MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the Group's audited combined financial information as at and for each of the three financial years ended 31 December 2006, 2007 and 2008 and the accompanying notes thereto, which is set forth in the Accountants' Report as included as Appendix I to this document. The following discussion contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such differences include those discussed in the section headed "Risk Factors" of this document.

Information in this section in relation to the Group's performance in 2009 is based on the Group's internal record and/or unaudited management accounts as of 31 May 2009. Such information is subject to review and adjustments, if any, through the auditing procedure.

(I) Overview

Being part of its coal operation business, the Group developed its shipping transportation during the Track Record Period as the Group initially chartered vessels by time charter contracts for transportation of the coal it traded. Subsequently, the Group chartered vessels from Independent Third Parties and rechartered those vessels out for transportation of other's coal and dry bulk cargos.

The Directors manage the Group's operations and report its financial results according to the following two separate business segments:

– Coal operation segment, which includes purchase, filtering, storage, blending, and sales of coal products to the Group's external customers; and

– Shipping transportation segment, which provides shipping transportation to inter-group companies and external customers through chartering out vessels under time charter and voyage charter.

The table below presents, for the periods indicated, the Group's turnover, gross profit and net profit in terms of amount and as a percentage of its total turnover, as well as the compound annual growth rate from 2006 to 2008.

	Year ended 31 December						
	2006		2007		2008		
	Amount	Percentage to total turnover	Amount	Percentage to total turnover	Amount	Percentage to total turnover	CAGR (2006-2008)
	(RMB in thousands, except percentage data)						
Turnover							
– Coal operation	2,824,382	99.1	3,553,185	97.0	4,050,170	96.6	19.7%
– Shipping transportation	26,107	0.9	111,447	3.0	142,314	3.4	133.5%
Total	2,850,489	100.0	3,664,632	100.0	4,192,484	100.0	21.3%
Gross profit	235,618	8.3	571,394	15.6	559,916	13.4	54.2%
Net profit	52,850	1.9	207,251	5.7	330,690	7.9	150.1%

The Group's total turnover increased by 28.6% from approximately RMB2,850.5 million in 2006 to approximately RMB3,664.6 million in 2007, and by further 14.4% to approximately RMB4,192.5 million in 2008.

The Group's gross profit increased by 142.5% from approximately RMB235.6 million in 2006 to approximately RMB571.4 million in 2007 and decreased by 2.0% to approximately RMB559.9 million in 2008.

The Group's net profit increased by 292.1% in 2007 and 59.6% in 2008.

Profit and loss items expressed as percentage of turnover

	Year ended 31 December					
	2006		2007		2008	
	RMB'000	*% of Turnover*	*RMB'000*	*% of Turnover*	*RMB'000*	*% of Turnover*
Turnover						
– Coal operation	2,824,382	99.1	3,553,185	97.0	4,050,170	96.6
– Shipping Transportation	26,107	0.9	111,447	3.0	142,314	3.4
Total turnover	2,850,489	100.0	3,664,632	100.0	4,192,484	100.0
Cost of sales	(2,614,871)	91.7	(3,093,238)	84.4	(3,632,568)	86.6
Gross profit	235,618	8.3	571,394	15.6	559,916	13.4
Other income	14,068	0.5	5,026	0.1	101,203	2.4
Distribution expenses	(143,128)	5.0	(253,809)	6.9	(155,850)	3.7
Administrative expenses	(22,157)	0.8	(42,833)	1.2	(59,579)	1.4
Other expenses	(21)	0.0	(1,270)	0.0	(1,814)	0.0
Profit from operations	84,380	3.0	278,508	7.6	443,876	10.6
Finance income	5,984	0.2	11,419	0.3	15,733	0.4
Finance expenses	(23,682)	0.8	(41,611)	1.1	(64,310)	1.5
Net financing costs	(17,698)	0.6	(30,192)	0.8	(48,577)	1.2
Profit before income tax	66,682	2.3	248,316	6.8	395,299	9.4
Income tax expense	(13,832)	0.5	(41,065)	1.1	(64,609)	1.5
Net profit	52,850	1.9	207,251	5.7	330,690	7.9

(II) Basis of Presentation

The Group's financial information has been prepared as a combination of business under common control. The Group's financial information presents its results of operations as if it had been in existence in current form as at 1 January 2006. Although the Company is not the equity holder of China Qinfa Group, the Company, through Qinfa Logistics, ultimately and effectively controls the financial and operating activities of China Qinfa Group through the Structure Contracts. Taking into account that (i) Qinfa Logistics is entitled to substantially all of the operating profit generated by China Qinfa Group; and (ii) China Qinfa Group are in essence controlled by Qinfa Logistics under the Structure Contracts, the Company regards China Qinfa Group as its indirect subsidiaries, notwithstanding the lack of equity ownership.

As Hong Kong Qinfa Group and China Qinfa Group were ultimately controlled by the same group of parties before and after the formation of the Group, the financial information is thereby prepared using the principles of pooling of interest to present the Group's combined results, combined changes in equity, combined cash flows and combined financial positions as if the current group structure had been in existence on 1 January 2006, the beginning of the earliest Track Record Period presented.

The Accountants' Report, as included as Appendix I to this document, has been prepared in accordance with the International Financial Report Standards ("IFRSs"), which includes the International Accounting Standards ("IAS") and its related interpretations, promulgated by the International Accounting Standard Board.

The current IFRSs do not have guidance on accounting treatment for common control combination. However, according to paragraphs 10 to 12 of IAS 8 "Accounting policies, changes in accounting estimates and errors", the Directors have adopted merger accounting to account for the common control combination with reference to Accounting Guideline 5 ("AG5").

(III) Factors affecting the Group's results of operations and financial condition

The Group's results of operations are affected by a number of external factors. The Group's combined financial statements may not be indicative of its future earnings, cash flows or financial position for numerous reasons, including those described below.

Average selling prices and average purchase prices of coal products

The Group derives most of its turnover from sales of thermal coal to customers in the PRC. The average selling prices and average purchase prices of the Group's coal during the Track Record Period, the first quarter of 2009, April 2009 and May 2009 are as follows:

	Year ended 31 December			**First quarter of**	**April**	**May**
	2006	**2007**	**2008**	**2009**	**2009**	**2009**
The average selling price *(RMB per tonne)*	392	443	646	[432]	[453]	[●]
The average purchase price *(RMB per tonne)*	305	310	514	[440]	[377]	[●]
Total sales volume *('000 tonnes)*	7,206	8,023	6,274	264	274	[●]

Coal is a kind of commodity when the price of which is principally affected by supply and demand factors. The coal markets tend to be cyclical. Historically, the PRC coal markets have from time to time experienced increased demand resulting a boost in price, followed by periods of excess supply resulting decline in price. The group generally determines the selling price of coal according to the following factors:

– demand and supply in coal markets;

– specification of coal;

– sales volume; and

– length and stability of relationship with customer

PRC domestic coal prices have been mainly market-driven since 2002, when the PRC government eliminated the price control measures for coal used in electric power generation.

In the first quarter of 2009, the Group's average selling price amounted to RMB[432] per tonne, down from approximately RMB646 per tonne in 2008. Such decrease was mainly attributable to the overall continuous decrease in the Qinhuangdao Benchmark Coal Spot Prices during the period between July 2008 and March 2009, as a result of (i) the rising coal inventory in Qinhuangdao port; and (ii) decreasing coal demand from power plants during the period.

Although the prevailing financial crisis affected China's coal demand in the second half of 2008 and the first quarter of 2009, the coal inventory in Qinhuangdao port declined significantly since March 2009, as there was a clear sign of reviving coal demand following economic improvement. As a result, the Group's average selling prices of coal gradually increased by approximately [13.3]% from approximately RMB[400] per tonne in January 2009 to approximately RMB[453] per tonne in April 2009.

The Group's average monthly purchase price in April 2009 was approximately RMB377 per tonne, compared with the average monthly purchase price of approximately RMB440 per tonne during the three months ended 31 March 2009. Such fall in average monthly purchase price in April 2009 was mainly due to the Group purchased a large amount of lower-priced coal in April 2009 for coal blending purpose.

Please refer to the section headed "Business – III. Pricing – B. Sales Prices" of this document for details of the Group's sales price and the price trends of coal in the PRC.

Sales volume of coal

The sales volume of the Group's coal products increased by approximately 11.1% from approximately 7.2 million tonnes in 2006 to approximately 8.0 million tonnes in 2007, and decreased by approximately 21.3% to approximately 6.3 million tonnes in 2008.

During the four months ended 30 April 2009, the total sales volume of the Group amounted to approximately [538,000] tonnes, representing a decrease of approximately [78.9]% from approximately [2.55 million] tonnes during the same period in 2008. Such decrease was mainly attributable to the cautious coal purchase plan of the Group's customers in the power plant industry during the first quarter of 2009 as the negotiations between stated-owned power plants and state-owned coal suppliers on the pricing terms of inside plan term contracts (計劃內合同) were locked in stalemate during the same period. In addition, the coal demand from the Group's customers were also negatively affected by the slackening industrial production growth in China.

Starting from 1 April 2009, the total coal trading volume of the Group has significantly increased as compared to the three months ended 31 March 2009. The Group's total coal trading volume in April 2009 amounted to approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. The rise in the Group's sales volume in April 2009 was mainly due to the improvement in the coal demand from the Group's customer as the positive effect of the RMB4 trillion government stimulus package has gradually emerged in April 2009.

The Group's coal sales volume is largely dependent upon the demand for its coal and its ability to meet such demand which is affected by the Group's financial resources, coal procurement and coal transportation capacity. As (i) large amount of capital is involved for each shipment of the Group's coal procurement from domestic and overseas suppliers; and (ii) it may take up to several weeks for the Group to deliver its coal products from the coal-sourcing regions to the Group's customers, the scale of the Group's coal trading volume is limited by its working capital and banking facilities granted by its banks.

The Group generally uses the national railway system to transport coal sourced in China to Qinhuangdao port. It, however, may be affected by the availability of sufficient transportation capacity on the national railway system allocated to the Group.

To meet the increasing demand for coal in China, the Group will maintain and develop business relationships with existing and potential coal suppliers in China and overseas coal producing countries. In addition, the Group plans to further expand its coal transportation capacity by establishment of a new coal loading station in Shanxi.

Purchase volume of coal and cost of coal

To meet the increasing demand for coal in China, the purchase volume of the Group's coal increased by approximately 5.0% from approximately 8.0 million tonnes in 2006 to approximately 8.4 million tonnes in 2007, and decreased by approximately [35.7]% to approximately [5.4] million tonnes in 2008, due to the decrease in the sales of coal and the Group's decision to reduce its coal inventory level during the second half of 2008. 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 reduce its coal inventory level in order to minimise its inventory risk.

Cost of sales primarily comprises cost of coal, representing approximately 82.8%, 76.0% and 85.4% of the total cost of sales for the three years ended 31 December 2008. Therefore, the Group's ability to procure coal at a competitive price is material to its results of operations.

To minimise its cost of coal, 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 on the Group's coal storage facilities, the Group is capable to accumulate sizable amount of coal inventory to mitigate the risk factor of price fluctuations.

In addition, the Group's coal blending capacity enables it to lower its coal purchase prices and to 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 the customers' requirement and at the same time to manage the Group's coal purchase cost.

Fluctuations in charterhire rates

In recent years, global and Asian economic growth have prompted a rise in demand for raw materials and bulk goods. The Group's shipping transportation turnover is affected by the charterhire rates available for the Group's vessels, which, in turn, directly depend on the global and regional economies and the general volume of international trade as well as the volume of imports and exports of bulk commodities, such as grain and coal, to and from countries in the Asia-Pacific region, particularly China. Changes in economic conditions and the level of business activity within China, the rest of the Asia-Pacific region, the United States and the other principal trading regions will continue to affect the demand for bulkcarriers and the charterhire rates available for such vessels and, consequently, the Group's results of operations. Further information on the shipping transportation is set out in "Industry Overview" of this document.

Cyclicality of shipping industry

The Group generates shipping transportation turnover from charterhire income. Historically, the shipping transportation industry has been cyclical and it has experienced volatility in charterhire rates, profitability and asset values due to changes in the supply and demand for shipping capacity and changes in the global demand for dry bulk cargo, such as coal and grains. Due to such cyclicality, the Group has in the past experienced fluctuations in charterhire rates and operating results.

In addition to the market forces of demand, the available supply of vessel capacity also affects the Group's charterhire rates. Vessel values are subject to the forces of supply and demand for shipping capacity. Vessel values tend to rise when potential purchasers of vessels can expect to earn a higher return on an investment in a vessel, particularly in times of relatively high demand for vessel capacity and relatively low supply of vessel capacity.

Anticipated capital expenditures

The Group intends to spend approximately RMB[1,000.0] million as capital expenditures in 2009 and 2010, primarily to expand the Group's new coal loading stations and Zhuhai Terminal.

The costs associated with these expansion and construction plans and the expected turnover to be derived from them could have a significant impact on the Group's future combined financial statements.

Impact of the recent financial crisis on the Group

Since September 2008, there was deterioration in the global financial markets, the global economies and the demand of energy products, including coal products. With most of the developed countries going into recession and many emerging economies slowing down sharply, it is expected that the PRC economy will cool down as exports to America and Europe are rapidly softening. As a result of the slowing economic growth and slackening industrial production growth, the rising coal inventory in Qinhuangdao port and the implementation of the inside plan term contracts (計劃內合同) between stated-owned power plants and state-owned coal suppliers on the pricing terms during the first quarter of 2009, the demand and the selling prices for thermal coal in China were affected negatively in the first quarter of 2009. Under such circumstances, the selling prices and the demand for coal from the Group's customers were also affected.

As of the Latest Practicable Date, the Group had neither received any notification from its business counterparties that they intended to cancel any confirmed orders, nor the Group was aware of any of its coal operation counterparties were going to bankruptcy proceedings or default on any payment obligations. However, the Group experienced a significant drop in revenue for the four months ended 30 April 2009 due to the fact that because of the global financial crisis in 2009, the Group's customers in the power plant industry were still cautious about their coal purchase plan as the negotiations between stated-owned power plants and state-owned coal suppliers on the pricing terms of inside plan term contracts (計劃內合同) were locked in stalemate during the same period. In addition, the coal demand from the Group's customers were also negatively affected by the slackening industrial production growth in China.

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

In addition, the Group's average selling prices of coal amounted to approximately [RMB437] per tonne during the four months ended 30 April 2009, down (i) 17.1% from the same period in 2008 (approximately [RMB527] per tonne); and (ii) [48.2]% from the peak in [September] 2008 (approximately [RMB[844] per tonne).

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

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

However, starting from 1 April 2009, the coal trading volume of the Group has significantly increased as compared to the three months ended 31 March 2009. The Group's coal trading volume in April 2009 amounted to approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. In addition, the Group's average selling prices of coal increased by approximately [13.3]% from approximately RMB[400] per tonne in January 2009 to approximately RMB[453] per tonne in April 2009. As a result of the increase in the Group's coal trading volume and average selling prices in April 2009, the Group recorded sufficient net profit in April 2009 to cover almost all of the accumulated loss incurred during the three months ended 31 March 2009.

The average monthly trading volume and average selling price of coal for each of the Track Record Period, and the average monthly trading volume and average selling price of coal for the first quarter of 2009, April 2009 and May 2009 are set out as follows:

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

Apart from affecting the global demand on energy products, the global financial crisis also resulted in global credit tightening and the deteriorating situation exacerbates the liquidity and credit crunch. This unexpected liquidity and credit crunch has affected not only the banking and financial sectors, but also the commercial sectors relying on the availability of banking facilities and bank borrowings. The Directors confirm that the Group has not received any notification from its principal bankers regarding potential withdrawal of the above banking facilities, early payment of outstanding bank borrowings, request for increase in the amount of pledges for secured bank borrowings as a result of the financial crisis in 2008. Also, as of the Latest Practicable Date, the Group has neither encountered major difficulties in securing and/ or renewing bank borrowings, nor being charged an exceptionally high interest rate on the bank borrowings. In addition, the credit facilities currently available to the Group would not be tightened nor cancelled as a result of the unfavourable financial results of the Group during the first quarter of 2009, in accordance with terms and conditions of the relevant bank loan agreements of the Group. However, in the event that the available limit of the credit facilities is reduced or any of the credit facilities are withdrawn by its major bankers, and the Group cannot arrange credit facilities with other financial institutions on a timely basis, it may adversely affect the Group's cash-flow, business operation and profitability.

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

(IV) Critical Accounting Policies

The Group has identified certain accounting policies that are significant to the preparation of the Group's financial information. The Group's principal accounting policies, which are important for an understanding of the Group's financial condition and results of operation, are set forth in detail in Note 1 of part C to the Group's financial information included in Appendix I to this document. Some of the Group's accounting policies involve assumptions and estimates, as well as complex judgments relating to relevant income statement and balance sheet items. In each case, the determination of these items requires management judgments based on information and financial data that may change in future periods. When reviewing the Group's financial statements, you should consider (i) the Group's selection of critical accounting policies; (ii) the judgment and other uncertainties affecting the application of such policies; and (iii) the sensitivity of reported results to changes in conditions and assumptions. The Group set forth below those accounting policies that the Group believes involve the most significant estimates and judgments used in the preparation of the Group's financial information.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventory is computed using the weighted average method and includes expenditure incurred in acquiring the inventories to bring them to their existing location and conditions. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and selling expenses. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In making the judgment, the Director considers detailed procedures which have been in place to monitor this risks as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant consumers and report on the recoverability, specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, the Directors are satisfied that this risk is minimal and no allowance for doubtful debts on trade and bill receivables were provided for the Track Record Period.

(V) Principal Income Statement Items

Turnover

During the Track Record Period, the Group's turnover was primarily generated from coal operation and shipping transportation. The following table sets out the Group's turnover breakdown by business segments during the Track Record Period:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
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

Cost of sales

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. The following table sets out the Group's cost of sales during the Track Record Period:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Cost of coal	2,164,026	2,351,780	3,102,831
Cost of coal transportation	389,256	639,672	384,108
Government fee	20,413	65,496	31,596
Depreciation expense for vessels	12,274	11,713	32,469
Fuel and utilities	19,301	13,371	57,262
Expense for hiring of crews and seafarers	3,746	4,138	10,082
Maintenance expense for vessels	699	1,759	7,565
Others *(Note)*	5,156	5,309	6,655
Total	2,614,871	3,093,238	3,632,568

Note: It mainly consists of (i) rental expense for coal loading station located in Yangyuan; (ii) trading staff costs for coal loading stations located in Yangyuan and Datong; and (iii) depreciation & amortisation for coal loading station located in Datong.

The Group's cost of coal transportation decreased by approximately 40.0% from approximately RMB639.7 million in 2007 to approximately RMB384.1 million in 2008. Such decrease was mainly attributable to a decrease in the volume of coal traded by the Group, partially offset by the moderately increase in the unit coal transportation cost by approximately 4.5% from approximately RMB85.3 per tonne in 2007 to approximately RMB89.1 per tonne in 2008.

Government grants

For the three years ended 31 December 2008, Yangyuan Guotong, a subsidiary of the Group, received unconditional non-recurring grants of approximately RMB5.87 million, RMB4.37 million and RMB[3.23] million, respectively, from local government as encouragement of its development and contribution to Yangyuan. To the best knowledge of the Directors, the local government has discretionary power in deciding the criteria and amounts of the grant according to its unpublished policy. Therefore, the Group is not required to satisfy certain obligations for obtaining such grants, and there is no assurance that the Group will continue to be awarded such government grants in future. Such government grants are not exclusive to the Group.

Distribution expenses

Distribution expenses are composed primarily of port service fee, transportation cost, travelling expense, ship insurance fee and inspection fee.

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Port service fee	91,698	123,811	106,446
Transportation cost	44,297	120,199	33,598
Travelling expense	1,553	1,504	1,609
Ship insurance fee	1,992	4,601	4,420
Inspection fee	1,341	1,187	2,640
Others *(Note)*	2,247	2,507	7,137
Total	143,128	253,809	155,850

Note: It mainly consists of (i) expenses for spare parts of vessels; (ii) commission; and (iii) repairs and maintenance.

Administrative expenses

Administrative expenses are composed primarily of depreciation and amortisation, professional fee, personnel costs, entertainment expenses, office expenses, bad debt provision for non-trade receivables and travelling expense.

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Depreciation and amortisation	2,550	3,852	4,987
Professional fee	2,410	4,576	2,522
Personnel costs	2,957	12,220	16,498
Entertainment expenses	3,806	7,135	8,088
Bad debt provision for non-trade receivables	1,383	–	–
Travelling expense	2,362	4,124	6,215
Office expense	2,510	2,762	7,511
Others *(Note)*	4,179	8,164	13,758
Total	22,157	42,833	59,579

Note: It mainly consists of (i) offices rental expense; (ii) payments for stamp duties; and (iii) other sundry expense, including expenses for utility, cleaning, insurance and education.

Taking into account that the aging of the Group's accounts receivable balance was over 3 years and the Directors were of the view that the counter-parties were unable to make the repayment, the Group made bad debt provision for non-trade receivables of approximately RMB1.4 million in 2006.

Finance costs

Finance costs mainly represented interest in respect of bank borrowings and shareholder's loan, bank charges and foreign exchange gain and loss.

Taxation

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any tax in the Cayman Islands and British Virgin Islands.

The provision for PRC enterprise income tax was, for the years ended 31 December 2006 and 2007, based on a statutory rate of 33% of the assessable profits of subsidiaries which carried on businesses in the PRC, except for the subsidiaries carried on businesses in the Zhuhai which were entitled to a preferential income tax rate of 15% according to the "Foreign Invested Enterprise and Foreign Enterprise Income Tax Law". The PRC subsidiaries entitled to the preferential income tax rate are Zhuhai Qinfa Trading and Zhuhai Qinfa Shipping. As confirmed by the PRC Legal Advisers, such preferential tax treatments were in compliance with the PRC tax laws.

No provision for Hong Kong profits tax has been made for the subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Tax Profits during the Track Record Period.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which took effect on 1 January 2008. As a result of the new tax law, the income tax rate applicable to the China Qinfa Group has been unified to 25% since 1 January 2008. Deferred tax is recognised based on the tax rates that are expected to apply to the period when the liability is settled. The new tax law has been applied when measuring the Group's deferred tax assets as at 31 December 2007. The balances of deferred tax assets changed as a result of the change of the applicable tax rate. The balance changes of the deferred tax assets are reflected in the combined financial statements.

Based on the relevant China tax laws, Qinfa Trading could potentially be deemed to have an establishment in China.

Under the new tax law, an enterprise established offshore but having its management organ in China as be considered as a "resident enterprise" which will be subject to PRC tax on its global income.

(VI) Management's Discussion and Analysis of Results of Operation

(A) Selected profit and loss data

The following table shows the combined income statements of the Group for the Track Record Period, prepared on the basis that the current Group structure had been in place throughout the Track Record Period. This summary is extracted from, and should be read in conjunction with the Accountants' Report, the text of which is set forth 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 turnover	2,850,489	3,664,632	4,192,484
Cost of sales	(2,614,871)	(3,093,238)	(3,632,568)
Gross profit	235,618	571,394	559,916
Other income	14,068	5,026	101,203
Distribution expenses	(143,128)	(253,809)	(155,850)
Administrative expenses	(22,157)	(42,833)	(59,579)
Other expenses	(21)	(1,270)	(1,814)
Profit from operations	84,380	278,508	443,876
Finance income	5,984	11,419	15,733
Finance expenses	(23,682)	(41,611)	(64,310)
Net financing costs	(17,698)	(30,192)	(48,577)
Profit before income tax	66,682	248,316	395,299
Income tax expense	(13,832)	(41,065)	(64,609)
Net Profit	52,850	207,251	330,690
Attributable to:			
Equity holders of the Company	51,802	207,251	330,690
Minority interests	1,048	–	–
Dividends attributable to the year			
Dividends declared during the year	–	–	120,341
Earnings per Share			
Basic earnings per Share (RMB) *(Note)*	[0.07]	[0.28]	[0.44]

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

(B) Management's discussion and analysis

(i) Comparison of the Group's results for the year ended 31 December 2008 and the year ended 31 December 2007

Turnover

In 2008, the Group's total turnover amounted to approximately RMB4,192.5 million, representing an increase of approximately RMB527.9 million, or 14.4%, from approximately RMB3,664.6 million in 2007. Such increase was mainly attributable to the robust performance of the Group's coal operation and shipping transportation.

– The Group's coal operation turnover increased by approximately 14.0% from approximately RMB3,553.2 million in 2007 to approximately RMB4,050.2 million in 2008. The growth in the Group's coal operation turnover was mainly driven by the rising average selling prices in 2008. In 2008, the average selling price of the Group's coal amounted to approximately RMB[646] per tonne, representing an increase of approximately [45.8]% from approximately RMB443 per tonne in 2007, respectively, which reflected tightening supply of coal during the first half of 2008. However, the impact of the rising average selling price was partially offset by the decrease in the coal trading volume of the Group during the same period. The decrease in the Group's coal trading volume in 2008 was mainly attributable to (i) slowing economic growth and slackening industrial production growth; (ii) the rising coal inventory in Qinhuangdao port; and (iii) the cautious coal purchase plan of the Group's customers in the power plant industry in the fourth quarter of 2008.

– The Group's shipping transportation turnover increased by approximately 27.7% from approximately RMB111.4 million in 2007 to approximately RMB142.3 million in 2008. The growth in the shipping transportation turnover of the Group mainly came from the charter hire income from the re-chartered vessels since the second quarter of 2007 and the commencement of operation of QINFA 2, MV QINFA 8 and MV QINFA 9 in 2008.

Cost of Sales and Gross Profit

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

In 2008, the Group's cost of sales amounted to approximately RMB3,632.6 million, representing an increase of approximately RMB539.3 million, or 17.4%, from approximately RMB3,093.2 million in 2007. The increase was primarily due to the increase in cost of coal. In 2008, the Group's cost of coal amounted to approximately RMB[3,102.8] million, representing an increase of approximately RMB[751.1] million, or [31.9]%, from approximately RMB2,351.8 million in 31 December 2007 due to the tightening supply of coal in the first half of 2008.

As a result of the foregoing, in particular, the selling prices and demand of coal products from the Group's customers has been affected by (i) slowing economic growth and slackening industrial production growth; (ii) the rising coal inventory in Qinhuangdao port and (iii) the cautious coal purchase plan of the Group's customers in the power plant industry in the fourth quarter of 2008, the Group's gross profit in 2008 was approximately RMB559.9 million, representing a decrease of approximately RMB11.5 million, or 2.0%, from approximately RMB571.4 million in 2007. The Group's gross profit margin decreased from 15.6% in 2007 to 13.4% in 2008.

Other Income

The Group's other income in 2008 were approximately RMB101.2 million, representing an increase of approximately RMB96.2 million, or 1,913.6%, from approximately RMB5.0 million in 2007. Such increase was mainly due to the gain of approximately RMB97.1 million from disposal of available-for-sale financial assets.

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 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 May 2006 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 for approximately 10.2% 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.

Distribution Expenses

The Group's distribution expenses in 2008 were approximately RMB155.9 million, representing a decrease of approximately RMB97.9 million, or 38.6%, from approximately RMB253.8 million in 2007. Such decrease was mainly due to the decrease in transportation cost as a result of the fall in the Group's coal trading volume and unit transportation cost during the same period in 2008.

Administrative Expenses

The Group's administrative expenses in 2008 were approximately RMB59.6 million, representing an increase of approximately RMB16.8 million, or 39.1%, from approximately RMB42.8 million in 2007. Such increase was primarily attributable to the substantial increase its staff costs and office expense.

The Group's wages, salaries and other benefits increased from approximately RMB14.9 million in 2007 to approximately RMB18.7 million in 2008. Such increase in staff costs was mainly attributable to (i) the increase in the number of the Group's employees in 2008; and (ii) as upward adjustment in the salaries of the Group's staff. The number of the Group's employees increased by approximately 8.1% from 321 as of 31 December 2007 to 347 as of 31 December 2008 as a result of the expansion of the Group business.

As a result of the opening of office at Guangzhou in June 2007, around 40 employees were re-deployed by the Group from Qinhuangdao to Guangzhou and Zhuhai. As the living standard in Guangzhou was higher than that in Qinhuangdao, the Group raised the salary of those re-deployed staff in order to compensate for their higher living costs in Guangzhou and Zhuhai.

In 2008, the Group's office expense amounted to approximately RMB7.5 million, representing an increased approximately RMB4.7 million, or 171.9%, from approximately RMB2.8 million in 2007. Such increase was mainly due to the technical management fees paid to Wallem for the provision of technical management services for MV QINFA 8, MV QINFA 9 and MV QINFA 10.

Finance Expenses

In 2008, the Group's finance expenses amounted to approximately RMB64.3 million, representing an increase of approximately RMB22.7 million, or 54.6%, from approximately RMB41.6 million in 2007. Such increase was mainly due to the increase in outstanding amount of interest-bearing borrowings.

Profit Before Income Tax

As a result of the above, the Group's profit before income tax in 2008 was approximately RMB395.3 million, representing an increase of approximately RMB147.0 million, or 59.2%, from approximately RMB248.3 million in 2007.

Income Tax Expense

[The Group's income tax expense in 2008 was approximately RMB64.6 million, representing an increase of approximately RMB23.5 million, or 57.3%, from approximately RMB41.1 million in 2007, which was in line with the increase in the Group's profit before tax during the same period. The Group's effective income tax rate was 16.5% in 2007 and 16.3% in 2008.

Net Profit for the Year

As a result of the above, the Group's net profit in 2008 was approximately RMB330.7 million, representing an increase of approximately RMB123.4 million, or 59.6%, from approximately RMB207.3 million in 2007. The Group's net profit margin was 7.9% in 2008 and 5.7% in 2007.

The increase in the net profit and net profit margin in 2008 was mainly attributable to (i) the increase in the Group's other income from approximately RMB5 million in 2007 to approximately RMB101.2 million in 2008 as a result of the gain from disposal of its equity investment in Millennium Mine in August 2008; and (ii) the decrease in the Group's distribution expenses from approximately RMB253.8 million in 2007 to approximately RMB155.9 million in 2008 as a result of the fall in the Group's coal trading volume and unit transportation cost, partially offset by the moderately decrease in the Group's gross profit in 2008.

(ii) Comparison of the Group's results for the year ended 31 December 2007 and the year ended 31 December 2006

Turnover

In 2007, the Group's total turnover amounted to approximately RMB3,664.6 million, representing an increase of approximately RMB814.1 million, or 28.6%, from approximately RMB2,850.5 million in 2006. Such increase was mainly attributable to the robust performance of the Group's coal operation and shipping transportation.

– The Group's coal operation turnover increased by approximately 25.8% from approximately RMB2,824.4 million in 2006 to approximately RMB3,553.2 million in 2007. The growth in the Group's coal operation turnover was mainly driven by the increase in both sales volume and average selling price in 2007. During the year ended 31 December 2007, the Group's coal sales volume and average selling price amounted to approximately 8.0 million tonnes and RMB443/tonne, representing an increase of approximately 11.3% and 13.0% from the year ended 31 December 2006, respectively, which reflected (i) an increase in coal consumption resulting from overall economic growth in the PRC; and (ii) strong market demand for the Group's coal products.

– The Group's shipping transportation turnover increased significantly by approximately 326.9% from approximately RMB26.1 million in 2006 to approximately RMB111.4 million in 2007. The growth in the shipping transportation turnover of the Group mainly came from its self-owned vessel chartered out to an Independent Third Party since the third quarter of 2006. In addition, the Group commenced to charter three dry bulk vessels for coal transportation as well as re-chartering such vessels to Independent Third Parties. Moreover, the overall charter hire rate was higher than that in 2006.

Cost of Sales and Gross Profit

In 2007, the Group's cost of sales amounted to approximately RMB3,093.2 million, representing an increase of approximately RMB478.4 million, or 18.3%, from approximately RMB2,614.9 million in 2006. Such increase was primarily due to the increases in (i) cost of coal; and (ii) cost of coal transportation.

– In 2007, the Group's cost of coal amounted to approximately RMB2,351.8 million, representing an increase of approximately RMB187.8 million, or 8.7%, from approximately RMB2,164.0 million in 2006. Such increase was primarily due to the increase in the Group's sales volume of coal products, partially offset by the Group's improved operating efficiency arising from its integrated coal transportation platforms. Leveraging on the Group's coal storage facilities in Datong, Yangyuan, Guangzhou and Qinhuangdao, the Group is capable to accumulate sizable amount of coal inventory when the coal prices are negatively affected by seasonal fluctuations. It allows the Group to control its cost of coal effectively.

– The Group's costs of coal transportation in 2007 was approximately RMB639.7 million, representing an increase of approximately RMB250.4 million, or 64.3%, from approximately RMB389.3 million in 2006, as a result of (i) increased volume of coal products transported by the Group; and (ii) the increase in seafreight fee rate associated with transportation of coal from Qinhuangdao port to Guangzhou port.

As a result of the foregoing, the Group's gross profit in 2007 was approximately RMB571.4 million, representing an increase of approximately RMB335.8 million, or 142.5%, from approximately RMB235.6 million in 2006. The Group's gross profit margin increased from 8.3% in 2006 to 15.6% in 2007. The increase in the Group's gross profit and gross profit margin was primarily due to (i) the increase in selling price of coal in 2007 by approximately [13%] and (ii) the management of the Group had foreseen that there would be a continuous strong demand for coal from their customers and the increase in market price of coal. In order to reduce the overall cost of coal, the Group had strategically increased the inventory level since the beginning of 2007. In addition, the Group increased the purchase of coal from the coal mine operators and coal traders in Vietnam and domestic market, of which their average selling prices are lower as compared to the coal purchased in Australia. As such, the Group was able to maintain the unit cost of coal at similar level as in 2006 and (iii) the significant increase in turnover from the shipping transportation, which has higher gross profit margin than that of coal operation. The Group's shipping transportation turnover increased by 326.9%, or approximately RMB85.3 million, from approximately RMB26.1 million in 2006 to approximately RMB111.4 million in 2007.

Distribution Expenses

The Group's distribution expenses in 2007 were approximately RMB253.8 million, representing an increase of approximately RMB110.7 million, or 77.3%, from approximately RMB143.1 million in 2006. Such increase was mainly due to an increase in transportation cost and port service fee paid by the Group in 2007 as a result of the Groups increase in storage of coal in Guangzhou port for medium-sized and small-sized customers in Guangdong Province.

Administrative Expenses

The Group's administrative expenses in 2007 were approximately RMB42.8 million, representing an increase of approximately RMB20.6 million, or 93.3%, from approximately RMB22.2 million in 2006. Such increase was primarily attributable to (i) the professional for incurred for the purchase of two vessels; and (ii) the substantial increase the Group's staff costs from 2006 to 2007. The Group's wages, salaries and other benefits increased from approximately RMB3.9 million in 2006 to approximately RMB14.9 million in 2007. Such increase in staff costs was mainly attributable to (i) the increase in the number of the Group's employees in 2007; and (ii) an upward adjustment in the salaries of the Group's staff.

The number of the Group's employees increased by approximately 18.5% from 271 as of 31 December 2006 to 321 as of 31 December 2007 as a result of the expansion of the Group business.

As a result of the opening of office at Guangzhou in June 2007, around [40] employees were re-deployed by the Group from Qinhuangdao to Guangzhou and Zhuhai. As the living standard in Guangzhou was higher than that in Qinhuangdao, the Group raised the salary of those re-deployed staff in order to compensate for their higher living costs in Guangzhou and Zhuhai.

Finance Expenses

In 2007, the Group's finance expenses amounted to approximately RMB41.6 million, representing an increase of approximately RMB17.9 million, or 75.7%, from approximately RMB23.7 million in 2006. Such increase was mainly due to the increase in both outstanding amount of interest-bearing borrowings and the benchmark interest rate of the People's Bank of China.

Profit Before Income Tax

As a result of the above, the Group's profit before income tax in 2007 was approximately RMB248.3 million, representing an increase of approximately RMB181.6 million, or 272.4%, from approximately RMB66.7 million in 2006.

Income Tax Expense

The Group's income tax expense in 2007 was approximately RMB41.1 million, representing an increase of approximately RMB27.2 million, or 196.9%, from approximately RMB13.8 million in 2006, which was in line with the increase in the Group's profit before tax during the same period. The Group's effective income tax rate was 20.7% in 2006 and 16.5% in 2007. The decrease in the Group's effective tax rate from 2006 to 2007 was due to the increased proportion of the Group's coal sales conducted by Zhuhai Qinfa Trading, which was entitled to a preferential income tax rate of 15% in 2007.

Net Profit for the Year

As a result of the above, the Group's net profit in 2007 was approximately RMB207.3 million, representing an increase of approximately RMB154.4 million, or 292.1%, from approximately RMB52.9 million in 2006. The Group's net profit margin was 5.7% in 2007 and 1.9% in 2006.

(VII) Analysis on certain balance sheet items and selected financial ratios

(A) Analysis on certain balance sheet items

	As of 31 December		
	2006	**2007**	**2008**
	RMB million	*RMB million*	*RMB million*
Trade and bill receivables	230.8	259.7	200.6
Other non-trade receivables	22.3	22.4	40.8
Trade and bill payables	138.0	107.6	24.9
Interest-bearing borrowings	490.2	953.2	1,168.9
Amounts due to related parties	60.4	11.1	59.2
Amount due from a related party	57.5	150.3	–
Dividends payable to the equity holder	–	–	45.7
Net current assets	176.8	250.2	51.3
Property, plant and equipment	154.2	553.2	927.7
Available-for-sale financial assets	63.9	100.0	–

(i) Trade and bill receivables

The Group's trade and bill receivables amounted to approximately RMB230.8 million, RMB259.7 million and RMB200.6 million as of 31 December 2006, 2007 and 2008, respectively. The Group usually grants an average credit period of 30 days to customers. As at 31 December 2007, the increase in the Group's trade and bills receivables was mainly attributable to the increase in the

Group's turnover. On the other hand, during the year ended 31 October 2008, the decrease in the Group's trade and bill receivables was primarily due to the request of early settlement by the Group.

To correspond to strict credit policy from the Group's coal suppliers, the Group also tightened its receivable collection policy to reduce its trade and bill receivables since the second half of 2007. Previously, the Group requested most of its customers to pay after the date of bill of lading. Since the second half of 2007, the Group requested its customers to pay when the coal were loaded at the loading ports.

For the details of the Group's trade and bill receivables, please refer to Note 16 to the Accountants' Report as set forth in Appendix I to this document.

(ii) Other non-trade receivables

The Group's other non-trade receivables amounted to approximately RMB22.3 million, RMB22.4 million and RMB40.8 million as of 31 December 2006, 2007 and 2008, respectively. As at 31 December 2008, the increase in the Group's other non-trade receivables was mainly attributable to the increase in the balance of VAT recoverable in the amount of RMB 33 million.

For the details of the Group's other non-trade receivables, please refer to Note 16 to the Accountants' Report as set forth in Appendix I to this document.

(iii) Trade and bill payables

The Group's trade and bill payables amounted to approximately RMB138.0 million, RMB107.6 million and RMB24.9 million as of 31 December 2006, 2007 and 2008, respectively.

The suppliers usually grant a credit period from 0 day to 30 days from the bill of lading to the Group. During the Track Record Period, the Group did not default in any payment to its suppliers.

The decreasing trend in the Group's trade and bill payables during the Track Record Period was mainly attributable to the stricter receivable collection policy adopted by the Group's suppliers.

For the details of the Group's trade and bill payables, please refer to Note 20 to the Accountants' Report as set forth in Appendix I to this document.

(iv) Interest-bearing borrowings

The Group's interest-bearing borrowings amounted to approximately RMB490.2 million, RMB953.2 million and 1,168.9 million as of 31 December 2006, 2007 and 2008, respectively. Such increase was primarily attributable to the increase in the Group's bank borrowings to finance its growing coal business and the acquisition of vessel.

For the details of the Group's interest-bearing borrowings, please refer to Note 19 to the Accountants' Report as set forth in Appendix I to this Document.

(v) Balances with related parties

The Group's amounts due to related parties, which included (i) interest-bearing borrowings charged at an interest rate of LIBOR by a shareholder, amounted to approximately RMB60.4 million, RMB11.1 million and RMB59.2 million as of 31 December 2006, 2007 and 2008, respectively; and (ii) dividends payable to Qinfa Industry of approximately RMB45.7 million as at 31 December 2008. For the details of the Group's amount due to related parties, please refer to Note 26(b) to the Accountants' Report as set forth in Appendix I to this Document.

The Group's amounts due from a related party, which was non interest-bearings in nature, amounted to approximately RMB57.5 million, RMB150.3 million and nil as of 31 December 2006, 2007 and 2008, respectively.

For the details of the Group's amount due from a related party, please refer to Note 26(c) to the Accountants' Report as set forth in Appendix I to this Document.

The balances with related parties owing was fully settled prior to the [●].

As advised by the PRC Legal Advisers, no lending and borrowing of money between corporations in the PRC is allowed under the current PRC laws and regulations. Such transactions shall be conducted through licensed banks and financing corporations. Otherwise, the financing agreements concerned will be nullified. In case disputes arise regarding such kind of financing agreements, the lender can have the principal amount be repaid. However, the right to receive the interest charged or agreed to be charged (the "**Relevant Interest Income**") will not be protected under the PRC laws. In addition, the lender may also be subject to a fine which is equal to one to five times of the Relevant Interest Income. During the Track Record Period, the Group had not recorded interest income in respect of its cash advances to Qinfa Industry. [Nevertheless, the Controlling Shareholders have jointly and severally undertaken to indemnify the Group for any potential losses or damages arising from such cash advances made.]

The cash advances made by the Group to Qinfa Industry were to finance the working capital and capital expenditure for the hotel operation of Qinfa Industry during the Track Record Period.

The cash advances to Qinfa Industry have been properly approved by the general manager of finance department and directors of the China Qinfa Group, and have been properly documented. All of the above cash advances had been settled in August 2008 by the dividends from Qinhuangdao Trading to Qinfa Industry.

In order to ensure compliance with applicable PRC laws and regulations and to avoid any subsequent non-compliance issues, the Group will implement relevant measures as internal guidelines to improve compliance issues and the Group's corporate governance in general upon the [●]. Please refer to section headed "Regulations relating to the industry – Regulatory compliance" for the details of the Group's proposed internal guidelines.

(vi) Dividends payable to the equity holder

The Group's dividends payable to the equity holder amounted to nil, nil and approximately RMB45.7 million as of 31 December 2006, 2007 and 2008, respectively. Pursuant to the resolution passed at the shareholders' meeting of Qinhuangdao Trading held on 1 August 2008, dividends of approximately RMB120.3 million were declared to the shareholder of Qinhuangdao Trading. Such dividends payment [have been] fully settled by the Group before the [●].

Dividends distributed by Qinhuangdao Trading in 2008 was partially settled by the amount due from Qinfa Industry, the controlling shareholder of Qinghuangdao Trading.

(vii) Net current assets

As of 31 December 2006, 2007 and 2008, the Group's net current assets amounted to approximately RMB176.8 million, RMB250.2 million and RMB51.3 million, respectively.

The table below sets out the Group's current assets, current liabilities and net current assets as of 31 December 2008:

	RMB'000
Current assets	
Inventories	77,713
Trade and other receivables	375,558
Pledged deposits	485,425
Cash and cash equivalents	201,499
Total:	*1,140,195*
Current liabilities	
Interest-bearing borrowings	907,266
Trade and other payables	123,995
Income tax payable	57,658
Total:	*1,088,919*
Net current assets	**51,276**

(viii) Property, plant and equipment

The Group's property, plant and equipment amounted to approximately RMB154.2 million, RMB553.2 million and RMB927.7 million as of 31 December 2006, 2007 and 2008, respectively. The significant increase in the Group's property, plant and equipment from 31 December 2006 to 31 December 2008 was primarily attributable to the Group's acquisition of vessel during the same period.

The Group's property, plant and equipment increased significantly from approximately RMB154.2 million as of 31 December 2006 to approximately RMB553.2 million as of 31 December 2007 as a result of the acquisition of vessels (MVQINFA 2, MVQINFA 8 and MVQINFA 9) for modifications and renovations in 2007.

The Group's property, plant and equipment increased from RMB553.2 million as of 31 December 2007 to RMB927.7 million as of 31 December 2008 as a result of the (i) the acquisition of one vessel (MV QINFA 10) at a consideration of approximately RMB213.6 million; (ii) the dry-docking costs for two vessels (MV QINFA 8 and MV QINFA 9) in 2008 amounting to RMB170 million while MV QINFA 8 and MV QINFA 9 were placed in service during the first half of 2008; and (iii) current year's depreciation of RMB38 million.

The commencement dates of operation of MV QINFA 2, MV QINFA 8 and MV QINFA 9 were January 2008, May 2008 and June 2008, respectively.

For the details of the Group's property, plant and equipment, please refer to Note 11 to the Accountants' Report as set forth in Appendix I to this document.

(ix) Available-for-sale financial assets

The Group's available-for-sale financial assets amounted to approximately RMB63.9 million, RMB100.0 million and nil as of 31 December 2006, 2007 and 2008, respectively. It represented the Group's equity interest of approximately 2.3% in Millennium Mine located at the Bowen Basin of Australia in 2004. According to the accounting policies of the Group, such available-for-sale financial assets are stated at fair value which were the estimated amounts that the Group would receive upon the derecognition of investments at the balance sheet dates, taking into account the current market conditions. On 24 July 2008, the Group entered into a share sale agreement with a third party to sell its unlisted equity interest in Millennium Mine at the price of approximately 18,126,000 Australian dollars (equivalent to approximately RMB112,535,000). The share sale agreement was completed on 12 August 2008 and the Group received the payment of the consideration on 12 August 2008. Details of the Group's mining interests in Australia are set out in "Business – Coal mines" of this document.

For the details of the Group's available-for-sale financial assets, please refer to Note 13 to the Accountants' Report as set forth in Appendix I to this document.

During the Track Record Period, the Group had implemented its investment policy focusing on investments which related to the Group's coal business. Upon the [●], the Group will continue to look for investment opportunities in coal-related business with an aim to enhance its investment return and achieve potential business synergies between the Group and such investments.

Ms. WANG Jianfei is responsible to manage and implement the above investment management policy. To ensure the above investment management policy can be strictly implemented, the Board will regularly monitor the cash position and investment decisions of the Group and Ms. WANG is required to seek approvals from the Board when she proceeds any investment decisions. The Board will review the investment management policy of the Group from time to time and adjust the investment policy as and when appropriate.

(B) Key financial ratios

	Year ended 31 December		
	2006	**2007**	**2008**
Inventory turnover days(1)	25 days	41 days	24 days
Trade and bills receivables turnover days(2)	27 days	24 days	20 days
Trade and bills payables turnover days(3)	23 days	14 days	7 days
Gross profit margin			
– Coal operation	7.3%	14.6%	12.3%
– Shipping transportation operation(4)	46.5%	48.8%	29.8%

	As at 31 December		
	2006	**2007**	**2008**
Current ratio(5)	1.22	1.25	1.05
Quick ratio(6)	0.86	0.85	0.98
Gearing ratio(7)	40.9%	49.9%	56.0%

Notes:

1. The calculation of inventory turnover days is based on the average opening and closing inventory balances divided by cost of sales and multiplied by 365 days for the year.

2. The calculation of trade and bills receivables turnover days is based on the average opening and closing trade and bills receivables balances divided by turnover and multiplied by 365 days for the year.

3. The calculation of trade and bills payables turnover days is based on the average opening and closing trade and bills payables balances divided by cost of sales and multiplied by 365 days for the year.

4. Include gross profit generated from the transportation service income from external customers and the Group's coal operation segment.

5. The calculation of current ratio is based on current assets divided by current liabilities.

6. The calculation of Quick ratio is based on the difference between current assets and inventories divided by current liabilities.

7. The calculation of gearing ratio is based on the amount of loans and borrowings divided by total assets and multiplied by 100%.

(i) Inventories and the inventory turnover days

The Group's inventories level stood at approximately RMB286.7 million, RMB404.3 million and approximately RMB77.7 million as of 31 December 2006, 2007 and 2008 respectively.

During the year ended 31 December 2007, the increase in inventory turnover days was due to the forecast of the Group that there would be a continuous strong demand for coal from their customers and the increase in market price, and therefore, the Group had strategically increased its inventory level.

The decrease in the inventory turnover days from 41 days during the year ended 31 December 2007 to 24 days during the year ended 31 December 2008 was mainly attributable to the decrease in the Group's inventory level during the same year. The Group's inventory balance reduced from approximately RMB404.3 million as of 31 December 2007 to approximately RMB77.7 million as of 31 December 2008 as the Group sold a substantial amount of its coal inventory during the year ended 31 December 2008.

During the year ended 31 December 2008, the group made a write-down on inventories of approximately RMB31.0 million write-down due to the substantial decrease in market prices of coal during the first two months of 2009.

Up to [31 March] 2009, the balance of coal inventory as of 31 December 2008 has fully been sold.

(ii) Trade and bills receivables turnover days

The Group's trade and bills receivables turnover days were approximately 27 days, 24 days and 20 days in 2006, 2007 and 2008 respectively. It is the Group's general policy to grant customers a credit period of 0 to 30 days.

The decreasing trend in trade and bills receivables turnover days was a result of the Group's more effective implementation of collection policy. No provision in relation to the trade and bills receivables had been made by the Group during the Track Record Period.

[Up to [31 March] 2009, the trade and bills receivables as at 31 December 2008 have been fully settled.]

(iii) Trade and bills payables turnover days

The Group's trade and bills payables turnover days approximately 23 days, 14 days and 7 days in 2006, 2007 and 2008 respectively. The credit periods granted to the Group by its suppliers range from 0 to 30 days.

The decreasing trend of decrease in trade and bills payables turnover days was a result of the Group's suppliers tightened their collection policy during the Track Record Period.

(iv) Gross profit margin

Coal operation

The Group's coal operation gross profit margin decreased from 14.6% in 2007 to 12.3% in 2008. Such decrease in the Group's coal operation gross profit margin was primarily due to the decrease in average selling price of coal in the second half year in 2008.

The Group's coal operation gross profit margin increased from 7.3% in 2006 to 14.6% in 2007. Such increase in the Group's coal operation gross profit margin was primarily due to (i) the increase in average selling price of coal by approximately 13% as a result of buoyant demand for coal in the PRC in 2007; (ii) the increase in coal inventory since the beginning of 2007 when the coal price was relatively low; and (iii) the Group's ability to source coals of different qualities and specifications from different origins which were of different purchase prices to satisfy the customers' requirement and at the same time to reduce the Group's average coal purchase cost. Through the above cost control measures, the Group's average coal purchase cost only increased by 4.9% in 2007.

Shipping transportation operation

The Group's shipping transportation operation gross profit margin decreased from 48.8% in 2007 to 29.8% in 2008. Such decrease was primarily due to the terminations of time charter contracts of MV Qinfa 6 and MV Qinfa 8 on 11 July 2008 and 13 October 2008, respectively due to the significant drop in market freight rates in the second half of 2008. As of the Latest Practicable Date, Qinfa 6 and Qinfa 8 were used for internal coal transportation and short-term voyage charter.

The gross profit margin of the Group's shipping transportation operation increased from 46.5% in 2006 to 48.8% in 2007 due to the buoyant shipping transportation industry during the year and the higher charter-hire rates. It is evidenced that the Baltic Dry Index (an index tracking movements in the rates for dry bulk shipping) increased to 9,143 points in December 2007 from 4,397 points in December 2006.

(v) Current and quick ratios

The Group's current ratio increased from 1.22 as of 31 December 2006 to 1.25 as of 31 December 2007 was primarily attributable to the increase in inventory in 2007.

The Group's current ratio decreased from 1.25 as of 31 December 2007 to 1.05 as of 31 December 2008. Such decrease was primarily attributable to (i) the increase in the Group's bank borrowings for the acquisition of vessels; and (ii) the decrease in the Group's inventories and trade and other receivables.

The Group's quick ratios were 0.86 and 0.85 as of 31 December 2006 and 2007 respectively. Such decrease was primarily attributable to the increase in inventory.

The Group's quick ratios increased from 0.85 as of 31 December 2007 to 0.98 as of 31 December 2008 as the Group sold a substantial amount of its coal inventory during the second half of 2008.

(vi) Gearing ratios

The gearing ratio increased from 40.9% as of 31 December 2006 to 49.9% as of 31 December 2007 and then further increased to 56.0% as of 31 December 2008 due to primarily the increase in interest-bearing borrowings for its expansion of coal trading operation and vessel acquisitions during the Track Record Period.

(VIII) Capital Structure, Liquidity and Finance Resources

The Group generally finances its operations through, to a substantial extent, operating profit and a combination of borrowing from banks and capital contribution from its shareholders. During the Track Record Period, the Group had not experienced any difficulty in raising funds by bank loans, and the Group had not experienced any liquidity problems in settling the Group's payables in the normal course of business and repaying the Group's bank loans when they were due.

However, the Group's ability to fund working capital needs, repay the Group's indebtedness and finance other obligations depend on the Group's future operating performance and cash flow, which are in turn subject to prevailing economic conditions, the level of spending by the Group's customers and other factors, many of which are beyond the Group's control. Any future significant acquisition or expansion may require additional capital, and the Directors cannot assure that such capital will be available to the Group on acceptable terms, if at all.

The Group had cash and cash equivalents of RMB148.1 million, RMB85.1 million and RMB201.5 million as of 31 December 2006, 2007 and 2008, respectively.

The Group had net current assets of approximately RMB176.8 million, RMB250.2 million and RMB51.3 million as of 31 December 2006, 2007 and 2008, respectively.

The Group's liquidity will primarily depend on the Group's ability to generate cash flow from operations and obtain external financing to meet the Group's debt obligations, as they become due, as well as the Group's future capital expenditures.

(A) Cash flow data

The following table presents selected cash flow data from the Group's combined cash flow statements for the periods indicated:

	Year ended 31 December		
	2006	**2007**	**2008**
	RMB'000	*RMB'000*	*RMB'000*
Net cash generated from/(used in) operating activities	(260,980)	35,808	551,979
Net cash generated from/(used in) investing activities	676	(425,332)	(336,882)
Net cash generated from/(used in) financing activities	280,413	326,271	(99,667)
Net increase/(decrease) in cash and cash equivalents	20,109	(63,253)	115,430

(i) Operating Activities

Net cash inflow from operating activities primarily consists of profit before taxation adjusted for finance cost, depreciation and amortisation and the effect of changes in working capital.

The Group derives its cash inflow from operating activities principally from the receipt of payments for the sale of coal products and charter hire income. The Group's cash outflow from operations mainly includes purchases of coals, as well as for staff costs and selling and distribution costs.

For the year ended 31 December 2008, the Group's net cash inflow from operating activities was approximately RMB552.0 million, primarily as a result of (i) approximately RMB384.7 million profit before changes in working capital; (ii) a decrease of approximately RMB326.6 million in inventories due to the Group's decision to reduce its inventory level during the second half of 2008; and (iii) a decrease of approximately RMB162.0 million in trade and other receivables as a result of the Group's implementation of a more effective collection policy to avoid credit risk; and partially offset by the rise in interest and income tax paid of approximately RMB186.2 million as a result of higher profit and interest-bearing borrowings.

In second half of 2008, the coal price in the PRC market was very volatile. The Qinhuangdao Benchmark Coal Spot Prices (5,500 kcal) were traded within a range from RMB530 per tonne to RMB1,045 per tonne. In response to the exceptional price volatility in PRC coal market, the Group decided to reduce its coal inventory level during the same period. Therefore, the Group recorded a strong cash inflow of approximately RMB326.6 million from the decrease in inventory in 2008. However, the Qinhuangdao Benchmark Coal Spot Prices (5,500 kcal) became stable in March and April 2009 and it was traded within a narrow range from RMB555 per tonne to RMB575 per tonne. As at the Latest Practicable Date, the Group considered that it was appropriate to increase its coal inventory level again in order to satisfy its organic growth in coal trading volume. Therefore, the cash inflow arising from the decrease in the Group's inventory in 2008 may not be recurring in the future.

For the year ended 31 December 2007, the Group's net cash inflow from operating activities was approximately RMB35.8 million, primarily as a result of approximately RMB294.5 million profit before changes in working capital; and offset by (i) an increase of approximately RMB117.5 million in inventories due to the increased volume of coal inventory purchased and stored in the Group's coal storage facilities in Datong, Yangyuan, Guangzhou and Qinhuangdao to meet the increased sales volume of the Group's coal operation; (ii) an increase of approximately RMB77.0 million in trade and other receivables due to the increased sales volume for the Group's coal operation; (iii) interest and income tax paid of approximately RMB47.2 million as a result of higher profit and interest-bearing borrowings; and (iv) a decrease of approximately RMB17.0 million in trade and other payables due to the tightened collection policy effected by suppliers of the Group.

For the year ended 31 December 2006, the Group's net cash outflow used in operating activities was approximately RMB261.0 million, primarily as a result of approximately RMB101.0 million profit before changes in working capital; and offset by (i) an increase of approximately RMB219.9 million in inventories due to the increased volume of coal inventory purchased and stored in the Group's coal storage facilities in Datong, Yangyuan, Guangzhou and Qinhuangdao to meet the increased sales volume of the Group's coal operation; (ii) an increase of approximately RMB73.1 million in trade and other receivables due to the increased sales volume for the Group's coal operation; (iii) a decrease of approximately RMB47.2 million in trade and other payables due to the tightened collection policy effected by the suppliers of the Group; and (iv) interest and income tax paid of approximately RMB21.8 million as a result of higher profit and interest-bearing borrowings.

(ii) Investing Activities

For the year ended 31 December 2008, the Group's net cash used in investing activities was approximately RMB336.9 million, consisting primarily of purchase of property, plant and equipment of approximately RMB456.7 million as a result of the payment for the modification on MV QINFA 6 and alteration on MV QINFA 8, MV QINFA 9 and MV QINFA 10; and partially offset by the proceeds of approximately RMB110.9 million arising from the sale of the Group's unlisted equity investment in Millennium Mine.

For the year ended 31 December 2007, the Group's net cash used in investing activities was approximately RMB425.3 million, consisting primarily of purchase of property, plant and equipment of approximately RMB427.8 million as a result of the payment for the acquisition of MV QINFA 8 and MV QINFA 9.

In the year ended 31 December 2006, the Group's net cash generated from investing activities was approximately RMB0.7 million, consisting primarily of interest received of approximately RMB4.7 million; and substantially offset by purchase of property, plant and equipment of approximately RMB4.1 million due to acquisition of office in Guangzhou.

(iii) Financing Activities

For the year ended 31 December 2008, the Group's net cash used in financing activities was approximately RMB99.7 million consisting primarily of (i) the repayment of interest-bearing borrowings of approximately RMB2,508.9 million; and (ii) the increase in pledged deposits for bank borrowings of approximately RMB339.7 million; and substantially partially offset by the proceeds from interest-bearing borrowings of approximately RMB2,748.5 million.

For the year ended 31 December 2007, the Group's net cash inflow from financing activities was approximately RMB326.3 million consisting primarily of the increase in interest-bearing borrowings of approximately RMB2,599.9 million and the repayment of interest-bearing borrowings of approximately RMB2,136.1 million.

For the year ended 31 December 2006, the Group's net cash inflow from financing activities was approximately RMB280.4 million consisting primarily of the increase in interest-bearing borrowings of approximately RMB1,650.1 million and the repayment of interest-bearing borrowings of approximately RMB1,490.7 million.

(B) Working capital

The Group strives to effectively manage its cash flow and capital commitments and to ensure that it has sufficient funds to meet its existing and future cash requirements. In addition to cash generated from its operations, the Group also seeks bank borrowings to fund its capital requirement. The Group has maintained long-term relationships with various commercial banks in Hong Kong and China and it is believed that the existing short-term bank loans will be accepted for renewal upon their maturity, if necessary. Since the beginning of the global financial crisis, the Group has neither encountered major difficulties in securing and/or renewing bank borrowings, nor being charged an exceptionally high interest rate on the bank borrowings. In addition, the credit facilities currently available to the Group would not be tightened nor cancelled as a result of the unfavourable financial results of the Group during the first quarter of 2009, in accordance with terms and conditions of the relevant bank loan agreements of the Group.

As of 30 April 2009, the date being the latest practicable date for the purpose of the indebtedness statement in this document, the Group's net current assets were approximately RMB[5.1] million, comprising the following:

	RMB('000)
Current assets	
– Inventories	183,163
– Trade and other receivables	321,054
– Pledged deposits	201,680
– Cash and cash equivalents	149,967
Total:	855,864
Current liabilities	
– Interest-bearing borrowings	522,676
– Trade and other payables	328,077
– Income tax payable	–
Total:	850,753
Net current assets	5,111

(C) Quantitative and Qualitative Disclosure about Market Risk

The Group is, in the normal course of business, exposed to market risk such as foreign currencies risk, interest rate risk, commodity price risk on coal, credit risk and liquidity risk. The Group's risk management strategy aims to minimise the adverse effects of these risks on financial performance.

Foreign currency risk

Renminbi currency is not freely convertible into foreign currencies. All foreign exchange transactions involving Renminbi must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. The exchange rate adopted for the foreign exchange transactions are the rates of exchange quoted by the People's Bank of China that are determined largely by supply and demand. The Group is exposed to foreign currency risk primarily through purchases and borrowings that are dominated in US$, while all the other operations of the Group are mainly transacted in RMB. Changes in exchange rate affect the RMB value of purchase costs of commodities that are denominated in foreign currencies.

For the three years ended 31 December 2008 approximately 14.9%, 9.8% and [13.0]% of the purchase of the Group were denominated in currency other than Renminbi.

The following table demonstrates the Group's exposure at the balance sheet dates to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate:

	As at 31 December		
	2006	**2007**	**2008**
	US$'000	*US$'000*	*US$'000*
Cash and cash equivalents	–	–	573
Trade and other receivables	–	–	–
Trade and other payables	(10,340)	(9,286)	–
Interest-bearing borrowings	–	(3,786)	(3,725)
Balance sheet exposure	(10,340)	(13,072)	(3,152)

The following demonstrates the changes in the US$ exchange rate during the Track Record Period:

	Year ended 31 December		
	2006	**2007**	**2008**
US$			
– Average rate	7.9718	7.6071	6.9480
– Reporting date mid-spot rate	7.8087	7.3046	6.8346

Interest rate risk

Cash and cash equivalents, pledged bank deposits and interest-bearing borrowings are the major types of the Group's financial instruments subject to interest rate risk. Cash and cash equivalents are with fixed interest rates of ranging from 0.36% to 0.81% per annum as at 31 December 2006, 2007 and 2008 respectively. Pledged bank deposits are placed to satisfy conditions for borrowing facilities granted to the Group, with fixed interest rates of ranging from 0.72% to 4.14% per annum as at 31 December 2006, 2007 and 2008 respectively.

The Group's interest-bearing borrowings and interest rates as at 31 December 2006, 2007 and 2008 are set out below:

	Interest rate	As at 31 December 2006 RMB'000	2007 RMB'000	2008 RMB'000
Fixed rate borrowings	3.36% to 7.32%	436,092	595,170	649,545
Variable rate borrowings	0.46% to 7.44%	54,071	358,050	519,329
		490,163	953,220	1,168,874

The Group's bank balances also have exposure to cash flow interest rate risks due to fluctuations of the prevailing market interest rates on bank balance. As of 31 December 2006, 2007 and 2008, the Group's cash and cash equivalents were approximately RMB148.1 million, approximately RMB85.1 million and approximately RMB201.5 million, respectively.

The Directors do not consider that the Group's exposure of the bank deposits and bank borrowings to fair value interest rate risk to be significant as its interest bearing bank deposits and borrowings are generally short term in nature.

The Group currently does not have any interest rate hedging policy in relation to fair value and cash flow interest rate risk. The directors monitor the Group's exposure on ongoing basis and will consider hedging interest rate risk when necessary.

Commodity price risk on coal

Coal is the major raw material of the Group's products which accounted for approximately 80% of total cost of sales during the Track Record Period. Fluctuations on commodity price of coal will affect the Group's earnings, cash flow as well as the value of the inventories. The Group has not entered into any hedging activities to reduce its exposure to commodity price risk.

Credit Risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations, and it arises principally from the Group's receivables from customers and other receivables.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry in which customers operate, has less of an influence on credit risk. Approximately 19.8%, 25.8% and [26.5]% of the Group's turnover were attributable to sales transactions with a single customer during the Track Record Period.

The Group has established a credit policy under which each new customer is analysed individually on their credibility before the offer of standard payment and delivery terms and conditions. The Group will check the external ratings of customer if available. Credit limit is established for each customer where a maximum open amount is set an no approval from the Board is required within such limit. Customers who fail to meet the Group's benchmark creditworthiness may transact with the Group on a prepayment basis. The Group chases customers to settle the due balances and monitors the settlement progress on an ongoing basis.

The Group has a concentration of credit risk of the total trade and other receivables due from the Group's largest debtor and five largest debtors as follow:

	As at 31 December		
	2006	**2007**	**2008**
Due from			
– largest debtor	43.7%	54.2%	[27.5]%
– five largest debtor	71.8%	90.8%	[65.7]%

In this regard, the Directors consider that the Group's credit risk is significantly reduced.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(IX) Indebtedness

(A) Borrowings and bank facilities

As at 30 April 2009, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this document, the Group had issued credit letters of approximately RMB230 million and outstanding borrowings of approximately RMB[780] million, comprising secured bank loans and bank advances of approximately [RMB[351] million], approximately [RMB[44] million] bank advances under discounted bill receivables, approximately [RMB[61] million] other borrowings from a related party, approximately [RMB[46] million] current portion of non-current secured bank loans and approximately RMB[278] million of non-current secured bank loans. The total outstanding borrowings of approximately RMB[502] million were classified under current liabilities.

As at 30 April 2009, the Group had total and unutilised banking facilities of approximately RMB[2,161] million and RMB[1,151] million, respectively.

The banking facilities granted to the Group are secured by inventories, trade and bill receivables, pledged deposits and property, plant and equipment of the Group. In addition, banking facilities of RMB[1,845] million were guaranteed by Mr. XU. All these guarantees/pledges will be released/discharged by the bankers upon the [●].

(B) Collateral

The Group's secured bank loans were secured by certain assets and guaranteed by a related party. As of 31 December 2006, 2007, and 2008 and as of 30 April 2009, the Group's current secured bank loans were secured by the following assets:

	As at 31 December			**As at 30 April**
	2006	**2007**	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Inventories	–	170,000	15,626	[–]
Trade and bill receivables	17,438	39,901	59,214	[31,500]
Pledged deposits	3,208	145,741	485,425	[135,846]
Property, plant and equipment	133,469	113,606	327,034	[363,744]

As at 31 December 2008, the Group's total interest-bearing borrowings amounted to approximately RMB1,168.9 million, up from approximately RMB490.2 million as at 31 December 2006 and approximately RMB953.2 million as at 31 December 2007. To secure such increasing interest-bearing borrowings, the Group was required to increase its pledged deposits accordingly. In addition, some of the Group's bank loans are secured by its coal inventory from time to time. As the Group reduced its coal inventory level during the second half of 2008, the Group was required to increase its pledged deposit as loan collateral. Therefore, the Group's pledged deposits increased from approximately RMB3.2 million as at 31 December 2006 to approximately RMB145.7 million as at 31 December 2007, and further increased to approximately RMB485.4 million as at 31 December 2008.

The Group's non-current secured bank loans as at 31 December 2007 and 31 December 2008 were pledged by certain fixed assets of RMB412.3 million and RMB569.8 million, respectively and guaranteed by a related party.

As at 31 December 2006, 2007 and 2008, Mr. XU issued guarantees to a bank for issuing banking facilities to the group, details of which are as follows:

	As at 31 December		
	2006	**2007**	**2008**
	thousand	*thousand*	*thousand*
Guarantees issued by Mr XU:			
– RMB	260,000	296,010	635,340
– HK Dollars	110,000	140,000	170,000
– US Dollars	–	60,088	75,088
Guarantees issued by Qinfa Industry			
– RMB	69,000	–	100,000

The relevant banks provided in principle written consents that all the personal guarantees and legal charges provided by the connected persons (as such term is defined under the Listing Rules) in relation to the borrowings mentioned above will be released and replaced by corporate guarantee to be issued by the Group upon the [●].

(C) Contingent liabilities

As at 30 April 2009, the Group had no significant contingent liabilities.

(D) Capital and other commitments

The Group's principal capital commitments relate primarily to acquisition of vessels and land and upgrade of loading station in China. The Group's capital commitments during the Track Record Period were approximately RMB331.7 million, RMB329.0 million and RMB50.9 million respectively. The decrease in the Group's capital commitments for the year ended 31 December 2008 mainly reflected the Group's payment for dry-docking cost on MV QINFA 6 and acquisition on MV QINFA 8, MV QINFA 9 and MV QINFA 10. These capital commitments were funded primarily out of cash flows generated from operations.

As at 30 April 2009, the Group's principal capital commitments amounted to approximately RMB50.5 million which was related to vessel modification and establishment of the third coal loading station.

(E) Future debt financing

Zhuhai Terminal

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 of the joint venture. Pursuant to the Port Investment Agreements, QPCL agreed to evaluate the project of Zhuhai Terminal for possibility of its investment in 40% of Zhuhai Terminal. 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 has already obtained a letter of intent issued by a bank for its intention to finance up to RMB[1,157] million in the project of Zhuhai Terminal.] The letter of intent is non-binding since the bank will only execute a binding loan agreement upon the grant of the necessary governmental approval to commence the project.

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.

(F) Disclaimer

Except as disclosed in "Financial Information – Indebtedness" above, the Group did not have any outstanding mortgage, charges, pledge, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities outstanding as at 30 April 2009, being the latest practicable date for determining indebtedness.

(X) Disclosure under Chapter 13 of the Listing Rules

The Directors have confirmed that as of the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure obligation under Rules 13.13 to 13.19 of the Listing Rules.

(XI) Dividends and Distributable Reserves

(A) Dividends and dividend policy

Pursuant to the resolution passed at the shareholders' meeting of Qinhuangdao Trading held on 1 August 2008, Qinhuangdao Trading declared a dividend of approximately RMB120.3 million to its equity holders. [The PRC Legal Advisers confirm that the equity holders of Qinhuangdao Trading may surrender the dividend or choose to set-off the dividend against any advancements being made to Qinhuangdao Trading.] In relation to the dividend declared by Qinhuangdao Trading, Mr. XU Da and

Qinfa Industry, being the equity holders of Qinhuangdao Trading, agreed that (i) Mr. XU Da would surrender the dividend he was entitled and (ii) the dividend of approximately RMB120.3 million would be paid to Qinfa Industry. The dividend distributed by Qinhuangdao Trading was partially settled by the amount due from Qinfa Industry. As at 31 December 2008, an amount of approximately RMB74.6 million due from Qinfa Industry was settled by the dividend of approximately RMB120.3 [million] declared by Qinhuangdao Trading. [The remaining dividend of approximately RMB 45.7 million payable to Qinfa Industry will be settled by the Qinhuangdao Trading before the [●].] Save for the above, members of the Group did not declare any dividend during the Track Record Period. The dividend payments during the Track Record Period are not indicative of the Company's future dividend policy.

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

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

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

(B) Distributable reserves

As at 31 December 2008, the Company had no reserves available for distribution to the Shareholders of the Company.

The reserves provided in the year ended 31 December 2008 consisted of statutory reserves (法定盈餘公積) of RMB19 million (2007: RMB9 million) and discretionary reserves (任意盈餘公積) of RMB166 million (2007: RMB78 million).

Under the PRC law, the Group's PRC subsidiaries are required to set aside at least 10% of their net profit each year to fund the designated statutory reserve fund until such reserve fund reaches 50% of their registered capitals. According to the resolutions of respective shareholders' meetings held in 2008, the statutory reserves were provided based on 10% of the net profit of the current year of the member companies of the China Qinfa Group, namely Qinhuangdao Trading, Datong Jinfa, Yangyuan Guotong, Zhuhai Qinfa Trading and Zhuhai Qinfa Shipping. The remaining net profit of the current year of the above companies were provided as the discretionary reserves under the discretion of the Directors.

(XII) Property Interests, Property Valuation and Reconciliation of Appraised Property Values with Net Book Values

Details of the Group's property interests are set out in Appendix III to this document. Vigers Appraisal & Consulting Limited, an independent property valuer, has valued the properties owned by the Group as of 30 April 2009. The text of its letter, summary of valuations and valuation certificate are set out in Appendix III to this document.

The table below shows the reconciliation of the net book value of the property interests from the audited financial statements of the Group as at 31 December 2008 to the valuation of the property interest as at 30 April 2009:

	RMB'000
Net book value as at 31 December 2008 included in the Accountants' Report as set out in Appendix I to this document	42,405
Movements for the four months ended 30 April 2009:	
– Amortisation on land use rights	(47)
– Depreciation on plant and buildings	(676)
Net book value as at 30 April 2009	41,682
Valuation surplus	55,218
Valuation as at 30 April 2009 included in valuation report as set out in appendix III to this document	96,900

(XIII) No Material adverse Change

Save as disclosed in "– Management's discussion and analysis of financial condition and results of operations – Impact of the recent financial crisis on the Group" of this document, the Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2008 (being the date to which the Group's latest combined financial results were prepared as set out in the Accountants' report in Appendix I to this document).