions to manage the potential fluctuation in foreign currency as the Directors consider that Jiamusi Machinery has no significant foreign currency risk.

Credit risk
Jiamusi Machinery trades only with recognised, creditworthy third parties. It is Jiamusi Machinery's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Jiamusi Machinery's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of Jiamusi Machinery, which comprise cash and cash equivalents, trade and bills receivables, Jiamusi Machinery's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Significant concentration of credit risk
Concentration of credit risk exists when changes in economic, industrial or geographic factors similarly affect groups of counterparts whose aggregate credit exposure is significant in relation to Jiamusi Machinery's total credit exposure. Significant concentration of credit risk arises from exposure to substantial amounts due from companies involved in the mining sector and operating in the PRC, with the top six customers accounting for 91% of the trade receivables as at 15 May 2006 and 86% of the sales for the Relevant Period.

Liquidity risk
Jiamusi Machinery monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivables and other financial assets) and projected cash flows from operations.

Jiamusi Machinery's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans.

The maturity profile of Jiamusi Machinery's financial liabilities as at the reporting date, based on the contractual undiscounted payments, was as follows:

	On demand	Less than 3 months	3 to 12 months	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing loans	58,298	14,424	11,532	84,254
Trade payables	16,599	41,016	793	58,408
Other payables and accruals	75,353	—	—	75,353
	150,250	55,440	12,325	218,015

Capital management

The primary objective of Jiamusi Machinery's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

Jiamusi Machinery manages its capital structure and makes adjustments to it, in light of changes in economic condition. To maintain or adjust the capital structure, Jiamusi Machinery may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing purpose during the Relevant Period.

Jiamusi Machinery monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Jiamusi Machinery's net debt includes interest-bearing loans less cash and cash equivalents. Capital includes total equity of Jiamusi Machinery.

At the end of the Relevant Period, Jiamusi Machinery's strategy was to maintain the net borrowings to equity ratio at a healthy capital level in order to support its business. The principal strategies adopted by Jiamusi Machinery include, without limitation, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that Jiamusi Machinery has a reasonable level of capital to support its business. The net borrowings to equity ratio at the end of the Relevant Period is as follows:

	RMB'000
Interest-bearing loans	84,254
Less: Cash and cash equivalents	(33,180)
Net debt	51,074
Total equity	142,671
Capital and net debt	193,745
Gearing ratio	26%

27. FINANCIAL INSTRUMENTS

The carrying amounts of each of the categories of financial instruments as at the reporting date are as follows:

	RMB'000
Financial assets	
Trade and bills receivables	227,315
Financial assets included in prepayments, deposits and other receivables	780
Cash and cash equivalents	33,180
	261,275
Financial liabilities	
Trade payables	58,408
Financial liabilities included in other payables and accruals (Note 22)	75,353
Interest-bearing loans	84,254
	218,015

III. SUBSEQUENT FINANCIAL STATEMENTS

Audited financial statements have been prepared by Jiamusi Machinery for the three years ended 31 December 2006, 2007 and 2008 subsequent to 15 May 2006.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong