OVERVIEW

The Group is principally engaged in the coal operation business involving purchase, filtering, storage, blending, sales, 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 geographical 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 business operation of 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. 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 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 the 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 the source coal in China and overseas markets for sales to its customers in China as well as 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 and 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 specification 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 its 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.] 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.

COMPETITIVE STRENGTHS

The Directors believe 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

According to the BBIC Report, the Group is the largest non-state-owned coal operator in the PRC in terms of annual coal trading volume. The coal trading volume of the Group amounted to approximately 7.2 million tonnes, 8.0 million and 6.3 million tonnes, respectively, during the Track Record Period. The Group's annual coal trading volume was approximately 6.3 million tonnes or approximately 0.37% of the total volume of coal trading in the PRC for the year ended 31 December 2008. In line with the increasing demand for coal in the PRC, the Directors are confident that the Group will maintain its growth in revenue by its leading position in the industry.

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

The Group's current operating coal loading stations at Datong and Yangyuan enable the Group to coordinate its transportation to optimise logistic efficiency. Both Datong and Yangyuan coal loading stations are linked with Daqin Railway, which is the largest coal haul railway in the PRC connecting Datong in Shanxi with Qinhuangdao port, the largest coal loading port and bulk cargo port in the world. Leveraging its coal loading stations at Datong and Yangyuan, the Group is able to obtain reliable access to the transportation network of Daqin Railway. The Directors believe that in general, coal mine operators and coal traders only sell their coal to buyers with coal loading stations due to the insufficient access to coal railway transportation and linkage of those suppliers. Currently, there are only [41] major coal loading stations along Daqin Railway and since the Group has secured two of them along this key coal transportation railway system, the Group is able to arrange truck transportation from suppliers to its coal loading stations and thereafter rail transportation along Daqin Railway to Qinhuangdao port. If necessary, the Group further arranges shipping transportation from ports in China to the designated locations of its customers located along the coastal regions. Equipped with its own fleet and chartered vessels, the Group is able to facilitate the shipping transportation for coal of the Group and Independent Third Parties. The Group's access to transportation networks and its shipping business facilitate the transportation of coal from the PRC domestic and overseas suppliers to its customers. Leveraging its access to transportation networks from suppliers to customers, the Directors believe that the Group is able to ensure its stable operation while shielding itself against any unpredictable interruptions.

The Group maintains a solid and long-term customer base

The Group has established stable and long term business relationships with large scale 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)]. As at 31 December 2008, the Group has at least four years of business relationships with a majority of its major customers. Since the key customers of the Group are mainly large enterprises with strong financial backgrounds, the Group enjoys reliable creditability of its customers. In addition, through the long-term relationships with such key customers, the Group is able to maintain a significant degree of increasing demand of sales.

The Group maintains extensive PRC domestic and overseas coal supplies

Being the world's largest coal consuming and importing country, the market demand for coal in China, in particular the prosperous coastal regions, has grown significantly in recent years. However, coal resources and production are concentrated mainly in the western and northern regions in China. In addition, coal transportation can be seriously and detrimentally affected by unexpected natural hazards in China, for example the heavy snow falls in January 2008. Therefore, reliance on a single region and a single transportation channel for coal supply is a material risk to operators in the coal industry.

By sourcing coal supplies from the PRC and the international markets, the Group enjoys the advantage of providing different types of coal to satisfy the different demands of its customers, instead of relying on a single region for the supply.

As to PRC coal sources, leveraging its coal loading stations at Datong and Yangyuan, which are located conveniently within short transportation distances from the Group's coal suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia, the Group is able to source and secure coal supplies from these key coal production provinces in China in addition to its coal supplies at Qinhuangdao port, the largest coal loading port and bulk cargo port in the world.

Further, since 2002 the Group has purchased coal from overseas markets for coal trading in China. With its early presence in overseas markets, the Group has accumulated valuable knowledge and experience as well as reliable relationships with overseas suppliers. Supported by its experience in sourcing coal from overseas markets, the Group is able to source coal from Australia, Vietnam and Indonesia, which are the main overseas countries from which China sources its coal, with different specifications of coal to meet demands of customers. The Group's extensive PRC and international coal sources have contributed to its annual coal trading volume of approximately 6.3 million tonnes for the year ended 31 December 2008, being the largest non-state-owned coal operator in terms of annual coal trading volume in China according to the BBIC Report.

The Group is equipped with coal filtering and blending capabilities

The quality and specification of coal can vary over a wide range due to coalification history. For power plants, heating value is determined by a number of parameters, including ash, moisture and sulphur contents. Different power plants may require different specifications of coal for their specific power generation equipment and processes. In addition, coal within a range of specifications can be provided to power plants and other customers according to their specific power generation processes and requirements. The Group is able to source a sufficient variety of coal supplies to ensure that coal from different sources once blended together is within the range of specification required by customers. In particular, with the Group's extensive PRC and international coal sources, the Group's coal supplies represent the upper high range of the coal quality. Leveraging its aggregate annual coal handling and transportation capacity of over seven million tonnes at the coal loading stations in Datong and Yangyuan as well as the additional coal handling and transportation capacity at Qinhuangdao port, the Group is able to adopt flexible cost strategies to meet the demands of customers. When the cost of coal from one source lowers while that of coal from another source remains high, on the basis that the coal from these two sources are within the range of specifications required by customers, the Group is able to effectively alter its product mix towards using more coal with a lower cost so as to optimise the Group's operating results.

In addition, employing its testing and quality control facilities, the Group is able to provide coal filtering services, including quality and quantity control, to its customers by identifying and selecting appropriate coal with the specifications required by its customers.

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

The Directors and senior management of the Group have extensive knowledge and experience in the coal industry. In addition, they possess significant experience in financial management and business operations. A number of the Directors and senior management team of the Group have worked for the Group since the Group's commencement of coal operation business in 1996. The Directors believe that such strong combination of knowledge and experience is crucial to the future development of the Group's businesses. Further details of the Directors and senior management of the Group are set out in "Directors, senior management and staff" of this document.

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

The Group's coal operation business is to provide integrated supply chain services to its customers from procurement of the required coal to delivery of the coal to the designated place of the customers. The Group plans to construct and operate the Zhuhai Terminal which will provide coal port services, including coal transshipment, coal storage and coal blending for itself, its customers and other Independent Third Parties. Provision of such coal port services will be the extension and complement to the Group's existing integrated supply chain services and coal operation business. Through the establishment and operation of Zhuhai Terminal, the Group's existing coal operation business operation will enjoy different benefits, details of which are set out in "Business – Zhuhai Terminal – IV. Project advantages" of the Document. By providing coal port services to coal operators including the Group, its customers and other Independent Third Parties, the Group will earn port fees including [uploading and dockage, tug towage, berthing and moor lines handling] from the operation of Zhuhai Terminal.

The Group provides shipping transportation from overseas markets to ports along coastal regions in China. As the Directors consider that the Group's coal operation business will continue to grow, the Group plans to construct and operate the large-scale Zhuhai Terminal as a coal transshipment hub in southern China whereas coal purchased in overseas markets can be transported to Zhuhai Terminal for transshipment. Apart from its transshipment function, Zhuhai Terminal will also serve as a coal blending centre and coal storage base in Southern China.

The Group is applying for government approval for the establishment of a sino-foreign joint venture for the construction and operation of Zhuhai Terminal. It intends to form the joint venture with investor(s) of strong and reputable financial background and expertise. Currently, the Group plans to own approximately [60%] of the joint venture.

The Group currently plans to construct one 100,000 DWT (construction structure: 150,000 DWT) berth, one 20,000 DWT (construction structure: 50,000 DWT) berth and two 2,000 DWT (construction structure: 10,000 DWT) berths, with an aggregate annual thruput capacity of [20 million] tonnes, at Zhuhai Terminal.

The total investment of Zhuhai Terminal is expected to be approximately RMB[1,500] million. [As of the Latest Practicable Date, the Group has already obtained letters of intent issued by a bank for its intention to finance the Zhuhai Terminal project. [●]

Through the establishment of the Zhuhai Terminal, the Group can enjoy the following benefits:

– Zhuhai Terminal is strategically located in the southwestern region of Zhuhai, thereby allowing the Group to (i) take advantage of its proximity to customers located in the coal consuming coastal cities of China; (ii) react more quickly to customers' needs; and (iii) lower transportation costs.

– the 100,000 DWT (construction structure: 150,000 DWT) berthing capacity of Zhuhai Terminal is capable of accommodating capesize and Panamax vessels for coal transshipment thus allowing the Group to further lower its transportation costs.

– as Zhuhai Terminal can serve as a site for blending and storage of coal, the Group will be able to further strengthen its coal storage and blending capacities. Under the Group's existing plan, which is subject to modifications upon the further development of the project, the Group plans to occupy more storage areas at Zhuhai Terminal upon its completion and thereby to increase its maximum coal storage capacity by approximately [45]% from approximately 2.0 million tonnes to 2.9 million tonnes. Details of this plan are set out in "Business – Coal operation – VI. Coal inventory" of this document. In addition, the Group also plans to occupy more storage area, quality and quantity measurement equipment and apparatuses, coal blending facilities, including 堆煤機 (coal piling machines), 取煤機 (coal extraction machines) and 裝船機 (shipment loading machines) and 皮帶輸送機 (belt conveyance machines), at Zhuhai Terminal, together with the Group's experience in coal blending and management knowledge, to increase its maximum annual coal blending capacity by more than [100]% from over four million tonnes to reach approximately [10] million tonnes. Details of this plan are set out in "Business – Coal operation – VII. Coal blending" of this document.

– as the [20 million] tonnes thruput capacity per year of Zhuhai Terminal can serve as a centre for coal exchange, it is expected to facilitate an advancement in the Group's ability to further procure and sell coal in this coal trading market.

– with its location in southern China, a berthing capacity of 100,000 DWT (construction structure: 150,000 DWT) and a [20 million] tonnes thruput capacity per year, it is expected that Zhuhai Terminal will attract different vessels to import and export their cargos or use the terminal as their transshipment centre. Users of port facilities are charged port fees for the import and export of cargos and the collection of such fees by Zhuhai Terminal will provide another source of income for the Group along with its integrated coal supply chain.

The Group has obtained the relevant approvals for the establishment of Zhuhai Terminal. The Group has already obtained relevant approvals from 國家環境保護部 (Ministry of Environmental Protection), 國土資源部 (Ministry of Land and Resources), 交通運輸部 (Ministry of Transport), 國家海洋局 (State Oceanic Administration) and 中國發改委 (NDRC) for the Zhuhai Terminal project. In addition, in order to [construct and] operate Zhuhai Terminal, the Group is in the process of applying for certain certificates and permits, primarily including the following: 外商投資批准証書 (certificate of approval), 企業法人營業執照 (business registration licence), 組織機構代碼証 (organisation code certificate), 港口經營許可証 (port operation permit), 稅務登記証 (tax registration certificate), 財政登記証 (finance registration certificate) and 外滙登記証 (foreign exchange registration certificate). It is expected that the construction works will commence in the last quarter of 2009. Further details of Zhuhai Terminal are set out in "Business – Zhuhai Terminal" of this document.

Operate additional coal loading station along Daqin Railway

The Group intends to acquire or lease another piece of land in Shanxi to establish its third coal loading station along Daqin Railway, which is expected to have an annual handling and transportation capacity of seven million tonnes of coal through purchasing additional facilities, including 推土機 (coal bulldozers), 篩選機 (coal filtering machines) and 裝載機 (coal loading machines), and occupying additional train transportation capacity along Daqin Railway. Daqin Railway, the largest and major coal haul railway in China, only has a limited number of coal loading stations. By the establishment of the Group's third coal loading station along this key rail transportation system, the Directors expect to further secure the coal supplies in Shanxi and to further enhance its access to rail transportation along Daqin Railway from the coal loading station to Qinhuangdao port. After completion of the construction of the third coal loading station, the Group will have an aggregate annual coal handling and transportation capacity of [14] million tonnes of coal, including its existing handling and transportation capacity of over [seven] million tonnes, details of which are set out in "Business – Coal operation – VII. Coal blending" of this document. As reliable and sufficient access to rail transportation capability plays a significant competitive advantage in the coal operation industry, the Directors are of the view that the proposed construction of the coal loading station will enhance the Group's leading position in the coal operation industry. As of the Latest Practicable Date, the Group had not yet identified any suitable land for acquisition and accordingly there is no expected time of commencement and completion of the construction of the additional coal loading station. The total investment of the third coal loading station is expected to be approximately HK$[137] million [●].

Expand the Group's international coal operation business

With the aim of becoming one of the leading international coal operators, the Group plans to expand its international coal operation business through the establishment of representative offices or trading companies in overseas markets. The Directors consider that these representative offices or trading companies can assist the Group to maintain and establish business relationships with existing and potential suppliers in overseas markets.

As to overseas customers, since the Group did not actively pursue in the coal exporting business during the Track Record Period, such business may or may not be a recurring business with stable revenue in the future.

PRINCIPAL BUSINESS AND SERVICES

The Group is principally engaged in the coal operation business involving purchase, filtering, storage, blending, sales, shipping and transportation of coal. With business operations strategically located in Hong Kong, Datong, Yangyuan, Qinhuangdao, Zhuhai and Guangzhou, the Group is able to source coal in China as well as overseas markets including Australia, Vietnam and Indonesia, for sale to its customers in China which are mainly located in coastal regions as well as customers in overseas market. The Group operates two coal loading stations at Datong and Yangyuan which provide a connection to the Daqin Railway as well as strategic coal filtering, storage and blending centres. As part of its integrated coal supply chain, the Group is able to arrange truck transportation of coal to its coal loading stations and thereafter rail transportation along Daqin Railway to Qinhuangdao port. At Qinhuangdao port, the Group further arranges shipping transportation to designated locations of its customers upon their requests.

The Group's own fleet and chartered vessels are able to facilitate the shipping transportation services for the Group and Independent Third Parties as well as dry bulk shipping transportation for Independent Third Parties.

The following table sets out certain key performance measures of the Group during the Track Record Period as derived from the financial information in Appendix I to this document:–

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Turnover			
coal operation	2,824,382	3,553,185	4,050,170
shipping transportation	26,107	111,447	142,314
Total	2,850,489	3,664,632	4,192,484
Gross profit	235,618	571,394	559,916
Net profit *(Note 1)*	52,850	207,251	330,690
Gross profit margin			
coal operation	7.3%	14.6%	12.3%
shipping transportation *(Note 2)*	46.5%	48.8%	29.8%

Notes:

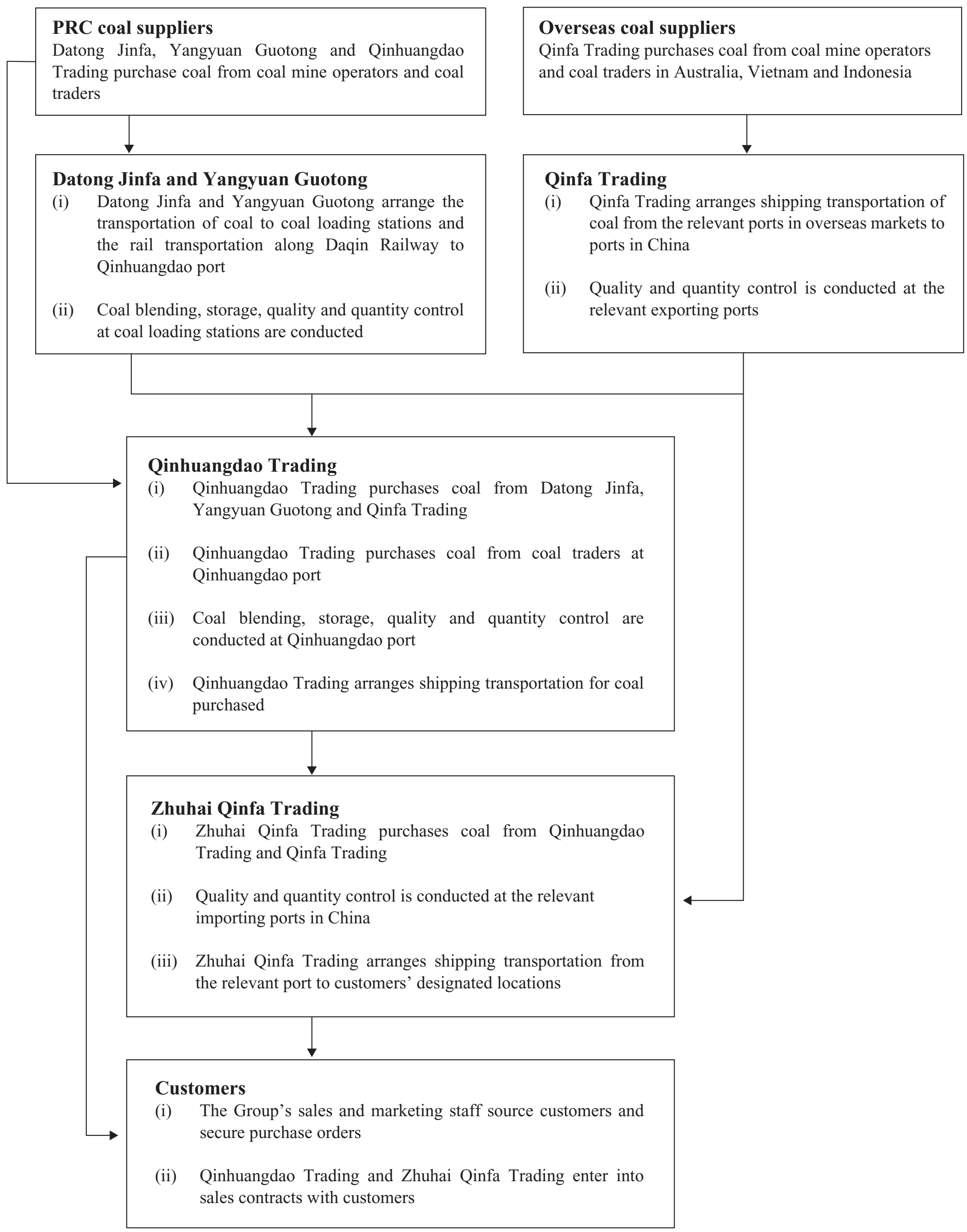
(1) The net profit of the Company for the year ended 31 December 2008 includes an one-off gain of approximately RMB97.1 million from the disposal of equity interest in Millennium Coal details of which are set out in "Business – Coal mines" of this document.

(2) Including gross profit generated from the transportation service income from external customers and the Group's coal operation segment.

COAL OPERATION

Overview

The following diagram shows the typical steps of the Group's coal operation business:



The Group's domestic and overseas purchases of coal are determined based on (i) the Group's purchase and inventory strategy after considering various factors, including current market demand and supply and anticipation of the market and price trends in the PRC domestic and overseas markets; (ii) orders and requests from customers; and (iii) sale offers from overseas coal traders.

For the PRC domestic coal supply chain, according to the Group's purchase and inventory strategy, Datong Jinfa and Yangyuan Guotong purchase coal from coal mine operators and coal traders in Shanxi, Hebei, Shaanxi and Inner Mongolia. The Group arranges truck transportation of coal from suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia to the Group's coal loading stations in Datong and Yangyuan, which are connected to Daqin Railway. The coal purchased by the Group will be stored at its coal loading stations at Datong and Yangyuan. For selling coal to customers, the Group arranges rail transportation of coal along Daqin Railway to Qinhuangdao port. Upon customers' orders and requests, Qinhuangdao Trading also purchases coal from coal traders at Qinhuangdao port. Coal blending, quality and quantity control are conducted at coal loading stations and ports in China. The Group further arranges shipping transportation for purchased coal.

For overseas coal supply chains, Qinfa Trading purchases coal from coal mine operators and coal traders in Australia, Vietnam and Indonesia. Qinfa Trading sells coal to customers in China by first selling the coal to Qinhuangdao Trading or Zhuhai Qinfa Trading, which possess the relevant Coal Operation Certificate. Overseas coal suppliers arrange transportation to exporting ports. Quality and quantity control of the coal is conducted at exporting ports. The Group arranges shipping transportation from exporting countries to ports in China, including 廣東湛江碼頭 (Guangdong Zhanjiang Wharf), 廣州黃埔港 (Guangzhou Huangpu Port), 廣州新沙港 (Guangzhou Xinsha Port) and 上海外高橋煤炭碼頭 (Shanghai Waigaoqiao Coal Terminal). Coal blending, quality and quantity control are conducted at importing ports in China. Details of coal blending, quality and quantity control of the Group are set out in "Business – Coal Operation – V. Coal filtering" and "Business – Coal Operation – VII. Coal blending" of this document.

The Group also sells its coal to its customers in overseas market through its agent which possesses the relevant export license and quota in the PRC.

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

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

Specification of coal	Total Moisture	Ash	Volatile Matter	Sulphur	Calorific Value
	(%)	*(%)*	*(%)*	*(%)*	*(Kcal/kg)*
PRC coal	8-13	12-30	18-25	0.8-1.2	4500-6000
Australian coal	[4.6-8.0]	[22-25]	[19-28]	[0.4-1.0]	[5400-6190]
Vietnamese coal	[8.0]	[30-36]	[8]	[0.6]	[5200-6000]
Indonesian coal	[20-28]	[3-12]	[40-43]	[0.1-1.5]	[4500-5500]

[Because of different coal specifications and transportation costs, the average selling prices per tonne are different for coal sourced from different regions.] The following table sets out the Group's principal coal sales based on sales volume and net sales during the Track Record Period:

	Years ended 31 December					
	2006		2007		2008	
Origins of coal	**Sales volume**	**Net sales**	**Sales volume**	**Net sales**	**Sales volume**	**Net sales**
	'000 tonnes	*RMB'000*	*'000 tonnes*	*RMB'000*	*'000 tonnes*	*RMB'000*
China	6,103	2,356,799	6,875	3,066,885	5,451	3,554,248
Australia	1,060	453,088	240	116,386	65	45,320
Vietnam	43	14,495	351	137,760	455	270,349
Indonesia	–	–	557	232,154	303	180,253
Total	7,206	2,824,382	8,023	3,553,185	6,274	4,050,170

I. Coal purchases and suppliers

A. Combination of purchases from overseas markets and the PRC domestic market

Qinfa Trading is responsible for sourcing coal supplies from international markets and selling the coal through China Qinfa Group to the ultimate customers whereas China Qinfa Group sources coal supplies from the PRC domestic market and sells the coal directly to ultimate customers.

The following table sets forth information regarding the Group's overseas markets and PRC domestic market purchases of coal during the Track Record Period:

	Years ended 31 December					
	2006		2007		2008	
Origins of coal	**Purchase volume**	**Purchase amount**	**Purchase volume**	**Purchase amount**	**Purchase volume**	**Purchase amount**
	'000 tonnes	*RMB'000*	*'000 tonnes*	*RMB'000*	*'000 tonnes*	*RMB'000*
China	6,589	2,060,047	7,350	2,351,111	4,594	2,397,652
Australia	1,115	302,378	181	43,415	104	68,336
Vietnam	159	43,853	337	82,612	412	169,891
Indonesia	62	14,353	546	129,569	249	119,802
Total	7,925	2,420,631	8,414	2,606,707	5,359	2,755,680

(i) Overseas market purchases

The Group purchases coal from overseas markets through Qinfa Trading. During the Track Record Period, Qinfa Trading purchased coal from overseas markets from coal mine operators and coal traders which are all Independent Third Parties in Australia, Vietnam and Indonesia.

The Group generally purchases coal from coal mine operators and coal traders in overseas markets, who arrange the transportation of coal to the exporting ports.

Qinfa Trading purchases coal from overseas markets in accordance with (i) its annual purchase policy after considering various factors, including current market demand and supply and anticipation of market and price trends in overseas markets; (ii) orders and requests from customers; and (iii) sale offers from overseas coal traders.

Hong Kong Qinfa Group's coal purchase contracts, which stipulate procedures for quality and quantity controls, sampling and weighing, and payment method. Hong Kong Qinfa Group generally purchases coal on an FOB basis at the loading port, with overseas suppliers paying for all the costs before loading whereas Qinfa Trading is responsible for the costs of ocean freight. Payment for Hong Kong Qinfa Group's coal purchases are normally made by letter of credit in U.S. dollars. Such payment is made by irrevocable letter of credit at sight for the full value of the commercial invoice and payable upon the presentation of supporting documents in relation to the loading.

The Group places great emphasis on its overseas coal procurement activities. Its overseas coal procurement department purchases coal primarily through direct contact with coal traders and participation in large-scale international conferences, such as the international Coaltrans Conference.

As confirmed by the PRC Legal Advisers, the Group is not restricted by any coal import quotas and is able to operate its overseas coal purchase business according to market demand and customers' needs.

(ii) PRC domestic market purchases

Since 1996, the Group has been purchasing coal from the PRC domestic market through China Qinfa Group. According to China Qinfa Group's purchase and inventory strategy which is determined based on current market demand and supply and anticipation of market and price trends in the PRC domestic coal market, Datong Jinfa and Yangyuan Guotong purchase coal from coal mine operators and coal traders in Shanxi, Hebei, Shaanxi and Inner Mongolia. Upon customers' orders and requests, the Group also purchases coal from coal traders at the Qinghuangdao port, the largest coal port in China. The Group has coal purchasing staff stationed at Qinhuangdao port for obtaining updated coal prices and market information as well as conducting coal purchases at the port.

Leveraging the Group's access to truck and rail transportation from suppliers to Qinhuangdao port, the Group is able to source coal supplies directly from coal mine operators and coal traders according to its purchase and inventory strategy. Since customers may request immediately-available coal supplies, the Group is also able to source such coal supplies from other coal traders to enhance its supply profile.

For PRC domestic coal purchases, the Group's coal purchase contracts, which stipulate procedures for quality and quantity controls, sampling and weighing, generally have terms ranging from 1 to 12 months. China Qinfa Group generally arranges and pays the costs of transporting the coal from suppliers to its coal loading stations in Datong and Yangyuan as well as along Daqin Railway to Qinhuangdao port and, if required, the shipping transportation to customers' designated locations. Payment for the Group's PRC domestic coal suppliers is normally made by telegraphic transfer or cheque in RMB. The Group generally receives credit terms from PRC domestic coal suppliers for not more than 30 days.

The Group's PRC coal procurement department purchases coal in the PRC domestic market primarily through direct contact with coal mine operators and coal traders as well as participation in the PRC coal conference, including the Coaltrans China and the Conference on International Coal Development and Investment in China.

B. Relationship with suppliers

The Group purchases coal from coal mine operators and coal traders. The suppliers may sell directly to end customers or other coal operators including the Group. Having the competitive advantages including (i) its coal loading stations at Datong and Yangyuan locating 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 a majority of its suppliers of not less than three years, the Group is able to source and secure coal supplies from its suppliers.

The major coal suppliers of the Group include a PRC coal trading and transportation mining company, a group member of a global supply chain manager of agricultural, industrial and energy products, and Vietnam National Coal-Mineral Industries Group, a company operating in both open-cast and underground mines in Vietnam. The other suppliers of the Group include state-owned and non-state owned coal suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia in China as well as coal traders in Australia, Vietnam and Indonesia.

The extent of control that the Group has over coal traders being suppliers of the Group is nothing more than supplier and customer relationship. There are no specific terms of control between the Group and such coal traders. Once coal has been delivered and payment has been made, title and risk of the coal will be passed to the relevant member of the Group.

The Group sources coal from two types of coal suppliers, being coal mine operators and coal traders. Coal mine operators own the right to exploit, manage and/or operate coal mines. Coal traders source coal from other coal suppliers for selling to end customers or other coal traders. The Group sources coal from both coal mine operators and coal traders in China and overseas. The following table sets forth information regarding the Group's purchases of coal by suppliers during the Track Record Period:

	Years ended 31 December					
	2006		2007		2008	
	Purchase volume	Purchase amount	Purchase volume	Purchase amount	Purchase volume	Purchase amount
	'000 tonnes	*RMB'000*	*'000 tonnes*	*RMB'000*	*'000 tonnes*	*RMB'000*
Coal mine operators	3,673	1,011,610	5,032	1,414,381	2,862	1,410,266
Coal traders	4,252	1,409,021	3,382	1,192,326	2,497	1,345,414
Total	7,925	2,420,631	8,414	2,606,707	5,359	2,755,680

The Directors believe that the Group has established stable cooperative relationships with its key overseas and PRC domestic coal suppliers since the Group has developed business relationships with the majority of its suppliers over a period of not less than three years. This enables the Group to obtain a reliable supply of quality coal. The Directors further believe that there are many alternative coal suppliers from which the Group may purchase and, therefore, the Directors do not foresee any difficulty in obtaining an adequate supply of coal. In addition, the Directors further confirm that the Group has not experienced any dispute related to coal supply during the Track Record Period.

II. Coal sales, marketing and customers

A. Coal sales

The Group sells coal sourced from both overseas and the PRC domestic markets to customers, including power plants, cement plants and coal traders.

Most of the Group's customers are located in the coastal regions of China. Power plants, being the major customers of the Group, purchase coal for their use in combustion processes to produce steam for power and heat. Cement plants consume coal as primary fuel in their production process. Coal traders purchase coal for export to overseas markets as well as the other coal consumers in China. The following table sets forth information regarding the Group's coal sales by industry segment during the Track Record Period:

	Years ended 31 December					
	2006		2007		2008	
	Net sales	Percentage of Net sales	Net sales	Percentage of Net sales	Net sales	Percentage of Net sales
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
Power plants	1,476,313	52.3	2,781,661	78.3	3,051,855	75.4
Coal traders	917,275	32.5	287,264	8.1	361,897	8.9
Cement plants and others	430,794	15.2	484,260	13.6	636,419	15.7
Total	2,824,382	100.0	3,553,185	100.0	4,050,170	100.0

Power plants, cement plants, coal traders and other end customers in the PRC source 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 built up good relationships with, and is able to secure its position as one of the suppliers of, end customers and coal traders.

All of coal traders are Independent Third Parties. The reliance on coal traders at the beginning of the Track Record Period was due to the fact that the Group's sales network with end customers was not well-established at that time. Taking into account that (i) the profit margin for sales to end customers is generally higher than sales to coal traders as a range of value-added services is provided to end customers, including coal blending and transportation services; and (ii) sales orders from coal traders may vary significantly from time to time, the Group actively expanded its sales to end customers, such as power plants and cement plants in coastal regions, during the Track Record Period. Leveraging (i) the Group's competitive strengths as set out in "Business – Competitive Strengths" of this document; (ii) the Group's marketing efforts through direct contact with power plants during the Track Record Period; and (iii) its flexible pricing and inventory strategy which provides power plants immediately-available coal supplies at competitive prices, the Group has successfully reduced its reliance on coal traders and increased its sales to end customers during the Track Record Period. The Group's percentage of sales to coal traders decreased from [32.5]% for the year ended 31 December 2006 to [8.1]% for the year ended 31

December 2007 and to 8.9% for the year ended 31 December 2008 whereas its percentage of sales to power plants increased from [52.3]% for the year ended 31 December 2006 to [78.3]% for the year ended 31 December 2007 and to 75.4% for the year ended 31 December 2008.

The number of coal traders that transacted with the Group were over 43, 48 and 62 during the Track Record Period, respectively. In an effort to expand its customer bases and to reduce its reliance on the PRC coal import and export enterprise, the Group has transacted with mid-sized and small-sized coal traders after 2006. As a result, the number of coal traders transacted with the Group increased substantially after 2006.

The extent of control that the Group has over coal traders being customers of the Group is nothing more than supplier and customer relationship. There are no specific terms of control between the Group and such coal traders. Once coal has been delivered and payment has been made, title and risk of coal will be passed to coal traders. In addition, there is no special discount, as comparing to the end users, offered to coal traders.

In addition to its sales of coal to customers in China, the Group has also sold coal to customers in overseas market during the Track Record Period. Through its agency arrangement with an authorised coal exporter in China, an Independent Third Party, the Group's sales force manages all the sales of its coal to the overseas customer during the [Track Record Period]. According to the information from the authorised coal exporter, it is the major component part of an enterprise listed on the stock exchange of Shanghai. The authorised coal exporter is mainly engaged in supply of iron ore, billets, pig iron, scraps, demo-vessel, coke, coal, ferro-alloys, refractory raw materials and products, barite, fluorspars, talc, steel, etc., and import and export of complete sets of equipment for metallurgical and mining purposes. In China, only a limited number of enterprises have obtained the state-run trade rights for coal export. The authorised coal exporter and its group companies, being one of such enterprises, have the necessary trade right and quota for the coal exporting. Through the agency agreement with the authorised coal exporter, the Group is able to make use of such trade right and quota for the export of its coal to overseas market. The authorised coal exporter generally charges the Group an agency fee based on a percentage of the coal price multiplied by the coal quantity being exported. The agency fee payable to the authorised coal exporter was approximately RMB[4.15] million (equivalent to approximately HK$[4.61] million) for the financial year ended 31 December 2008. Under the agency agreement, the Group was responsible for transporting the coal to the loading port as designated from time to time whereas the authorised coal exporter was responsible for providing all relevant exporting permits and documents. [The Group entered into a contract to sell the coal to the authorised coal exporter and the authorised coal exporter would then enter into another contract to sell the coal to such entity as designated by the Group.] Pursuant to the agency agreement, the Group will be liable for any loss to the overseas customer arising from the discrepancy between the quality of the coal provided by the Group and the contractual requirements. Also, the Group will bear the economic loss arising from the failure of the overseas customer in fulfilling its contractual obligations. Each agency agreement serves a specific period at which the Group has coal to be exported to overseas market. The term of the agency agreement in 2008 covered the period from April 2008 to July 2008, during which the Group's coal was exported from China to Korea as instructed by the Group's customer, which is a company in United Kingdom. [As of the Latest Practicable Date, there was no agency agreement entered into between the Group and any export agent in relation to the export of the Group's coal to the overseas market.]

[There is no long term export contracts between overseas customers and the Group whereas such export contracts are only entered into when an overseas customer agrees to purchase a particular quantity of coal from the Group. These contracts typically stipulate procedures for quality control, sampling and weighing. Since the Group's focus is on the PRC market and there were no exporting transactions in 2006 and 2007, the Group only recorded a principal customer, which is a company in United Kingdom, in its coal exporting business during the Track Record Period. Based on the Group's record during the Track Record Period, the Directors consider that the Group has a good record of meeting its contractual obligations regarding delivery, supply and coal quality. The Group generally sells its coal on an FOB basis at the loading port, with the purchaser paying the costs of ocean freight. Payments for the Group's overseas sales are made by letter of credit in US dollars.] As of the Latest Practicable Date, the Group did not have any particular targeted markets for its coal exporting business. It is one of the Group's business strategies to expand its international coal operation business, principally in maintaining and establishing business relationships with existing and potential suppliers in overseas markets. As to overseas customers, since the Group did not actively pursue in the coal exporting business during the Track Record Period, such business may or may not be a recurring business with stable revenue in the future.

The following table sets forth the Group's coal sales by geographic segment for the periods indicated:

	Years ended 31 December					
	2006		**2007**		**2008**	
	Net sales	**Percentage of Net sales**	**Net sales**	**Percentage of Net sales**	**Net sales**	**Percentage of Net sales**
	RMB'000	*% of total*	*RMB'000*	*% of total*	*RMB'000*	*% of total*
Southern China	1,273,166	45.1	2,632,936	74.1	3,027,964	74.8
Eastern China	832,107	29.5	888,918	25.0	659,684	16.3
Northern China	719,109	25.4	31,331	0.9	49,359	1.2
Overseas	–	–	–	–	313,162	7.7
Total	2,824,382	100.0	3,553,185	100.0	4,050,170	100.0

The Group's sales and marketing staff are responsible for sourcing customers and securing purchase orders for the Group. Since Qinhuangdao Trading and Zhuhai Qinfa Trading hold the requisite Coal Operation Certificates, they are responsible for entering into sales contracts with customers in China. As of the Latest Practicable Date, the Group's sales contracts, which stipulated quantities and qualities of coal, generally had terms ranging from 1 to 12 months. The Group's sales contracts with specific pricing terms were generally with terms of less than one month. There is no material difference between the Group's contracts with coal traders and end customers. Under the sales contracts, if the Group is not able to deliver the stipulated quantities of coal to its customers, the Group is liable for the damages incurred by its customers. The Group has adopted a coal inventory policy to mitigate such risk. Details of the Group's coal inventory policy are set out in "Business – Coal Operation – VI. Coal inventory" of this document. The Directors consider that such coal inventory policy is successful since the Group did not experience any failure in delivery of stipulated quantities of coal according to sales contracts during the Track Record Period. The Group's coal sales to its customers are generally denominated in RMB and settled by telegraphic transfer or cheque.

The Group does not have a generally adopted sales return policy for its sales and the terms of sales return are stated in the relevant sales agreements upon negotiation between the Group and its customers form time to time. In general, the Group's customers may refuse to accept the coal or deduct a certain sum from the amount payable to the Group if the Group fails to provide the coal with such quality specifications as stated in the relevant sales contract. During the Track Record Period, there was no sales return for the sales to the Group's customers, including coal traders and end customers.

The Group determines a customer's payment method based on factors including its prior dealings with the customer, volume of sales, the customer's current financial position and the prevailing market conditions. For new customers, the Group usually requires full payment prior to delivery. For existing customers, the Group generally grants credit terms to its major customers for not more than 30 days. Details of the provision policy for trade receivables and the amount of provisions made by the Group during the Track Record Period are set out in "Financial information – Management's discussion and analysis of financial condition and results of operations – (IV) Critical accounting policies – Trade and other receivables" and "Financial information – Management's discussion and analysis of financial condition and results of operations – (VII) Analysis on certain balance sheet items and selected financial ratios – (A) Analysis on certain Balance Sheet items – (i) Trade and bills receivables" of this Document, respectively. The Group did not experience any material defaults in payment from its customers during the Track Record Period.

B. Marketing

The Group places great emphasis on its sales and marketing activities in its coal operation business. The general sales and marketing strategy is to secure the Group's position as one of the major suppliers to its customers as well as to explore opportunities with potential customers to enhance the Group's market share.

As of the Latest Practicable Date, the Group had a sales and marketing department comprising [19] staff responsible for the coal operation business. As part of the business expansion plan of the Group and following the growing trend of the business in southern China, Zhuhai Qinfa Trading was established in September 2005, followed by the opening of the Group's office at Guangzhou in June 2007. The Group also set up a representative office in Shanghai for potential business along the coastal region in eastern China in December 2007.

The Group markets primarily through direct contact with customers and participation in large-scale national and international conferences, including the Coaltrans China and the Conference on International Coal Development and Investment in China.

C. Relationship with customers

The Group generally sells coal to power plants, coal traders and cement plants which are mainly located in eastern, southern and northern China. [Power plants, coal traders and cement plants have been 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 built up good relationships with, and is able to secure its position as one of the suppliers of, end customers and coal traders.]

The Group's major customers include [廣東省電力工業燃料有限公司 (Guangdong Electric Power Industry Fuel Company Limited), an associated company of GuangDong Electric Power Development Co., Ltd. (廣東電力發展股份有限公司) which is listed on the Shenzhen Stock Exchange in the PRC, 華陽電業有限公司 (Huayang Electric Power Co., Ltd.), which operates Zhangzhou Houshi Power Plant (漳州后石電廠) located in Fujian Province, the PRC, [英德海螺水泥有限責任公司 (Prosperity Conch Cement Company Limited)], a company mainly engaging in the business of the manufacture and sales of cement, and a PRC coal import and export enterprise, a state-owned coal enterprise in China.

The Group has maintained business relationships with each of its major customers for not less than [four] years. Although the Group has not entered into any long-term contracts with any of its customers, the Directors consider that the Group's good business relationships with its customers are evidenced by the Group's track record with those customers.

III. Pricing

A. Purchase Price

The purchase price of coal sourced in China is determined by factors including (i) market demand and supply; (ii) specification of the coal; (iii) purchase volume; and (iv) length and stability of the relationship with the supplier.

As to coal purchased in overseas markets, the purchase price is determined by factors including (i) market demand and supply (including the coal price indexes in the relevant market); (ii) specification of the coal; (iii) purchase volume; and (iv) length and stability of the relationship with the supplier.

During its normal and ordinary course of business, the Group procures coal from suppliers in the PRC and overseas markets. Coal is a kind of commodity, the price of which is principally subject to supply and demand factors beyond the Group's control. The coal markets tend to be cyclical. Historically, the coal markets have from time to time experienced increased demands resulting in price increases, followed by periods of excess supply resulting in price declines.

As the Group's cost of sales is composed primarily of cost of coal, representing approximately 82.8%, 76.0% and 85.4% of the total cost of sales, fluctuating coal purchase prices could adversely affect the Group's competitiveness in the coal market and its profitability. In addition, there can be no assurance that the Group can in the future effectively shift increased coal costs to its customers without affecting demand for its coal products.

Nonetheless, the Group's coal purchase price remained relatively stable during the Track Record Period, compared with the movements of market coal price, mainly because of the following reasons:

- the Group formulates purchase and inventory strategies 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. Leveraging the Group's coal storage facilities in Datong, Yangyuan and Qinhuangdao, the Group is able to accumulate a sizable coal inventory to mitigate the risk of price fluctuations. The Group purchases coal from the market when the Directors consider that the market price is low or the market price will rise. On the other hand, when the Directors consider that the market price is high or the market price will drop, the Group will decrease its coal inventory level and stop purchasing coal from the market. When the Directors consider that the market price is high or the market price will drop, purchase orders will only be made when there are insufficient coal inventories and corresponding sales orders are confirmed. Such strategies allow the Group to control its purchase costs effectively; and

- coal within a range of specifications can be provided to power plants or other customers according to their specific power generation equipment and processes. The Group's coal blending capacity enables it to lower its coal purchase prices and optimise the Group's economic benefits by blending coals with different qualities and specifications. With extensive coal sources in the PRC and overseas markets, the Group is able to source different types of coals of different qualities and specifications from different origins which are of different purchase prices to satisfy customers' requirement and at the same time to manage the Group's coal purchase costs. This is evidenced by the increasing percentage of coal procurements from Vietnam and Indonesia from 2006 to 2008 in order to substitute the coal sourced from Australia.

B. Sale Price

To the best knowledge of the Directors, coal trading in China mainly consists of the following two pricing mechanisms and sales contracts:

1. Inside plan term contracts (計劃內合同)

Inside plan term contracts include key contracts (重點合同) and non-key contracts (非重點合同) which are under the direction and supervision of various levels of government. Parties to inside plan term contracts are state-owned coal production enterprises and state-owned electricity enterprises. The pricing terms of the contracts are determined at the national meetings for coal production, transportation and demand contracts held by relevant government authorities. Both parties must perform the annual contract in strict compliance with the agreed quantity, quality and prices of the contract.

Key contracts

Key contracts are contracts secured by the rail transportation plan entered into between state-owned key electricity enterprises and state-owned large coal production enterprises recognised by the regulatory authority, and must comply with the following elements:

i. Parties to the contracts are limited to state-owned key electricity enterprises and state-owned coal production enterprises, as recognised by the regulatory authority;

ii. Contract amount is the annual quantity of electricity coal agreed between the state-owned key electricity enterprises and state-owned coal production enterprises; and

iii. Such contract amount is secured by the relevant rail transportation plan provided by the railway department.

Non-key contracts

Non-key contracts are contracts entered into between state-owned coal production enterprises and electricity enterprises but that do not satisfy the above conditions. For example, non-key contracts include contracts for the supply of coal in quantities not included in key contracts to key thermal power plants and to metallurgy enterprises for use in self-owned power plants.

2. Outside plan term contracts (計劃外合同)

Other than inside plan term contracts, coal trading in China is also carried out by outside plan term contracts. Outside plan term contracts are transactions by which coal enterprises (including production enterprises or non-production enterprises) supply coal to customers at market prices.

As the quantity of coal supplied under inside plan term contracts may not satisfy the demand from state-owned electricity enterprises, these enterprises may purchase coal from state-owned and/or non state-owned coal suppliers under outside plan term contracts from time to time.

Although the PRC government indirectly influences coal prices, especially coal prices under inside plan term contracts, through its broad regulation of electricity prices and control over the allocation of national railway capacity, domestic coal prices have mainly been market-driven since 2002, when the PRC government eliminated the price control measures for coal used in electric power generation. On 3 August 2004, the NDRC issued 《關於對部分地區電煤價格實行臨時性干預措施的通知》 (Notice on Temporary Intervening Measures on the Pricing Mechanism for Thermal Coal in Certain Regions) (the "Intervening Measures"). Article 1 of the Intervening Measures stipulates: "Where a substantial increase in the price of coal in coal producing regions adversely affects the supply of coal used for electricity production, temporary price intervention measures may be implemented in the main coal producing provinces of Henan, Anhui, Shandong, Shanxi and Shaanxi." According to the Intervening Measures, temporary price intervention measures were only carried out in the coal producing provinces of Henan, Anhui, Shandong, Shanxi and Shaanxi. Since at all material times the members of China Qinfa Group which entered into sales contracts with the Group's customers were registered in Hebei and Guangdong, none of them came within the scope of the Intervening Measures and therefore their pricing policies were not affected by the Intervening Measures. According to 《關於做好2006年全國重點煤炭產運需銜接工作的通知》(Notice Regarding the Coordination of Production, Transportation of and Demand for Coal in 2006) (the "Notice") issued by NDRC on 27 December 2005, the Intervening Measures have been eliminated, and pricing is now determined primarily by supply and demand. However, temporary guidelines can be issued as emergency pricing mechanisms to be adopted by the government in situations where prices have risen manifestly or are likely to do so.

On 19 June 2008, NDRC issued 《關於對全國發電用煤實施臨時價格干預措施的公告》(Temporary Guideline for Intervening Measures on the Nationwide Price of Thermal Coal) ("Temporary Guidelines") pursuant to which:

– Under key contracts (重點合同) and non-key contracts (非重點合同), the ex-mine price (出礦價) of thermal coal used by nationwide coal production enterprises should be capped at the actual settlement price as of 19 June 2008. If no transactions took place on that day, the cap should be the actual settlement price nearest to the day. During the temporary price-intervention period, the ex-mine price of thermal coal used by coal production enterprises should not exceed the cap.

– State-owned coal production enterprises and state-owned electricity enterprises which had entered into inside plan term contracts should perform the coal contract by strictly complying with the agreed quantity, quality and prices. State-owned coal production enterprises were prohibited from transfering the coal under the inside plan term contracts to the open market for sale. Coal transportation and other logistics enterprises should follow the required charging standards and should not raise the price or implement additional costs without permission.

– All coal production enterprises should strictly execute the aforesaid temporary price-intervention measures. All price regulatory authorities should reinforce inspection, and focus on: (i) the investigation and punishment of violations of such caps set by the government and raising prices without permission; (ii) fraudulent acts to raise prices by lowering the coal quality or counterfeiting; and (iii) acts including non-performance of coal supply contracts, and the transfer of coal under inside plan term contracts to the open market for sale. Enterprises violating the temporary intervention measures on thermal coal prices should be severely punished in accordance with the Price Law《價格法》and the Provisions on Administrative Penalty against Price-related Unlawful Practices《價格違法行為行政處罰規定》.

Based on the restrictions set out in the Temporary Guidelines, the Directors consider that the Temporary Guidelines were directed at regulating the price of thermal coal that was bought and sold pursuant to inside plan term contracts under the direction and supervision of various levels of government. Both key contracts and non-key contracts were regulated; with thermal coal prices effectively pinned to those traded as of or prior to 19 June 2008. The Temporary Guidelines remained in effect until 31 December 2008.

Taking into account that (i) the Temporary Guidelines did not place any restriction on the price of coal traded on the open market; and (ii) all sales contracts between the Group and its customers were outside plan term contracts which were conducted on the open market, the Directors and the PRC Legal Advisers of the view that the Temporary Guidelines were not directed at the operations of the Group. On the contrary, it is expected that the Group can be benefited from the implementation of the Temporary Guidelines as state-owned coal production enterprises are prohibited to transfer the coal under the inside plan term contracts to open market for sale, which may further tighten the supply of coal and stimulate the market prices of coal at the open market.

On 3 December 2008, the NDRC issued the《關於做好2009年跨省區煤炭產運需銜接工作的通知》(Notice regarding the Trans-Provincial Production, Transport and Supply of Coal for 2009). Pursuant to the notice, coal prices shall continue to be determined by market forces through consultation between buyers and sellers on the basis of supply and demand, the scarcity of resources and the degree of environmental damage. The state shall only intervene and take necessary measures in accordance with the law in circumstances where there are severe and abnormal fluctuations in price.

Currently, the Group determines the sale price of its coal by factors including (i) demand and supply in the coal markets; (ii) specification of the coal; (iii) sales volume; and (iv) the length and stability of the relationship with the customer. The Group's sales contracts are legally binding contracts, pursuant to which customers are legally bound to purchase the Group's coal upon the execution of the sales contracts. As such, customers are obliged to purchase the Group's coal after the execution of sales contracts even if there are subsequent drops in coal price and, therefore, the Directors considered that the Group is not materially exposed to the risk of decrease in coal price after the execution of sales contracts.

The average selling prices of coal for the Group amounted to approximately RMB392, RMB443 and RMB646 per tonne during the Track Record Period. The pricing policy of the Group was not controlled or restricted by the Notice and the Temporary Guidelines during the Track Record Period. For details of the Notice and the Temporary Guidelines, please see "Regulations Relating to the Industry – Coal Trading – Pricing" in this document. Instead, the changes in the average selling price of the Group's coal products were affected mainly by factors including, but not limited to, (i) the trend of coal prices in the PRC market; and (ii) the changes in Group's coal product mix during the Track Record Period.

(i) the trend of coal price in the PRC market

From 1 January 2005 to November 2007, the Qinhuangdao benchmark coal spot prices (5,500 kcal) were traded within the range of RMB[405] per tonne and RMB[480] per tonne. As stimulated by the surging oil price and fast-growing demand for coal in the coastal regions of the PRC, the Qinhuangdao benchmark coal spot prices (5,500 kcal) increase significantly from approximately RMB[480] per tonne in November 2007 to approximately RMB[1,043] per tonne as of 21 July 2008. As affected by the decreasing market price of international commodity prices, the Qinhuangdao benchmark coal spot price (5,500 kcal) decreased to approximately RMB580 per tonne at the end of December 2008, and to approximately RMB585 per tonne at the end of May 2009.

(ii) the changes in Group's coal product mix

The quality and specification of coal varies over a wide range due to coalification history. Different power plants may require different specifications of coal for their specific power generation equipment and processes. ln addition, coal within a range of specifications can be provided to power plants or other customers according to their specific power generation equipment and processes. During the Track Record Period, the Group supplied coal with different qualities and specifications to its customers at different selling prices. Therefore, changes in the Group's coal product mix may affect the Group's average selling prices. In general, the selling prices of coal sourced from Australia are higher than those sourced from Vietnam and Indonesia as the specification of coal sourced from Australia has lower moisture content and higher calorific value.

To maintain its cost competitiveness, the Group has changed its product mix by supplying fewer amount of coal sourced from Australia while increasing the sales of coal sourced from Vietnam and Indonesia during the Track Record Period. The Group's sale volume of coal sourced from Australia decreased from 1,060 tonnes in 2006 to 65 tonnes in 2008, while its sale volume of coal sourced from Vietnam and Indonesia increased from 43 tonnes and nil in 2006 to 455 tonnes and 303 tonnes in 2008, respectively.

Although the average selling price of the Group's coal increased during the Track Record Period as a result of the overall rise in the domestic and international coal price, the above changes in the Group's coal product mix partially offset the rise in the Group's average selling prices of coal during the Track Record Period.

IV. Coal transportation

The delivery and transportation of coal traded by the Group generally involves transportation by truck, rail and sea.

Set out below are the transportation expenditures incurred by the Group for the purchase of coal during the Track Record Period:

	Years ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Sea transportation *(Note)*	142,347	259,490	169,212
Truck and rail transportation	312,949	458,635	308,098
Total	455,296	718,125	477,310

Note: Including transportation expenditures paid to the Group's shipping transportation segment which would be eliminated upon consolidation of the inter-company transaction in the financial statements of the Group.

The fluctuation in the Group's transportation expenditures for the purchase of coal during the Track Record Period was mainly attributable to (i) a fluctuation in the volume of coal traded by the Group; and (ii) a fluctuation in coal transportation cost in the PRC and overseas.

Overseas markets

For overseas markets, coal traders and coal mine operators generally arrange and pay for the transportation of coal from coal mines to the exporting port. At the exporting port, the Group primarily engages vessels for transportation from supplier countries to ports in China by FOB term. During the Track Record Period, the Group also used its own vessels and chartered vessels, for overseas coal transportation from the supplier countries to its customers in China.

Further details of the Group's shipping transportation are set out in "– Shipping" of this document.

PRC domestic market

For the PRC domestic market, after purchasing coal from coal mine operators and coal traders, the Group arranges truck transportation from suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia to its coal loading stations in Datong and Yangyuan, which are along Daqin Railway, for storage. The Group generally pays for the transportation cost from suppliers to its coal loading stations in Datong and Yangyuan. Coal blending, quality and quantity control procedures are also conducted at these coal loading stations.

Daqin Railway is the passage for coal transport from Shanxi, the largest coal production province in China, to Qinhuangdao port, the largest coal loading port and bulk cargo port in the world. According to the 2008 annual report of Daqin Railway Co., Ltd. (601006CH), the volume of coal transport by Daqin Railway reached approximately 340 million tonnes in 2008, representing approximately 25.4% of total volume of coal railway transportation in the PRC in 2008. Along this key transportation railway system, there are only [41] major coal loading stations of which the Group occupies two: one in Datong and one in Yangyuan. Coal loading stations are important to coal operators in China because coal mine operators and coal traders generally sell their coal to buyers with coal loading stations due to the insufficient access to coal railway transportation and linkage of those suppliers. Being connected to the railway transportation system, coal can be transported to the designated coal port directly from the coal loading stations through the railway system. As coal loading stations occupy large areas, coal operators can also provide coal filtering, storage and blending services in these stations.

The Group occupies two coal loading stations in Datong and Yangyuan. The Group owns and operates its Datong coal loading station which is located at Xiezhuang Village, Beijiazao Town, Datong, with a total site area of approximately [106,460] square metres and a long term land use right valid until 9 April 2053. The Group leases and operates its Yangyuan coal loading station which is located at Dongguan Village, Xicheng Town, Yangyuan, with a total site area of approximately [66,000] square metres and a renewed long term lease agreement of eight years commencing from 21 May 2008. The Group's two coal loading stations are conveniently located within short transportation distances from most of its coal suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia, ensuring low transportation costs to the coal loading stations of the Group. Supported by the Group's specialised equipment, including 推土機 (coal bulldozers), 篩選機 (coal filtering machines) and 裝載機 (coal loading machines), the Group's two coal loading stations in Datong and Yangyuan, together with the loading capacity of the train along Daqin Railway, provide an annual coal handling and transportation capacity of over seven million tonnes and serve as the Group's coal filtering, storage and blending centres.

For selling coal to its customers, the Group arranges the railway transportation of coal along Daqin Railway to Qinhuangdao port. The Group generally pays for the transportation cost from its coal loading stations along Daqin Railway to Qinhuangdao port. In view of the increasing demand for rail transportation of coal, Daqin Railway is enhancing its transportation capacity and it is expected to reach a total transportation volume of [400] million tonnes by 2010. 鐵道部 (Ministry of Railway) engages in the allocation of coal transport capacity on China's national railway system, including Daqin Railway. 鐵道部 (Ministry of Railway) allocates coal transport capacity to operators of coal loading stations with reference to their demands as filed periodically. Accordingly, operators of coal loading stations have stable access to the national railway system. As the Group is operating two coal loading stations in Datong and Yangyuan, the Directors are confident that the Group will continue to be able to obtain reliable access to the transportation network of Daqin Railway, despite the increasing demand of rail transportation along this key coal railway system.

If requested by its customers, the Group arranges shipping transportation through its own vessels or chartered vessels to ship coal purchased at Qinhuangdao port to locations designated by customers. Further details of the Group's shipping transportation are set out in "Business – Shipping" of this document. In addition, the Group enters into an annual cooperation contract with the operator of Qinhuangdao port, an Independent Third Party, pursuant to which the operator of Qinhuangdao port agrees to provide the Group, among other things, space and facilities for the filtering, storage and blending of coal upon the Group's request from time to time. The cooperation contract is on a non-exclusive basis and the latest cooperation contract is for a term of one year from 1 January 2009 to 31 December 2009. The parties to the cooperation contract may renew the contract upon the expiry of the term. As to coal storage, the operator provides the Group a storage area [on a licensing basis which does not constitute interests in land or buildings under Chapter 5 of the Listing Rules]. Under the cooperation contract, the storage is free of charge for the first

10 days. Thereafter, the storage charge of the Group's coal ranges from RMB0.10 to RMB0.40 per tonne each day, depending on the storage duration. The longer the storage period, the higher the rate charged by the operator of Qinhuangdao port. As to filtering and blending of coal, the charge is based on the market rate to be determined by the Group and the operator of Qinhuangdao port from time to time. The Group may utilise blending facilities at Qinhuangdao port for blending coal. In addition, the Group has set up a coal testing centre at Qinhuangdao port equipped with testing facilities, including 破碎機 (coal crusher machines), 測硫儀 (sulphur measuring machines), 溫度調節儀 (temperature adjustment apparatuses), 灰分測定儀 (ash measuring machines) and other testing apparatuses, whereas it leases and utilises facilities, including 堆煤機 (coal reclaiming machines), 取煤機 (coal extracting machines), 輸送機 (transportation machines), 裝船機 (loading machines) and other sizeable machines, from the operator of Qinhuangdao port for coal filtering. Apart from the storage, filtering and blending of coal, the sales staff of the Group also conclude and execute shipping orders with customers at Qinhuangdao port. The staff of the Group stationed at Qinhuangdao port also assist the Group in gathering market information on coal prices and, when necessary, the Group will also purchase coal from other coal traders at Qinhuangdao port to enrich its coal inventory.

V. Coal filtering

The Group has compiled a detailed coal filtering manual and implemented a comprehensive coal filtering system.

For overseas coal operations, the Group generally engages two overseas inspection agents from Indonesia and Vietnam to conduct inspections of overseas coal operations and a third Independent Third Party who conducts the final inspection before delivery in China. Overseas Independent Third Parties will conduct the quality and quantity inspection of the coal according to the relevant International ISO standards as stipulated in the coal purchase contract. According to the information provided by the two overseas inspection agents from Indonesia and Vietnam, respectively, the qualified inspection agent from Indonesia is an Indonesian company engaged in exploration and development of oil, gas, coal, mineral and geothermal industries and which is qualified under the International Organisation for Standardisation to carry out coal laboratory, inspection, cargo superintending and consulting services; and the qualified inspection agent from Vietnam is a Vietnamese company engaged in laboratory, marine survey and mineral and chemical product inspection services and which is qualified under the International Organisation for Standardisation to carry out coal, coke and anthracite testing, sampling and certification. The relevant bureau of Entry-Exit Inspection and Quarantine of the PRC at the importing port will also inspect the quality and quantity of the coal when such coal arrives at the designated port in China. Quality and quantity inspection will also be conducted by PRC qualified inspection agents which are Independent Third Parties and which are jointly engaged by the Group and its customers in China before the coal is finally delivered to the Group's customers in China.

For PRC domestic coal operations, quality and quantity inspection will be conducted by the Group's coal filtering personnel at the Group's coal loading stations and at Qinhuangdao port. For example, at Qinhuangdao port, the Group's coal filtering staff use the facilities at the port, such as the loading metre, to conduct quantity control. The coal filtering personnel in the coal procurement department will implement measures to ascertain the quantity and quality of the coal sourced from the Group's suppliers. The coal filtering personnel in the sale and marketing department will also conduct quality control and quantity inspection with its customers to ensure that the quality and quantity of the coal meet the specifications of the Group's customers. Independent quality agencies may also be engaged to conduct quality control over the coal.

VI. Coal inventory

The Group has an inventory policy to maintain a certain amount of coal to fulfil customers' demands from time to time. The Group formulates purchase and inventory strategies 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. Such factors may change during a particular year and the Directors will make the necessary adjustments according to the market and price trends. Based on the management's projections and their judgment on coal market trends, the Group will adjust their purchase and sales volumes from time to time in order to achieve its flexible inventory management policy.

For example, the Group purchases coal from the market when the Directors consider that the market price is low or the market price will rise. The coal purchased will then be stored at the two coal loading stations in Datong and Yangyuan. The two coal loading stations in aggregate have a coal storage capability, measured by the storage areas at the two coal loading stations, of around two million tonnes. As of the Latest Practicable Date, the Group had more than 120 staff stationed at the two coal loading stations to supervise the management of the coal inventories of the Group.

In addition, the Group may utilise coal storage capabilities at the ports of Guangzhou including 廣州新沙港 (Guangzhou Xinsha Port) and 廣州洪聖沙港 (Guangzhou Hongshengsha Port) and Qinhuangdao. The Group has coal purchasing staff stationed at Qinhuangdao port for obtaining updated coal price and market information as well as conducting coal purchases at the port. The coal purchased will generally be stored at the port storage areas and supervised by the coal inventory staff of the Group. When the Directors consider that the market price is low or will rise, the Group can rent more areas at relevant ports to store the coal. As of the Latest Practicable Date, the Group had more than [60] staff to supervise the management of the coal inventories of the Group in the ports of Guangzhou and Qinhuangdao.

VII. Coal blending

The quality and specification of coal can vary over a wide range due to coalification history. The heating value of coal is determined by a number of parameters, including ash, moisture and sulphur contents. Different power plants may require different specifications of coal for their specific power generation equipment and processes. In addition, coal within a range of specifications can be provided to power plants or other customers according to their specific power generation processes and requirements.

The Group is able to source sufficient variety of coal supplies to ensure that coal from different sources blended together is within the range of specifications required by customers. With the Group's extensive coal sources in the PRC and overseas markets, the Directors believe that the Group's coal supplies are within the upper high range of coal quality. Leveraging its aggregate annual coal handling and transportation capacity of over seven million tonnes at the coal loading stations in Datong and Yangyuan, as well as the additional coal handling and transportation capacity at Qinhuangdao port, the Group is able to adopt flexible purchase strategies to meet the demands of its customers. When the cost of coal from one source lowers while that of coal from another source remains high, on the basis the coal from these two sources are within the range of specifications required by customers, the Group is able to effectively alter its product mix towards using more coal with a lower cost so as to optimise the Group's operating results.

Leveraging its experience in coal blending and management knowledge, the Group utilises its coal blending areas, quality and quantity measurement equipment and apparatuses as well as its coal blending facilities such as 推土機 (coal bulldozers) and 篩選機 (coal filtering machines) at its coal loading stations and 堆煤機 (coal piling machines), 取煤機 (coal extraction machines), 裝船機 (shipment loading machines) and 皮帶輸送機 (belt conveyance machines) at coal ports for coal blending as and when required. Leveraging its coal blending capabilities, the Group blended approximately four million tonnes of coal for the year ended 31 December 2008.

SHIPPING

Shipping transportation is an integral part of the Group's coal operation business, and it is targeted to complement the development of the Group's coal operation business. Shipping transportation is crucial to the coal operation industry since coal purchased from overseas markets is transported through shipping transportation to China and coal purchased from the PRC domestic market is also transported through shipping transportation from Qinhuangdao port to ports designated by customers along the coastal regions in China, including [廣州新沙港 (Guangzhou Xinsha Port), 上海外高橋煤炭碼頭 (Shanghai Waigaoqiao Coal Terminal), 廣東湛江碼頭 (Guangdong Zhanjiang Wharf), 福建漳州后石電廠碼頭 (Fujian Zhangzhou Houshi Wharf)], as well as in overseas market. Further details in relation to the Group's customers and suppliers in coal operations are set out in "Business – Coal operation – I. Coal purchases and suppliers – B. Relationship with suppliers" and "Business – Coal operation – II. Coal sales, marketing and customers – C. Relationship with customers" of this document. PRC inland shipping transportation also plays an important role because it enables coal operators to ship the coal to customers' designated locations through PRC inland river transportation.

Being part of its coal operation business, the Group has provided shipping transportation services to its customers since 2005. The Group initially chartered vessels by time charters for transportation of the coal it traded. Subsequently, the Group chartered vessels from Independent Third Parties and re-chartered those vessels out for transportation of others' coal. The Group's shipping transportation service further developed and as of the Latest Practicable Date, apart from transportation of its own coal and those of Independent Third Parties, the Group also provided vessels for transportation of other dry bulk cargos for Independent Third Parties.

Apart from chartering vessels from Independent Third Parties, the Group also has its own fleet. The Group acquired its first Panamax, MV QINFA 6, in 2005, which was initially used for transportation of the coal it traded. As the Group's coal sourced from different markets requires different shipping times and berthing capacities, the Group still relies on chartered vessels from Independent Third Parties as the major shipping transportation channel for the coal it trades, so that the Group may use different vessels with appropriate DWT to ship the coal it trades at any one time. In line with the development of the Group's chartered vessels, the Group also charters its own vessels out to Independent Third Parties for transportation of their coal.

I. Vessels

During the Track Record Period, the Group arranged shipping transportation for coal sourced from overseas countries by vessels owned or chartered by the Group. Through arranging shipping transportation for its customers, the Group is able to offer an integrated coal supply chain services to its customers. Given that the Group's customers do not have long-term purchase commitments towards the Group, the ability to provide shipping transportation and other value-added services to customers allows the Group to differentiate itself from its competitors. In addition, the Directors consider that the volume of coal purchases from overseas markets will continue to grow and the Group's demand for vessels will surge upon completion of the Zhuhai Terminal. Accordingly, it is necessary for the Group to purchase vessels to cope with the increasing demand.

Having considered the above and in order to secure a stable and sufficient coal shipping transportation capacity and to broaden its revenue base by capturing shipping transportation fees, the Group started to build up its own fleet in 2005. During the Track Record Period, the Group's fleet only included four self-owned vessels and three chartered vessels. All these vessels are suitable for coal transportation which is in line with the Group's strategy.

The Directors consider that not each of the vessels owned or chartered by the Group can be utilised at all times by the Group's coal operation business because coal sourced by the Group from different markets requires different shipping times and berthing capacities. Under the Group's vessel operation strategy, it utilises vessels of appropriate berthing capacities under voyage charter for the coal it trades. In order to optimise the utilisation rate of the Group's vessels, the Group may charter other vessels, which are not of appropriate berthing capacities, out to third parties under time charter or voyage charter, depending on the freight rate and the Group's anticipation of shipping transportation utilisation. The Group may charter vessels from other Independent Third Parties for shipping of coal its trades when all its vessels are not available.

During the Track Record Period, there were occasions where the Group's vessels were not fit for loading or unloading at certain overseas ports due to different berthing requirements or shipping schedules. Hence, the Group's vessels were not fully utilised by the Group for transportation of the coal it traded. In order to optimise the utilisation of the vessels and ensure a good return on the asset, the Group chartered its vessels out to third parties.

For example, MV QINFA 6, a Panamax owned by the Group with 69,841 DWT, was not fit for loading or unloading at certain overseas ports due to its comparatively high berthing requirement, resulting in its comparatively low utilisation rate. To maximise economic benefits following the rising trend of the Baltic Dry Index and to improve the utilisation rate of MV QINFA 6, the Group chartered MV QINFA 6 out to third parties in September 2006, and chartered smaller-sized vessels from Independent Third Parties on voyage terms for transportation of the coal it traded.

As of the Latest Practicable Date, the Group had four Panamax and one PRC inland vessel. The following table sets forth the general information of the Group's self-owned vessels:

Vessel Name	**MV QINFA 6**	**MV QINFA 8**	**MV QINFA 9**	**MV QINFA 10**	**QINFA 2**
Type	Bulk Carrier	Bulk Carrier	Bulk Carrier	Bulk Carrier	Dry Bulk Carrier
DWT	69841.0	[69,618.8]	[69,618.8]	[69,988.0]	[2650.0]
Flag state	Hong Kong	PRC	Hong Kong	Panama	PRC
Purchase year	2005	2007	2007	2008	2007
Year Built	1984	1991	1990	1992	2002
Commencement date of operation	June 2005	May 2008	[June 2008]	[March 2009]	January 2008
Main cargo	Dry bulk cargo	Dry bulk cargo	Dry bulk cargo	Dry bulk cargo	Dry cargo
Routes *(Note)*	Global	Global and PRC inland	Global	Global	PRC inland

Note: Global routes do not include PRC inland routes. As of the Latest Practicable Date, MV QINFA 8 and QINFA 2 were able to be engaged in PRC inland routes. Zhuhai Qinfa Shipping holds the Waterway Transportation Licences for PRC inland routes of MV QINFA 8 and QINFA 2. [In addition, the Group is in the process of applying for Waterway Transportation Licence MV QINFA 10. Upon grants of Waterway Transportation Licence to MV QINFA 10, its routes will be extended to global and PRC inland routes.]

[The objective of the Group in acquiring its own vessels is for coal shipping. As such, the Group generally acquired vessels aged over 15 years, which are considered by the Directors to be more appropriate for shipping coal as compared to other dry bulk cargo. In general, operators acquire newly built up vessels for transporting grains or other cargos which require high levels of hygiene and sanitation. For coal transportation, it is generally acceptable to use vessels that are comparatively old. As the business strategy of the Group has been acquiring vessels for transporting coal, the Directors consider that vessels aged over 15 years are more appropriate for the Group's coal operation. Users of the Group's own vessels will only ship either coal or other dry bulk cargos but not both coal and other dry bulk cargos at the same time. If vessels are available for the Group to use, the Group only uses its own vessels to transport the coal it trades.]

The vessels acquired by the Group aged over 15 years and such vessels require modification for coal transportation. When the modification process commences, such vessels are transferred to the category of assets under construction, in accordance with the IFRSs and the Group's accounting policies.

No depreciation is provided for such vessels during the modification process until such time as the modification process are completed and such vessels are available for intended use. The modification process usually lasts for at least three months.

Upon the completion of modification process, vessels under construction are transferred to the relevant category of vessels in accordance with IFRSs and the Group's accounting policies. In addition, the Group will reassess the remaining useful life of vessels with reference to the conditions of such vessels, and depreciation is recognised for such vessels on a straight-line basis over their respective estimated useful lives. Details of the Group's accounting policies on its vessels are set out in Note 1(g) – Property, plant and equipment to Appendix I of this document.

[As of the Latest Practicable Date, MV QINFA 6, MV QINFA 8 and MV QINFA 9 were used for short-term time charters with hire rates to be determined with charterers from time to time whereas MV QINFA 10 was used for shipping the Group's coal.]

In August 2007, the Group purchased QINFA 2 from an Independent Third Party for its PRC inland shipping transportation services. As of the Latest Practicable Date, QINFA 2 was chartered out under time charter contract until September 2009 at a monthly hire rate of approximately RMB44,600.

In addition, during the Track Record Period, the Group also chartered vessels from Independent Third Parties and re-chartered such vessels out for transportation of coal to Independent Third Parties. The Group's vessel charter and re-charter operations are on time charter and COA terms. The following table sets out the general information of the Group's re-chartered vessels during the Track Record Period:

Vessel name	**KIMBERLY**	**ALISON**	**GAOLIN (高岭)**
Type	Handymax	Handysize	Handysize
DWT	54,158	27,494	26,850
Flag state	St. Vincent	Panama	China
Year built	1983	1977	1975
Main cargo	Dry bulk cargo	Dry bulk cargo	Dry bulk cargo
Routes	Global	Global	PRC inland

All the terms of the chartered vessels had expired and the Group did not charter any vessels or re-charter any vessels out as of the Latest Practicable Date.

II. Coal and Other Dry Bulk Cargo Transportation

During the Track Record Period, MV QINFA 6, MV QINFA 8 and MV QINFA 9 were used for transportation of the coal traded by the Group as well as transportation of coal and other dry bulk cargos of Independent Third Parties. Apart from self-owned vessels, the Group also chartered three vessels, under COA and time charter contract, and re-chartered those vessels out to Independent Third Parties for transportation of their coal.

The following table sets out the turnover for the Group's shipping transportation service generated by its own vessel and re-chartered vessels during the Track Record Period:

	Years ended 31 December					
	2006		**2007**		**2008**	
	Turnover RMB'000	*% of total*	*Turnover RMB'000*	*% of total*	*Turnover RMB'000*	*% of total*
Self-owned vessels	65,168	100.0	65,743	56.0	132,427	62.9
Re-chartered vessels	–	–	51,665	44.0	78,176	37.1
Total	65,168	100.0	117,408	100.0	210,603	100.0

During the Track Record Period, the Group's own vessel and re-chartered vessels were used for transportation of coal traded by the Group as well as transportation of coal and other dry bulk cargos of Independent Third Parties. The following table sets out the turnover generated from the self transportation and transportation of coal and other dry bulk cargos of Independent Third Parties during the Track Record Period:

	Years ended 31 December					
	2006		**2007**		**2008**	
	Turnover RMB'000	*% of total*	*Turnover RMB'000*	*% of total*	*Turnover RMB'000*	*% of total*
Self transportation	39,061	59.9	5,961	5.1	68,289	32.4
Third parties transportation	26,107	40.1	111,447	94.9	142,314	67.6
Total	65,168	100.0	117,408	100.0	210,603	100.0

To the knowledge of the Directors, more than 80% of third parties shipment during the Track Record Period were for coal transportation.

Due to the limited scale of the Group's vessel fleet during the Track Record Period, when its vessels were time chartered to other parties from late 2006 to 2007, the Group did not have other vessels of requisite berthing capacities in substitution for shipping the coal it traded. As a result, there was a substantial decrease in self transportation shipping services in 2007.

As Qinfa 2, MV Qinfa 8 and MV Qinfa 9 commenced operation in January 2008, May 2008 and June 2008, respectively, the Group's revenue generated from self transportation and third parties transportation increased from approximately RMB117.4 million in 2007 to approximately RMB210.6 million in 2008.

III. Pricing and payment

The Group considers a number of factors in deciding the rate of chartering vessels for transportation. Such factors typically include the Baltic Dry Index, the demand and supply in the shipping market and the charter periods the Group wishes to adopt, as well as the time and location of the vessel's availability and the technical features of the vessel.

Panamax

Panamax are chartered out on time charters and voyage charters. The time charter periods of the Group's self owned and chartered Panamax generally range from 4 months to 25 months. In accordance with the time charters that the Group enters into with its charterers, the charterers normally pay charter hire fees every 15 days in advance. Under voyage charters, all freight charges are normally paid within three to five working days after the issue date of the bill of lading. In any event, all freight charges are payable before unloading the relevant cargos from the vessel.

PRC inland vessels

PRC inland vessels are chartered out on time charters. The time charter periods of the Group's self owned and chartered PRC inland vessels generally range from [30 days] to [one year]. Under the time charter contract, the Group is paid the charter hire fee on a monthly basis and the payment will generally be settled on or before the 25th day of the preceding month.

IV. Technical management

Panamax

The Group currently employs Wallem and CSISC to provide technical management services for all its operating Panamax. According to the information provided by Wallem and CSISC, respectively, Wallem is a [leading] shipmanager headquartered in Hong Kong providing, among others, ship management, shipping agency and ship broking services whereas CSISC is a [leading] ship management company in China providing, among others, ship management services and crew training services to shipowners. The Group believes that as each of Wallem and CSISC is an experienced ship management company, the outsourcing of technical management services to them is cost-effective to the management of the vessels.

According to the ship management agreements between the Group and Wallem, Wallem will, among other things, provide crew management services and competent personnel to supervise the maintenance and general efficiency of the Group's vessels, appoint surveyors and technical consultants, arrange and supervise dry dockings, repairs, alterations and the upkeep of vessels. Wallem also supplies crew staff for operating the vessels and the Group does not deploy any management or supporting staff in the voyages. During the Track Record Period, the technical management fee paid to Wallem amounted to approximately US$93,600 (equivalent to approximately RMB746,160), US$93,600 (equivalent to approximately RMB712,024) and US$261,285 (equivalent to approximately RMB1,815,408), respectively.

To mitigate the reliance on Wallem, the Group entered into ship management agreements with CSISC in January 2009. Pursuant to the ship management agreements between the Group and CSISC, CSISC will, among other things, provide system management services, marine management services, technical management services such as to arrange inspection and repair work of the vessel and crew management services such as the selection and engagement of vessel's crew, provide training on crews and supervise their efficiency, to the Group to supervise the maintenance and general efficiency of the Group's vessels. Since the ship management agreements with CSISC were only entered into in January 2009, no technical management fee paid to CSISC was recorded during the Track Record Period.

PRC inland vessel

The Group currently employs an integrated transportation company in the PRC, an Independent Third Party, to provide technical management services for its PRC inland vessel.

According to the information provided by such integrated transportation company, it is a transportation company established in 1993 with registered office in Guangzhou, Guangdong, China.

According to the ship management agreement with such integrated transportation company, it will, among other things, provide crew management services and is responsible for the vessel's annual maintenance plan, arrangement of annual maintenance, dry dockings, repairs, alterations, upkeep of the vessel and supervision of maintenance on the vessel.

As the Group only acquired its PRC inland vessel in September 2007, it only incurred the management service fee in the sum of RMB36,000 and RMB120,000 paid to such integrated transportation company for the two years ended 31 December 2008, respectively.

V. Relationship with Suppliers

The Group's principal suppliers in the shipping transportation services include vessel suppliers, ship brokers, bunker fuel providers and vessel operation service providers.

The fees and costs paid to the Group's suppliers of the shipping transportation services are mainly settled in US$ and RMB. Fees payable to the suppliers are usually agreed upon and included in a contract signed by the parties after negotiation, taking into account factors including the market rate, the reputation of suppliers, the quality of the bunker fuel and the quality of services.

Payments to voyage chartered vessel suppliers are usually made within three days after the issue of bill of lading whereas payments to time chartered vessel suppliers are usually made 15 days in advance. Payments to bunker fuel providers are usually made within 30 days after the Group receives invoices from them. Payments to vessel operation service providers are generally made on a monthly basis.

The Group has not experienced any dispute with its suppliers in the shipping business during the Track Record Period.

VI. Sale and marketing

There are five staff in the Group's shipping department responsible for the sale and marketing of the Group's transportation services to Independent Third Parties. The Group generally sources its customers through the reference of ship brokers as well as through direct contact with its customers with whom the Group had established a relationship in previous transactions.

When selecting customers, the Group would in principle consider those who are reputed in the international shipping market with a good credit and record.

To ensure that customers are creditworthy, aside from making inquiries by itself, the Group works closely with shipbrokers who, upon its request, make inquiries into the companies which have had prior dealings with the target customers.

VII. Relationship with Customers

Most of the Group's top five customers in the shipping business are engaged in coal trading and shipping of other dry bulk cargos.

The Group's sales to its customers are generally denominated in currencies of RMB and US$ and settled by way of telegraphic transfer.

The Group did not experience any material defaults in payment from its customers during the Track Record Period. The Directors consider that the Group has good business relationships with its customers as evidenced by the Group's track record with its customers.

IRON ORE TRADING

In December 2008, leveraging its experience in the coal operation business, the Group entered into the first sales and purchase contracts with a steel trading company in China and a mining company in India, respectively, for the trading business of iron ore fines and the transactions were carried on and completed in 2009. The transaction volume of the Group's first sales and purchase contracts of iron ore materials in December 2008 amounted to approximately 60,000 tonnes of iron ore fines. Since the transactions were profitable, the Directors decided to expand the Group's operation to the trading business of iron ore and related materials.

[As the iron ore industry is a new business to the Group, the Group may not have appropriate experience and expertise in the development of the iron ore trading. Accordingly, as of the Latest Practicable Date, the Group was negotiating with a manufacturing partner and a logistic partner, which are both Independent Third Parties and enterprises in China, to enter into an iron ore cooperation agreement, pursuant to which the Group will be responsible for sourcing raw materials, the manufacturing partner will be responsible for the production and the logistic partner will be responsible for the logistic arrangement. Based on the latest negotiation and the best knowledge of the Directors, the Group does not require any specific license or governmental approval for the services to be offered by the Group under the proposed iron ore cooperation agreement. Nonetheless, there can be no assurance that such iron ore cooperation agreement or similar agreement can be finalised. If such iron ore cooperation agreement or similar agreement with alternative partner(s) cannot be finalised, the Directors currently intend that the Group will withhold its expansion into the iron ore trading industry unless and until an appropriate risk management plan can be ascertained.]

Since the Group only entered into the first sales and purchase contracts for the trading business of iron ore fines in December 2008 and the transactions were carried on and completed in 2009, no revenue or profit on iron ore trading was recorded during the Track Record Period. In addition, as of the Latest Practicable Date, the Group had not made any commitments regarding iron ore trading. Accordingly, the Directors consider that even if the iron ore trading is discontinued because the iron ore cooperation agreement or similar agreement cannot be finalised and no alternative risk management plan can be ascertained, this will not materially and adversely affect the Group's operation.

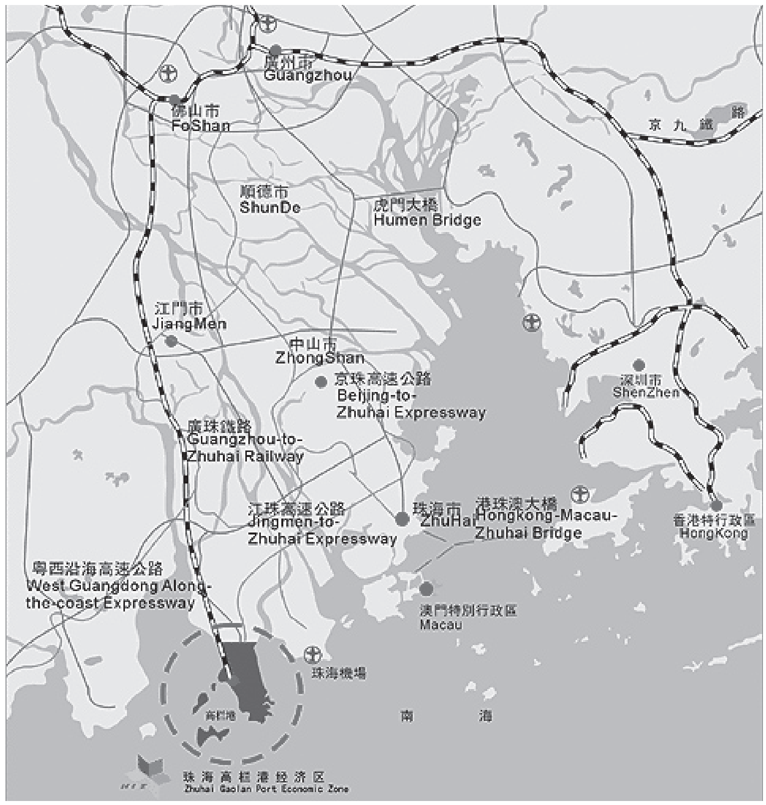
[The Directors consider that iron ore trading is a separate business from the Group's coal operation business. Leveraging its experience in the coal operation business, especially its experience and network in raw material procurement in overseas market, the Directors consider that the Group's coal operation business can compliment and enhance the development of its iron ore trading business. In addition, despite various commitments the Group has stated in its future plans, details of which are set out in "Future plans and use of proceeds" of this document, the Directors expect that the Group's iron ore trading business in the near future, if any, will be operated under a cooperation agreement with cooperation partners with sophisticated experience, which serves as a solid foundation for the development of its iron ore trading operation without imposing a significant resource commitment.]

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 and related raw materials may provide another source of revenue for the Group.

ZHUHAI TERMINAL

I. Introduction

Future Transportation Planning Map of Zhuhai Port



The Group's coal operation business is to provide integrated supply chain services to customers from procurement of the required coal to delivery of the coal to the designated place of the customers. The Group plans to construct and operate the Zhuhai Terminal which will provide coal port services, including coal transshipment, coal storage and coal blending for itself, its customers and Independent Third Parties. Provision of such coal port services will extend and complement the Group's existing integrated supply chain services and coal operation business. Through the establishment and operation of Zhuhai Terminal, the Group's existing coal operation business will enjoy different benefits, details of which are set out in "Business – Zhuhai Terminal – IV. Project advantages" of this document. By providing coal port services to coal operators including the Group, its customers and other Independent Third Parties, the Group will earn port fees including [uploading and dockage, tug towage, berthing and moor lines handling] from the operation of Zhuhai Terminal.

The Group plans to construct and operate Zhuhai Terminal which will serve as a coal transshipment hub, coal blending centre and coal storage base in Southern PRC.

According to the feasibility report of Zhuhai Terminal prepared by EDAW Ltd. & Maunsell Consultants Asia Ltd, an Independent Third Party, coal imports to Guangdong rely heavily on maritime shipping. However, the coal handling capacity of public berths at main coastal ports in Guangdong is rather limited. As most of the Group's customers are located in coastal regions of China and the Directors foresee that the Group's coal operation business will continue to grow, the Directors are confident that Zhuhai Terminal will not only help relieve the existing bottleneck at coastal ports of Guangdong, but will also introduce a new industrial supply model to the coal market in southern China.

The Group provides shipping transportation from overseas markets to customers' designated ports along the coastal regions in China. As the Directors consider that the Group's coal operation business will continue to grow, the Group plans to construct and operate the large-scale Zhuhai Terminal as a coal transshipment hub in southern China whereas coal purchased in overseas markets can be transported to Zhuhai Terminal for transshipment. Apart from its transshipment function, Zhuhai Terminal will also serve as a coal blending centre and coal storage base.

The Group has already obtained the requisite approvals for the Zhuhai Terminal project from 國家環境保護部 (Ministry of Environmental Protection), 國土資源部 (Ministry of Land and Resources), 交通運輸部 (Ministry of Transport) and 國家海洋局 (State Oceanic Administration) and 中國發改委 (NDRC). In addition, in order to [construct and] operate Zhuhai Terminal, the Group in the process of applying for certain certificates and permits, primarily including the following: 外商投資批准証書 (certificate of approval), 企業法人營業執照 (business registration licence), 組織機構代碼証 (organisation code certificate), 港口經營許可証 (port operation permit), 稅務登記証 (tax registration certificate), 財政登記証 (finance registration certificate) and 外滙登記証 (foreign exchange registration certificate). As advised by the PRC Legal Advisers, there is no practical legal obstacles for the Group to obtain these certificates and permits. It is expected that the relevant certificates and permits will be granted to the Group and the construction works will commence in the fourth quarter of 2009. [Under the Group's current plan, of which future modifications may be made, it will take approximately [30] months for the construction of Zhuhai Terminal and the installation of infrastructural facilities thereof.] Subject to the conditions to be imposed by the relevant governmental authorities, the Directors expect that Zhuhai Terminal can commence its operation upon completion of its construction.

The Group intends to form a joint venture with investor(s) of strong and reputable financial background and expertise. Currently, the Group plans to own approximately 60% of the joint venture.

In April and May 2008, Qinfa Industry and the Group entered into the Port Investment Agreements with QPCL, respectively, under which QPCL agreed to evaluate the Zhuhai Terminal project and the possibility of its 40% investment therein. [If the Group and QPCL can reach a final agreement, the Directors expect to sign a joint venture agreement shortly after the Group has obtained all the relevant approvals and/or permits for the establishment of Zhuhai Terminal. Apart from the Port Investment Agreements, the Directors confirmed that there were no other letters of intent or memorandums of understanding or similar agreements entered into between the Group and QPCL as of the Latest Practicable Date. Based on the negotiation with QPCL and as of the Latest Practicable Date, the Directors were optimistic that QPCL would participate in investing 40% in Zhuhai Terminal.] According to the information from QPCL, QPCL is a state-owned enterprise specialising in port operation in China. QPCL is the operator of Qinhuangdao port. Leveraging QPCL's financial support and expertise in port management and operations, the Directors are confident that the construction and operation of Zhuhai Terminal can be implemented at the highest standard.

II. Project outline

The Group currently plans to construct one 100,000 DWT (construction structure: 150,000 DWT) berth, one 20,000 DWT (construction structure: 50,000 DWT) berth and two 2,000 DWT (construction structure: 10,000 DWT) berths, with an aggregate annual thruput capacity of [20 million] tonnes, at Zhuhai Terminal.

Set out below is the design outlines of Zhuhai Terminal:

- Location: Beishunan, South Water Operation Area, Gao Langang Economic Zone, Zhuhai, Guangdong, the PRC, occupying a parcel of land having an area of approximately [340,000] square metres and a water frontage of approximately [700] metres.

- Water alignment: design estuary navigation waterway and turnover waterways based on terminal design standards of 100,000 DWT vessels tidal navigation.

- Hydraulic structures: structures of 100,000 DWT (construction structure: 150,000 DWT) berth, 20,000 DWT (construction structure: 50,000 DWT) berth and two 2,000 DWT (construction structure: 10,000 DWT) berths which should be pipe-beam plate structure, using technology to ensure 50 years of operation.

- Surface storage area: pavement in main access should be high strength concrete, pavement in storage area should be cast-in place concrete while ramp areas should be grass hollow brick.

- Construction period: approximately 30 months.

The above project outlines are based on the Group's feasibility report and further modifications may be made pursuant to the development of the project and the engagement of the construction company.

According to the Group's latest plan which is subject to modifications as the Directors consider necessary from time to time, the timetable of the Zhuhai Terminal's key milestones is summarised as follows:–

Timeline	Milestone
– As of the Latest Practicable Date	– Forming the feasibility report.
	– Entering to the Port Investment Agreements.
	– Obtaining a letter of intent from a bank in financing the project.
	– obtaining relevant approvals from 國家環境保護部 (Ministry of Environmental Protection), 國土資源部 (Ministry of Land and Resources), 交通運輸部 (Ministry of Transport), 國家海洋局 (State Oceanic Administration) and 中國發改委 (NDRC).
– Fourth quarter of 2009	– To obtain certain certificates and permits, primarily including 外商投資批准証書 (certificate of approval), 企業法人營業執照 (business registration licence), 組織機構代碼証 (organisation code certificate), 港口經營許可証 (port operation permit), 稅務登記証 (tax registration certificate), 財政登記証 (finance registration certificate) and 外滙登記証 (foreign exchange registration certificate).
	– To enter into formal investment agreement with cooperation partner.
	– To enter into formal banking facility agreements.
	– To commence the construction.
– Second quarter of 2012	– To complete the construction and installation of infrastructural facilities.
	– To commence the operation of Zhuhai Terminal.

III. Financial issues

The total investment of Zhuhai Terminal is expected to be approximately RMB[1,500] million. The total investment will be contributed by the Group and the potential investor(s) to Zhuhai Terminal in proportion to their respective equity interest in the joint venture. Pursuant to the Port Investment Agreements, QPCL agreed to evaluate the Zhuhai Terminal project and the possibility of its 40% investment therein. If QPCL's investment is confirmed, it will bear the investment cost in proportion to its equity interest in Zhuhai Terminal. Accordingly, the Group will be responsible for approximately RMB[900] million of the total investment, representing the Group's proportional interests of [60]% in the project. Out of this RMB[900] million, the Group intends to finance up to 65%, being approximately RMB[585] million, of its commitment through bank financing whereas the Group intends to contribute at least 35%, being approximately RMB[315] million, of its commitment through internal resources.

In December 2008, the Group obtained a letter of intent issued by a bank for its intention to finance up to RMB[1,157] million in the Zhuhai Terminal project. [As of the Latest Practicable Date, the Directors confirmed that the letter of intent issued by the bank in December 2008 was still valid.] [There was no prohibition in the terms and conditions of the Group's existing banking facilities on further banking facilities that might be required by the Group for the Zhuhai Terminal project.] However, if those additional facilities involve the assets of the Group that are currently pledged or charged with the existing banks for the existing banking facilities, a written consent from the relevant bank will be required. In addition, the letter of intent issued by the bank is subject to the bank's final approval and the execution of the definitive documents with acceptable terms and conditions to the relevant bank. The bank will only consider entering into a legally binding agreement when the relevant governmental approval and/or permit on the Zhuhai Terminal project has been granted. On this basis, there are no specific conditions and/or covenants required for the proposed banking facilities offered by the bank, and the relevant member of the Group is not able to assure that such conditions and/or covenants are to be complied with.

Since the Group has already obtained a letter of intent from a bank in December 2008 to finance up to RMB[1,157] million in the project of Zhuhai Terminal, the total maximum investment that would be required to be contributed by the Group, other than bank financing, in the project will be approximately [RMB343] million, even if the Group is not able to secure investments from other potential investors, including QPCL. [●] The Group intends to enter into the formal banking facility agreements with the banks shortly upon obtaining the certificates and permits for the construction of Zhuhai Terminal from the relevant PRC authorities as stated in "Business – Zhuhai Terminal – V. Governmental approvals" of this document.

As of the Latest Practicable Date, the Directors planned to apply the total investment of approximately [RMB1,500] million as follows:

- approximately RMB[1,200] million for the construction, including:

  (i) approximately RMB[500] million for hydraulic structure work;

  (ii) approximately RMB[300] million for purchase and installation of loading and unloading machinery and equipment;

  (iii) approximately RMB[100] million for terrestrial forming soft ground treatment work;

  (iv) approximately RMB[100] million for the acquisition of a parcel of land for Zhuhai Terminal;

  (v) approximately RMB[200] million for other construction works;

- approximately RMB[150] million for other expenses, including fees for use of waterway, fees for prospecting and design and fees for construction supervision;

- approximately RMB[100] million for the loan interest payable under the construction period; and

- approximately RMB[50] million as general working capital for the operation of Zhuhai Terminal.

The application and distribution of the investment is based on the current feasibility report for Zhuhai Terminal and further modifications may have to be made pursuant to the development of the project.

Having considered the financial support from potential investor(s) and the positive indication of the bank's commitments to finance the Zhuhai Terminal project, the Directors consider the Group will have sufficient capital and cashflow for the establishment and development of Zhuhai Terminal. Nonetheless, if the Group fails to secure sufficient funding both internally and externally for the Zhuhai Terminal project for whatever reasons, the Group may consider to modify the development plan of the project to suit the financial abilities of the Group. [In case such modification is not possible, the Group may have to cease the development of the Zhuhai Terminal project. As the project is not the core business of the Group, the Directors consider that the cessation will not materially and adversely affect the Group's operation.]

IV. Project advantages

Through the establishment of the Zhuhai Terminal, the Group can enjoy the following benefits:

– Zhuhai Terminal is strategically located in the southwestern region of Zhuhai, thereby allowing the Group to (i) take advantage of its proximity to customers located in the coal consuming coastal cities of southern China; (ii) react more quickly to customers' needs; and (iii) lower transportation costs.

– as the dry bulk berthing capacity along the Pearl River, China, is below 60,000 DWT, the 100,000 DWT (construction structure: 150,000 DWT) berthing capacity of Zhuhai Terminal is capable of accommodating capesize and Panamax vessels for coal transshipment and the Group can further lower its transportation costs by chartering capesize and Panamax vessels.

– as Zhuhai Terminal can serve as a site for blending and storage of coal, the Group will be able to further strengthen its coal storage and blending capacities. Under the Group's existing plan, which is subject to modifications upon the further development of the project, the Group is able to increase its maximum coal storage capacity by approximately [45]% to approximately [2.9] million tonnes whereas its maximum annual coal blending capacity can be increased by more than [100]% to reach approximately [10] million tonnes.

– as the [20 million] tonnes per year thruput capacity of Zhuhai Terminal can serve as a centre for coal exchange, it is expected to facilitate an advancement in the Group's ability to further procure and sell coal in this coal trading market.

– with its location in southern China, berthing capacity of 100,000 DWT (construction structure: 150,000 DWT) and [20 million] tonnes per year thruput capacity, it is expected that Zhuhai Terminal will attract different vessels to import and export their cargos or use the terminal as their transshipment centre. Users of port facilities are charged port fees for the import and export of cargos and Zhuhai Terminal will provide another source of income for the Group along its integrated coal supply chain.

V. Governmental approval

The Group has already obtained the requisite approvals for the Zhuhai Terminal project from 國家環境保護部 (Ministry of Environmental Protection), 國土資源部 (Ministry of Land and Resources), 交通運輸部 (Ministry of Transport) and 國家海洋局 (State Oceanic Administration) and 中國發改委 (NDRC). The relevant PRC governmental authorities had principally agreed to the development of the Zhuhai Terminal project according to the Group's feasibility report submitted, including the intended grant of a parcel of land at Zhuhai for the terminal development. In addition, in order to [construct and] operate Zhuhai Terminal, the Group in the process of applying for certain certificates and permits, primarily including the following: 外商投資批准証書 (certificate of approval), 企業法人營業執照 (business registration licence), 組織機構代碼証 (organisation code certificate), 港口經營許可証

(port operation permit), 稅務登記証 (tax registration certificate), 財政登記証 (finance registration certificate) and 外滙登記証 (foreign exchange registration certificate). Upon obtaining these certificates and permits, the Group will formally be granted the parcel of land at Zhuhai to commence the construction of Zhuhai Terminal. As advised by the PRC Legal Advisers, there is no practical legal obstacles for the Group to obtain these certificates and permits. It is expected that the relevant certificates and permits will be granted to the Group and the construction works will commence in the fourth quarter of 2009. [Under the Group's current plan, of which future modifications may be made, it will take approximately [30] months for the construction of Zhuhai Terminal and the installation of infrastructural facilities thereof.] Subject to the conditions to be imposed by the relevant governmental authorities, the Directors expect that Zhuhai Terminal can commence its operation upon completion of its construction. [As the Group is still in the process of applying for certificates and permits for Zhuhai Terminal, no capital commitments and no legally binding contracts have been entered into as of the Latest Practicable Date. The Port Investment Agreements are also subject to the condition of obtaining the relevant certificates and permits, failure of which would not impose any liabilities on the Group.]

VI. Management and operation

As of the Latest Practicable Date, the Group was negotiating with QPCL to manage and operate Zhuhai Terminal since the Directors and senior management of the Group do not have the expertise and experience in operating and managing similar projects in the past. Being the operator of Qinhuangdao port, the Directors believe that QPCL is a reputable enterprise, with a long history and well-established company culture that can complement the Group's business as its partner in the Zhuhai Terminal project. Though QPCL has shown an interest in the participation of the project, no legally binding agreement had been entered into between the Group and QPCL. The Group intends to enter into a formal management and operation agreement with QPCL upon the establishment of the operating entity of Zhuhai Terminal. Should the Group and QPCL not reach a formal agreement for whatever reason, the Group will engage an enterprise with similar qualifications as those of QPCL to manage and operate Zhuhai Terminal. As the Group will only engage a reputable enterprise with sophisticated experience in port management and operation as its partner in the project, the Directors believe that Zhuhai Terminal can be managed and operated in accordance with the recognised standards and demands of its customers.

VII. Risk

The Directors acknowledge that there are certain risks related to Zhuhai Terminal. The Group's experience and knowledge in coal operation may not be applicable to the management and operation of Zhuhai Terminal, and thus the Group may have to rely on an external party for its management and operation. There is no assurance that the Group will be able to reach a formal management and operation agreement with QPCL or the Group will be able to engage an enterprise with similar qualifications as those of QPCL to manage and operate Zhuhai Terminal.

Furthermore, there is no assurance that approvals for the construction and operation of Zhuhai Terminal will be granted by the local government or regulatory authority or that there will not be a delay in securing such approvals. As of the Latest Practicable Date, the

Group had obtained relevant approvals from 國家環境保護部 (Ministry of Environmental Protection), 國土資源部 (Ministry of Land and Resources), 交通運輸部 (Ministry of Transport), 國家海洋局 (State Oceanic Administration) and 中國發改委 (NDRC). The relevant PRC governmental authorities had principally agreed to the development of the Zhuhai Terminal project according to the Group's feasibility report submitted, including the intended grant of a parcel of land at Zhuhai for the terminal development. A summary of the feasibility report is set out in "– Zhuhai Terminal – II. Project outline" of this document. There is no certainty that the Group will be able to implement the Zhuhai Terminal project exactly the same as set out in the feasibility report and the Group may fail to fulfill such condition as set out in the approvals granted by the PRC governmental authorities. Even though the Group may modify the development plan of the Zhuhai Terminal project, there is no certainty as to whether such modification will be accepted by the relevant PRC governmental authorities. In case such modification is not possible, the Group may have to cease the development of the Zhuhai Terminal project, upon which the PRC governmental authorities may terminate all the relevant approvals previously granted to the Group for the development of the Zhuhai Terminal project. In addition, in order to [construct and] operate the Zhuhai Terminal, the Group is in the process of applying certain certificates and permits, primarily including 外商投資批准証書 (certificate of approval), 企業法人營業執照 (business registration licence), 組織機構代碼証 (organisation code certificate), 港口經營許可証 (port operation permit), 稅務登記証 (tax registration certificate), 財政登記証 (finance registration certificate) and 外滙登記証 (foreign exchange registration certificate). There is no assurance that such certificates and permits will be granted or there will not be a delay in securing such certificates and permits.

The planned project could also be delayed or adversely affected by a number of other factors beyond the Group's control, including, among others, availability of sufficient funding, natural conditions and human resources.

Moreover, the actual costs for the planned project may exceed the Group's original budget. There are also possibilities that the bank indicating its intention of granting the Group the banking facilities for the Zhuhai Terminal project may retract such non-legally binding commitment for whatever reason and the Group may also fail to secure a cooperation partner for its financial support in the Zhuhai Terminal project. If the Group fails to secure sufficient funding both internally and externally for the Zhuhai Terminal project for whatever reasons, the Group may consider to modify the development plan of the project to suit the financial abilities of the Group. [In case such modification is not possible, the Group may have to cease the development of the Zhuhai Terminal project. In this case and to the best knowledge of the Directors, there will not be any additional penalties to be imposed on the Group by the PRC governmental authorities apart from terminating the approvals previously granted to the Group for the Zhuhai Terminal project.]

As a result of project delays, cost overruns, changes in market circumstances or other reasons, the Group may not be able to achieve the intended economic benefits or demonstrate commercial viability of the planned project, which may in turn adversely affect the Group's business, operating results and growth prospects. Should any of these risks materialise, the Group may not be able to operate Zhuhai Terminal and may as a result be forced to abandon the project.

COAL MINES

The Group had an investment interest of approximately 2.3% in Millennium Mine located at the Bowen Basin of Australia, which contains the largest coal reserve in Australia. The Group is a passive investor and is not involved in the daily management and operation of Millennium Mine. [As the Millennium Mine produces coking coal while the Group's main product is thermal coal, the Group did not source any coal directly from Millennium Mine during the Track Record Period.] The Group acquired such interest from an Independent Third Party in 2004 at a consideration of approximately 2,364,000 Australian dollars (equivalent to approximately RMB13,800,000 at the end of May 2004). The annual coal production capability of Millennium Mine was approximately three million tonnes in 2007. As of 31 December 2007, the valuation, performed by an independent valuer, of the Group's interest over the coal mine in Australia amounted to approximately 15.6 million Australian dollars (equivalent to approximately RMB[100.0] million). Because of the increasing value of the equity interest and the fact that the Group is only a minority shareholder of Millennium Mine with no control, the Group decided to dispose all its investment interest in Millennium Mine

In July 2008, Excel Coal Limited, a subsidiary of Peabody Energy Corp, entered into a share sale agreement with several minority shareholders of Millennium Mine, including the Group. According to the share sale agreement, Excel Coal Limited, a controlling shareholder of Millennium Mine, agreed to acquire and the vendors agreed to sell a total of approximately 14.84% equity interest in Millennium Mine owned by the vendors at an aggregate cash consideration of 117,306,000 Australian dollars (equivalent to approximately RMB729.30 million at the date of the share sale agreement). After the completion of the share sale agreement, the Group disposed of approximately 2.3% equity interest in Millennium Mine, representing the Group's entire equity interest therein, to Excel Coal Limited at cash consideration of approximately 18,126,000 Australian dollars (equivalent to approximately RMB112,535,000). The consideration was based on the commercial negotiation between Excel Coal Limited and the vendors, including the Group, with reference to the valuation of Millennium Mine.

According to information from Peabody Energy Corp, it is the world's largest private sector coal company and its shares are listed on the New York Stock Exchange.

In May 2004, the Group acquired its equity interest in Millennium Mine at a cash consideration of approximately 2,364,000 Australian dollars (equivalent to approximately RMB13,800,000 at the end of May 2004). As [(i) Millennium Mine successfully commenced mining in 2007 at a rate of 1.5 million tonnes a year; (ii) the market price of coking coal increased continuously during the period between 2004 and the first half of 2008; and (iii) the Australian dollar appreciated against RMB during the period between May 2004 and July 2008], the value of the Group's investment in Millennium Mine increased significantly since May 2004. The Directors are of the view that, as stimulated by the rising price of coking coal, the increase in the value of Millennium Mine was generally in line with the market valuation concerning coking coal mines in Australia during the period between May 2004 and July 2008.

The share sale agreement was completed on 12 August 2008, and the Group, through Qinfa Trading, recorded an one-off gain of approximately RMB97.1 million as a result of the disposal of equity interest in Millennium Mine.

RISK MANAGEMENT OF COAL PRICE FLUCTUATIONS

In the PRC coal industry, a geographical disparity and transportation bottleneck exist between locations of coal production and 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 revenue 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 sold to end-users in China generally being 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 price 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 potential operating risks faced by the Group because of the following two aspects:–

- 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; and

- 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 RMB31 million due to the substantial decrease in the market prices of coal during the two months ended 28 February 2009. However, during the four months ended 30 April 2009, the Group did not make any similar provision.

Apart from the above, the Directors considered that the Group's overall performance will not be materially affected by coal price fluctuations because (i) the Group generates part of its profit from the provision of a range of services, including the sourcing, filtering, storage, blending, shipping and transportation of coal; and (ii) the Group has established the following coal procurement and risk management policies during the Track Record Period. [The executive Directors are principally responsible for implementing such coal procurement and risk management policies to mitigate the coal price fluctuation risk.] The policies adopted by the Group during the Track Record Period are summarised as follows:

Objective	**Policy**
– To avoid a situation where the Group is required to purchase or sell coal at undesirable prices.	– In general, if the executive Directors consider the coal price is not stable, the Group will not make any commitment of sales or purchases which the period between the date of the sale or purchase contracts and the date of delivery is of more than one month with its suppliers and customers. The price of coal will fixed and set out in the sale or purchase agreements between the Group and its suppliers or customers. Therefore, the Group will not be required to purchase or sell a prescribed quantity of coal from suppliers and to customers, with uncertain market conditions. This policy will continue to be implemented following the [●].
– To maintain a sufficient level of inventory.	– As a precautionary measure, the Group closely monitors various factors, including current market demand and supply and the anticipation of the market and price trends in the PRC domestic and overseas markets, that may affect coal prices. Such factors may change from time to time and the executive Directors will adjust the inventory level according to the latest market conditions and price trends. Details of the qualifications and experience of the executive Directors are set out in "Directors, senior management and staff" of this document. Through (i) the Group's established relationship with its suppliers, customers and coal transportation authorities; (ii) the management's solid expertise and experience in the China coal industry; and (iii) the Group's coal purchasing staff stationed at Qinhuangdao port, the Group is able to obtain latest coal market information, including price movements and changes in coal demand and supply. Based on the updated market information and their experience and judgment in respect of coal price trends, the executive Directors may adjust the coal purchase and sales volumes from time to time in order to maintain sufficient levels of inventory for a constant supply of coal to the customers of the Group. In the event that the level of inventory of the Group is not sufficient to meet customers' demand, the Group will purchase coal from suppliers to meet confirmed contractual requirements. During the Track Record Period, the coal inventory

turnover days of the Group ranged from 24 days to 41 days, and the coal inventory held by the Group as at 31 December 2006, 2007 and 2008 amounted to approximately [921,000] tonnes, [1,272,000] tonnes and [154,000] tonnes, respectively. Although the Group adjusts its coal purchase volume and inventory level from time to time based on various factors including the management's judgment on coal price movements, these transactions are not conducted for speculative purpose, but for the purpose of maintaining a sufficient inventory to fulfill customers' demands from time to time. In addition, the overall coal inventory level maintained by the Group is relatively low, as compared with the Group's annual trading volume. As there was exceptional price volatility in the PRC coal market in the second half of 2008, customers became more cautious about their purchases near the year end when they were going to negotiate with coal suppliers on annual coal supply contracts. The Group decided to further reduce the coal inventory level in order to minimise its inventory risk. In December 2008, the Group's average coal inventory only amounts to approximately [154,000] tonnes, which is less than average monthly coal sales to its customers.

– To minimise the Group's exposure to coal price fluctuations during the time period between committed purchase orders and confirmed sales orders.	– In the event that the Group is required to purchase coal from suppliers to meet confirmed contractual requirements because of an insufficient coal inventory, the terms of purchase orders will be fixed within three days from the date of the relevant sales order in order.
– To optimise the Group's economic benefits with coal sourced at the lowest available prices.	– Coal within a range of specifications can be provided to power plants or other customers according to their specific power generation equipment and processes. The Group's coal blending capacity enables it to lower its coal purchase prices and optimise the Group's economic benefits by blending coals with different qualities and specifications. With coal sourced from the PRC and overseas markets, the Group is able to obtain different types of coal with different qualities and specifications from different sources at different purchase prices to satisfy customers' requirements and at the same time manage the Group's coal purchase costs. This is evidenced by the increasing percentage of coal procurements of coal from Vietnam and Indonesia for the years ended 31 December 2007 and 2008 in order to substitute the coal sourced from Australia.

– To mitigate the risks associated with decreases in coal prices after confirmation of sales contracts.	– After finalising terms of sales contracts with customers, the Group will sign legally binding contracts with customers. As such, customers are obliged to purchase the Group's coal after the execution of sales contracts even if there are subsequent drops in the coal prices.

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 coal 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 further enhance the Group's risk management policy on coal price fluctuations upon the [●] with the following additional measures:

Objective	**Policy**
– To maintain an appropriate coal inventory level for the Group's operation.	– The Group will set a coal inventory level on a quarterly basis. According to the Group's policy, such coal inventory level will not be more than 30% of the net assets value of the Group as at the end of the previous quarter. Without an approval from the independent non-executive Directors who will express their views after obtaining advice from internationally recognised risk advisory consultants, the Group will not change the basis of the monthly and quarterly maximum coal inventory levels.

– To evaluate the Group’s risk management procedures on coal prices on a regular basis.	– The Board will continue to evaluate its risk management procedures in respect of coal prices and will meet on a quarterly basis to review and discuss the Group’s exposure level and the corresponding coal procurement and inventory management strategies. Among the members of the Board, Dr. CHEN Wenjing and Mr. HUANG Guosheng possess extensive expertise and experience in economics studies and transportation systems, respectively. Coupled with the executive Directors’ experience and expertise in coal operations, in particular Mr. XU who possesses approximately 18 years’ experience in the coal operation and logistics industry in the PRC, the Directors consider this arrangement assists the Group in evaluating its risk management procedures on coal prices.
– To perform annual review on the Group’s exposure to coal price fluctuations and its risk management procedures in respect of inventory management.	– The Group will after the [●] engage a qualified risk advisory consultant from one of the four established accountancy and professional services firms to perform annual review on the Group’s exposure to coal price fluctuations and its risk management procedures in respect of inventory management. The results of these reviews will be reported to the Board and be disclosed in the Group’s annual reports after the [●]. [As of the Latest Practicable Date, the Group has not yet engaged a qualified risk advisory consultant to perform annual risk management review.] After obtaining the review reports from the risk advisory consultant, the Board will ensure that the recommended levels will be adhered to and the risk control policies will be complied with, and significant breach incidents will be escalated to the attention of the Board. In addition, the Board will take necessary measures to rectify the deficiency, if any, identified by the risk advisory consultant. The Board will continue to engage the risk advisory consultant to perform annual review until the coal operation business is no longer a core business of the Group with less than 50% contribution to the Group’s revenue.
– To mitigate possible coal price fluctuations in the Group’s overseas operation.	– The Group may consider participating in hedging activities in respect of its overseas sales and overseas purchase of coal in the future. If the Group engages in such hedging activities, a full description of the nature of such hedging activities, together with the amount involved, will be disclosed in the relevant annual report.

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 [●].

In order to strictly implement the maximum coal inventory policy, the Directors will closely monitor the Group's coal inventory level. In addition, the Group intends to implement the following business policy to further control its inventory level and speed up the inventory turnover rate:

– negotiate with the Group's customers and suppliers to shorten the purchase/ sales order processing time; and

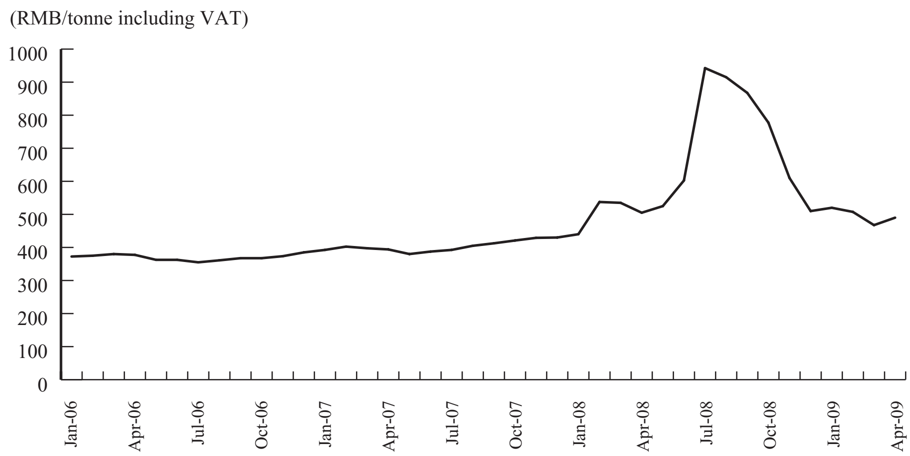
– speed up inventory velocity by increasing the Group's coal purchase from coal traders at the Qinghuangdao port and overseas coal suppliers, and arranging these suppliers to transport coal to ports designated by the Group's customers directly.

To the best knowledge of the Directors, there is no commonly adopted, effective and proven hedging instrument in China that may be used by members of the Group to mitigate the possible exposure to coal price fluctuations. As such, the Group has not taken such measure to reduce the possible exposure.

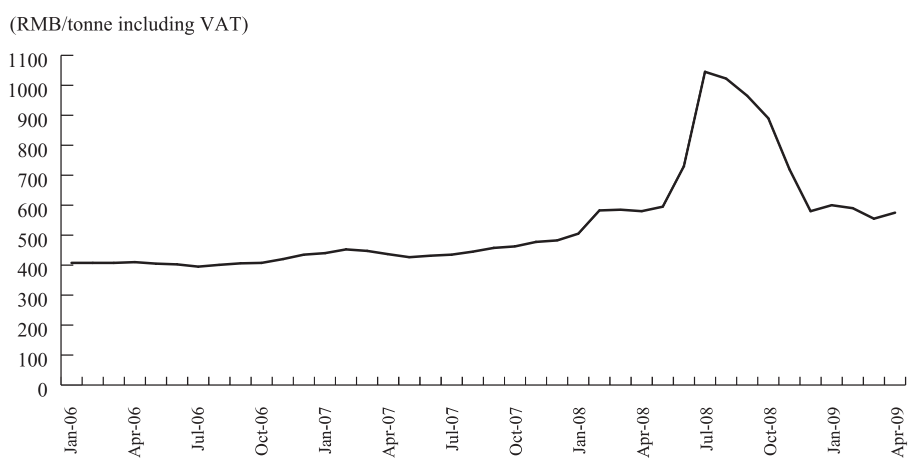
Although there are coal derivatives traded on overseas commodity exchanges, like the New York Mercantile Exchange, the Directors consider that these instruments are of less relevance to the operating risk of the Group. One of the reasons is that coal derivatives traded at overseas commodity exchanges are not considered as appropriate financial instruments to conduct effective hedging as price movements of underlying products of such coal derivatives may not be highly correlated to coal price movement in the PRC based on the historical price data. For example, government policies, domestic economic conditions and natural disasters in PRC may also affect the coal price movement in China, but these factors may not affect the price movement of oversea coal derivatives.

Details of the 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, Qinhuangdao benchmark coal spot price is a major indicator of coal prices in the PRC.*

CUSTOMERS

Sales to the Group's five largest customers amounted to RMB1,526.4 million, RMB2,433.0 million and RMB2,668.6 million during the Track Record Period, respectively, representing approximately 53.5%, 66.4% and 63.7% of the Group's total turnover for the relevant year. During the same year, sales to the Group's single largest customer amounted to RMB563.9 million, RMB946.6 million and RMB1,108.9 million, respectively, representing approximately 19.8%, 25.8% and 26.5% of its total turnover for the relevant years.

During the Track Record Period, none of the Directors or their associates or the Shareholders who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in any of the five largest customers of the Group.

SUPPLIERS

Purchases from the Group's five largest suppliers amounted to RMB1,245.6 million, RMB678.3 million and RMB733.1 million during the Track Record Period, respectively, representing approximately 51.5%, 26.0% and 26.6% of the Group's total purchases for the relevant years. During the same year, purchases from the single largest supplier amounted to RMB432.8 million, RMB206.5 million and RMB169.3 million, respectively, representing approximately 17.9%, 7.9% and 6.1 % of the Group's total purchases for the relevant years.

During the Track Record Period, none of the Directors or their associates or the Shareholders who, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company, had any interest in any of the five largest suppliers.

AWARDS

The following are some of the significant awards the Group has received.

Awards	Awarded by	Awarded to	Date of Award
納稅信用等級A級 (Tax Payment Credit Class A)	The State Taxation Bureau and Local Taxation Bureau of Qinhuangdao City	Qinhuangdao Trading	December 2005
納稅貢獻金獎 (Tax Payment Contribution Golden Award)	The People's Government of Yangyuan Country and the China Communist Party Yangyuan Committee	Yangyuan Guotong	March 2007
金融誠實守信企業 (Certificate of Finance Credit and Faithfulness Enterprise)	The Appraisal Committee of Qinhuangdao City Finance Credit and Faithfulness Enterprises	Qinhuangdao Trading	November 2007
重點納稅大戶 (Key Taxpayer)	The Management committee of Zhuhai City Gaolangang Economy Zone	Zhuhai Qinfa Trading	January 2008
紅旗單位 (Red Flag Unit)	The People's Government of Datong Country	Datong Jinfa	February 2008
2007年度珠海市稅收貢獻百強 (Zhuhai's Top 100 Taxpayers of 2007)	The State Taxation Bureau and Local Taxation Bureau of Zhuhai City	Zhuhai Qinfa Trading	April 2008
A級納稅人 (Class A Taxpayer)	The State Taxation Bureau and Local Taxation Bureau of Zhuhai City	Zhuhai Qinfa Trading	July 2008

COMPETITION

Coal operation

The PRC domestic coal market is characterised by competition among a very large number of coal suppliers. The PRC domestic coal market is segmented principally by location, given the significant costs associated with coal transport, and also by coal characteristics, such as calorific value, sulphur, ash, total moisture and volatility. The Group sells most of its coal to customers, including power plants, coal traders and cement plants, in coastal regions of the PRC. The Group competes on the basis of reliable and timely delivery, customer service, coal quality, price and transportation network.

The Group's principal domestic competitors include state-owned coal operators and non-state-owned coal operators in the PRC. According to the BBIC Report, the volume of coal trading in the PRC was approximately 1,693 million tonnes in 2008, among which approximately 1,168 million tonnes or approximately 69% was traded by state-owned coal operators with the remainder traded by non-state-owned coal operators. National state-owned coal producers such as Shenhua Group Corporation Limited and Datong Coal Mine Group Company possess their owned coal transportation platform which allows them to transport coal from coal producing provinces and regions to coastal regions of the PRC. These national state-owned coal producers also have substantial coal reserves and enjoy better mining conditions, which allows them to mine coal at lower production costs, compared with the Group's procurement costs from its suppliers. In addition, these national state-owned coal producers have greater financial and marketing resources and geographical reach.

The non-state-owned coal operators in the PRC, including the Group, accounted for approximately [525] million tonnes or approximately [32]% of the total volume of coal trading in the PRC in 2008. 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. The Group's annual coal trading volume was approximately [6.3] million tonnes or approximately [0.4]% of the total volume of coal trading in the PRC for the year ended 31 December 2008.

To the knowledge of the Directors, some non-state-owned coal traders and coal mine operators may not possess their own coal transportation platform or access to a reliable and sufficient rail and port transportation network. Therefore, they may be subject to uncertainty of timely delivery and comparatively high transportation cost when transporting their coal products from coal producing provinces and regions to coastal regions.

According to the relevant laws and regulations in the PRC, enterprises engaged in the trading of coal which is not self-produced are required to obtain Coal Operation Certificates under strict supervision and qualification examination by relevant government authorities in the PRC, which increases the entry barrier to the coal trading industry in the PRC. China is the largest coal production and coal consumption country. In recent years, the rapid development of the electricity industry, building construction industry and petrochemical industry in the PRC has led to the rapid growth in coal consumption. With the growth of economy of the PRC, the Directors believe that the demand for coal will accordingly increase. Taking the above into account and the competitive strengths as set out in "Business – Competitive Strengths" of this document, the Directors believe that the Group, although facing competition in the industry, will be able to benefit from the growth of the PRC economy and coal industry.

Shipping transportation

In recent years, demand for dry bulk trade has benefitted from the growth in the global economy and from the expansion in industrial production in Asia, particularly in China.

According to Review of Maritime Transport 2008 published by United Nations Conference on Trade and Development in 2008, dry cargo shipments continued to grow by 5.6% to approximately 5.34 billion tons in 2007. These shipments accounted for 66.6% of total world goods loaded. Trade in the major dry bulks (iron ore, coal, grains, bauxite/alumina and rock phosphate) was estimated at 2.0 billion tons. The difference was made up of minor bulks and liner cargoes, which together were estimated at approximately 3.34 billion tons.

World seaborne trade in ton-miles, selected years
(Billions of ton-miles)

	Oil								
Year	**Crude**	**Products**	**Crude plus products**	**Iron ore**	**Coal**	**Grain[a]**	**Five main dry bulks[b]**	**Other dry cargoes**	**World total**
1970	5,597	890	6,487	1,093	481	475	2,049	2,118	10,654
1980	8,385	1,020	9,405	1,613	952	1,087	3,652	3,720	16,777
1990	6,261	1,560	7,821	1,978	1,849	1,073	5,259	4,041	17,121
2000	8,180	2,085	10,265	2,545	2,509	1,244	6,638	6,790	23,693
2001	8,074	2,105	10,179	2,575	2,552	1,322	6,782	6,930	23,891
2002	7,848	2,050	9,898	2,731	2,549	1,241	6,879	7,395	24,172
2003	8,390	2,190	10,580	3,035	2,810	1,273	7,464	7,810	25,854
2004	8,795	2,305	11,100	3,444	2,960	1,350	8,139	8,335	27,574
2005	9,239	2,510	11,749	3,918	3,113	1,686	9,119	8,730	29,598
2006	9,495	2,635	12,130	4,192	3,540	1,822	9,976	9,341	31,447
2007	9,685	2,755	12,440	4,790	3,750	1,857	10,827	9,665	32,932

[a] Includes wheat, maize, barley, oats, rye, sorghum and soya beans.

[b] Includes iron ore, coal, grain, bauxite/alumina and phosphate.

Source: Review of Maritime Transport 2008

The dry bulk shipping market is almost homogeneous, where although being capital-intensive, barriers to entry are relatively low and competition is intensive. There is a comprehensive network of support services to which new investors can subcontract most business functions, which makes it easy for new investors to enter into this market. Therefore, the shipping transportation industry is highly fragmented and competitive, and the Group faces keen competition from domestic, regional and international shipping 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.

By comparison, the fleet of the Group is smaller and less diversified, which may restrict its expansion of market share. To improve the competitiveness of the Group's fleet and complement the development of the Group's coal operation business, the Group is planning to further expand its fleet size in order to secure stable and sufficient coal shipping transportation capacity and to broaden its revenue base by capturing shipping transportation fees.

ENVIRONMENTAL MATTERS

The Group's coal trading and shipping transportation services are subject to relevant environmental laws and regulations. As confirmed by the PRC Legal Advisers, the Group has complied with all material applicable environmental laws and regulations in China as of the Latest Practicable Date.

Coal operation business

The Group's coal trading is currently subject to environmental laws and regulations relating to air and water emissions, hazardous substances and waste management. The Group has set up water spray systems and wind barring walls as well as possessing its own watering carts and watering spray guns at its coal loading stations, the standards of which are in compliance with the applicable PRC laws and regulations.

Different from a coal production company, which is more strictly regulated by the relevant environmental laws and regulations, the Group, as a coal trading enterprise, is not exposed to such environmental laws and regulations. However, the Group is also committed to conduct its operation in a manner that complies with applicable environmental laws and regulations, and endeavours to mitigate the adverse impact of its operations on the environment. Details of the applicable environmental laws and regulations are set out in "Regulations relating to the industry" of this document.

The expenses relating to environmental matters incurred by the Group during the Track Record Period amounted to approximately RMB100,000, RMB1,375,000 and RMB[727,093], respectively. Based on the historical cost and the Directors' experience, the expected annual cost of compliance with applicable rules and regulations will be approximately RMB[300,000].

The Group has not encountered any breaches of any applicable environmental laws or regulations. The Group's environmental protection systems and facilities comply with applicable PRC national and local environmental laws and regulations.

As of the Latest Practicable Date, the Group was not subject to any material environmental claims, lawsuits, penalties or disciplinary actions.

Shipping transportation

The Group's shipping transportation service is also subject to relevant environmental international conventions and regulations, as well as environmental laws and regulations relating to shipping transportation in China. The Group's vessels are also subject to the relevant laws, regulations and rules of each country and port they visit.

As of the Latest Practicable Date, the Group has not encountered any breaches of any relevant laws, regulations or rules.

The Directors confirm that the Group has complied with all relevant laws and regulations in all jurisdictions where it has operated during the Track Record Period.

REGULATIONS AND COMPLIANCE

Coal operation

The Group has obtained all necessary licences, permits, certificates and registrations for its coal operation business in China.

As advised by the PRC Legal Advisers, the Group is required to obtain the Coal Operation Certificate for conducting coal operation business in China. The following table sets out details of the Group's Coal Operation Certificates as of the Latest Practicable Date:

Entity	Date of issue	Date of expiry
Qinhuangdao Trading	1 July 2007	1 July 2010
Zhuhai Qinfa Trading	28 June 2007	27 June 2010
Datong Jinfa	28 May 2007	31 December 2009
Yangyuan Guotong	1 July 2007	1 July 2010

Details of the regulations on the Coal Operation Certificate and the other regulations regulating the coal operation business in China are set out in the "Regulation relating to the industry – Coal trading – domestic trading of coal" in this document.

As of the Latest Practicable Date, the Group has not encountered any breaches of any relevant laws, regulations or rules in relation to its coal operations.

The Directors and the PRC Legal Advisers confirm that the Group has complied with all relevant laws and regulations, including but not limited to labour, safety and environmental matters, relating to its coal operations in China during the Track Record Period.

Shipping transportation

The ship owning and managing industry is highly regulated and the Group's vessels must operate within the rules, international conventions and regulations adopted by the International Maritime Organisation, including:–

– the International Convention for the Safety of Life at Sea;

– the International Convention for the Prevention of Pollution from Ships

– the International Convention on Standards of Training, Certification and Watchkeeping for Seafearers;

– the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention; and

– the International Ship and Port Facility Securities Code,

These conventions have been ratified by the majority of maritime nations, including Hong Kong, and apply to all vessels registered in these countries or calling in the waters of these countries.

The Group's vessels are also subject to the laws, regulations and rules of each country and port they visit.

The Group has also obtained all necessary licences, permits, certificates and registrations for its shipping transportation business. In particular, the Group was granted the Waterway Transportation Licence by 中華人民共和國交通運輸部 (Ministry of Transportation and Communications of the PRC) for the operation of inland shipping business in China, which is valid until 31 October 2012. Details of regulations on the Waterway Transportation Licence are set out in "Regulations relating to the industry – Transportation – Shipping and port operations" of this document. As the Group has been in compliance with the applicable PRC laws and regulations in relation to the Waterway Transportation Licence, the Directors are of the view that there is no material obstacle to renewing the Group's Waterway Transportation Licence.

As of the Latest Practicable Date, the Group has not encountered any breaches of any relevant laws, regulations or rules in relation to its shipping transportation service.

The Directors confirm that the Group has complied with all relevant laws and regulations in relation to its shipping transportation service in all jurisdictions where it has operated during the Track Record Period.

As advised by the PRC Legal Advisers, Qinfa Trading is not within the territory of China and it is not involved in (i) sales of coal or (ii) inland waterway transport activities. Qinfa Trading is responsible for arranging shipping transportation of coal from overseas to PRC ports. Contracts for the sale of coal to customers in China are entered into between customers in China and a member of China Qinfa Group which holds (a) the Coal Operation

Certificates enabling it to enter into the relevant contracts with customers and (b) the Waterway Transport Licence enabling it to transport the coal on inland waters in China. Accordingly, Qinfa Trading is not required to obtain a Coal Operation Certificate or a Waterway Transport Licence.

INTELLECTUAL PROPERTY RIGHTS

Save for the transfer of certain trademarks to Qinfa Logistics which are expected to be completed within approximately six to eight months, all trademarks currently used by the Group are registered to members of the Group. Details of the Group's intellectual property rights are set out in the paragraph headed "Intellectual Property" in Appendix V of this document.

As of the Latest Practicable Date, the Group has not given any consent or otherwise granted to any other party the right to use any trademarks owned by the Group.

The Directors confirm that there has been no infringement or misappropriation of any of the Group's intellectual property rights by third parties, and vice versa during the Track Record Period.

PROPERTIES

Properties held and occupied by the Group

As of 30 April 2009, the Group held and occupied [a] parcel of land in the PRC with a site area of approximately 106,460 square metre, together with the buildings having a total gross floor area of approximately 2,221 square metre and the associated structures erected thereon.

As of 30 April 2009, the Group held under sale and purchase agreements and occupied 8 office units in the PRC with an aggregate gross floor area of approximately [1,758.38] square metre.

Leased properties of the Group

As of 30 April 2009, the Group leased [3] properties in the [PRC] with an aggregate gross floor area of approximately [6,905] square metre and an aggregate site area of approximately [66,000] square metre from [Independent Third Parties]. In addition, the Group has leased from Qinfa Industry one property which is located at Hotel Rooms Nos. 801, 802, 805 to 809, and 816 to 818, Qinfa Holiday Hotel, No. 123 Yingbin Road, Qinhuangdao City, Hebei Province, China, being property No. 6 as set forth in the valuation report of the property interests of the Group in Appendix III to this document. The lease constitutes an exempted continuing connected transaction for the Company. Further information is set forth in "Connected Transactions – Exempted Continuing Connected Transactions" of this document.

As of 30 April 2009, the Group leased [one] property in Hong Kong with a gross floor area of approximately [110] square metre (i.e. [1,184] square feet) from an Independent Third Party for [office] use.

Two of the leased properties 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. As confirmed by the PRC Legal Advisers, the non-registrations of the respective lease agreements will not impact on their effectiveness. The parties are bound by the agreements once the agreements have been entered into. In addition, such properties without registered lease agreements are used by the Group as offices, which are not critical to the Group's business operation.

Further, one of the leased properties of the Group, details of which are set out as property No. 3 in Appendix III to this document, is being used by the Group as the Yangyuan coal loading station. The PRC Legal Advisers have confirmed that (i) the lessor is the owner of the leased property and has obtained valid long term land use right certificate for such lease property; (ii) the lease is legal, valid and enforceable; and (iii) the lease has been duly registered with the relevant PRC authority. In addition, the Directors consider that the term of the lease was of a meaningful duration given that the term is of eight years from 21 May 2008 whereas the Group was granted a pre-emption right on the renewal of the lease and the purchase of the property. Taking into account that (i) the Group, through Datong Jinfa, can maintain its coal procurement operation in China; (ii) the Group can also purchase coal from coal traders at the Qinhuangdao port; and (iii) the Group can adjust its coal procurement policy to increase the purchase of coal from overseas suppliers if necessary, the Directors consider that the property used as Yangyuan coal loading station is not crucial to the Group's business operation.

Valuation report

Vigers Appraisal & Consulting Limited, an independent property valuation firm, has assessed the property interests of the Group as of [30 April 2009]. The text of Vigers's letter, the summary of valuation and the valuation certificate are set out in Appendix III annexed to this document.

INSURANCE

Employees

The Group maintains social insurance for its employees in the PRC in accordance with applicable laws and requirements from the relevant local authorities. Social insurance premiums are borne by the Group and its employees in a specific proportion regulated by relevant PRC laws.

The Group maintains the mandatory provident fund for its employees in Hong Kong in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), of which the fund premium is borne by the Group and its employees in a specific proportion regulated by the Mandatory Provident Fund Schemes Ordinance.

Coal operation

According to the Directors' best knowledge and based on their experience in the industry, coal traders do not normally maintain insurance for their business operations. Accordingly, the Group has not set up any insurance policy for its coal trading business. No member of the Group incurred any uninsured losses, damages and liabilities which would have materially affected the Group's coal operation during the Track Record Period.

Shipping transportation

The operation of any vessel involves a number of inherent risks such as mechanical failure, collision, property loss, cargo loss or damage, business interruption due to political circumstances in foreign countries, hostilities (including war and terrorism) and labour strikes. In addition, there is always an inherent possibility of marine disaster, including environmental mishaps.

Accordingly, the Group seeks to maintain comprehensive insurance coverage by taking out various types of insurance on its vessels, crew, cargo and other properties, in order to reduce the risk of any unexpected liabilities, although during the Track Record Period, there has not been any case of constructive total loss or total loss arising out of environmental accident, grounding, fire, explosion, collision, cargo loss or other inherent risks.

The Directors believe that the types of insurance coverage the Group currently has are in line with the international shipping industry standards and that the insurance coverage is adequate and sufficient for the conduct of its business.

The Group will continue to review and assess the risks and make necessary adjustments to its insurance practice in line with the operation needs and industry practice.

LITIGATION

[None] of the members of the Group is currently involved in or has been involved in any legal or arbitration proceedings of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.