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 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.

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 Group conducts its coal trading and inland shipping businesses in China and generates the relevant revenues through the Structure Contracts. The Structure Contracts may not be as effective in providing the Group with control over China Qinfa Group as direct ownership.

The Structure Contracts are governed by the PRC law and provide for the resolution of disputes through arbitration in accordance with the arbitration rules of China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) in force at that time (the "**CIETAC Arbitration Rules**") in China. Accordingly, the Structure Contracts would be interpreted in accordance with the PRC law and any disputes would be finally resolved by arbitration in accordance with the CIETAC Arbitration Rules. If China Qinfa Group fails to perform its obligations under the Structure Contracts, the Group may have to rely on legal remedies under the PRC law, including seeking specific performance or injunctive relief, and claiming damages, which the Group cannot assure the effectiveness. The legal environment in China is not as developed as in other jurisdictions. As a result, uncertainties in the PRC legal system could limit the ability of the Group to enforce the Structure Contracts.

The pricing arrangement under the Structure Contracts may be challenged by the PRC tax authorities

The Group could face adverse tax consequences if the PRC tax authorities determine that the Structure Contracts were not entered into based on arm's length negotiations. If the PRC tax authorities determine that the Structure Contracts were not entered into on an arm's length basis, they may adjust the income and expenses of the Group for PRC tax purposes which could result in higher tax liability.

Controlling Shareholders have potential conflicts of interest with the Group which may adversely affect the business of the Group

As Mr. XU is one of the Controlling Shareholders and the ultimate beneficial owner of the equity interest of China Qinfa Group, there can be no assurance that if there is any conflict arising requiring Mr. XU to vote in these two capacities, Mr. XU will act in the best interests of the Group or such conflict will be resolved in the Group's favour. In addition, some or all of the Controlling Shareholders could violate their non-competition agreements with the Group by diverting business opportunities from the Group to others. In such event, the Group's business, financial condition and results of operations could be adversely affected.

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

The Group operates its coal trading and inland shipping businesses in China on the basis of the Coal Operation Certificate and Waterway Transportation Licence as well as other requisite licences held by China Qinfa Group. There is no assurance that China Qinfa Group will be able to renew their licences or certificates when their terms expire with substantially similar terms as the ones they currently hold.

On 10 June 2009, Qinfa Logistics, each member of the China Qinfa Group and all its respective equity holders entered into the Structure Contracts, details of which are set out in "Reorganisation and Structure Contracts – Structure Contracts – Summary of the Structure Contracts" of this document, pursuant to which Qinfa Logistics was granted the right to acquire the equity interests in China Qinfa Group. By the time Hong Kong Qinfa Group intends to exercise its acquisition rights under the Structure Contracts, the then PRC laws and regulations may still prohibit Hong Kong Qinfa Group from acquiring the equity interests or the assets from China Qinfa Group.

Further, the Group's relationship with China Qinfa Group is governed by the Structure Contracts that are intended to provide the Group with effective control over the business operation of China Qinfa Group. However, the Structure Contracts may not be effective in providing control over the application for and maintenance of the licences required for the Group's business operations. China Qinfa Group could violate the Structure Contracts, go bankrupt, suffer from difficulties in their business or otherwise become unable to perform their obligations under the Structure Contracts and, as a result, the Group's operations, reputation and business could be severely harmed.

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 recent global financial crisis has adversely affected the world economy. With a deteriorating worldwide economy, demands for coal and shipping transportation diminish. In addition, the credit tightening environment may aggravate the interest expenses on the Group's bank borrowings, or banks may even reduce the amount of or discontinue the banking facility currently available to the Group. This can adversely affect the Group's current business operations as well as the implementation of its future plans.

Furthermore, the Group experienced a significant decrease in revenue for the four months ended 30 April 2009. As a result of the global financial crisis in 2009, the Group's customers in the power plant industry were still cautious on their coal purchase plans and the implementations of the inside plan term contracts (計劃內合同) between stated-owned power plants and state-owned coal suppliers were locked in stalemate. In addition, the coal demand from the Group's customers were also negatively affected by the slackening industrial production growth in China.

During the four months ended 30 April 2009, the coal trading volume 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 RMB442 per tonne during the four months ended 30 April 2009, representing a decrease of 16.1% from the same period in 2008 (approximately RMB527 per tonne) or 47.6% 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.

If the global financial crisis continues and/or the coal market in China continues to deteriorate, 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 in 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 recorded turnover of approximately RMB2,850.5 million, RMB3,664.6 million and RMB4,192.5 million during the Track Record Period, respectively. The Group's growth during the Track Record Period was partially attributable to the continuous increases in the coal market prices in China. With the increasing coal market prices, the Group was able to purchase coal at low prices and sell coal at a higher prices. Any unexpected decrease in the coal market prices in the future may reduce the Group's profit margin and 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 Directors formulate the Group's coal purchase policies by considering various factors, including current market demand and supply and anticipation of the market and price trends in the PRC domestic and overseas markets. Based on the management's projections and their judgment on coal market trends, the Group adjusts its purchase and sales volumes from time to time. There can be no assurance that the Directors' projection and judgment are correct at all times. In addition, any unexpected decrease in the coal price may reduce the net realisable value of the coal inventory of the Group and may result in provision to be made by the Group on the decrease in value of the coal inventory. As a result, the financial performance of the Group would be adversely affected.

During the year ended 31 December 2008, the Group made provision on the decrease in value of its coal inventory of approximately RMB31.0 million due to the substantial decrease in the coal market prices during the two months ended 28 February 2009.

The PRC domestic and international coal markets are cyclical and the Group is vulnerable to fluctuations in coal prices

Majority of the Group's turnover is derived from coal operations, which makes the Group's business and operating results substantially dependent upon international and domestic coal demand and the average purchase price and sales price in the international and the PRC domestic markets. Coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. Such fluctuations are subject to numerous factors beyond the Group's control, including, among others, the general economic conditions in the PRC and overall global economic conditions, as well as fluctuations in the development and growth of industries with high demand for coal, such as power and steel industries. There can be no assurance that the PRC domestic or international demand for coal and coal-related products will continue to grow, or that the domestic or international markets for coal and coal-related products will not experience excess supply. A significant decline in demand for, or an over-supply of, coal and coal related products may have a material adverse effect on the Group's business, results of operations and financial condition.

In addition, as the Group's coal operation is substantially carried out in China, the Group has to comply with various requirements under the PRC laws and regulations, including the pricing controls imposed by the government for the implementation of different policies. The Directors cannot guarantee that the PRC government will not adopt additional and more stringent policies, regulations and measures in the future that may disrupt the Group's business, cause the Group to incur additional costs or adversely affect the Group's business prospects, results of operations and financial condition.

The Group does not have long-term purchase commitments from its customers

As of the Latest Practicable Date, the Group's customers did not have any long-term purchase commitment and the Group's sales contracts without specific pricing terms generally had terms ranging from one to 12 months. The Group's sales contracts with specific prices were generally with terms of less than one month. The purchase orders of the Group's customers may vary significantly from period to period. The Directors cannot assure investors that any of the Group's customers will continue to place orders with the Group in the future at the same level as in previous periods. The Directors also cannot assure investors that the volume of the Group's customers' orders will be consistent with their expectations. As a result, the Group's results of operations may fluctuate significantly in the future which may make period-to-period comparisons less meaningful. Such fluctuations may also adversely affect the Group's working capital position. As a result, the Group's profitability, results of operations and financial condition could be affected. In addition, it is possible that, the Group's operating results in the future may be below the expectations of the investors.

The Group may be unable to continue to procure coal supplies at acceptable prices and quality in a timely manner

The Group's success in coal operations depends on its ability to obtain from its suppliers sufficient quantities of coal at acceptable prices and quality in a timely manner. In particular, the Group is exposed to the market risk of the price fluctuation on coal supplies. The price and availability of coal may vary significantly due to factors including customer demands, supplier capacity and market conditions. Coal supplies which are critical to the Group's operations are subject to substantial pricing cyclicality. The Group does not have long-term contracts with its suppliers. The Group's coal purchase contracts generally only stipulate procedures for quality and quantity controls, sampling and weighing, and payment method. As such, the Directors cannot assure investors that the Group will be able to continue to obtain sufficient quantities of coal supplies from the Group's existing suppliers or from alternative sources at prevailing or acceptable prices, in a timely manner, or at all. The Directors can give no assurance that the Group will not encounter difficulties in obtaining quality coal or shortages of coal, or that the Group will be able to absorb any increase in coal prices or pass them on to its customers.

The Group may have difficulty in sustaining its turnover and profit

The Group has undergone rapid expansion since the Group's commencement of operations in coal trading and shipping transportation in 1996 and 2005, respectively. Details of the Group's history are stated in "History and Development" of this document. Although the Group recorded high growth in both the turnover and net profit during the Track Record Period with turnover of approximately RMB2,850.5 million, RMB3,664.6 million and RMB4,192.5 million, respectively and net profit of approximately RMB52.9 million, RMB207.3 million and RMB330.7 million, respectively, the sustainability of the Group's turnover and net profit will depend upon the ability of the Group to maintain its competitiveness in the market and to produce high quality products and services. In addition, the Group's gross profits, gross profit margins and sales volumes recorded a decrease for the year ended 31 December 2008 as compared with those for the year ended 31 December 2007. During the Track Record Period, the Group recorded gross profits of approximately [RMB235.6] million, [RMB571.4] million and [RMB560.0] million with gross profit margins of approximately [8.3%], [15.6]% and [13.4]%, respectively. The Group recorded annual sales volume of approximately [7,206,000] tonnes, [8,023,000] tonnes and [6,274,000] tonnes of coal for each of the three financial years ended 31 December 2008, respectively. There is no assurance that the Group will be able to maintain its growth at current levels in coming years and in such event, the Group's performance may be adversely affected by any decrease in turnover and profit.

The Group relies on major customers

The Group derives a significant portion of its turnover from the coal trading activities with a few of its major customers.

During the Track Record Period, the Group's sales to its top five customers accounted for approximately 53.5%, 66.4% and 63.7%, respectively, of the Group's total turnover. Furthermore, approximately 19.8%, 25.8% and 26.5%, respectively, of the Group's total turnover was derived from the Group's largest customer during the Track Record Period.

The Directors anticipate that the Group will continue to rely on the business activities with its major customers. The Group's business, results of operations and financial position may be adversely affected should such major customers cease their business relationships with the Group.

The Group relies on major suppliers

The Group purchased most of the coal from its key suppliers.

During the Track Record Period, the Group's purchase of coal from its top five suppliers accounted for approximately 51.5%, 26.0% and 26.6% of the total purchases of the Group, respectively. Furthermore, approximately 17.9%, 7.9% and 6.1%, respectively, of the Group's total purchases were made from the Group's largest supplier during the Track Record Period.

The Directors anticipate that the Group will continue to rely on its major suppliers. There is no assurance that the Group will not encounter from any interruption, delay or shortage in supply from its major suppliers in the future. As such, it may have an adverse impact on the Group's business operation and profitability.

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 coal trading and PRC inland shipping industries in China are extensively regulated. Various regulatory authorities are empowered to issue and implement regulations governing aspects of the coal trading and PRC inland shipping industries. Details of such regulations are set out in "Regulations relating to the industry" of this Document. The Group is required to obtain applicable permits or approvals from different regulatory authorities in order to provide its services. For example, the Group is required to hold the Coal Operation Certificate for coal trading in China and the Waterway Transportation Licence for PRC inland shipping in China. Failure to comply with the terms and conditions in relation to the renewal of such certificates and licences may subject the Group to monetary penalties or restrict its ability to pass the inspections of such certificates and licences or to obtain renewed certificates and licences upon the expiration of the current terms of such certificates and licences. If the Group fails to obtain or maintain any of the required permits or approvals and it continues to conduct such businesses, it may be subject to various penalties, including fines and the discontinuation or restriction of its operations. Any such disruption in the Group's business operations would adversely affect its financial condition and results of operations.

The Group may not be able to successfully implement its business strategies

The Group is pursuing several business strategies, including constructing and operating the Zhuhai Terminal, operating an additional coal loading station along Daqin Railway and expanding its international coal operation business. As these business strategies are still at a preliminary stage, no in-depth feasibility report has been undertaken in respect of the proposed projects. In addition, some of these strategies relate to markets in which the Directors have limited experience. There is no assurance that the Group will be able to pursue its business strategies on a commercially viable basis or in a timely manner, or at all. If the Group is unable to successfully implement its business strategies, the Group may not grow as rapidly as the Directors expect, and the Group's competitiveness may be adversely affected.

One of the Group's business strategies is to construct and operate the Zhuhai Terminal. There is no assurance that the construction and operation of the Zhuhai Terminal will be implemented in accordance with the feasibility report. The construction of the Zhuhai Terminal may be affected by interference of natural conditions or on increase in construction costs. The Group may also have difficulty in engaging a reputable management company or personnel to manage and operate the Zhuhai Terminal. Further, the total investment of the Zhuhai Terminal is expected to be RMB[1,500] million. There is no assurance that the Group will be able to obtain sufficient funding for the Zhuhai Terminal or that the operation budget will be kept at the level currently planned. If the Group fails to obtain sufficient funding or secure the collaboration of suitable business partner(s) in the development of the Zhuhai Terminal, the project may be adversely affected.

Furthermore, in December 2008, the Group entered into the first sales and purchase contracts for the trading business of iron ore fine. The 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 operation into the iron ore industry. The Directors expect that there will be an intense competition in the iron ore industry from other companies with more experience and expertise. The Group may not have sufficient experience and expertise in iron ore trading. It may fail to secure sufficient and quality supplies to satisfy demands from customers or it may fail to secure profitable sale orders from customers. There can be no assurance that the Group will be able to grow its iron ore trading business profitably as the Directors plan and expect. In addition, the Group's entry into such a new business may put pressure on its managerial, financial, operational and other resources. Failure to implement appropriate measures for the growth of iron ore trading business may have a material and adverse effect on the Group's financial condition and results of operations.

There is no assurance that approvals will be granted by the local government or regulatory authority in the future or that there will not be a delay in securing such approvals. The planned projects could also be delayed or adversely affected by a number of other factors beyond the Group's control, including, among others, the availability of sufficient funding, natural conditions and a lack of human resources. Moreover, the actual costs for such planned projects may exceed the Group's original budget. As a result of project delays, cost overruns, changes in market circumstances or other reasons, the Group may not be able to achieve intended economic benefits or demonstrate commercial viability of the planned projects, which may in turn adversely affect the Group's business, operating results and growth prospects.

The Group recorded negative cashflow from operating activities in 2006

The Group experienced negative cashflow from its operating activities of approximately RMB261.0 million for the year ended 31 December 2006 which was mainly attributable to the significant amount spent by the Group in acquiring coal as its inventory.

There is no assurance that the Group will generate sufficient cashflow from its operations in the future. If the Group is unable to finance its operations continuously by funds generated from operating activities, the operations and financial position of the Group could be materially and adversely affected. For details of the changes in cashflow from operating activities, please refer to "Financial information – Management's discussion and analysis of financial condition and results of operations – (VIII) Capital Structure, Liquidity and Financial Resources" in this document.

The Group's operations are vulnerable to any significant downturn in the PRC power industry

As the Group's coal operations focus primarily on thermal coal in the PRC and the majority of its customers are power plants, the Group's coal operation business and prospects are heavily dependent on the level of demand for coal from the power industry in the PRC. The Group's growth during the Track Record Period was largely fuelled by the increasing demand and the rapid growth in the PRC power industry. However, there is no assurance that there will be continued or growing demand for thermal coal from power plants in China. Any significant downturn in the PRC power industry may adversely affect the Group's business, operating results and financial condition.

As a result of slowing economic growth and slackening industrial production growth, the demand for thermal coal in China has been affected negatively in the second half of 2008 and the first quarter of 2009. Under such circumstances, the demand of coal products from the Group's customers in power industry has also been affected. During the four months ended 30 April 2009, the Group's coal trading volume 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.

The Group's overseas sourcing of coal is vulnerable to regulations and changes to market conditions in those countries

During the Track Record Period, the Group sourced coal from overseas countries, including Australia, Indonesia and Vietnam, in addition to the PRC market. The Group's coal sourced from overseas markets recorded approximately 16.9%, 12.6% and 14.3% of the Group's total purchase volume of coal during the Track Record Period, respectively. Further details of the Group's purchases of coal are set out in "Business – Coal operation – I. Coal purchases and suppliers – A. Combination of purchases from overseas markets and the PRC domestic market" of this document. The Directors anticipate that the Group will continue to derive a significant portion of its coal purchases from overseas. There is no assurance that the Group will not encounter any interruption, delay or shortage of coal supplies in those countries in the future, especially in light of the changing regulations and market conditions in those countries. As such, any interruption, delay or shortage of coal supplies or any unfavourable changes of regulations in those jurisdictions may have an adverse impact on the Group's coal operation and profitability.

Any material increase in transportation costs could have a material adverse effect on the Group's business and operating results

The Group utilises the national railway system, roadway and shipping transportation to deliver the coal to its customers. Due to the limited transport capacity and the large transportation demand on the PRC national railway system, the allocation of transport capacity is subject to the regulatory decisions. Accordingly, there is no assurance that the transportation requirements of the Group will be fully satisfied in the future, nor is there assurance that the Group will not experience any material delay in its coal transporting as a result of insufficient railway transport capacity.

Further, in the event of railway transport shortages or unpredictable weather interruption, there is no assurance that roadway transportation will be able to satisfy the shortfall. In addition, any material increase in transportation costs could have a negative effect on the competitiveness of the Group's coal trading, which may in turn have a material adverse effect on the Group's business and results of operations.

The Group's insurance may not be sufficient to cover potential losses and claims

According to the Directors' best knowledge and understanding, in accordance with the industry practice for coal trading operation in China, the Group is not required to maintain insurance for its operation. Accordingly, the Group may not have sufficient insurance coverage for its coal operation business. The Group may be sued or held liable for damages due to any tortuous acts. If the Group suffers from any uninsured losses, damages and liabilities, it may affect the Group in terms of financial resources and/or reputation and/or its operation which may constitute a material negative impact to the Group.

The Group's financial performance and operating results could be materially adversely affected by its indebtedness

The Group is subject to a high degree of financial leverage. The Group has been and is expected to continue to rely on both short-term and long-term borrowings to fund the majority of its capital requirements. As at 31 December 2008, the Group had a total outstanding debt of approximately RMB1,168.9 million. The Group's liabilities-to-assets ratios (defined as total liabilities divided by total assets) were 66.2%, 66.7% and 64.8%, and its debt to asset ratios (defined as total interest-bearing borrowing divided by total assets) were 40.9%, 49.9% and 56.0% as at 31 December 2006, 2007 and 2008.

The Group may face substantial financial and operational risks if its business environment or the relevant interest or exchange rates change, or if its cash flows and capital resources are insufficient to fund its debt service obligations. The Group may be forced to sell assets, seek additional capital or seek to restructure or refinance its indebtedness, which may not be successful or provide sufficient remedial measures. Failure to service the Group's debt could result in the imposition of penalties, including increases in rates of interest that it pays on its debt and legal actions against the Group by its creditors, or even bankruptcy.

The Group's operations are dependent on the knowledge and experience of its key management personnel

The Group's operations are dependent on the knowledge and experience of the executive Directors and a number of senior management personnel. In particular, the Group relies on the expertise and experience of Mr. XU, an executive Director, in its business operations. Mr. XU is mainly responsible for the Group's overall business strategic development. Further details of the background of Mr. XU and the other key management personnel are set out in "Directors, Senior Management and Staff' of this document.

The future performance of the Group is dependent, to a large extent, on the continuing efforts made by the executive Directors and senior management personnel. However, the Group may not be able to replace, retain, attract or hire other qualified managerial personnel in the future. Should any of the Directors or the existing key management personnel cease to render services to the Group, there may be a material and adverse impact on the Group's operation and profitability.

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

As advised by the PRC Legal Advisers, PRC legal restrictions permit payments of dividends by PRC entities only out of their retained earnings, if any, determined in accordance with the PRC accounting standards and regulations. Under the PRC law, the Group's PRC subsidiaries are also required to set aside at least 10% of their net profit each year to fund the designated statutory reserve fund until such reserve fund reaches 50% of their registered capitals. These reserves are not distributable as cash dividends. As a result of these and other restrictions under PRC laws and regulations, the Group's PRC subsidiaries are restricted in their ability to transfer a portion of their net assets to the Company in the form of dividends, loans or advances.

In addition, the payment and the amount of any dividend declared by the Company will be at the recommendation of the Directors at their discretion 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. 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 rate of income tax chargeable on companies in China varies depending on the availability of preferential tax treatment or subsidies based on the company's industry or location. During the years ended 31 December 2006 and 2007, located in Zhuhai, Zhuhai Qinfa Shipping and Zhuhai Qinfa Trading were entitled to a preferential income tax rate of 15% instead of the flat corporate income tax rate of 33%. In March 2007, the PRC government enacted a new PRC enterprise income tax law, which became effective on 1 January 2008. The new PRC enterprise income tax law imposes a unified income tax rate of [25]% for most domestic enterprises and foreign invested enterprises, with various transition periods for enterprises that benefit from existing preferential tax treatment.

As a result of the new law, Zhuhai Qinfa Shipping and Zhuhai Qinfa Trading will not continue to benefit from preferential tax treatment and will be subject to the uniform rate of [25]%. Such increase in income tax rate could have a material adverse effect on the Group's financial condition and results of operations. Moreover, the Group's historical operating results may not be indicative of the Group's operating results for future periods in light of the increase in the applicable income tax rate.

The new PRC tax law may have a material adverse effect on the Group's financial condition and results of operations

The new PRC enterprise income tax law may deem an enterprise established offshore but having its "management organ" in China as a "resident enterprise" which will be subject to PRC tax on its global income. The term "management organ" has not yet been defined by the PRC government. Accordingly, as advised by the PRC Legal Advisers, it is not entirely certain as to whether Qinfa Trading will be deemed to be a "resident enterprise" for the purpose of the new tax law.

In addition, under the new PRC tax law, the exemption from the withholding tax on dividends distributed by foreign investment enterprises to their foreign investors under the previous tax law is no longer available. Foreign investors who are established in Hong Kong and are considered non-resident enterprises by the PRC tax authority are subject to a PRC withholding tax at a rate of 5%. The imposition of withholding tax on dividends payable from the PRC entities of the Group to the Company could have a material adverse effect on the Group's financial condition and results of operations.

The PRC tax authorities may enforce the payment of the Qinfa Trading's tax provision and may challenge the basis on which the Group calculated its obligations

Based on the relevant China tax laws, Qinfa Trading could potentially be deemed to have an establishment in China. In serving the best interests of the Group and potential investors, Qinfa Trading has made tax provisions of approximately RMB[9.2] million, RMB[8.7] million and RMB[11.0] million, respectively, during the Track Record Period and an aggregate provision of approximately RMB[50.6] million for the period before the Track Record Period.

The Directors consider the current PRC income tax provision for Qinfa Trading to be adequate. As of the Latest Practicable Date, the Group was not required by the relevant PRC tax authorities to submit tax filing in relation to the above tax provision.

The Directors cannot foresee whether or when the PRC tax authorities will require Qinfa Trading to settle the full amount of the tax provisions. In addition, as advised by the PRC Legal Advisers, the Company may be also subject to a maximum penalty of RMB2,000-RMB10,000 when it is required to settle the tax provisions by the PRC tax authorities. As of the Latest Practicable Date, Qinfa Trading was not required by local tax authorities to settle any of the tax provisions applicable to it. If the PRC tax authorities require Qinfa Trading to settle the full amount of the tax provisions or if the amount of the tax provisions eventually assessed by the PRC tax authorities exceeds the amount the Group has provided for, the Group's business, financial condition, results of operations and prospects could be materially and adversely affected.

Some of the leases of the Group in China have not been properly registered

Two of the leases of the Group, details of which are set out as properties No. 4 and 5 in Appendix III to this document, have not been registered. Such properties are being used by the Group as offices. If the Group's rights to occupy the properties come into question, the Group may need to relocate elsewhere and the Group's operations in the relevant premise concerned might be temporarily adversely affected.

RISKS RELATING TO THE COAL OPERATION AND SHIPPING INDUSTRIES

The coal operations are extensively regulated by the PRC government

The Group's coal operations are extensively regulated by the PRC government. For example, the Group is required to obtain a Coal Operation Certificate for coal trading in China. Details of the PRC regulations are set out in "Regulations relating to the Industry" of this document. Since these laws, regulations and legal requirements are evolving, their interpretation and enforcement may involve significant vagueness, which leads to substantial uncertainties regarding the operations and activities of the Group's operation in China. The Group's current or previous services or businesses could be deemed to be in violation of PRC laws or regulations, and the Group may be subject to fines or other penalties and/or may have to cease such business or services.

The Group faces intense competition in the coal industry

The PRC coal industry is highly competitive. Competition in the coal industry is based on many factors, including coal sources, coal and coal-related product quality and characteristics, transportation capability, costs and blending capability. The Group's coal business competes in the PRC market with other domestic coal traders and coal mine operators. Some of the Group's competitors have greater financial, marketing, distribution and other resources. There is no assurance that the Group will continue to compete favourably due to quality improvements by its competitors. If the Group is not able to maintain or improve its competitiveness over the competitors, the Group's business, operating results or market share may be materially and adversely affected.

The shipping industry in which the Group operates is also highly fragmented and competitive with relatively low barriers to entry, particularly for existing shipping companies wishing to enter, or expand their presence in, a market or trade route. The Group faces significant competition from various carriers and ship chartering companies. A number of the Group's competitors may have competitive advantages, including the ability to offer better freight rates or charter hire rates, deploy larger fleets and access to more developed inter-modal transport networks. Some of the Group's competitors may also have better market penetration and greater financial resources in certain shipping segments and regions. As a consequence, the Group may have to lower its freight rates or charter hire rates in order to attract customers, which in turn may reduce its revenue and profitability. The Group may also experience a loss of market share if it is unable to compete effectively.

The Group has to comply with the PRC export permit and quota system in relation to its export of coal

The Group's export of coal to the overseas market is subject to an export permit and quota system in China, details of which are set out in "Regulations relating to the industry – Coal trading – Export" of this document. If the PRC government reduces the national export quota as a whole and/or the export quota allocated to the agent the Group has engaged and the Group is not able to engage another agent as a substitution, the Group's sales may decline, which could adversely affect its sales to the overseas market.

The shipping industry is highly cyclical

The shipping industry is highly cyclical, and the demand for and supply of shipping capacity are affected by, among many other factors, global and regional economic and political conditions. Changes in demand for and supply of shipping capacity in turn affect the charter hire rates, the freight rates, the value of the Group's vessels, and its revenue and profitability.

The factors influencing the demand for and supply of vessel capacity are beyond the Group's control and the nature, timing and degree of changes in industry conditions are unpredictable. Historically, shipowners and carriers have responded to periods of high demand and increasing freight rates by investing in vessels to increase their capacity. If demand fails to match additional capacity created by the investment in vessels, oversupply of capacity from comparable vessels in the industry may occur and freight rates and charter hire rates may decrease. Any decrease in demand for shipping services along with the increase in shipping capacity could lead to significantly lower freight rates and charter hire rates. The resulting decrease in the Group's revenue, with costs remaining at the same level, would reduce its profitability.

Fluctuations in freight rates and charter hire rates may adversely affect the Group's revenue and profitability

Freight rates and charter hire rates fluctuate with the change of supply of, and demand for, shipping services and shipping capacity. In addition, freight rates may fluctuate as a result of transactions in the freight rate futures market. As the Group charters its vessels, fluctuations in freight rates and charter hire rates may adversely affect its revenue and profitability and expose the Group to costs that it is unable to avoid due to time lags. These time lags occur because at any given point in time, ship chartering companies and carriers are bound by the terms of their charter agreements. Therefore, a ship chartering company cannot immediately raise its charter hire rates to reflect an increase in the market rates, but will have to wait until its current charter agreements expire. As the Group operates a ship chartering business, it may experience a certain period of time during which it is unable to adjust its charter hire rates to take into account increasing freight rates. As the nature, timing and degree of changes in freight rates and charter hire rates are unpredictable and beyond the Group's control, volatility in freight rates and charter hire rates and the attendant time lag between the freight rate changes and its ability to respond to such changes may adversely affect its revenue and profitability.

Seasonal changes could affect the Group's business and financial condition

The shipping industry is subject to seasonal fluctuations. Demand for dry bulk cargo varies in different seasons which consequently affects the demand for shipping transportation services. As a result, seasonal factors may affect the Group's operating results. However, such seasonal fluctuation may be less apparent in certain years than others, or may even occur against the normal seasonability.

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

The shipping industry is highly regulated and the Group's operations are subject to numerous international conventions, treaties, international and local laws and regulations in force in the jurisdictions in which its vessels are operated, as well as in the country or countries in which its vessels are registered. These conventions, treaties, laws and regulations include those governing maritime operations, environmental protection, management, transportation, discharge and release of hazardous materials, and human health and safety. Failure to comply with the relevant laws, rules and regulations may subject the Group to increased liability, decreased insurance coverage for the affected ships, and may result in denial of access to, or detention in, certain ports.

In order to ensure compliance with the existing and future regulations, the Group may incur substantial costs in obtaining the necessary permits or authorisations, meeting maintenance and inspection requirements, performing ship modifications or operational changes, developing and implementing emergency preparedness procedures and obtaining insurance coverage for environmental risks. The Group expects government regulation of vessels, particularly in the areas of safety and environmental requirements, to become more stringent in the future, and may incur significant capital expenditures on its vessels to keep them in compliance, or even to scrap or sell certain vessels altogether.

Future development of laws, regulations and international conventions may further increase the Group's cost of compliance or impact the fair market value of its fleet.

There are operational risks inherent to shipping transportation

The operation of ocean-going vessels carries inherent risks. These risks include the possibility of:

- marine disasters;

- environmental accidents, such as oil spills;
- cargo and property losses or damage;
- grounding, fire, explosions and collisions; and
- business interruptions caused by mechanical failures, human error, labour strikes, adverse weather conditions and piracy.

Such occurrences could result in death or injury to persons, loss of property or environmental damage, delays in the delivery of cargo, loss of revenue from or termination of charter contracts, governmental fines, penalties or restrictions on conducting business, higher insurance rates and damage to the Group's customer relationships. Any of these circumstances could adversely affect the Group's operations by increasing its costs or lowering its revenue. Furthermore, any involvement of the Group's vessels in any marine accident might harm its reputation, which could reduce the level of customer business the Group can generate.

An increase in fuel oil prices may reduce the Group's profitability

The Group purchases fuel oil in order to operate its vessels. The cost of fuel oil can fluctuate significantly and is subject to many economic and political factors that are beyond the Group's control, including political instability in oil-producing regions. During the Track Record Period, the Group incurred fuel oil costs of approximately RMB19.3 million, RMB13.4 million and RMB57.3 million respectively. The Group recorded a drop in its fuel oil cost incurred for the year ended 31 December 2007 because the Group chartered its own vessel out to third parties which would bear the fuel oil cost during the charter period. Nonetheless, the Group still recorded fuel oil cost of approximately RMB13.4 million and approximately RMB57.3 million for the year ended 31 December 2007 and 2008. An increase in the price of fuel oil may result in increasing operating costs and, without a corresponding increase in freight rates, decreasing revenue, and consequently may have an adverse effect on the Group's profitability. The Group currently does not hedge the cost of fuel oil.

There is a possibility of being involved in major legal proceedings in the shipping business

The Group is exposed to the possibility of being involved in major legal proceedings as the shipping business carries the inherent risks of marine accidents, which could result in property loss or even loss of lives of both the Group and third parties. If the Group is unsuccessful in defending any legal proceeding, or unsuccessful in settling any legal proceeding on commercially reasonable terms, and the damages which the Group may be liable to pay in respect of such legal proceeding are not covered by its insurance policies, its business and results of operations could be materially and adversely affected. In addition, the management's time could be diverted from the effective operation of the Group's business in order to pursue and defend any legal proceedings in which it is involved.

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

Crewmembers, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by either arresting or attaching a vessel through foreclosure proceedings. The arrest or attachment of one or more of the Group's vessels may require the Group to pay a substantial amount of money to have the arrest or attachment lifted, and could also result in a significant loss of earnings and cash flow for the related off-hire period.

Government requisitions during periods of emergency or war could have a material adverse effect on the Group's financial condition and results of operations

A government could requisition or seize the Group's vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition one or more of the Group's vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter hire rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of the Group's vessels could adversely affect its business, 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

Natural disasters and other acts of God, epidemics, terrorist attacks, acts of war and other events which are beyond the Group's control may lead to global or regional economic instability, which may in turn adversely affect the Group's coal operation business, results of operations, financial condition, ability to raise capital or future growth.

Outbreaks of epidemics, such as the severe acute respiratory syndrome and the avian flu, could cause significant interruption to the Group's business and have a negative impact on its revenue and profitability. If an outbreak of epidemics such as the avian flu occur, the demand for specific commodities such as grain (chicken feed) may fall, which would decrease the Group's level of profitability. Such an outbreak may also cause significant interruption to the Group's operations.

Political tensions or conflicts and acts of war or the potential for war could also cause damage and disruption to the Group's business which could adversely affect the Group's revenue, costs of operation and overall profitability.

RISKS RELATING TO THE PRC

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

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign exchange out of China. The Group receives a substantial portion of its revenue in RMB. Under its current corporate structure, the Group's income is primarily derived from dividend payments from the Group's PRC subsidiaries. The Group's PRC subsidiaries must convert their RMB earnings into foreign currency before they may pay cash dividends to the Company or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required when RMB is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investments in China and the repayment of the principal of loans denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect the Group's ability to finance its PRC subsidiaries. The Group's choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. In addition, the Group's transfer of funds to its subsidiaries in China is subject to approval by PRC governmental authorities in case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by the Group's PRC subsidiaries permit any such shareholder loans. These limitations on the flow of funds between the Company and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions.

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

The Employment Contract Law became effective on 1 January 2008. Compliance with the requirements under the new law, in particular, the requirement of severance payment and non-fixed term employment contracts, may increase the Group's labour costs.

Pursuant to the Employment Contract Law, the PRC subsidiaries of the Group are required to enter into non-fixed term employment contracts with employees who have worked for the Group for more than 10 years or for whom a fixed term employment contract has been concluded for two consecutive terms. The Group may not be able to efficiently terminate non-fixed term employment contracts under the new Employment Contract Law without cause. The Group is also required to make severance payments to employees when the term of their employment contract expires, unless the employee voluntarily terminates the contract or voluntarily rejects an offer to renew the contract in circumstances where the conditions offered by the employer are the same as or better than those stipulated in the current contract. The amount of severance payment is equal to the monthly wage of the employee multiplied by the number of full years that the employee has worked for the employer. A minimum wages requirement has also been incorporated into the Employment Contract Law. Fines will be imposed for any breach of the Employment Contract Law.

As a result of the requirements imposed by the Employment Contract Law, the Group's historical labour costs may not be indicative of its labour costs going forward. Compliance with the relevant laws and regulations may substantially increase the Group's operating costs, thus may have a material adverse effect on its results of operations.

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

The value of RMB depends, to a large extent, on the PRC domestic and international economic, financial and political developments and governmental policies, as well as the currency's supply and demand in the local and international markets. Since 1994 till 2005, the conversion of RMB into foreign currencies, including the US$, were based on exchange rates set and published daily by the People's Bank of China in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the US$ was largely stable until July 2005. On 21 July 2005, the People's Bank of China revalued RMB by reference to a basket of foreign currencies, including the US$. As a result, the value of RMB appreciated by more than 2% on that day. Since then, the PRC central bank has allowed the official RMB exchange rate to float against a basket of foreign currencies. There can be no assurance that such exchange rate will not fluctuate widely against the US$ or any other foreign currency in the future. Since the Group's income and profits are denominated in RMB, any appreciation of RMB will increase the value of dividends and other distributions payable by the Group's PRC subsidiaries or China Qinfa Group in foreign currency terms. Conversely, any depreciation of RMB will decrease the value of dividends and other distributions payable by the Group's PRC subsidiaries and China Qinfa Group in foreign currency terms. Fluctuation of the value of RMB will also affect the amount of our foreign debt service in RMB terms since the Group has to convert RMB into foreign currencies to service the Group's indebtedness denominated in foreign currencies.

Interpretation of PRC laws and regulations involves uncertainty

The Group's core business is conducted within China and is governed by PRC laws and regulations. The PRC legal system is based on written statutes, and prior court decisions can only be used as a reference. Since 1979, the PRC government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law. However, due to the fact that these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Depending on the governmental agency or the presentation of an application or case to such agency, the Group may receive less favourable interpretations of laws and regulations than its competitors. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. All these uncertainties may cause difficulties in the enforcement of the Group's entitlements under its permits, and other statutory and contractual rights and interests.

RISK RELATING TO STATEMENTS MADE IN THIS DOCUMENT

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

Certain information and statistics contained in this document under the section headed "Industry overview" are derived from various official governmental publications. While reasonable care has been exercised in the reproduction of such information, it has not been independently verified by the Group or any of their respective affiliates or advisers and may not be accurate, complete or up-to-date. The Directors make no representation as to the correctness or accuracy of such information and, accordingly, such information should not be unduly relied upon.

Forward looking statements may be inaccurate

Information in this document contains certain forward-looking statements and information relating to the Group that are based on the belief of the Directors as well as assumptions based on the information currently available to them. In this document, the words "believe", "consider", "estimate", "expect", and similar expressions, as they relate to the Company or the Group or the Directors, are intended to, among others, identify forward-looking statements. Such statements reflect the current views of the Directors with respect to, among others, future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this document. Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, the Group's financial condition may be adversely affected and vary materially from that described herein as believed, considered, estimated or expected.