
CONNECTED TRANSACTIONS

NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

On 12 June 2009, Qinfu Logistics entered into the Structure Contracts with each member of China Qinfu Group and their respective equity interest holders. As of the Latest Practicable Date, China Qinfu Group was owned by Mr. XU, Mr. XU Da, Mr. LIU Jingwei and Ms. ZHOU Lusha. Please refer to the section headed "Reorganisation and the Structure Contracts" in this document for the detailed shareholding structure of China Qinfu Group.

As Mr. XU, Mr. XU Da, Mr. LIU Jingwei and Ms. ZHOU Lusha are connected persons under the definitions of the Listing Rules, the transactions contemplated under the Structure Contracts are connected transactions and are subject to the reporting, announcement and independent Shareholders' approval requirements under Rule 14A.17 of the Listing Rules.

Application for waiver

The Structure Contracts, collectively, enable the Group to receive the economic benefits derived by China Qinfu Group through (i) the right (if and when PRC law allows foreign investment in conducting coal operation business and inland shipping business in China) to acquire the equity interest in each member of China Qinfu Group at the lowest possible cost; (ii) the business structure under which the revenue generated by the cooperation between Hong Kong Qinfu Group and China Qinfu Group is controlled by Qinfu Logistics on behalf of Hong Kong Qinfu Group and (iii) the right to govern the management of each member of China Qinfu Group.

In light of the foregoing, the Directors, including independent non-executive Directors, consider that (i) the Structure Contracts are fundamental to the entire structure of the Group and the business operations of the Group; (ii) the transactions contemplated under the Structure Contracts are entered into on normal commercial terms, in the ordinary and usual course of the Group's business; and (iii) the terms of the Structure Contracts are fair and reasonable and in the interests of the Group and the Shareholders as a whole, pursuant to Rule 14A.42(3) of the Listing Rules. The effect of entering into the Structure Contracts is to combine the results of all members of China Qinfu Group into Hong Kong Qinfu Group, thereby forming the Group, as if they were wholly-owned subsidiaries. Hence, the Structure Contracts result in a special position on the related provisions under the Listing Rules on connected transactions. In light of this, the Directors consider that it would not be appropriate for the Structure Contracts to be subject to, amongst other things, the announcement and the independent Shareholders' approval requirements under the Listing Rules.

Accordingly, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a perpetual waiver pursuant to Rule 14A.42(3) of the Listing Rules for all transactions under the Structure Contracts from strict compliance with the applicable announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

Scope of the waiver

In relation to the Structure Contracts, the Company has applied for, and the Stock Exchange has granted, a perpetual waiver pursuant to Rule 14A.42(3) of the Listing Rules for the Structure Contracts from strict compliance with the applicable announcement and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules on the following conditions:—

No change without the approval of the independent non-executive Directors and the independent Shareholders. No changes to the terms and conditions of the Structure Contracts shall be made without the approval of the independent non-executive Directors and the independent Shareholders.

Flexibility in economic benefits. The Structure Contracts continue to enable the Group to receive the economic benefits derived by China Qinfu Group through (i) the Group's right (if and when PRC law allows foreign investment in conducting coal operation business and inland shipping business in China) to acquire the equity interest in each member of China Qinfu Group; (ii) the business structure under which the revenue generated by the cooperation between Hong Kong Qinfu Group and China Qinfu Group is controlled by Qinfu Logistics on behalf of Hong Kong Qinfu Group and (iii) the Group's right to govern the management of each member of China Qinfu Group.

Renewal and/or cloning without the approval of the independent non-executive Directors and the independent Shareholders in general meeting. The framework of the Structure Contracts may be renewed and/or cloned upon the expiry of the existing arrangements or, in relation to any existing or new wholly foreign-owned enterprise or operating company that the Group might wish to establish, without obtaining the approval of the independent Shareholders and the independent non-executive Directors, on the same terms and conditions as the Structure Contracts.

Ongoing reporting and approvals. Pursuant to the terms of the waiver sought from the Stock Exchange, the Group will disclose details relating to the Structure Contracts on an ongoing basis as follows:—

- Details of the Structure Contracts will be disclosed in the Company's annual reports and accounts in accordance with the relevant provisions of the Listing Rules.
- The independent non-executive Directors will review the Structure Contracts annually and confirm in the annual reports and accounts of the Company for the relevant year that (i) the transactions carried out during such year have been entered into in accordance with the relevant provisions of the Structure Contracts and have been operated so that all revenue generated by China Qinfu Group has been retained by Qinfu Logistics; (ii) no dividends or other distributions have been made by any member of China Qinfu Group to its equity interest holders; and (iii) any new contracts or renewed contracts have been entered into on the same terms as the existing Structure Contracts and are fair and reasonable so far as the Group is concerned and in the interests of the Shareholders as a whole.

CONNECTED TRANSACTIONS

- The Company’s auditors shall carry out agreed-upon procedures annually on the transactions carried out pursuant to the Structure Contracts and will provide a letter to the Board, with a copy to the Stock Exchange, at least ten Business Days prior to bulk-printing of the annual report of the Company, confirming that all the transactions have received the approval of the Board and were entered into in accordance with the Structure Contracts and that no dividends or other distributions have been made by any member of China Qinfu Group.
- For the purpose of Chapter 14A of the Listing Rules, members of the China Qinfu Group will be treated as wholly-owned subsidiaries of the Company but their respective directors, chief executive and substantial shareholders and their respective associates will be connected persons of the Company, and transactions between the Group and such connected persons will be subject to the requirements under Chapter 14A of the Listing Rules other than those under similar Structure Contracts.
- All members of the China Qinfu Group have separately undertaken to the Company that they will provide the Group’s auditors with full access to the relevant records for the purpose of the auditors’ review of the relevant transactions under the Structure Contracts.

New transactions amongst members of China Qinfu Group and Hong Kong Qinfu Group. There may be new contracts or renewal of the existing contracts to be entered into between members of China Qinfu Group and Hong Kong Qinfu Group. Given that the financial results of China Qinfu Group will be combined into the Group’s financial results and given the relationship between China Qinfu Group and Hong Kong Qinfu Group created by the Structure Contracts, all such new contractual arrangements will also be exempted from the “continuing connected transactions” provisions of the Listing Rules.

CONNECTED TRANSACTIONS

EXEMPTED CONTINUING CONNECTED TRANSACTIONS

The following connected transaction will constitute an exempted continuing connected transaction for the Company under Rule 14A.33(3) of the Listing Rules and accordingly, will be exempted from the reporting, announcement and independent Shareholders' approval requirements stipulated under the Listing Rules. The following connected transaction is undertaken on an arm's length basis and on normal commercial terms or terms more favourable to the Group and the percentage ratios (other than the profit ratio) of the following transaction on an annual basis is less than 0.1% or if more than 0.1% but less than 2.5% and the annual consideration is less than HK\$1.0 million.

Qinfa Industry is a limited liability company established in the PRC on 3 January 2001 and is owned as to 49.59% by Mr. XU Da (holding on behalf of Mr. XU), 50% by Mr. XU and 0.41% by Mr. LIU Jingwei (holding on behalf of Mr. XU). Hence, Qinfa Industry is a connected person of the Company.

Pursuant to a lease agreement dated 1 January 2008 entered into between Qinhuangdao Trading and Qinfa Industry, Qinhuangdao Trading leases from Qinfa Industry a property situated at Level 8, Qinfa Holiday Hotel, 123 Yingbin Road, Qinhuangdao City, Hebei Province, China, being property No. 6 set forth in valuation report of the property interests of the Group in Appendix III to this document, for a term of ten years commencing from 1 January 2008. Upon expiry, the lease agreement is renewable for ten years upon written request by Qinhuangdao Trading. The annual rental for the period between 1 January 2008 and 31 December 2009 is RMB680,000 which is payable before the end of each year. Thereafter, the annual rental can be adjusted by mutual agreement for each two-year period with reference to the valuation by a property valuer in accordance with the market rates. The amount of annual rental is determined with reference to a report by an independent valuer which has confirmed that the amount is fair and reasonable and reflects the prevailing market rates.