SUMMARY

OVERVIEW

The Group is principally engaged in the coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal. Being the world's largest coal consuming country, the demand for coal in China, particularly in the prosperous coastal regions, has grown significantly. Coal resources and production in China are primarily located at the western and northern regions. A geographical disparity and a transportation bottleneck therefore exist between the locations of the coal resources and production and the principal end-users, which make a reliable coal transportation system to be crucial to the coal operation business. The Group is one of the operators in the PRC coal industry providing services in light of the geographic disparity and the transportation bottleneck. The Group generates its income by providing customers with various services, including sourcing, filtering, storage, blending, shipping and transportation of coal. The Directors consider that such services are important to the Group's customers.

Leveraging the increases in the coal prices in China from January 2006 to July 2008, the Group purchased coal at relative low prices and sold it at relative higher prices taking the advantage of the increasing price trends as reflected in the increases in the Qinhuangdao benchmark coal spot prices (5,500 Kcal) from approximately [RMB408] per tonne to approximately [RMB1,045] per tonne during the period between January 2006 and July 2008. The Qinhuangdao benchmark coal spot prices (5,500 Kcal) dropped from approximately [RMB1,045] per tonne in July 2008 to approximately [RMB580] per tonne in December 2008. The Group mitigated the impact of the decreases in the market coal prices during the period between July 2008 and December 2008 through its risk management policies by reducing the level of coal inventory. Further details of the Group's risk management policies are set out in "Business – Risk Management of Coal Price Fluctuations" of this document.

Apart from the coal sourcing business, the Group also provided other services, including filtering, storage, blending, shipping and transportation of coal, which together contributed to the business growth of the Group during the Track Record Period.

[In addition to the PRC market, the Group began its coal export business during the year ended 31 December 2008. The Directors plan to expand its international coal operation business by sourcing coal from the existing and potential suppliers in the overseas markets. As to the coal export business, since the Group did not actively pursue this business during the Track Record Period, it may or may not be a recurring business with stable source of income in the future.

Based on the available market information and their experience in the coal price trends, the executive Directors adjust the coal purchase and sales volume from time to time in order to maintain a sufficient level of inventory for the supply of coal to the customers of the Group. As a matter of business practice, the Group purchases coal for trading purpose when the Directors expect that the coal prices would not decrease. If the Group is required to purchase coal to meet its confirmed sales orders, it will enter into fixed price purchase orders within three days from the date of the relevant sales orders. The Directors consider that, based on their experience in the PRC coal industry, it is less likely that the Group is not able to conclude purchase orders within three days after the date of the relevant sales order. This is because (i) coal is a kind of homogeneous commodity traded by a large number of buyers and sellers in open markets; (ii) purchase prices of coal are usually determined with reference to the prevailing demand and supply with high degree of market transparency and (iii) the Group has established long-term business relationship with its major coal suppliers. During the Track Record Period, the coal inventory turnover days of the Group ranged from 24 days to 41 days. Although the Group adjusts its coal purchase and inventory levels from time to time based on various factors, the Directors consider that these transactions are conducted for the primary purpose of maintaining a sufficient level of coal inventory to fulfill the existing or anticipated demands from the customers of the Group.

According to the BBIC Report, the PRC coal consumption in 2008 was approximately 2,740 million tonnes, of which approximately 1,693 million tonnes, representing approximately 62% of the total consumption in 2008, was sourced through coal trading intermediaries. Among the coal sourced from intermediaries, approximately 1,168 million tonnes, representing approximately 69% of the total volume of coal trading in the PRC, were traded by state-owned coal operators with the remaining of approximately 525 million tonnes traded by non-state-owned coal operators.

With the Group's coal handling and transportation capacity at its two coal loading stations and at Qinhuangdao port, the Group was the largest non-state-owned coal operator in China in terms of annual coal trading volume for the year ended 31 December 2008, accounting for approximately 6.3 million tonnes or approximately 1.2% and 0.4% of the coal trading volume of non-state-owned coal operators and the total volume of coal trading in the PRC in 2008, respectively.

The Group is strategically located in Hong Kong, Datong, Yangyuan, Qinhuangdao, Zhuhai and Guangzhou. Hence, the Group is able to source coal in China and overseas markets for sales to its customers in China as well as the overseas market. With such relatively strong sourcing capability, the Group is able to satisfy customers' demands with sufficient supply of coal from different markets without relying on limited sources of supply in any particular location.

With the increasing demand for energy and transportation, coal operators having direct access to rail and port transportation capacity enjoy a competitive advantage. Rail transportation is the principal coal transportation method from coal mines or production plants, which are mainly located in the western and northern regions of China, to ports for shipping transportation to coal users, which are mainly located in coastal regions. There are various coal transportation railways in China. Daqin Railway is the major coal haul railway running from Datong city to Qinhuangdao port. Qinhuangdao port is the largest coal loading port and bulk cargo port in the world. Coal operators with coal loading stations along the coal railways can easily access to rail transportation. In practice, coal mine operators and coal traders in China which do not have direct access to coal railway transportation will have to sell their coal to coal operators with coal loading stations along the coal railways. As of the date of this document, the Group operates two major coal loading stations along the Daqin Railway at Datong and Yangyuan and has an aggregate annual coal handling and transportation capacity of over seven million tonnes. As of the Latest Practicable Date, there were only [41] major coal loading stations along the Daqin Railway. As the Group has two coal loading stations along the Daqin Railway, the Group can source coal from different suppliers through road transportation and deliver the coal to Qinhuangdao port through the Daqin Railway. Coal loading stations of the Group also serve as coal trading, filtering, storage, blending centres for other coal operators. The Group is therefore able to provide an integrated, effective and reliable supply chain of coal to its customers.

Apart from purchase, sales and transportation of coal, the Group is also engaged in other coal operation activities, including storage, blending, filtering and shipping of coal. The Directors believe that such integrated services are the key to the success of the Group. The coal sourced by the Group can be stored at its two coal loading stations at Datong and Yangyuan, which in aggregate have a coal storage capability, measured by the storage areas at the two coal loading stations, of approximately two million tonnes. In addition, the Group may utilise the coal storage facilities at relevant ports for coal storage. Further details of the Group's storage capacity are set out in "Business – Coal operation – VI. Coal inventory" of this document. The Group also has a coal blending capacity that enables it to reduce its operating costs and provide customers with blended coal with the required specifications. Leveraging its experience in coal blending and management knowledge, the Directors believe that the Group fully utilises its coal blending areas, quality and quantity measurement equipment and apparatuses as well as the coal blending facilities at its coal loading stations and at coal ports for coal blending as and when required. Further details of the Group's blending capacity are set out in "Business – Coal operation – VII. Coal blending" of this document. The Group has compiled a detailed coal filtering manual and implemented a comprehensive coal filtering system for its coal operations. Further details of the Group's coal filtering capacity are set out in "Business – Coal operation – V. Coal filtering" of this document.

The Group's own fleet and chartered vessels facilitate the coal shipping transportation for the Group and Independent Third Parties and dry bulk shipping transportation for Independent Third Parties. Coal shipping transportation is an integral part of the Group's coal operation business. Shipping transportation is also important to the coal sourced from the overseas markets, for sales to customers in the coastal regions in China as well as other countries. China inland shipping transportation also plays an important role because it enables coal operators to ship the coal to customers at different locations through inland river transportation. As of the Latest Practicable Date, the Group had four Panamax and one PRC inland vessel. Further details of the Group's shipping operation are set out in "Business – Shipping" of this document.

Coal traders, power plants, cement plants and other end customers in the PRC are sourcing coal from different suppliers, including coal mine operators and coal traders. Due to the Group's competitive strengths, details of which are set out in "Business – Competitive strengths" of this document, the Group has had business relationship with coal consuming enterprises, including 廣東省電力工業燃料有限公司 (Guangdong Electric Power Industry Fuel Company Limited), 華陽電業有限公司 (Huayang Electric Power Co., Ltd.) and 英德海螺水泥有限責任公司 (Prosperity Conch Cement Company Limited). The Group has established long-term business relationship of not less than four years with most of its major customers.

Coal suppliers may choose to sell to coal operators, including the Group, or directly to end customers. Having the competitive strengths including (i) its coal loading stations at Datong and Yangyuan located strategically within short transportation distances from the Group's coal suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia; (ii) the Group's reliable access to coal railway transportation and linkage and (iii) the Group's well-established business relation with most of its suppliers of not less than three years, the Group is able to source and secure sufficient level of coal from its own suppliers.

During the Track Record Period, coal traded by the Group consisted principally of thermal coal. Coal sourced from China, Australia, Vietnam and Indonesia is different in terms of total moisture, ash, volatile matter, sulphur and calorific value.

The following table sets out the specifications of the Group's coal:

	Specifications of coal				
Source	**Total Moisture**	**Ash**	**Volatile Matter**	**Sulphur**	**Calorific Value**
	(%)	*(%)*	*(%)*	*(%)*	*(Kcal/kg)*
PRC	8-13	12-30	18-25	0.8-1.2	4500-6000
Australia	8.0-12	20-25	12-33	0.4-1.0	5400-6200
Vietnam	8.0	30-42	4-8	0.6-1	4900-6000
Indonesia	20-28	3-12	40-43	0.1-1.5	4500-5500

To further pursue its integrated business strategy, the Group plans to construct the Zhuhai Terminal which will serve as the Group's coal transshipment hub, coal blending centre and coal storage base in southern China. Details of the Zhuhai Terminal are set out in "Business – Zhuhai Terminal" of this document. The Directors believe that these business initiatives will assist the Group to become one of the leading coal operators in China with international transportation and sourcing capability.

In December 2008, leveraging its experience in the coal operation business, the Group entered into the first sales and purchase contracts for the trading business of iron ore fines. The relevant transactions were carried on and completed in 2009. The transaction volume of the Group's first sales and purchase contracts of iron ore fines in December 2008 amounted to approximately 60,000 tonnes of iron ore fines. These business activities represented the Group's expansion of business operation into the iron ore industry. [As of the Latest Practicable Date, the Group was negotiating with its business partners, which are Independent Third Parties, for an iron ore cooperation agreement in relation to its operation in the iron ore trading industry. The Directors cannot assure that the iron ore agreement or similar agreements will be implemented as planned. If such iron ore agreement or similar agreements with alternative partner(s) are not duly implemented, the Directors intend to suspend its expansion into the iron ore trading industry.] Details of the Group's trading business of iron ore and related materials are set out in "Business – Iron ore trading" of this document. The Directors expect that the coal operation business will continue to be the principal business of the Group in the future, but the trading business of iron ore may provide another source of income to the Group.

IMPACT OF THE RECENT FINANCIAL CRISIS ON THE GROUP

Since September 2008, there was deterioration in the global financial markets, the global economies and the demand of energy products, including coal products. As a result of the slowing economic growth and slackening industrial production growth, the rising coal inventory in Qinhuangdao port and the implementation of the inside plan term contracts (計劃內合同) between stated-owned power plants and state-owned coal suppliers on the pricing terms during the first quarter of 2009, the demand and the selling prices for thermal coal in China were affected negatively in the first quarter of 2009. Under such circumstances, the selling prices and the demand for coal from the Group's customers were also affected.

During the four months ended 30 April 2009, the coal trading volume of the Group amounted to approximately [538,000] tonnes, representing a decrease of approximately [78.9]% from approximately [2.55 million] tonnes during the same period in 2008.

In addition, the Group's average selling price of coal was approximately [RMB437] per tonne during the four months ended 30 April 2009, representing a decrease of 17.1% from the same period in 2008 (approximately [RMB527] per tonne) or [48.2]% from the highest level in [September] 2008 (approximately [RMB[844]] per tonne).

Due to the substantial decrease in the market prices of coal during the two months ended 28 February 2009, the Group made a write-down on decrease in value of its coal inventory of approximately RMB[31] million as of 31 December 2008. The Group's average selling price of coal decreased from approximately RMB540 per tonne in December 2008 to approximately RMB482 per tonne in February 2009. However, during the four months ended 30 April 2009, the Group did not make any write-down because of the gradual increase in the coal selling prices during the two months ended 31 May 2009.

Since certain of the Group's costs, including selling and marketing and administrative expenses, were generally fixed regardless of the coal trading volume, the Group's financial performance deteriorated for the four months ended 30 April 2009 as compared to the same period in 2008. As a result, the Group recorded an unaudited loss for the four months ended 30 April 2009 compared to an unaudited profit recorded for the same period in 2008.

However, starting from April 2009, the coal trading volume of the Group has significantly increased as compared to the three months ended 31 March 2009. The Group's coal trading volume in April 2009 amounted to approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. In addition, the Group's average selling prices of coal increased by approximately [13.3]% from approximately RMB[400] per tonne in January 2009 to approximately RMB[453] per tonne in April 2009. The Group recorded net profit in April 2009 to the extent that it covered almost all the operating loss incurred during the three months ended 31 March 2009.

The average monthly trading volume and the average selling price of coal for each of the Track Record Period, the three months ended 31 March 2009 and each of the month ended 30 April 2009 and 31 May 2009 are set out as follows:

	Years ended 31 December			Three months ended 31 March	Month ended 30 April	Month ended 31 May
	2006	**2007**	**2008**	**2009**	**2009**	**2009**
Average monthly trading volume *('000 tonnes)*	600	669	523	88	274	[●]
Average selling price *(RMB per tonne)*	392	443	646	[432]	[453]	[●]

The global financial crisis also resulted in global credit tightening which exacerbates the credit crunch. This unexpected credit crunch has affected not only the banking and financial sectors, but also the commercial sectors relying on the availability of banking facilities and bank borrowings. The Directors confirm that the Group has not received any notification from its principal bankers on withdrawal of the Group's banking facilities, early payment of the outstanding bank borrowings or any request for increase in the amount of pledges for secured bank borrowings. As of the Latest Practicable Date, the Group neither encountered major difficulties in securing and/or renewing bank borrowings, nor being charged an exceptionally high interest rate on the existing bank borrowings. The credit facilities currently available to the Group are not reduced or cancelled as a result of the unfavourable financial results of the Group during the first quarter of 2009. However, in the event that the available limit of the credit facilities is reduced significantly or any of the credit facilities are withdrawn by its major bankers, and the Group cannot arrange for credit facilities with other financial institutions on a timely basis, the Group's cash-flow, business operation and profitability could be adversely affected.

The Directors consider that the impact of the global financial crisis on the PRC economy and the decline in electricity production will not be long-lasting and would not undermine the continuous economic development in China. The positive effect of the RMB4 trillion government stimulus package is expected to be reflected in the national economical performance in the second half of 2009.

Save as disclosed above, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2008 (being the date to which the Group's latest combined financial results were prepared as set out in the accountants' report in Appendix I to this document).

Further details of the impact of the recent financial crisis on the Group are set out in "Financial Information – Impact of the recent financial crisis on the Group" of this document.

COMPETITIVE STRENGTHS

The Directors consider that the Group's success is primarily attributable to the following competitive strengths:

– The Group is the largest non-state-owned coal operator in terms of annual coal trading volume

– The Group's direct access to the PRC domestic coal transportation network and its shipping transportation facilitate coal transportation from PRC domestic and overseas suppliers to customers

– The Group maintains a solid and long-term customer base

– The Group maintains extensive PRC domestic and overseas coal supplies

– The Group is equipped with coal filtering and blending capabilities

– The Directors and senior management of the Group possess extensive knowledge and experience in the coal industry

GROWTH STRATEGIES

Leveraging the Group's competitive strengths and with the business objective to become one of the leading coal operators in China with international transportation and sourcing capability, the Directors plan to pursue the following growth strategies:

– Construct and operate the Zhuhai Terminal

– Operate additional coal loading station along Daqin Railway

– Expand the Group's international coal operation business

STRUCTURE CONTRACTS

The Group comprises China Qinfa Group and Hong Kong Qinfa Group. The Company is the ultimate holding company of Hong Kong Qinfa Group. Mr. XU, being one of the Controlling Shareholders, is the ultimate beneficial owner of China Qinfa Group. Having considered the significant increase in the demand for coal imported from overseas into China and the expansion of the Group's overseas coal operation business, the Directors strategically planned to centralise the management and operation of the Group's coal business in China and overseas markets and determined that Hong Kong Qinfa Group should manage and operate the coal operation business in China through the establishment of Qinfa Logistics in February 2008. By centralising the management and operation of the Group's coal operation in China and overseas markets, the Group is able to respond to changing market conditions efficiently and effectively. This is important when the Zhuhai Terminal becomes operational as the Group's international transshipment hub. However, after verbal consultations with the relevant PRC governmental authorities at Qinhuangdao, Zhuhai, Datong and Yangyuan at which the Group operates its coal business, the Directors understand that the PRC governmental authorities currently do not grant Coal Operation Certificates to foreign equity controlled companies as a matter of practice. In addition, according to (i) Article 7 of 中華人民共和國水路運輸管理條例 (The Regulations on the Management of Waterway Transport of the PRC) promulgated by the State Council on 12 May 1987 and revised on 27 December 2008 and (ii) 外商投資產業指導目錄(2007修訂) (the Guidance of Foreign Investment (Amended 2007)); and after the verbal consultations with the relevant PRC governmental authorities at Zhuhai, the Directors understand that the PRC laws and regulations currently prohibit the issue of Waterway Transportation Licences to foreign equity controlled companies. These views have been confirmed by the PRC Legal Advisers.

In order for Hong Kong Qinfa Group to manage and operate the coal operation business in China, the Structure Contracts were entered into under which all the business activities of China Qinfa Group are managed and operated by Qinfa Logistics and all economic benefits and risks arising from the business of China Qinfa Group are transferred to Qinfa Logistics. Details of the Structure Contracts are set out in "Reorganisation and the Structure Contracts – Structure Contracts" of this document.

There are risks involved with the operation of the Group under the Structure Contracts. As advised by the PRC Legal Advisers, if the Structure Contracts are considered to be in breach of any existing or future PRC laws or regulations, the relevant regulatory authorities would have broad discretion in dealing with such breach, including:

– imposing economic penalties;

– discontinuing or restricting the operations of Hong Kong Qinfa Group or China Qinfa Group;

– imposing conditions or requirements in respect of the Structure Contracts with which China Qinfa Group may not be able to comply;

– requiring the Group to restructure the relevant ownership structure or operations;

– taking other regulatory or enforcement actions that could adversely affect the business of the Group; and

– revoking the business licences and/or the licences or certificates of China Qinfa Group and/or voiding the Structure Contracts.

Any of these actions could have a material adverse impact on the Group's business, financial condition and results of operations. Details of such risk factors are set out in "Risk factors – Risks relating to the Structure Contracts" of this document.

RISK MANAGEMENT OF COAL PRICE FLUCTUATIONS

In the PRC coal industry, a geographical disparity and a transportation bottleneck exist between the locations of coal resources and production and the principal end-users. The Group is one of the operators in the PRC coal industry providing services in light of such geographical disparity and transportation bottleneck. The Group generates its income by providing customers various services, including sourcing, filtering, storage, blending, shipping and transportation of coal. The Directors consider that such services are important to the profitable business operation of the Group.

The geographical disparity and the transportation bottleneck also result in the selling prices of coal to end-users in China generally being significantly higher than the purchase costs of coal sourced at coal mines. This price difference is attributable to the logistics costs incurred for transportation and other value-added services provided by the coal trading intermediaries. As a result of the geographical disparity and the transportation bottleneck, the Directors consider that the price difference will continue to exist. The market prices of coal would affect the extent of the price difference but could not eliminate such price difference. This creates the business opportunities for coal trading intermediaries to operate their business. The Group's business is therefore not entirely vulnerable to coal price fluctuations.

Nevertheless, the Directors consider that fluctuations in coal prices are one of the operating risks faced by the Group because any unexpected decrease in coal price may reduce the net realisable value of the coal inventory of the Group. If the decreased amount is lower than the cost of the coal paid by the Group, the Group may require, as at the relevant year-end, to make a write-down on the decreased value of its coal inventory against the profit of the Group. In addition, there may be a period during which the Group is exposed to subsequent and unexpected increases in coal prices following confirmation of sales orders. In particular, the Group will be adversely affected if it is required, because of lack of inventory or other reasons, to purchase additional coal to meet the confirmed sales orders. As of 31 December 2008, the Group made a write-down on decrease in value of its coal inventory of approximately RMB[31] million due to the substantial decrease in the market prices of coal during the two months ended 28 February 2009. During the four months ended 30 April 2009, the Group did not make any similar write-down. Further details of such impacts are set out in "Business – Risk management of coal price fluctuations" of this document.

[The executive Directors are principally responsible for implementing coal procurement and risk management policies adopted by the Group to mitigate the coal price fluctuation risk.] Such policies are implemented with the objectives (i) to avoid a situation where the Group is required to purchase or sell coal at undesirable prices; (ii) to maintain a sufficient level of inventory; (iii) to minimise the Group's exposure to coal price fluctuations during the time period between committed purchase orders and confirmed sales orders; (iv) to optimise the Group's economic benefits with coal sourced at the lowest available prices; and (v) to mitigate the risks associated with decreases in coal prices after confirmation of sales contracts. Details of the coal procurement and risk management policies adopted by the Group are set out in "Business – Risk management of coal price fluctuations" of this document.

The Directors confirm that the Group complied with the above policies during the Track Record Period.

Leveraging the increases in the coal prices in China from January 2006 to July 2008, the Group purchased coal at relative low prices and sold it at relative higher prices taking the advantage of the increasing price trends as reflected in the increases in the Qinhuangdao benchmark coal spot prices (5,500 Kcal) from approximately [RMB408] per tonne to approximately [RMB1,045] per tonne during the period between January 2006 and July 2008. The Qinhuangdao benchmark coal spot prices (5,500 Kcal) dropped from approximately [RMB1,045] per tonne in July 2008 to approximately [RMB580] per tonne in December 2008. The Group mitigated the impact of the decreases in the market coal prices during the period between July 2008 and December 2008 through its risk management policies by reducing the level of coal inventory.

Apart from the coal sourcing business, the Group also provides other services, including filtering, storage, blending, shipping and transportation of coal, which together contributed to the business growth of the Group during the Track Record Period.

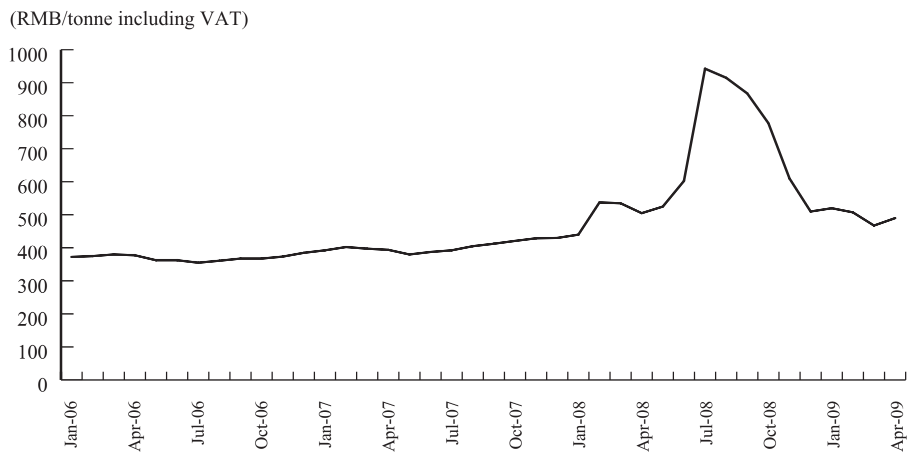
In preparation for the [●], the Directors will enhance the Group's risk management policies with the additional objectives of (i) maintaining an appropriate coal inventory level for the Group's operation; (ii) evaluating the Group's risk management procedures on coal prices on a regular basis; (iii) performing annual review on the Group's exposure to coal price fluctuations and its risk management procedures in respect of inventory management; and (iv) mitigating possible coal price fluctuations in the Group's overseas operation. Details of the additional measures adopted by the Group to further enhance the Group's risk management policy on coal price fluctuations upon the [●] are set out in "Business – Risk management of coal price fluctuations" of this document.

After considering (i) the business model of the Group which does not involve any speculative coal trading activities; and (ii) the above risk management procedures on coal procurement and inventory management, [●] is of the view that the Group's risk management policy on coal price fluctuation will be sufficient and effective upon the [●].

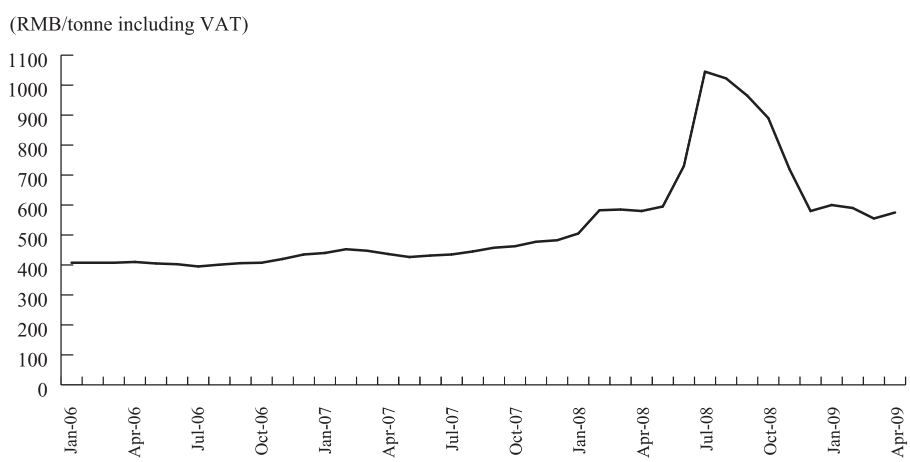
Further details of the Group's risk management policies are set out in "Business – Risk management of coal price fluctuations" of this document.

Details of the market coal price fluctuations in China during the Track Record Period and up to [May] 2009 are set out as follows:

Qinhuangdao Benchmark Coal Spot Prices (5,000 kcal) (Note)



Qinhuangdao Benchmark Coal Spot Prices (5,500 kcal) (Note)



Source: BBIC Report

Note: *Qinhuangdao benchmark coal spot prices are price statistics for the spot transactions of coal in Qinhuangdao. As Qinhuangdao is the largest coal shipping port in the PRC and the coal transaction volume in Qinhuangdao accounts for a significant percentage of the total coal transaction volume in the PRC, the Qinhuangdao benchmark coal spot price is a major indicator of coal prices in the PRC.*

RESULTS OF OPERATIONS

The following table sets out a summary of the audited combined results of the Group during the Track Record Period which has been prepared in accordance with IFRS. The following summary should be read in conjunction with the accountants' report set out in Appendix I to this document:

Combined income statements

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Turnover	2,850,489	3,664,632	4,192,484
– Coal operation	2,824,382	3,553,185	4,050,170
– Shipping transportation	26,107	111,447	142,314
Cost of sales	(2,614,871)	(3,093,238)	(3,632,568)
Gross profit	235,618	571,394	559,916
Other income	14,068	5,026	101,203
Distribution expenses	(143,128)	(253,809)	(155,850)
Administrative expenses	(22,157)	(42,833)	(59,579)
Other expenses	(21)	(1,270)	(1,814)
Profit from operations	84,380	278,508	443,876
Finance income	5,984	11,419	15,733
Finance expenses	(23,682)	(41,611)	(64,310)
Net financing costs	(17,698)	(30,192)	(48,577)
Profit before income tax	66,682	248,316	395,299
Income tax expense	(13,832)	(41,065)	(64,609)
Profit for the year	52,850	207,251	330,690
Attributable to:			
Equity holders of the Company	51,802	207,251	330,690
Minority interests	1,048	–	–
Profit for the year *(Note 1)*	52,850	207,251	330,690
Dividends declared during the year	–	–	120,341
Earnings per share			
Basic earnings per share (RMB) *(Note 2)*	[0.07]	[0.28]	[0.44]

Notes:

1. The net profit of the Company for the year ended 31 December 2008 included an one-off gain of approximately RMB97.1 million arising from the disposal of equity interest in Millennium Coal, details of which are set out in "Business – Coal mines" of this document.

2. The calculation of basic earnings per share for the Track Record Period is based on the profit attributable to equity holders of the Company during the Track Record Period and the [750,000,000] shares in issue and issuable, comprising [1,000,000] shares in issue as at the date of the Document and [749,000,000] shares to be issued pursuant to the capitalisation issue as detailed in the paragraph headed ["Written resolutions of the Shareholders] passed on [●]" set out in Appendix V to the Document, as if the shares were outstanding throughout the entire Track Record Period.

Combined balance sheets

	At 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	154,242	553,186	927,683
Lease prepayments	6,473	6,333	6,193
Available-for-sale financial assets	63,905	100,005	–
Deferred tax assets	3,356	4,706	11,411
	227,976	664,230	945,287
Current assets			
Inventories	286,732	404,264	77,713
Trade and other receivables	532,028	610,628	375,558
Pledged deposits	3,208	145,741	485,425
Cash and cash equivalents	148,079	85,060	201,499
	970,047	1,245,693	1,140,195
Current liabilities			
Interest-bearing borrowings	(490,163)	(673,882)	(907,266)
Trade and other payables	(228,858)	(213,718)	(123,995)
Income tax payable	(74,209)	(107,857)	(57,658)
	(793,230)	(995,457)	(1,088,919)
Net current assets	176,817	250,236	51,276
Total assets less current liabilities	404,793	914,466	996,563
Non-current liabilities			
Interest-bearing borrowings	–	(279,338)	(261,608)
Net assets	404,793	635,128	734,955
Equity attributable to equity holders of the Company	403,378	635,128	734,955
Minority interests	1,415	–	–
Total equity	404,793	635,128	734,955

Although the Group's total turnover increased by 14.4% to approximately RMB4,192.5 million in 2008, the Group's coal trading volume, gross profit and gross profit margin decreased by approximately 21.3%, 2% and 14.1% to approximately 6.3 million tonnes, RMB559.9 million and 13.4% in 2008, respectively.

During the four months ended 30 April 2009, the coal trading volume of the Group amounted to approximately [538,000] tonnes, representing a decrease of approximately [78.9]% from approximately [2.55 million] tonnes during the same period in 2008.

In addition, the Group's average selling price of coal was approximately [RMB437] per tonne during the four months ended 30 April 2009, representing a decrease of 17.1% from the same period in 2008 (approximately [RMB527] per tonne) or [48.2]% from the highest level in [September] 2008 (approximately [RMB[844]] per tonne). Since certain of the Group's costs, including selling and marketing and administrative expenses, were generally fixed regardless of the coal trading volume, the Group's financial performance deteriorated for the four months ended 30 April 2009 as compared to the same period in 2008. As a result, the Group recorded an unaudited loss for the four months ended 30 April 2009 compared to an unaudited profit recorded for the same period in 2008.

However, starting from April 2009, the coal trading volume of the Group has significantly increased as compared to the three months ended 31 March 2009. The Group's coal trading volume in April 2009 amounted to approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. In addition, the Group's average selling prices of coal increased by approximately [13.3]% from approximately RMB[400] per tonne in January 2009 to approximately RMB[453] per tonne in April 2009. The Group recorded net profit in April 2009 to the extent that it covered almost all the accumulated loss incurred during the three months ended 31 March 2009.

DIVIDENDS AND DIVIDEND POLICY

Pursuant to the resolution passed at the shareholders' meeting of Qinhuangdao Trading held on 1 August 2008, Qinhuangdao Trading declared a dividend of approximately RMB120.3 million to its equity holders. [The PRC Legal Advisers confirm that the equity holders of Qinhuangdao Trading may surrender the dividend or choose to set-off the dividend against any advancement made to Qinhuangdao Trading.] In relation to the dividend declared by Qinhuangdao Trading, Mr. XU Da and Qinfa Industry, being the equity holders of Qinhuangdao Trading, agreed that (i) Mr. XU Da would surrender the dividend he was entitled and (ii) the dividend of approximately RMB120.3 million would be paid to Qinfa Industry. The dividend distributed by Qinhuangdao Trading was partially settled by the amount due from Qinfa Industry. As at 31 December 2008, an amount of approximately RMB74.6 million due from Qinfa Industry was settled by the dividend of approximately RMB120.3 declared by Qinhuangdao Trading. [The remaining dividend of approximately RMB 45.7 million payable to Qinfa Industry will be settled by Qinhuangdao Trading before the [●].]

Pursuant to a resolution passed at a shareholders' meeting of Qinfa Trading held on 12 June 2009, Qinfa Trading declared a special interim dividend of HK$100 million to its shareholder, Qinfa Investment. Qinfa Investment declared the same amount of dividend to Fortune Pearl. Fortune Pearl declared the same amount of dividend to Mr. XU. This dividend payment will be paid out of the financial resources of the Group before [●].

After completion of the Global Offering, the Shareholders will be entitled to receive the dividends declared by the Company. The payment and the amount of any dividend declared by the Company will be at the recommendation of the Directors and will depend upon the Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Directors consider relevant. Any declaration and payment as well as the amount of dividend will be subject to the Articles and the Companies Law, including (where required) the approval of the Shareholders. In addition, the Controlling Shareholders will be able to determine the passing of any shareholders' resolution on any payment of dividends.

Subject to the above, the Directors currently intend to recommend a distribution to all Shareholders in an amount representing not less than [30%] of the distributable net profit attributable to the equity holders of the Company in each of the financial years following the [●] (that is, for the avoidance of doubt, commencing from the year ending 31 December 2009). Cash dividends on the Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to the Shareholders by any means which the Directors consider appropriate.

RISK FACTORS

The Directors consider that there are certain risks involved in the Group's businesses and the details of such risks are set out in the section headed "Risk factors" of this document. The risks can be broadly divided into six categories including (i) risks relating to the Structure Contracts; (ii) risks relating to the Group; (iii) risk relating to the coal operation and shipping industries; (iv) risks relating to the PRC; (v) risks relating to the [●]; and (vi) risks relating to statements made in this document, which are summarised below:

Risks relating to the Structure Contracts

- The PRC government may determine that the Structure Contracts are not in compliance with applicable PRC laws, rules and regulations.
- The Group depends upon the Structure Contracts in conducting its coal trading and inland shipping businesses in China and receiving payments through China Qinfa Group, which may not be as effective as direct ownership.
- The pricing arrangement under the Structure Contracts may be challenged by the PRC tax authorities.
- Controlling Shareholders have potential conflicts of interest with the Group which may adversely affect the business of the Group.
- The Group relies on the Coal Operation Certificates and Waterway Transportation Licence held by China Qinfa Group and any deterioration of the relationship between Hong Kong Qinfa Group and China Qinfa Group could materially and adversely affect the overall business operation of the Group.

Risks relating to the Group

- If the global financial crisis continues, the Group's business operations and the implementation of its future plans may be adversely affected.
- The Group's growth during the Track Record Period was partially attributable to the continuous increases the coal market prices in China and any substantial decrease in the coal market prices in the future may materially and adversely affect the Group's financial performance.
- The Group's track record relies on the Directors' determination on the coal purchase policies.
- The PRC domestic and international coal markets are cyclical and the Group is vulnerable to fluctuations in coal prices.
- The Group does not have long-term purchase commitments from its customers.

- The Group may be unable to continue to procure coal supplies at acceptable prices and quality in a timely manner.
- The Group may have difficulty in sustaining its turnover and profit.
- The Group relies on major customers.
- The Group relies on major suppliers.
- It is uncertain that the Group will continuously be granted the necessary licences and permits or be able to fulfil other regulatory requirements for its operations.
- The Group may not be able to successfully implement its business strategies.
- The Group recorded negative cashflow from operating activities in 2006.
- The Group's operations are vulnerable to any significant downturn in the PRC power industry.
- The Group's overseas sourcing of coal is vulnerable to regulations and changes to market conditions in those countries.
- Any material increase in transportation costs could have a material adverse effect on the Group's business and operating results.
- The Group's insurance may not be sufficient to cover potential losses and claims.
- The Group's financial performance and operating results could be materially adversely affected by its indebtedness.
- The Group's operations are dependent on the knowledge and experience of its key management personnel.
- The Group depends on dividends and other distributions on equity paid by its group members and there may be restrictions on dividend distributions whereas the dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared by the Company in future.
- The Group will not continue to benefit from preferential tax treatments.
- The new PRC tax law may have a material adverse effect on the Group's financial condition and results of operation.
- The PRC tax authorities may enforce the payment of Qinfa Trading's tax provision and may challenge the basis on which the Group calculated its obligations.

- Some of leases of the Group in China have not been property registered.

Risks relating to the coal operation and shipping industries

- The coal operations are extensively regulated by the PRC government.
- The Group faces intense competition in the coal industry.
- The Group has to comply with the PRC export permit and quota system in relation to its export of coal.
- The shipping industry is highly cyclical.
- Fluctuations in freight rates and charter hire rates may adversely affect the Group's revenue and profitability.
- Seasonal changes could affect the Group's business and financial condition.
- The shipping industry is a highly regulated industry and compliance with relevant conventions, treaties, laws and regulations could require significant expenditures or could impact the value of the Group's fleet.
- There are operational risks inherent to shipping transportation.
- An increase in fuel oil prices may reduce the Group's profitability.
- There is a possibility of being involved in major legal proceedings in the shipping business.
- The Group's vessels could be arrested by maritime claimants, which could result in significant loss of earnings and cash flow for any resulting off-hire periods.
- Government requisitions during periods of emergency or war could have a material adverse effect on the Group's financial condition and results of operations.
- Acts of God, acts of war, epidemics, terrorist attacks and other events could adversely affect the Group's business.

Risks relating to the PRC

- Changes in PRC foreign exchange regulations may adversely affect the Group's business operations.

- The Employment Contract Law may increase the Group's labour costs.

- Fluctuations in the value of RMB may adversely affect the Group's business and the value of distributions by its PRC subsidiaries.

- Interpretation of PRC laws and regulations involves uncertainty.

Risks relating to statements made in this document

- Certain facts and statistics included in this document may not be relied upon.

- Forward looking statements may be inaccurate.