



中國秦發集團有限公司  
CHINA QINFA GROUP LIMITED  
(incorporated in the Cayman Islands with limited liability)

Stock code: 866



## GLOBAL OFFERING

Sponsor



China Everbright Capital Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



China Everbright Securities (HK) Limited

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## IMPORTANT

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If you are in any doubt about any contents of this prospectus, you should obtain independent professional advice.

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# 中國秦發集團有限公司 CHINA QINFA GROUP LIMITED

(incorporated in the Cayman Islands with limited liability)

## GLOBAL OFFERING

Number of Offer Shares : 250,000,000 (subject to the Over-allotment Option)  
Number of Hong Kong Public Offer Shares : 25,000,000 (subject to re-allocation)  
Number of International Placing Shares : 225,000,000 (subject to re-allocation and the Over-allotment Option)  
Offer Price : Not more than HK\$2.52 per Offer Share and not less than HK\$2.00 per Offer Share (payable in full on application, subject to refund, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%)  
Nominal Value : HK\$0.10 each  
Stock code : 866

### Sponsor



China Everbright Capital Limited

Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager



China Everbright Securities (HK) Limited

Co-lead Manager



MIZUHO SECURITIES ASIA LIMITED

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Hong Kong Exchanges and Clearing Limited, The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraphs under "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and the Company on the Price Determination Date. The Price Determination Date is expected to be on or around Thursday, 25 June 2009 and, in any event, not later than Monday, 29 June 2009. The Offer Price will be not more than HK\$2.52 and is expected to be not less than HK\$2.00 unless otherwise announced. Investors applying for the Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK\$2.52 for each Offer Share together with a brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus (which is HK\$2.00 to HK\$2.52 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, notices of the reduction in the indicative Offer Price range will be published on the website of the Company at <http://www.qinfgroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offer. If applications for the Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the Offer Price range is so reduced, such applications cannot be withdrawn. If, for any reason, the Offer Price is not agreed between the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters), the Global Offering (including the Hong Kong Public Offer) will not proceed.

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Public Offer Shares, are subject to termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the paragraphs under "Underwriting – Underwriting Arrangements and Expenses – Grounds for termination" of this prospectus.

Please refer to the section headed "Risk factors" for a discussion of certain risks that you should consider in connection with an investment in the Offer Shares.

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## EXPECTED TIMETABLE OF THE HONG KONG PUBLIC OFFER

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*If there is any change to the following expected timetable of the Hong Kong Public Offer, the Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).*

2009

(Note 1)

Application lists open (Note 2) . . . . . 11:45 a.m. on Wednesday, 24 June

Latest time for the following:

- Lodging **WHITE** and **YELLOW** Application Forms . . . . . 12:00 noon on Wednesday, 24 June
- Giving electronic application instructions to HKSCC (Note 3) . . . . . 12:00 noon on Wednesday, 24 June

Application lists close (Note 2) . . . . . 12:00 noon on Wednesday, 24 June

Expected Price Determination Date (Note 4) . . . . . on or about Thursday, 25 June

Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; (iv) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offer; and (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offer and the International Placing to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Company at <http://www.qinfagroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> on . . . . . Thursday, 2 July

Announcement of the results of allocations, the number of the Hong Kong Public Offer Shares successfully applied for, and Hong Kong identity card/passport/Hong Kong business registration certificate numbers of successful applicants under the Hong Kong Public Offer to be available through a variety of channels as described in the section headed “How to Apply for Hong Kong Public Offer Shares – Publication of Results” in this prospectus including the website of the Company at <http://www.qinfagroup.com>, the website of the Stock Exchange at <http://www.hkex.com.hk> and the website of Union Registrars Limited at <http://www.unioniporeresults.com.hk> on . . . . . Thursday, 2 July

Share certificates to be despatched on (Note 5) . . . . . Thursday, 2 July

Refund cheques to be despatched on (Note 5) . . . . . Thursday, 2 July

Listing Date . . . . . Friday, 3 July

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## EXPECTED TIMETABLE OF THE HONG KONG PUBLIC OFFER

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*Notes:*

1. All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" of this prospectus.
2. If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 24 June 2009, the application lists will not open and close on that day. Further information is set out in "How to Apply for Hong Kong Public Offer Shares – Effect of bad weather on the opening of the application lists" of this prospectus.
3. Applicants who apply by giving electronic application instructions to HKSCC should refer to "How to Apply for the Hong Kong Public Offer Shares – Applying by giving electronic application instructions to HKSCC" of this prospectus.
4. The Price Determination Date is expected to be not later than Monday, 29 June 2009. If, for any reason, the Offer Price is not agreed by the Company and the Sole Global Coordinator (for itself and on behalf of the Underwriters) by Monday, 29 June 2009, the Global Offering (including the Hong Kong Public Offer) will lapse.
5. Refund cheques will be issued with respect to wholly or partially unsuccessful applications and also with respect to successful applications in the event that the Offer Price is less than the maximum Offer Price per Share payable on application of HK\$2.52. Applicants for 1,000,000 Hong Kong Public Offer Shares or more and who have indicated in their Application Forms that they wish to collect refund cheques and Share certificates (as relevant) in person from Union Registrars Limited may collect refund cheques (where applicable) and Share certificates (where applicable) from Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 2 July 2009 or any other place and date hereafter notified by the Company in the South China Morning Post and the Hong Kong Economic Times as the place and date of despatch of Share certificates/refund cheques. Individual applicants who opt for collection in person must not authorise any other person to make their collection on their behalf. Applicants being corporations which opt for collection in person must attend by their authorised representatives, each bearing a letter of authorisation from such corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Union Registrars Limited. Uncollected Share certificates and refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed "How to Apply for Hong Kong Public Offer Shares – Despatch/collection of Share certificates and refund cheques" of this prospectus.

**Share certificates will only become valid certificates of title if the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section headed "Underwriting – Underwriting Arrangements and Expenses – Grounds for termination" of this prospectus has not been exercised, which is currently expected to be at 8:00 a.m. on Friday, 3 July 2009.**

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed "Structure of the Global Offering" of this prospectus.

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*You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision.*

*The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus and the Application Forms.*

*Any information or representation not made in this prospectus and the Application Forms must not be relied on by you as having been authorised by the Company, the Sole Global Coordinator, the Sponsor, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other parties involved in the Global Offering.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this prospectus and should be read in conjunction with the full text of this prospectus. Since this is only a summary, it does not contain all information that may be important to you.*

*You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set forth in the section headed “Risk factors” of this prospectus. You should read that section carefully before making any decision to invest in the Offer Shares.*

*Information in this section and other sections of this prospectus on 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.*

## OVERVIEW

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

Leveraging the continuous increase in the coal prices in China from January 2006 to July 2008, the Group purchased coal at relative low prices and sold it at relative higher prices taking the advantage of the increasing price trends as reflected in the continuous increase in the Qinhuangdao benchmark coal spot prices (5,500 Kcal.) from approximately RMB408.0 per tonne to approximately RMB1,045.0 per tonne during the period between January 2006 and July 2008. The Qinhuangdao benchmark coal spot prices (5,500 Kcal.) dropped from approximately RMB1,045.0 per tonne in July 2008 to approximately RMB580.0 per tonne in December 2008. During this period, the Group mitigated the impact of the decreases in the market coal prices through its risk management policies by reducing the level of coal inventory. Further information on the Group’s risk management policies is set out in the paragraphs under “Business – Risk Management of Coal Price Fluctuations” of this prospectus.

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

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## SUMMARY

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

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

According to the BBIC Report, the PRC coal consumption in 2008 was approximately 2,740 million tonnes, of which approximately 1,693 million tonnes, representing approximately 62.0% of the total consumption in 2008, was sourced through coal trading intermediaries. Among the coal sourced from intermediaries, approximately 1,168 million tonnes, representing approximately 69.0% of the total volume of coal trading in the PRC, were traded by state-owned coal operators with the remaining of approximately 525 million tonnes traded by non-state-owned coal operators.

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

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

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## SUMMARY

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

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

The Group's own fleet and chartered vessels facilitate the coal shipping transportation for the Group and Independent Third Parties and dry bulk shipping transportation for Independent Third Parties. Coal shipping transportation is an integral part of the Group's coal operation business. Shipping transportation is also important to the coal sourced from the overseas markets, for sales to customers in the coastal regions in China as well as other countries. China inland shipping transportation also plays an important role because it

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## SUMMARY

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enables coal operators to ship the coal to customers at different locations through inland river transportation. As of the Latest Practicable Date, the Group had four Panamax and one PRC inland vessel. Further information on the Group's shipping operation is set out in the paragraphs under "Business – Shipping" of this prospectus.

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

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

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

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

Source	Specifications of coal				
	Total Moisture (%)	Ash (%)	Volatile Matter (%)	Sulphur (%)	Calorific Value (Kcal./kg)
PRC	8.0-13.0	12.0-30.0	18.0-25.0	0.8-1.2	4,500-6,000
Australia	8.0-12.0	20.0-25.0	12.0-33.0	0.4-1.0	5,400-6,200
Vietnam	8.0	30.0-42.0	4.0-8.0	0.6-1.0	4,900-6,000
Indonesia	20.0-28.0	3.0-12.0	40.0-43.0	0.1-1.5	4,500-5,500

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

In December 2008, leveraging its experience in the coal operation business, the Group entered into the first sales and purchase contracts for the trading business of iron ore fines. The relevant transactions were carried on and completed in 2009. The transaction volume of

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## SUMMARY

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

### IMPACT OF THE RECENT FINANCIAL CRISIS ON THE GROUP

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

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

In addition, the Group's average selling price of coal was approximately RMB442 per tonne during the four months ended 30 April 2009, representing a decrease of 16.1% from the same period in 2008 (approximately RMB527 per tonne) or 47.6% from the highest level in September 2008 (approximately RMB844 per tonne).

Due to the substantial decrease in the market prices of coal during the two months ended 28 February 2009, the Group made a write-down on decrease in value of its coal inventory of approximately RMB31 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 similar write-down because of the gradual increase in the coal selling prices during the two months ended 31 May 2009.

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

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## SUMMARY

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However, starting from April 2009, the coal trading volume of the Group has significantly increased as compared to the three months ended 31 March 2009. The Group's coal trading volume in April 2009 amounted to approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. In addition, the Group's average selling prices of coal increased by approximately 13.3% from approximately RMB400 per tonne in January 2009 to approximately RMB453 per tonne in April 2009. The Group recorded net profit in April 2009 to the extent that it covered almost all the operating loss incurred during the three months ended 31 March 2009. As the monthly trading volume and average selling price were further improved in May 2009, the Group also recorded net profit in May 2009.

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

	Years ended 31 December		Three months ended 31 March	Month ended 30 April	Month ended 31 May
	2006	2007	2008	2009	2009
Average monthly trading volume ('000 tonnes)	600	669	523	88	274
Average selling price (RMB per tonne)	392	443	646	432	453
					474

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

Taking into account (i) the estimated net proceeds from the Global Offering; (ii) the Group's available banking facilities (including the letter of intent issued by the bank on the banking facilities for the Zhuhai Terminal); (iii) cash and cash equivalents held by the

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## SUMMARY

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Group as of the Latest Practicable Date; and (iv) the expected cashflow to be generated from the Group's operations, the Directors confirm that the Group has sufficient working capital for a period of not less than 12 months from the date of this prospectus.

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

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

Further information on the impact of the recent financial crisis on the Group is set out in the paragraphs under "Financial Information – Impact of the recent financial crisis on the Group" of this prospectus.

### COMPETITIVE STRENGTHS

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

- The Group is the largest non-state-owned coal operator in terms of annual coal trading volume
- The Group's direct access to the PRC domestic coal transportation network and its shipping transportation facilitate coal transportation from PRC domestic and overseas suppliers to customers
- The Group maintains a solid and long-term customer base
- The Group maintains extensive PRC domestic and overseas coal supplies
- The Group is equipped with coal filtering and blending capabilities
- The Directors and senior management of the Group possess extensive knowledge and experience in the coal industry

### GROWTH STRATEGIES

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

- Construct and operate the Zhuhai Terminal

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## SUMMARY

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- Operate additional coal loading station along Daqin Railway
- Expand the Group's international coal operation business

### STRUCTURE CONTRACTS

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

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

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

- imposing economic penalties;
- discontinuing or restricting the operations of Hong Kong Qinfra Group or China Qinfra Group;

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## SUMMARY

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- imposing conditions or requirements in respect of the Structure Contracts with which China Qinfra Group may not be able to comply;
- requiring the Group to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could adversely affect the business of the Group; and
- revoking the business licences and/or the licences or certificates of China Qinfra Group and/or voiding the Structure Contracts.

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

### RISK MANAGEMENT OF COAL PRICE FLUCTUATIONS

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

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

Nevertheless, the Directors consider that fluctuations in coal prices are one of the operating risks faced by the Group because any unexpected decrease in coal price may reduce the net realisable value of the coal inventory of the Group. If the decreased amount is below the cost of the coal paid by the Group, the Group may require, as at the relevant year-end, to make a write-down on the decreased value of its coal inventory against the profit of the Group. In addition, there may be a period during which the Group is exposed to subsequent and unexpected increases in coal prices following confirmation of sales orders. The Group will also be adversely affected if it is required, because of lack of inventory or other reasons, to purchase additional coal to meet the confirmed sales orders. As of 31 December 2008, the Group made a write-down on decrease in value of its coal inventory of approximately RMB31.0 million due to the substantial decrease in the market prices of coal

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## SUMMARY

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during the two months ended 28 February 2009. During the four months ended 30 April 2009, the Group did not make any similar write-down. Further information on such impact is set out in the paragraphs under “Business – Risk management of coal price fluctuations” of this prospectus.

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

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

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

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

In preparation for the Listing, the Directors will enhance the Group’s risk management policies with the additional objectives of (i) maintaining an appropriate coal inventory level for the Group’s operation; (ii) evaluating the Group’s risk management procedures on coal prices on a regular basis; (iii) performing annual review on the Group’s exposure to coal price fluctuations and its risk management procedures in respect of inventory management; and (iv) mitigating possible coal price fluctuations in the Group’s overseas operation. Further information on the additional measures adopted by the Group to further enhance the Group’s risk management policy on coal price fluctuations upon the Listing is set out in the paragraphs under “Business – Risk management of coal price fluctuations” of this prospectus.

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## SUMMARY

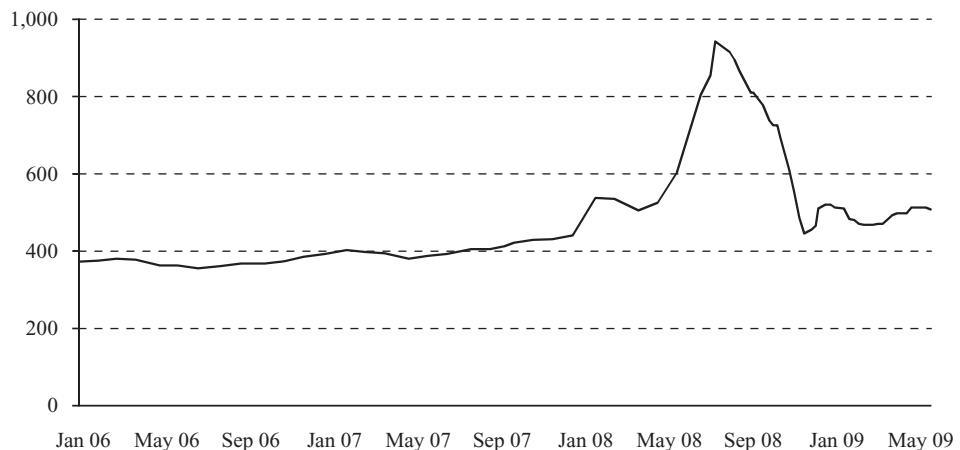
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After considering (i) the business model of the Group which does not involve any speculative coal trading activities; and (ii) the above risk management procedures on coal procurement and inventory management, the Sponsor is of the view that the Group's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

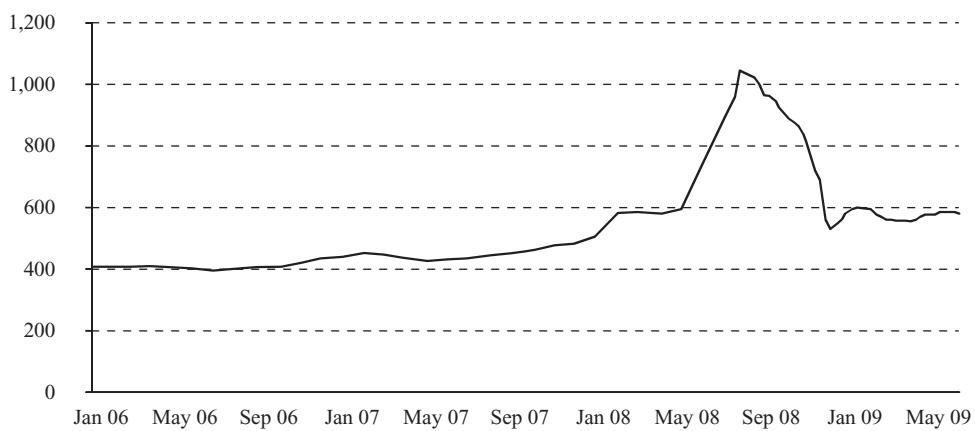
Further information on the Group's risk management policies is set out in the paragraphs under "Business – Risk management of coal price fluctuations" of this prospectus.

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

### **The Average Qinhuangdao Benchmark Coal Spot Prices (5,000 Kcal.) (Note)**



### **The Average Qinhuangdao Benchmark Coal Spot Prices (5,500 Kcal.) (Note)**



Source: BBIC Report

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

## SUMMARY

### RESULTS OF OPERATIONS

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

#### Combined income statements

	Year ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Turnover</b>			
– Coal operation	2,850,489	3,664,632	4,192,484
– Shipping transportation	2,824,382	3,553,185	4,050,170
Cost of sales	26,107	111,447	142,314
	<u>(2,614,871)</u>	<u>(3,093,238)</u>	<u>(3,632,568)</u>
<b>Gross profit</b>	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	<u>(21)</u>	<u>(1,270)</u>	<u>(1,814)</u>
<b>Profit from operations</b>	84,380	278,508	443,876
Finance income	5,984	11,419	15,733
Finance expenses	<u>(23,682)</u>	<u>(41,611)</u>	<u>(64,310)</u>
<b>Net financing costs</b>	<u>(17,698)</u>	<u>(30,192)</u>	<u>(48,577)</u>
<b>Profit before income tax</b>	66,682	248,316	395,299
Income tax expense	<u>(13,832)</u>	<u>(41,065)</u>	<u>(64,609)</u>
<b>Profit for the year</b>	<u>52,850</u>	<u>207,251</u>	<u>330,690</u>
<b>Attributable to:</b>			
Equity holders of the Company	51,802	207,251	330,690
Minority interests	1,048	–	–
<b>Profit for the year (Note 1)</b>	<u>52,850</u>	<u>207,251</u>	<u>330,690</u>
Dividends declared during the year	–	–	120,341
<b>Earnings per share</b>			
Basic earnings per share (RMB) (Note 2)	<u>0.07</u>	<u>0.28</u>	<u>0.44</u>

*Notes:*

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

## SUMMARY

2. The calculation of the basic earnings per Share for the Track Record Period is based on the profit attributable to the equity holders of the Company during the Track Record Period and 750,000,000 Shares in issue and issuable, comprising 1,000,000 Shares in issue as at the date of this prospectus and 749,000,000 Shares to be issued pursuant to the Capitalisation Issue as set out in the paragraphs under "Further Information About the Company – 4. Written resolutions of the sole Shareholder" in Appendix V to this prospectus, as if the Shares were outstanding throughout the Track Record Period.

### Combined balance sheets

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

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## SUMMARY

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

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

In addition, the Group's average selling price of coal was approximately RMB442 per tonne during the four months ended 30 April 2009, representing a decrease of 16.1% from the same period in 2008 (approximately RMB527 per tonne) or 47.6% from the highest level in September 2008 (approximately RMB844 per tonne). Since certain of the Group's costs, including selling and marketing and administrative expenses, were generally fixed regardless of the coal trading volume, the Group's financial performance deteriorated for the four months ended 30 April 2009 as compared to the same period in 2008. As a result, the Group recorded an unaudited loss for the four months ended 30 April 2009 compared to an unaudited profit recorded for the same period in 2008.

However, starting from April 2009, the coal trading volume of the Group has significantly increased as compared to the three months ended 31 March 2009. The Group's coal trading volume in April 2009 amounted to approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. In addition, the Group's average selling prices of coal increased by approximately 13.3% from approximately RMB400 per tonne in January 2009 to approximately RMB453 per tonne in April 2009. The Group recorded net profit in April 2009 to the extent that it covered almost all the accumulated loss incurred during the three months ended 31 March 2009. As the monthly trading volume and average selling price were further improved in May 2009, the Group also recorded net profit in May 2009.

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## SUMMARY

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### STATISTICS FOR THE GLOBAL OFFERING

Audited net profit attributable to equity holders of the Company for the year ended 31 December 2008 <i>(Note 1)</i>	RMB330.7 million or to HK\$373.7 million
Unaudited pro forma fully diluted earnings per Share <i>(Note 2)</i>	RMB0.33 or HK\$0.37
	<b>Based on an indicative Offer</b> <b>Price per Share of HK\$2.00</b>
Market capitalisation of the Shares <i>(Note 3)</i>	HK\$2,000 million
Unaudited pro forma adjusted net tangible assets per Share <i>(Note 4)</i>	RMB1.14 or HK\$1.29
Price/earnings multiple <i>(Note 5)</i>	5.41
	<b>Based on an indicative Offer</b> <b>Price per Share of HK\$2.52</b>
	HK\$2,520 million
RMB1.25 or HK\$1.41	
6.81	

*Notes:*

- (1) The audited net profit attributable to equity holders of the Company for the year ended 31 December 2008 included an one-off gain of approximately RMB97.1 million arising from the disposal of equity interest in Millennium Coal. Please refer to the information set out in the paragraphs under “Business – Coal Mines”.
- (2) The unaudited pro forma fully diluted earnings per Share is calculated based on the audited net profit attributable to equity holders of the Company for the year ended 31 December 2008, assuming that the Shares had been listed since 1 January 2008 and a total of 1,000,000,000 Shares had been in issue throughout that period, and without taking into account any Shares which may be allotted and issued upon exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company.
- (3) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue following completion of the Global Offering and the Capitalisation Issue, without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the paragraphs under “Unaudited Pro Forma Financial Information” in Appendix II to this prospectus and on the basis of 1,000,000,000 Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company.
- (5) The price/earnings multiple is calculated based on the pro forma unaudited earnings per Share of approximately HK\$0.37 for the year ended 31 December 2008, the indicative Offer Price of HK\$2.00 per Share and HK\$2.52 per Share and on the basis of 1,000,000,000 Shares in issue as referred to in Note 2 above.
- (6) The above amounts in RMB are converted to HK\$ with the exchange rate at RMB1 to HK\$1.13. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.

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## SUMMARY

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### DIVIDENDS AND DIVIDEND POLICY

Pursuant to the resolution passed at the shareholders' meeting of Qinhuangdao Trading held on 1 August 2008, Qinhuangdao Trading declared a dividend of approximately RMB120.3 million to its equity holders. The PRC Legal Advisers confirm that the equity holders of Qinhuangdao Trading may surrender the dividend or choose to set-off the dividend against any advancement made to Qinhuangdao Trading. In relation to the dividend declared by Qinhuangdao Trading, Mr. XU Da and Qinfra 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 Qinfra Industry. The dividend distributed by Qinhuangdao Trading was partially settled by the amount due from Qinfra Industry. As at 31 December 2008, an amount of approximately RMB74.6 million due from Qinfra 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 Qinfra Industry will be settled by Qinhuangdao Trading before the Listing.

Pursuant to the resolutions passed at a directors' meeting of Qinfra Trading held on 11 June 2009, Qinfra Trading declared a special interim dividend of HK\$100 million to its sole shareholder, Qinfra Investment, on the same date. Qinfra Investment declared the same amount of dividend to its sole shareholder, Fortune Pearl, on the same date. Fortune Pearl declared the same amount of dividend to its sole shareholder, Mr. XU, on the same date. The dividend payment will be paid by Qinfra Trading before the Listing Date.

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

Subject to the above, the Directors currently intend to recommend a distribution to all Shareholders in an amount representing not less than 30% of the distributable net profit attributable to the equity holders of the Company in each of the financial years following the Listing (that is, for the avoidance of doubt, commencing from the year ending 31 December 2010). 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.

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## SUMMARY

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### USE OF PROCEEDS FROM THE GLOBAL OFFERING

Assuming an Offer Price of HK\$2.26 per Share (being the midpoint of the indicative Offer Price range of HK\$2.00 to HK\$2.52 per Share), the net proceeds from the Global Offering, after deducting the underwriting fees and estimated expenses payable by the Company in connection with the Global Offering, are estimated to be approximately HK\$517.0 million. The Directors presently intend to apply the net proceeds as follows:

- approximately HK\$329.0 million (equivalent to approximately RMB289.9 million) to finance the development of Zhuhai Terminal to serve as the Group's coal transshipment hub, coal blending centre and coal storage base in Southern China, details of which are set out in "Business – Zhuhai Terminal" of this prospectus. The Group's total investment in Zhuhai Terminal is expected to be approximately RMB1,500.0 million. The Group is seeking a joint venture partner to invest in 40.0% of the project. Accordingly, the Group will be responsible for approximately RMB900.0 million of the total investment, representing the Group's proportional interests of 60.0% in the project. Out of this RMB900.0 million, the Group intends to finance up to 65.0%, being approximately RMB585.0 million, of its commitment through bank financing whereas the Group intends to contribute at least 35.0%, being approximately RMB315.0 million, of its commitment through internal resources. Net proceeds of approximately HK\$329.0 million (equivalent to approximately RMB289.9 million) will be used to finance the Group's internal resource commitment;
- approximately HK\$137.0 million including approximately HK\$68.5 million (equivalent to approximately RMB60.4 million) as the land acquisition cost and HK\$68.5 million (equivalent to approximately RMB60.4 million) as the construction cost for the Group's third coal loading station in Shanxi, which is expected to have an annual handling capacity of seven million tonnes. As of the Latest Practicable Date, the Group had not yet identified any suitable land for acquisition and accordingly there is no expected time of commencement and completion of the construction; and
- the balance of approximately HK\$51.0 million as general working capital of the Group.

In the event that the Offer Price is determined at the indicative Offer Price range between HK\$2.26 to HK\$2.52 per Share, the additional net proceeds from the Global Offering will be up to approximately HK\$63.0 million. In such case, the Directors intend to apply the additional net proceeds to the development of Zhuhai Terminal. Save for the above changes, there will not be any further changes in the use of proceeds from the Global Offering under such circumstance.

In the event that the Offer Price is set at the indicative Offer Price range between HK\$2.00 to HK\$2.26, the Directors will apply the net proceeds in the manner and proportion as shown above. Any shortfall is intended to be financed by internal resources of the Group.

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## SUMMARY

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Should the Over-allotment Option be exercised in full (assuming an Offer Price of HK\$2.26 per share, being the mid-point of the indicative range of Offer Price), the Company will receive additional net proceeds of approximately HK\$82.0 million. The Directors intend to apply the additional net proceeds to general working capital by increasing the amount of which to up to 10% of the aggregate net proceeds from the Global Offering and the development of Zhuhai Terminal.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes, it is the present intention of the Directors that such proceeds will be placed on short term deposits with licenced banks and/or authorised financial institutions in Hong Kong and/or the PRC.

## RISK FACTORS

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

### Risks relating to the Structure Contracts

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

### Risks relating to the Group

- If the global financial crisis continues, the Group's business operations and the implementation of its future plans may be adversely affected.

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## SUMMARY

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- The Group's growth during the Track Record Period was partially attributable to the continuous increase in the coal market prices in China and any substantial decrease in the coal market prices in the future may materially and adversely affect the Group's financial performance.
- The Group's track record relies on the Directors' determination on the coal purchase policies.
- The PRC domestic and international coal markets are cyclical and the Group is vulnerable to fluctuations in coal prices.
- The Group does not have long-term purchase commitments from its customers.
- The Group may be unable to continue to procure coal supplies at acceptable prices and quality in a timely manner.
- The Group may have difficulty in sustaining its turnover and profit.
- The Group relies on major customers.
- The Group relies on major suppliers.
- It is uncertain that the Group will continuously be granted the necessary licences and permits or be able to fulfil other regulatory requirements for its operations.
- The Group may not be able to successfully implement its business strategies.
- The Group recorded negative cashflow from operating activities in 2006.
- The Group's operations are vulnerable to any significant downturn in the PRC power industry.
- The Group's overseas sourcing of coal is vulnerable to regulations and changes to market conditions in those countries.
- Any material increase in transportation costs could have a material adverse effect on the Group's business and operating results.
- The Group's insurance may not be sufficient to cover potential losses and claims.
- The Group's financial performance and operating results could be materially adversely affected by its indebtedness.
- The Group's operations are dependent on the knowledge and experience of its key management personnel.
- There are potential conflicts of interest between Controlling Shareholders and other Shareholders.

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## SUMMARY

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- The Group depends on dividends and other distributions on equity paid by its group members and there may be restrictions on dividend distributions whereas the dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared by the Company in future.
- The Group will not continue to benefit from preferential tax treatments.
- The new PRC tax law may have a material adverse effect on the Group's financial condition and results of operation.
- The PRC tax authorities may enforce the payment of Qinfa Trading's tax provision and may challenge the basis on which the Group calculated its obligations.
- Some of leases of the Group in China have not been properly registered.

### **Risks relating to the coal operation and shipping industries**

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

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## SUMMARY

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- Government requisitions during periods of emergency or war could have a material adverse effect on the Group's financial condition and results of operations.
- Acts of God, acts of war, epidemics, terrorist attacks and other events could adversely affect the Group's business.

### **Risks relating to the PRC**

- Changes in PRC foreign exchange regulations may adversely affect the Group's business operations.
- The Employment Contract Law may increase the Group's labour costs.
- Fluctuations in the value of RMB may adversely affect the Group's business and the value of distributions by its PRC subsidiaries.
- Interpretation of PRC laws and regulations involves uncertainty.

### **Risks relating to the Global Offering**

- There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile.
- The subscribers of the Offer Shares may experience immediate dilution and may experience further dilution if the Company issues additional Shares in the future.

### **Risks relating to statements made in this prospectus**

- Certain facts and statistics included in this prospectus may not be relied upon.
- Forward looking statements may be inaccurate.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following terms and expressions shall have the following meanings:*

“Application Form(s)”	<b>WHITE</b> application form(s) and <b>YELLOW</b> application form(s) relating to the Hong Kong Public Offer, or where the context so requires, any of them
“Articles”	the articles of association of the Company, adopted on 12 June 2009, a summary of which is set forth in Appendix IV to this prospectus
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“BBIC”	錦秋財智諮詢(北京)有限公司 (Beijing Business & Intelligence Consulting Co. Ltd.), a market research and advisory service company and an Independent Third Party
“BBIC Report”	2008年民營煤炭貿易行業研究報告 (Non-state-owned Coal Trading Industry Research Report 2008), a market research report commissioned by the Group and issued by BBIC in June 2009
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks are generally open for business in Hong Kong
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of 749,000,000 Shares to be made upon capitalisation of part of the share premium account of the Company upon completion of the Global Offering referred to in the paragraphs under “Further Information About the Company – 4. Written resolutions of the sole Shareholder” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

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## DEFINITIONS

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“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“chief executive”	the chief executive (as defined in the SFO) of the Company
“China Everbright” or “Sponsor”	China Everbright Capital Limited, a licenced corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) activities
“China Everbright Securities” or “Sole Global Coordinator” or “Sole Bookrunner” or “Sole Lead Manager”	China Everbright Securities (HK) Limited, a licenced corporation under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) activities
“China Qinfa Group”	the group of companies controlled and beneficially owned by Mr. XU, namely, Datong Qinfa, Qinhuangdao Trading, Yangyuan Guotong, Zhuhai Qinfa Shipping and Zhuhai Qinfa Trading, all of which are parties to the Structure Contracts
“Coal Operation Certificate”	煤炭經營資格證 (Coal Operation Qualification Certificate) issued by 省級發展和改革委員會 (Provincial Development and Reform Commission) or 省級經濟委員會 (Provincial Economic Committee) for coal operation in China, including the wholesaling and retailing of raw coal and processed coal products and the processing and distribution of coal for civilian use
“Companies Law”	the Companies Law (2007 Revision) of the Cayman Islands as amended, supplemented or otherwise modified from time to time
“Company”	China Qinfa Group Limited (中國秦發集團有限公司), an exempt company incorporated in the Cayman Islands with limited liability on 4 March 2008
“connected person(s)”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Controlling Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and, in the case of the Company, means Mr. XU, Fortune Pearl and the beneficial owners of the Shares held under the Trust Scheme, namely Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha
“CSISC”	中海國際船舶管理有限公司 (China Shipping International ShipManagement Co., Ltd.), a shipmanager employed by the Group and an Independent Third Party
“CSRC”	中國證券監督管理委員會 (China Securities Regulatory Commission), a regulatory body responsible for supervising and regulating the PRC national securities market and related matters
“Daqin Railway”	大秦鐵路 (Daqin Railway), the railway from Datong City passing through Shanxi and Hebei to the port of Qinhuangdao, the largest coal port in the PRC, which serves as a major railway for transportation of coal
“Datong”	大同 (Datong), a county in Northern Shanxi which is along Daqin Railway
“Datong Jinfia”	大同解家莊晉發運銷有限公司 (Datong Xiejiazhuang Jinfia Trading and Transportation Co. Ltd.), a limited liability company established in the PRC on 18 April 2003, which is owned as to 49% by Mr. XU Da (holding on behalf of Mr. XU) and 51% by Qinfia Industry and a member of China Qinfia Group
“Deed of Common Control”	the deed of common control entered into by Mr. XU, Ms. WANG Jianfei, Mr. XU Da, Mr. LIU Jingwei and Ms. ZHOU Lusha on 12 June 2009 confirming that they were acting collectively in controlling the business of the Group when they were the equity holders of members of the Group
“Director(s)”	the director(s) of the Company
“Employment Contract Law”	中華人民共和國勞動合同法 (Law of the PRC on Employment Contracts) adopted by the Standing Committee of the National People’s Congress in 2007 and became effective on 1 January 2008

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## DEFINITIONS

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“Engagement Agreement(s)”	委托管理與承包經營合同 (Management Engagement and Subcontracting Operation Contract) entered into between Qinf Logistics and each member of China Qinf Group and all its respective equity interest holders on 12 June 2009, being part of the Structure Contracts with further information on which is set out in the paragraphs under “Reorganisation and Structure Contracts – Structure Contracts – Summary of Structure Contracts” in this prospectus
“Final Share Exchange Agreement”	the final share exchange agreement dated 12 June 2009 and entered into between, among others, Fortune Pearl and the Company in relation to all issued shares of Qinf Investment
“First Share Exchange Agreement”	the share exchange agreement dated 6 October 2008 and entered into between Mr. XU, Ms. WANG Jianfei, an executive Director, and Qinf Investment in relation to the shares of various members of the Hong Kong Qinf Group
“Fortune Pearl”	Fortune Pearl International Limited, a company incorporated in the BVI on 22 January 2008 with its issued share capital wholly-owned by Mr. XU and which is one of the Controlling Shareholders
“Global Offering”	the Hong Kong Public Offer and the International Placing
“Group”	Hong Kong Qinf Group and China Qinf Group
“HK\$” and “HK cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

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## DEFINITIONS

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“Hong Kong Public Offer”	the offer of the Hong Kong Public Offer Shares for subscription by members of the public in Hong Kong (as set out in the section headed “Structure of the Global Offering” of this prospectus) at the Offer Price, payable in full on application, and subject to the terms and conditions stated in this prospectus and the Application Forms
“Hong Kong Public Offer Shares”	the 25,000,000 Offer Shares initially offered for subscription under the Hong Kong Public Offer, which will also include any Shares that may be re-allocated from the International Placing
“Hong Kong Qinfra Group”	the Company, Liberal, Perpetual, Qinfra International, Qinfra Investment, Qinfra Logistics, Qinfra Shipping, Qinfra Trading and Super Grace
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offer listed in “Underwriting – Hong Kong Underwriters” of this prospectus
“Hong Kong Underwriting Agreement”	the conditional Hong Kong Public Offer underwriting agreement dated 18 June 2009 entered into between, among others, the Company and the Hong Kong Underwriters relating to the Hong Kong Public Offer, particulars of which are summarised in the section headed “Underwriting” of this prospectus
“IFRS”	International Financial Reporting Standards
“inland”	the coast and the middle-down stream of the Yangtze River, China
“Independent Third Parties”	persons or companies which are independent of and not connected with any of the directors or chief executive of the Company, the Controlling Shareholders and any member of the Group and their respective associates, and “Independent Third Party” means any of them
“International Placing”	the conditional placing of the International Placing Shares at the Offer Price to selected professional, institutional and private investors as set out in the section headed “Structure of the Global Offering” of this prospectus

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## DEFINITIONS

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“International Placing Shares”	the 225,000,000 Offer Shares expected to be initially offered for subscription pursuant to the International Placing, which will also include any Shares that may be re-allocated from the Hong Kong Public Offer and any Shares that may be issued pursuant to the exercise of the Over-allotment Option
“International Underwriters”	the underwriters of the International Placing, who are expected to enter into the International Underwriting Agreement to underwrite the International Placing
“International Underwriting Agreement”	the conditional international placing underwriting agreement relating to the International Placing and expected to be entered into by, among others, the Company and the International Placing Underwriters on or about the Price Determination Date
“Issuing Mandate”	the general unconditional mandate granted to the Directors by the Shareholders in relation to the issue of new Shares, further information on which is set out in the paragraphs under “Further Information About the Company – 4. Written resolutions of the sole Shareholder” in Appendix V to this prospectus
“Latest Practicable Date”	16 June 2009, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Liberal”	Liberal City Limited, a company incorporated in Hong Kong with limited liability on 3 May 2007, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company
“Listing”	the listing of the Shares on the Main Board
“Listing Date”	the date on which dealings in the Shares on the Main Board first commence, which is expected to be 3 July 2009
“Listing Rules”	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Main Board”	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange

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## DEFINITIONS

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“major coal loading station(s)”	coal loading station(s) with 10,000 tonne or above train loading capacity
“Millennium Mine”	Millennium Coal Pty Ltd, a coal mining company operating coal mine in the Bowen Basin, Australia, and an Independent Third Party
“Mr. XU”	XU Jihua (徐吉華), the chairman of the Group and an executive Director
“Mr. XU Da”	XU Da (徐達), the son of Mr. XU
“NDRC”	中華人民共和國國家發展和改革委員會 (National Development and Reform Commission of the PRC)
“Offer Price”	the final offer price per Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy, and the Stock Exchange trading fee) at which each Offer Share is to be subscribed for and issued pursuant to the Global Offering, to be determined as further described in the paragraphs under “Structure of the Global Offering – Pricing of the Global Offering” of this prospectus
“Offer Shares”	the Hong Kong Public Offer Shares and the International Placing Shares together, where relevant, with any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option
“Over-allotment Option”	the option expected to be granted by the Company to the Sole Global Coordinator (for itself and on behalf of the International Underwriters), exercisable at any time from the Listing Date until 30 days after the last date for the lodging of applications under the Hong Kong Public Offer, to require the Company to allot and issue up to an aggregate of 37,500,000 additional new Shares representing 15% of the initial number of the Offer Shares, at the Offer Price, to cover, among other things, over-allocations in the International Placing, if any, or the obligation under the Stock Borrowing Agreement
“Perpetual”	Perpetual Goodluck Limited, a company incorporated in Hong Kong with limited liability on 10 August 2007, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“Pledge Agreement(s)”	股權質押合同 (Equity Interest Pledge Agreement) entered into between Qinfa Logistics and each member of China Qinfa Group and all its respective equity interest holders on 12 June 2009, being part of the Structure Contracts, further information on which is set out in the paragraphs under “Reorganisation and Structure Contracts – Structure Contracts – Summary of Structure Contracts” in this prospectus
“Port Investment Agreements”	the investment structure agreement entered into between Qinfa Industry and QPCL in April 2008 and the supplemental letter of intent entered into between the Group and QPCL in May 2008 for a potential investment in Zhuhai Terminal by QPCL, further information on which is set out in the paragraphs under “Business – Zhuhai Terminal – Introduction” of this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC Legal Advisers”	Commerce & Finance Law Offices, the legal advisers to the Company as to PRC law
“Pre-IPO Share Option Scheme”	the share option scheme conditionally adopted by the Company on 12 June 2009, a summary of its principal terms is set forth in the paragraphs under “Share Option Schemes” in Appendix V to this prospectus
“Price Determination Date”	the date, expected to be on or around 25 June 2009 (or such later date as may be agreed between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company), on which the Offer Price is fixed for the purpose of the Global Offering and in any event no later than 29 June 2009
“Qinfa Industry”	秦皇島秦發實業集團有限公司 (Qinhuangdao Qinfa Industry Group Co. Ltd.), a limited liability company established in the PRC on 3 January 2001, which is owned as to approximately 49.59% by Mr. XU Da (holding on behalf of Mr. XU), 50% by Mr. XU and approximately 0.41% by Mr. LIU Jingwei (holding on behalf of Mr. XU)

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## DEFINITIONS

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“Qinfa International”	Hong Kong Qinfa International Trading Limited (香港秦發國際貿易有限公司), a company incorporated in Hong Kong with limited liability on 8 May 2007, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company
“Qinfa Investment”	Qinfa Investment Limited (秦發投資有限公司), a company incorporated in BVI on 7 April 2008, a member of Hong Kong Qinfa Group and a wholly-owned subsidiary of the Company
“Qinfa Logistics”	珠海秦發物流有限公司 (Zhuhai Qinfa Logistics Co. Ltd.), a limited liability company established in the PRC on 5 February 2008, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company
“Qinfa Trading”	Hong Kong Qinfa Trading Limited (香港秦發貿易有限公司), a company incorporated in Hong Kong with limited liability on 15 November 2002, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company
“Qinfa Shipping”	Hong Kong Qinfa Shipping Limited (香港秦發航運有限公司), a company incorporated in Hong Kong with limited liability on 20 August 2003, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company
“Qinhuangdao”	秦皇島 (Qinhuangdao), a city in Hebei which is located at the innermost gulf of the Yellow Sea and the chief port of Hebei
“Qinhuangdao Trading”	秦皇島開發區秦發貿易有限公司 (Qinhuangdao Development Zone Qinfa Trading Co., Ltd.), a limited liability company established in the PRC on 13 February 1995, which is owned as to 49% by Mr. XU Da (holding on behalf of Mr. XU) and 51% by Qinfa Industry and a member of China Qinfa Group
“QPCL”	秦皇島港股份有限公司 (Qinhuangdao Port Company Limited) and/or its affiliated company, Independent Third Parties, the ultimate holding company of which is a state-owned enterprise

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## DEFINITIONS

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“Reorganisation”	the corporate reorganisation of the Group in preparation for the Listing, further information on which are is out in the section headed “Reorganisation and the Structure Contracts” in this prospectus
“Repurchase Mandate”	the general unconditional mandate granted to the Directors by the Shareholders in relation to the repurchase of Shares, further information on which is set out in the paragraphs under “Further Information About the Company – 4. Written resolutions of the sole Shareholder” in Appendix V to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“SAFE”	國家外匯管理局 (PRC State Administration of Foreign Exchange)
“SAFE Circular No. 75”	《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》 (The SAFE’s Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Share(s)”	ordinary share(s) with nominal value of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 12 June 2009, a summary of the principal terms of which is set out in the paragraphs under “Share Option Schemes” in Appendix V to this prospectus
“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into on 25 June 2009 between Fortune Pearl and the Sole Global Coordinator pursuant to which the Sole Global Coordinator may borrow up to 37,500,000 Shares from Fortune Pearl
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Structure Contracts”	the Engagement Agreements and the Pledge Agreements
“subsidiary(ies)”	has the meaning ascribed to it under section 2 of the Hong Kong Companies Ordinance
“Substantial Shareholder(s)”	has the meaning ascribed to it under the Listing Rules and in the context of the Company
“Super Grace”	Super Grace Enterprises Limited, a company incorporated in BVI with limited liability on 25 January 2008, a member of Hong Kong Qinfa Group and an indirect wholly-owned subsidiary of the Company
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Track Record Period”	the three financial years ended 31 December 2008
“Trademark Assignment Agreement”	the agreement in Chinese named “註冊商標無償轉讓協議” dated 4 August 2008 entered into between Qinfa Industry and Qinfa Logistics pursuant to which Qinfa Industry agreed to assign to Qinfa Logistics certain PRC registered trademarks
“Trust Scheme”	the scheme adopted by Fortune Pearl on 13 June 2009 whereby an aggregate of 157,000,000 Shares, representing 15.7% of the issued Shares following completion of the Global Offering and the Capitalisation Issue, shall have been transferred to Equity Trust (HK) Limited, further information on which is set out in the paragraphs under “Further Information About the Directors and Substantial Shareholders – 5. Trust Scheme” in Appendix V to this prospectus
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“US\$” and “US cents”	United States dollars and cents, respectively, the lawful currency of the United States of America
“VAT”	value-added tax of the PRC

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## DEFINITIONS

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“Wallem”	Wallem Shipmanagement Limited, a shipmanager employed by the Group and an Independent Third Party
“Waterway Transportation Licence”	水路運輸許可證 (Waterway Transportation Licence) issued by 中華人民共和國交通部 (Ministry of Transport of the PRC) for the operation of inland shipping business in China
“Yangyuan”	陽原 (Yangyuan), a county in Hebei which is close to Shanxi and along the Daqin Railway
“Yangyuan Guotong”	陽原國通煤炭運銷有限公司 (Yangyuan Guotong Coal Trading and Transportation Co. Ltd.), a limited liability company established in the PRC on 20 December 2003, which is owned as to 96% by Mr. LIU Jingwei (holding on behalf of Mr. XU), and 4% by Ms. ZHOU Lusha (holding on behalf of Mr. XU), and a member of the China Qinf Group
“Zhuhai”	珠海經濟特區 (Zhuhai Special Economic Zone), a provincial-level city in Guangdong in the PRC
“Zhuhai Qinf Shipping”	珠海秦發航運有限公司 (Zhuhai Qinf Shipping Co. Ltd.), a limited liability company established in the PRC on 6 September 2007, which is owned as to 80% by Mr. XU and 20% by Mr. XU Da (holding on behalf of Mr. XU), and a member of China Qinf Group
“Zhuhai Qinf Trading”	珠海秦發貿易有限公司 (Zhuhai Qinf Trading Co. Ltd.), a limited liability company established in the PRC on 21 September 2005, which is owned as to 90% by Mr. XU and 10% by Mr. LIU Jingwei (holding on behalf of Mr. XU), and a member of the China Qinf Group
“Zhuhai Terminal”	the Group’s public bulk coal terminal to be established at 珠海港高欄港區南水作業區北港池北側 (Beishunan, South Water Operation Area, Gao Langang Economic Zone, Zhuhai, the PRC), details of which are set out in “Business – Zhuhai Terminal” in this prospectus
“%”	per cent.

*Unless the context requires otherwise, amounts denominated in RMB have been converted into HK\$, US\$ or Australian dollars, for the purpose of illustration only, using the exchange rates of RMB0.9 = HK\$1, RMB6.8 = US\$1 and RMB4.7 = 1 Australian dollar, respectively. No representation is made that any amount in RMB or HK\$ or US\$ or Australian dollars could have been or could be converted at the above rates or at any other rates or at all.*

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## DEFINITIONS

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*For ease of reference, the names of certain PRC entities have been included in this prospectus in both English and Chinese languages. The English names are the unofficial translation of their respective Chinese name, and in the event of any inconsistency, the Chinese version shall prevail.*

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.*

“ash”	Incombustible impurities contained in coal which affect the burning characteristics of coal
“Baltic Dry Index”	An index covering dry bulk shipping rates and managed by the Baltic Exchange in London
“blending capacity”	Capacity for coal blending which is generally measured by tonnes of coal being blended over a particular period of time and facilitated by (i) sufficient blending area; (ii) appropriate equipment and apparatuses; (iii) well-established blending plan and (iv) management knowledge and experience
“CAGR”	Compound annual growth rate
“calorific value”	The heat of combustion of a unit quantity of coal
“capesize”	Cargo ships originally too large to traverse the Suez Canal which are typically above 150,000 DWT
“CCS”	中國船級社 (The China Classification Society), a Chinese classification society registered with relevant decrees of the PRC. CCS started classification of ships in 1956. CCS is a member of IACS and is recognised by the Hong Kong government
“COA”	Contracts of affreightment, a vessel contract similar to voyage charters but which are for two or more shipments over an agreed period of time, which could be over a number of months or years
“coal”	A solid, brittle, more or less distinctly stratified combustible carbonaceous rock, formed by partial to complete decomposition of vegetation
“coal blending”	Mixing coal in predetermined and controlled quantities to adjust the chemicals or burning characteristics of the resulting coal or to produce a more uniform product
“coal filtering”	Identifying and selecting coal according to specifications, the process of which includes quality and quantity measures

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## GLOSSARY OF TECHNICAL TERMS

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“construction structure”	the construction structure of berth, the design of which is normally larger than the actual berth capacity of the relevant vessel, allowing the flexibility of such vessel’s movement
“dry bulk”	Unpacked goods such as coal, metallic minerals, iron, building materials, cement, timber, salt, grains and similar materials
“DWT”	The deadweight of a ship expressed in tonnes. This measurement is the total weight of cargo, fuel, fresh water, stores and crew which the ship can carry
“EBITDA”	Earnings Before Interest, Taxes, Depreciation and Amortisation
“FOB”	Free on board, as defined in the Incoterm standards
“GDP”	Gross domestic product
“handling and transportation capacity”	Capacity to transport coal from a coal loading station to the designated coal port which is generally measured by tonnes transported over a particular period of time and facilitated by (i) an entity’s ability to load coal onto the train; and (ii) the loading capacity of the train being the transportation vehicle between the coal loading station and the coal port
“handymax”	Naval architecture term for a bulk carrier, typically between 35,000 and 60,000 DWT
“handysize”	Dry bulk vessel with 15,000 to 35,000 DWT
“IACS”	The International Association of Classification Societies, a non-governmental organisation which is allowed to develop guidance for the International Maritime Organisation
“Kcal.”	Kilo-calorie (1,000 calories), a unit of energy
“LIBOR”	The London Interbank Offered Rate, a daily reference rate based on the interest rates at which banks offer to lend unsecured funds to other banks in the London wholesale money market (or interbank market)
“total moisture”	The amount of moisture in coal, expressed as a percentage of the weight of the coal

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## GLOSSARY OF TECHNICAL TERMS

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“Panamax”	Ships of the maximum dimensions that will fit through the locks of the Panama Canal, the size of which is determined by the dimension of the lock chambers and the depth of the water in the canal
“storage capacity”	Capacity to store coal at a particular place which is generally measured in tonnes and with reference to the area of the relevant place
“sulphur”	Sulphur contained in coal which may vary from coal seam to coal seam and sometimes within a single seam
“thermal coal”	Coal used in combustion processes by power producers and industrial users to produce steam for power and heat
“thruput capacity”	The volume of freight that can be handled in a given period
“time charter”	A vessel contract under which the shipowner hires out a ship for a specified period of time
“volatile matter”	The amount of volatile matter in coal, expressed as a percentage of the weight of the coal
“voyage charter”	A vessel contract under which a shipowner hires out a ship for a specific voyage between the loading port and the discharging port

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## RISK FACTORS

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*Prospective investors in the Offer Shares should consider carefully all of the information set forth in this prospectus and, in particular, the following risks in connection with an investment in the Company. The Group's business, financial condition or results of operations could be materially and adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks and you may lose all or part of your investment.*

### RISKS RELATING TO THE STRUCTURE CONTRACTS

#### **The PRC government may determine that the Structure Contracts are not in compliance with applicable PRC laws, rules and regulations**

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

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

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## RISK FACTORS

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

- imposing economic penalties;
- discontinuing or restricting the operations of Hong Kong Qinfa Group or China Qinfa Group;
- imposing conditions or requirements in respect of the Structure Contracts with which China Qinfa Group may not be able to comply;
- requiring the Group to restructure the relevant ownership structure or operations;
- taking other regulatory or enforcement actions that could adversely affect the business of the Group; and
- revoking the business licences and/or the licences or certificates of China Qinfa Group and/or voiding the Structure Contracts.

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

**The Group depends upon the Structure Contracts in conducting its coal trading and inland shipping businesses in China and receiving payments through China Qinfa Group, which may not be as effective as direct ownership**

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

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

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

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

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

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

### **The Group relies on the Coal Operation Certificates and Waterway Transportation Licence held by China Qinfa Group and any deterioration of the relationship between Hong Kong Qinfa Group and China Qinfa Group could materially and adversely affect the overall business operation of the Group**

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

On 12 June 2009, Qinfa Logistics, each member of the China Qinfa Group and all its respective equity holders entered into the Structure Contracts, further information on which is set out in the paragraphs under "Reorganisation and Structure Contracts – Structure Contracts – Summary of the Structure Contracts" of this prospectus, pursuant to which Qinfa Logistics was granted the right to acquire the equity interests in China Qinfa Group. By the time Hong Kong Qinfa Group intends to exercise its acquisition rights under the Structure Contracts, the then PRC laws and regulations may still prohibit Hong Kong Qinfa Group from acquiring the equity interests or the assets from China Qinfa Group.

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

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### RISKS RELATING TO THE GROUP

#### **If the global financial crisis continues, the Group's business operations and the implementation of its future plans may be adversely affected**

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

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

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

In addition, the Group's average selling price of coal was approximately RMB442 per tonne during the four months ended 30 April 2009, representing a decrease of 16.1% from the same period in 2008 (approximately RMB527 per tonne) or 47.6% from the highest level in September 2008 (approximately RMB844 per tonne).

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

If the global financial crisis continues and/or the coal market in China continues to deteriorate, the Group's business operations and the implementation of its future plans may be adversely affected.

#### **The Group's growth during the Track Record Period was partially attributable to the continuous increase in the coal market prices in China and any substantial decrease in the coal market prices in the future may materially and adversely affect the Group's financial performance**

The Group recorded turnover of approximately RMB2,850.5 million, RMB3,664.6 million and RMB4,192.5 million during the Track Record Period, respectively. The Group's growth during the Track Record Period was partially attributable to the continuous increase in the coal market prices in China. With the increasing coal market prices, the Group was

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able to purchase coal at low prices and sell coal at a higher prices. Any unexpected decrease in the coal market prices in the future may reduce the Group's profit margin and may materially and adversely affect the Group's financial performance.

### **The Group's track record relies on the Directors' determination on the coal purchase policies**

The Directors formulate the Group's coal purchase policies by considering various factors, including current market demand and supply and anticipation of the market and price trends in the PRC domestic and overseas markets. Based on the management's projections and their judgment on coal market trends, the Group adjusts its purchase and sales volumes from time to time. There can be no assurance that the Directors' projection and judgment are correct at all times. In addition, any unexpected decrease in the coal price may reduce the net realisable value of the coal inventory of the Group and may result in write-down to be made by the Group on the decrease in value of the coal inventory. As a result, the financial performance of the Group would be adversely affected.

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

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

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

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

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

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

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

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

### **The Group may have difficulty in sustaining its turnover and profit**

The Group has undergone rapid expansion since the Group's commencement of operations in coal trading and shipping transportation in 1996 and 2005, respectively. Details of the Group's history are stated in "History and Development" of this prospectus. Although the Group recorded high growth in both the turnover and net profit during the Track Record Period with turnover of approximately RMB2,850.5 million, RMB3,664.6 million and RMB4,192.5 million, respectively and net profit of approximately RMB52.9 million, RMB207.3 million and RMB330.7 million, respectively, the sustainability of the Group's turnover and net profit will depend upon the ability of the Group to maintain its competitiveness in the market and to produce high quality products and services. In addition, the Group's gross profits, gross profit margins and sales volumes recorded a decrease for the year ended 31 December 2008 as compared with those for the year ended 31 December 2007. During the Track Record Period, the Group recorded gross profits of approximately RMB235.6 million, RMB571.4 million and RMB559.9 million with gross profit margins of

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approximately 8.3%, 15.6% and 13.4%, respectively. The Group recorded annual sales volume of approximately 7,206,000 tonnes, 8,023,000 tonnes and 6,274,000 tonnes of coal for each of the three financial years ended 31 December 2008, respectively. There is no assurance that the Group will be able to maintain its growth at current levels in coming years and in such event, the Group's performance may be adversely affected by any decrease in turnover and profit.

### **The Group relies on major customers**

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

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

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

### **The Group relies on major suppliers**

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

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

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

### **It is uncertain that the Group will continuously be granted the necessary licences and permits or be able to fulfil other regulatory requirements for its operations**

The coal trading and PRC inland shipping industries in China are extensively regulated. Various regulatory authorities are empowered to issue and implement regulations governing aspects of the coal trading and PRC inland shipping industries. Further information on such regulations is set out in the paragraphs under "Regulations relating to the industry" of this Prospectus. The Group is required to obtain applicable permits or approvals from different regulatory authorities in order to provide its services. For example, the Group is required to hold the Coal Operation Certificate for coal trading in China and the Waterway Transportation Licence for PRC inland shipping in China. Failure to comply with the terms and conditions in relation to the renewal of such certificates and licences may subject the Group to monetary penalties or restrict its ability to pass the inspections of such certificates

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and licences or to obtain renewed certificates and licences upon the expiration of the current terms of such certificates and licences. If the Group fails to obtain or maintain any of the required permits or approvals and it continues to conduct such businesses, it may be subject to various penalties, including fines and the discontinuation or restriction of its operations. Any such disruption in the Group's business operations would adversely affect its financial condition and results of operations.

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

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

One of the Group's business strategies is to construct and operate the Zhuhai Terminal. There is no assurance that the construction and operation of the Zhuhai Terminal will be implemented in accordance with the feasibility report. The construction of the Zhuhai Terminal may be affected by interference of natural conditions or an increase in construction costs. The Group may also have difficulty in engaging a reputable management company or personnel to manage and operate the Zhuhai Terminal. Further, the total investment of the Zhuhai Terminal is expected to be RMB1,500 million. There is no assurance that the Group will be able to obtain sufficient funding for the Zhuhai Terminal or that the operation budget will be kept at the level currently planned. If the Group fails to obtain sufficient funding or secure the collaboration of suitable business partner(s) in the development of the Zhuhai Terminal, the project may be adversely affected.

Furthermore, in December 2008, the Group entered into the first sales and purchase contracts for the trading business of iron ore fine. The transactions were carried on and completed in 2009. The transaction volume of the Group's first sales and purchase contracts of iron ore fines in December 2008 amounted to approximately 60,000 tonnes of iron ore fines. These business activities represented the Group's expansion of operation into the iron ore industry. The Directors expect that there will be an intense competition in the iron ore industry from other companies with more experience and expertise. The Group may not have sufficient experience and expertise in iron ore trading. It may fail to secure sufficient and quality supplies to satisfy demands from customers or it may fail to secure profitable sale orders from customers. There can be no assurance that the Group will be able to grow its iron ore trading business profitably as the Directors plan and expect. In addition, the Group's entry into such a new business may put pressure on its managerial, financial, operational and other resources. Failure to implement appropriate measures for the growth of iron ore trading business may have a material and adverse effect on the Group's financial condition and results of operations.

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

### **The Group recorded negative cashflow from operating activities in 2006**

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

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

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

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

As a result of slowing economic growth and slackening industrial production growth, the demand for thermal coal in China has been affected negatively in the second half of 2008 and the first quarter of 2009. Under such circumstances, the demand of coal products from the Group's customers in power industry has also been affected. During the four months ended 30 April 2009, the Group's coal trading volume amounted to approximately 538,000 tonnes, representing a decrease of approximately 78.9% from approximately 2.55 million tonnes during the same period in 2008.

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

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

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

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

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

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

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

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

The Group is subject to a high degree of financial leverage. The Group has been and is expected to continue to rely on both short-term and long-term borrowings to fund the majority of its capital requirements. As at 31 December 2008, the Group had a total

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outstanding debt of approximately RMB1,168.9 million. The Group's liabilities-to-assets ratios (defined as total liabilities divided by total assets) were 66.2%, 66.7% and 64.8%, and its debt to asset ratios (defined as total interest-bearing borrowing divided by total assets) were 40.9%, 49.9% and 56.0% as at 31 December 2006, 2007 and 2008.

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

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

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

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

### **There are potential conflicts of interest between Controlling Shareholders and other Shareholders**

Immediately following completion of the Global Offering and the Capitalisation Issue, the Controlling Shareholders will beneficially own 75% of the Shares (assuming that the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of the options granted under the Pre-IPO Option Scheme and any option which may be granted under the Share Options Scheme). The interests of the Controlling Shareholders may differ from the interests of the public Shareholders.

The Controlling Shareholders could have significant influence in determining the outcome of any corporate transaction or other matter submitted to the Shareholders for approval, including mergers, consolidations, the sale of all or substantially all of the Group's assets, the election of Directors and other significant corporate actions. In cases where their interests are aligned and they vote together, the Controlling Shareholders will also have the power to prevent or cause a change in control. Without the consent of some or all of the Controlling Shareholders, the Company may be prevented from entering into transactions

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that could be beneficial to the Company. There is no assurance that the Controlling Shareholders will act completely in the interests of the Group or that conflicts of interest will be resolved in favour of the Group.

**The Group depends on dividends and other distributions on equity paid by its group members and there may be restrictions on dividend distributions whereas the dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared by the Company in future**

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

In addition, the payment and the amount of any dividend declared by the Company following completion of the Global Offering will be at the recommendation of the Directors at their discretion and will depend upon the Group's future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the Directors consider relevant. The dividend distribution record during the Track Record Period may not be used as a reference or basis to determine the level of dividends that may be declared by the Company in future.

**The Group will not continue to benefit from preferential tax treatments**

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

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

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

The new PRC enterprise income tax law may deem an enterprise established offshore but having its “management organ” in China as a “resident enterprise” which will be subject to PRC tax on its global income. The term “management organ” has not yet been defined by the PRC government other than in respect of enterprises that are established offshore by PRC enterprises. There is no definition provided in respect of enterprises established offshore by private individuals or foreign enterprises. Accordingly, as advised by the PRC Legal Advisers, it is not entirely certain as to whether Qinfra Trading will be deemed to be a “resident enterprise” for the purpose of the new tax law.

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

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

Based on the relevant China tax laws, Qinfra Trading could potentially be deemed to have an establishment in China. In serving the best interests of the Group and potential investors after the Global Offering, Qinfra Trading has made tax provisions of approximately RMB9.2 million, RMB8.7 million and RMB11.0 million, respectively, during the Track Record Period and an aggregate provision of approximately RMB50.6 million for the period before the Track Record Period.

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

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

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

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

### **RISKS RELATING TO THE COAL OPERATION AND SHIPPING INDUSTRIES**

#### **The coal operations are extensively regulated by the PRC government**

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

#### **The Group faces intense competition in the coal industry**

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

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

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## RISK FACTORS

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

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

### **The shipping industry is highly cyclical**

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

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

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

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

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## RISK FACTORS

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

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

### **The shipping industry is a highly regulated industry and compliance with relevant conventions, treaties, laws and regulations could require significant expenditures or could impact the value of the Group's fleet**

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

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

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

### **There are operational risks inherent to shipping transportation**

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

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

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## RISK FACTORS

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

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

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

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

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

### **The Group's vessels could be arrested by maritime claimants, which could result in significant loss of earnings and cash flow for any resulting off-hire periods**

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

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## RISK FACTORS

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

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

### **Acts of God, acts of war, epidemics, terrorist attacks and other events could adversely affect the Group's business**

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

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

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

## RISKS RELATING TO THE PRC

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

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign exchange out of China. The Group receives a substantial portion of its revenue in RMB. Under its current corporate structure, the Group's income is primarily derived from dividend payments from the Group's PRC subsidiaries. The Group's PRC subsidiaries must convert their RMB earnings into foreign currency before they may pay cash dividends to the Company or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from SAFE by complying with certain procedural requirements. However, approval from appropriate governmental authorities is required when RMB is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investments in China and the repayment of the principal of loans denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect the Group's ability to finance its PRC subsidiaries. Subsequent to the Global Offering, the Group has the choice, as permitted by the PRC foreign investment regulations,

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## RISK FACTORS

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to invest the Group's net proceeds from the Global Offering in the form of registered capital or a shareholder loan into the Group's PRC subsidiaries to finance its operations in China. The Group's choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. In addition, the Group's transfer of funds to its subsidiaries in China is subject to approval by PRC governmental authorities in case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by the Group's PRC subsidiaries permit any such shareholder loans. These limitations on the flow of funds between the Company and its PRC subsidiaries could restrict the Group's ability to act in response to changing market conditions.

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

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

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

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

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

The value of RMB depends, to a large extent, on the PRC domestic and international economic, financial and political developments and governmental policies, as well as the currency's supply and demand in the local and international markets. Since 1994 till 2005, the conversion of RMB into foreign currencies, including the US\$, were based on exchange rates set and published daily by the People's Bank of China in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of RMB into the US\$ was largely stable until July 2005. On 21 July 2005, the People's Bank of China revalued RMB by reference to a basket of foreign currencies, including the US\$. As a result, the value of RMB appreciated by more than 2.0% on that day. Since then, the PRC central

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## RISK FACTORS

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bank has allowed the official RMB exchange rate to float against a basket of foreign currencies. There can be no assurance that such exchange rate will not fluctuate widely against the US\$ or any other foreign currency in the future. Since the Group's income and profits are denominated in RMB, any appreciation of RMB will increase the value of dividends and other distributions payable by the Group's PRC subsidiaries or China Qinfa Group in foreign currency terms. Conversely, any depreciation of RMB will decrease the value of dividends and other distributions payable by the Group's PRC subsidiaries and China Qinfa Group in foreign currency terms. Fluctuation of the value of RMB will also affect the amount of our foreign debt service in RMB terms since the Group has to convert RMB into foreign currencies to service the Group's indebtedness denominated in foreign currencies.

### **Interpretation of PRC laws and regulations involves uncertainty**

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

## **RISKS RELATING TO THE GLOBAL OFFERING**

### **There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile**

Prior to the Global Offering, there has been no public market for the Shares. The initial indicative offer price range for the Shares as disclosed in this prospectus was the result of negotiations between the Group and the Sole Global Coordinator (for itself and on behalf of the Underwriters), and the Offer Price may differ significantly from the market price for the Shares following the Global Offering. The Group has applied for listing of, and permission to deal in, the Shares on the Stock Exchange. A listing on the Stock Exchange, however, does not guarantee that an active trading market for the Shares will develop, or if it does develop, will be sustained following the Global Offering or that the market price of the Shares will not decline following the Global Offering. In addition, there can be no assurance that the Global Offering will result in the development of an active and liquid public trading market for the Shares. Furthermore, the price and trading volume of the Shares may be volatile. Factors such as the following may significantly affect the volume and price at which the Shares will trade:

- actual or anticipated fluctuations in the Group's results of operations;

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## RISK FACTORS

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- reduction or restriction of financing means for the coal operation industry;
- news regarding recruitment or loss of key personnel by the Group or its competitors;
- announcements of competitive developments, acquisitions or strategic alliances in the Group's industry;
- changes in earnings estimates or recommendations by financial analysts;
- potential litigation or regulatory investigations;
- general market conditions or other developments affecting the Group or its industry;
- the operating and stock price performance of other companies, other industries and other events or factors beyond the Group's control; and
- release of lock-up or other transfer restrictions on the Shareholders.

The securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially adversely affect the market price of the Shares.

**The subscribers of the Offer Shares may experience immediate dilution and may experience further dilution if the Company issues additional Shares in the future**

The Offer Price is higher than the net tangible assets value per Share immediately prior to completion of the Global Offering and the Capitalisation Issue. Subscribers of the Offer Shares may experience an immediate dilution in pro forma combined net tangible assets value to HK\$1.29 per Share, based on the minimum Offer Price of HK\$2.00, assuming that the Sole Global Coordinator will not exercise the Over-allotment Option.

To expand the Group's business, the Company may offer and issue additional Shares in the future. The Company may also issue additional Shares pursuant to the Share Option Scheme and the Pre-IPO Share Option Scheme. Shareholders may experience dilution in the net tangible assets book value per Share if the Company issues additional Shares in the future at a price lower than the net tangible assets value per Share.

In addition, the Company has granted options to 26 employees under the Pre-IPO Share Option Scheme. The full exercise of these options would entitle the grantees an aggregate of 8,400,000 Shares, representing 0.84% of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares that may be issued pursuant to the exercise of the Over-allotment Option, the options under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme). Exercise of any of the options under the Pre-IPO Share Option Scheme will have a dilution effect on the shareholding percentage of the Shareholders at the time of exercise of the options as well as on the earnings/loss per Share for the relevant

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## RISK FACTORS

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financial year. Further information on the Pre-IPO Share Option Scheme and their dilution effect to the shareholding of the Company upon the Listing is set out in the paragraphs under “Share Option Schemes” in Appendix V to this prospectus.

### RISK RELATING TO STATEMENTS MADE IN THIS PROSPECTUS

#### **Certain facts and statistics included in this prospectus may not be relied upon**

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

#### **Forward looking statements may be inaccurate**

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

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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*The Company has been granted by the Stock Exchange the following waivers from strict compliance with the Listing Rules.*

### MANAGEMENT PRESENCE IN HONG KONG

Although the Group has established an office in Hong Kong, the Directors do not consider it beneficial or commercially necessary to appoint additional executive Directors in Hong Kong, as such appointment will not only increase administrative expenses, but also reduce the efficiency of the Board in the decision-making process, especially for matters requiring the prompt attention of the Board.

Based on the Group's business plan, the Directors do not anticipate that the Group will have business needs to appoint two Directors to be resident in Hong Kong.

Upon an application submitted by us, the Stock Exchange has granted to the Company a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules which requires at least two executive Directors to be ordinarily resident in Hong Kong on the following conditions:-

- (a) the Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules. The authorised representatives, acting as the principal channel of communication of the Group with the Stock Exchange, will also ensure full compliance with the Listing Rules at all times. The two authorised representatives are Ms. WANG Jianfei, an executive Director, and Mr. MAK King Pui, Ricky, the chief financial officer and company secretary of the Company. Mr. MAK King Pui, Ricky is ordinarily resident in Hong Kong and Ms. WANG Jianfei holds a valid visa travelling to Hong Kong. Each of the authorised representatives will be available to meet with the Stock Exchange within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and e-mail. Each of the authorised representatives is authorised by the Board to communicate on behalf of the Board with the Stock Exchange;
- (b) in compliance with Rule 3A.19 of the Listing Rules, the Company will retain a compliance adviser acceptable by the Stock Exchange for a period commencing on the Listing Date and ending on the date on which the Company distributes the annual report for the first full financial year commencing after the Listing Date in accordance with Rule 13.46 of the Listing Rules. The compliance adviser will provide the Company with advice on the obligation in compliance with the Listing Rules, all other applicable laws, rules, codes and guidelines; and
- (c) all authorised representatives have means of contacting all of the Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters. To enhance communication with the Stock Exchange, the Company will implement a policy whereby:-
  - (i) each Director will have to provide his or her respective mobile phone numbers, residential phone numbers, fax numbers and email addresses to the authorised representatives;

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## WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

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- (ii) in the event that a Director expects to travel and be out of office, he or she shall provide to the authorised representatives the valid phone number of the place of his/her accommodation or other means of communications; and
- (iii) the Directors will provide their respective mobile phone numbers, residential phone numbers, fax numbers and email addresses to Stock Exchange.

All of the Directors (including the independent non-executive Directors) who are not ordinarily residents in Hong Kong have confirmed that they possess valid travel documents to visit Hong Kong and all of the Directors and authorised representatives will be able to meet with the Stock Exchange upon reasonable notice.

### STRUCTURE CONTRACTS

Further information on the waiver granted by the Stock Exchange in relation to the Structure Contracts is set out in the paragraphs under “Connected Transactions – Non-exempted continuing connected transactions” of this prospectus.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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*This prospectus is published solely in connection with the Global Offering which is sponsored by the Sponsor. Subject to the terms of the Underwriting Agreements, the Hong Kong Public Offer Shares are fully underwritten by the Hong Kong Underwriters and the International Placing Shares are fully underwritten by the International Underwriters. Particulars of the Underwriters and the underwriting arrangements are set forth in the section headed "Underwriting" to this prospectus.*

### DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong and the Listing Rules for the purpose of giving information to the public with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

### UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offer which forms part of the Global Offering. For applicants under the Hong Kong Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offer.

The Listing is sponsored by the Sponsor. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement and the International Placing will be fully underwritten by the International Underwriters pursuant to the International Underwriting Agreement and are subject to the Company and the Sole Global Coordinator (for itself on behalf of the Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Sole Global Coordinator.

If, for any reason, the Offer Price is not agreed between the Company and the Sole Global Coordinator (for itself on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed. For information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" of this prospectus.

### RESTRICTIONS ON SALE OF OFFER SHARES

Each person acquiring the Offer Shares under the Global Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant regulatory authorities an exemption therefrom.

### Australia

No prospectus or other disclosure document has been lodged with the Australian Securities and Investments Commission (“ASIC”) in relation to the Global Offering. This prospectus does not constitute a prospectus or other disclosure document under the Australian Corporations Act 2001 (Cth) (the “**Corporations Act**”) and does not purport to include the information required for a prospectus or other disclosure document under the Corporations Act.

Any offer in Australia of the Offer Shares may only be made to persons (the “**Exempt Investors**”) who are “sophisticated investors” (within the meaning of section 708(8) of the Corporations Act), or “professional investors” (within the meaning of section 708(11) of the Corporations Act) or otherwise a person to whom an offer may be made pursuant to one or more exemptions contained in section 708 of the Corporations Act so that it is lawful to offer the Offer Shares without disclosure to investors under Chapter 6D of the Corporations Act.

The Offer Shares applied for by Exempt Investors in Australia must not be offered for sale in Australia for 12 months from the date of issue under the Global Offering, or where section 707(3) of the Corporations Act would require disclosure to investors, except in circumstances where disclosure to investors under Chapter 6D of the Corporations Act would not be required pursuant to an exemption under section 708 of the Corporations Act or otherwise or where the offer is pursuant to a disclosure document which complies with Chapter 6D of the Corporations Act or is made where the body issued the relevant securities with disclosure under Chapter 6D of the Corporations Act. Any person acquiring our Shares must observe such Australian on-sale restrictions.

### Singapore

This prospectus has not been and will not be lodged with and registered by the Monetary Authority of Singapore as a prospectus under the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) and the Offer Shares will be offered in Singapore pursuant to exemptions invoked under Subdivision 4, Division 1 of Part XIII of the SFA, in particularly Section 274 and Section 275, of the SFA. Accordingly, this prospectus and any other offering document or material in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore, nor may any of the Offer Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) an institutional investor under Section 274 of the SFA, (ii) a relevant person pursuant to Section 275(1) of the SFA, (iii) any person pursuant to an offer referred to in Section 275(1A) of the SFA, or (iv) pursuant to and in accordance with the conditions of any other applicable provision of the SFA.

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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Where the Offer Shares are subscribed or purchased by (i) an institutional investor pursuant to Section 274 of the SFA, (ii) a relevant person pursuant to Section 275(1) of the SFA, or (iii) any person pursuant to an offer referred to in Section 275(1A) of the SFA, such Offer Shares shall not be sold within a period of six months from the date of the initial acquisition to any person other than an institutional investor under Section 274 of the SFA, to a relevant person as defined in Section 275(2) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions of the SFA.

Where the Offer Shares are subscribed or purchased under section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, securities of that corporation or the beneficiaries' rights and interest in that trust shall not be transferred within six months after that corporation or that trust has acquired the Offer Shares under section 275 of the SFA unless (i) that transfer: (a) is made only to an institutional investor under section 274 of the SFA or to a relevant person as defined in Section 275(2) of the SFA; or (b) arises from an offer referred to in section 275(1A) of the SFA, (ii) no consideration is or will be given for the transfer; or (iii) the transfer is by operation of law, and in accordance with the conditions of the SFA.

### **Switzerland**

The Offer Shares may not and will not be publicly offered, distributed or re-distributed in Switzerland and neither this prospectus nor any other solicitation for investments in the Offer Shares may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations or of Article 3 of the Federal Act on Collective Investment Schemes of June 23, 2006. This prospectus may not be copied, reproduced, distributed or passed on to others without the International Underwriters' prior written consent. This prospectus is not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations and may not comply with the information standards required thereunder. The Company has not applied and will not apply for a listing of the Offer Shares being offered pursuant to this prospectus on the SWX Swiss Exchange or on any other Swiss regulated securities market and, consequently, the information presented in this prospectus does not necessarily comply with the information standards set out in the relevant listing rules. The Offer Shares being offered pursuant to this prospectus have not been and will not be registered with the Swiss Financial Market Supervisory Authorities and have not been and will not be authorized under the Federal Act on Collective Investments Schemes of June 23, 2006. Therefore, the investor does not profit from protection under the Swiss Federal Act on Collective Investment Schemes or supervision by the Swiss Financial Market Supervisory Authority.

### **United Kingdom**

This prospectus is in the United Kingdom only addressed to and directed at: (i) persons who are "qualified investors" ("Qualified Investors") within the meaning of Section 86(7) of the Financial Services and Markets Act 2000 ("FSMA"); or (ii) less than 100 persons

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## INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

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other than those who are Qualified Investors; or (iii) persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 as amended (the “**Order**”) or are high net worth companies, unincorporated associations etc. falling within Article 49(2) of the Order, (together, “**Relevant Persons**”).

This prospectus does not constitute and the Company is not making an offer of transferable securities to the public in the United Kingdom within the meaning of sections 85 and 102B of FSMA. Therefore this prospectus is not an approved prospectus for the purposes of and as defined in section 85(1) of FSMA, has not been prepared in accordance with the Prospectus Rules made under section 73A of FSMA and has not been approved in the United Kingdom by the Financial Services Authority or by any other authority which would be a competent authority for the purposes of the Prospectus Directive (Directive 2003/71/EC). The distribution of this prospectus in the United Kingdom is accordingly restricted by law.

This prospectus has not been approved by an authorised person for the purposes of FSMA. Any investment to which this prospectus relates in the United Kingdom is available only to (and any investment activity to which it relates will be engaged only with) Relevant Persons. This prospectus is exempt from the general restriction in section 21 of FSMA on the communication of invitations or inducements to engage in investment activity on the grounds that it is being issued to, and/or directed at Relevant Persons by the International Underwriters. Persons in the United Kingdom who are not Relevant Persons should not take any action based upon this prospectus and should not rely on it.

### APPLICATION FOR LISTING ON THE STOCK EXCHANGE

The Company has applied to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and the Offer Shares to be issued pursuant to the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option, any Shares to be issued under the Capitalisation Issue, any Shares which may be issued under the Pre-IPO Share Options and the Share Option Scheme). Save as disclosed in this prospectus, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

### HONG KONG BRANCH REGISTER AND STAMP DUTY

All Offer Shares issued pursuant to applications made in the Hong Kong Public Offer will be registered on the Company’s branch register of members to be maintained in Hong Kong. The Company’s principal register of members will be maintained in the Cayman Islands by Butterfield Fulcrum Group (Cayman) Limited.

Dealings in Offer Shares registered in the branch register of members of the Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing or holding of and dealing in the Offer Shares. None of the Company, the Sole Global Coordinator, the Sponsor, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription for, purchase or holding of, or dealing in the Offer Shares.

### **STABILISATION AND OVER-ALLOTMENT OPTION**

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Sole Global Coordinator, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the absolute discretion of the Sole Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

In connection with the International Placing, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means.

Further information on the Over-allotment Option and stabilisation is set out in the paragraphs under “Over-allotment Option” and “Stabilisation” in the section headed “Structure of the Global Offering” of this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING**

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### **PROCEDURE FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES**

The procedure for applying for Hong Kong Public Offer Shares is set out in the section headed “How to Apply for Hong Kong Public Offer Shares” of this prospectus and on the relevant Application Forms.

### **STRUCTURE OF THE GLOBAL OFFERING**

Further information on the structure of the Global Offering, including its conditions, is set out in the section headed “Structure of the Global Offering” of this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. XU Jihua (徐吉華) <i>Chairman</i>	No. 29, Street 3 Phoenix Yuan Phoenix City Country Garden Guangzhou The PRC	Chinese
Ms. WANG Jianfei (王劍飛) <i>Chief Executive Officer</i>	No. 19, Street 19 Phoenix Yuan Phoenix City Country Garden Guangzhou The PRC	Chinese
Ms. LIU Xiaomei (劉曉梅)	No. 100, Street 12 District A Clifford Estates Panyu Guangzhou The PRC	Chinese
Mr. WENG Li (翁立)	Room 2, Level 2 Unit 2, Tower D Fuhao Garden Residence Community Jianghan District Wuhan City The PRC	Chinese
<i>Independent non-executive Directors</i>		
Dr. CHEN Wenjing (陳文敬)	Room 704, Block 1 No. 9 Guang Qu Men Wai Avenue Beijing The PRC	Chinese
Mr. HUANG Guosheng (黃國勝)	Room 501, No. 42 Hua Kang Street Tianhe District, Guangzhou Guangdong The PRC	Chinese

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Name	Address	Nationality
Mr. LAU Sik Yuen (劉錫源)	Room C, 6/F Kalam Court 7 Grampian Road, Kowloon City Hong Kong	Canadian

## PARTIES INVOLVED IN THE GLOBAL OFFERING

<b>Sponsor</b>	China Everbright Capital Limited 40/F., Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager</b>	China Everbright Securities (HK) Limited 36/F., Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Co-Lead Manager</b>	Mizuho Securities Asia Limited 11th Floor, CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
<b>Co-Managers</b>	Friedmann Pacific Securities Limited Room 4505, 45/F. Far East Finance Center 16 Harcourt Road Admiralty Hong Kong
	Kingsway Financial Services Group Limited 5/F. Hutchison House 10 Harcourt Road Central Hong Kong
	Mega Capital (Asia) Company Limited 2213-14 COSCO Tower 183 Queen's Road Central Sheung Wan Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

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Mirabaud Securities (Asia) Limited  
3912-13  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

**Legal adviser to the Sponsor and Underwriters** *as to Hong Kong law:*  
Sidley Austin  
Level 39  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**Legal advisers to the Company** *as to Hong Kong law:*  
Squire, Sanders & Dempsey  
24th Floor  
Central Tower  
28 Queen's Road Central  
Central  
Hong Kong

*as to PRC law:*  
Commerce & Finance Law Offices  
6F NCI Tower, A12 Jianguomenwai Avenue  
Chaoyang District  
Beijing 100022  
China

*as to Cayman Islands law:*  
Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY-1111  
Cayman Islands

**Auditors and reporting accountants** KPMG  
8th Floor, Prince's Building  
10 Chater Road  
Central  
Hong Kong

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## **DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING**

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<b>Property valuer</b>	Vigers Appraisal & Consulting Limited 10th Floor, The Grande Building 398 Kwun Tong Road Kowloon Hong Kong
<b>Receiving bankers</b>	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
	Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong
	Industrial and Commercial Bank of China (Asia) Limited 33/F ICBC Tower 3 Garden Road Central Hong Kong

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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	Room 1303, 13th Floor, MassMutual Tower No. 38 Gloucester Road Wanchai Hong Kong
<b>Headquarter and principal place of business in the PRC</b>	Unit Nos. 2201 to 2208 Level 22 Poly International Plaza Tower B No. 1 Pazhou Avenue East Haizhu District Guangzhou City the PRC
<b>Company website</b>	<a href="http://www.qinfagroup.com">http://www.qinfagroup.com</a> (information on this website does not form part of this prospectus)
<b>Chief Financial Officer and company secretary</b>	Mr. MAK King Pui, Ricky (麥景培), CPA, FCCA
<b>Authorised representatives</b>	Ms. WANG Jianfei (王劍飛) No. 19, Street 19 Phoenix Yuan Phoenix City Country Garden Guangzhou The PRC
	Mr. MAK King Pui, Ricky (麥景培), CPA, FCCA Flat B, 16/F Kam Shan Mansion Kao Shan Terrace Tai Koo Shing Hong Kong
<b>Audit committee of the Board</b>	Mr. LAU Sik Yuen (劉錫源) ( <i>Chairperson</i> ) Dr. CHEN Wenjing (陳文敬) Mr. HUANG Guosheng (黃國勝)

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## CORPORATE INFORMATION

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<b>Remuneration committee of the Board</b>	Mr. HUANG Guosheng (黃國勝)( <i>Chairperson</i> ) Ms. WANG Jianfei (王劍飛) Dr. CHEN Wenjing (陳文敬)
<b>Nomination committee of the Board</b>	Mr. HUANG Guosheng (黃國勝)( <i>Chairperson</i> ) Ms. WANG Jianfei (王劍飛) Dr. CHEN Wenjing (陳文敬)
<b>Compliance adviser</b>	China Everbright Capital Limited 40/F., Far East Finance Centre 16 Harcourt Road Hong Kong
<b>Principal share registrar and transfer office in Cayman Islands</b>	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
<b>Hong Kong branch share registrar and transfer office</b>	Union Registrars Limited Rooms 1901-02, Fook Lee Commercial Centre Town Place, 33 Lockhart Road Wanchai Hong Kong

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## CORPORATE INFORMATION

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**Principal bankers***In Hong Kong*

Bank of China (Hong Kong) Ltd.  
Mongkok Branch  
589, Nathan Road  
Kowloon  
Hong Kong

*In the PRC*

Industrial and Commercial Bank of China  
Zhuhai Lingang Sub-branch  
Floor 1-2, Frontier Checking Compositive Building  
Lingang Industry Zone  
Zhuhai City  
Guangdong  
The PRC

China Minsheng Bank Corp., Ltd.  
(Guangzhou Sub-branch)  
No. 45, Tian He Lu  
Yuexiu District  
Guangzhou  
Guangdong  
The PRC

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## INDUSTRY OVERVIEW

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*The information in the section below has been derived, in part, from various official government publications. This information has not been independently verified by the Company, the Sole Global Coordinator, the Sponsor, the Underwriters or any of their respective affiliates or advisers. The information may not be consistent with other information compiled within or outside the PRC.*

### INTRODUCTION

The Group is principally engaged in the coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal.

The following sets forth an overview of the coal industry, coal transportation and certain information of non-state-owned coal operators in China and around the world.

### INFORMATION ON THE BBIC REPORT

The Group engaged BBIC to produce the BBIC Report to provide more information to potential investors of the Group for their better understanding of the Group's industry.

Identity of publisher: Beijing Business and Intelligence Consulting Co., Ltd (“BBIC”)

Publisher's background and credentials: BBIC is a research company in the PRC with substantial experience in publishing market reports, business reference books and online information databases.

According to the information provided by BBIC, a majority of its employees are professional researchers and most of them possess master's degrees or higher qualifications. BBIC has published a number of research reports for various financial and commercial organizations in the PRC. The research reports published by BBIC include:

《2007-2008年中國煤炭行業發展趨勢決策諮詢及行業競爭力調查》(Consultation on the Decision-making concerning the Trend of Development in the Coal Industry in China and Competitiveness Survey of the Coal Industry from 2007 to 2008)

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## INDUSTRY OVERVIEW

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《2007-2008年中國動力煤行業發展趨勢決策諮詢及行業競爭力調查報告》(Consultation on the Decision-making concerning the Trend of Development in the Steam Coal Industry in China and Competitiveness Survey of the Coal Industry from 2007 to 2008)

《2007-2008年中國煤炭經營行業兼併重組決策及行業投資可行性分析報告》(Decision-making concerning the Merger and Acquisition in the Coal Operation Industry in China and Industrial Investment Analysis Feasibility Report from 2007 to 2008)

《2007-2008年中國煤炭運銷行業發展趨勢決策諮詢及行業競爭力調查》  
(Consultation on the Decision-making concerning the Trend of Development in the Coal Transportation and Sales Industry in China and Survey of the Industry Competitiveness from 2007 to 2008)

《2007-2010年中國民營煤炭貿易行業發展趨勢決策諮詢及行業競爭力調查》(Consultation on the Decision-making concerning the Trend of Development in the Non-State Owned Coal Trading Industry in China and Survey of the Coal Industry Competitiveness from 2007 to 2010)

《2007-2010年中國煤炭工業企業發展現狀及競爭趨勢分析報告》(The Report Regarding the Present Status Analysis of Development and the Trend of Competition of the Enterprises in the Coal Industry of China from 2007 to 2010)

《2007-2010年中國民營煤炭工業企業生存現狀及競爭趨勢分析報告》(The Report Regarding Present Status Analysis of Development and the Trend of Competition of Private Enterprises in the Coal Industry of China from 2007 to 2010)

《2008-2008年中國多晶硅產業投資價值決策諮詢及行業競爭力調查分析研究報告》(Consultation on the Decision-making concerning the Investment Value in the Polysilicon Industry of China and Survey Report of Industrial Competitiveness from 2007 to 2008)

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## INDUSTRY OVERVIEW

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《2007-2008 年中國太陽能電池行業兼併重組決策及行業投資可行性調查報告》(Decision-making concerning the Merger and Acquisition in the Solar Energy Battery Industry in China and Industry Investment Analysis Feasibility Report from 2007 to 2008)

《2007-2008 年中國火電行業發展趨勢決策諮詢及行業競爭力調查研究分析報告》(Consultation on the Decision-making concerning the Trend of Development in the Thermal Power Industry in China and Survey of the Industry Competitiveness from 2007 to 2008)

《2007-2010 年中國石油化工行業發展趨勢決策諮詢及行業競爭力調查研究分析報告》(Consultation on the Decision-making concerning the Trend of Development in the Petroleum Chemical Industry in China and Survey of Industry Competitiveness from 2007 to 2010)

煤炭市場月度分析報告 (Monthly Analysis Report on Coal Market)

煤炭行業周報 (Coal Industry Weekly Reports)

煤炭行業每周監測報告 (Weekly Inspection Report on Coal Industry)

Date of publications:

June 2009

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## INDUSTRY OVERVIEW

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Assumption:

The content of the BBIC Report relied on:

- The market data published by numerous well recognised authorities and government entities around the world;
- Strategic analysis of market performance globally and nationally including supply-side and demand drivers, product development and marketing;
- Historic market size performance at country, regional and global level;
- Company market shares by country;
- Future market outlook and sales forecasts;
- Interviews with market participants; and
- The analysis conducted by BBIC industry analysts

Basis upon which their statistics are reliable:

BBIC is renowned for its:

- Reputation in the industry;
- Objectivity and independence;
- Wide coverage;
- Track record of research reports; and
- Consistent and timely analysis.

The Group paid an aggregate fee of RMB21,000.0 for the use and the preparation of the BBIC Report. BBIC advised that the fees were based on normal rates in its ordinary course of business. In view of the background and market credentials of BBIC, the Directors believe that the BBIC Report was prepared independently even though BBIC was commissioned by the Group to produce the BBIC Report for particular use in this prospectus.

BBIC was commissioned to (a) conduct market research and consolidate market information from various sources in the coal industry and coal transportation sectors; (b) review and verify the accuracy and consistency of market information; (c) analyse the development trends in the coal industry and coal transportation sectors; and (d) issue an independent and objective research report.

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## INDUSTRY OVERVIEW

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### OVERVIEW OF GLOBAL COAL INDUSTRY

#### Global Coal Reserves

The global coal reserve was approximately 826,001.0 million tonnes as at the end of 2008 and was available for exploration for over 122 years. It comprises anthracite, bituminous, sub-bituminous and lignite. Approximately 78.1% of total coal reserves are distributed in the top five countries around the world at the end of 2008. The following table illustrates the coal reserves in the top five countries at the end of 2008:-

Ranking	Country	Proven Reserves (Million tonnes)	Percentage (%)
1.	United States of America	238,308	28.9
2.	Russia	157,010	19.0
3.	China	114,500	13.9
4.	Australia	76,200	9.2
5.	India	58,600	7.1

Source: BP Statistical Review of World Energy 2009 and BBIC Report

In recent years, the global consumption for coal resources has increased substantially. Coal resources have gradually become the main energy resource in most of the energy consuming countries including China, United States of America and India. As a result, the global production, consumption and trading in coal recorded a significant increase.

#### Global Coal Production

The global production of coal increased by 5.3% from 3,149.5 million tonnes oil equivalent in 2007 to 3,324.9 million tonnes oil equivalent in 2008. The following table sets forth general information on the global coal production:

Million tonnes oil equivalent	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Change 2008 over 2007	2008 share of total
North America	648.8	628.3	612.6	633.2	610.2	590.4	611.8	620.9	635.2	630.6	638.4	1.0%	19.2%
South & Central America	29.5	28.7	33.9	36.8	33.9	39.9	43.0	46.3	50.9	54.0	55.5	2.5%	1.7%
Europe & Eurasia	437.0	425.3	428.6	438.2	424.6	437.2	438.7	438.4	445.3	447.0	456.4	1.8%	13.7%
Middle East	0.6	0.7	0.6	0.5	0.4	0.6	0.6	0.6	0.5	0.5	0.5	-0.3%	-
Africa	132.0	130.1	130.7	130.2	128.0	137.5	140.9	140.7	140.5	142.1	143.4	0.6%	4.3%
Asia Pacific	978.9	1,012.8	1,040.8	1,107.8	1,161.0	1,316.2	1,496.9	1,637.1	1,764.0	1,875.4	2,030.7	8.0%	61.1%
China	628.7	645.9	656.7	697.6	733.7	868.4	1,012.1	1,120.0	1,205.1	1,282.4	1,414.5	10.0%	42.5%
WORLD	2,226.8	2,225.9	2,247.1	2,346.7	2,358.1	2,512.8	2,732.0	2,884.2	3,036.3	3,149.5	3,324.9	5.3%	100.0%

Source: BP Statistical Review of World Energy 2009 and BBIC Report

## INDUSTRY OVERVIEW

### Global Coal Consumption

Coal was the fastest growing fuel in the world for the fifth consecutive year. Global coal consumption rose by approximately 3.1% in 2008, which was slightly lower than the 4.5% in 2007. As ever, the world economy is the key driver of energy consumption, the tiny slump in the annual coal consumption growth rate in 2008 was mainly driven by the global economic recession. China coal consumption rose by 6.8% in 2008 and doubled the average global coal consumption rate which was only 3.1%. The following table sets forth general information on the global coal consumption:

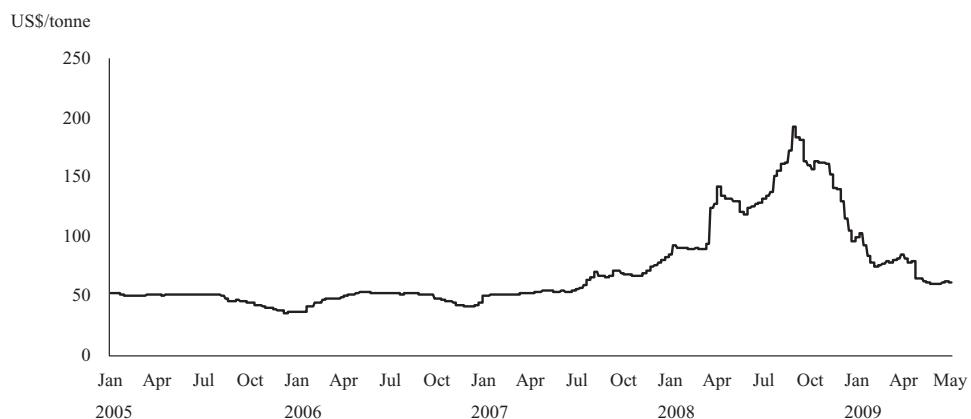
Million tonnes oil equivalent	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Change	2008	
												2008	over	share
												2007	of	total
North America	582.3	581.4	606.9	593.0	591.1	604.5	603.0	614.9	606.1	614.6	606.9	-1.5%	18.4%	
South & Central America	19.7	20.1	20.1	19.0	18.3	19.6	20.5	20.8	20.9	22.5	23.3	3.3%	0.7%	
Europe & Eurasia	529.5	504.5	525.6	518.7	518.6	533.9	527.8	514.1	526.6	528.9	522.7	-1.4%	15.8%	
Middle East	6.8	6.7	7.3	8.3	8.7	9.0	9.0	9.1	9.1	9.3	9.4	-	0.3%	
Africa	91.6	89.9	89.4	89.3	92.4	97.4	103.4	100.8	102.3	105.7	110.3	4.0%	3.3%	
Asia Pacific	1,031.8	1,048.0	1,089.4	1,121.5	1,176.1	1,333.2	1,502.5	1,647.6	1,777.2	1,913.5	2,031.2	5.9%	61.5%	
<b>China</b>	<b>651.9</b>	<b>656.2</b>	<b>667.4</b>	<b>681.3</b>	<b>713.8</b>	<b>853.1</b>	<b>983.0</b>	<b>1,100.5</b>	<b>1,215.0</b>	<b>1,313.6</b>	<b>1,406.3</b>	<b>6.8%</b>	<b>42.6%</b>	
<b>WORLD</b>	<b>2,261.7</b>	<b>2,250.7</b>	<b>2,338.4</b>	<b>2,349.7</b>	<b>2,405.2</b>	<b>2,597.6</b>	<b>2,766.2</b>	<b>2,907.4</b>	<b>3,042.3</b>	<b>3,194.5</b>	<b>3,303.7</b>	<b>3.1%</b>	<b>100.0%</b>	

Source: BP Statistical Review of World Energy 2009 and BBIC Report

### Global Coal Price

During the Track Record Period, the global coal prices increased gradually since 2005. The Australia Newcastle FOB coal spot price (6,700 Kcal.) increased from approximately US\$52.8 per tonne in January 2005 and recorded a historical high of approximately US\$192.5 per tonne in the first week of July 2008. However, the coal price dropped significantly from the peak in or about July 2008 to approximately US\$66.2 per tonne at the end of May 2009.

#### 6,700 Kcal GAD FOB Steam Coal Spot Price/Newcastle, Australia



Source: BBIC Report

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## INDUSTRY OVERVIEW

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### Proven Coal Reserves

Set out below are the world's proven coal reserves statistics, extracted from BP Statistical Review of World Energy 2009:

#### Proven coal reserves at end of 2008

	Total Million tonnes	Percentage of total	R/P ratio
North America	246,097	29.8%	216
South & Central America	15,006	1.8%	172
Europe & Eurasia	272,246	33.0%	218
Middle East & Africa	33,399	4.0%	131
Asia Pacific	259,253	31.4%	64
– <i>China</i>	114,500	13.9%	41
– <i>Australia</i>	76,200	9.2%	190
– <i>Indonesia</i>	58,600	7.1%	114
TOTAL WORLD	<u>826,001</u>	<u>100.0%</u>	<u>122</u>

Source: *BP Statistical Review of World Energy 2009 and BBIC Report*

Note: R/P ratio is an indicator describing the number of years of remaining production from current proven reserves at current production rates.

As illustrated above, China has rich proven coal reserves, which represent approximately 44.2% and 13.9% of the total proven coal reserves of Asia Pacific and the world respectively.

Coal is the principal source of energy in China and it has been explored in large scale during the past decades. Therefore, the R/P ratio of China's proven coal reserves is only around 41 years, substantially lower than the world's average R/P ratio of 122 years. In other words, the current proven reserves in China can only support coal production under the current production rate for approximately 41 years.

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## INDUSTRY OVERVIEW

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### OVERVIEW OF THE COAL INDUSTRY IN THE PRC

#### The Net Import of Coal in the PRC

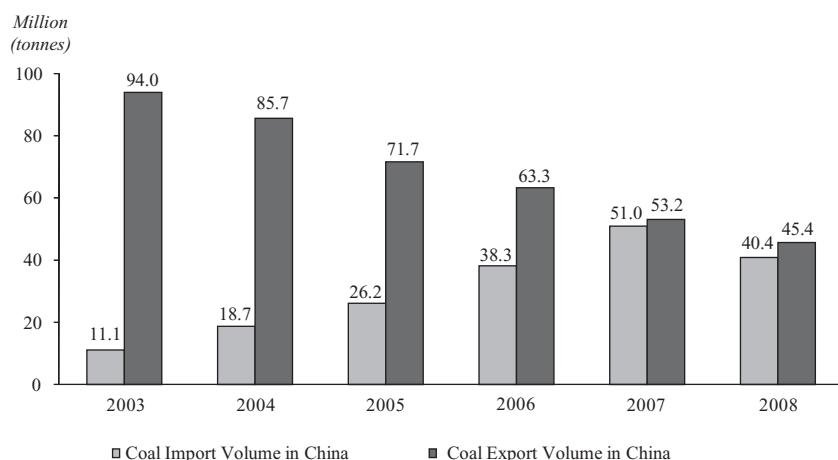
The PRC government promulgated the policy of “Encouraging Imports and Suppressing Exports” of coal in 2003, and gradually reduced export tax rebates for coal products. On 15 September 2006, the policy on export tax rebates for coal products was abolished. From 1 November 2006 onwards, an additional one to nine per cent export customs duty was levied on coal exports.

At the same time, the PRC government reduced the customs duty for imported coal twice in 2006, and effective from 1 June 2007, no customs duty is imposed on coal imported to China. As a result, the volume of coal imports in 2006 and 2007 underwent significant increases of approximately 46.0% and 33.0%, respectively. The volume of coal exported from the PRC decreased from approximately 94.0 million tonnes in 2003 to 45.4 million tonnes in 2008, with an average annual decrease of approximately 13.5%, while the volume of coal imported to the PRC has grown from approximately 11.1 million tonnes in 2003 to 40.4 million tonnes in 2008, with a CAGR of approximately 29.4%.

In view of the drastic increase in global coal prices in the first three quarters in 2008, the demand of coal in the PRC slowed down in 2008. The volume of coal imported to the PRC in 2008 fell to approximately 40.4 million tonnes, representing a decrease of approximately 20.8% from 2007. The net export value therefore increased slightly from 2.2 million tonnes in 2007 to 5.0 million tonnes in 2008.

The following diagram illustrates the volume of coal imports and exports in the PRC from 2003 to 2008:–

**Volume of coal imports & exports in the PRC**



Source: China Customs and BBIC Report

The volume of coal net exports was drastically reduced to approximately 5.0 million tonnes in 2008 from approximately 82.9 million tonnes in 2003. The substantial decrease in the net coal export from 2003 to 2008 mainly reflected (i) the increase in the total volume

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## INDUSTRY OVERVIEW

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of coal imports in the PRC as a result of the increasing coal consumption in the PRC, in particular, at the coastal regions of the PRC; and (ii) the decrease in the total volume of coal exports from the PRC as a result of the PRC Government's restriction on the export of coal and the increasing coal consumption in the PRC during the same period.

### PRC Coal Prices

From 1 January 2005 to November 2007, average Qinhuangdao benchmark coal spot prices (5,500 Kcal.) were traded within the range of RMB392.5 per tonne and RMB477.5 per tonne. As stimulated by the surging oil price and fast-growing demand for coal in the coastal regions of the PRC, average Qinhuangdao benchmark coal spot prices (5,500 Kcal.) increase significantly from approximately RMB477.5 per tonne in November 2007 to approximately RMB1,045.0 per tonne as of 28 July 2008. As affected by the decreasing international commodity prices, the Qinhuangdao benchmark coal spot price (5,500 Kcal.) decreased to approximately RMB580.0 per tonne at the end of December 2008, and to approximately RMB585.0 per tonne at the end of May 2009.

### Coal Production in the PRC

In recent years, the four main coal consumption industries in the PRC are electricity, construction, iron and steel and chemical industries, which in aggregate accounted for approximately 80.0% of total coal consumption in the PRC. Coal consumed by the electricity industry accounted for approximately 50.0% of the total coal consumption in the PRC. The electricity industry, construction industry and iron and steel industry in aggregate contribute approximately 90.0% of the recent increase in coal consumption in the PRC, with only a limited increase or even a decrease of coal consumption among other industries.

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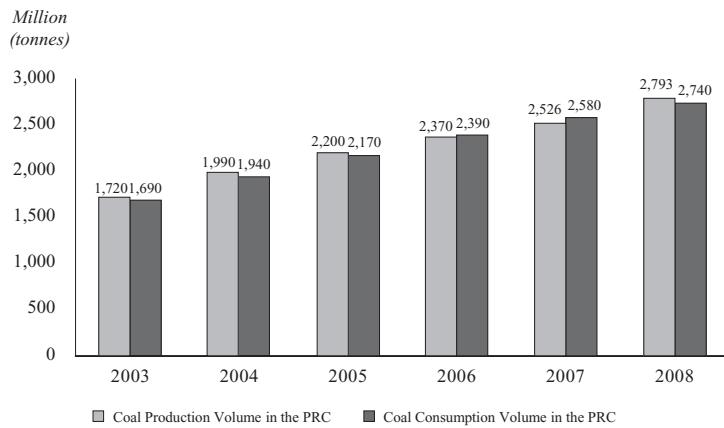
## INDUSTRY OVERVIEW

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The volume of coal production in the PRC has grown from 1,720.0 million tonnes in 2003 to 2,793.0 million tonnes in 2008, with a CAGR of 10.2%. The volume of coal consumption in the PRC has grown from 1,690.0 million tonnes in 2003 to 2,740.0 million tonnes in 2008, with a CAGR of 10.2%, which is slightly higher than the CAGR of the volume of coal production.

The following diagram illustrates the volume of coal production and consumption in the PRC from 2003 to 2008:–

### Volume of coal production and consumption in the PRC



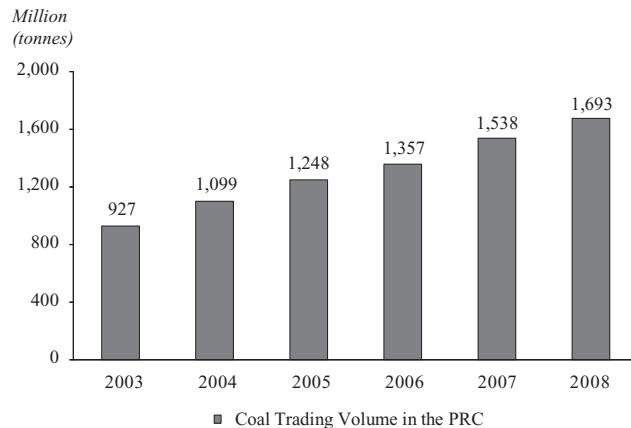
Source: BBIC Report

### Coal Trading

According to the BBIC Report, the volume of coal trading in the PRC comprises the volume of coal imports (coal produced overseas) and the volume of domestic coal trading (coal produced in the PRC). The volume of coal trading in the PRC has grown from 927.0 million tonnes in 2003 to 1,693.0 million tonnes in 2008, with a CAGR of 12.8%.

The following diagram illustrates the volume of coal trading in the PRC from 2003 to 2008:–

### The volume of coal trading in the PRC



Source: BBIC Report

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## INDUSTRY OVERVIEW

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### OVERVIEW OF THE NON-STATE-OWNED COAL OPERATORS IN THE PRC

According to 《煤炭經營企業「十一五」結構調整與合理佈局規劃》 (“Eleventh Five-Year Plan for Structural Adjustment and Reasonable Arrangement for Coal Operating Enterprises” (the “**Eleventh Five-Year Plan**”)) promulgated by the NDRC on 29 September 2007, all PRC coal operators with an annual operating volume below 10,000 tonnes will be eliminated gradually. Consequently, the number of PRC coal operators shall be adjusted from 200,000 to around 47,000 by 2010.

A coal operator is principally engaged in the operation of a coal related business including sales, wholesales, processing and distribution (exclusive of coal mine exploitation enterprise). Following the release of the “Eleven Five-Year Plan”, it is expected that various small scale coal operators will be gradually eliminated, while the large non-state-owned coal operators will obtain numerous opportunities for mergers and acquisitions.

#### **The market share of non-state-owned coal operators in the PRC**

There are more than 200,000 coal operators in the PRC, most of which are small non-state-owned coal operators. Due to state control over coal resources, for a long time the operation of the coal industry has not been fully market oriented, with only a small number of large scale non-state-owned coal operators. According to the BBIC Report, the volume of coal trading in the PRC in 2008 amounted to approximately 1,693.0 million tonnes, of which (i) approximately 1,168.0 million tonnes or approximately 69.0% of the total volume of coal trading in the PRC were traded by state-owned coal operators; and (ii) approximately 525.0 million tonnes or approximately 31.0% of the total volume of coal trading in the PRC were traded by non-state-owned coal operators.

Among the non-state-owned coal operators, the top ten non-state-owned coal operators in the PRC, including the Group, accounted for approximately 30.7 million tonnes or approximately 5.9% and 1.8% of the coal trading volume of non-state-owned coal operators and total volume of coal trading in the PRC in 2008, respectively.

According to the BBIC Report, the Group was ranked as the largest non-state-owned coal operator in the PRC in terms of the volume of coal trading in 2008. As there are numerous small non-state-owned coal operators operating coal business in the PRC, the Directors believe the promulgation of the “Eleventh Five-Year Plan” will have significant adverse impact on those relatively small coal operators as these relatively small operators would be gradually eliminated by the industry integration. It is expected that the Group will benefit from the industry consolidation.

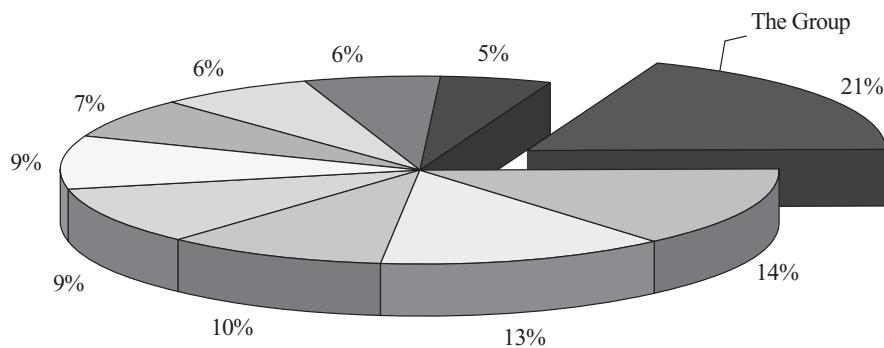
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## INDUSTRY OVERVIEW

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The following diagram illustrates the market share of the coal trading volume among the top ten non-state-owned coal operators in the PRC in 2008:–

**The market share of the coal trading volume among the top ten non-state-owned coal operators in the PRC in 2008**



Source: BBIC Report

### Coal Trading Volume of Non-state-owned Coal Operators in the PRC

The coal trading industry is the bridge linking coal production and coal consumption, and coal trading operators have gradually become an important and integrated part of coal logistics system in the PRC. Currently, there are approximately 200,000 coal operators (including coal trading) in the PRC, among them, there are numerous distribution subsidiaries of large operating coal groups, as well as a variety of non-state-owned coal operators.

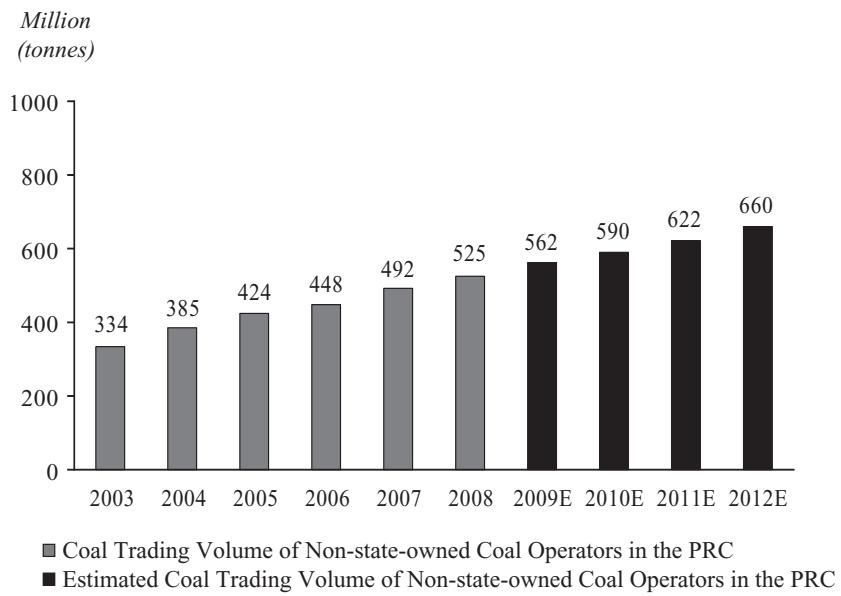
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## INDUSTRY OVERVIEW

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The following diagram illustrates the coal trading volume of non-state-owned coal operators in the PRC from 2003 to 2008 and the estimated coal trading volume of non-state-owned coal operators in the PRC from 2009 to 2012:–

### Volume of coal trading of non-state-owned coal operators in the PRC



Source: BBIC Report

The volume of coal trading by non-state-owned coal operators in the PRC has increased from 334.0 million tonnes in 2003 to 525.0 million tonnes in 2008, with a CAGR of 9.5%. According to the Eleventh Five-Year Plan, all non-state-owned coal operators with an annual operating volume below 10,000.0 tonnes will be eliminated, resulting in a limited amount of non-state-owned coal operators left in the coming five years. The volume of coal trading by non-state-owned coal operators in the PRC is estimated to grow from 562.0 million tonnes in 2009 to 660.0 million tonnes in 2012, with an estimated CAGR of 5.5%.

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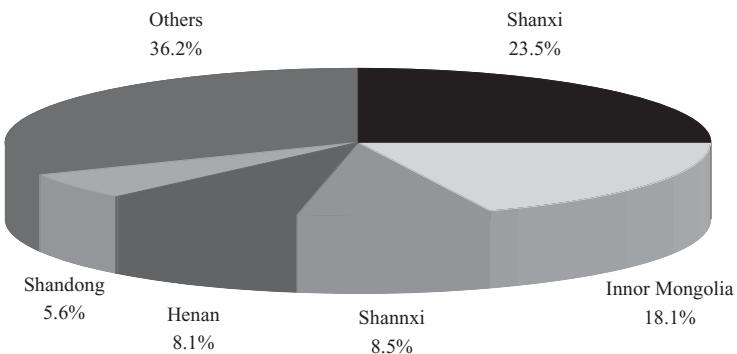
## INDUSTRY OVERVIEW

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### OVERVIEW OF COAL TRANSPORTATION IN THE PRC

The total coal production volume of Shanxi, Inner Mongolia, Henan and Shandong was approximately 1,320.0 million tonnes, which accounted for approximately 55.3% of the total coal production volume of China for the period between January 2008 and November 2008.

The following diagram illustrates the volume of coal production by geographical region in the PRC for the period between January 2008 and November 2008:-



Source: BBIC Report

Being the world's largest coal consuming country, the demand for coal in China, in particular the prosperous coastal regions, has grown significantly. However, coal resources and production are concentrated mainly in the western and northern regions in China. In the PRC coal industry, there exists a geographical disparity and transportation bottleneck between locations of coal production and principal end-users. The disequilibrium is also shown in the fact that coal resources are mainly distributed in regions which are far away from the major developed areas. This results in the situation where coal must be transported over long distances from the production areas to the distribution areas.

### Coal transportation and logistics in the PRC

The logistics of long distance coal transportation are complex, involving the coordination of loading on and transportation by trucks, unloading and storage at coal loading stations, loading on and transportation by railway, and loading at ports for transportation by water way. As a result, transportation costs are the major cost in the purchase of coal. The demand for coal has been exceeding supplies of coal in the PRC for a long period of time, resulting in an increase in the price of coal. Hence, the inevitable transportation cost is one of the major considerations of coal consumers. The Directors believe the coal operators with the ability to provide integrated services in the PRC will continue to benefit from the disequilibrium situation in the future.

Road transportation is most suitable for short distance transportation of coal from coal mines to coal loading stations. Due to the low volume of goods transported with each trip, road transportation incurs higher fuel costs per tonne than railway and sea transport. Therefore, road transportation is not suitable for the conveyance of coal over long distances.

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## INDUSTRY OVERVIEW

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### *Coal Loading Stations*

There are 41 major coal loading stations located along the Daqin Railway. In view of the rapid increase in coal consumption, the standard of the coal loading stations has gradually improved. To the best knowledge of the Directors, the government is also raising the approval requirements for investments in new coal loading stations in the PRC. However, the government encourages large coal operators investing in new coal loading stations with a transportation capacity of over 3 million tonnes.

### *Railway*

Railway transportation is particularly suitable for bulk merchandise such as coal, given its features of low costs and large transport volume over long distances. Due to the imbalanced coal resources distribution in China, railway transportation has become the major form of transportation and covers over 90.0% of the total transport volume. The feature of large transport volumes over long distances have given railway transportation an indispensable status in respect of coal transportation. However, insufficient capacity restricts coal consumption in certain areas.

There are three main railways for coal transportation in the PRC, namely Daqin Railway, 侯月線 (Houyue Railway) and 朔黃線 (Shuohuang Railway). In 2007, the coal transportation volume of Daqin Railway, 侯月線 (Houyue Railway) and 朔黃線 (Shuohuang Railway) was approximately 300.0 million tonnes, 120.0 million tonnes and 130.0 million tonnes, respectively. The total coal transportation volume of Daqin Railway, 侯月線 (Houyue Railway) and 朔黃線 (Shuohuang Railway) accounted for approximately 36.0% of the total coal transportation volume by railway in the PRC. Recently, the rapid increase in the coal transportation volume of Daqin Railway and 侯月線 (Houyue Railway) enabled Daqin Railway and 侯月線 (Houyue Railway) to become the core coal transportation railway in the PRC.

#### *Daqin Railway:*

Daqin Railway is the first electrified bulk carrier special railway for coal transportation in the PRC. It is the passage for coal transport from Shanxi, Shaanxi and western Inner Mongolia.

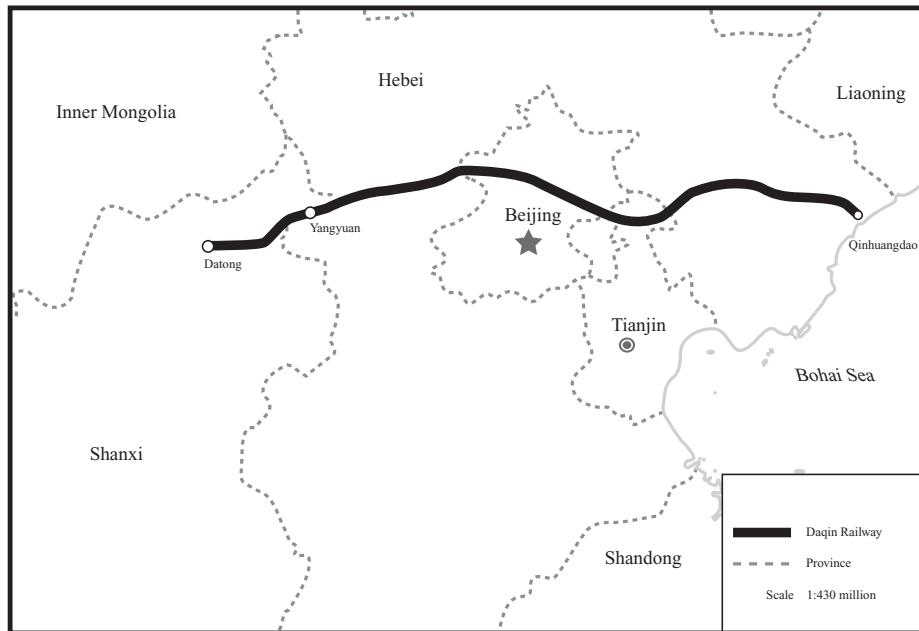
Daqin Railway starts from Hanjialing station on the Beitongpu Line and reaches the east in Liuchuan south station in the Qinhuangdao region. The total length is approximately 653 km with an annual coal transportation capacity of 350.0 million tonne in 2008. It is responsible for the transportation of coal for production usage by the top five electricity generation companies, over 350 major electricity generation plants, top ten iron and steel companies and over 6,000 enterprises, coal for civilian usage and coal for export.

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## INDUSTRY OVERVIEW

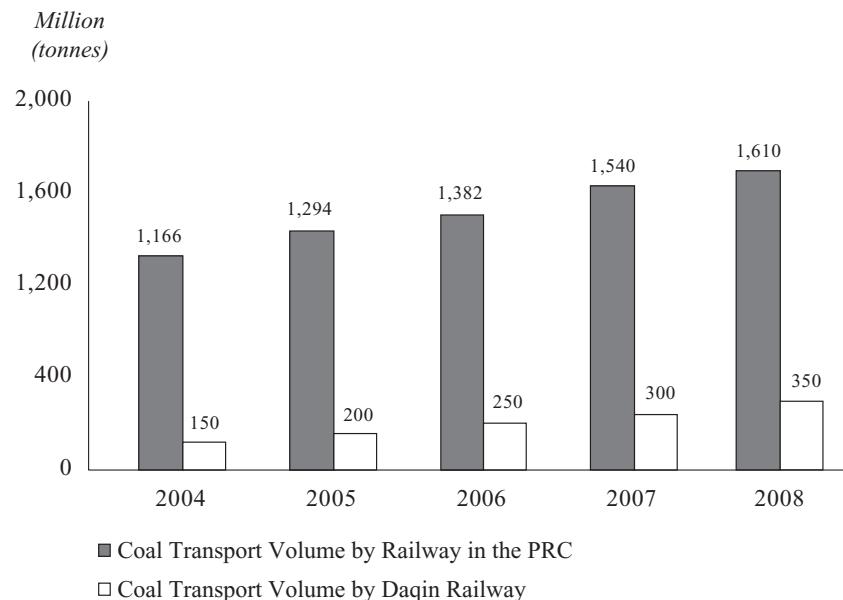
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The following diagram illustrates the geographical location and distribution of Daqin Railway:-



The following diagram illustrates the total volume of coal transport by railway in the PRC and by Daqin Railway in the PRC from 2004 to 2008:-

**The total volume of coal transport by railway in the PRC and Daqin Railway**



Source: BBIC Report

The volume of coal transport by Daqin Railway in the PRC has grown from approximately 120.0 million tonnes in 2003 to approximately 350.0 million tonnes in 2008, with a CAGR of approximately 23.9%.

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## INDUSTRY OVERVIEW

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### *Ports*

Coal resources are mainly transported by water way from northern China to southern China due to the disequilibrium distribution of coal resources in the PRC. Water way transportation is particularly suitable for coal transportation, given its feature of low cost and large transport volume over long distances. Hence, water way transportation is the major method in global coal trading, and is well recognised by global coal operators.

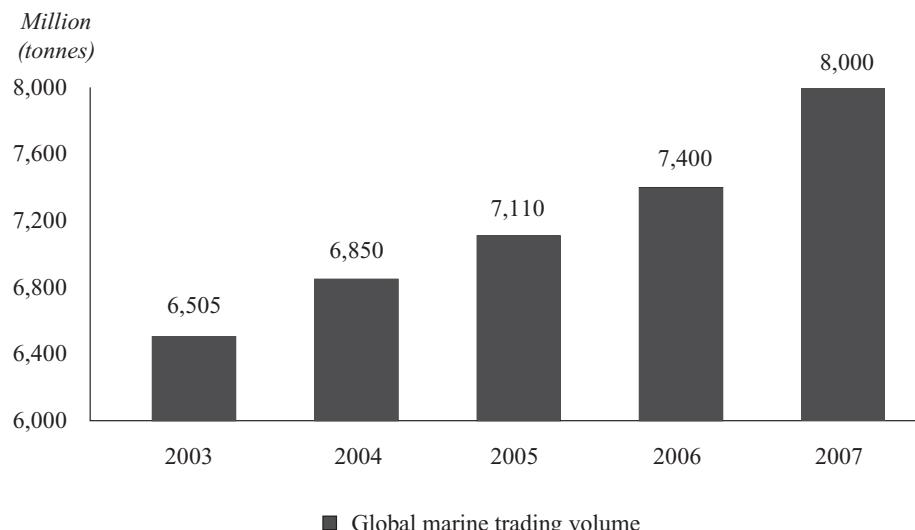
Qinhuangdao port, Tianjin port and HuangHua port are the major dry bulk loading ports in northern China. The dry bulk handling and transportation volumes of Qinhuangdao port, Tianjin port and HuangHua port in 2008 were approximately 249.0 million tonnes, 354.0 million tonnes and 83.0 million tonnes.

Qinhuangdao port is the largest coal loading port in the PRC in terms of the annual coal loading volume and it is equipped with 45 berths. According to the BBIC report, the annual coal loading volume of Qinhuangdao port was increased from 175.0 million tonnes in 2006 to 218.0 million tonnes in 2008, representing an increase of approximately 24.6%.

### *Water Way Transportations*

According to the BBIC Report, global economy and marine trading volume increased significantly in 2007, which was mainly led by such Asian countries as economic growth in China and India. The global marine trading volume was approximately 8,000.0 million tonnes in 2007, representing approximately 8.1% growth compared with that of 2006. The volume of global marine trading grew from approximately 6,505.0 million tonnes in 2003 to 8,000.0 million tonnes in 2007, representing a CAGR of approximately 5.3%.

The following diagram illustrates the volume of global marine trading from 2003 to 2007:-



Source: BBIC Report

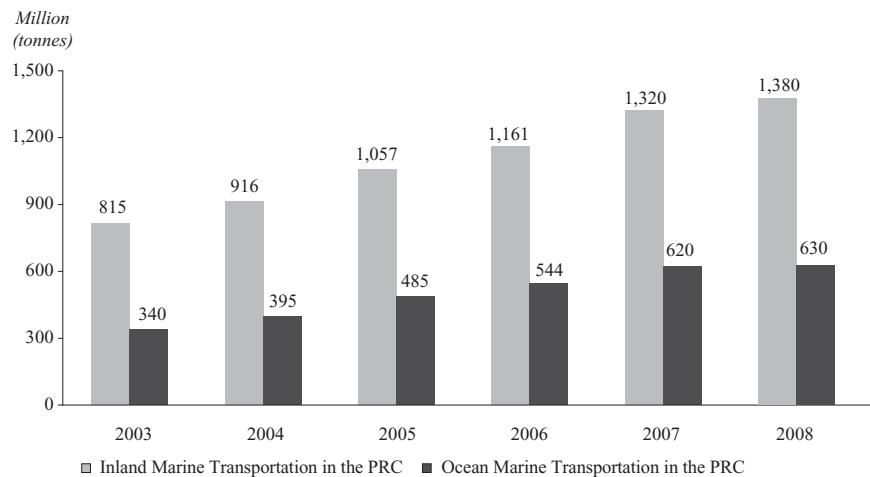
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## INDUSTRY OVERVIEW

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According to the BBIC report, water way transportation mainly comprises inland marine transportation and ocean marine transportation. As of 31 December 2008, the volumes of water way transportation by inland marine transportation and ocean marine transportation in the PRC were approximately 1,380.0 million tonnes and 630.0 million tonnes, respectively.

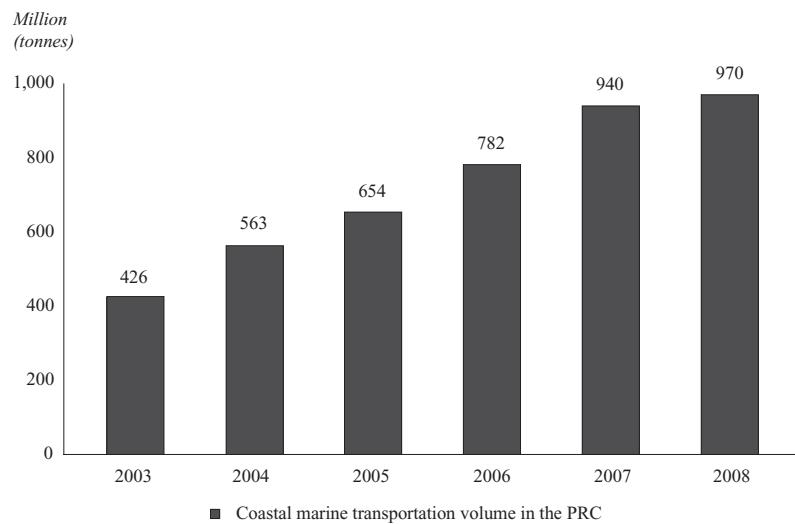
The following diagram illustrates the volumes of water way transportation by inland marine transportation and ocean marine transportation in the PRC from 2003 to 2008:-



Source: BBIC Report

According to the BBIC report, the volume of coastal marine transportation in the PRC has grown from 426.0 million tonnes in 2003 to 970.0 million tonnes in 2008, with a CAGR of 17.9%.

The following diagram illustrates the volume of coastal marine transportation in the PRC from 2003 to 2008:-



Source: BBIC Report

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## REGULATIONS RELATING TO THE INDUSTRY

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### OVERVIEW

All of the Group's business operations, including coal operations and shipping transportation, are subject to national industrial policies, relevant laws and regulations and extensive governmental supervision.

The Group is principally subject to governmental supervision and regulations by the following agencies of the PRC governmental authorities:

1. *State Council*

國務院 (State Council) is responsible for checking and approving material investment projects in the coal category recognised by “《政府核准的投資項目錄》(Catalogue of Government Approved Investment Projects)” promulgated in 2004. The State Council also oversees the healthy and steady development of the coal industry and provides relevant guiding opinions and suggestions.

2. *NDRC*

The NDRC formulates industry policies and investment directions for the coal industry, as well as approves and grants permission to prospective coal projects. It also administers matters related to the exportation and export quota of coal jointly with the Ministry of Commerce. In addition, the NDRC is in charge of assessing and executing the price-link mechanism for prices between coal and power.

3. *Ministry of Land and Resources*

國土資源部 (Ministry of Land and Resources) is responsible for granting land use rights and mining rights and approving the transfer and leasing of mining rights. It is also in charge of approving the prices of mining rights and the results of reserve valuations.

4. *Ministry of Environmental Protection of the PRC*

國家環保部 (Ministry of Environmental Protection of the PRC) is responsible for formulating national environment protection directions, policies and regulations. It is in charge of carrying out environmental impact assessments of material economic and technical policies, development plans and material economic development projects. It is also in charge of checking and assessing the impact on the environment caused by the operation of enterprises in heavy polluting industries.

5. *State Administration of Coal Mine Safety*

國家煤礦安全監察局 (State Administration of Coal Mine Safety) is an administrative agency performing the duty of national coal mine safety supervision under the State Administration of Work Safety. It is responsible for monitoring and inspecting the safety supervision of local coal mines, and safeguarding the thorough implementation of relevant laws and regulations on coal mine operation safety in China.

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## REGULATIONS RELATING TO THE INDUSTRY

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### 6. *Ministry of Railways*

鐵道部 (Ministry of Railways) is in charge of monitoring railway operations in China and formulating strategic development plans for railway transportation. The Ministry of Railways and the NDRC jointly approve all applications for railway construction plans, including railways used or designated for coal transportation.

### 7. *China National Coal Industry Association*

中國煤炭工業協會 (China National Coal Industry Association) is mainly responsible for formulating relevant industry standards for the coal industry. It also plays the roles of liaising with the government and providing guidance to the coal industry.

### 8. *Ministry of Communications*

The competent authority overseeing the inland river transport industry is 交通運輸部 (Ministry of Communications). Its administration of the inland river transport industry includes four main areas, namely water transport, water transport projects, shipping management, as well as port and channel management.

### 9. *Ministry of Commerce of the PRC*

商務部 (The Ministry of Commerce), formerly known as 對外貿易經濟合作部 (Ministry of Foreign Trade and Economic Co-operation), is an executive agency of the State Council of China. It is responsible for formulating development strategies, guidelines and policies of domestic and foreign trade and international economic cooperation, drafting laws and regulations governing domestic and foreign trade, consumer protection, market competition and foreign investments, and negotiating bilateral and multilateral trade agreements.

## MAJOR LAWS AND REGULATIONS

### 1. *The Coal Law of the PRC*

中華人民共和國煤炭法 (The Coal Law of the PRC) was passed by the Standing Committee of the National People's Congress with effect from 1 December 1996. It is aimed at promoting a rational utilisation and protection of coal resources, standardising coal production and operating activities, and facilitating and protecting the development of the coal industry.

Pursuant to the Coal Law, (i) coal resources belong to the state; (ii) the Coal Administration Department of the State Council is responsible for the supervision of China's coal industry in accordance with laws, and the Coal Administration Departments of the People's Government below the provincial level are in charge of supervising the coal industry within their administrative districts; (iii) for those coal mining enterprises which have obtained coal production permits legitimately, they must not transfer or lease their coal production permit to others; (iv) duplicate coal production permits must not be issued in the

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## REGULATIONS RELATING TO THE INDUSTRY

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same mining area; and (v) qualified large coal enterprises are entitled to conduct coal exporting activities subject to the granting of permission by the competent economic and international trade authorities under the State Council in accordance with laws.

### 2. *The Measures for the Regulations of Coal Operations*

The NDRC promulgated 煤炭經營監管辦法 (The Measures for the Regulations of Coal Operations) on 27 December 2004. The Measures aim to strengthen the supervision of coal operations by standardising and maintaining coal operation procedures.

According to the Measures, (i) China implements an examination and qualification system for coal operators (with respect to activities such as wholesaling and retailing of raw coal and its processed products and processing and distribution of coal for civilian use); (ii) the establishment of a coal operation enterprise is subject to examination in respect of coal operation qualifications; (iii) coal mining enterprises with coal production permits (some of which are listed on the Stock Exchange) do not have to undergo coal operation qualification examinations in order to sell products they have produced or processed; (iv) China prohibits coal mining enterprises without a coal production permit from engaging in the production and processing of coal products; (v) the production and processing of coal products by coal operation enterprises that do not posses a Coal Operation Certificate is prohibited; and (vi) the sale of coal products to coal operation enterprises without a Coal Operation Certificate is prohibited.

### 3. *The Management Measures for Inspection of Imported and Exported Coal*

國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection & Quarantine) promulgated 進出口煤炭檢驗管理辦法 (The Management Measures of Inspection of Imported and Exported Coal) on 30 May 2006 which took effect on 1 August 2006. The Measures aim to standardise the inspection and supervision of imported and exported coal. Pursuant to the Measures, (i) imported coal is inspected by the inspection and quarantine authorities of the unloading ports, and the inspection and quarantine authorities of the exporting ports are in charge of inspection of coal exported through those ports; (ii) the inspection and quarantine authorities are responsible for daily supervision of exporting coal production enterprises in their districts, and the inspection and quarantine authorities of the ports are in charge of supervision of the import and export of coal through them.

### 4. *Environmental Protection Law of the People's Republic of China*

On 26 December 1989, 中華人民共和國環境保護法 (The Environmental Protection Law of the People's Republic of China) was passed at the Eleventh Meeting of the Seventh Anniversary Standing Committee of the National People's Congress. The Law is aimed at protecting and improving the living environment and the biological environment, preventing pollution and other public hazards, protecting people's health, and facilitating the development of modern construction under socialism.

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## REGULATIONS RELATING TO THE INDUSTRY

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Pursuant to the Law, (i) the competent administrative authority for environmental protection under the State Council implements uniform supervision for environmental protection in China, and the competent administrative authorities for environmental protection under the local People's Governments below the provincial level implement uniform supervision of environmental protection within their districts; (ii) companies causing environmental pollution and other public hazards must include environmental protection measures in their plans and set up a system of environmental protection responsibility; (iii) when compiling environmental impact reports for construction projects, assessment must be made to the pollution caused by the construction project and their environmental impact, preventive measures must be made, they must be pre-examined by the competent authorities of the projects and reported to the competent environmental protection administrative authorities for approval in accordance with the procedures set out in the regulations; (iv) pollution prevention facilities for construction projects must be designed, constructed and launched into production and used at the same time as the main projects; (v) pollution prevention facilities must pass inspection by the original competent environmental protection administrative authorities which approved the environmental impact reports before the construction projects can be launched into production and use; (vi) enterprises and institutions discharging pollutants must declare and register according to the regulations of the competent administrative authority for environmental protection of the State Council; (vii) enterprises and institutions discharging pollutants at levels above the pollutant discharge standards contained in state or local stipulations must pay excessive discharge fees according to the regulations of the state, and are responsible for the treatment of discharged material; and (viii) the state sets enterprises and institutions deadlines for the treatment of serious pollution problems caused by them.

### 5. *Regulations on the Management of Water Transport of the People's Republic of China*

The State Council promulgated 中華人民共和國水路運輸管理條例 (Regulations on the Management of Waterway Transport of the People's Republic of China) which were implemented on 12 May 1987 and revised on 27 December 2008. The Regulations are aimed at strengthening the management of water transport, maintaining the order of transport, and improving the benefit of transport. Pursuant to the Regulations, (i) foreign investment enterprises, sino-foreign equity joint venture enterprises and sino-foreign contractual joint venture enterprises operating water transport offshore, in lakes and other navigation waterways in China are required to obtain permission from the Ministry of Communications of the People's Republic of China; (ii) the establishment of water transport enterprises, water transport service enterprises and enterprises other than water transport enterprises that engage in operational transport must be examined and approved by the competent transport authority; (iii) the competent transport authority is responsible for the issue of transport permits to water transport enterprises, units and individuals engaging in operational transport, and transport service permits to water transport service enterprises, the establishment of each of which have already been approved; (iv) those units and individuals which have obtained a transport permit and/or transport service permit submit their permit(s) to the local industry and commerce administration authorities when applying for business registration, and they can only commence operation after they have been approved and granted a business licence; (v) water transport service enterprises must not monopolise sources of goods, force provision of agency services, or charge service fees above the

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## REGULATIONS RELATING TO THE INDUSTRY

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stipulated fees standard; and (vi) ocean and river ports for civilian use should provide port facilities and business services to transport vessels according to state port management rules, plans and arrangements.

### 6. *The Ports Law of the People's Republic of China*

中華人民共和國港口法 (The Ports Law of the People's Republic of China) was passed by the Standing Committee of the National People's Congress for implementation from 1 January 2004. It aims at standardising the planning, construction, protection, operation and management and other relevant activities of ports. Pursuant to the Law, (i) the competent transport authority of the State Council supervises ports in China and the management of ports within the administrative districts of the local People's Republic of China is confirmed by the State Council's regulations regarding port management systems; (ii) the state encourages domestic and foreign economic organisations and individuals to invest in the construction and operation of ports in accordance with laws; (iii) persons engaging in port operations should apply in writing to the port administration authorities to obtain a port operating permit and handle industry and commerce registration in accordance with laws; and (iv) persons operating cargo handling businesses in ports should obtain permits in accordance with laws.

### 7. *Regulations on Inland River Transport Safety Management of the People's Republic of China*

The State Council promulgated 中華人民共和國內河交通安全管理條例 (Regulations on Inland River Transport Safety Management of the People's Republic of China) for implementation from 1 August 2002. The Regulations are aimed at standardising navigation, anchoring and operations in inland river navigation waters as well as inland river transport safety. Pursuant to the Regulations, (i) the competent transport authority of the State Council supervises the management of inland river transport safety, and the state marine administration authorities under the guidance of the competent transport authority of the State Council are in charge of the supervision of inland river transport safety in China. Various local People's Governments below the provincial level are responsible for the management of inland river transport safety within their administrative districts; (ii) navigating vessels or floating facilities engaging in the relevant activities must obtain inspection and registration certificates for their vessels or floating facilities, have competent sailors and vessels must have the necessary navigation information; (iii) when vessels enter or exit inland river ports, they should handle the formalities for vessel entry and exit visas with the marine administration authorities; (iv) the setting up or cancellation of ferry crossings must be subject to approval by the provincial People's Governments where the ferry crossings are located, and before the provincial People's Governments grants approval, they should seek local marine administration authorities' opinions; and (v) ferry crossing personnel must be trained, and have passed examinations and obtained requisite certificates issued by the departments designated by the provincial People's Governments, and vessels for ferry crossings must hold a vessel inspection certificate and a vessel registration certificate.

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## REGULATIONS RELATING TO THE INDUSTRY

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### 8. *Regulations on Vessel Registration of the People’s Republic of China*

The State Council promulgated 中華人民共和國船舶登記條例 (Regulations on Vessel Registration of the People’s Republic of China) for implementation from 1 January 1995. The Regulations are aimed at strengthening the supervision of vessels by the state and safeguarding the legitimate interests of the relevant parties of registered vessels. Pursuant to the Regulations, (i) only vessels which have been registered in accordance with laws and are recognised as the People’s Republic of China nationals can fly and navigate under the national flag of the People’s Republic of China; (ii), vessels cannot possess dual nationalities in China; (iii) the obtaining, transfer and discharge of ownership of vessels and mortgage right over vessels; and the setting up, transfer and discharge of leasing rights over empty vessels must be registered with the vessel registration authority. No defence against third parties will be available if a vessel has not been registered; (iv) sailors in vessels with Chinese nationality must be Chinese citizens, if sailors of foreign nationalities are needed, this must be reported to the competent transport authority of the State Council for approval; and (v) the state port supervisory body is in charge of vessel registration.

### 9. *Measures for the Administration of Quotas for Coal Export*

The NDRC has, jointly with the Ministry of Commerce and the General Administration of Customs, formulated and promulgated the 煤炭出口配額管理辦法 (Measures for the Administration of Quotas for Coal Export) for implementation from 1 July 2004. The measures are formulated in accordance with the relevant provisions in the “Foreign Trade Law of the People’s Republic of China” and the “Regulation of the People’s Republic of China on the Administration of Import and Export of Goods” in order to regulate coal exports, guarantee the administration of quotas for coal exports to comply with the principles of efficiency, impartiality, publicity and transparency, and to maintain the normal order of coal exports.

Pursuant to the measures, (i) the total volume of quotas for coal export in each year and the application procedures shall be announced by the NDRC on the website of China Economic Information (<http://www.cei.gov.cn>) and that of the NDRC (<http://www.sdpcc.gov.cn>) by 31 October of the preceding year; (ii) coal export shall apply state-run trade administration: an export enterprise that has obtained the state-run trade right for coal export may apply for quotas for coal export; (iii) an export enterprise shall file a quota application to the NDRC in due written form, and shall submit the relevant documents as required; (iv) the NDRC shall, jointly with the Ministry of Commerce, distribute to the enterprises 80% of the total volume of quotas for coal export for the next year by 15 December of each year, and the remaining part shall be distributed before 30 June each year; (v) the quotas for coal export shall be distributed by referring to the coal export performance of the enterprises during the preceding year; and (vi) the validity period of a quota for coal export shall expire on 31 December of the current year.

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### 10. *The Foreign Trade Law of the People's Republic of China*

中華人民共和國對外貿易法 (The Foreign Trade Law of the People's Republic of China) (the "Foreign Trade Law") was adopted at the seventh meeting of the Standing Committee of the Eighth National People's Congress on 12 May 1994 and amended at the eighth meeting of the Standing Committee of the Tenth National People's Congress on 6 April 2004. The amended Foreign Trade Law is promulgated with effect on 1 July 2004.

The Foreign Trade Law is enacted for the purpose of broadening the openness to the outside world, developing foreign trade, maintaining the order of foreign trade, protecting the lawful rights and interests of the foreign trade business operators, and promoting the healthy development of the socialist market economy. It applies to foreign trade and the protection of foreign-trade-related intellectual property.

The revised Foreign Trade Law includes 11 chapters and 70 clauses, three chapters and 26 clauses more than the original. According to the Foreign Trade Law, (i) the state allows the free import and export of goods and technology, unless otherwise provided for in any law or administrative regulation; (ii) the state may, for the purpose of defending state security, take any necessary measures for managing the import and export of any matter of fission or fusion or any matter that derives such matter and the import and export of any weapon, ammunition, or any other military supply; (iii) the state adopts the system of quota, licence, etc, to the goods subject to import or export restrictions, while it adopts the system of licence to the technologies restricted or prohibited from import or export; for the goods and technologies subject to the administration of quota or licence, they cannot be imported or exported unless it has been approved by the foreign trade department of the State Council independently or in collaboration with other departments of the State Council.

### 11. *The Regulation of the PRC on the Administration of the Import and Export of Goods*

中華人民共和國貨物進出口管理條例 (The Regulation of the PRC on the Administration of the Import and Export of Goods) has been passed at the forty-sixth executive meeting of the State Council on 31 October 2001 and was promulgated for implementation as of 1 January 2002. It aims at standardising the administration of the import and export of goods, maintaining the order of import and export of goods and promoting the healthy development of foreign trade. Pursuant to the regulation, the state allows the free importation and exportation of goods and maintains the fairness and orderliness of the import and export of goods according to law. Unless it is clearly provided in laws or administrative regulations to forbid or restrict the import or export of goods, no entity or individual may establish or maintain prohibitive or restrictive measures over the import or export of goods.

### 12. *Measures for the Administration of Licence for the Export of Goods*

The amended 貨物出口許可證管理辦法 (Measures for the Administration of Licence for the Export of Goods), which were adopted at the 6th executive meeting of the Ministry of Commerce on 7 May 2008, has taken effect since 1 July 2008. It aims at rationally allocating the resources, regulating the order of export business, creating a fair and transparent trade environment, performing international conventions and treaties promised by China, and maintaining the economic interests of the state and national security. According

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to the measures, (i) the state applies a uniform system of licence for the export of goods; the state shall apply export licence administration to the export goods under restriction; (ii) the Ministry of Commerce shall be the department of centralised administration of export licence of the whole country, and shall be responsible for formulating the rules and regulations on the administration of export licence, supervising and inspecting the implementation of the measures for the administration of export licence and punishing the rule-breaking acts; (iii) the export licence as mentioned in the present Measures shall include export quota licence and export licence; for all the goods subject to the administration of export quota licence and export licence, a foreign trade operator shall apply for export licence as required to the designated licence issuing agency before export; the customs house shall accept the declaration and release on the basis of the export licence.

### COAL TRADING

#### *Import*

As confirmed by the PRC Legal Advisers, there is no quota imposed on coal imported from other countries to China.

The coal imported by the Group is inspected by the inspection and quarantine authorities of the unloading ports, and the inspection and quarantine authorities of the exporting ports are in charge of the inspection of coal exported through them. The Group did not encounter any failure during inspections carried out by the inspection and quarantine authorities in relation to its coal imported to China during the Track Record Period.

#### *Export*

In China, coal exports remain subject to state control and require governmental approval. Under PRC regulations, only state-owned enterprises are authorised to apply for annual export quotas and the relevant coal export permits. Currently, there are a limited number of authorised coal exporters in China. The Group has entered into an agency agreement with an authorised coal exporter in China, pursuant to which the Group has appointed such authorised coal exporter as its coal export and sales agent responsible for the export of its coal products. Pursuant to regulations promulgated in January 2004, China's coal exports have been subject to a government approval system since 1 July 2004, under which the NDRC and the Ministry of Commerce of the PRC are responsible for determining PRC total coal export quota and for allocating the quota among the authorised coal exporters. The total quota will take into consideration PRC economic needs, the rational use of coal resources, the PRC government's economic policy and the dynamics of the domestic and international coal markets. Each year, after the NDRC publishes the total coal export quota for the following year, authorised coal exporters are required to submit written applications for the following year's quota to the NDRC. The NDRC and the Ministry of Commerce of the PRC then allocate the annual quota for the following year among the authorised coal exporters. Each year's quota expires on 31 December. Upon receiving quota approval, authorised coal exporters may apply for coal export permits to the relevant authority designated by the Ministry of Commerce of the PRC. Authorised coal exporters are also required to report their monthly quota usage to the NDRC.

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### *Domestic trading of coal*

Pursuant to 煤炭經營監管辦法 (The Measures for the Regulation of Coal Operations) promulgated by the NDRC on 27 December 2004, coal operators engaging in the trade of coal that is not self-produced are required to obtain a Coal Operation Certificate. Accordingly, the Group is required to obtain Coal Operation Certificates for coal trading in China. In order to obtain a Coal Operation Certificate, an enterprise must have:

- appropriate registered capital for the scale of its operation;
- fixed place of operation;
- appropriate facilities and coal storage for the scale of its operation;
- coal quantity measure and quality examination facilities that adhere to standards;
- reasonable compliance with national requirements in relation to the overall business arrangement and environmental protection of coal operation enterprises;
- other conditions as stipulated under relevant laws and administrative regulations.

煤炭經營監管辦法 (The Measures for the Regulation of Coal Operations) promulgated by NDRC on 27 December 2004 do not explicitly restrict or prohibit granting of Coal Operation Certificates to foreign invested enterprises. However, after verbal consultations with:

- (i) 河北省秦皇島經濟技術開發區工商局 (the Administration for Industry and Commerce of Qinhuangdao Economic and Technological Development Zone, Hebei Province);
- (ii) 河北省陽原縣人民政府 (the People's Government Yangyuan County, Hebei Province), 陽原縣工商局 (the Administration of Industry and Commerce of Yangyuan County), 陽原縣煤炭管理辦公室 (the Yangyuan Coal Management Office), 陽原縣安監局 (the Bureau of Yangyuan County Administration of Work Safety);
- (iii) 珠海高欄港經濟區經濟發展局 (the Economic Development Bureau, Management Committee of Zhuhai Harbour Industrial Zone, Guangdong Province); and
- (iv) 山西省大同縣政府 (the Standing Bureau of the People's Government of Datong County, Shanxi Province), 大同縣工商局 (the Administration for Industry and Commerce of Datong County) and 大同縣經貿局 (the Economic and Trade Bureau of Datong County).

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being the relevant local governmental authorities responsible for examination and approval of Coal Operation Certificates in each of the jurisdictions in which the Group has operations, the Directors understand that the PRC governmental authorities as a matter of practice currently do not grant Coal Operation Certificates to foreign equity controlled companies.

### PRICING

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

#### 1. Inside plan term contracts (計劃內合同)

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

##### *Key contracts*

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

- i. Parties to the contracts are limited to state-owned key electricity enterprises and coal production enterprises as recognised by regulatory authority;
- ii. Contract amount is the annual quantity of electricity coal supply agreed by the state-owned key electricity enterprises and coal production enterprises;
- iii. Such contract amount is secured by the relevant rail transportation plan provided by the railway department.

##### *Non-key contracts*

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

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

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

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

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

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

- Under key contracts (重點合同) and non-key contracts (非重點合同), the ex-mine price (出礦價) of thermal coal used by nationwide coal production enterprises should be capped at the actual settlement price as of 19 June 2008. If no transactions took place on that day, the cap should be the actual

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settlement price nearest to that day. During the temporary price-intervention period, the ex-mine price of thermal coal used by coal production enterprises should not exceed the cap.

- State-owned coal production enterprises and state-owned electricity enterprises who had entered into inside plan term contracts should perform the coal contract by strictly complying with the agreed quantity, quality and prices. State-owned coal production enterprises were prohibited from transferring the coal under the inside plan term contracts to the open market for sale. Coal transportation and other logistics enterprises should follow the required charging standards and should not raise the price or implement additional costs without permission.
- All coal production enterprises should strictly execute the aforesaid temporary price-intervention measures. All price regulatory authorities should reinforce inspection, and focus on (i) the investigation and punishment of violations of such caps set by the government and raising prices without permission; (ii) fraudulent acts to raise prices by lowering the coal quality or counterfeiting; and (iii) acts including non-performance of coal supply contracts, and the transfer of coal under inside plan term contracts to the open market for sale. Enterprises violating the temporary intervention measures on thermal coal prices should be severely punished in accordance with the Price Law and the Provisions on Administrative Penalty against Price-related Unlawful Practices.

The Temporary Guideline remained in effect until 31 December 2008.

In order to combat the increasing incidence of coal sellers repudiating non-key contracts following the implementation of the Temporary Guideline, on 24 July 2008 the NDRC issued 國家發展改革委要求進一步加強和完善電煤價格臨時干預措施 (Further Temporary Guideline for Intervening Measures on the Nationwide Price of Thermal Coal) (the “Further Guideline”), pursuant to which:

- Price caps were implemented for thermal coal traded at coal distribution centres and the major coal loading ports (港口動力煤平倉價格) of Qinhuangdao, Tianjin and Tangshan. The maximum price that could be charged was capped to relevant prices traded as at 19 June 2008. Accordingly, thermal coal with a calorific value of 5,500 Kcal./kg that was traded at the aforementioned three ports was capped at RMB860/tonne, RMB840/tonne and RMB850/tonne, respectively.
- There was increased monitoring of the performance by state-owned coal production enterprises of inside plan contracts, with particular emphasis on ensuring strict compliance with contractual obligations regarding the quantity, quality and price of coal traded. State-owned coal production enterprises were prohibited from transferring coal designated for sale under inside plan contracts to sales on the open market by changing the consignee for key contracts at ports.

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- The NDRC could impose penalties on state-owned coal production enterprises that did not strictly comply with contractual obligations regarding the quantity, quality and price of coal. Penalties included a reduction of allocated coal transportation quotas for the forthcoming year and the confiscation of revenue raised from any activity in breach of the price cap measures.

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

Taking into account that (i) the Guidelines did not place any restriction on the price of coal traded on the open market; and (ii) all sales contracts between the Group and its customers were outside plan term contracts which were conducted on the open market, the Directors and the PRC Legal Advisers are of the view that the Guidelines were not directed at the operations of the Group and hence would not have had any material negative impact on the Group’s business operation and financial performance.

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

### TRANSPORTATION

#### *Railway*

Railway is the primary method of transportation for coal production in provinces and regions located far away from major consumers in coastal regions. 鐵道部 (Ministry of Railway) engages in the allocation of coal transport capacity on China’s national railway system. The NDRC, or the relevant authority designated by it, determines and promulgates the annual railway transportation allocation.

Railway operators impose freight rates on coal operators that utilise the railway for the transportation of their coal pursuant to uniform freight rate guidelines approved by the NDRC. Railway operators may not charge more than the maximum freight rate approved by the NDRC. Any adjustment to such maximum freight rate requires approval from the NDRC and also the Ministry of Railway.

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### *Shipping and port operations*

Port operators must obtain approval from the relevant government authorities in charge of transportation, safety, customs and maritime matters before commencing operations. The relevant government authorities in charge of port operations will approve or deny the issue of a port operating licence to the port operator generally within thirty days of submission of application. Approvals from the NDRC and the Ministry of Commerce must be obtained for port operators wishing to construct new ports and ports with an annual shipping capacity exceeding 2.0 million tonnes to service mineral resources, oil and gas.

Similar to freight rates, users of port facilities are charged with port fees for the import and export of goods. The port fees are set by the NDRC and the local pricing authority.

Shipping-related businesses, such as vessel or cargo agencies, cargo handling businesses, customs declarations businesses and logistics businesses, must also obtain requisite qualification certificates or licences.

The Group is required to obtain a Waterway Transportation Licence for inland shipping transportation in China. In order to obtain a Waterway Transportation Licence, an enterprise must have:

- appropriate transportation vessel(s) for the scope of its business;
- a relatively stable customer base or source of products;
- appropriate service facilities at the relevant vessel port for management of passenger transportation, where applicable;
- operation management organisation and principal;
- liquid capital appropriate for operating the transportation business.

Article 7 of 中華人民共和國水路運輸管理條例 (The Regulations on the Management of Waterway Transport of the People's Republic of China) promulgated by the State Council on 12 May 1987 and revised on 27 December 2008 states that foreign invested enterprises must not undertake waterway transport activities along the coast or on rivers, lakes or any other waterway within the territory of China without the permission of 交通部 (the Ministry of Transport). However, in accordance with the Catalogue for 外商投資產業指導目錄 (2007修訂) (the Guidance of Foreign Investment (Amended 2007)), foreign equity controlled enterprises are prohibited from engaging in waterway transport in China. As a result, foreign equity controlled and wholly foreign owned enterprises in the PRC are unable to attain a Waterway Transportation Licence.

## ENVIRONMENTAL PROTECTION

New construction, expansion or reconstruction projects and other installations that directly or indirectly discharge pollutants into the environment are subject to relevant state regulations governing environmental protection for such projects. Entities undertaking such

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projects must submit a pollutant discharge declaration statement to the competent authorities for examination detailing the amount, type, location and method of treatment. The authorities will allow the construction project operator to release a certain amount of pollutants into the environment and will issue a pollutant discharge licence for that amount of discharge subject to the payment of discharge fees. The release of pollutants is subject to monitoring by the competent environmental protection authorities. If an entity discharges more than the amount permitted by the pollutant discharge licence, the local environmental protection bureau can fine the entity up to several times the discharge fees payable by the offending entity for its allowable discharge, require the offending entity to close its operations, or take other measures to remedy the problem.

In the environmental impact statement of a construction project, the project operator must make an assessment regarding the pollution and environmental hazards the project is likely to produce, evaluate the project's impact on the ecosystem, and outline measures for the prevention and control of environmental damage. The operator must submit the statement according to the specified procedure to the competent environmental protection authority for examination and approval. The building of sewage outlets within any water projects, such as canals, irrigation channels and reservoirs, shall be subject to the consent of the competent authority in charge of water projects.

The facilities for the prevention and control of pollution must be designed, constructed and put into use or operation simultaneously with the main part of a construction project. Such facilities must be inspected by the competent environmental protection authority. If they do not conform to the specified requirements, the operator shall not be permitted to put the new facility into operation or use.

In addition, entities are required to obtain a discharge permit from the local or regional bureau of oceanic administration prior to discharging waste into the sea, including sediments obtained from dredging. Moreover, entities have to comply with certain water spraying requirements when transferring coal from rail cars into storage facilities in order to minimise the spread of coal dust at port facilities. Furthermore, railway operators must take measures to limit railway pollution, including coal dust and noise.

Violators of the PRC environmental protection law and various environmental regulations may be subject to warnings, payment of damages and fines. Any entity undertaking construction work or manufacturing activities before the pollution and waste control and processing facilities are inspected and approved by the environmental protection department may be ordered to suspend production or operations and may be fined. Violators of relevant environment protection laws and regulations may also be exposed to criminal liability if violations resulted in severe loss of property, personal injuries or death.

In addition to the PRC environmental laws and regulations, China is a signatory to the 1992 United Nations Framework Convention on Climate Change and the 1998 Kyoto Protocol, which propose emission targets to reduce greenhouse gas emissions. The Kyoto Protocol came into force on 16 February 2005. At present, the Kyoto Protocol has not set any specific emission targets for certain countries, including China.

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### TAXATION AND FEES

The table below sets forth the existing material taxes and fees that are imposed upon the Group in China:

Item	Base	Rate	Relevant business segment
Corporate income tax	Taxable income	25%	All
VAT	Revenue from sales of coal	13%	Coal trading
Business tax	Revenue from service	3% or 5%	Shipping transportation and Qinfa Logistics
City construction tax	Amount of VAT and business tax	1% or 5% or 7%	All
Education surcharge	Amount of VAT and business tax	3% or 4%	All

### THE PROVISIONS ON GUIDING FOREIGN INVESTMENT AND THE CATALOGUE FOR THE GUIDANCE OF FOREIGN INVESTMENT INDUSTRIES

#### 1. *The Provisions on Guiding Foreign Investment*

On 20 June 1995, the State Planning Commission, the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation jointly promulgated the 指導外商投資方向暫行規定 (Interim Provisions on Guiding Foreign Investment) (the “Interim Foreign Investment Provisions”), classifying all foreign investment projects into one of four categories: encouraged projects, permitted projects, restricted projects and prohibited projects.

On 11 February 2002, the State Council promulgated the 指導外商投資方向規定 (Provisions on Guiding Foreign Investment) (the “Foreign Investment Provisions”), re-stating the four classifications of foreign investment projects. The purpose of the Foreign Investment Provisions is to direct foreign investment into certain priority industry sectors while restricting or prohibiting investment in other sectors. The Foreign Investment Provisions entered into force on 1 April 2002 and the Provisional Foreign Investment Provisions were simultaneously repealed.

#### 2. *The Catalogue for the Guidance of Foreign Investment*

The 外商投資產業指導目錄 (Catalogue for the Guidance of Foreign Investment) (the “Foreign Investment Catalogue”) lists out specific industries and economic activities in which foreign investment in China is encouraged, restricted or prohibited.

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The State Planning Commission, the State Economic and Trade Commission and the Ministry of Foreign Trade and Economic Cooperation jointly promulgated the Foreign Investment Catalogue in 1995. Since then, the Foreign Investment Catalogue has been revised several times, with the most significant revisions taking place in 2002, 2004 and 2007. The version of the Foreign Investment Catalogue currently in effect was jointly promulgated by the NDRC and the Ministry of Commerce on 31 October 2007 and came into effect on 1 December 2007. On the same day, the Foreign Investment Catalogue (as amended in 2004) was repealed.

### **INTRODUCTION OF LAW ON EMPLOYMENT CONTRACTS AND LAW ON EMPLOYMENT PROMOTION AND THE POSSIBLE EFFECT ON THE LISTED GROUP**

#### *1. The Employment Contract Law*

The 勞動合同法 (Employment Contract Law) is primarily aimed at the regulation of employee/employer rights and obligations, including matters with respect to the establishment, performance and termination of labour contracts. Under the new law, (i) employers must pay employees double income in circumstances where an employer fails to enter into an employment contract within one year with an employee who works for the employer for a period exceeding one month. Where such period exceeds one year, the parties are deemed to have entered into a labour contract with an “unfixed term”; (ii) employees who fulfil certain criteria, including having worked for the same employer for ten years or more, may demand that the employer execute a labour contract with an unfixed term; (iii) employees must adhere to regulations concerning commercial confidentiality and non-competition; (iv) the range of situations in which employers must lawfully compensate employees has increased; (v) an upper limit has been set on the amount of compensation an employer may seek for an employee’s breach of contract. The upper limit may not exceed the cost of training supplied to the employee; (vi) employees in respect of whom employers have not in accordance with law made social insurance contributions may terminate their employment contracts; (vii) employers who demand money or property from employees by way of guarantee or whatsoever may be fined a maximum of RMB2000; and (viii) employers who intentionally deprive employees of any part of their salary must, in addition to their full salary, pay employees compensation in the order of 50% to 100% of the amount of salary so deprived.

#### *2. Law on Employment Promotion*

The 中華人民共和國就業促進法 (Law of the People’s Republic of China on Employment Promotion) (the “Law on Employment Promotion”) was passed at the 29th Session of the Standing Committee of the 10th anniversary National People’s Congress on 30 August 2007 and came into effect on 1 January 2008.

The Law on Employment Promotion contains provisions on employment issues including policy support, fair employment, employment services and management, and vocational education and training. More particularly, the Law on Employment Promotion (1) states explicitly that discriminatory employment practices should not be adopted and, in circumstances where such practices are adopted, employees have the right to launch a suit

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## REGULATIONS RELATING TO THE INDUSTRY

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with the Peoples's Court; (2) provides that public employment service agencies established by the People's Government at county level or above should provide employees free services such as consultation on employment policies and laws and regulations, vocational training and placement, and price guidance for market wages; (3) perfects an employment and unemployment registration system, stipulating that employers must complete employment registration with public employment service agencies for employees after they have been recruited; while employees who are individual operators or engaged in unfixed jobs may conduct employment registration with community public employment service agencies, and shall be entitled to applicable support policies upon registration.

If there is no issue involving employment discriminations with respect to China Qinfa Group, these provisions will not have any substantial impact on the Group's operations.

### REGULATION ON FOREIGN EXCHANGE

The principal regulation governing foreign currency exchange in the PRC is 《外匯管理條例》(the Foreign Currency Administration Rules) which were issued by the State Council in January 1996, became effective in April 1996 and were amended in January 1997. Under these rules, RMB is freely convertible for payments of current account items, including trade and service related foreign exchange transactions and dividend payments, but not for capital account expenses, including direct investment, loan or investment in securities outside the PRC. RMB may only be converted for capital account expenses once the prior approval of SAFE has been obtained. Under the Foreign Currency Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for trade and service-related foreign exchange transactions by providing commercial documents evidencing such transactions. They may also retain foreign exchange (subject to a cap approved by SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, the relevant PRC government authorities, which have significant administrative discretion in implementing the laws, may restrict or eliminate the ability of foreign invested enterprises to purchase and retain foreign currencies in the future. In addition, foreign exchange transactions involving direct investment, loans and investment in securities outside the PRC are subject to limitations and require approvals from SAFE.

Pursuant to the SAFE Circular No. 75, issued on 21 October 2005, (i) PRC residents, shall register with the local branch of SAFE before establishing or controlling an overseas special purpose vehicle (the "overseas SPV") for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise into an overseas SPV, or engages in overseas financing after contributing assets or equity interests into an overseas SPV, such PRC resident shall register his or her interest in the overseas SPV and the change thereof with the local branch of SAFE; and (iii) when the overseas SPV undergoes a material event outside of the PRC, such as a change in share capital or merger and acquisition, the PRC resident shall, within 30 days from the occurrence of such event, register such change with the local branch of SAFE. In May 2007, SAFE issued guidance to its local branches with respect to the procedures for SAFE registration which strengthen the supervision on registrations pursuant to SAFE Circular No. 75 and impose obligations on onshore subsidiaries of the overseas SPVs to coordinate and supervise the relevant PRC residents to complete registration.

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## REGULATIONS RELATING TO THE INDUSTRY

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Under the SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to overseas SPV, as well as incur penalties in accordance with the law.

In accordance with the relevant PRC laws and regulations, the beneficial owners of the Shares who are PRC residents will be considered to be conducting overseas investment which requires registration with the local branch of SAFE. The Directors consider, with the advice from the PRC Legal Advisers, that the registration is a procedural matter and there will not be any legal impediment to completion of such registration. As confirmed by the PRC Legal Advisers, upon the completion of the registration, the Group will be in compliance with the regulations on foreign currency exchange.

## REGULATIONS RELATING TO EMPLOYEE SHARE OPTIONS

Pursuant to 個人外匯管理辦法實施細則 (the Implementation Rules of the Administration Measure for Individual Foreign Exchange) (the "Individual Foreign Exchange Rule") issued on 5 January 2007 by SAFE and relevant guidance issued in March 2007, PRC citizens who are granted shares or share options by an overseas listed company according to its employee share option plan or share incentive plan are required, through the PRC subsidiary of such overseas listed company or any other qualified PRC agent, to register with SAFE and complete certain other procedures related to the share option or other share incentive plan. Foreign exchange income received from the sale of shares or dividends distributed by the overseas listed company may be remitted into a foreign currency account of such PRC citizen or be exchanged into RMB. In addition, the overseas listed company or its PRC subsidiary or other qualified PRC agent is required to appoint an asset manager or administrator, and open a dedicated foreign currency account(s) at a custodian bank to handle transactions relating to the share option scheme or other share incentive plan. The Group and its PRC citizen employees who will be granted share options (including the share options under the Share Option Scheme and the Pre-IPO Share Option Scheme), or PRC option holders, will be subject to these rules upon the Listing.

The Group and the PRC citizen employees who hold options under the Pre-IPO Share Option Scheme will register their options under the Individual Foreign Exchange Rule upon the Listing. In addition, the Individual Foreign Exchange Rule does not have any impact to the Share Option Scheme since no share options under the Share Option Scheme have been granted. When such share options are granted to the Group's PRC citizen employees, such employees and the Group will have to comply with the Individual Foreign Exchange Rule.

## REGULATION ON DIVIDEND DISTRIBUTION

The principal laws and regulations governing distribution of dividends paid by PRC wholly foreign-owned enterprises include (i) PRC Company Law; (ii) Wholly Foreign-Owned Enterprise Law; and (iii) Wholly Foreign-Owned Enterprise Law Implementing Rules. Under the above laws and regulations, domestic companies and wholly foreign-owned enterprises in the PRC may pay dividends only from accumulated after-tax profits, if any, determined in accordance with the PRC accounting standards and regulations. In addition, such enterprises are required to set aside at least 10% of their after-tax profits

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## REGULATIONS RELATING TO THE INDUSTRY

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each year, if any, to fund certain reserve funds. Until such time as the accumulated reserve funds reach and remain above 50% of the enterprise's registered capital amount, these reserves are not distributable as cash dividends. Under the relevant PRC law, no net assets other than the accumulated after-tax profits can be distributed in the form of dividends.

As confirmed by the PRC Legal Advisers, the Group has complied with the regulations on dividend distribution.

### ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

In August 2006, six PRC regulatory agencies promulgated the Rules on Acquisition of Domestic Enterprises by Foreign Investors 《關於外國投資者併購境內企業的規定》 (the “M&A Rules”) regulating mergers and acquisitions of domestic enterprises by foreign investors. The M&A Rules, which became effective in September 2006, purport to require that an offshore special purpose vehicle (“SPV”) formed for listing purposes and controlled directly or indirectly by PRC companies or individuals shall obtain the approval of the CSRC prior to the listing and trading of such SPV’s securities on an overseas stock exchange, especially in the event that the SPV acquires shares of or equity interests in the PRC companies in exchange for the shares of offshore companies. The application of the M&A Rules are subject to interpretation.

Under the M&A Rules, “takeover of a domestic enterprise by a foreign investor” refers to a situation where a foreign investor purchases by agreement the equity interests of a domestic non-foreign-invested enterprise (a “domestic company”) or subscribes to the increased capital of a domestic company, and thus changes the domestic company into a foreign-invested enterprise; or where a foreign investor establishes a foreign-funded enterprise, and through which the foreign investor purchases by agreement the assets of a domestic enterprise and operates its assets; or where a foreign investor purchases by agreement the assets of a domestic enterprise, and then invests such assets to establish a foreign-funded enterprise to operate the assets. The PRC Legal Advisers are of the opinion that the restructuring of Group and the Reorganisation did not involve the acquisition of equity interest in or assets of any company established in China and as such, none of the Reorganisation steps constitute merger and acquisition activities under the M&A Rules.

Therefore, the PRC Legal Advisers are of the opinion that the Group does not require the CSRC approval for the Listing. However, they cannot rule out the possibility that the CSRC may require, either by interpretation or clarification of the M&A Rules or by any new rules, regulations or directives or in any other ways promulgated after the date of its legal opinion, that overseas listings of all SPVs must obtain approval from the CSRC. If the Group is required to obtain CSRC approval, the Group will make an announcement to the public immediately.

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## REGULATIONS RELATING TO THE INDUSTRY

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### REGULATORY COMPLIANCE

In order to ensure compliance with applicable laws and regulations as described herein and to avoid any subsequent non-compliance issues, the Group will implement the following measures upon the Listing as an internal guideline to improve compliance issues and our corporate governance in general. These measures include the following:

- The Board has designated Mr. MAK King Pui, Ricky to be the compliance officer of the Group. In performing his duties as the compliance officer, Mr. MAK will be assisted by the Group's legal advisers in relation to the compliance issues in Hong Kong and the PRC. The compliance officer will report to the Board when he is aware of or suspects that there is any deviation from the requirements, practice or procedures as set out in the compliance manual or that there is any potential breach of the relevant laws and regulations committed by any member of the Group.
- The compliance officer, with the assistance from the Group's legal advisers, will constantly check the publications from the PRC and Hong Kong authorities to ensure the Group has obtained all the licences and legal documents for its business development and operation.
- The Group's management and employees will report to the compliance officer when they encounter any new legal and regulatory issues. The compliance officer will then consult the Group's legal advisers and report to the Board on the advice provided by the legal advisers. The Board will then make a decision on the necessary actions to be taken by the Group.
- The compliance officer will conduct quarterly review of the compliance issues based on an internal compliance checklists. The compliance officer will also liaise with the Group's PRC legal advisers from time to time in respect of any updates on PRC legal requirements.
- The above compliance measures will be reviewed quarterly and may be amended, revised or modified to ensure compliance with the prevailing laws, regulations, codes and practices.

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## HISTORY AND DEVELOPMENT

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### BUSINESS DEVELOPMENT

The history of the Group can be traced back to July 1996 when Mr. XU, together with Mr. DI Xuexun, an Independent Third Party, acquired all equity interest in Qinhuangdao Trading for an aggregate amount of RMB500,000. The amount of consideration was equivalent to the capital contribution of Qinhuangdao Trading. Further information on these acquisitions is set forth in the paragraphs under “– Corporate development” below. The founding investors of Qinhuangdao Trading were 秦皇島開發區秦發物資公司 (Qinhuangdao Development Zone Qinfa Goods Company) and 秦皇島市海港興武物資經銷處 (Qinhuangdao Haigang Xingwu Goods Trading Department), both are Independent Third Parties. Following completion of the acquisitions, Qinhuangdao Trading was owned by Mr. XU and Mr. DI Xuexun as to 60% and 40%, respectively. Qinhuangdao Trading was principally engaged in coal trading business in China.

During the period between 1996 and 2001, Qinhuangdao Trading was the only member of China Qinfa Group engaged in coal trading business in China. Qinhuangdao Trading actively explored the coal trading business in China with customer base expanding to electricity plants in southern China. In 1996, Qinhuangdao Trading became a coal supplier of state-owned electricity generation enterprises in the PRC such as 南海南光燃料公司 (Nanhai Nanguang Fuel Company) with an annual aggregate coal trading volume of approximately 420,000 tonnes. In 1996, Qinhuangdao Trading started sourcing coal from coal mines in Hebei Province to support the increasing demand for coal in China. In 1997, the annual coal trading volume of Qinhuangdao Trading was approximately 610,000 tonnes. The annual coal trading volume of Qinhuangdao Trading in 2001 was approximately 1.56 million tonnes, representing a growth of approximately 271.4% from 420,000 tonnes in 1996.

In order to expand the business to different locations in China, Qinfa Industry was established in January 2001 for coal operation business with an initial registered capital of RMB1,000,000. On the date of incorporation, Qinfa Industry was owned by Qinhuangdao Trading as to approximately 96.4%, 開灤(集團)有限公司 (Kailuar (Group) Co., Ltd.), as to approximately 1.8% and 北京市木材總公司 (Beijing Timber Mill Company), as to approximately 1.8%, respectively. To the best knowledge of the Directors, Kailuar (Group) Co., Ltd. and Beijing Timber Mill Company are Independent Third Parties. As of the Latest Practicable Date, Qinfa Industry was owned by Mr. XU as to 50%, Mr. XU Da (holding on behalf of Mr. XU) as to 49.59% and Mr. LIU Jingwei (holding on behalf of Mr. XU) as to 0.41%, respectively. Each of Mr. XU Da and Mr. LIU Jingwei is a beneficial owner under the Trust Scheme and a Controlling Shareholder. Mr. LIU Jingwei has no other relationship with Mr. XU or Mr. XU Da. The Directors confirm that the reason for such trust arrangement in the equity interest of Qinfa Industry was to ensure that Qinfa Industry had more than one equity holder in accordance with the applicable PRC laws and regulations. The PRC Legal Advisers confirm that this trust arrangement is enforceable between the relevant parties, i.e. Mr. XU, Mr. XU Da and Mr. LIU Jingwei, and in full compliance with the applicable PRC laws and regulations. In addition to the coal operation business, Qinfa Industry acquired a hotel in 2001 for its hotel operation business.

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## HISTORY AND DEVELOPMENT

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The demand for imported coal in the PRC increased significantly and due to the expansion of the Group's business, coal sourced domestically in China was not sufficient for the customers' demand. In 2002, the Group strategically planned to establish an overseas entity to operate the overseas coal supply chain business, because the Directors believed that it would be costly and less efficient for Qinhuangdao Trading or Qinfra Industry to engage in such overseas business activities including the procurement of the overseas supplies and the arrangement on the coal transportation. Qinfra Trading was therefore established in November 2002. With the assistance of Qinhuangdao Trading and Qinfra Industry, which were granted the Coal Operation Certificates, coal sourced from overseas by Qinfra Trading was sold to Qinhuangdao Trading and Qinfra Industry for re-sale in the PRC market.

To further enhance the Group's coal operation business in China, Datong Jinfra and Yangyuan Guotong were established in April 2003 and December 2003, respectively. The Group also acquired a parcel of land in Datong and leased another parcel of land in Yangyuan for the Group's coal loading stations, which are strategically located along the Daqin Railway. Coal loading stations are important in sourcing coal from coal mine operators and coal traders which do not have direct access to coal railway transportation. As of the Latest Practicable Date, there were only 41 major coal loading stations along the Daqin Railway.

In August 2003, Qinfra Shipping was incorporated for the provision of shipping transportation services to the Group's customers. In April 2005, Qinfra Shipping acquired its first Panamax, MV QINFA 6. To strengthen the Group's shipping transportation capacity, Liberal, Perpetual and Super Grace were incorporated in May 2007, August 2007 and January 2008, respectively, as special operating companies for three Panamax, namely MV QINFA 8, MV QINFA 9 and MV QINFA 10, serving the international routes.

Zhuhai Qinfra Shipping was established in September 2007 to operate the Group's first PRC inland vessel, QINFA 2, which was acquired by the Group in August 2007. In December 2007, Zhuhai Qinfra Shipping was granted a Waterway Transportation Licence, which represented a milestone for the Group's inland shipping business in China. Before the Group was granted the Waterway Transportation Licence in December 2007, the Group was not permitted to engage in the PRC inland shipping business in accordance with the Article 7 of 中華人民共和國水路運輸管理條例 (The Regulations on the Management of Waterway Transport of the People's Republic of China). Therefore, the Group did not carry out PRC inland shipping business before December 2007.

As part of the business plan of the Group, Zhuhai Qinfra Trading was established in September 2005, followed by the opening of the Group's office in Guangzhou in June 2007. In December 2007, Zhuhai Qinfra Trading established a representative office in Shanghai exploring additional business opportunities along the coastal region in eastern China.

Having considered the significant increase in the demand for imported coal and the expansion of the Group's overseas coal operation business, the Directors planned to centralise the management and operation of the Group's coal business in China and overseas markets and determined that Hong Kong Qinfra Group should manage and operate the coal trading business in China through the establishment of Qinfra Logistics in February 2008. The Group is able to respond to the changing market conditions efficiently and effectively,

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## HISTORY AND DEVELOPMENT

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which enables it to capture opportunities and manage the relevant risks. The Directors believe these factors are important when the Zhuhai Terminal will become operational as a major international transshipment hub. In order to combine the business operations of the Group in China and Hong Kong (which involves the international coal business), Qinfa Logistics and each member of China Qinfa Group and their respect equity holders entered into the Structure Contracts on 12 June 2009. Further information on the Structure Contracts is set out in the paragraphs under “Reorganisation and the Structure Contracts – Structure Contracts” of this prospectus.

As part of the Reorganisation and for the purpose of streamlining the coal trading business of China Qinfa Group, Qinhuangdao Trading and Qinfa Industry entered into a business transfer agreement on 30 March 2008 whereby Qinfa Industry transferred to Qinhuangdao Trading all assets, liabilities and staff in relation to its coal trading business (except for its investment holding of 51% equity interest in both Qinhuangdao Trading and Datong Jinfa) for nil consideration. The PRC Legal Advisers confirm that the transfer is enforceable and legally binding under the applicable laws and regulations in the PRC. Following completion of this transfer, Qinfa Industry is not engaged in any coal trading business which competes or may compete with the Group’s business except for its 51% equity interest in both Qinhuangdao Trading and Datong Jinfa, further information on these investments is set forth in the paragraphs under “– Corporate development” below. Qinfa Industry also operates a hotel in Qinhuangdao.

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

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## HISTORY AND DEVELOPMENT

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### CORPORATE DEVELOPMENT

#### China Qinfia Group

The following sets forth the corporate development of each member of China Qinfia Group:

##### (1) *Qinhuangdao Trading*

Qinhuangdao Trading is a member of China Qinfia Group holding a Coal Operation Certificate. Qinhuangdao Trading sources coal from the other members of the Group as well as Independent Third Parties, and sells the coal in China.

Qinhuangdao Trading was established on 13 February 1995 with an initial registered capital of RMB500,000 and was owned by 秦皇島開發區秦發物資公司 (Qinhuangdao Development Zone Qinfia Goods Company) (“**Qinhuangdao Goods Company**”) and by 秦皇島市海港興武物資經銷處 (Qinhuangdao Haigang Xingwu Goods Trading Department), both of which are Independent Third Parties, as to 96% and 4%, respectively.

On 12 July 1996, Mr. XU entered into an equity transfer agreement with Qinhuangdao Goods Company, pursuant to which Mr. XU acquired 60% equity interest in Qinhuangdao Trading for a cash consideration of RMB300,000. The consideration amount was based on the capital contribution paid by Qinhuangdao Goods Company in Qinhuangdao Trading. On the same day, Mr. DI Xuexun, an Independent Third Party, acquired the remaining 40% equity interest in Qinhuangdao Trading for cash consideration of RMB200,000 which was based on the capital contribution paid by the original investors. Following completion of these transfers, Qinhuangdao Trading was owned by Mr. XU and Mr. DI Xuexun as to 60% and 40%, respectively.

On 1 July 1997, the registered capital of Qinhuangdao Trading was increased to RMB5,500,000 by way of an asset contribution, composing principally coal transportation trucks, by Mr. XU and Mr. DI Xuexun as to 60% and 40%, respectively.

On 29 November 1999, the registered capital of Qinhuangdao Trading was further increased to RMB68,000,000, with additional capital of RMB62,500,000 contributed by way of cash by Mr. XU and Mr. DI Xuexun as to approximately 82% and 18%, respectively. Following completion of this increase in registered capital, Qinhuangdao Trading was owned by Mr. XU and Mr. DI Xuexun as to 80% and 20%, respectively.

On 15 May 2002, Mr. XU Da, acting on behalf of Mr. XU, acquired 20% equity interest in Qinhuangdao Trading from Mr. DI Xuexun for a cash consideration of RMB13,600,000. The consideration amount was based on the relevant capital contribution. Following completion of this transfer, the entire equity interest of Qinhuangdao Trading was beneficially owned by Mr. XU. The Directors confirm that the reason for the trust arrangement holding on behalf of Mr. XU was to ensure that Qinhuangdao Trading had more than one equity holder in accordance with the applicable PRC laws and regulations. The

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## HISTORY AND DEVELOPMENT

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PRC Legal Advisers confirm that such trust arrangement is enforceable between the relevant parties, i.e. Mr. XU and Mr. XU Da, and is in full compliance with the applicable PRC laws and regulations.

On 18 February 2003, Mr. XU transferred 51% equity interest in Qinhuangdao Trading to Qinfra Industry for a cash consideration of RMB34,680,000 which was based on the capital contribution amount. On the same day, Mr. XU transferred 29% equity interest in Qinhuangdao Trading to Mr. XU Da for a cash consideration of RMB19,720,000 which was based on the capital contribution amount. Mr. XU Da held such equity interest on trust for Mr. XU. Upon completion of these transfers, the equity interest of Qinhuangdao Trading was beneficially owned by Qinfra Industry and Mr. XU (through Mr. XU Da) as to 51% and 49%, respectively.

(2) *Datong Jinfra*

Datong Jinfra was incorporated on 18 April 2003 and is a member of China Qinfra Group holding a Coal Operation Certificate. Datong Jinfra sources coal from coal mine operators and coal traders, and sells the coal to Qinhuangdao Trading for re-sale to customers of the Group in China. Datong Jinfra operates the Group's coal loading station in Datong, including undertaking the transportation of coal from coal mine operators to the coal loading station in Datong and from Datong to Qinhuangdao port via the Daqin Railway.

Upon its establishment, the registered capital of Datong Jinfra was RMB8,000,000 and it was beneficially owned by Qinfra Industry and Mr. XU as to 51% and 49%, respectively.

(3) *Yangyuan Guotong*

Yangyuan Guotong was incorporated on 20 December 2003 and is a member of China Qinfra Group holding a Coal Operation Certificate. Yangyuan Guotong sources coal from coal mine operators and coal traders, and sells the coal to Qinhuangdao Trading for re-sale to customers of the Group in China. Yangyuan Guotong operates the Group's coal loading station in Yangyuan, including undertaking the transportation of coal from coal mine operators to the coal loading station in Yangyuan and from Yangyuan to Qinhuangdao port through the Daqin Railway.

Upon its establishment, the registered capital Yangyuan Guotong was RMB10,000,000 and it was beneficially owned Mr. XU.

(4) *Zhuhai Qinfra Trading*

Zhuhai Qinfra Trading was incorporated on 21 September 2005 and is a member of China Qinfra Group holding a Coal Operation Certificate. Zhuhai Qinfra Trading sources coal from Qinhuangdao Trading or Qinfra Trading for re-sale to customers of the Group in China.

Upon its establishment, the registered capital of Zhuhai Qinfra Trading was RMB5,000,000 and it was beneficially owned by Mr. XU.

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## HISTORY AND DEVELOPMENT

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### *(5) Zhuhai Qinfa Shipping*

Zhuhai Qinfa Shipping was incorporated on 6 September 2007 and is a member of China Qinfa Group holding a Waterway Transportation Licence. Zhuhai Qinfa Shipping operates QINFA 2, the Group's vessel dedicated for inland shipping transportation in China.

Upon its establishment, the registered capital of Zhuhai Qinfa Shipping was RMB5,000,000 and it was beneficially owned by Mr. XU.

### **Hong Kong Qinfa Group**

The following sets forth the corporate development of each member of Hong Kong Qinfa Group:

#### *(1) Qinfa Trading*

Qinfa Trading was incorporated on 15 November 2002 and is the principal subsidiary of Hong Kong Qinfa Group responsible for the coal trading business. Qinfa Trading sources coal overseas and through its subsidiary in the PRC secures customers in China and overseas market.

Upon its incorporation, the share capital of Qinfa Trading was HK\$10,000 divided into 10,000 shares of HK\$1.00 each and it was owned by Mr. XU and Mr. XU Da as to 80% and 20%, respectively.

On 3 March 2006, Qinfa Trading allotted and issued 29,990,000 shares of HK\$1.00 each, at nominal value, to Mr. XU. Upon completion of this share allotment and issue, Mr. XU and Mr. XU Da held 29,998,000 shares and 2,000 shares in Qinfa Trading, respectively.

On 11 January 2007, Ms. WANG Jianfei, an executive Director, acquired 2,000 shares and 1,498,000 shares of Qinfa Trading from Mr. XU Da and Mr. XU, respectively, for an aggregate consideration of HK\$8,618,250, which was based on the net asset value of Qinfa Trading. Upon completion of these share transfers, Mr. XU and Ms. WANG Jianfei held 28,500,000 shares and 1,500,000 shares of Qinfa Trading, representing 95% and 5% of all the issued shares of Qinfa Trading, respectively. At the time of transfer, Mr. XU and Ms. WANG Jianfei, together with Mr. LIU Jingwei, Mr. CAI Binjiang and Ms. ZHOU Lusha controlled the business of the Group.

Pursuant to the First Share Exchange Agreement, Qinfa Investment became the sole shareholder of Qinfa Trading.

#### *(2) Qinfa Shipping*

Qinfa Shipping was incorporated on 20 August 2003 and is operating MV QINFA 6, the Group's first Panamax for international shipping business.

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## HISTORY AND DEVELOPMENT

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Upon its incorporation, the share capital of Qinfa Shipping was HK\$10,000 divided into 10,000 shares of HK\$1.00 each and it was owned by Mr. XU, Mr. LIU Jingwei, Ms. ZHOU Lusha, Mr. CAI Binjiang and Ms. WANG Jianfei, an executive Director, as to 75%, 10%, 5%, 5% and 5%, respectively.

On 11 January 2007, for the purpose of consolidating his control, Mr. XU acquired all issued shares of Qinfa Shipping from Mr. LIU Jingwei, Ms. ZHOU Lusha, Mr. CAI Binjiang and Ms. WANG Jianfei, for an aggregate consideration of HK\$2,134,924, which was based on the net asset value of Qinfa Shipping. Upon completion of these share transfers, Mr. XU held all issued shares of Qinfa Shipping. At the time of transfer, Mr. XU and Ms. WANG Jianfei, together with Mr. LIU Jingwei, Mr. CAI Binjiang and Ms. ZHOU Lusha controlled the business of Qinfa Shipping.

Pursuant to the First Share Exchange Agreement, Qinfa Investment became the sole shareholder of Qinfa Shipping.

*(3) Perpetual*

Perpetual was incorporated on 10 August 2007 and is operating MV QINFA 9, one of the Group's Panamax for international shipping transportation.

Upon its incorporation, the share capital of Perpetual was HK\$1,000 divided into 1,000 shares of HK\$1.00 each. Mr. XU was the sole shareholder of Perpetual.

Pursuant to the First Share Exchange Agreement, Qinfa Investment became the sole shareholder of Perpetual.

*(4) Liberal*

Liberal was incorporated on 3 May 2007 and is operating MV QINFA 8, one of the Group's Panamax for international shipping transportation.

Upon its incorporation, the share capital of Liberal was HK\$1,000 divided into 1,000 shares of HK\$1.00 each. Mr. XU was the sole shareholder of Liberal.

Pursuant to the First Share Exchange Agreement, Qinfa Investment became the sole shareholder of Liberal.

*(5) Qinfa Logistics*

Qinfa Logistics was incorporated on 5 February 2008 and was established for the dual purpose of (i) coordinating the procurement of coal imported from overseas suppliers through Qinfa Trading; and (ii) managing and operating the coal operation business and the PRC inland shipping business pursuant to the terms of the Structure Contracts. Further information on the Structure Contracts is set out in the paragraphs under "Reorganisation and the Structure Contracts – Structure Contracts – Summary of the Structure Contracts" of this prospectus.

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## HISTORY AND DEVELOPMENT

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Qinfa Logistics is a wholly foreign-owned limited liability company in China with an initial registered capital of HK\$20.0 million (of which HK\$3.0 million was settled with the remaining balance to be settled within two years from the date of incorporation) and it is wholly-owned by Qinfa Trading.

(6) *Super Grace*

Super Grace was incorporated on 25 January 2008 and is operating MV QINFA 10, one of the Group's Panamax for international shipping transportation.

On 7 March 2008, Mr. XU was allotted and issued 50,000 shares in Super Grace. Mr. XU was the sole shareholder of Super Grace.

Pursuant to the First Share Exchange Agreement, Qinfa Investment became the sole shareholder of Super Grace.

(7) *Qinfa International*

Qinfa International was incorporated on 8 May 2007 and is an investment holding company of Hong Kong Qinfa Group.

Upon its incorporation, the share capital of Qinfa International was HK\$10,000 divided into 10,000 shares of HK\$1.0 each and it was owned by Mr. XU and by Ms. WANG Jianfei as to 95% and 5%, respectively.

Pursuant to the First Share Exchange Agreement, Qinfa Investment became the sole shareholder of Qinfa International.

Qinfa International conducts no business activities but will be used as an investment vehicle of the Group for future merger and acquisition activities. As of the Latest Practicable Date, Qinfa International did not have any investment holdings.

(8) *Qinfa Investment*

Qinfa Investment is an intermediate holding company of Hong Kong Qinfa Group.

Qinfa Investment was incorporated in the BVI on 7 April 2008. Qinfa Investment is authorised to issue up to 50,000 shares with a par value of US\$1.0 each. On 7 April 2008, Mr. XU subscribed for one share in Qinfa Investment.

(9) *The Company*

The Company was incorporated on 4 March 2008 in the Cayman Islands as an exempted company with limited liability.

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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### INTRODUCTION

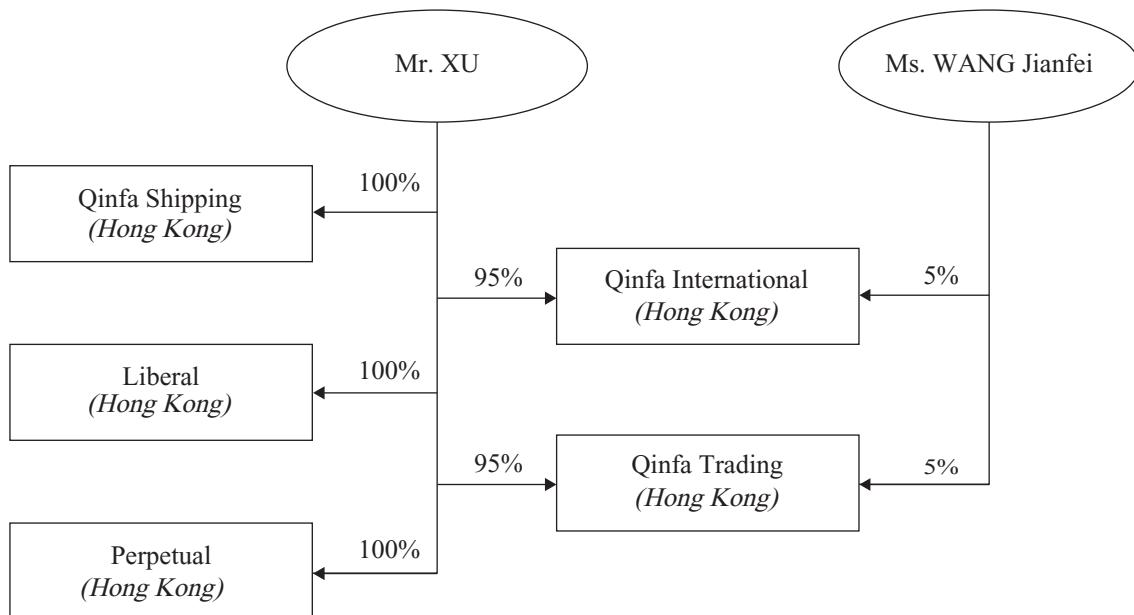
In contemplation of the Listing, members of China Qinfra Group and Hong Kong Qinfra Group have undergone certain restructuring steps whereby a structure of the Group has been established that is suitable for listing on the Main Board.

The Reorganisation involved the following steps:

- transfer of the coal trading business conducted by Qinfra Industry to Qinhuangdao Trading;
- transfer of shares in various members of Hong Kong Qinfra Group held by Mr. XU and Ms. WANG Jianfei to Qinfra Investment pursuant to the First Share Exchange Agreement;
- signing of the Deed of Common Control;
- incorporation of the Company as the holding company of the Group and completion of the Final Share Exchange Agreement;
- establishment of the Trust Scheme and adoption of the Pre-IPO Share Option Scheme and the Share Option Scheme by the Company; and
- entering into the Structure Contracts between Qinfra Logistics and each member of China Qinfra Group and all its respective equity holders.

## REORGANISATION AND THE STRUCTURE CONTRACTS

Immediately before completion of the Reorganisation and as of 31 December 2007, the shareholding and corporate structure of Hong Kong Qinfra Group is as follows:



For the purpose of the Listing, the following steps have been implemented.

### Transfer of the coal trading business conducted by Qinfra Industry to Qinhuangdao Trading

On 30 March 2008, Qinhuangdao Trading and Qinfra Industry entered into a business transfer agreement pursuant to which Qinfra Industry transferred to Qinhuangdao Trading all assets, liabilities and staff in relation to its coal trading business (except for its investment holding of 51% equity interest in both Qinhuangdao Trading and Datong Jinfa) for nil consideration. Following completion of this transfer, Qinfra Industry is not engaged in any coal trading business which competes or may compete with the Group's business but currently operates a hotel in Qinhuangdao which was acquired in 2001. Qinfra Industry also holds 51% equity interest in Qinhuangdao Trading and Datong Jinfa.

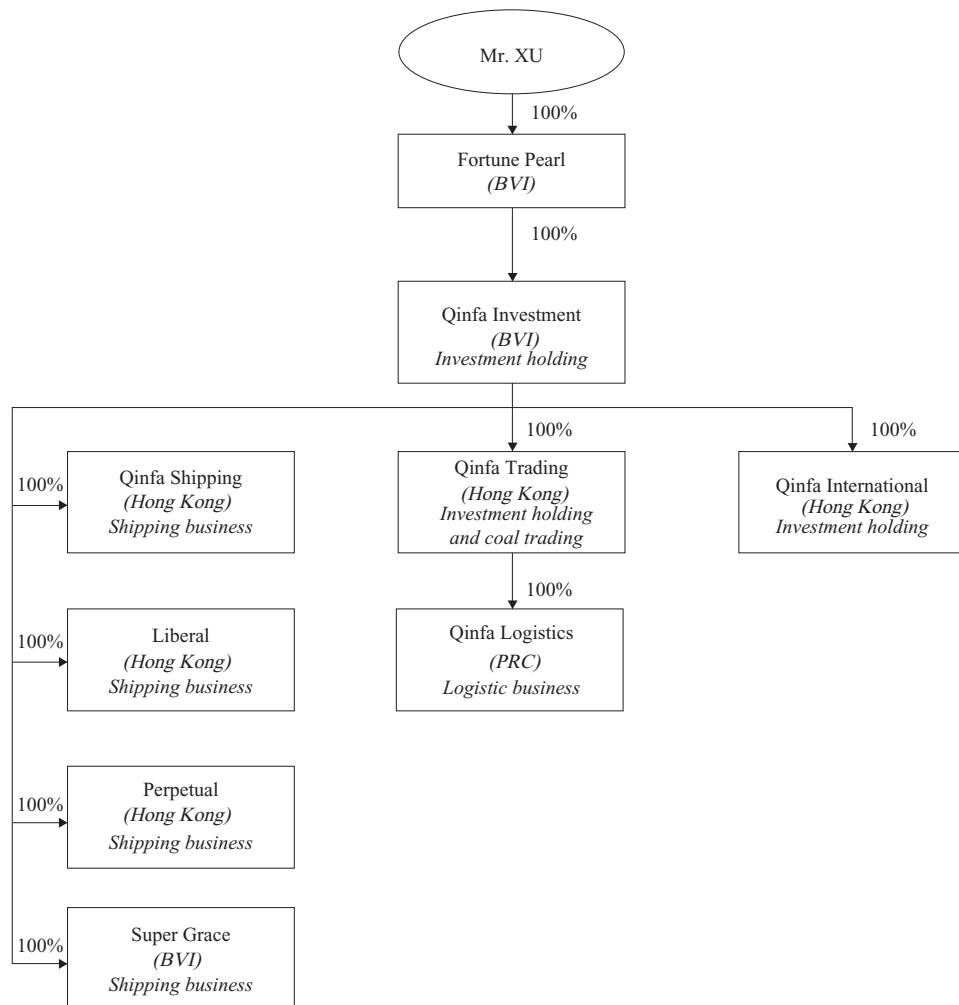
### Transfer of shares in various members of Hong Kong Qinfra Group held by Mr. XU and Ms. WANG Jianfei to Qinfra Investment pursuant to the First Share Exchange Agreement

On 7 April 2008, Qinfra Investment issued and allotted one share to Mr. XU. On 6 October 2008, Mr. XU transferred this one share to Fortune Pearl.

Pursuant to the First Share Exchange Agreement, Mr. XU and Ms. WANG Jianfei transferred their shares in Qinfra International, Qinfra Trading, Qinfra Shipping, Liberal, Perpetual and Super Grace to Qinfra Investment for 4,800 shares of Qinfra Investment allotted and issued to Fortune Pearl, credited as fully-paid. The First Share Exchange Agreement was completed on 6 October 2008 following which Qinfra Investment has become the holding

## REORGANISATION AND THE STRUCTURE CONTRACTS

company of all members of Hong Kong Qinfra Group. The following diagram illustrates the shareholding and corporate structure of Hong Kong Qinfra Group following completion of the First Share Exchange Agreement and as of 31 December 2008:



### Signing of the Deed of Common Control

In order to confirm that all members of the Group were under substantially the same control during the Track Record Period, Mr. XU, Ms. WANG Jianfei, Mr. XU Da, Mr. LIU Jingwei and Ms. ZHOU Lusha entered into the Deed of Common Control on 12 June 2009 confirming that they were acting collectively in controlling the business of the Group during the Track Record Period. This control was evidenced by the resolutions passed at general meetings and/or minutes of the meetings of the board of directors of the relevant members of the Group during the relevant period. Mr. LIU Jingwei and Ms. ZHOU Lusha have left the Group since April 2008 and January 2008, respectively, and are currently working for Qinfra Industry. Mr. XU Da, the son of Mr. XU, is a business development manager of the Group.

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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Mr. XU, Fortune Pearl and the beneficiaries of the Trust Scheme, namely, Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha, are the Controlling Shareholders. Mr. XU is the founder of the Group and an executive Director. Mr. LIU Jingwei and Ms. ZHOU Lusha were involved in the management of the Group during the Track Record Period and are equity holders of certain members of the China Qinfra Group on behalf of Mr. XU. Ms. WANG Jianfei was a shareholder of certain members of the Group. Both Ms. WANG Jianfei and Mr. WENG Li are executive Directors and were involved in the management of the Group during the Track Record Period. Mr. XU Da is the son of Mr. XU and is a business development manager of the Group. In light of this background information and their past and present involvement in the management of the Group, all of them are considered to be the Controlling Shareholders.

### **Incorporation of the Company as the holding company of the Group and completion of the Final Share Exchange Agreement**

On 4 March 2008, one Share was transferred from the subscriber to Mr. XU. On 12 June 2009, Mr. XU transferred his one Share to Fortune Pearl.

On 12 June 2009, the Final Share Exchange Agreement was entered into, among others, between Fortune Pearl and the Company, pursuant to which Fortune Pearl agreed to transfer 4,801 shares in Qinfra Investment to the Company for 999,999 Shares allotted and issued, credited as fully-paid, to Fortune Pearl. Following completion of this transaction, the Company has become the ultimate holding company of all members of Hong Kong Qinfra Group. The Company is wholly-owned by Fortune Pearl.

### **Establishment of the Trust Scheme and adoption of the Pre-IPO Share Option Scheme Share Option Scheme by the Company**

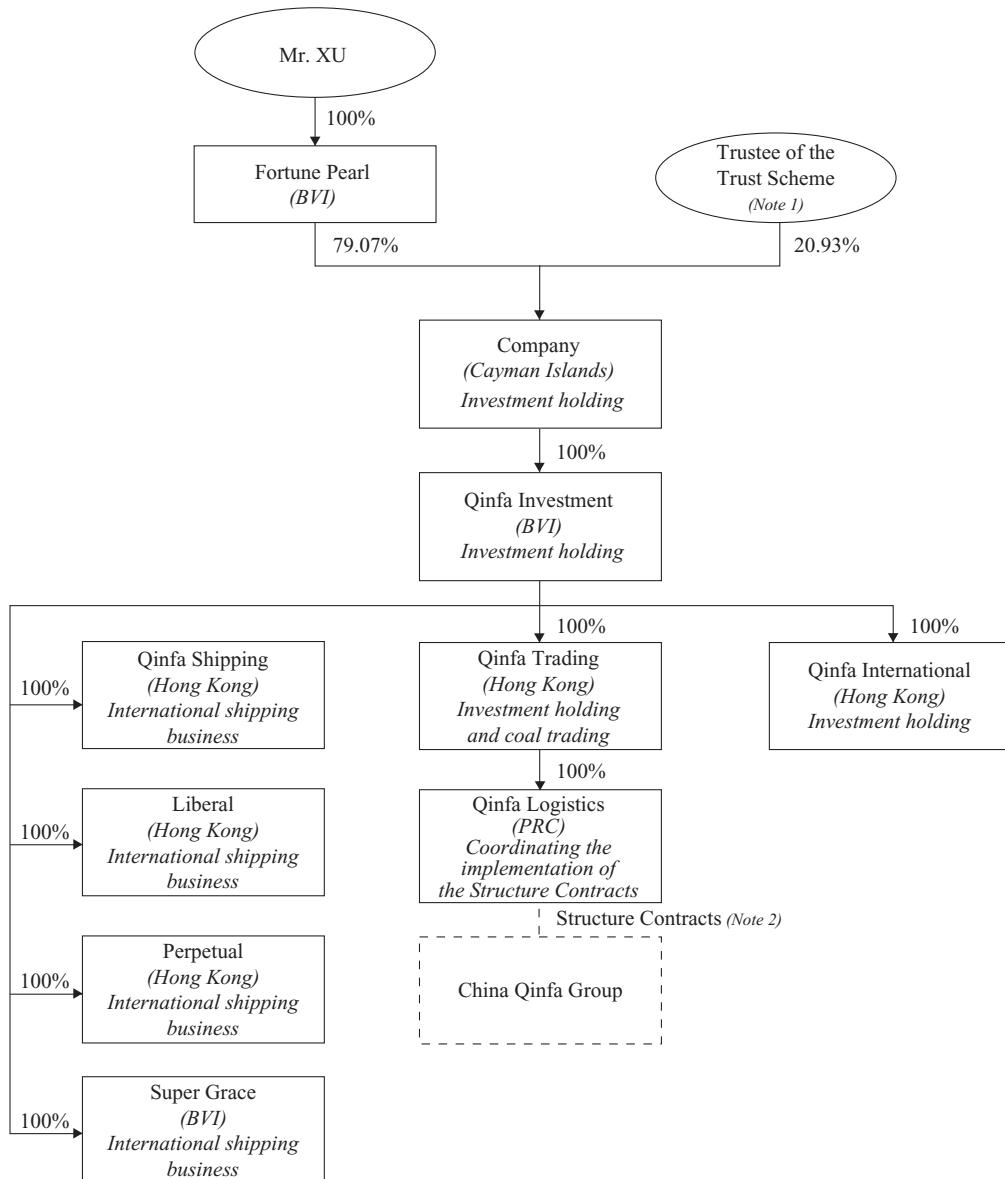
On 13 June 2009, Fortune Pearl adopted the Trust Scheme whereby an aggregate of 209,333 Shares were transferred to Equity Trust (HK) Limited, acting as the trustee of the Trust Scheme, for the benefit of Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha. Following completion of the Global Offering and the Capitalisation Issue (without taking into consideration the Shares which may be issued pursuant to the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme), there will be 157,000,000 Shares held under the Trust Scheme which will represent 15.7% of the Shares in issue. Further information on the Trust Scheme is set out in the paragraphs under “Trust Scheme” in Appendix V to this prospectus.

The Company has adopted, conditionally, the Pre-IPO Share Option Scheme and the Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, an aggregate of 26 employees of the Group have been granted options to subscribe for an aggregate 8,400,000 Shares. A summary of the principal terms of each of the Pre-IPO Share Option Scheme and the Share Option Scheme is set out in the paragraphs under “Share Option Schemes” in Appendix V to this prospectus.

## REORGANISATION AND THE STRUCTURE CONTRACTS

### Shareholding and corporate structure of the Group

The following diagram illustrates the shareholding and corporate structure of the Group as of the Latest Practicable Date:



#### Notes:-

- (1) The 209,333 Shares held by Equity Trust (HK) Limited, acting in the capacity as the trustee of the Trust Scheme, were transferred from Fortune Pearl on 13 June 2009 at the aggregate par value. The beneficiaries of the Trust Scheme are Ms. WANG Jianfei, Mr. WENG Li, Mr. XU Da, Mr. LIU Jingwei and Ms. ZHOU Lusha. Ms. WANG Jianfei and Mr. WENG Li are executive Directors. Mr. XU Da is a business development manager of the Group. In addition to his beneficial interest in the Shares under the Trust Scheme, Mr. LIU Jingwei holds 10% equity interest in Zhuhai Qinfai Trading, 96% equity interest in

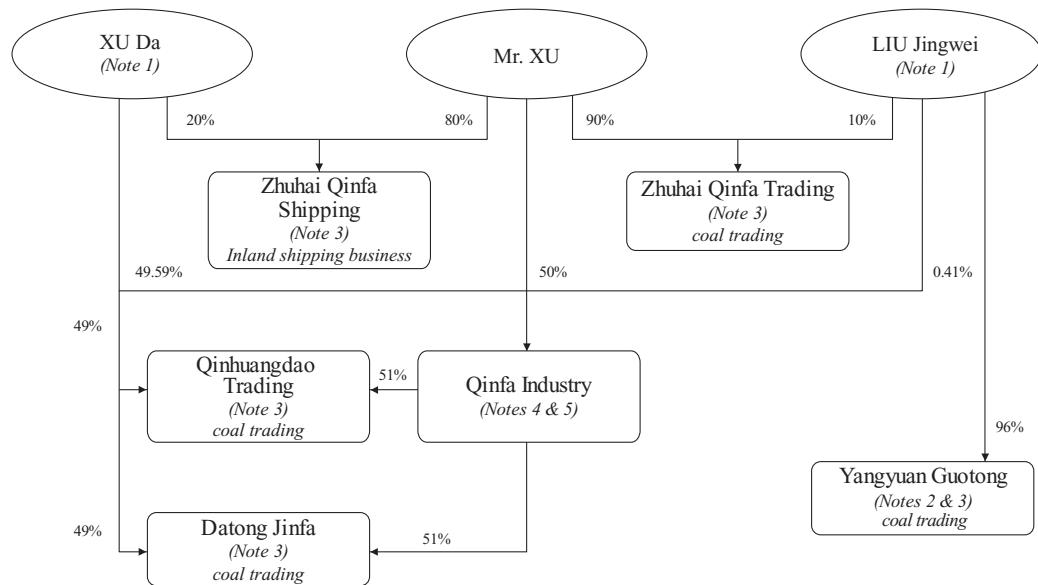
## REORGANISATION AND THE STRUCTURE CONTRACTS

Yangyuan Guotong and 0.41% equity interest in Qinfa Industry, all on behalf of Mr. XU. Mr. LIU Jingwei is the legal representative of Yangyuan Guotong. In addition to her beneficial interest under the Trust Scheme, Ms. ZHOU Lusha holds 4% equity interest in Yangyuan Guotong on behalf of Mr. XU.

The trustee of the Trust Scheme will act upon the terms and conditions of the trust deed of the Trust Scheme and in accordance with applicable laws and regulations. No person may issue letter of wishes subsequent to the establishment of the Trust Scheme. Further information on the Trust Scheme is set out in the paragraphs under “Further Information About Directors and Substantial Shareholders – 5. Trust Scheme” in Appendix V to this prospectus.

(2) Further information on the Structure Contracts is set forth in the paragraphs under “Reorganisation and the Structure Contracts – Structure Contracts – Summary of the Structure Contracts” of this prospectus.

The following diagram illustrates the shareholding and corporate structure of China Qinfa Group as of the Latest Practicable Date:

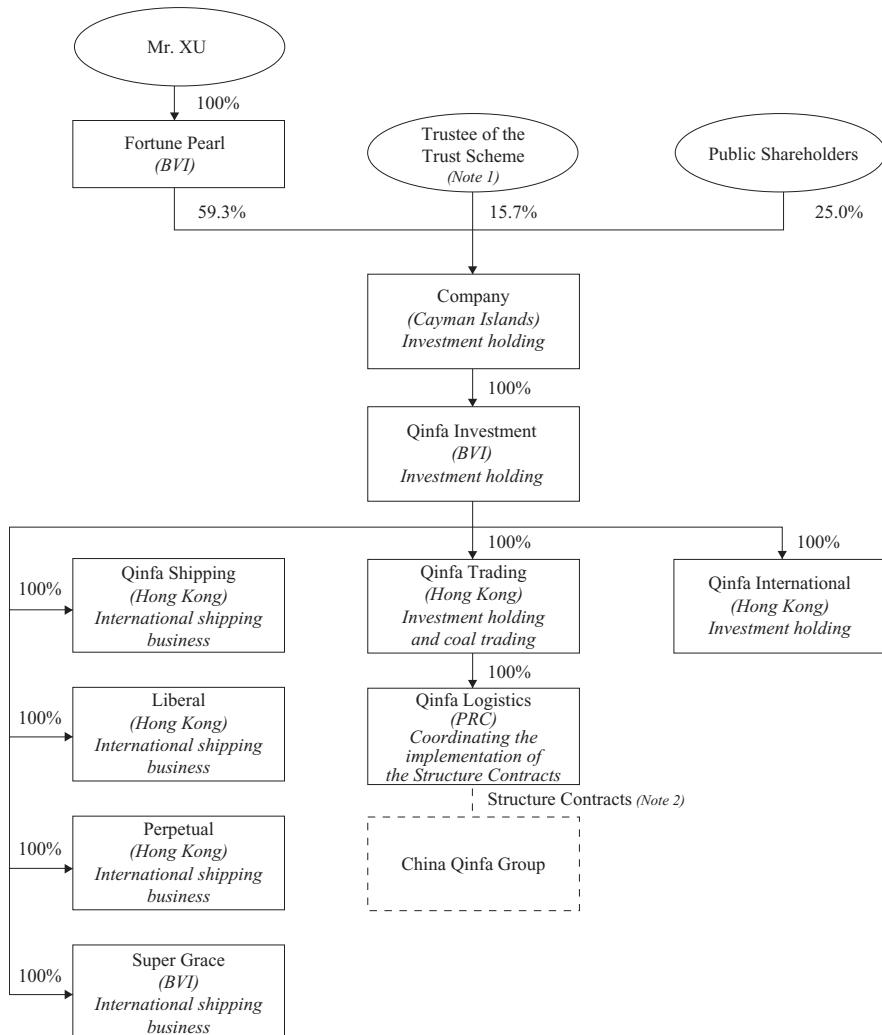


Notes:-

- (1) Mr. XU Da and Mr. LIU Jingwei are holding the equity interests in members of China Qinfa Group on trust for Mr. XU. Mr. LIU Jingwei is the legal representative of Yangyuan Guotong and has no other relationship with Mr. XU.
- (2) The remaining 4% equity interest of Yangyuan Guotong is held by Ms. ZHOU Lusha on trust for Mr. XU. Ms. ZHOU Lusha has no other relationship with Mr. XU.
- (3) These are the principal operating subsidiaries of the Group.
- (4) Qinfa Industry is not a member of China Qinfa Group.
- (5) Qinfa Industry was intended to be a holding company of Qinhuangdao Trading and Datong Jinfa. As such, 51% equity interest of Qinhuangdao Trading and Datong Jinfa was transferred to be held by Qinfa Industry during the Track Record Period.

## REORGANISATION AND THE STRUCTURE CONTRACTS

The following diagram sets forth the shareholding and corporate structure of the Group immediately following completion of the Global Offering and the Capitalisation Issue assuming that the Over-allotment Option is not exercised and that no Shares have been issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme and any option that may be granted under Share Option Scheme:



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## REORGANISATION AND THE STRUCTURE CONTRACTS

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The trustee of the Trust Scheme will act upon the terms and conditions of the trust deed of the Trust Scheme and in accordance with applicable laws and regulations. No person may issue letter of wishes subsequent to the establishment of the Trust Scheme. Further information on the Trust Scheme is set out in the paragraphs under “Further Information About Directors and Substantial Shareholders – 5. Trust Scheme” in Appendix V to this prospectus.

(2) Further information on the Structure Contracts is set forth in the paragraphs under “Reorganisation and the Structure Contracts – Structure Contracts – Summary of the Structure Contracts” of this prospectus.

### Legality

As stated in “Reorganisation and the Structure Contracts – Structure Contracts – Legality” of this prospectus, the Structure Contracts do not require any approvals or filing with PRC governmental authorities, except for requisite filings with local taxation bureaus which were completed after the signing of the Structure Contracts. Save as in respect of such filing obligation, as confirmed by the PRC Legal Advisers, all approvals and permits required under the PRC laws and regulations in connection with each stage of the Reorganisation have been obtained.

## STRUCTURE CONTRACTS

### Introduction

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

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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In order to allow Hong Kong Qinfra Group to manage and operate the coal operation business in China, the Structure Contracts were entered into under which all the business activities of China Qinfra Group are managed and operated by Qinfra Logistics and all economic benefits and risks arising from the business of China Qinfra Group are transferred to Qinfra Logistics.

The following sets out a summary of the arrangements under the Structure Contracts:

- Each member of China Qinfra Group has engaged Qinfra Logistics to manage and operate their business and Qinfra Logistics is entitled to all the revenue of all members of China Qinfra Group after deducting all relevant costs and expenses (including taxes). The Directors confirm that the arrangements under the Structure Contracts ensure all economic risks and benefits generated from the operations of China Qinfra Group will flow onto Qinfra Logistics and hence, the Group as a whole;
- Qinfra Logistics has the right to acquire any or all of the equity interests and/or assets of all members of China Qinfra Group at the lowest possible amount and at such time as permitted by the relevant PRC laws and regulations. The Controlling Shareholders have further undertaken to grant all consideration received under any such acquisition to Qinfra Logistics;
- China Qinfra Group and all its equity holders have granted to Qinfra Logistics a pledge over the equity interests in all members of China Qinfra Group for the purpose of securing the performance of the contractual obligations under the Structure Contracts; and
- to ensure that Qinfra Logistics retains control over China Qinfra Group, the equity interests of all members of China Qinfra Group may not be transferred or otherwise disposed of by any of the equity holders of any member of China Qinfra Group without the written consent of Qinfra Logistics. Furthermore, the obligations of the equity holders of all members of China Qinfra Group under the Structure Contracts are binding on all of their respective successors.

The Structure Contracts, taken as a whole, permit the financial results of China Qinfra Group and economic benefits of their business to flow onto Qinfra Logistics. In addition, all the directors in each member of China Qinfra Group are to be nominated by Qinfra Logistics. Through its control over the directors of China Qinfra Group, Qinfra Logistics is able to monitor, supervise and effectively control the business, operations and financial policies of each member of China Qinfra Group so as to ensure due implementation of the Structure Contracts. The Structure Contracts also enable Qinfra Logistics to exercise control over and to acquire the equity interests and/or assets of China Qinfra Group at the lowest value and at such time as permitted by the relevant PRC laws and regulations with an undertaking from the Controlling Shareholders to provide to Qinfra Logistics all the consideration received pursuant to any such acquisition. Based on the Structure Contracts, the Directors consider that, notwithstanding the lack of equity ownership between members of China Qinfra Group

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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and Hong Kong Qinfra Group, Qinfra Logistics is entitled to control the business of China Qinfra Group in substance. On this basis, the financial position and operating results of all members of China Qinfra Group are included in the Group's combined financial statements.

As the shareholders of members of the Group, being the Controlling Shareholders, are the same before and after the Reorganisation, the financial statements of the Group are prepared as a reorganisation of business under common control in a manner similar to pooling of interests. No acquisition of minority interest was recorded during the Track Record Period.

Set out below is the key financial information of China Qinfra Group and Hong Kong Qinfra Group during the Track Record Period:

### For the year ended 31 December 2006

	<b>China Qinfra Group</b> <i>RMB('000)</i>	<b>Qinfra Group</b> <i>RMB('000)</i>	<b>Intra-group elimination</b> <i>RMB('000)</i>	<b>Combined</b> <i>RMB('000)</i>
Turnover	2,824,382	451,000	(424,893)	2,850,489
Gross profit	186,400	49,364	(146)	235,618
Profit before tax	20,685	46,143	(146)	66,682
Income tax expense	4,692	9,188	(48)	13,832
Net profit	15,993	36,955	(98)	52,850
Net current assets	159,627	17,336	(146)	176,817
Net assets	190,181	214,710	(98)	404,793

### For the year ended 31 December 2007

	<b>China Qinfra Group</b> <i>RMB('000)</i>	<b>Qinfra Group</b> <i>RMB('000)</i>	<b>Intra-group elimination</b> <i>RMB('000)</i>	<b>Combined</b> <i>RMB('000)</i>
Turnover	3,528,316	529,738	(393,422)	3,664,632
Gross profit	460,936	114,119	(3,661)	571,394
Profit before tax	154,132	97,845	(3,661)	248,316
Income tax expense	33,281	8,687	(903)	41,065
Net profit	120,851	89,158	(2,758)	207,251
Net current assets/(liabilities)	267,272	(13,229)	(3,807)	250,236
Net assets	316,032	321,952	(2,856)	635,128

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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For the year ended 31 December 2008

	<b>Hong Kong</b>			
	<b>China Qinf Group</b>	<b>Qinf Group</b>	<b>Intra-group elimination</b>	<b>Combined</b>
	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>	<i>RMB('000)</i>
Turnover	3,956,546	586,243	(350,305)	4,192,484
Gross profit	441,758	124,607	(6,449)	559,916
Profit before tax	215,973	185,775	(6,449)	395,299
Income tax expense	55,228	10,993	(1,612)	64,609
Net profit	160,745	174,782	(4,837)	330,690
Net current assets/(liabilities)	298,650	(237,118)	(10,256)	51,276
Net assets	356,435	386,212	(7,692)	734,955

In addition to the above, any amendment to the Structure Contracts shall be subject to the approvals of (i) the directors nominated by Qinf Logistics to each member of China Qinf Group, and (ii) for the purpose of promoting good corporate governance, the Shareholders in general meeting. No amendments to the Structure Contracts can be made unless required under the Listing Rules or approved by Qinf Logistics in writing in advance.

The Directors believe that the Structure Contracts, as a whole, enable the Group to be operated coherently with the power to govern the business and the financial and operating policies of China Qinf Group for the benefit of the Group as a whole. Accordingly, the financial position and operating results of these entities are included in the Group's financial information. Pursuant to the relevant accounting standards under IFRSs, transactions are accounted for and presented in accordance with the substance and economic reality and not merely their legal form.

In addition, as the shareholders and controlling members of the Group both before and after the Reorganisation are the same, the financial information of the Group has been prepared as a reorganisation of a business under common control in a manner similar to pooling of interests. The financial information presents the combined results and financial position of the Group as if the current corporate structure (together with the contractual arrangements under the Structure Contracts) had been in existence throughout the Track Record Period and as if the coal and shipping businesses were transferred to the Group at the beginning of the earliest period presented.

### Summary of the Structure Contracts

The following is a summary of the principal terms of the Structure Contracts:

#### *(1) Engagement Agreements*

On 12 June 2009, Qinf Logistics and each member of China Qinf Group and all its respective equity holders entered into the Engagement Agreements pursuant to which Qinf Logistics agreed to manage and operate the coal operation business of

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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Zhuhai Qinfra Trading, Qinhuangdao Trading, Datong Jinfa and Yangyuan Guotong and the inland shipping transportation business of Zhuhai Qinfra Shipping. Under the Engagement Agreements, Qinfra Logistics is responsible for management and operation functions for the business of each member of China Qinfra Group, including (i) transportation agency and storage; (ii) business and project management; (iii) market research and development; (iv) formation of market development plan; (v) business development and market consultation; (vi) customer networking; (vii) development and research of commercial management techniques; (viii) enterprise management and planning; (ix) technology consultation and transfer; (x) public relations; and (xi) employees arrangement and engagement, capital allocation, financial management, assets control of the engagement operation.

Under each of the Engagement Agreements, Qinfra Logistics will pay an annual fee of RMB10,000 to each member of China Qinfra Group for the exclusive engagement of Qinfra Logistics to manage and operate their businesses. In consideration, Qinfra Logistics shall assume all economic benefits and risks arising from the business of each member of China Qinfra Group. The revenue of each member of China Qinfra Group, after deducting all relevant costs and expenses (including taxes) shall be paid to Qinfra Logistics after the accounts of the relevant member have been audited. The directors of all members of China Qinfra Group will hold annual meetings to determine and implement the payment to Qinfra Logistics.

All the directors in each member of China Qinfra Group shall be nominated by Qinfra Logistics. The directors of each member of China Qinfra Group are responsible to oversee the business and operations of the respective company. Other than by reason of retirement, resignation, incapacity or death, a director of any member of China Qinfra Group may only be removed with the consent of Qinfra Logistics.

In addition, pursuant to the Engagement Agreements, all equity holders of each of China Qinfra Group have irrevocably authorised Qinfra Logistics or a nominee designated by Qinfra Logistics to exercise all their voting rights at general meetings.

The term of each of the Engagement Agreements is 10 years commencing on 12 June 2009 and ending on 11 June 2019, and renewable at the request of Qinfra Logistics provided only that Qinfra Logistics does not issue any notice of termination 30 days before the termination date.

### (2) *Pledge Agreements*

On 12 June 2009, Qinfra Logistics and each member of China Qinfra Group and all its respective equity holders entered into the Pledge Agreements pursuant to which all such equity holders granted to Qinfra Logistics a continuing first priority security interest over their respective equity interests in the registered capital of each member of China Qinfra Group (the “**Pledged Securities**”). The Pledged Securities represent the entire equity interest in the registered capital of each member of China Qinfra Group, and the entering into the Pledge Agreements secures due performance of the contractual obligations by the relevant member of China Qinfra Group and its equity holders under the Structure Contracts. Under the Pledge Agreements, Qinfra Logistics is entitled to

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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exercise its right to acquire the Pledged Securities at an agreed price or sell the Pledged Securities through an auction or private sale or dispose of the Pledged Securities in any other manner permitted by applicable laws and regulations, on the occurrence of any of the following:–

- any equity holder of China Qinfra Group is in breach of any of his or her obligations under the Pledge Agreement;
- the relevant member of China Qinfra Group or its equity holders is in breach of its obligation under the Structure Contracts;
- the representations or undertakings given by the relevant member of China Qinfra Group or its equity holders become untrue or misleading in any material aspect; and
- any term of the Structure Contracts becomes unenforceable as a result of a change in relevant laws and regulations of the PRC or for whatever reason.

In addition, each member of China Qinfra Group and all its equity holders granted to Qinfra Logistics or its nominee (a) a right to acquire any or all of the equity interests in each member of China Qinfra Group; and (b) a right to acquire any or all of the assets of each member of China Qinfra Group from the relevant equity holders, as and when permitted by PRC laws and regulations. The amount of consideration payable by Qinfra Logistics to the equity holders of each member of China Qinfra Group shall be the lowest possible amount permissible under the applicable PRC laws and regulations. The Company has undertaken with the Stock Exchange that it will acquire all of the equity interest of each member of China Qinfra Group from the relevant equity holders, as and when permitted by PRC laws and regulations. The Controlling Shareholders have further undertaken to grant all consideration received under any such acquisition to Qinfra Logistics.

Each member of China Qinfra Group and its equity holders have also provided specific covenants which, among others, include:–

- not to sell or encumber any assets without the prior written consent of Qinfra Logistics or as permitted under the Pledge Agreement;
- not to change its registered capital structure without Qinfra Logistics' prior written consent;
- not to distribute profits to its equity holders;
- to conduct the business in accordance with the Engagement Agreement; and
- not to liquidate or dissolve the relevant member of China Qinfra Group without the prior written consent of Qinfra Logistics.

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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The Pledge Agreement is for a term commencing on 12 June 2009 and ending on the date of termination of the Engagement Agreements.

### Legality

The PRC Legal Advisers, after taking all possible actions and steps to enable it to reach its legal conclusions, is of the opinion that:

- each member of China Qinfa Group has been duly established and is validly existing under the relevant PRC laws and regulations;
- each of the Structure Contracts has been duly authorised, executed and delivered by the parties to the Structure Contracts and such contracts are legal, valid, admissible as evidence and binding under relevant PRC laws and regulations, enforceable against the parties to the Structure Contracts in accordance with the terms and conditions in the Structure Contracts;
- the execution, delivery and performance of the Structure Contracts do not violate or result in a breach of or default under any PRC laws, regulations, rules or government policies or the respective articles of association or material contracts to which any member of China Qinfa Group is a party;
- none of the terms and conditions in any of the Structure Contracts (taken individually or together as a whole) nor the legal structure of China Qinfa Group contravenes any applicable laws, regulations, rules or government policies of the PRC; and
- the Structure Contracts do not require any approvals from or filings with PRC governmental authorities, except for requisite filings with local taxation departments which have been properly filed.

As confirmed by the PRC Legal Advisers, the Group has complied in good faith with all relevant PRC laws and regulations and the Group's operation in China was legal and valid before and after implementation of the Structure Contracts.

To reach its legal conclusions, the PRC Legal Advisers have conducted due diligence on the Group's interests in the PRC, studied relevant PRC legal issues and consulted with relevant PRC governmental authorities in Zhuhai, Qinhuangdao, Datong and Yangtze.

Based on the discussions with the relevant PRC governmental authorities, further information on which is set out in the paragraphs under "Regulations relating to the industry – Coal trading – Domestic trading of coal" of this prospectus, the PRC Legal Advisers have confirmed that there has been no objection from such PRC governmental authorities against the arrangements contemplated under the Structure Contracts. In addition, such PRC governmental authorities did not indicate that the implementation of the Structure Contracts would breach the relevant laws and regulations of the PRC. Based on discussions with the Directors and the PRC Legal Advisers as well as the fact that such governmental authorities are the relevant local governmental authorities responsible for examination and approval of

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## REORGANISATION AND THE STRUCTURE CONTRACTS

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Coal Operation Certificate in each of the jurisdictions in which the Group has operations, the Sponsor has no reason to cast any reasonable doubt on its belief that such governmental authorities are competent and relevant for the purpose of verifying the legality of the Structure Contracts under the PRC laws.

The Directors consider that since the execution of the Structure Contracts, the Group has been able to maintain a stable operation because (i) the operations of Qinfa Logistics, Qinhuangdao Trading, Datong Jinfa, Yangyuan Guotong, Zhuhai Qinfa Trading and Zhuhai Qinfa Shipping, being parties under the Structure Contracts, had been valid and legal in coal operation and shipping transportation during the Track Record Period; (ii) upon the execution of the Structure Contracts, the management models, operation structures and profit models did not incur any practical changes; and (iii) the working positions, structures, rights and liabilities of the senior management, mid-level management and other key staff of each of the parties to the Structure Contracts did not incur any practical changes.

In addition, in accordance with the Listing Rules, the Group has established procedures, systems and controls (including accounting and management systems) which are adequate having regard to the obligations of the Company and the Directors to comply with the Listing Rules and the applicable laws and regulations so that the Directors will be able to assess from time to time the operating and financial positions and prospects of the Group as a whole. On this basis and having considered that (i) the contents of each of the Structure Contracts are legal and in compliance with the relevant laws and regulations and the Structure Contracts are binding on each of the parties to the Structure Contracts; (ii) each of the relevant parties to the Structure Contracts is a limited company duly established and is validly existing under the relevant PRC laws and regulations and each of them possesses the legal capacity to execute the Structure Contracts with appropriate legal rights and authorities; (iii) the equity interests of all members of China Qinfa Group may not be transferred or otherwise disposed of by any of the equity holders of any member of China Qinfa Group without the written consent of Qinfa Logistics to ensure that Qinfa Logistics retains control over China Qinfa Group; (iv) the obligations of the equity holders of all members of China Qinfa Group under the Structure Contracts are binding on all of their respective successors; (v) all the directors in each member of China Qinfa Group shall be nominated by Qinfa Logistics and they are responsible to oversee the business and operations of the respective company. Other than by reason of retirement, resignation, incapacity or death, a director of any member of China Qinfa Group may only be removed with the consent of Qinfa Logistics; and (vi) all equity holders of each member of China Qinfa Group have irrevocably authorised Qinfa Logistics or a nominee designated by Qinfa Logistics to exercise all their voting rights at general meetings, the Directors confirm that the Group is able to maintain due implementation of the provisions set forth in the Structure Contracts and the sound and proper operation of the Structure Contracts.

### OVERVIEW

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

Leveraging the continuous increase in the coal prices in China from January 2006 to July 2008, the Group purchased coal at relative low prices and sold it at relative higher prices taking the advantage of the increasing price trends as reflected in the continuous increase in the average Qinhuangdao benchmark coal spot prices (5,500 Kcal.) from approximately RMB408.0 per tonne to approximately RMB1,045.0 per tonne during the period between January 2006 and July 2008. The average Qinhuangdao benchmark coal spot prices (5,500 Kcal.) dropped from approximately RMB1,045.0 per tonne in July 2008 to approximately RMB580.0 per tonne in December 2008. During this period, the Group mitigated the impact of the decreases in the market coal prices through its risk management policies by reducing the level of coal inventory.

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

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

Based on the available market information and their experience in the coal price trends, the executive Directors adjust the coal purchase and sales volume from time to time in order to maintain a sufficient level of inventory for sales to the customers of the Group. As a matter of business practice, the Group purchases coal for trading purpose when the Directors expect that the coal prices would not decrease. If the Group is required to purchase coal to meet its confirmed sales orders, it will enter into fixed price purchase orders within three days from the date of the relevant sales orders. The Directors believe that, based on their experience in the PRC coal industry, it is less likely that the Group is not able to conclude purchase orders within three days after the date of the relevant sales order. This is because (i) coal is a kind of homogeneous commodity traded by a large number of buyers and sellers in open markets; (ii) purchase prices of coal are usually determined with reference to the

prevailing demand and supply with high degree of market transparency and (iii) the Group has established long-term business relationship with its major coal suppliers. During the Track Record Period, the coal inventory turnover days of the Group ranged from 24 days to 41 days. Although the Group adjusts its coal purchase and inventory levels from time to time based on various factors, the Directors consider that these transactions are conducted for the primary purpose of maintaining a sufficient level of coal inventory to fulfill the existing or anticipated demands from the customers of the Group.

According to the BBIC Report, the PRC coal consumption in 2008 was approximately 2,740 million tonnes, of which approximately 1,693 million tonnes, representing approximately 62.0% of the total consumption in 2008, was sourced through coal trading intermediaries. Among the coal sourced from intermediaries, approximately 1,168 million tonnes, representing approximately 69.0% of the total volume of coal trading in the PRC, were traded by state-owned coal operators with the remaining of approximately 525 million tonnes traded by non-state-owned coal operators.

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

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

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

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Daqin Railway. Coal loading stations of the Group also serve as coal trading, filtering, storage, blending centres for other coal operators. The Group is therefore able to provide an integrated, effective and reliable supply chain of coal to its customers.

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

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

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

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

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

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

Source	Specifications of coal				
	Total Moisture (%)	Ash (%)	Volatile Matter (%)	Sulphur (%)	Calorific Value (Kcal./kg)
PRC	8.0-13.0	12.0-30.0	18.0-25.0	0.8-1.2	4,500-6,000
Australia	8.0-12.0	20.0-25.0	12.0-33.0	0.4-1.0	5,400-6,200
Vietnam	8.0	30.0-42.0	4.0-8.0	0.6-1.0	4,900-6,000
Indonesia	20.0-28.0	3.0-12.0	40.0-43.0	0.1-1.5	4,500-5,500

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

In December 2008, leveraging its experience in the coal operation business, the Group entered into the first sales and purchase contracts for the trading business of iron ore fines. The relevant transactions were carried on and completed in 2009. The transaction volume of the Group's first sales and purchase contracts of iron ore fines in December 2008 amounted to approximately 60,000 tonnes of iron ore fines. These business activities represented the Group's expansion of business operation into the iron ore industry. As of the Latest Practicable Date, the Group was negotiating with its business partners, which are Independent Third Parties, for an iron ore cooperation agreement in relation to its operation in the iron ore trading industry. Further information on the Group's trading business of iron ore and related materials is set out in the paragraphs under “– Iron ore trading” below. The Directors expect that the coal operation business will continue to be the principal business of the Group in the future, but the trading business of iron ore may provide another source of income to the Group.

### COMPETITIVE STRENGTHS

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

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

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

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

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

#### **The Group maintains a solid and long-term customer base**

The Group has established stable and long term business relationships with large scale coal consuming enterprises, including 廣東省電力工業燃料有限公司 (Guangdong Electric Power Industry Fuel Company Limited), 華陽電業有限公司 (Huayang Electric Power Co.,

Ltd.) and 英德海螺水泥有限責任公司 (Prosperity Conch Cement Company Limited). As at 31 December 2008, the Group has at least four years of business relationships with a majority of its major customers. Since the key customers of the Group are mainly large enterprises with strong financial backgrounds, the Group enjoys reliable creditability of its customers. In addition, through the long-term relationships with such key customers, the Group is able to maintain a significant degree of increasing demand of sales.

### **The Group maintains extensive PRC domestic and overseas coal supplies**

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

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

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

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

### **The Group is equipped with coal filtering and blending capabilities**

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

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

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

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

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

## **GROWTH STRATEGIES**

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

### **Construct and operate the Zhuhai Terminal**

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

the Group, its customers and other Independent Third Parties, the Group will earn port fees including uploading and dockage, tug towage, berthing and moor lines handling from the operation of Zhuhai Terminal.

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

The Group is applying for government approval for the establishment of a sino-foreign joint venture for the construction and operation of Zhuhai Terminal. It intends to form the joint venture with investor(s) of strong and reputable financial background and expertise. Currently, the Group plans to own approximately 60.0% of the joint venture.

The Group currently plans to construct one 100,000.0 DWT (construction structure: 150,000.0 DWT) berth, one 20,000.0 DWT (construction structure: 50,000.0 DWT) berth and two 2,000 DWT (construction structure: 10,000.0 DWT) berths, with an aggregate annual thruput capacity of 20 million tonnes, at Zhuhai Terminal.

The total investment of Zhuhai Terminal is expected to be approximately RMB1,500.0 million. As of the Latest Practicable Date, the Group has already obtained letters of intent issued by a bank for its intention to finance the Zhuhai Terminal project. In addition, the Group intends to utilise part of the use of proceeds under the Global Offering to finance Zhuhai Terminal, details of which are set out in "Future plans and use of proceeds" of this prospectus.

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

- Zhuhai Terminal is strategically located in the southwestern region of Zhuhai, thereby allowing the Group to (i) take advantage of its proximity to customers located in the coal consuming coastal cities of China; (ii) react more quickly to customers' needs; and (iii) lower transportation costs.
- the 100,000 DWT (construction structure: 150,000 DWT) berthing capacity of Zhuhai Terminal is capable of accommodating capesize and Panamax vessels for coal transshipment thus allowing the Group to further lower its transportation costs.
- as Zhuhai Terminal can serve as a site for blending and storage of coal, the Group will be able to further strengthen its coal storage and blending capacities. Under the Group's existing plan, which is subject to modifications upon the further development of the project, the Group plans to occupy more storage areas at Zhuhai Terminal upon its completion and thereby to increase its maximum coal storage capacity by approximately 45.0% from approximately 2.0 million tonnes

to 2.9 million tonnes. Details of this plan are set out in “Business – Coal operation – VI. Coal inventory” of this prospectus. In addition, the Group also plans to occupy more storage area, quality and quantity measurement equipment and apparatuses, coal blending facilities, including 堆煤機 (coal piling machines), 取煤機 (coal extraction machines) and 裝船機 (shipment loading machines) and 皮帶輸送機 (belt conveyance machines), at Zhuhai Terminal, together with the Group’s experience in coal blending and management knowledge, to increase its maximum annual coal blending capacity by more than 100.0% from over four million tonnes to reach approximately 10.0 million tonnes. Details of this plan are set out in “Business – Coal operation – VII. Coal blending” of this prospectus.

- as the 20.0 million tonnes thruput capacity per year of Zhuhai Terminal can serve as a centre for coal exchange, it is expected to facilitate an advancement in the Group’s ability to further procure and sell coal in this coal trading market.
- with its location in southern China, a berthing capacity of 100,000.0 DWT (construction structure: 150,000.0 DWT) and a 20.0 million tonnes thruput capacity per year, it is expected that Zhuhai Terminal will attract different vessels to import and export their cargos or use the terminal as their transshipment centre. Users of port facilities are charged port fees for the import and export of cargos and the collection of such fees by Zhuhai Terminal will provide another source of income for the Group along with its integrated coal supply chain.

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

### **Operate additional coal loading station along Daqin Railway**

The Group intends to acquire or lease another piece of land in Shanxi to establish its third coal loading station along Daqin Railway, which is expected to have an annual handling and transportation capacity of seven million tonnes of coal through purchasing additional facilities, including 推土機 (coal bulldozers), 篩選機 (coal filtering machines) and 裝載機 (coal loading machines), and occupying additional train transportation capacity along Daqin Railway. Daqin Railway, the largest and major coal haul railway in China, only has a limited number of coal loading stations. By the establishment of the Group’s third coal loading station along this key rail transportation system, the Directors expect to further secure the coal supplies in Shanxi and to further enhance its access to rail transportation

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along Daqin Railway from the coal loading station to Qinhuangdao port. After completion of the construction of the third coal loading station, the Group will have an aggregate annual coal handling and transportation capacity of 14.0 million tonnes of coal, including its existing handling and transportation capacity of over seven million tonnes, details of which are set out in “Business – Coal operation – VII. Coal blending” of this prospectus. As reliable and sufficient access to rail transportation capability plays a significant competitive advantage in the coal operation industry, the Directors are of the view that the proposed construction of the coal loading station will enhance the Group’s leading position in the coal operation industry. As of the Latest Practicable Date, the Group had not yet identified any suitable land for acquisition and accordingly there is no expected time of commencement and completion of the construction of the additional coal loading station. The total investment of the third coal loading station is expected to be approximately HK\$137.0 million, which will be wholly financed by the net proceeds from the Global Offering.

### **Expand the Group’s international coal operation business**

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

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

### **PRINCIPAL BUSINESS AND SERVICES**

The Group is principally engaged in the coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal. With business operations strategically located in Hong Kong, Datong, Yangyuan, Qinhuangdao, Zhuhai and Guangzhou, the Group is able to source coal in China as well as the overseas markets for sales to its customers in China as well as the overseas market. As of the date of this prospectus, the Group operates two coal loading stations at Datong and Yangyuan which provide a direct access to the Daqin Railway as well as strategic coal filtering, storage and blending centres. As part of its integrated coal supply chain, the Group is able to arrange truck transportation of coal to its coal loading stations and rail transportation along Daqin Railway to Qinhuangdao port. At Qinhuangdao port, the Group may arrange shipping transportation to designated locations of its customers upon their requests.

The Group’s own fleet and chartered vessels facilitate the coal shipping transportation for the Group and Independent Third Parties as well as dry bulk shipping transportation for Independent Third Parties.

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The following table sets out certain key performance measures of the Group during the Track Record Period as derived from the accountants' report, the text of which is set forth in Appendix I to this prospectus:-

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

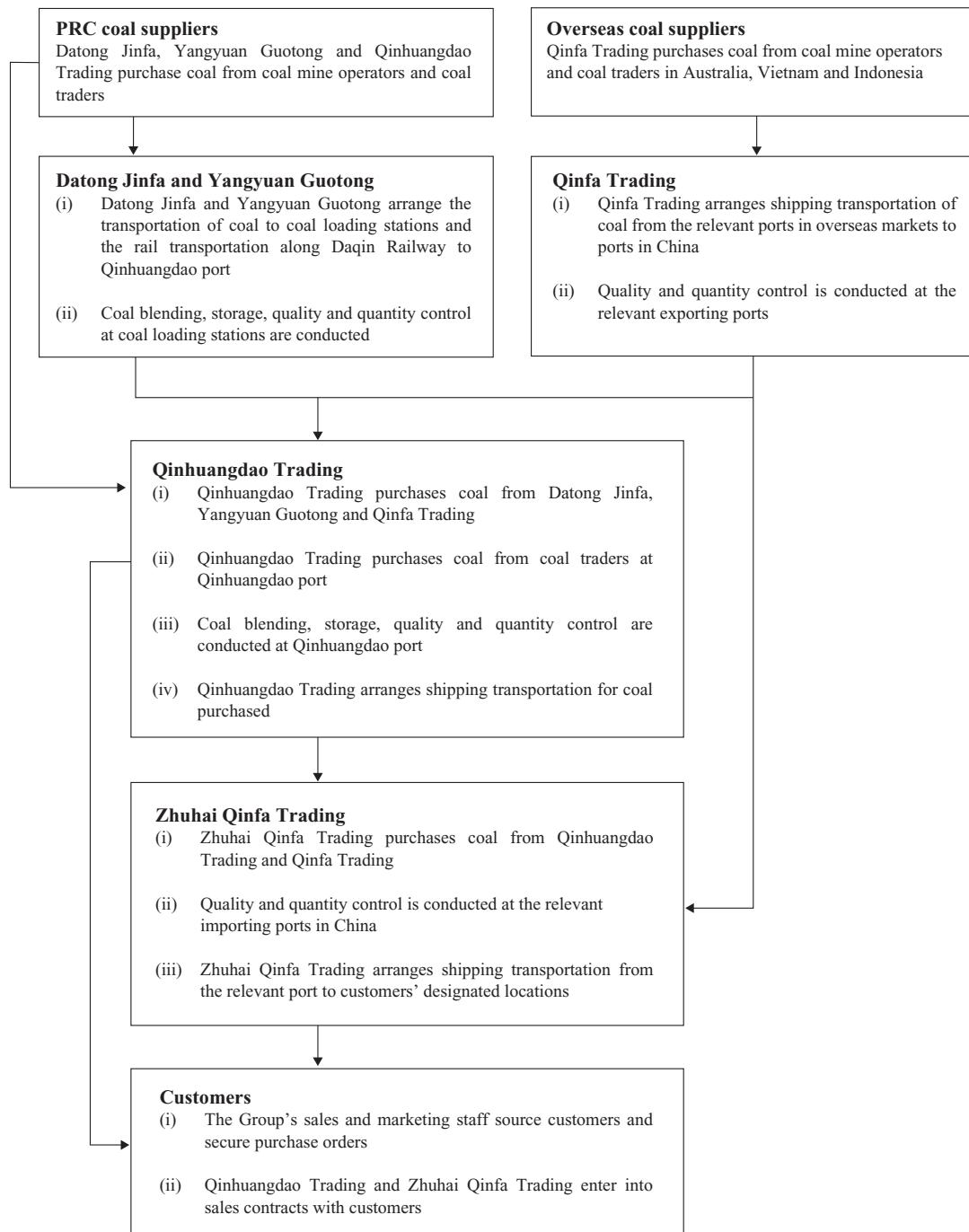
*Notes:*

- (1) The net profit of the Company for the year ended 31 December 2008 included an one-off gain of approximately RMB97.1 million arising from the disposal of equity interest in Millennium Coal, further information on which is set out in the paragraphs under “– Coal mines” below.
- (2) Including gross profit generated from the transportation service income from external customers and the Group's coal operation segment.

## COAL OPERATION

### Overview

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



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

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

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

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

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

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

Specification of coal	Total Moisture (%)	Ash (%)	Volatile Matter (%)	Sulphur (%)	Calorific Value (Kcal./kg)
PRC coal	8.0-13.0	12.0-30.0	18.0-25.0	0.8-1.2	4,500-6,000
Australian coal	4.6-8.0	22.0-25.0	19.0-28.0	0.4-1.0	5,400-6,190
Vietnamese coal	8.0	30.0-36.0	8.0	0.6	5,200-6,000
Indonesian coal	20.0-28.0	3.0-12.0	40.0-43.0	0.1-1.5	4,500-5,500

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

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

### I. Coal purchases and suppliers

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

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

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

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

### **(i) Overseas market purchases**

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

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

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

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

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

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

### **(ii) PRC domestic market purchases**

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

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

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

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

### *B. Relationship with suppliers*

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

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

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

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

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

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

### II. Coal sales, marketing and customers

#### A. Coal sales

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

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

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

Power plants, cement plants, coal traders and other end customers in the PRC source coal from different suppliers, including coal mine operators and coal traders. Due to the Group's competitive strengths, details of which are set out in "Business – Competitive strengths" of this prospectus, the Group has built up good relationships with, and is able to secure its position as one of the suppliers of, end customers and coal traders.

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

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

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

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

In addition to its sales of coal to customers in China, the Group has also sold coal to customers in overseas market during the Track Record Period. Through its agency arrangement with an authorised coal exporter in China, an Independent Third Party, the Group's sales force manages all the sales of its coal to the overseas customer during the Track Record Period. According to the information from the authorised coal exporter, it is the major component part of an enterprise listed on the stock exchange of Shanghai. The authorised coal exporter is mainly engaged in supply of iron ore, billets, pig iron, scraps, demo-vessel, coke, coal, ferro-alloys, refractory raw materials and products, barite, fluorspars, talc, steel, etc., and import and export of complete sets of equipment for metallurgical and mining purposes. In China, only a limited number of enterprises have obtained the state-run trade rights for coal export. The authorised coal exporter and its group companies, being one of such enterprises, have the necessary trade right and quota for the coal exporting. Through the agency agreement with the authorised coal exporter, the Group is able to make use of such trade right and quota for the export of its coal to overseas market. The authorised coal exporter generally charges the Group an agency fee based on a percentage of the coal price multiplied by the coal quantity being exported. The agency fee payable to the authorised coal exporter was approximately RMB4.2 million (equivalent to approximately HK\$4.6 million) for the financial year ended 31 December 2008. Under the agency agreement, the Group was responsible for transporting the coal to the loading port as designated from time to time whereas the authorised coal exporter was responsible for providing all relevant exporting permits and documents. The Group entered into a contract to sell the coal to the authorised coal exporter and the authorised coal exporter would then enter into another contract to sell the coal to such entity as designated by the Group. Pursuant to the agency agreement, the Group will be liable for any loss to the overseas customer arising from the discrepancy between the quality of the coal provided by the Group and the contractual requirements. Also, the Group will bear the economic loss arising from the failure of the overseas customer in fulfilling its contractual obligations. Each agency agreement serves a specific period at which the Group has coal to be exported to overseas market. The term of the agency agreement in 2008 covered the period from April 2008 to July 2008, during which the Group's coal was exported from China to Korea as

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instructed by the Group's customer, which is a company in United Kingdom. As of the Latest Practicable Date, there was no agency agreement entered into between the Group and any export agent in relation to the export of the Group's coal to the overseas market.

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

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

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

The Group's sales and marketing staff are responsible for sourcing customers and securing purchase orders for the Group. Since Qinhuangdao Trading and Zhuhai Qinf Trading hold the requisite Coal Operation Certificates, they are responsible for entering into sales contracts with customers in China. As of the Latest Practicable Date, the Group's sales contracts, which stipulated quantities and qualities of coal, generally had terms ranging from 1 to 12 months. The Group's sales contracts with specific pricing terms were generally with terms of less than one month. There is no material difference between the Group's contracts with coal traders and end customers. Under the sales contracts, if the Group is not able to deliver the stipulated quantities of coal to its customers, the Group is liable for the damages

incurred by its customers. The Group has adopted a coal inventory policy to mitigate such risk. Details of the Group's coal inventory policy are set out in "Business – Coal Operation – VI. Coal inventory" of this prospectus. The Directors consider that such coal inventory policy is successful since the Group did not experience any failure in delivery of stipulated quantities of coal according to sales contracts during the Track Record Period. The Group's coal sales to its customers are generally denominated in RMB and settled by telegraphic transfer or cheque.

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

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

### *B. Marketing*

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

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

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

### C. Relationship with customers

The Group generally sells coal to power plants, coal traders and cement plants which are mainly located in eastern, southern and northern China. Power plants, coal traders and cement plants have been sourcing coal from different suppliers, including coal mine operators and coal traders. Due to the Group's competitive strengths, details of which are set out in "Business – Competitive strengths" of this prospectus, the Group has built up good relationships with, and is able to secure its position as one of the suppliers of, end customers and coal traders.

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

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

## III. Pricing

### A. Purchase Price

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

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

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

As the Group's cost of sales is composed primarily of cost of coal, representing approximately 82.8%, 76.0% and 85.4% of the total cost of sales, fluctuating coal purchase prices could adversely affect the Group's competitiveness in the coal market and its

profitability. In addition, there can be no assurance that the Group can in the future effectively shift increased coal costs to its customers without affecting demand for its coal products.

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

- the Group formulates purchase and inventory strategies by considering various factors, including current market demand and supply and anticipation of the market and price trends in the PRC domestic and overseas markets. Leveraging the Group's coal storage facilities in Datong, Yangyuan and Qinhuangdao, the Group is able to accumulate a sizable coal inventory to mitigate the risk of price fluctuations. The Group purchases coal from the market when the Directors consider that the market price is low or the market price will rise. On the other hand, when the Directors consider that the market price is high or the market price will drop, the Group will decrease its coal inventory level and stop purchasing coal from the market. When the Directors consider that the market price is high or the market price will drop, purchase orders will only be made when there are insufficient coal inventories and corresponding sales orders are confirmed. Such strategies allow the Group to control its purchase costs effectively; and
- coal within a range of specifications can be provided to power plants or other customers according to their specific power generation equipment and processes. The Group's coal blending capacity enables it to lower its coal purchase prices and optimise the Group's economic benefits by blending coals with different qualities and specifications. With extensive coal sources in the PRC and overseas markets, the Group is able to source different types of coals of different qualities and specifications from different origins which are of different purchase prices to satisfy customers' requirement and at the same time to manage the Group's coal purchase costs. This is evidenced by the increasing percentage of coal procurements from Vietnam and Indonesia from 2006 to 2008 in order to substitute the coal sourced from Australia.

### *B. Sale Price*

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

#### **1. Inside plan term contracts (計劃內合同)**

Inside plan term contracts include key contracts (重點合同) and non-key contracts (非重點合同) which are under the direction and supervision of various levels of government. Parties to inside plan term contracts are state-owned coal production enterprises and state-owned electricity enterprises. The pricing terms of the contracts are determined at the national meetings for coal production, transportation and demand

contracts held by relevant government authorities. Both parties must perform the annual contract in strict compliance with the agreed quantity, quality and prices of the contract.

### *Key contracts*

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

- i. Parties to the contracts are limited to state-owned key electricity enterprises and state-owned coal production enterprises, as recognised by the regulatory authority;
- ii. Contract amount is the annual quantity of electricity coal agreed between the state-owned key electricity enterprises and state-owned coal production enterprises; and
- iii. Such contract amount is secured by the relevant rail transportation plan provided by the railway department.

### *Non-key contracts*

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

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

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

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

Although the PRC government indirectly influences coal prices, especially coal prices under inside plan term contracts, through its broad regulation of electricity prices and control over the allocation of national railway capacity, domestic coal prices have mainly been market-driven since 2002, when the PRC government eliminated the price control measures for coal used in electric power generation. On 3 August 2004, the NDRC issued 《關於對部分地區電煤價格實行臨時性干預措施的通知》 (Notice on

Temporary Intervening Measures on the Pricing Mechanism for Thermal Coal in Certain Regions) (the “Intervening Measures”). Article 1 of the Intervening Measures stipulates: “Where a substantial increase in the price of coal in coal producing regions adversely affects the supply of coal used for electricity production, temporary price intervention measures may be implemented in the main coal producing provinces of Henan, Anhui, Shandong, Shanxi and Shaanxi.” According to the Intervening Measures, temporary price intervention measures were only carried out in the coal producing provinces of Henan, Anhui, Shandong, Shanxi and Shaanxi. Since at all material times the members of China Qinfia Group which entered into sales contracts with the Group’s customers were registered in Hebei and Guangdong, none of them came within the scope of the Intervening Measures and therefore their pricing policies were not affected by the Intervening Measures. According to 《關於做好2006年全國重點煤炭產運需銜接工作的通知》(Notice Regarding the Coordination of Production, Transportation of and Demand for Coal in 2006) (the “Notice”) issued by NDRC on 27 December 2005, the Intervening Measures have been eliminated, and pricing is now determined primarily by supply and demand. However, temporary guidelines can be issued as emergency pricing mechanisms to be adopted by the government in situations where prices have risen manifestly or are likely to do so.

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

- Under key contracts (重點合同) and non-key contracts (非重點合同), the ex-mine price (出礦價) of thermal coal used by nationwide coal production enterprises should be capped at the actual settlement price as of 19 June 2008. If no transactions took place on that day, the cap should be the actual settlement price nearest to the day. During the temporary price-intervention period, the ex-mine price of thermal coal used by coal production enterprises should not exceed the cap.
- State-owned coal production enterprises and state-owned electricity enterprises which had entered into inside plan term contracts should perform the coal contract by strictly complying with the agreed quantity, quality and prices. State-owned coal production enterprises were prohibited from transferring the coal under the inside plan term contracts to the open market for sale. Coal transportation and other logistics enterprises should follow the required charging standards and should not raise the price or implement additional costs without permission.
- All coal production enterprises should strictly execute the aforesaid temporary price-intervention measures. All price regulatory authorities should reinforce inspection, and focus on: (i) the investigation and punishment of violations of such caps set by the government and raising prices without permission; (ii) fraudulent acts to raise prices by lowering the coal quality or counterfeiting; and (iii) acts including non-performance of coal supply contracts, and the transfer of coal under inside plan term contracts to the open market for sale. Enterprises violating the temporary intervention

measures on thermal coal prices should be severely punished in accordance with the Price Law 《價格法》 and the Provisions on Administrative Penalty against Price-related Unlawful Practices 《價格違法行為行政處罰規定》.

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

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

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

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

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

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

From 1 January 2005 to November 2007, the average Qinhuangdao benchmark coal spot prices (5,500 Kcal.) were traded within the range of RMB392.5 per tonne and RMB477.5 per tonne. As stimulated by the surging oil price and fast-growing demand for coal in the coastal regions of the PRC, the average Qinhuangdao benchmark coal spot prices (5,500 Kcal.) increase significantly from approximately RMB477.5 per tonne in November 2007 to approximately RMB1,043.0 per tonne as of 28 July 2008. As affected by the decreasing market price of international commodity prices, the Qinhuangdao benchmark coal spot price (5,500 Kcal.) decreased to approximately RMB580.0 per tonne at the end of December 2008, and to approximately RMB585.0 per tonne at the end of May 2009.

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

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

To maintain its cost competitiveness, the Group has changed its product mix by supplying fewer amount of coal sourced from Australia while increasing the sales of coal sourced from Vietnam and Indonesia during the Track Record Period. The Group's sale volume of coal sourced from Australia decreased from 1,060.0 tonnes in 2006 to 65.0 tonnes in 2008, while its sale volume of coal sourced from Vietnam and Indonesia increased from 43.0 tonnes and nil in 2006 to 455.0 tonnes and 303.0 tonnes in 2008, respectively.

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

**IV. Coal transportation**

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

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

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

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

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

*Overseas markets*

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

Further information on the Group's shipping transportation is set out in the paragraphs under “– Shipping” of this prospectus.

*PRC domestic market*

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

Daqin Railway is the passage for coal transport from Shanxi, the largest coal production province in China, to Qinhuangdao port, the largest coal loading port and bulk cargo port in the world. According to the 2008 annual report of Daqin Railway Co., Ltd. (601006CH), the volume of coal transport by Daqin Railway reached approximately 340.0 million tonnes in 2008, representing approximately 25.4% of total volume of coal railway transportation in the PRC in 2008. Along this key transportation railway system, there are only 41 major coal loading stations of which the Group occupies two: one in Datong and one in Yangyuan. Coal loading stations are important to coal operators in China because coal mine operators and coal traders generally sell their coal to buyers with coal loading stations due to the insufficient access to coal railway transportation and linkage of those suppliers. Being connected to the railway transportation system, coal can be transported to the

designated coal port directly from the coal loading stations through the railway system. As coal loading stations occupy large areas, coal operators can also provide coal filtering, storage and blending services in these stations.

The Group occupies two coal loading stations in Datong and Yangyuan. The Group owns and operates its Datong coal loading station which is located at Xiezhuang Village, Beijiaozao Town, Datong, with a total site area of approximately 106,460.0 square metres and a long term land use right valid until 9 April 2053. The Group leases and operates its Yangyuan coal loading station which is located at Dongguan Village, Xicheng Town, Yangyuan, with a total site area of approximately 66,000.0 square metres and a renewed long term lease agreement of eight years commencing from 21 May 2008. The Group's two coal loading stations are conveniently located within short transportation distances from most of its coal suppliers in Shanxi, Hebei, Shaanxi and Inner Mongolia, ensuring low transportation costs to the coal loading stations of the Group. Supported by the Group's specialised equipment, including 推土機 (coal bulldozers), 篩選機 (coal filtering machines) and 裝載機 (coal loading machines), the Group's two coal loading stations in Datong and Yangyuan, together with the loading capacity of the train along Daqin Railway, provide an annual coal handling and transportation capacity of over seven million tonnes and serve as the Group's coal filtering, storage and blending centres.

For selling coal to its customers, the Group arranges the railway transportation of coal along Daqin Railway to Qinhuangdao port. The Group generally pays for the transportation cost from its coal loading stations along Daqin Railway to Qinhuangdao port. In view of the increasing demand for rail transportation of coal, Daqin Railway is enhancing its transportation capacity and it is expected to reach a total transportation volume of 400.0 million tonnes by 2010. 鐵道部 (Ministry of Railway) engages in the allocation of coal transport capacity on China's national railway system, including Daqin Railway. 鐵道部 (Ministry of Railway) allocates coal transport capacity to operators of coal loading stations with reference to their demands as filed periodically. Accordingly, operators of coal loading stations have stable access to the national railway system. As the Group is operating two coal loading stations in Datong and Yangyuan, the Directors are confident that the Group will continue to be able to obtain reliable access to the transportation network of Daqin Railway, despite the increasing demand of rail transportation along this key coal railway system.

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

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

### **V. Coal filtering**

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

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

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

### **VI. Coal inventory**

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

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

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

### **VII. Coal blending**

The quality and specification of coal can vary over a wide range due to coalification history. The heating value of coal is determined by a number of parameters, including ash, moisture and sulphur contents. Different power plants may require different specifications of

coal for their specific power generation equipment and processes. In addition, coal within a range of specifications can be provided to power plants or other customers according to their specific power generation processes and requirements.

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

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

### SHIPPING

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

Being part of its coal operation business, the Group has provided shipping transportation services to its customers since 2005. The Group initially chartered vessels by time charters for transportation of the coal it traded. Subsequently, the Group chartered vessels from Independent Third Parties and re-chartered those vessels out for transportation

of others' coal. The Group's shipping transportation service further developed and as of the Latest Practicable Date, apart from transportation of its own coal and those of Independent Third Parties, the Group also provided vessels for transportation of other dry bulk cargos for Independent Third Parties.

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

### I. Vessels

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

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

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

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

For example, MV QINFA 6, a Panamax owned by the Group with 69,841.0 DWT, was not fit for loading or unloading at certain overseas ports due to its comparatively high berthing requirement, resulting in its comparatively low utilisation rate. To maximise economic benefits following the rising trend of the Baltic Dry Index and to improve the utilisation rate of MV QINFA 6, the Group chartered MV QINFA 6 out to third parties in September 2006, and chartered smaller-sized vessels from Independent Third Parties on voyage terms for transportation of the coal it traded.

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

Vessel Name	MV QINFA 6	MV QINFA 8	MV QINFA 9	MV QINFA 10	QINFA 2
Type	Bulk Carrier	Bulk Carrier	Bulk Carrier	Bulk Carrier	Dry Bulk Carrier
DWT	69,841.0	69,618.8	69,618.8	69,988.0	2,650.0
Flag state	Hong Kong	PRC	Hong Kong	Panama	PRC
Purchase year	2005	2007	2007	2008	2007
Year Built	1984	1991	1990	1992	2002
Commencement date of operation	June 2005	May 2008	June 2008	March 2009	January 2008
Main cargo	Dry bulk cargo	Dry bulk cargo	Dry bulk cargo	Dry bulk cargo	Dry cargo
Routes ( <i>Note</i> )	Global	Global and PRC inland	Global	Global	PRC inland

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

The objective of the Group in acquiring its own vessels is for coal shipping. As such, the Group generally acquired vessels aged over 15 years, which are considered by the Directors to be more appropriate for shipping coal as compared to other dry bulk cargo. In general, operators acquire newly built up vessels for transporting grains or other cargos which require high levels of hygiene and sanitation. For coal transportation, it is generally acceptable to use vessels that are comparatively old. As the business strategy of the Group has been acquiring vessels for transporting coal, the Directors consider that vessels aged over 15 years are more appropriate for the Group's coal operation. Users of the Group's

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own vessels will only ship either coal or other dry bulk cargos but not both coal and other dry bulk cargos at the same time. If vessels are available for the Group to use, the Group only uses its own vessels to transport the coal it trades.

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

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

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

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

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

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

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

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

### II. Coal and Other Dry Bulk Cargo Transportation

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

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

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

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

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

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

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

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

### **III. Pricing and payment**

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

#### *Panamax*

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

#### *PRC inland vessels*

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

### **IV. Technical management**

#### *Panamax*

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

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

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

### *PRC inland vessel*

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

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

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

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

## **V. Relationship with Suppliers**

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

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

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

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

### **VI. Sale and marketing**

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

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

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

### **VII. Relationship with Customers**

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

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

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

### **IRON ORE TRADING**

In December 2008, leveraging its experience in the coal operation business, the Group entered into the first sales and purchase contracts with a steel trading company in China and a mining company in India, respectively, for the trading business of iron ore fines and the transactions were carried on and completed in 2009. The transaction volume of the Group's

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first sales and purchase contracts of iron ore materials in December 2008 amounted to approximately 60,000 tonnes of iron ore fines. Since the transactions were profitable, the Directors decided to expand the Group's operation to the trading business of iron ore and related materials.

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

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

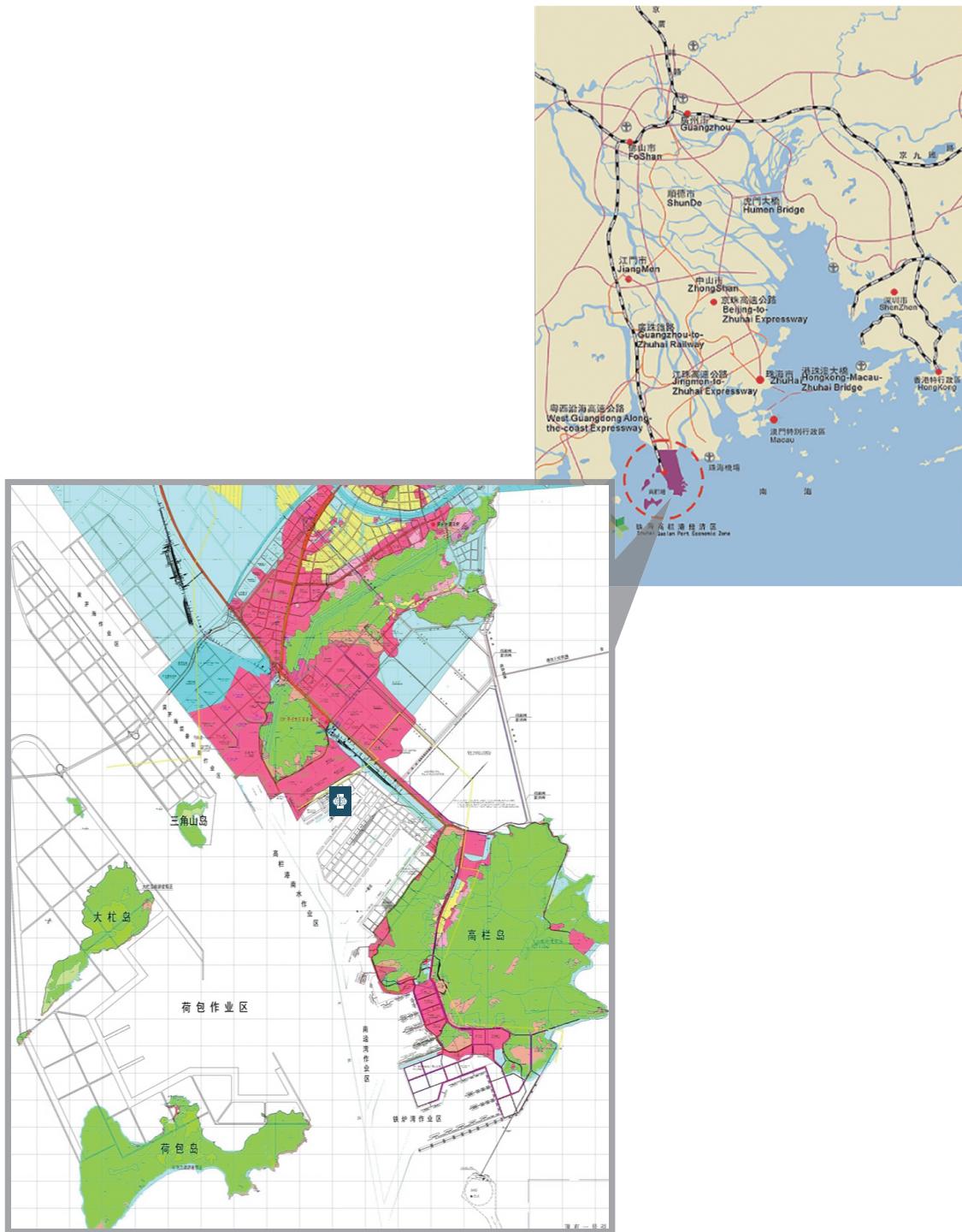
The Directors consider that iron ore trading is a separate business from the Group's coal operation business. Leveraging its experience in the coal operation business, especially its experience and network in raw material procurement in overseas market, the Directors consider that the Group's coal operation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

The Directors expect that the coal operation business will continue to be the principal business of the Group in the future, but the trading business of iron ore and related raw materials may provide another source of revenue for the Group.

## ZHUHAI TERMINAL

### I. Introduction

Future Transportation Planning Map of Zhuhai Port



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

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

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

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

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

the installation of infrastructural facilities thereof. Subject to the conditions to be imposed by the relevant governmental authorities, the Directors expect that Zhuhai Terminal can commence its operation upon completion of its construction.

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

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

## II. Project outline

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

Set out below is the design outlines of Zhuhai Terminal:

- Location: Beishunan, South Water Operation Area, Gao Langang Economic Zone, Zhuhai, Guangdong, the PRC, occupying a parcel of land having an area of approximately 340,000 square metres and a water frontage of approximately 700 metres.
- Water alignment: design estuary navigation waterway and turnover waterways based on terminal design standards of 100,000 DWT vessels tidal navigation.
- Hydraulic structures: structures of 100,000 DWT (construction structure: 150,000 DWT) berth, 20,000 DWT (construction structure: 50,000 DWT) berth and two 2,000 DWT (construction structure: 10,000 DWT) berths which should be pipe-beam plate structure, using technology to ensure 50 years of operation.

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- Surface storage area: pavement in main access should be high strength concrete, pavement in storage area should be cast-in place concrete while ramp areas should be grass hollow brick.
- Construction period: approximately 30 months.

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

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

Timeline	Milestone
– As of the Latest Practicable Date	<ul style="list-style-type: none"><li>– Forming the feasibility report.</li><li>– Entering to the Port Investment Agreements.</li><li>– Obtaining a letter of intent from a bank in financing the project.</li><li>– obtaining relevant approvals from 國家環境保護部 (Ministry of Environmental Protection), 國土資源部 (Ministry of Land and Resources), 交通運輸部 (Ministry of Transport), 國家海洋局 (State Oceanic Administration) and 中國發改委 (NDRC).</li></ul>
– Fourth quarter of 2009	<ul style="list-style-type: none"><li>– To obtain certain certificates and permits, primarily including 外商投資批准証書 (certificate of approval), 企業法人營業執照 (business registration licence), 組織機構代碼証 (organisation code certificate), 港口經營許可証 (port operation permit), 稅務登記証 (tax registration certificate), 財政登記証 (finance registration certificate) and 外匯登記証 (foreign exchange registration certificate).</li><li>– To enter into formal investment agreement with cooperation partner.</li><li>– To enter into formal banking facility agreements.</li><li>– To commence the construction.</li></ul>
– Second quarter of 2012	<ul style="list-style-type: none"><li>– To complete the construction and installation of infrastructural facilities.</li><li>– To commence the operation of Zhuhai Terminal.</li></ul>

### **III. Financial issues**

The total investment of Zhuhai Terminal is expected to be approximately RMB1,500 million. The total investment will be contributed by the Group and the potential investor(s) to Zhuhai Terminal in proportion to their respective equity interest in the joint venture. Pursuant to the Port Investment Agreements, QPCL agreed to evaluate the Zhuhai Terminal project and the possibility of its 40% investment therein. If QPCL's investment is confirmed, it will bear the investment cost in proportion to its equity interest in Zhuhai Terminal. Accordingly, the Group will be responsible for approximately RMB900 million of the total investment, representing the Group's proportional interests of 60% in the project. Out of this RMB900 million, the Group intends to finance up to 65%, being approximately RMB585 million, of its commitment through bank financing whereas the Group intends to contribute at least 35%, being approximately RMB315 million, of its commitment through internal resources.

In December 2008, the Group obtained a letter of intent issued by a bank for its intention to finance up to RMB1,157 million in the Zhuhai Terminal project. As of the Latest Practicable Date, the Directors confirmed that the letter of intent issued by the bank in December 2008 was still valid. There was no prohibition in the terms and conditions of the Group's existing banking facilities on further banking facilities that might be required by the Group for the Zhuhai Terminal project. However, if those additional facilities involve the assets of the Group that are currently pledged or charged with the existing banks for the existing banking facilities, a written consent from the relevant bank will be required. In addition, the letter of intent issued by the bank is subject to the bank's final approval and the execution of the definitive documents with acceptable terms and conditions to the relevant bank. The bank will only consider entering into a legally binding agreement when the relevant governmental approval and/or permit on the Zhuhai Terminal project has been granted. On this basis, there are no specific conditions and/or covenants required for the proposed banking facilities offered by the bank, and the relevant member of the Group is not able to assure that such conditions and/or covenants are to be complied with.

Since the Group has already obtained a letter of intent from a bank in December 2008 to finance up to RMB1,157 million in the project of Zhuhai Terminal, the total maximum investment that would be required to be contributed by the Group, other than bank financing, in the project will be approximately RMB343 million, even if the Group is not able to secure investments from other potential investors, including QPCL. The RMB343 million will be financed by the net proceeds of the Global Offering and the Group's internal financial resources. The Group intends to utilise part of the proceeds under the Global Offering to finance the construction and operation Zhuhai Terminal, details of which are set out in "Future plans and use of proceeds" in this prospectus. Based on the financial statements of the Group for the year ended 31 December 2008 and the proceeds of approximately HK\$329 million (equivalent to approximately RMB289.9 million) under the Global Offering being assigned to finance the development of Zhuhai Terminal, the Directors consider that the Group has sufficient internal financial resources for its maximum commitment of RMB343 million in the Zhuhai Terminal project. The Group intends to enter into the formal banking facility agreements with the banks shortly upon obtaining the

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certificates and permits for the construction of Zhuhai Terminal from the relevant PRC authorities as stated in the paragraphs under “– Zhuhai Terminal – V. Governmental approvals” below.

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

- approximately RMB1,200 million for the construction, including:
  - (i) approximately RMB500 million for hydraulic structure work;
  - (ii) approximately RMB300 million for purchase and installation of loading and unloading machinery and equipment;
  - (iii) approximately RMB100 million for terrestrial forming soft ground treatment work;
  - (iv) approximately RMB100 million for the acquisition of a parcel of land for Zhuhai Terminal;
  - (v) approximately RMB200 million for other construction works;
- approximately RMB150 million for other expenses, including fees for use of waterway, fees for prospecting and design and fees for construction supervision;
- approximately RMB100 million for the loan interest payable under the construction period; and
- approximately RMB50 million as general working capital for the operation of Zhuhai Terminal.

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

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

### IV. Project advantages

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

- Zhuhai Terminal is strategically located in the southwestern region of Zhuhai, thereby allowing the Group to (i) take advantage of its proximity to customers located in the coal consuming coastal cities of southern China; (ii) react more quickly to customers' needs; and (iii) lower transportation costs.
- as the dry bulk berthing capacity along the Pearl River, China, is below 60,000 DWT, the 100,000 DWT (construction structure: 150,000 DWT) berthing capacity of Zhuhai Terminal is capable of accommodating capesize and Panamax vessels for coal transshipment and the Group can further lower its transportation costs by chartering capesize and Panamax vessels.
- as Zhuhai Terminal can serve as a site for blending and storage of coal, the Group will be able to further strengthen its coal storage and blending capacities. Under the Group's existing plan, which is subject to modifications upon the further development of the project, the Group is able to increase its maximum coal storage capacity by approximately 45% to approximately 2.9 million tonnes whereas its maximum annual coal blending capacity can be increased by more than 100% to reach approximately 10 million tonnes.
- as the 20 million tonnes per year thruput capacity of Zhuhai Terminal can serve as a centre for coal exchange, it is expected to facilitate an advancement in the Group's ability to further procure and sell coal in this coal trading market.
- with its location in southern China, berthing capacity of 100,000 DWT (construction structure: 150,000 DWT) and 20 million tonnes per year thruput capacity, it is expected that Zhuhai Terminal will attract different vessels to import and export their cargos or use the terminal as their transshipment centre. Users of port facilities are charged port fees for the import and export of cargos and Zhuhai Terminal will provide another source of income for the Group along its integrated coal supply chain.

### V. Governmental approvals

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

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

### **VI. Management and operation**

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

### **VII. Risk**

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

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

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

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

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

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

**COAL MINES**

The Group had an investment interest of approximately 2.3% in Millennium Mine located at the Bowen Basin of Australia, which contains the largest coal reserve in Australia. The Group is a passive investor and is not involved in the daily management and operation of Millennium Mine. As the Millennium Mine produces coking coal while the Group's main product is thermal coal, the Group did not source any coal directly from Millennium Mine during the Track Record Period. The Group acquired such interest from an Independent Third Party in 2004 at a consideration of approximately 2,364,000 Australian dollars (equivalent to approximately RMB13,800,000 at the end of May 2004). The annual coal production capability of Millennium Mine was approximately three million tonnes in 2007. As of 31 December 2007, the valuation, performed by an independent valuer, of the Group's interest over the coal mine in Australia amounted to approximately 15.6 million Australian dollars (equivalent to approximately RMB100 million). Because of the increasing value of the equity interest and the fact that the Group is only a minority shareholder of Millennium Mine with no control, the Group decided to dispose all its investment interest in Millennium Mine.

In July 2008, Excel Coal Limited, a subsidiary of Peabody Energy Corp, entered into a share sale agreement with several minority shareholders of Millennium Mine, including the Group. According to the share sale agreement, Excel Coal Limited, a controlling shareholder of Millennium Mine, agreed to acquire and the vendors agreed to sell a total of approximately 14.8% equity interest in Millennium Mine owned by the vendors at an aggregate cash consideration of 117,306,000 Australian dollars (equivalent to approximately RMB729.3 million at the date of the share sale agreement). After the completion of the share sale agreement, the Group disposed of approximately 2.3% equity interest in Millennium Mine, representing the Group's entire equity interest therein, to Excel Coal Limited at cash consideration of approximately 18,126,000 Australian dollars (equivalent to approximately RMB112,535,000). The consideration was based on the commercial negotiation between Excel Coal Limited and the vendors, including the Group, with reference to the valuation of Millennium Mine.

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

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

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

### RISK MANAGEMENT OF COAL PRICE FLUCTUATIONS

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

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

Nevertheless, the Directors consider that fluctuations in coal prices are one of the operating risks faced by the Group because of the following two aspects:-

- any unexpected decrease in coal price may reduce the net realisable value of the coal inventory of the Group. If the decreased amount is below the cost of the coal paid by the Group, the Group may require, as at the relevant year-end, to make a write-down on the decreased value of its coal inventory against the profit of the Group; and
- there may be a period during which the Group is exposed to subsequent and unexpected increases in coal prices following confirmation of sales orders. The Group will also be adversely affected if it is required, because of lack of inventory or other reasons, to purchase additional coal to meet the confirmed sales orders.

As of 31 December 2008, the Group made a write-down on decrease in value of its coal inventory of approximately RMB31.0 million due to the substantial decrease in the market prices of coal during the two months ended 28 February 2009. However, during the four months ended 30 April 2009, the Group did not make any similar write-down.

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

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

**Objective****Policy**

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

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

<b>Objective</b>	<b>Policy</b>
<ul style="list-style-type: none"><li>– To mitigate the risks associated with decreases in coal prices after confirmation of sales contracts.</li></ul>	<ul style="list-style-type: none"><li>– After finalising terms of sales contracts with customers, the Group will sign legally binding contracts with customers. As such, customers are obliged to purchase the Group's coal after the execution of sales contracts even if there are subsequent drops in the coal prices.</li></ul>

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

Leveraging the continuous increase in the coal prices in China from January 2006 to July 2008, the Group purchased coal at relative low prices and sold it at relative higher prices taking the advantage of the increasing price trends as reflected in the continuous increase in the Qinhuangdao benchmark coal spot prices (5,500 Kcal.) from approximately RMB408 per tonne to approximately RMB1,045 per tonne during the period between January 2006 and July 2008. The Qinhuangdao benchmark coal spot prices (5,500 Kcal.) dropped from approximately RMB1,045 per tonne in July 2008 to approximately RMB580 per tonne in December 2008. The Group mitigated the impact of the decreases in the market coal prices during the period between July 2008 and December 2008 through its risk management policies by reducing the level of coal inventory. Apart from the coal sourcing business, the Group also provides other services, including filtering, storage, blending, shipping and transportation of coal, which together contributed to the business growth of the Group during the Track Record Period.

In preparation for the Listing, the Directors will further enhance the Group's risk management policy on coal price fluctuations upon the Listing with the following additional measures:

<b>Objective</b>	<b>Policy</b>
<ul style="list-style-type: none"><li>– To maintain an appropriate coal inventory level for the Group's operation.</li></ul>	<ul style="list-style-type: none"><li>– The Group will set a coal inventory level on a quarterly basis. According to the Group's policy, such coal inventory level will not be more than 30% of the net assets value of the Group as at the end of the previous quarter. Without an approval from the independent non-executive Directors who will express their views after obtaining advice from internationally recognised risk advisory consultants, the Group will not change the basis of the monthly and quarterly maximum coal inventory levels.</li></ul>

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

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

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

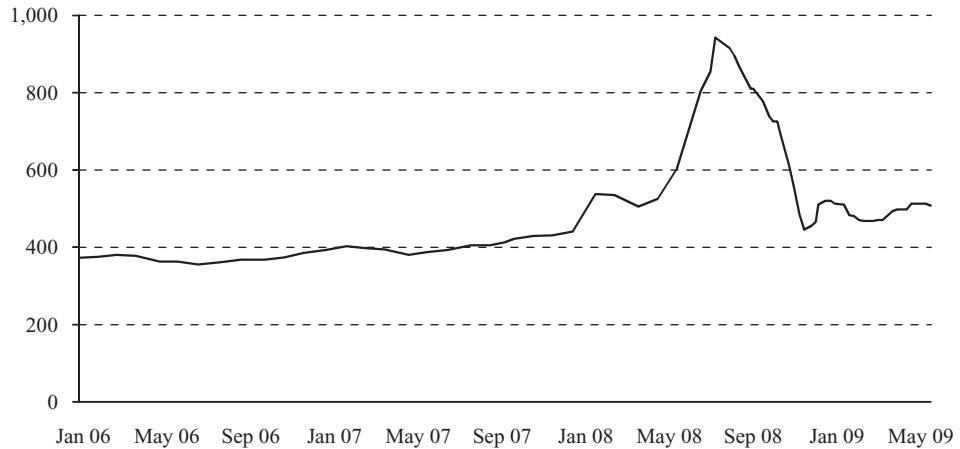
- negotiate with the Group's customers and suppliers to shorten the purchase/ sales order processing time; and
- speed up inventory velocity by increasing the Group's coal purchase from coal traders at the Qinghuangdao port and overseas coal suppliers, and arranging these suppliers to transport coal to ports designated by the Group's customers directly.

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

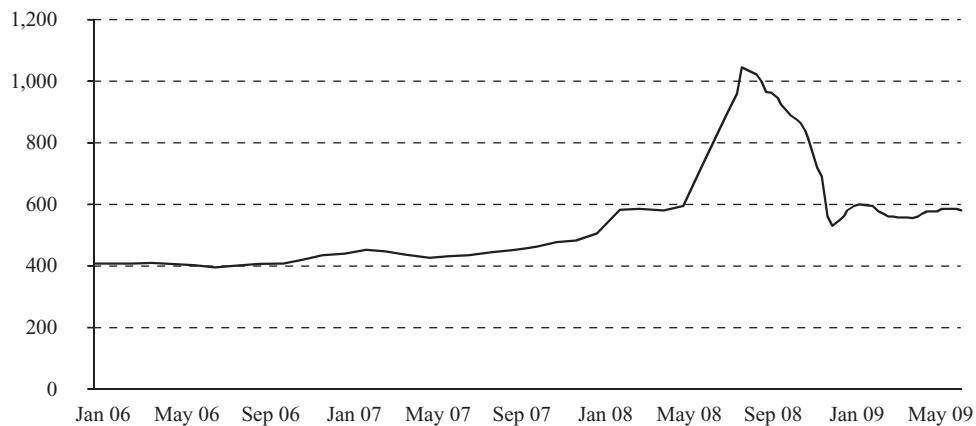
Although there are coal derivatives traded on overseas commodity exchanges, like the New York Mercantile Exchange, the Directors consider that these instruments are of less relevance to the operating risk of the Group. One of the reasons is that coal derivatives traded at overseas commodity exchanges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

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

### **The Average Qinhuangdao Benchmark Coal Spot Prices (5,000 Kcal.) (Note)**



### **The Average Qinhuangdao Benchmark Coal Spot Prices (5,500 Kcal.) (Note)**



Source: BBIC Report

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

## CUSTOMERS

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

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

### SUPPLIERS

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

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

### AWARDS

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

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

**COMPETITION****Coal operation**

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

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

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

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

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

– Competitive Strengths” of this prospectus, the Directors believe that the Group, although facing competition in the industry, will be able to benefit from the growth of the PRC economy and coal industry.

### Shipping transportation

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

According to Review of Maritime Transport 2008 published by United Nations Conference on Trade and Development in 2008, dry cargo shipments continued to grow by 5.6% to approximately 5.3 billion tons in 2007. These shipments accounted for 66.6% of total world goods loaded. Trade in the major dry bulks (iron ore, coal, grains, bauxite/alumina and rock phosphate) was estimated at 2.0 billion tons. The difference was made up of minor bulks and liner cargoes, which together were estimated at approximately 3.3 billion tons.

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

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

<sup>a</sup> Includes wheat, maize, barley, oats, rye, sorghum and soya beans.

<sup>b</sup> Includes iron ore, coal, grain, bauxite/alumina and phosphate.

Source: Review of Maritime Transport 2008

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

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to offer better freight rates or charter hire rates, deploy larger fleets and access to more developed inter-modal transport networks. Some of the Group's competitors may also have better market penetration and greater financial resources in certain shipping segments and regions.

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

## ENVIRONMENTAL MATTERS

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

### **Coal operation business**

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

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

The expenses relating to environmental matters incurred by the Group during the Track Record Period amounted to approximately RMB100,000, RMB1,375,000 and RMB727,093, respectively. Based on the historical cost and the Directors' experience, the expected annual cost of compliance with applicable rules and regulations will be approximately RMB300,000.

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

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

**Shipping transportation**

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

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

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

**REGULATIONS AND COMPLIANCE****Coal operation**

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

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

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

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

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

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

### Shipping transportation

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

- the International Convention for the Safety of Life at Sea;
- the International Convention for the Prevention of Pollution from Ships
- the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers;
- the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention; and
- the International Ship and Port Facility Securities Code,

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

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

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

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

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

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

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

### INTELLECTUAL PROPERTY RIGHTS

Save for the transfer of certain trademarks to Qinfa Logistics which are expected to be completed within approximately six to eight months, all trademarks currently used by the Group are registered to members of the Group. Further information on the Group's intellectual property rights is out in the paragraphs under "Further Information About the Business of the Group – 2. Intellectual property" in Appendix V to this prospectus.

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

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

### PROPERTIES

#### Properties held and occupied by the Group

As of 30 April 2009, the Group held and occupied a parcel of land in the PRC with a site area of approximately 106,460.0 square metre, together with the buildings having a total gross floor area of approximately 2,221.0 square metre and the associated structures erected thereon.

As of 30 April 2009, the Group held under sale and purchase agreements and occupied 8 office units in the PRC with an aggregate gross floor area of approximately 1,758.4 square metre.

#### Leased properties of the Group

As of 30 April 2009, the Group leased 3 properties in the PRC with an aggregate gross floor area of approximately 6,905.0 square metre and an aggregate site area of approximately 66,000.0 square metre from Independent Third Parties. In addition, the Group has leased from Qinfa Industry one property which is located at Hotel Rooms Nos. 801, 802, 805 to 809, and 816 to 818, Qinfa Holiday Hotel, No. 123 Yingbin Road, Qinhuangdao City, Hebei Province, China, being property No. 6 as set forth in the valuation report of the property interests of the Group in Appendix III to this prospectus. The lease constitutes an exempted continuing connected transaction for the Company. Further information is set forth in the paragraphs under "Connected Transactions – Exempted continuing connected transactions" of this prospectus.

As of 30 April 2009, the Group leased one property in Hong Kong with a gross floor area of approximately 110.0 square metre (i.e. 1,184.0 square feet) from an Independent Third Party for office use.

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Two of the leased properties of the Group, details of which are set out as properties No. 4 and 5 in Appendix III to this prospectus, have not been registered. As confirmed by the PRC Legal Advisers, the non-registrations of the respective lease agreements will not impact on their effectiveness. The parties are bound by the agreements once the agreements have been entered into. In addition, such properties without registered lease agreements are used by the Group as offices, which are not critical to the Group's business operation.

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

### **Valuation report**

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

### **INSURANCE**

#### **Employees**

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

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

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## BUSINESS

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### **Coal operation**

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

### **Shipping transportation**

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

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

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

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

### **LITIGATION**

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

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## CONNECTED TRANSACTIONS

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### NON-EXEMPTED CONTINUING CONNECTED TRANSACTIONS

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

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

#### Application for waiver

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

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

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

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## CONNECTED TRANSACTIONS

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### Scope of the waiver

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

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

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

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

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

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

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## CONNECTED TRANSACTIONS

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

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

### **Confirmation from the Sponsor**

The Sponsor is of the view that the transactions contemplated under the Structure Contracts are (i) entered into on normal commercial terms, in the ordinary and usual course of the Group's business; and (ii) fair and reasonable and in the interests of the Group and the Shareholders as a whole, pursuant to Rule 14A.42(3) of the Listing Rules.

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## CONNECTED TRANSACTIONS

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### EXEMPTED CONTINUING CONNECTED TRANSACTIONS

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

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

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

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### DIRECTORS

#### Executive Directors

**Mr. XU Jihua** (徐吉華), aged 53, is the chairman of the Group and an executive Director. Mr. XU is principally responsible for the Group's overall business strategic development. Mr. XU has more than 18 years of management and operation experience in the logistics and coal operation industries. In 1996, Mr. XU acquired Qinhuangdao Trading, a member of the China Qinfia Group and has led the Group to become one of the leading non-state-owned coal operation companies in China in terms of annual coal trading volume. Prior to joining the Group in 1996, Mr. XU was a manager in the Trading Department of 秦皇島物資交易中心 (Qinhuangdao Goods Exchange Center) from 1992 to 1994. During the period from 1989 to 1991, Mr. XU was the deputy head of 物資局 (Materials Bureau) of Haigang District, Qinhuangdao City, the PRC. Mr. XU did not hold any directorship in any listed companies during the Track Record Period. Mr. XU was appointed as a Director on 4 March 2008 and was re-designated as an executive Director on 6 May 2008.

**Ms. WANG Jianfei** (王劍飛), aged 39, is the chief executive officer of the Group and an executive Director. Ms. WANG is principally responsible for the Group's overall management and operation. Ms. WANG is also a member of the remuneration committee and nomination committee of the Board. Before her appointment as the chief executive officer, Ms. WANG was in charge of the finance department, human resources department, international trading department, investment management department and shipping transportation department of the Group. Ms. WANG obtained an associate degree in Computer Science by Angeles University Foundation in consortium with Hebei Business College in 1995. Ms. WANG completed an Executive MBA Programme sponsored by the 中國人民大學風險資本與網絡經濟研究中心 (Risk Capital and Network Economy Research Center of China Renmin University) and 中國企業管理培訓中心 (China Enterprise Management Training Center) in 2002. Ms. WANG has more than 12 years of enterprise management and operation experience. Before joining the Group in 2000, Ms. WANG worked in 中糧麵業鵬泰 (秦皇島) 有限公司 (COFCO Industry (Qinhuangdao) Pangthai Co., Ltd.) from 1995 to 2000. Ms. WANG did not hold any directorship in any listed companies during the Track Record Period. Ms. WANG was appointed as an executive Director on 6 May 2008.

**Ms. LIU Xiaomei** (劉曉梅), aged 41, is an executive Director. Ms. LIU is principally responsible for the financial and accounting management of the Group. Ms. LIU graduated with a bachelor degree in auditing from 南開大學 (Nankai University) in 1991 and completed a practical finance officer programme from 清華大學 (Tsinghua University) in 2006. Ms. LIU has more than 14 years of experience in the accounting and finance field. Prior to joining the Group in 2005, Ms. LIU worked as an auditor in 秦皇島正源會計師事務所有限責任公司 (Qinhuangdao Zhengyuan Certified Public Accountants Co. Ltd.) from 2001 to 2002. From 1995 to 2001, Ms. LIU worked as the manager at the finance audit department of 河北衡信會計師事務所有限公司 (Hebei Hengxin Certified Public Accountants Limited Office), formerly known as 秦皇島審計師事務所 (Qinhuangdao Audit Firm). From 1991 to 1995, Ms. LIU worked in 秦皇島市審計局 (Qinhuangdao City Audit Bureau). Ms. LIU did not hold any directorship in any listed companies during the Track Record Period. Ms. LIU was appointed as an executive Director on 6 May 2008.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. WENG Li** (翁立), aged 33, is an executive Director. Mr. WENG is principally responsible for investment management of the Group. Mr. WENG graduated with a bachelor degree in economics major in international finance from 武漢大學 (Wuhan University) in June 1998. Mr. WENG subsequently studied a graduate program in finance from 武漢大學研究生學院 (Graduate School of Wuhan University) during the period from May 2004 to December 2005. Mr. WENG further obtained a master degree in economics from 武漢大學 (Wuhan University) in December 2008. Mr. WENG has been granted the PRC Securities Practising Certificate (中國證券業執業證書) since 2004. Mr. WENG has more than 10 years of assets management and investment experience. Mr. WENG joined the Group in November 2005, and worked as deputy general manager and general manager of the investment management department, and president assistant. Before joining the Group, Mr. WENG worked as an investment assistant and later as an investment manager in the assets management department of Changjiang Securities Company Limited (長江證券股份有限公司), a company listed in the PRC with the stock code: 000783, during the period from June 1998 to October 2005. Mr. WENG did not hold any directorship in any listed companies during the Track Record Period. Mr. WENG was appointed as an executive Director on 21 April 2009.

### Independent non-executive Directors

**Dr. CHEN Wenjing** (陳文敬), aged 58, was appointed as an independent non-executive Director on 12 June 2009. Dr. CHEN is also a member of the audit committee, nomination committee and remuneration committee of the Board. Dr. CHEN graduated from 北京大學 (Peking University) majoring in world economics in 1977 and received his doctoral degree in economics from 南開大學 (Nankai University) in 2006. Dr. CHEN is currently a doctoral supervisor at the 對外經濟貿易大學 (University of International Business and Economics). Dr. CHEN now works in the 國際貿易經濟合作研究院 (Chinese Academy of International Trade and Economic Cooperation) as a researcher. In 1996, Dr. CHEN was granted a special government allowance by the State Council for his outstanding contribution in social science affairs for the nation. Dr. CHEN did not hold any directorship in any listed companies during the Track Record Period.

**Mr. HUANG Guosheng** (黃國勝), aged 66, was appointed as an independent non-executive Director on 12 June 2009. Mr. HUANG is also a member of the audit committee and the chairperson of the nomination committee and remuneration committee of the Board. Mr. HUANG graduated from 中南大學 (Zhong Nan University), formerly known as 長沙鐵道學院 (Chang Sha Railway College), majoring in railway transportation in 1965. Mr. HUANG has been appointed as the legal representative of 廣東省交通運輸協會 (Guangdong Traffic Transportation Association) since 2007. Mr. HUANG served as the head of 廣州港務局 (Guangzhou Port Authority) in 1994. Mr. HUANG was appointed as a visiting professor by 上海海事大學 (Shanghai Maritime University), formerly known as 上海海運學院 (Shanghai Maritime Transportation College), in 1996. Mr. HUANG is also a senior engineer in railway transportation and has enjoyed a special government allowance granted by the State Council since 1992 for his outstanding contribution in engineering technology for the nation. Mr. HUANG did not hold any directorship in any listed companies during the Track Record Period.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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**Mr. LAU Sik Yuen** (劉錫源), aged 42, was appointed as an independent non-executive Director on 12 June 2009. Mr. LAU is also the chairman of the audit committee of the Board. Mr. LAU graduated with a bachelor degree of science in Business Administration from Oregon State University in 1989. Mr. LAU is a member of the Hong Kong Institute of Certified Public Accountants as well as a member of the American Institute of Certified Public Accountants. Mr. LAU has been serving as the chief financial officer and company secretary of Xinyi Glass Holdings Limited, a company listed on the Main Board, since April 2003. Prior to joining Xinyi Glass Holdings Limited in 2003, Mr. LAU was the financial controller of a subsidiary of NWS Holdings Limited, a company listed on the Main Board, for over three years and had worked with an international accounting firm in Hong Kong for five years. Mr. LAU did not hold any directorship in any listed companies during the Track Record Period.

### SENIOR MANAGEMENT

#### *Chief Financial Officer and company secretary of the Company*

**Mr. MAK King Pui, Ricky** (麥景培), aged 39, is the chief financial officer and the company secretary of the Company. Mr. MAK has over 14 years of experience in auditing and financial management. Mr. MAK graduated from The Hong Kong Polytechnic University (香港理工大學) (formerly known as Hong Kong Polytechnic (香港理工學院)) with a bachelor degree of Arts in accountancy. Mr. MAK is a non-practicing member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. Prior to joining the Group, Mr. MAK worked for China Aoyuan Property Group Limited, a company listed on the Main Board with the stock code: 3883; a subsidiary of TOM Group Limited, a company listed on the Main Board with the stock code: 2383; and an international accounting firm in Hong Kong. Mr. MAK joined the Group in April 2008.

#### *Other senior management*

**Mr. SHEN Hongwu** (沈洪武), aged 37, is the manager of the purchase and sale department of the Group. Mr. SHEN is principally responsible for the sale and marketing operation of the Group. Mr. SHEN graduated with a bachelor degree in economics from 中山大學 (Zhongshan University) in 1995 and completed an extensive business administration curriculum presented by the University of Cincinnati (辛辛那提大學) in 2001. Mr. SHEN has more than 12 years of working experience. Before joining the Group in 2006, Mr. SHEN worked in management-related areas in a number of companies, including 廣州發展油品銷售有限公司 (Guangzhou Development Oil Product Sales Company Limited) and 廣州珠江電力燃料有限公司 (Guangzhou Zhujiang Electric Energy Company Limited) from 1996 to 2006.

**Mr. LI Yong** (李勇), aged 36, is the standing deputy general manager of Zhuhai Qinfu Shipping, and is principally responsible for the domestic shipping transportation business of the Group. Mr. LI graduated with a bachelor degree in timber processing from Nanjing Forestry University (南京林業大學) in June 1997 and obtained a master degree in management from Tianjin Normal University (天津師範大學) in June 2004. Mr. LI has more than 10 years of working experience. Mr. LI was appointed as the standing deputy general

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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manager of Zhuhai Qinf Shipping in February 2008. During the period from June 2004 to February 2008, Mr. LI worked as a project manager in Qinf Industry, a connected person of the Group. Mr. LI worked as a business manager in Qinhuangdao Huasheng Trading Co., Ltd. (秦皇島華盛貿易有限公司) during the period from August 1997 to April 2004.

### **INTERNAL CONTROLS**

Under the Articles, the Board has the authority to determine its internal management organisation and corporate governance. The Group has clearly defined the responsibility and authority of the Board and its senior management through the Articles and internal policies, respectively.

The Group has adopted certain internal control policies to manage and minimise financial and other risks, to ensure timely and accurate preparation and reporting of financial information, and to monitor compliance with laws by the senior management of the Group in the performance of their duties.

The Group has also established an audit committee under the Board, which has the functions of monitoring compliance with laws by the Group's senior management and in its daily operations, and of carrying out investigations for suspected breaches of law.

However, certain control procedures, which are new and were introduced after Reorganisation, may need further adjustment and development to operate effectively. The Directors are in the process of establishing additional policies and procedures.

### **CORPORATE GOVERNANCE MEASURES**

The Directors are aware that, upon the Listing, the Group will be required to comply with stringent requirements concerning internal controls and corporate governance. In this regard, the Directors have undertaken the following steps to improve the protection of minority Shareholders, to ensure that the management of the Group will adhere to the Listing Rules, as well as other applicable laws and regulations for companies listed on the Stock Exchange, and to enhance internal controls:

- a) The Company adopted the new Articles on 12 June 2009 in compliance with requirements of the Companies Law and the Listing Rules. The Articles prohibit any Director from voting (nor shall he be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement or proposal in which he or she or any of his or her associate(s) has/have a material interest, and if he or she shall do so his or her vote shall not be counted (nor shall he or she be counted in the quorum for that resolution). The Company has established a system to protect the interests of the minority Shareholders.
- b) The Controlling Shareholders have undertaken with the Company to defer or pass to the independent non-executive Directors all matters to which the Group has or may have a conflict of interest for consideration and decision. Such matters include, but are not limited to, (i) the exercise of option(s) which relate(s) to any connected persons (as defined in the Listing Rules) of the Company; and (ii) any

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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connected transactions with the Company and his or her or its connected persons; and provide all information necessary for the Company and the independent non-executive Directors to enforce the deed of non-competition dated 12 June 2009 or to assess whether or not there is a breach of the deed of non-competition.

- c) The executive Directors have undertaken with the Company to increase the transparency in disclosure of decisions on matters considered or reviewed by the independent non-executive Directors in the annual report or by way of announcement, as appropriate, after the Listing, in compliance with the corporate governance measures and internal control systems as adopted by the Company.
- d) The Company's legal adviser as to Hong Kong law has provided training to the Directors and senior management of the Group concerning the requirements of, amongst others, the Listing Rules.
- e) By the sole Shareholder's written resolutions dated 12 June 2009, the Company has appointed three independent non-executive Directors who will decide on matters which may affect the minority Shareholders' interests. Any conflicts in the interests of minority Shareholders and the Controlling Shareholders will be reported to the Board and, if appropriate, the Shareholders' meetings, in order to prevent the Controlling Shareholders from taking any action that may adversely affect the voting right of the Shareholders.
- f) The Directors intend to appoint China Everbright as the Company's compliance adviser, particulars of the terms of appointment are set forth under "Compliance Adviser" in this prospectus.

### **AUDIT COMMITTEE**

An audit committee was established by the Board on 12 June 2009 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to review and approve the Group's financial reporting process and internal control system. The members of the audit committee of the Board are Mr. LAU Sik Yuen, Dr. CHEN Wenjing and Mr. HUANG Guosheng. Mr. LAU Sik Yuen is the chairperson of the audit committee of the Board.

### **REMUNERATION COMMITTEE**

A remuneration committee was established by the Board on 12 June 2009 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee of the Board are to review and determine the terms of remuneration packages, bonuses and other compensation payable to the Directors and senior management of the Group. The members of the remuneration committee of the Board are Ms. WANG Jianfei, Dr. CHEN Wenjing and Mr. HUANG Guosheng. Mr. HUANG Guosheng is the chairperson of the remuneration committee of the Board.

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## DIRECTORS, SENIOR MANAGEMENT AND STAFF

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### NOMINATION COMMITTEE

A nomination committee was established by the Board on 12 June 2009 with written terms of reference. The primary duties of the nomination committee of the Board are to make recommendations to the Board on the appointment of Directors and senior management of the Group. The members of the nomination committee of the Board are Ms. WANG Jianfei, Dr. CHEN Wenjing and Mr. HUANG Guosheng. Mr. HUANG Guosheng is the chairperson of the nomination committee.

### EMPLOYEES

As of 31 December 2006, 2007 and 2008, the Group had approximately 271,321 and 348 employees, respectively. The table below set forth the number of the Group's employees by their functions:

	At 31 December					
	2006		2007		2008	
	Number of employees	% of total	Number of employees	% of total	Number of employees	% of total
Management	9	3.3	9	2.8	9	2.6
Procurement and logistics	169	62.4	176	54.8	198	57.1
Inventory management	43	15.9	63	19.6	57	16.4
Finance and investment	26	9.6	32	10.0	38	11.0
Sale and marketing	8	2.9	18	5.6	21	6.1
International trading	9	3.3	9	2.8	8	2.3
Shipping and/or coal terminal	3	1.1	9	2.8	10	2.6
Administration	4	1.5	5	1.6	7	2.0
 Total	 271	 100.0	 321	 100.0	 348	 100.0

The Group's employees are working at different locations and for different members of the Group from time to time.

The Group has implemented a number of initiatives in recent years to enhance the productivity of the employees. The employees of the Group are selected through an established recruitment process. The Group conducts periodic performance review of the employees and the employees' compensation packages are performance-based. In addition, the Group implements training programs for different job requirements. The Directors believe such initiatives have contributed to the increased employee productivity.

The Group has not experienced any strikes or other labour disturbances which have interfered with its operations, and the Directors believe that the Group has positive relations with its employees.

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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### **EMPLOYEES' BENEFITS PROVIDED BY THE GROUP**

The Group complies in all material aspects with all statutory requirements on retirement contribution in the jurisdictions where the Group operates.

The Group has established various welfare plans including the provision of pension funds, medical insurance, unemployment insurance and other relevant insurance for employees who are employed by the Group pursuant to the PRC rules and regulations and the existing policy requirements of the local government. In addition, the Group also provides housing allowance to its senior management.

In Hong Kong, the Group has participated in a mandatory provident fund scheme for the Group's employees in Hong Kong in accordance with the applicable Hong Kong laws and regulations.

#### **Trust Scheme and the Pre-IPO Share Option Scheme**

Fortune Pearl has implemented the Trust Scheme whereby an aggregate of 209,333 Shares were initially placed in trust for the benefit of Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha. Following completion of the Global Offering and the Capitalisation Issue (without taking into consideration the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme), there will be 157,000,000 Shares held under the Trust Scheme which will represent 15.7% of the issued Shares. Details of the Trust Scheme are set forth in the paragraphs under "Further Information About Directors and Substantial Shareholders – 5. Trust Scheme" in Appendix V to this prospectus.

The Trust Scheme has been established to hold certain Shares for and to provide incentive to the participants to continue their contribution to the success of the Group. Each of the participants under the Trust Scheme is a Controlling Shareholder, but none of them has any relationship with Mr. XU, except that Mr. XU Da is the son of Mr. XU.

The Company has adopted conditionally the Pre-IPO Share Option Scheme whereby the employees of the Group have been granted options to subscribe for the Shares. A summary of the principal terms of the Pre-IPO Share Option Scheme is set forth in the paragraphs under "Share Option Schemes" in Appendix V to this prospectus.

As the Trust Scheme was adopted on 13 June 2009 and the options under the Pre-IPO Share Option Scheme were granted on 12 June 2009, the financial impact of the Trust Scheme and the options granted under the Pre-IPO Share Option Scheme on the financial results of the Group will be reflected in our financial statements starting from the financial year ending 31 December 2009. As options under the Pre-IPO Share Option Scheme will not be exercisable until the first anniversary of the Listing Date, the financial impact on the options granted, which represents our expense will only be reflected in the Company's financial statements for the three financial years starting from the year ending 31 December

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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2010. The Directors estimate the amount to be charged in relation to the options granted under the Pre-IPO Share Option Scheme will be HK\$6.7 million which is based on the mid-point of the indicative Offer Price.

### **Share Option Scheme**

The Company has conditionally adopted the Share Option Scheme pursuant to which selected participants may be granted options to subscribe for the Shares. A summary of the principal terms of the Share Option Scheme is set forth in the paragraphs under "Share Option Schemes" in Appendix V to this prospectus.

### **COMPLIANCE WITH LABOUR AND EMPLOYMENT REGULATIONS**

The Group has complied with all material applicable labour and employment regulations in Hong Kong and the PRC as of the Latest Practicable Date. As advised by the PRC Legal Advisers, the new Employment Contract Law (《勞動合同法》), which mainly governs the employment contracts, became effective on 1 January 2008. The Directors confirm that the Group's employment contracts have complied with the new Employment Contract Law.

### **DIRECTORS' REMUNERATION**

During the Track Record Period, the total remuneration (comprising fees, salaries and allowances, discretionary bonuses and pension scheme contributions) and benefits in kind of the Directors were approximately RMB171,000, RMB947,000 and RMB1,095,000, respectively.

During the financial year ended 31 December 2006, most of the senior management of the Group was residing in Qinhuangdao and as such, the compensation package was consistent with the prevailing living standards in Qinhuangdao. The increase in the amount of the remuneration during the financial year ended 31 December 2007 was attributed to the relocation of the principal offices of the Group to Guangzhou. Following the Listing, the remuneration committee of the Board will review on a regular basis and determine the compensation package of each Director and senior management of the Group.

In determining the amount of remuneration of the Directors, the remuneration committee will consider the compensation levels adopted by companies of similar size engaging in similar business. Under arrangements currently in force, the aggregate remuneration for all the executive Directors and the aggregate fee for all independent non-executive Directors payable in respect of the year ending 31 December 2009 are estimated to be RMB2.19 million and RMB398,001, respectively. The executive Directors will also be entitled to a discretionary bonus of not exceeding 1% of the audited consolidated net profit after taxation but before extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

In respect of the Track Record Period, no remuneration was paid to the Directors as an inducement to join or upon joining the Group. No compensation was paid to, or receivable by, the Directors or past Directors for the loss of office as director of any member of the

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## **DIRECTORS, SENIOR MANAGEMENT AND STAFF**

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Group or of any other office in connection with the management of the affairs of any member of the Group. None of the Directors has waived any emoluments. Further information about the service agreements entered into between the Company and the Directors is set out in the paragraphs under “Further Information About Directors and Substantial Shareholders – 2. Particulars of the Directors’ service contracts and appointment letters with the independent non-executive Directors” in Appendix V to this prospectus.

### **COMPLIANCE ADVISER**

The Directors intend to appoint China Everbright as the Company’s compliance adviser pursuant to Rule 3A.19 of the Listing Rules. The material terms of the compliance adviser’s agreement to be entered into by the Company with China Everbright include the following:

1. the compliance adviser for the purpose of Rule 3A.19 of the Listing Rules will be appointed for a period commencing on the Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full year commencing after the Listing Date; and
2. pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise the Company on the following circumstances:
  - (a) before the publication of any regulatory announcement, circular or financial report;
  - (b) where a transaction, which might be a notifiable or connected transaction under the Listing Rules, is contemplated including share issues and share repurchases;
  - (c) where the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in this prospectus; and
  - (d) where the Stock Exchange makes an inquiry of the Company under Rule 13.10 of the Listing Rules.

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## FINANCIAL INFORMATION

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### 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 2008 and the accompanying notes thereto, which is set forth in the Accountants' Report as included as Appendix I to this prospectus. 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 prospectus.

Information in this section and the other sections of this prospectus on 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.

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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 CAGR 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	<u>26,107</u>	<u>0.9</u>	<u>111,447</u>	<u>3.0</u>	<u>142,314</u>	<u>3.4</u>	<u>133.5%</u>
Total	<u><u>2,850,489</u></u>	<u><u>100.0</u></u>	<u><u>3,664,632</u></u>	<u><u>100.0</u></u>	<u><u>4,192,484</u></u>	<u><u>100.0</u></u>	<u><u>21.3%</u></u>
Gross profit	<u><u>235,618</u></u>	<u><u>8.3</u></u>	<u><u>571,394</u></u>	<u><u>15.6</u></u>	<u><u>559,916</u></u>	<u><u>13.4</u></u>	<u><u>54.2%</u></u>
Net profit	<u><u>52,850</u></u>	<u><u>1.9</u></u>	<u><u>207,251</u></u>	<u><u>5.7</u></u>	<u><u>330,690</u></u>	<u><u>7.9</u></u>	<u><u>150.1%</u></u>

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.

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*Profit and loss items expressed as percentage of turnover*

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

### **(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.

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As Hong Kong Qinf Group and China Qinf 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 prospectus, 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:

	First					
	Year ended 31 December			quarter of	April	May
	2006	2007	2008	2009	2009	2009
The average selling price (RMB per tonne)	392	443	646	432	453	474
The average purchase price (RMB per tonne)	305	310	514	440	377	373
Total sales volume ('000 tonnes)	7,206	8,023	6,274	264	274	435

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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 RMB432 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 RMB400 per tonne in January 2009 to approximately RMB453 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.

Details of the Group's sales price and the price trends of coal in the PRC are set out in "Business – III. Pricing – B. Sales Prices" of this prospectus.

### ***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.

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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 state-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 customers 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

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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 prospectus.

### ***Cyclicalities 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 cyclicalities, the Group has in the past experienced fluctuations in charterhire rates and operating results.

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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 RMB1,000.0 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 state-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 counterparts that they intended to cancel any confirmed orders, nor the Group was aware of any of its coal operation counterparts were going to bankruptcy proceedings or default in 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 state-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.

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In addition, the Group's average selling prices of coal amounted to approximately RMB442 per tonne during the four months ended 30 April 2009, down (i) 16.1% from the same period in 2008 (approximately RMB527 per tonne); and (ii) 47.6% from the peak in September 2008 (approximately RMB844 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 RMB31 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 similar write-down because of the gradual increase in the coal selling prices during the two months ended 31 May 2009.

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

However, starting from 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 RMB400 per tonne in January 2009 to approximately RMB453 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. As the monthly trading volume and average selling price were further improved in May 2009, the Group also recorded net profit in May 2009.

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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:

	First				
	Years ended 31 December	quarter of		April	May
	2006	2007	2008	2009	2009
Average monthly trading volume ('000 tonnes)	600	669	523	88	274
Average selling price (RMB per tonne)	392	443	646	432	453
					474

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 were 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.

Taking into account (i) the estimated net proceeds available to the Group from the Global Offering; (ii) the Group's available banking facilities (including the letter of intent issued by the bank on the banking facilities for the Zhuhai Terminal), cash and cash equivalents as of the Latest Practicable Date; and (iii) the expected cashflow to be generated from the Group's operations, the Directors confirm that the Group has sufficient working capital for a period of not less than 12 months from the date of this prospectus.

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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 further 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 prospectus. 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

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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:

	<b>Year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Coal operation	2,824,382	3,553,185	4,050,170
Shipping transportation	<u>26,107</u>	<u>111,447</u>	<u>142,314</u>
Total	<u><u>2,850,489</u></u>	<u><u>3,664,632</u></u>	<u><u>4,192,484</u></u>

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### *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 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
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	 <u>2,614,871</u>	 <u>3,093,238</u>	 <u>3,632,568</u>

*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 each of 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 RMB3.23 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.

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### *Distribution expenses*

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

	<b>Year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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)	<u>2,247</u>	<u>2,507</u>	<u>7,137</u>
 Total	 <u>143,128</u>	 <u>253,809</u>	 <u>155,850</u>

*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.

	<b>Year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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)	<u>4,179</u>	<u>8,164</u>	<u>13,758</u>
 Total	 <u>22,157</u>	 <u>42,833</u>	 <u>59,579</u>

*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.

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Taking into account that the aging of the Group's accounts receivable balance was over three 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. In serving the best interests of the Group and potential investors after the Global Offering, Qinfa Trading has made tax provisions of approximately RMB9.2 million, RMB8.7 million and RMB11 million, respectively, during the Track Record Period and an aggregate provision of approximately RMB50.6 million for the period before the Track Record Period.

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.

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### (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 prospectus:

	Year ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Turnover</b>			
– Coal operation	2,824,382	3,553,185	4,050,170
– Shipping transportation	<u>26,107</u>	<u>111,447</u>	<u>142,314</u>
<b>Total turnover</b>	2,850,489	3,664,632	4,192,484
Cost of sales	<u>(2,614,871)</u>	<u>(3,093,238)</u>	<u>(3,632,568)</u>
<b>Gross profit</b>	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	<u>(21)</u>	<u>(1,270)</u>	<u>(1,814)</u>
<b>Profit from operations</b>	<u>84,380</u>	<u>278,508</u>	<u>443,876</u>
Finance income	5,984	11,419	15,733
Finance expenses	<u>(23,682)</u>	<u>(41,611)</u>	<u>(64,310)</u>
<b>Net financing costs</b>	<u>(17,698)</u>	<u>(30,192)</u>	<u>(48,577)</u>
<b>Profit before income tax</b>	66,682	248,316	395,299
Income tax expense	<u>(13,832)</u>	<u>(41,065)</u>	<u>(64,609)</u>
<b>Net Profit</b>	<u><b>52,850</b></u>	<u><b>207,251</b></u>	<u><b>330,690</b></u>
<b>Attributable to:</b>			
Equity holders of the Company	51,802	207,251	330,690
Minority interests	<u>1,048</u>	<u>–</u>	<u>–</u>
<b>Dividends attributable to the year</b>	–	–	120,341
Dividends declared during the year	<u>–</u>	<u>–</u>	<u>120,341</u>
<b>Earnings per Share</b>			
<b>Basic earnings per Share (RMB)</b>			
(Note)	<u>0.07</u>	<u>0.28</u>	<u>0.44</u>

*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

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of the Prospectus and 749,000,000 shares to be issued pursuant to the capitalisation issue as detailed in the paragraphs under “Written resolutions of the sole Shareholder passed on 12 June 2009” in Appendix V to the Prospectus, as if the shares were outstanding throughout the entire Track Record Period.

There were no dilutive potential ordinary shares during the Track Record Period and, therefore, diluted earnings per share are not presented.

### ***(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 RMB646 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.

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### 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 RMB3,102.8 million, representing an increase of approximately RMB751.1 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

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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 Qinfra 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

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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 increase 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.

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### 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 per 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

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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 13.0% 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

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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

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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 Qinfia 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.

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### (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
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
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 prospectus.

#### (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.

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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 prospectus.

*(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 no 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 prospectus.

*(iv) Interest-bearing borrowings*

The Group's interest-bearing borrowings amounted to approximately RMB490.2 million, RMB953.2 million and RMB1,168.9 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 Prospectus.

*(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 Qinfu 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 Prospectus.

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.

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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 Prospectus.

The balances with related parties owing was fully settled prior to the Listing.

As advised by the PRC Legal Advisers, no lending and borrowing of money between corporations without the requisite qualifications in the PRC is allowed under the current PRC laws and regulations. Such transactions shall be conducted through licenced 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 Qinfra 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 Qinfra Industry were to finance the working capital and capital expenditure for the hotel operation of Qinfra Industry during the Track Record Period.

The cash advances to Qinfra Industry have been properly approved by the general manager of finance department and directors of the China Qinfra 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 Qinfra 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 Listing. 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 Listing.

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Dividends distributed by Qinhuangdao Trading in 2008 was partially settled by the amount due from Qinfra Industry, the controlling shareholder of Qinhuangdao 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:

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

*(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.

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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 prospectus.

*(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 prospectus.

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 prospectus.

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 Listing, 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.

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### *(B) Key financial ratios*

	Year ended 31 December		
	2006	2007	2008
Inventory turnover days <sup>(1)</sup>	25 days	41 days	24 days
Trade and bills receivables turnover days <sup>(2)</sup>	27 days	24 days	20 days
Trade and bills payables turnover days <sup>(3)</sup>	23 days	14 days	7 days
Gross profit margin			
– Coal operation	7.3%	14.6%	12.3%
– Shipping transportation operation <sup>(4)</sup>	46.5%	48.8%	29.8%
	As at 31 December		
	2006	2007	2008
Current ratio <sup>(5)</sup>	1.22	1.25	1.05
Quick ratio <sup>(6)</sup>	0.86	0.85	0.98
Gearing ratio <sup>(7)</sup>	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.

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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 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.

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(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 Qinf 6 and MV Qinf 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, Qinf 6 and Qinf 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.

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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.

Based on the Group's current and anticipated levels of operations and conditions in the markets and industry, the Directors believe that the proceeds from the Global Offering, the Group's cash and bank deposits, cash flow from operations, banking relationships and future financings will enable the Group to meet its working capital, capital expenditures, and other funding requirements for the foreseeable future. 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.

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### (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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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 average 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 average Qinhuangdao Benchmark Coal Spot

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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.

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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.

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Taking into account (i) the estimated net proceeds available to the Group from the Global Offering; (ii) the Group's available banking facilities (including the letter of intent issued by the bank or the banking facilities for the Zhuhai Terminal), cash and cash equivalents as of the Latest Practicable Date; and (iii) the expected cashflow to be generated from its operations, the Directors confirm that the Group has sufficient working capital for at least 12 months from the date of this prospectus.

As of 30 April 2009, the date being the latest practicable date for the purpose of the indebtedness statement in this prospectus, the Group's net current assets were approximately RMB5.1 million, comprising the following:

	<i>RMB('000)</i>
<b>Current assets</b>	
– Inventories	183,163
– Trade and other receivables	318,054
– Pledged deposits	201,680
– Cash and cash equivalents	<u>149,967</u>
 Total:	 <u>852,864</u>
 <b>Current liabilities</b>	
– Interest-bearing borrowings	519,676
– Trade and other payables	<u>328,077</u>
 Total:	 <u>847,753</u>
 <b>Net current assets</b>	 <u>5,111</u>

**(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

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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:

	<b>As at 31 December</b>		
	<b>2006</b> <i>US\$'000</i>	<b>2007</b> <i>US\$'000</i>	<b>2008</b> <i>US\$'000</i>
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	<u>(10,340)</u>	<u>(13,072)</u>	<u>(3,152)</u>

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

	<b>Year ended 31 December</b>		
	<b>2006</b>	<b>2007</b>	<b>2008</b>
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.

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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
Variable rate borrowings	0.46% to 7.44%	54,071	358,050
		<u>490,163</u>	<u>953,220</u>
			<u>1,168,874</u>

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

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## FINANCIAL INFORMATION

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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 and 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, the Group had issued credit letters of approximately RMB230 million and outstanding borrowings of approximately RMB777 million, comprising secured bank loans and bank advances of approximately RMB351 million, approximately RMB41 million bank advances under discounted bill receivables, approximately RMB61 million other borrowings from a related party, approximately

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RMB46 million current portion of non-current secured bank loans and approximately RMB278 million of non-current secured bank loans. The total outstanding borrowings of approximately RMB499 million were classified under current liabilities.

As at 30 April 2009, the Group had total and unutilised banking facilities of approximately RMB2,161 million and RMB1,151 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 RMB1,845 million were guaranteed by Mr. XU. All these guarantees/pledges will be released/discharged by the bankers upon the Listing.

### **(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				
	As at 31 December	2006	2007	2008	30 April
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Inventories	—	170,000	22,323	—	—
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.

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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 ('000)	2007 ('000)	2008 ('000)
<b>Guarantees issued by Mr XU:</b>			
– RMB	260,000	296,010	635,340
– HK Dollars	110,000	140,000	170,000
– US Dollars	–	60,088	75,088
<b>Guarantees issued by Qinfa Industry</b>			
– 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 Listing.

**(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 RMB1,500 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

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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 RMB900 million of the total investment, representing the Group's proportional interests of 60% in the project. Out of this RMB900 million, the Group intends to finance up to 65%, being approximately RMB585 million, of its commitment through bank financing whereas the Group intends to contribute at least 35%, being approximately RMB315 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 RMB1,157 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 RMB1,157 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 advancement made to Qinhuangdao Trading. In relation to the dividend declared by Qinhuangdao Trading, Mr. XU Da and Qinfa

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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 Qinfra Industry. The dividend distributed by Qinhuangdao Trading was partially settled by the amount due from Qinfra Industry. As at 31 December 2008, an amount of approximately RMB74.6 million due from Qinfra 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 Qinfra Industry will be settled by the Qinhuangdao Trading before the Listing. 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 the resolutions passed at a directors' meeting of Qinfra Trading held on 11 June 2009, Qinfra Trading declared a special interim dividend of HK\$100 million to its shareholders, Qinfra Investment, on the same date. Qinfra Investment declared the same amount of dividend to Fortune Pearl, on the same date. Fortune Pearl declared the same amount of dividend to Mr. XU, on the same date. The dividend payment will be paid by Qinfra Trading before the Listing Date.

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

Subject to the above, the Directors currently intend to recommend a distribution to all Shareholders in an amount representing not less than 30% of the distributable net profit attributable to the equity holders of the Company in each of the financial years following the Listing (that is, for the avoidance of doubt, commencing from the year ending 31 December 2010). 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).

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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) Unaudited Pro Forma Adjusted Net Tangible Assets

For illustrative purpose only, the following statement of unaudited pro forma adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is prepared to show the effect on the audited net tangible assets of the Group as at 31 December 2008 as if the Global Offering had occurred on 31 December 2008 and is based on the combined net assets derived from the audited financial information of the Group as at 31 December 2008, as set out in Appendix I to this prospectus and adjusted as follows.

The unaudited pro forma adjusted net tangible assets of the Group has been prepared for illustrative purposes only and, because of its nature, it may not give a true picture of the financial position of the Group.

Audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2008 RMB'000 (Note 1)	Estimated net proceeds from the Global Offering RMB'000 (Note 2)	Unaudited pro forma adjusted net tangible assets RMB'000 (Note 2)	Unaudited pro forma adjusted net tangible assets per Share RMB (Note 3)	Unaudited pro forma adjusted net tangible assets per Share HK\$ (Note 4)
Based on the Offer Price of HK\$2.00 per Share (being the lowest)	734,955	400,408	1,135,363	1.14
Based on the Offer Price of HK\$2.52 per Share (being the highest)	734,955	511,540	1,246,495	1.25

This statement is presented for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group following the Global Offering.

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## FINANCIAL INFORMATION

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*Notes:*

1. The audited combined net tangible assets of the Group as at 31 December 2008 has been extracted without adjustment from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on the minimum and maximum indicative Offer Price of HK\$2.00 and HK\$2.52 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and taking no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company.
3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,000,000,000 Shares (including the Shares in issue as at 31 December 2008 and Shares to be issued under the Global Offering and the Capitalisation Issue) are in issue and taking no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company.
4. The unaudited pro forma adjusted net tangible assets per share amounts in RMB are converted to HK\$ with the exchange rate at RMB1 to HK\$1.13. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
5. The Group's property interests as at 30 April 2009 have been valued by Vigers Appraisal & Consulting Limited, an independent property valuer. The details of such valuation are set out in Appendix III to this prospectus. The Group will not incorporate the revaluation surplus in its financial statements for the year ended 31 December 2008. It is the Group's accounting policy to state its lease prepayment at cost less accumulated amortisation and plant and buildings at cost less accumulated depreciation and any impairment loss in accordance with International Accounting Standard 17 and 16, respectively, rather than at revalued amounts. With reference to the valuation of the Group's property interests as set out in Appendix III to this prospectus, there was a revaluation surplus of the Group's relevant assets of approximately RMB55.2 million, which has not been included in the above net tangible assets of the Group. If such revaluation surplus was incorporated in the Group's financial statements for the year ended 31 December 2008, an additional depreciation charge of approximately RMB2.2 million per annum would be incurred.

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## FINANCIAL INFORMATION

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### **(XIII) 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 prospectus. 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 prospectus.

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:

	<i>RMB'000</i>
Net book value as at 31 December 2008 included in the Accountants' Report as set out in Appendix I to this prospectus	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 prospectus	96,900

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

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## FUTURE PLANS AND USE OF PROCEEDS

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### FUTURE PLANS

Please refer to the section headed “Business – Growth strategies” for a detailed description of the Group’s future plans.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$2.26 per Share (being the midpoint of the indicative Offer Price range of HK\$2.00 to HK\$2.52 per Share), the net proceeds from the Global Offering, after deducting the underwriting fees and estimated expenses payable by the Company in connection with the Global Offering, are estimated to be approximately HK\$517.0 million. The Directors presently intend to apply the net proceeds as follows:

- approximately HK\$329.0 million (equivalent to approximately RMB289.9 million) to finance the development of Zhuhai Terminal to serve as the Group’s coal transshipment hub, coal blending centre and coal storage base in Southern China, details of which are set out in “Business – Zhuhai Terminal” of this prospectus. The Group’s total investment in Zhuhai Terminal is expected to be approximately RMB1,500.0 million. The Group is seeking a joint venture partner to invest in 40.0% of the project. Accordingly, the Group will be responsible for approximately RMB900.0 million of the total investment, representing the Group’s proportional interests of 60.0% in the project. Out of this RMB900.0 million, the Group intends to finance up to 65.0%, being approximately RMB585.0 million, of its commitment through bank financing whereas the Group intends to contribute at least 35%, being approximately RMB315.0 million, of its commitment through internal resources. Net proceeds of approximately HK\$329.0 million (equivalent to approximately RMB289.9 million) will be used to finance the Group’s internal resource commitment;
- approximately HK\$137.0 million including approximately HK\$68.5 million (equivalent to approximately RMB60.4 million) as the land acquisition cost and HK\$68.5 million (equivalent to approximately RMB60.4 million) as the construction cost for the Group’s third coal loading station in Shanxi, which is expected to have an annual handling capacity of seven million tonnes. As of the Latest Practicable Date, the Group had not yet identified any suitable land for acquisition and accordingly there is no expected time of commencement and completion of the construction; and
- the balance of approximately HK\$51.0 million as general working capital of the Group.

In the event that the Offer Price is determined at the indicative Offer Price range between HK\$2.26 to HK\$2.52 per Share, the additional net proceeds from the Global Offering will be up to approximately HK\$63.0 million. In such case, the Directors intend to apply the additional net proceeds to the development of Zhuhai Terminal. Save for the above changes, there will not be any further changes in the use of proceeds from the Global Offering under such circumstance.

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## FUTURE PLANS AND USE OF PROCEEDS

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In the event that the Offer Price is set at the indicative Offer Price range between HK\$2.00 to HK\$2.26, the Directors will apply the net proceeds in the manner and proportion as shown above. Any shortfall is intended to be financed by internal resources of the Group.

Should the Over-allotment Option be exercised in full (assuming an Offer Price of HK\$2.26 per share, being the mid-point of the indicative range of Offer Price), the Company will receive additional net proceeds of approximately HK\$82.0 million. The Directors intend to apply the additional net proceeds to general working capital by increasing the amount of which to up to 10% of the aggregate net proceeds from the Global Offering and the development of Zhuhai Terminal.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes, it is the present intention of the Directors that such proceeds will be placed on short term deposits with licenced banks and/or authorised financial institutions in Hong Kong and/or the PRC.

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## SHARE CAPITAL

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### SHARE CAPITAL

The following is a description of the authorised and issued share capital as fully paid or credited as fully paid immediately before and after completion of the Global Offering and the Capitalisation Issue without taking into consideration the Shares that may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme.

	HK\$
<b>Authorised share capital:</b>	
20,000,000,000 Shares .....	2,000,000,000
<b>Issued share capital:</b>	
1,000,000 Shares .....	100,000
<b>Shares to be issued under the Global Offering:</b>	
250,000,000 Shares .....	25,000,000
<b>Shares to be issued under the Capitalisation Issue:</b>	
749,000,000 Shares .....	<u>74,900,000</u>
<b>Total issued Shares:</b>	
<b>1,000,000,000 Shares.....</b>	<b><u>100,000,000</u></b>

### Assumptions

The above table assumes that the Global Offering and the Capitalisation Issue become unconditional. It takes no account of (i) Shares which may be allotted and issued upon the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme (ii) any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

### Ranking

The Offer Shares will rank *pari passu* in all respects with all Shares in issue and/or to be allotted and issued as mentioned in this prospectus and will rank in full for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus save with respect to the Capitalisation Issue.

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## SHARE CAPITAL

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### ISSUING MANDATE

The Directors have been granted a general unconditional mandate to allot, issue and deal with Shares not more than the sum of:

- 20% of the issued share capital of the Company (as set out in the above table but excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option) and
- the number of Shares repurchased by the Company, if any, pursuant to the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements or the exercise of the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme or any other option scheme or similar arrangement for the time being adopted.

This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- upon the expiration of the period within which the next annual general meeting of the Company is required to be held by the Articles or the Companies Law; or
- the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Further information on the Issuing Mandate is set forth in the paragraphs under “Further Information About the Company – 4. Written resolutions of the sole Shareholder” in Appendix V to this prospectus.

### REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares not more than 10% of the issued share capital of the Company (as set out in the table above but excluding Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant requirements of the Listing Rules on the Repurchase Mandate is set forth in the paragraphs under “Repurchase of its own securities by the Company” in Appendix V to this prospectus.

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## SHARE CAPITAL

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This mandate will expire:

- at the conclusion of the next annual general meeting of the Company; or
- upon the expiration of the period within which the next annual general meeting of the Company is required to be held by the Companies Law or the Articles; or
- the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate,

whichever is the earliest.

Further information on the Repurchase Mandate is set forth in the paragraphs under “Further Information About the Company – 4. Written resolutions of the sole Shareholder” in Appendix V to this prospectus.

### **RULE 10.08 OF THE LISTING RULES**

The Directors confirm that, save for the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the Company will comply with the requirements of Rule 10.08 of the Listing Rules upon the Listing. Rule 10.08 of the Listing Rules provides that the Company may not issue any further Shares or securities convertible into equity securities or enter into any agreement to make such an issue within six months from the Listing Date.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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### CONTROLLING SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Global Offering and Capitalisation Issue (without taking into consideration the Shares which may be taken up under the Global Offering and the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme), the following persons are the Controlling Shareholders:

Names	Number of Shares directly held	Number of Shares indirectly held	Percentage of issued Shares (%)
Fortune Pearl	593,000,000	–	59.3
Mr. XU	–	593,000,000	59.3
Mr. XU Da <sup>(2,5)</sup>	–	100,000,000	10.0
Ms. WANG Jianfei <sup>(1,5)</sup>	–	50,000,000	5.0
Mr. WENG Li <sup>(1,5)</sup>	–	3,000,000	0.3
Mr. LIU Jingwei <sup>(3,5)</sup>	–	2,000,000	0.2
Ms. ZHOU Lusha <sup>(4,5)</sup>	–	2,000,000	0.2

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*Notes:–*

1. Ms. WANG Jianfei and Mr. WENG Li are executive Directors.
2. Mr. XU Da is the son of Mr. XU and a business development manager of the Group.
3. Mr. LIU Jingwei holds 10% equity interest in Zhuhai Qinf Trading, 96% equity interest in Yangyuan Guotong and 0.41% equity interest in Qinf Industry, all on behalf of Mr. XU. Mr. LIU Jingwei is also the legal representative of Yangyuan Guotong.
4. Ms. ZHOU Lusha holds 4% equity interest in Yangyuan Guotong on behalf of Mr. XU.
5. Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha are the participants of the Trust Scheme.

Each of the Controlling Shareholders has entered into a deed of non-competition, further information on which is set forth in the paragraphs under “– Deed of Non-Competition” below.

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Global Offering and the Capitalisation Issue (without taking into consideration the Shares which may be taken up under the Global Offering and the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme), except for the Controlling Shareholders and Equity Trust (HK) Limited being the trustee of the Trust Scheme, the Company has no other Substantial Shareholders.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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### INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

The Directors believe that the Group can carry on its business independent of and without financial reliance on its Controlling Shareholders (and the associates of the Controlling Shareholders) following the Listing, and that the Group satisfies the relevant requirements under the Listing Rules.

Pursuant to the Structure Contracts, the management of all members of the China Qinfra Group are under the control of Qinfra Logistics and all economic benefits arising from the business operations of the China Qinfra Group will be obtained by Qinfra Logistics. Hence, the operations of the China Qinfra Group form an integral part of the overall management of the Group as whole. Despite the fact that the coal trading business of the Group in China is depending on the Coal Operation Certificates issued to Qinhuangdao Trading, Datong Jinfa, Yangyuan Guotong and Zhuhai Qinfra Trading, their operations are not independent, but under the control of the Directors through the Structure Contracts. More importantly, all the economic benefits of the China Qinfra Group derived from their business operations will be obtained by members of the Group. Similar arrangements are in place for the inland shipping business conducted by Zhuhai Qinfra Shipping. Hence, the Directors consider that, even though members of the China Qinfra Group will continue to be ultimately owned by Mr. XU, such ownership *per se* will not constitute an undue reliance by the Group on any of the Controlling Shareholders. The Group as a whole is able to operate independently in terms of business administration, the required licences and access to customer base and raw materials and production facilities.

In addition, apart from the legal ownership in the members of the China Qinfra Group, the Controlling Shareholders and their respective associates (a) do not have any interests in any business that competes or is likely to compete with the business of the Group; (b) do not have any significant transaction with any member of the Group other than the transactions under the Structure Contracts and (c) have entered into a deed of non-competition in favour of the Group.

In light of the above, the Directors believe that the Group is able to operate independently following the Listing.

### NON-DISPOSAL UNDERTAKINGS GIVEN BY THE CONTROLLING SHAREHOLDERS

Each of the Controlling Shareholders has, jointly and severally, undertaken with the Company and the Stock Exchange that each of them shall not and shall procure that the relevant registered holder(s) shall not:

- (a) in the period commencing on the date of this prospectus and ending on the date which is six months from the Listing Date (the “**First Six-Month Period**”), save for the transaction contemplated under the Stock Borrowing Agreement, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which it/he/she is shown by this prospectus to be the beneficial owner(s); and

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Shareholders would cease to be the controlling shareholders of the Company, i.e. they cease to control 30% or more of the voting power at general meetings of the Company.

Each of the Controlling Shareholders has, jointly and severally, undertaken with the Company and the Stock Exchange that within a period commencing from the Listing Date and ending on the date on which is the first anniversary of the Listing Date, he or she or it shall:

- (a) when he or she or it pledges or charges any securities beneficially owned by him or her or it in favour of an authorised institution (as defined under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) for a bona fide commercial loan, immediately inform the Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when he or she or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities will be disposed of, immediately inform the Company of such indications.

The Company will inform the Stock Exchange as soon as the Company has been informed of the matters referred to above by any of the Controlling Shareholders and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

### DEED OF NON-COMPETITION

For the purpose of the Listing, the Controlling Shareholders and the executive Directors (collectively, the “**Covenantors**”) have entered into a deed of non-competition whereby each of the Covenantors jointly and severally, irrevocably and unconditionally, undertakes with the Company that with effect from the Listing Date and for as long as the Shares remain listed on the Stock Exchange and the Covenantors, individually or collectively with their associates, are, directly or indirectly, interested in not less than 30% of the Shares in issue, or are otherwise regarded as Controlling Shareholders, each of the Covenantors shall not, and shall procure that none of their respective associates shall not:

- (a) directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of the Group or be in competition with the Group in any business activities which the Group may undertake in the future save for the holding of not more than 5% shareholding interests (individually or any of the Covenantors with their associates collectively) in any company listed on the Stock Exchange or any other stock exchange; and

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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- (b) take any direct or indirect action which constitutes an interference with or a disruption to the business activities of the Group including, but not limited to, solicitation of customers, suppliers and staff of the Group.

In addition, each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, undertakes that if any new business opportunity relating to any products and/or services of the Group (the “**Business Opportunity**”) is made available to any of the Covenantors or their respective associates (other than the Company), it or he or she will direct or procure the relevant associate to direct such Business Opportunity to the Group with such required information to enable the Group to evaluate the merits of the Business Opportunity. The relevant Covenantor shall provide or procure the relevant associate to provide all such reasonable assistance to enable the Group to secure the Business Opportunity.

None of the Covenantors and their respective associates (other than the Company) will pursue the Business Opportunity even though the Group decides not to pursue the Business Opportunity because of commercial reasons. Any decision of the Company will have to be approved by the independent non-executive Directors taking into consideration of the Group’s prevailing business and financial resources, the financial resources required for the Business Opportunity and any expert opinion on the commercial viability of the Business Opportunity.

Each of the Covenantors hereby jointly and severally, irrevocably and unconditionally, represents and warrants that, saved as disclosed in this prospectus, neither it or he or she nor any of its or his or her associates is currently interested, involved or engaging, whether directly or indirectly, in any business competing with that of the Group.

The decision making process in relation to assessment of the Business Opportunity is as follows:

- (a) the independent non-executive Directors will be responsible for deciding, without attendance by any executive Director (except as invited by the independent non-executive Director to assist them or provide any relevant information but in no circumstances shall the executive Director(s) participating in such meeting be counted towards the quorum or allowed to vote on such meeting), whether or not to take up the Business Opportunity;
- (b) the independent non-executive Directors may employ independent financial advisor as they consider appropriate to advise them on the terms of the Business Opportunity;
- (c) the independent non-executive Directors will also review, on an annual basis, any decision in relation to the Business Opportunity and state their view with basis and reasons in the Company’s annual report.

For the avoidance of doubt, the Group will not be required to pay any fees to any of the Covenantors and/or their respective associates in relation to the direction of the Business Opportunity.

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## CONTROLLING SHAREHOLDERS AND SUBSTANTIAL SHAREHOLDERS

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Each of the Covenantors further jointly and severally, irrevocably and unconditionally, undertakes that it or he or she will (i) provide to the Group all information necessary for the enforcement of the undertakings contained in the deed of non-competition; and (ii) confirm to the Company on an annual basis as to whether it or he or she has complied with such undertakings.

The deed of non-competition will cease to have any effect on the earliest of the date on which:

- (a) the Company becomes wholly-owned by the Covenantors and/or their associates;
- (b) the aggregate beneficial shareholding (whether direct or indirect) of the Covenantors and/or their associates in the Shares falls below 30% of the number of Shares in issue or the relevant Covenantor shall cease to be a controlling shareholder (as defined in the Listing Rules) of the Company;
- (c) in the case of any executive Director who is not a Controlling Shareholder, ninety (90) days from the date of resignation or termination of her service contract with the Company as a result of her breach of the relevant service contract, provided that if the relevant service contract is terminated by the Company without any breach on the part of the relevant executive Director, the date of termination of the relevant service contract; or
- (d) the Shares cease to be listed on the Stock Exchange.

The Directors are aware that, upon the Listing, the Company will be required to comply with stringent requirements concerning corporate governance. In this connection, the Company will adopt the following measures to ensure good corporate governance practice and improve transparency:

- (a) the independent non-executive Directors will review, at least on an annual basis, the compliance with the deed of non-competition by the Covenantors, the options, pre-emptive rights or first rights of refusals provided by the Controlling Shareholders on their existing or future competing businesses;
- (b) the Covenantors have undertaken to provide to the Group all information necessary for the enforcement of the deed of non-competition, and shall confirm to the Company on an annual basis as to whether he/she/it has complied with the above non-competition undertakings;
- (c) the Company will disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition in its annual report; and
- (d) the Covenantors will make an annual statement on compliance with the deed of non-competition in the annual report of the Company, including the disclosure on how the deed of non-competition was complied with and enforced, which is consistent with the principles of making voluntary disclosure in the corporate governance report of the annual report.

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## UNDERWRITING

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### **Hong Kong Underwriters**

China Everbright Securities (HK) Limited  
Mizuho Securities Asia Limited  
Friedmann Pacific Securities Limited  
Kingsway Financial Services Group Limited  
Mega Capital (Asia) Company Limited

### **International Underwriters**

China Everbright Securities (HK) Limited  
Mizuho Securities Asia Limited  
Friedmann Pacific Securities Limited  
Kingsway Financial Services Group Limited  
Mega Capital (Asia) Company Limited  
Mirabaud Securities (Asia) Limited

## **UNDERWRITING ARRANGEMENTS AND EXPENSES**

### **Hong Kong Underwriting Agreement**

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering the Hong Kong Public Offer Shares for subscription by members of the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms.

The Hong Kong Underwriting Agreement is conditional upon and subject to, amongst others, the International Underwriting Agreement becoming unconditional and not having been terminated.

Subject to the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus being granted by the Listing Committee of the Stock Exchange and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to subscribe or procure subscribers, for the Hong Kong Public Offer Shares.

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## UNDERWRITING

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### **Grounds for termination**

The obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement are subject to the termination by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) by notice in writing given to the Company prior to 8:00 a.m. (Hong Kong time) on the Listing Date if any of the following events shall occur prior to such time:

- (a) there shall develop, occur or come into force:
  - (i) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in the PRC or Hong Kong or any other jurisdiction(s) relevant to the Company and its subsidiaries or any other similar event which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of the Group as a whole; or
  - (ii) any change (whether or not permanent) in Hong Kong, the PRC and other countries or territories relevant to the Group's present business operation in relation to national, regional, financial, military, industrial or economic conditions, or the stock market, fiscal or political conditions, or regulatory or market conditions and matters and/or disasters which in the sole and absolute opinion of the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of the Group as a whole; or
  - (iii) without prejudice to sub-paragraph (i) or (ii) above, the imposition of any moratorium, suspension or restriction on trading in securities generally on the Stock Exchange; or
  - (iv) any event, or series of events, beyond the control of the Hong Kong Underwriters (including, without limitation, acts of government, strikes, lockout, fire, explosion, flooding, civil commotion, acts of war or acts of God, accident, terrorism, outbreak of disease or epidemic (including but not limited to severe acute respiratory syndrome, H5N1, H1N1, avian influenza and such related or mutated forms)) which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would constitute a material adversely effect on the existing and/or prospective business or financial conditions of the Group as a whole; or
  - (v) any change or development occurs involving a prospective change in taxation or in exchange control in Hong Kong, the BVI, the Cayman Islands, the PRC or any other countries or territories to which any member of the Group is subject or the implementation of any exchange controls which in

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## UNDERWRITING

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the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would or might adversely affect any member of the Group in a material way; or

- (vi) any litigation or claim which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of the Group as a whole; or
- (vii) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for any countries or territories relevant to the Group's present operation which in the sole and absolute opinion of the Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has a material adverse effect on the existing and/or prospective business or financial conditions of the Group as a whole;

and in any such other event, in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), has a material adverse effect on the Global Offering; or

- (b) there comes to the notice of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) any matter or event showing (i) any of the representations and warranties contained in the Hong Kong Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material or (ii) any of the obligations or undertakings expressed to be assumed by or imposed on the warrantors under the Hong Kong Underwriting Agreement not to have been complied with in any respect considered by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in its sole and absolute opinion to be material in the overall context of the Global Offering; or
- (c) any statement contained in this prospectus, the submissions, documents or information provided to the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), the Stock Exchange, the legal advisers to the Sole Global Coordinator and the Underwriters and any other parties involved in the Global Offering which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) has become or been discovered to be untrue, incorrect, incomplete or misleading in any material respect; or
- (d) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute, in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), a material omission of such information; or

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## UNDERWRITING

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- (e) there is any adverse change in the business or in the financial or trading position of the Group which in the sole and absolute opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) is material in the overall context of the Global Offering; or
- (f) there comes to the notice of the Sole Global Coordinator any information, matter or event which in the reasonable opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) would cast any serious doubt on the reputation of the Group to the extent that any statements in this prospectus will be misleading or incorrect in a material way.

### **Undertakings**

Each of the Controlling Shareholders jointly and severally undertakes to and covenants with the Company, the Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that:

- (a) he, she and it will not, and will procure that none of his, her or its associates or the companies controlled by him, her or it will, within the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is six months from the Listing Date (the “**First Six Month Period**”), sell, transfer, dispose of or create any right (including without limitation the creation of any option, pledge, charge, or other encumbrance or rights) on any of the Shares or any interests therein owned by him, her or it or any of their associates or in which he, she, or it or any of their associates is, directly or indirectly interested immediately after the completion of the Global Offering (or any other shares or securities of or interest in the Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise), or sell, transfer, dispose of or create any right (including the creation of any option, pledge, charge or other encumbrance or rights) on any shares or interest in any company controlled by him, her or it or any of their associates which is the beneficial owner (directly or indirectly) of any of such Shares or any interests therein as aforesaid (or any other shares or securities of or interest in the Company arising or deriving therefrom as a result of capitalisation issue or scrip dividend or otherwise); and
- (b) save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), within a further six months commencing on the expiry of the First Six Month Period (the “**Second Six Month Period**”), he, she and it will not, and will procure that none of his, her or its associates or the companies controlled by him, her or it or any of their associates will sell, transfer, dispose of or create any rights (including the creation of any option, pledge, charge or other encumbrance or rights) on any Shares or any interests therein referred to in paragraph (a) above or sell, transfer, dispose of or create any rights (including the creation of any option, pledge, charge or other encumbrance or rights) on any shares in any company controlled by him, her or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or any interests therein as aforesaid if, immediately following such

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## UNDERWRITING

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disposal or creation of rights, any of the Controlling Shareholders and its shareholders (together with his or its associates), either individually or taken together with the others, would, directly or indirectly, cease to be a controlling shareholder (within the meaning of the Listing Rules) of the Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer, in any of the companies controlled by him, her or it and/or any of their associates which owns such Shares or interests as aforesaid.

The Company undertakes to and covenants with the Sole Global Coordinator and the Hong Kong Underwriters that and each of the Controlling Shareholders and the executive Directors undertakes to and covenants with the Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that he/she/it will procure the Company that, without the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), save pursuant to the Global Offering, the Capitalisation Issue, the grant of any option under the Pre-IPO Share Option Scheme and the Share Option Scheme, or the issue of Shares upon exercise of any option granted under the Pre-IPO Share Option Scheme and the Share Option Scheme or the issue of Shares upon exercise of the Over-allotment Option, (a) within the First Six Month Period, the Company and its major subsidiaries will not, issue or agree to issue (conditionally or unconditionally) any shares or securities of, or grant or agree to grant (conditionally or unconditionally) any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for any securities of, the Company or any of its major subsidiaries; and (b) at any time during the Second Six Month Period, issue or grant (conditionally or unconditionally) any options or right to subscribe for or otherwise convert into or exchange for shares or securities in the Company or any of its major subsidiaries so as to result in any of the Controlling Shareholders or its shareholders (together with any of their associates) either individually or taken together with the others of them cease to be a controlling shareholder (within the meaning of the Listing Rules) of the Company or cease to hold, directly or indirectly, a controlling interest of over 30% or such lower amount as may from time to time be specified in the Takeovers Code as being the level for triggering a mandatory general offer in any of the companies controlled by him, her or it or any of their associates which owns any Shares or the Company ceasing to hold a controlling interest of over 30%, directly or indirectly, in any of such major subsidiaries.

Each of the Company, the Controlling Shareholders and the executive Directors undertakes to and covenants with the Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), no subsidiaries will during the First Six Month Period purchase any Shares.

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## UNDERWRITING

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Without prejudice to the above, each of the Controlling Shareholders and the executive Directors undertakes and covenants with the Company, the Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that:

- (a) save with the prior written consent of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) (such consent shall not be unreasonably withheld), during the period commencing on the date by reference to which disclosure of the shareholding of the Controlling Shareholders is made in this prospectus and ending on the date which is 12 months from the Listing Date, he, she or it shall not and shall procure that none of his, her or its associates shall pledge or charge or create any other rights or encumbrances in any Shares or any interest therein owned by him, her or it or any of their associates or in which he, she or it or any of their associates is, directly or indirectly, interested immediately following completion of the Global Offering (or any other Shares or interest arising or deriving therefrom) or any share or interest in any company controlled by him, her or it or any of their associates which is the beneficial owner (directly or indirectly) of such Shares or interest therein as aforesaid (or any other Shares or interest in the Shares arising or deriving therefrom); and
- (b) in the event that consent is granted by the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), when he, she or it or any of their associates shall pledge, charge or create any encumbrance or other right or any of the Shares or interests referred to in paragraph (a) above, he, she or it shall give prior written notice of not less than three Business Days to the Stock Exchange, the Company, the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) giving details of the number of Shares, shares in the company which is the beneficial owner of such Shares, or the interests as aforesaid, the identities of the pledgee or person (the “**Mortgagee**”) in favour of whom the pledge, charge, encumbrance or interest is created and further if he, she or it or any of their associates is aware of or receives indications or notice, either verbal or written, from the Mortgagee that the Mortgagee will dispose of or transfer any of the Shares or interests referred to in paragraph (a) above, he, she or it will immediately notify the Stock Exchange, the Company, the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in writing of such indications and provide details of such disposal or transfer to the Stock Exchange, the Company, the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) as they may require.

The Company undertakes and covenants with the Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters that the Company shall forthwith inform the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Stock Exchange in writing immediately after it has been informed of the matters referred to in paragraph (b) above and the Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement and shall comply with all requirements of the Stock Exchange.

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## UNDERWRITING

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### **The International Placing**

In connection with the International Placing, it is expected that the Company and the International Underwriters will enter into the International Underwriting Agreement. Under the International Underwriting Agreement, the Company will offer the International Placing Shares for subscription by certain professional, institutional and other investors at the Offer Price payable in full on subscription, on and subject to the terms and conditions set out in the International Underwriting Agreement. The International Underwriters will agree to severally underwrite for the International Placing Shares.

### **Commission**

The Hong Kong Underwriters will receive a commission of 3.0% of the aggregate Offer Price of the Hong Kong Public Offer Shares underwritten by the Hong Kong Underwriters and the International Underwriters will receive an underwriting commission of 3.0% of the aggregate of the Offer Price of the International Placing Shares underwritten by the International Underwriters, out of which they will pay any sub-underwriting commissions.

The Sponsor will in addition receive sponsorship and documentation fees. The underwriting commission, financial advisory and documentation fees, listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees together with printing and other expenses relating to the Global Offering, assuming an Offer Price of HK\$2.26 (being the mid-point of Offer Price range between HK\$2.00 per Offer Share and HK\$2.52 per Offer Share), are estimated to amount to approximately HK\$47.6 million in total (assuming that the Over-allotment Option is not being exercised).

### **Hong Kong Underwriters' interests in the Company**

China Everbright will be appointed as the compliance adviser of the Company with effect from the Listing Date until the despatch of the Company's financial results for the first full financial year of the Company after the Listing Date, and the Company will pay an agreed fee to China Everbright for its provision of services.

Save for their interests and obligations under the Underwriting Agreements, none of the Sponsor, the Sole Global Coordinator or the Underwriters is interested beneficially or non-beneficially in any shares in any member of the Group or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

### **Minimum public float**

The Directors will ensure that there will be a minimum of 25% of the total issued share capital of the Company in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

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## STRUCTURE OF THE GLOBAL OFFERING

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### DETERMINATION OF THE OFFER PRICE

The Offer Price is expected to be fixed by the Price Determination Agreement to be entered into between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company on or before the Price Determination Date, when the market demand for the Offer Shares will be ascertained. The Price Determination Date is currently expected to be on Thursday, 25 June 2009, and in any event, not later than Monday, 29 June 2009.

**Prospective investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but not expected to be, lower than indicative Offer Price range as stated in this prospectus.** The Offer Price will not be more than HK\$2.52 per Offer Share and is expected to be not less than HK\$2.00 per Offer Share. The Offer Price will fall within the Offer Price range as stated in this prospectus unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offer.

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may, where it considers appropriate, based on the level of interest expressed by prospective professional, institutional and private investors during a book-building process, and with the consent of the Company, reduce the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day lodging applications under the Hong Kong Public Offer, cause there to be published on the website of the Company at <http://www.qinfagroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> notice of reduction in the indicative Offer Price range. Upon issue of such a notice, the revised Offer Price range will be final and conclusive and the Offer Price, if agreed upon with the Company, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the Global Offering statistics as currently set out in the section headed "Summary" in this prospectus, and any other financial information which may change as a result of such reduction. **If applications for Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, then even if the Offer Price range is so reduced, such applications cannot be subsequently withdrawn.** In the absence of any notice being published on the website of the Company at <http://www.qinfagroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> of a reduction in the indicative Offer Price range as stated in this prospectus on or before the morning of the last day for lodging applications under the Hong Kong Public Offer, the Offer Price, if agreed upon with the Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

**If, for any reason, the Sole Global Coordinator (for itself and on behalf of the Underwriters) and the Company are unable to enter into the Price Determination Agreement by the Price Determination Date, the Global Offering will not become unconditional and will not proceed.**

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## STRUCTURE OF THE GLOBAL OFFERING

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Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; (iv) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offer; and (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offer and the International Placing is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), the website of the Company at <http://www.qinfagroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> on Thursday, 2 July 2009.

### PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$2.52 per Offer Share and is expected to be not less than HK\$2.00 per Offer Share. Applicants under the Hong Kong Public Offer should pay, on application, the maximum price of HK\$2.52 per Offer Share and 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% SFC transaction levy. That means a total of HK\$5,090.85 is payable for every board lot of 2,000 Shares. The Application Forms have tables showing the exact amount payable for certain multiples of Hong Kong Public Offer Shares. If the Offer Price, as finally determined in the manner as described above, is lower than the maximum price of HK\$2.52 per Offer Share, appropriate refund payments (including the related brokerage, the Stock Exchange trading fee and the SFC transaction levy attributable to the excess application money) will be made to the applicants, without interest. Further details are set out in the section headed "How to apply for Hong Kong Public Offer Shares" of this prospectus.

### CONDITIONS OF THE GLOBAL OFFERING

Acceptance of the application for the Offer Shares is conditional upon:

#### 1. Listing

The Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on the Main Board.

#### 2. Underwriting Agreements

- (i) The obligations of the Underwriters under the Underwriting Agreements becoming unconditional, and not being terminated, prior to 8:00 a.m. (Hong Kong time) on the Listing Date. Details of the Underwriting Agreements, its conditions and grounds for termination are set out in the section headed "Underwriting" of this prospectus; and
- (ii) the execution and delivery of the International Underwriting Agreement in accordance with their terms, prior to or on the Price Determination Date.

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## STRUCTURE OF THE GLOBAL OFFERING

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### 3. Price determination

The Offer Price having been determined and the execution of the Price Determination Agreement on the Price Determination Date.

If any of the conditions is not fulfilled or waived on or before the times specified above, the Global Offering will lapse and the application money will be returned to the applicants, without interest. The terms on which the application money will be returned to the applicants are set out in the paragraph headed “Refund of your monies” in the relevant Application Forms.

In the meantime, the application money will be held in one or more separate bank accounts with the receiving banker or other bank(s) in Hong Kong, licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

## THE GLOBAL OFFERING

The Global Offering comprises the International Placing and the Hong Kong Public Offer. A total of initially 250,000,000 Offer Shares will be made available under the Global Offering, of which 225,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option), representing 90% of the Offer Shares, will initially be conditionally placed with selected professional, institutional and private investors under the International Placing. The remaining 25,000,000 Hong Kong Public Offer Shares (subject to re-allocation), representing 10% of the Offer Shares, will initially be offered to members of the public in Hong Kong under the Hong Kong Public Offer.

The Hong Kong Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. The Hong Kong Underwriters have severally agreed to underwrite the Hong Kong Public Offer Shares under the terms of the Hong Kong Underwriting Agreement. The International Underwriters will severally underwrite the International Placing Shares pursuant to the terms of the International Underwriting Agreement. Further details of the underwriting are set out in the section headed “Underwriting” in this prospectus.

Investors may apply for the Offers Shares under the Hong Kong Public Offer or indicate an interest for Offer Shares under the International Placing, but may not do both.

### International Placing

The Company is expected to offer initially 225,000,000 International Placing Shares (subject to re-allocation and the Over-allotment Option) at the Offer Price under the International Placing. The number of International Placing Shares expected to be initially available for application under the International Placing represents 90% of the total number of Offer Shares being initially offered under the Global Offering. The International Placing is expected to be fully underwritten by the International Underwriters. Investors subscribing for the International Placing Shares are also required to pay the maximum Offer Price of HK\$2.52 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.004% SFC transaction levy of the Offer Price.

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## STRUCTURE OF THE GLOBAL OFFERING

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It is expected that the International Underwriters, or selling agents nominated by them, on behalf of the Company, will conditionally place the International Placing Shares at the Offer Price with selected professional, institutional and private investors. Professional and institutional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Private investors applying through banks or other institutions who sought the International Placing Shares in the International Placing may also be allocated the International Placing Shares.

Allocation of the International Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further Shares and/or hold or sell its Shares after the Listing. Such allocation is intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its shareholders as a whole. Investors to whom International Placing Shares are offered will be required to undertake not to apply for Shares under the Hong Kong Public Offer.

The Company, the Directors, the Sponsor and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are required to take reasonable steps to identify and reject applications under the Hong Kong Public Offer from investors who receive Shares under the International Placing, and to identify and reject indications of interest in the International Placing from investors who receive Shares under the Hong Kong Public Offer.

The International Placing is expected to be subject to the conditions as stated in the paragraph headed "Conditions of the Global Offering" of this section.

### **Hong Kong Public Offer**

The Company is initially offering 25,000,000 Hong Kong Public Offer Shares for subscription (subject to re-allocation) by members of the public in Hong Kong under the Hong Kong Public Offer, representing 10% of the total number of Offer Shares offered under the Global Offering. The Hong Kong Public Offer is fully underwritten by the Hong Kong Underwriters. Applicants for the Hong Kong Public Offer Shares are required on application to pay the maximum Offer Price of HK\$2.52 per Share plus a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.004% SFC transaction levy.

The Hong Kong Public Offer is open to all members of the public in Hong Kong. An applicant for Shares under the Hong Kong Public Offer will be required to give an undertaking and confirmation in the Application Form submitted by him/her/it that he/she/it has not applied for nor taken up any Shares under the International Placing nor otherwise participated in the International Placing. Applicants should note that if such undertaking and/or confirmation given by an applicant is breached and/or is untrue (as the case may be), such applicant's application under the Hong Kong Public Offer is liable to be rejected.

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## STRUCTURE OF THE GLOBAL OFFERING

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For allocation purposes only, the number of the Hong Kong Public Offer Shares will be divided equally into two pools: pool A and pool B. The Hong Kong Public Offer Shares in pool A will consist of 12,500,000 Shares and will be allocated on an equitable basis to applicants who have applied for the Hong Kong Public Offer Shares in the value of HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy thereon) or less. The Hong Kong Public Offer Shares available in pool B will consist of 12,500,000 Shares and will be allocated on an equitable basis to applicants who have applied for Hong Kong Public Offer Shares in the value of more than HK\$5 million (excluding the brokerage, the Stock Exchange trading fee and the SFC transaction levy) and up to the value of pool B.

Investors should be aware that the allocation ratios for applications in the two pools, as well as the allocation ratios for applications in the same pool, are likely to be different. Where one of the pool is under-subscribed, the surplus Hong Kong Public Offer Shares will be transferred to satisfy demand in the other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from any one pool but not from both pools and can only make applications to either pool A or pool B. Any application made for more than 100% of the Hong Kong Public Offer Shares initially available under pool A or pool B will be rejected.

Allocation of the Hong Kong Public Offer Shares to investors under the Hong Kong Public Offer will be based solely on the level of valid applications received under the Hong Kong Public Offer. The basis of allocation may vary, depending on the number of the Hong Kong Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro rata basis. However, this may involve balloting, which would result in some applicants being allotted more Hong Kong Public Offer Shares than others who have applied for the same number of Hong Kong Public Offer Shares, and applicants who are not successful in the ballot not receiving any Hong Kong Public Offer Shares.

### BASIS OF ALLOCATION OF THE OFFER SHARES

The allocation of the Offer Shares between the International Placing and the Hong Kong Public Offer is subject to reallocation on the following basis:

- (a) if the number of Shares validly applied for under the Hong Kong Public Offer represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offer will be increased to 75,000,000 Shares, representing 30% of the Offer Shares available under the Global Offering (excluding the Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option);

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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) if the number of Shares validly applied for under the Hong Kong Public Offer represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 100,000,000 Shares, representing 40% of the Offer Shares available under the Global Offering (excluding the Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option); and
- (c) if the number of Shares validly applied for under the Hong Kong Public Offer represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offer, then Shares will be reallocated to the Hong Kong Public Offer from the International Placing, so that the number of Shares available for subscription under the Hong Kong Public Offer will be increased to 125,000,000 Shares, representing 50% of the Offer Shares available under the Global Offering (excluding the Shares that may be allotted and issued pursuant to the exercise of the Over-allotment Option).

In all cases, the additional Shares reallocated to the Hong Kong Public Offer will be allocated equally between pool A and pool B and the number of Offer Shares allocated to the International Placing will be correspondingly reduced.

If the Hong Kong Public Offer is not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any of the unsubscribed Hong Kong Public Offer Shares originally included in the Hong Kong Public Offer to the International Placing in such proportions as it deems appropriate.

### OVER-ALLOTMENT OPTION

In connection with the Global Offering, the Company is expected to grant to the International Underwriters exercisable by the Sole Global Coordinator the Over-allotment Option which will expire on a date which is 30 days from the date of the last day of lodging application under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, the Company may be required by the Sole Global Coordinator (for itself and on behalf of the Underwriters) to allot and issue up to and not more than 37,500,000 additional new Shares (representing 15% of the total number of the Offer Shares initially available under the Global Offering) at the Offer Price to cover over-allocations in the International Placing. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or through stock borrowing arrangements with Fortune Pearl or by a combination of these means or otherwise as may be permitted under the applicable laws and regulatory requirements. Any such secondary market purchases will be made in compliance with all application laws, rules and regulations. If the Over-allotment Option is exercised in full, the additional 37,500,000 new Shares will represent approximately 3.6% of the Company's enlarged issued share capital immediately after completion of the Global Offering and the Capitalisation Issue and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made by the Company.

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## STRUCTURE OF THE GLOBAL OFFERING

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### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Sole Global Coordinator, as the stabilising manager, or its affiliates or any person acting for it, for itself and on behalf of the Underwriters, may over-allocate or effect transactions with a view to stabilising or maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. The number of Shares that may be over-allocated will be up to, but not more than, an aggregate of 37,500,000 additional Shares, being the number of the Shares that may be issued under the Over-allotment Option. Such stabilising actions may include over-allocating International Placing Shares and covering such over allocations by exercising the Over-allotment Option or by making purchases in the secondary market or through stock borrowing arrangement with Fortune Pearl or through a combination of these means or otherwise. However, there is no obligation on the Sole Global Coordinator to do this. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

Subject to and under the Securities and Futures (Price Stabilising) Rules of the SFO, the Sole Global Coordinator (for itself and on behalf of the Underwriters) may take all or any of the following actions (“primary stabilising action”) with respect to any Shares during the stabilisation period, which should end on 24 July 2009, being the 30th day after the last date for lodging applications under the Hong Kong Public Offer:

- (1) purchase, or agree to purchase, any of the Shares;
- (2) offer or attempt to do anything as described in paragraph (1), for the sole purpose of preventing or minimising any reduction in the market price of the Shares. The Sole Global Coordinator (for itself and on behalf of the Underwriters) may also, in connection with any primary stabilising action, take all or any of the following actions:
  - (a) for the purpose of preventing or minimising any reduction in the market price of the Shares:
    - (i) allocate a greater number of Shares than the number that is initially offered under the Global Offering; or
    - (ii) sell or agree to sell Shares so as to establish a short position in them;

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## STRUCTURE OF THE GLOBAL OFFERING

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- (b) pursuant to an option or other right to purchase or subscribe for Shares, purchase or subscribe for or agree to purchase or subscribe for Shares in order to close out any position established under paragraph (a);
- (c) sell or agree to sell any Shares acquired by it in the course of the primary stabilising action in order to liquidate any position that has been established by such action; and/or
- (d) offer or attempt to do anything as described in paragraphs (a)(ii), (b) or (c).

Investors should be aware:

- that the Sole Global Coordinator (for itself and on behalf of the Underwriters) may, in connection with the stabilising action, maintain a long position in the Shares;
- that there is no certainty regarding the extent to which and the time period for which the Sole Global Coordinator will maintain such a long position;
- of possible impact in the case of liquidation of such a long position by the Sole Global Coordinator;
- that stabilising action cannot be taken to support the price of the Shares for longer than the stabilising period which begins on the Listing Date and ends on the earlier of the 30th day after the last day for the lodging of applications under the Hong Kong Public Offer or the commencement of trading of the Shares on the Stock Exchange, that the stabilising period is expected to expire on 24 July 2009, and that after this date, when no further stabilising action may be taken, demand for the Shares, and therefore its price could fall;
- that the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and that stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price the investor has paid for the Shares.

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## STRUCTURE OF THE GLOBAL OFFERING

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### STOCK BORROWING ARRANGEMENT

In connection with the Global Offering, the Sole Global Coordinator may over-allocate up to and not more than an aggregate of 37,500,000 additional Shares and cover such over-allocations by exercising the Over-allotment Option or by making purchases in the secondary market at prices that do not exceed the Offer Price or through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Sole Global Coordinator may borrow up to 37,500,000 Shares from Fortune Pearl, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement.

Such stock borrowing arrangement will not be subject to the restrictions of Rule 10.07(1) of the Listing Rules provided that the following requirements as set out in Rule 10.07(3) of the Listing Rules are complied with:

- the stock borrowing arrangement with Fortune Pearl is fully described in this prospectus and must be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;
- the maximum number of Share to be borrowed from Fortune Pearl will be limited to the maximum number of Shares that may be issued upon full exercise of the Over-allotment Option;
- the same number of Shares so borrowed will be returned to Fortune Pearl or its nominees (as the case may be) within three Business Days after the last day on which the Over-allotment Option may be exercised or, if earlier, the date on which the Over-allotment Option is exercised in full;
- the borrowing of Shares pursuant to the stock borrowing arrangement will be effected in compliance with applicable Listing Rules, laws and other regulatory requirements; and
- no payments will be made to Fortune Pearl in relation to such stock borrowing arrangement.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### I. METHODS OF APPLYING FOR THE HONG KONG PUBLIC OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may apply for the Hong Kong Public Offer Shares by either using a **white** or **yellow** Application Form or giving **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Public Offer Shares on your behalf. Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC.

### II. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

#### 1. Which Application Form to Use

- (a) Use a **white** Application Form if you want the Hong Kong Public Offer Shares to be issued in your own name.
- (b) Use a **yellow** Application Form if you want the Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

*Note:* The Hong Kong Public Offer Shares are not available to existing beneficial owners of Shares in the Company, Directors or chief executives of the Company or any of its subsidiaries, or associates of any of them or a connected person of the Company or any of its subsidiaries or a person who will become a connected person of the Company or any of its subsidiaries immediately upon completion of the Global Offering or any person(s) who have been allotted or have applied for International Placing Shares under the International Placing or persons who do not have a Hong Kong address.

#### 2. Where to Collect the Application Forms

- (a) You can collect a **white** Application Form and this prospectus from:

Any of the following addresses of the Hong Kong Underwriters:

**China Everbright Securities (HK) Limited**  
36/F., Far East Finance Centre,  
16 Harcourt Road,  
Hong Kong

**Mizuho Securities Asia Limited**  
11th Floor, CITIC Tower  
1 Tim Mei Avenue  
Central, Hong Kong

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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**Friedmann Pacific Securities Limited**

Room 4505, 45/F.  
Far East Finance Center  
16 Harcourt Road  
Admiralty  
Hong Kong

**Kingsway Financial Services Group Limited**

5/F. Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

**Mega Capital (Asia) Company Limited**

2213-14 COSCO Tower  
183 Queen's Road Central  
Sheung Wan  
Hong Kong

or any of the following branches:

**Bank of China (Hong Kong) Limited**

<b>Hong Kong Island</b>	Bank of China Tower Branch	3/F, 1 Garden Road
	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
	Taikoo Shing Branch	Shop G1006, Hoi Sing Mansion, Taikoo Shing
<b>Kowloon</b>	Kwun Tong Branch	20-24 Yue Man Square, Kwun Tong
<b>New Territories</b>	East Point City Branch	Shop 101, East Point City, Tseung Kwan O

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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**Bank of Communications Co., Ltd. Hong Kong Branch**

<b>Hong Kong Island</b>	Hong Kong Branch	20 Pedder Street, Central
<b>Kowloon</b>	Mongkok Sub-Branch	Shops A & B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road
	Tsimshatsui Sub-Branch	Shop 1-3, G/F., 22-28 Mody Road, Tsimshatsui
<b>New Territories</b>	Yuen Long Sub-Branch	Shop B-F, G/F., 2-14 Tai Fung Street, Yuen Long
	Shatin Sub-Branch	Shop No.193, Level 3, Lucky Plaza, Shatin
	Tsuen Wan Sub-Branch	G/F., Shop G10-11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road, Tsuen Wan
	Sheung Shui Sub-Branch	Shops 10-14, G/F., Sheung Shui Centre Shopping Arcade

**Industrial and Commercial Bank of China (Asia) Limited**

<b>Hong Kong Island</b>	Sheung Wan Branch	Shop F, G/F., Kai Tak Commercial Building, 317-319 Des Voeux Road Central, Sheung Wan
	Wanchai Branch	117-123 Hennessy Road, Wanchai
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
	North Point Branch	G/F, 436-438 King's Road, North Point
	Quarry Bay Branch	G/F, 1036-1040 King's Road, Quarry Bay
<b>New Territories</b>	Tai Po Branch	9 Kwong Fuk Road, Tai Po

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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(b) You can collect a **yellow** Application Form and this prospectus during normal business hours from 9:00 a.m. on Friday, 19 June 2009 till 12:00 noon on Wednesday, 24 June 2009 from:

- (1) the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) your stockbroker, who may have such Application Forms and this prospectus available.

### 3. How to complete the Application Form and make payment

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that by completing and submitting the Application Form, you (and if you are joint applicants, each of you jointly and severally), for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee, among other things:

- (i) agree with the Company and each Shareholder, and the Company agrees with each of its Shareholders, to observe and comply with the Companies Ordinance, the Companies Law, the memorandum of association of the Company and the Articles;
- (ii) agree with the Company and each Shareholder that the Shares in the Company are freely transferable by the holders thereof;
- (iii) authorise the Company to enter into a contract on your behalf with each of the Directors and officers of the Company whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in the memorandum of association of the Company and the Articles;
- (iv) confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set out in any supplement to this prospectus;
- (v) agree that the Company and the Directors are liable only for the information and representations in this prospectus and any supplement to this prospectus;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- (vi) undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing;
- (vii) agree to disclose to the Company, its registrar, receiving banker, the Sole Global Coordinator and their respective advisers and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
- (viii) instruct and authorise the Company and/or the Sole Global Coordinator as agent for the Company (or their respective agents or nominees) to do on your behalf all things necessary to effect registration of any Hong Kong Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the Application Form;
- (ix) agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (x) warrant the truth and accuracy of the information contained in your application;
- (xi) agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- (xii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and the Application Form and agree to be bound by them;
- (xiii) undertake and agree to accept the Shares applied for, or any lesser number allocated to you under the application; and
- (xiv) represent, warrant and undertake that you are not restricted by any applicable laws of Hong Kong or elsewhere from making the application, paying any application monies for, or being allotted on taking up any Hong Kong Public Offer Shares; and you are not a person to or by whom the allotment of or application for the Hong Kong Public Offer Shares is made would require the Company to comply with any requirement under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong.

In order for the **yellow** Application Forms to be valid:

You, as the applicant(s), must complete the form as indicated below and sign on the first page of the application form. Only written signature will be accepted.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

(a) the designated CCASS Participant must endorse the Application Form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

(ii) **If the application is made by an individual CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card number; and

(b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) **If the application is made by a joint individual CCASS Investor Participant:**

(a) the Application Form must contain all joint CCASS Investor Participants' names and the Hong Kong Identity Card numbers of all joint CCASS Investor Participants; and

(b) the participant I.D. must be inserted in the appropriate box in the Application Form.

(iv) **If the application is made by a corporate CCASS Investor Participant:**

(a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and

(b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorised attorney, the Company and the Sole Global Coordinator as its agent (and their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including evidence of the authority of your attorney. The Company and the Sole Global Coordinator (and their respective agents or nominees), in the capacity as its agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 4. How to Make Payment for the Application

Each completed **white** or **yellow** Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- bear an account name (or, in the case of joint applicants, the name of the first-named applicant) (either pre-printed on the cheque or endorsed on the reverse of the cheque by an authorised signatory of the bank on which it is drawn), which must be the same as the name on your Application Form (or, in the case of joint applicants, the name of the first-named applicant). If the cheque is drawn on a joint account, one of the joint account names must be the same as the name of the first-named applicant);
- be made payable to "Bank of China (Hong Kong) Nominees Limited – Qinfa Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

Your application may be rejected if your cheque does not meet all of these requirements or is dishonoured on first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be in Hong Kong dollars;
- be issued by a licenced bank in Hong Kong and have your name certified on the reverse of the banker's cashier order by an authorised signatory of the bank on which it is drawn. The name on the reverse of the banker's cashier order and the name on the Application Form must be the same. If the application is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named applicant;
- be made payable to "Bank of China (Hong Kong) Nominees Limited – Qinfa Public Offer";
- be crossed "Account Payee Only"; and
- not be post-dated.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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Your application may be rejected if your banker's cashier order does not meet all of these requirements.

The right is reserved to present all or any remittance for payment. However, your cheque or banker's cashier order will not be presented for payment before 12:00 noon on Wednesday, 24 June 2009. The Company will not give you a receipt for your payment. The Company will keep any interest accrued on your application monies. The right is also reserved to retain any Share certificates and/or any surplus application monies or refund cheques pending clearance of your cheque or banker's cashier order.

### 5. Members of the Public – Time for Applying for Hong Kong Public Offer Shares

Completed **white** or **yellow** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, 24 June 2009, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd. Hong Kong Branch and Industrial and Commercial Bank of China (Asia) Limited listed under the section entitled "Where to Collect the Application Forms" above at the following times:

**Friday, 19 June 2009 – 9:00 a.m. to 5:00 p.m.**  
**Saturday, 20 June 2009 – 9:00 a.m. to 1:00 p.m.**  
**Monday, 22 June 2009 – 9:00 a.m. to 5:00 p.m.**  
**Tuesday, 23 June 2009 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 24 June 2009 – 9:00 a.m. to 12:00 noon**

The application lists will be open **from 11:45 a.m. to 12:00 noon on Wednesday, 24 June 2009.**

No proceedings will be taken on applications for the Hong Kong Public Offer Shares and no allotment of any such Hong Kong Public Offer Shares will be made until after the closing of the application lists. No application for the Hong Kong Public Offer Shares shall be made later than 12:00 noon, Wednesday, 24 June 2009.

### 6. Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above, or
- a "black" rainstorm warning

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, 24 June 2009. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

### 7. Publication of Results

Announcement of (i) the Offer Price; (ii) the indication of the level of interest in the International Placing; (iii) the level of applications in the Hong Kong Public Offer; (iv) the basis of allocation of the Hong Kong Public Offer Shares under the Hong Kong Public Offer; and (v) the number of Offer Shares reallocated, if any, between the Hong Kong Public Offer and the International Placing is expected to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and the website of the Company at <http://www.qinfagroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> on Thursday, 2 July 2009.

Announcement of results of allocations, the number of the Hong Kong Public Offer Shares successfully applied for, and Hong Kong identity card numbers, passport numbers, Hong Kong business registration certificate numbers of successful applicants under the Hong Kong Public Offer will be made available at the times and dates and in the manner specified below:—

- Results of allocations will be available from the website of the Company at <http://www.qinfagroup.com> and the website of the Stock Exchange at <http://www.hkex.com.hk> and at 9:00 a.m. on Thursday, 2 July 2009;
- Results of allocations will also be available from the website of Union Registrars Limited at <http://www.unioniporeresults.com.hk> on a 24-hour basis from 8:00 a.m. on Thursday, 2 July 2009 to 12:00 midnight on Wednesday, 8 July 2009. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration certificate number provided in his/her/its application form to search for his/her/its own allocation result;
- Results of allocations will be available from the Hong Kong Public Offer allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 3443 6133 between 9:00 a.m. and 6:00 p.m. from Thursday, 2 July 2009 to Tuesday, 7 July 2009 (excluding Saturday and Sunday);
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of the designated branches of Bank of China (Hong Kong) Limited, Bank of Communications Co., Ltd. Hong Kong Branch and Industrial and Commercial Bank of China (Asia) Limited from Thursday, 2 July 2009 to Tuesday, 7 July 2009 (excluding Sunday) at the addresses set forth in the paragraphs under “Where to Collect the Application Forms” in this section.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 8. Despatch/Collection of Share Certificates and Refund Cheques

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than HK\$2.52 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offer are not fulfilled in accordance with the section headed “Structure of the Global Offering – Conditions of the Global Offering” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary documents of title will be issued with respect to the Hong Kong Public Offer Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on your Application Form:

- (a) for applications on **white** Application Forms: (i) Share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (for wholly successful and partially successful applicants on **yellow** Application Forms: Share certificates for their Hong Kong Public Offer Shares successfully applied for will be deposited into CCASS as described below); and/or
- (b) for applications on **white** or **yellow** Application Forms, refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including the brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) with respect to wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **white** or **yellow** Application Forms; and Share certificates for wholly and partially successful applicants under **white** Application Forms are expected to be posted on or around Thursday, 2 July 2009. The right is reserved to retain any Share certificate(s) and any surplus application monies pending clearance of cheque(s).

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offer has become unconditional in all respects and the right of termination described in the section entitled "Underwriting – Grounds for Termination" has not been exercised.

(a) *If you apply using a white Application Form:*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more on a **white** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) from Union Registrars Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and Share certificate(s) (where applicable) from Union Registrars Limited at Rooms 1901-02, Fook Lee Commercial Centre, Town Place, 33 Lockhart Road, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 2 July 2009 or such other place and date as notified by the Company in the newspapers as the place and date of collection/despatch of refund cheques/Share certificates. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Union Registrars Limited. If you do not collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or Share certificate(s) (where applicable) will be sent to the address on your Application Form on Thursday, 2 July 2009, by ordinary post and at your own risk.

(b) *If you apply using a yellow Application Form:*

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares or if you apply for 1,000,000 Hong Kong Public Offer Shares or more but have not indicated on your Application Form that you will collect your refund

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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cheque(s) (where applicable) in person, your refund cheque(s) (where applicable) will be sent to the address on your Application Form on Thursday, 2 July 2009, by ordinary post and at your own risk.

If you apply for Hong Kong Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Thursday, 2 July 2009, or under contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- the Company expects to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offer in the newspapers on Thursday, 2 July 2009. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 July 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account, you can check the number of Hong Kong Public Offer Shares allotted to you via the CCASS Phone System or the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account.

### III. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

#### 1. General

CCASS Participants may give electronic application instructions to HKSCC to apply for the Hong Kong Public Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
2/F, Viewood Plaza  
199 Des Voeux Road Central  
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its registrars.

### 2. Giving Electronic Application Instructions to HKSCC to Apply for Hong Kong Public Offer Shares by HKSCC Nominees On Your Behalf

Where a **white** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Public Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
  - agrees that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted electronic application instructions on that person's behalf or that person's CCASS Investor Participant stock account;
  - undertakes and agrees to accept the Hong Kong Public Offer Shares with respect to which that person has given electronic application instructions or any lesser number;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- undertakes and confirms that that person has not applied for or taken up any Offer Shares under the International Placing nor otherwise participated in the International Placing;
- (if the electronic application instructions are given for that person's own benefit) declares that only one set of electronic application instructions has been given for that person's benefit;
- (if that person is an agent for another person) declares that that person has only given one set of electronic application instruction for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;
- understands that the above declaration will be relied upon by the Company, the Sponsor, the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) in deciding whether or not to make any allotment of the Hong Kong Public Offer Shares in respect of the electronic application instructions given by that person and that that person may be prosecuted if he makes a false declaration;
- authorises the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Public Offer Shares allotted in respect of that person's electronic application instructions and to send Share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;
- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;
- confirms that that person has only relied on the information and representations in this prospectus giving that person's electronic application instructions or instructing that person's broker or custodian to give electronic application instructions on that person's behalf;
- agrees that the Company and the Directors are only liable for the information and representations contained in this prospectus and any supplement thereto;
- agrees to disclose that person's personal data to the Company and its registrars, receiving banker, advisers and agents and any information which they may require about that person;
- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- agrees that that any application made by HKSCC Nominees on behalf of that person pursuant to the electronic application instructions given by that person is irrevocable before Thursday, 2 July 2009, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person before Thursday, 2 July 2009 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or a public holiday in Hong Kong) which is expected to be on Thursday, 2 July 2009, unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;
- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offer published by the Company;
- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of electronic application instructions relating to the Hong Kong Public Offer Shares;
- agrees with the Company (for the Company itself and for the benefit of each shareholder of the Company) that Shares in the Company are freely transferable by the holders thereof; and
- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 3. Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participant) to apply for the Hong Kong Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, the brokerage fee of 1%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005% by debiting your designed bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application monies, in each case including the brokerage fee of 1%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%, by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **white** Application Form.

### 4. Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of the Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of the Hong Kong Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purpose of considering whether multiple applications have been made. No application for any other number of the Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

### 5. Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 2,000 Hong Kong Public Offer Shares. Such instructions in respect of more than 2,000 Hong Kong Public Offer Shares must be in one of the multiples set out in the table in the Application Forms.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 6. Time for inputting electronic application instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, 19 June 2009 – 9:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Saturday, 20 June 2009 – 8:00 a.m. to 1:00 p.m.<sup>(1)</sup>**  
**Monday, 22 June 2009 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Tuesday, 23 June 2009 – 8:00 a.m. to 8:30 p.m.<sup>(1)</sup>**  
**Wednesday, 24 June 2009 – 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 19 June 2009 until 12:00 noon on Wednesday, 24 June 2009 (24 hours daily, except the last application day).

### 7. Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon, Wednesday, 24 June 2009. If:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal

is in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon, Wednesday, 24 June 2009, the last application day will be postponed to the next Business Day which does not have either of those warning signals in force in Hong Kong during 9:00 a.m. to 12:00 noon on such day.

### 8. Allocation of Hong Kong Public Offer Shares

For the purpose of allocating the Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit such instructions is given will be treated as an applicant.

### 9. Section 40 of the Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### 10. Personal data

The section of the Application Forms headed “Personal Data” applies to any personal data held by the Company and the registrars about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 11. Warning

The subscription of the Hong Kong Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Sponsor, the Sole Global Coordinator, the Hong Kong Underwriters and any persons involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either (a) submit a **white or yellow** Application Form; or (b) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, 24 June 2009 or such later date as stated in the sub-paragraph headed “Effect of bad weather on the opening of the application lists” above.

### 12. Despatch/collection of Share certificates and refund monies

#### (1) *If you apply by giving electronic application instructions to HKSCC:*

##### *Allocation of Hong Kong Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

##### *Deposit of Share Certificates into CCASS and Refund of application monies*

- No temporary document of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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account at the close of business on Thursday, 2 July 2009, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in accordance with the details in the newspaper on Thursday, 2 July 2009. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 2 July 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 2 July 2009. Immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.004% and the Hong Kong Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 2 July 2009. No interest will be paid thereon.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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### IV. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Hong Kong Public Offer Shares only if:

- you are a nominee, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant); or (ii) using a **white** or **yellow** Application Form and lodging more than one application in your own name on behalf of different beneficial owners. In the box on the **white** or **yellow** Application Form marked “For nominees” you must include:
  - an account number; or
  - some other identification code

for each beneficial owner (or, in the case of joint beneficial owners, for each such joint beneficial owner). If you do not include this information, the application will be treated as being made for your own benefit.

(b) All of your applications for the Hong Kong Public Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:

- make more than one application (whether individually or jointly with others) on **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant); or
- apply (whether individually or jointly) on one (or more) **white** or **yellow** Application Form or by giving electronic application instructions to HKSCC via CCASS (if you are a CCASS Investor Participant or applying through a CCASS Clearing or Custodian Participant) for more than 100% of the Hong Kong Public Offer Shares being initially available in either pool A or pool B to the public as referred to under the section headed “Structure of the Global Offering” of this prospectus; or
- make one application whether individually or jointly with others on one **white** or **yellow** Application Form or by giving **electronic application instructions** to HKSCC via CCASS; and, make application for the International Placing Shares; or
- have applied for or taken up, or indicated an interest in, or have been or will be placed (whether conditionally or not) the Offer Shares (other than the Hong Kong Public Offer Shares).

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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(c) All of your applications for the Hong Kong Public Offer Shares are liable to be rejected as multiple applications if more than one application is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- (i) the only business of that company is dealing in securities; and
- (ii) you exercise statutory control over that company, then the application will be deemed to be made for your own benefit.

***Unlisted company*** means a company with no equity securities listed on the Stock Exchange.

***Statutory control*** in relation to a company means you:

- (i) control the composition of the board of directors of that company; or
- (ii) control more than half of the voting power of that company; or
- (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### V. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED THE HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth Business Day after the time of the opening of the application lists of the Hong Kong Public Offer. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Hong Kong Public Offer Shares to any person on or before that day except by means of one of the procedures referred to in this prospectus.

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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Your application or the application made by HKSCC Nominees on your behalf may be revoked before the fifth Business Day after the time of the opening of the application lists if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to the prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press announcement of the results of allotment, and where such basis of allotment is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot (as the case may be).

- **At the discretion of the Company or its agents or nominees, your application is rejected:**

The Company, the Sole Global Coordinator (on behalf of the Company) or their respective agents or nominees have full discretion to reject or accept any application, or to accept only part of any application. The Company, the Sole Global Coordinator (on behalf of the Company) or their respective agents or nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of the Hong Kong Public Offer Shares is void:**

The allotment of the Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you give electronic application instructions or apply by a Yellow Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares in issue and to be issued as mentioned in this prospectus either:

- within three weeks from the closing of the application lists in respect of the Hong Kong Public Offer; or

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## HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

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- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists in respect of the Hong Kong Public Offer.
- **If your application is rejected or not be accepted:**

Your application will be rejected or not be accepted if:

- it is a multiple or suspected multiple application;
- your Application Form is not completed correctly in accordance with the instructions therein;
- you or the person(s) for whose benefit you are applying have applied for and/or been allotted or will be allotted with the International Placing Shares;
- your payment is not in the correct form;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- the Company and the Sole Global Coordinator (on behalf of the Company) believe that the acceptance of your application would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed or your address appeared in the Application Form is located;
- your application is for more than 100% of the Hong Kong Public Offer Shares initially offered for public subscription in either pool A or pool B; or
- any of the Underwriting Agreements does not become unconditional in accordance with its terms or is terminated in accordance with its terms.

## VI. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Stock Exchange are expected to commence on Friday, 3 July 2009.

The Shares will be traded in board lots of 2,000 Shares each.

The Stock Exchange stock code for the Shares is 866.

## VII. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities

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## **HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES**

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by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

*The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Delivered to the Registrar of the Companies and Available for Inspection" in Appendix VI to this prospectus, a copy of the Accountants' Report is available for inspection.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

19 June 2009

*The Directors*

**China Qinfa Group Limited**

**China Everbright Capital Limited**

Dear Sirs,

## **INTRODUCTION**

We set out below our report on the financial information relating to China Qinfa Group Limited (the "Company"), and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2006, 2007 and 2008 (the "Track Record Period"), and the combined balance sheets of the Group as at 31 December 2006, 2007 and 2008, and the balance sheet of the Company as at 31 December 2008, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 19 June 2009 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation as detailed in the section headed "Reorganisation and the Structure Contracts" in the Prospectus (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

All companies now comprising the Group have adopted 31 December as the financial year end date, except for Hong Kong Qinfa Shipping Limited ("Qinfa Shipping") and Hong Kong Qinfa Trading Limited ("Qinfa Trading"), which adopted 28 February and 31 March, respectively, as the financial year end date for 2006. Both Qinfa Shipping and Qinfa Trading have changed their financial year end date to 31 December since 2007. The statutory financial statements of Zhuhai Qinfa Logistics Co., Ltd. ("Qinfa Logistics"), Datong Xiejiazhuang Jinfa Trading and Transportation Co., Ltd. ("Datong Jinfa"), Yangyuan Guotong Coal Trading and Transportation Co., Ltd. ("Yangyuan Guotong"), Zhuhai Qinfa

Trading Co., Ltd. ("Zhuhai Qinfra Trading"), Zhuhai Qinfra Shipping Co., Ltd. ("Zhuhai Qinfra Shipping") and Qinhuangdao Development Zone Qinfra Trading Co., Ltd. ("Qinhuangdao Trading") were prepared in accordance with the relevant accounting rules and regulations applicable to enterprises in the People's Republic of China (the "PRC").

The statutory financial statements of Perpetual Goodluck Limited ("Perpetual"), Liberal City Limited ("Liberal"), Qinfra Shipping and Qinfra Trading were prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The statutory auditors of the above companies during the Track Record Period are as follows:

Name of company (Note 1)	Financial period	Statutory auditors (Note 1)
Perpetual Goodluck Limited	Period from 10 August 2007 (date of incorporation) to 31 December 2008	Albert Y K LAU & Co Certified Public Accountants Registered in Hong Kong
Liberal City Limited	Period from 3 May 2007 (date of incorporation) to 31 December 2008	Albert Y K LAU & Co Certified Public Accountants Registered in Hong Kong
Hong Kong Qinfra Shipping Limited	Year ended 28 February 2007, and years ended 31 December 2007 and 2008 (Note 2)	Albert Y K LAU & Co Certified Public Accountants Registered in Hong Kong
Hong Kong Qinfra Trading Limited	Year ended 31 March 2007, and years ended 31 December 2007 and 2008 (Note 2)	Albert Y K LAU & Co Certified Public Accountants Registered in Hong Kong
Zhuhai Qinfra Logistics Co., Ltd. (珠海秦發物流有限公司)	Period from 5 February 2008 (date of incorporation) to 31 December 2008	Zhuhai Zhongtuozhengtai Certified Public Accountants (珠海中拓正泰會計師事務所有限公司) Registered in the PRC
Datong Xiejiazhuang Jinfa Trading and Transportation Co., Ltd. (大同解家莊晉發運銷有限公司)	Years ended 31 December 2006, 2007 and 2008	Zhangjiakou Hongyu Certified Public Accountants (張家口宏宇會計師事務所有限公司) Registered in the PRC
Yangyuan Guotong Coal Trading and Transportation Co., Ltd. (陽原國通煤炭運銷有限公司)	Years ended 31 December 2006, 2007 and 2008	Zhangjiakou Hongyu Certified Public Accountants (張家口宏宇會計師事務所有限公司) Registered in the PRC

Name of company (Note 1)	Financial period	Statutory auditors (Note 1)
Zhuhai Qinfa Trading Co., Ltd. (珠海秦發貿易有限公司)	Years ended 31 December 2006, 2007 and 2008	Zhuhai Zhongtuozhengtai Certified Public Accountants (珠海中拓正泰會計師事務所 有限公司) Registered in the PRC
Zhuhai Qinfa Shipping Co., Ltd. (珠海秦發航運有限公司)	Period from 6 September 2007 (date of incorporation) to 31 December 2007, and year ended 31 December 2008	Zhuhai Zhongtuozhengtai Certified Public Accountants (珠海中拓正泰會計師事務所 有限公司) Registered in the PRC
Qinhuangdao Development Zone Qinfa Trading Co., Ltd. (秦皇島開發區秦發貿易有限公司)	Years ended 31 December 2006, 2007 and 2008	Qinhuangdao Zhengyuan Certified Public Accountants (秦皇島正源會計師事務所 有限責任公司) Registered in the PRC

*Note 1:* The English translation of the names is for reference only. The official names of these entities are in Chinese.

*Note 2:* The management accounts of Qinfa Shipping and Qinfa Trading for the year ended 31 December 2006 were prepared by the respective board of directors for the purpose to prepare the Group's combined Financial Information.

As at the date of this report, no audited financial statements have been prepared for the Company, Qinfa Investment Limited (“Qinfa Investment”), Hong Kong Qinfa International Trading Limited (“Qinfa International”) and Super Grace Enterprises Limited (“Super Grace”) as they either are investment holding companies or have not carried on any business since the date of incorporation.

## BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, which are on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements in accordance with the accounting policies as stated in Section C, which are in accordance with International Financial Reporting Standards (“IFRSs”) promulgated by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). IFRSs include International Accounting Standards and Interpretations.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING  
ACCOUNTANTS**

The directors of the Company are responsible for the preparation and true and fair presentation of the Financial Information in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to form an opinion on the Financial Information based on our audit procedures.

**BASIS OF OPINION**

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the Financial Information for the Track Record Period in accordance with Hong Kong Standards on Auditing issued by the HKICPA and have carried out such additional procedures as we considered necessary in accordance with Auditing Guideline “Prospectuses and the Reporting Accountant” (Statement 3.340) issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform our work to obtain reasonable assurance as to whether the Financial Information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountant's judgement, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountant considers internal control relevant to the entity's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 31 December 2008.

**OPINION**

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information, on the basis of presentation set out in Section A below and in accordance with the accounting policies set out in Section C below, gives a true and fair view of the Group's combined results and cash flows for the Track Record Period and the Group's combined state of affairs as at 31 December 2006, 2007 and 2008, and of the Company's state of affairs as at 31 December 2008.

**A BASIS OF PRESENTATION**

Qinfa Logistics, Perpetual, Liberal, Qinfa Shipping, Qinfa Trading, Qinfa International, Super Grace, Datong Jinfa, Yangyuan Guotong, Zhuhai Qinfa Trading, Zhuhai Qinfa Shipping, Qinhuangdao Trading and Qinhuangdao Qinfa Industry Group Co., Ltd. ("Qinfa Industry"), which are ultimately controlled by Mr. Xu Jihua ("Mr. Xu"), Ms. Wang Jianfei, Mr. Xu Da, Mr. Liu Jingwei and Ms. Zhou Lusha (the "Controlling Shareholders"), are engaged in the sales of coal and shipping transportation businesses (the "coal and shipping businesses") during the Track Record Period. Pursuant to the Reorganisation as detailed in the section "Structure Contracts" headed "Reorganisation and the Structure Contracts" to the Prospectus dated 19 June 2009, Qinfa Industry had transferred its sales of coal business, together with related assets and liabilities to Qinhuangdao Trading. In addition, Qinfa Logistics, entered into certain agreements (the "Structure Contracts") with Datong Jinfa, Yangyuan Guotong, Zhuhai Qinfa Trading, Zhuhai Qinfa Shipping and Qinhuangdao Trading (hereinafter collectively referred to as the "China Qinfa Group") and their respective equity holders on 12 June 2009, as part of the Reorganisation.

The details of the Structure Contracts effective on 12 June 2009 are disclosed in the Prospectus section "Structure Contracts" headed "Reorganisation and the Structure Contracts" to the Prospectus dated 19 June 2009. The Structure Contracts, taken as a whole, permit the financial results of the China Qinfa Group and economic benefits of their businesses to flow to Qinfa Logistics. In addition, all the directors in each China Qinfa Group companies shall be assigned by Qinfa Logistics. Through its control over the China Qinfa Group, Qinfa Logistics is able to monitor, supervise and effectively control China Qinfa Group's businesses, operations and financial policies so as to ensure and facilitate the implementation of the Structure Contracts. The Structure Contracts also enable Qinfa Logistics to control over and to acquire the equity interests and/or net assets of China Qinfa Group at the lowest possible value and at such time as permitted by the relevant PRC laws and regulations with an undertaking from the Controlling Shareholders to provide Qinfa Logistics with all consideration received pursuant to any such acquisition. Based on the Structure Contracts, directors of the Group believe that, notwithstanding the lack of equity ownership, Qinfa Logistics is entitled to control over the China Qinfa Group's businesses in substance. Accordingly, the financial position and operating results of China Qinfa Group are included in the Group's combined financial statements.

In preparation for the listing of the shares of the Company on the Stock Exchange and for the purpose of rationalising the Group's structure, the Company acquired the entire interests in Qinfa Investment, the intermediate holding company of the companies now comprising the Group as at the date of this report, from the Controlling Shareholders.

As at the date of this report, the Company, either through legal ownership or implementation of the Structure Contracts, has direct and indirect interests in the following subsidiaries. The particulars of these subsidiaries are set out below.

Name of company	Note	Place and date of establishment/ incorporation	Percentage of equity attributable to the Company		Issue and fully paid-up/ registered capital	Principal activities
			Direct	Indirect		
Qinfa Investment		the British Virgin Islands, 7 April, 2008	100%	–	USD4,801/ USD50,000	Investment holding
Perpetual		Hong Kong, 10 August, 2007	–	100%	HKD1,000/ HKD1,000	Goods transport and logistics, and charter hire
Liberal		Hong Kong, 3 May, 2007	–	100%	HKD1,000/ HKD1,000	Goods transport and logistics, and charter hire
Qinfa Shipping		Hong Kong, 20 August, 2003	–	100%	HKD10,000/ HKD10,000	Goods transport and logistics, and charter hire
Qinfa Trading		Hong Kong, 15 November, 2002	–	100%	HKD30,000,000/ HKD30,000,000	Sales of coal and investment holding
Qinfa International		Hong Kong, 8 May, 2007	–	100%	HKD10,000/ HKD10,000	Dormant
Super Grace		the British Virgin Islands, 25 January, 2008	–	100%	USD50,000/ USD50,000	Goods transport and logistics, and charter hire
Qinfa Logistics	(i)	the PRC, 5 February, 2008	–	100%	HKD3,000,000/ HKD20,000,000	Warehousing and transportation service
Datong Jinfa	(ii)	the PRC, 18 April, 2003	–	100%	RMB8,000,000/ RMB8,000,000	Sales of coal
Yangyuan Guotong	(iii)	the PRC, 20 December, 2003	–	100%	RMB10,000,000/ RMB10,000,000	Sales of coal
Zhuhai Qinfa Trading	(iv)	the PRC, 21 September, 2005	–	100%	RMB5,000,000/ RMB5,000,000	Sales of coal
Zhuhai Qinfa Shipping	(v)	the PRC, 6 September, 2007	–	100%	RMB5,000,000/ RMB5,000,000	Goods transport and logistics, and charter hire
Qinhuangdao Trading	(vi)	the PRC, 13 February, 1995	–	100%	RMB68,000,000/ RMB68,000,000	Sales of coal

*Note:*

- (i) Qinf Logistics was established in the PRC as a wholly foreign-owned enterprise.
- (ii) Datong Jinfa was established in the PRC as a domestic company.
- (iii) Yangyuan Guotong was established in the PRC as a domestic company.
- (iv) Zhuhai Qinf Trading was established in the PRC as a domestic company.
- (v) Zhuhai Qinf Shipping was established in the PRC as a domestic company.
- (vi) Qinhuangdao Trading was established in the PRC as a domestic company.

Following the Reorganisation, the coal and shipping transportation businesses had been transferred to the companies now comprising the Group. As the Controlling Shareholders which controlled the Group before and after Reorganisation are the same, the Financial Information has been prepared as a reorganisation of businesses under common control in a manner similar to pooling of interests.

The Financial Information presents the combined results and financial position of the Group as if the current group structure had been in existence throughout the Track Record Period and as if the coal and shipping businesses were transferred to the Group at the beginning of the earliest period presented. All material intra-group transactions and balances have been eliminated on combination.

## B FINANCIAL INFORMATION

## 1 Combined income statements

Section C Note	Years ended 31 December			
	2006 RMB'000	2007 RMB'000	2008 RMB'000	
<b>Turnover</b>	3	2,850,489	3,664,632	4,192,484
Cost of sales		(2,614,871)	(3,093,238)	(3,632,568)
<b>Gross profit</b>		235,618	571,394	559,916
Other income	4	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)
<b>Profit from operations</b>		84,380	278,508	443,876
Finance income		5,984	11,419	15,733
Finance expenses		(23,682)	(41,611)	(64,310)
<b>Net financing costs</b>	5(i)	(17,698)	(30,192)	(48,577)
<b>Profit before income tax</b>		66,682	248,316	395,299
Income tax expense	6	(13,832)	(41,065)	(64,609)
<b>Profit for the year</b>		<u>52,850</u>	<u>207,251</u>	<u>330,690</u>
<b>Attributable to:</b>				
Equity holders of the Company		51,802	207,251	330,690
Minority interests		1,048	—	—
<b>Profit for the year</b>		<u>52,850</u>	<u>207,251</u>	<u>330,690</u>
<b>Dividends attributable to the year</b>				
Dividends declared during the year	9	—	—	120,341
<b>Earnings per share</b>				
Basic earnings per share (RMB)	10	<u>0.07</u>	<u>0.28</u>	<u>0.44</u>

The accompanying notes form part of this Financial Information.

## 2 Combined balance sheets

		At 31 December		
	Section C	2006 Note	2007 RMB'000	2008 RMB'000
<b>Non-current assets</b>				
Property, plant and equipment	11	154,242	553,186	927,683
Lease prepayments	12	6,473	6,333	6,193
Available-for-sale financial assets	13	63,905	100,005	—
Deferred tax assets	14	3,356	4,706	11,411
		227,976	664,230	945,287
		-----	-----	-----
<b>Current assets</b>				
Inventories	15	286,732	404,264	77,713
Trade and other receivables	16	532,028	610,628	375,558
Pledged deposits	17	3,208	145,741	485,425
Cash and cash equivalents	18	148,079	85,060	201,499
		970,047	1,245,693	1,140,195
		-----	-----	-----
<b>Current liabilities</b>				
Interest-bearing borrowings	19	(490,163)	(673,882)	(907,266)
Trade and other payables	20	(228,858)	(213,718)	(123,995)
Income tax payables		(74,209)	(107,857)	(57,658)
		(793,230)	(995,457)	(1,088,919)
		-----	-----	-----
<b>Net current assets</b>		<u>176,817</u>	<u>250,236</u>	<u>51,276</u>
<b>Total assets less current liabilities</b>		<u>404,793</u>	<u>914,466</u>	<u>996,563</u>
<b>Non-current liabilities</b>				
Interest-bearing borrowings	19	—	(279,338)	(261,608)
		-----	-----	-----
<b>Net assets</b>		<u><u>404,793</u></u>	<u><u>635,128</u></u>	<u><u>734,955</u></u>
Equity attributable to equity holders of the Company		403,378	635,128	734,955
Minority interests		1,415	—	—
<b>Total equity</b>		<u><u>404,793</u></u>	<u><u>635,128</u></u>	<u><u>734,955</u></u>

The accompanying notes form part of this Financial Information.

## 3 Combined statements of changes in equity

Section C Note	Attributable to equity holders of the Company								Total RMB'000
	Paid-in capital RMB'000 (Note 21)	Merger Reserve RMB'000 (Note 22(a))	Reserves RMB'000 (Note 22(b))	Fair value reserve RMB'000 (Note 22(c))	Exchange reserve RMB'000 (Note 22(d))	Retained earnings RMB'000	Minority interests RMB'000		
<b>At 1 January 2006</b>	91,020	–	18,147	6,516	(3,490)	171,235	402	283,830	
Capital injection	21(b)	31,149	–	–	–	–	–	–	31,149
Profit for the year		–	–	–	–	51,802	1,048	52,850	
Appropriation to reserves		–	–	6,944	–	–	(6,944)	–	–
Net change in fair value of available-for-sale financial assets	13	–	–	43,589	–	–	–	43,589	
Exchange difference		–	–	–	(6,590)	–	–	(35)	(6,625)
<b>At 31 December 2006</b>	122,169	–	25,091	50,105	(10,080)	216,093	1,415	404,793	
Capital injection	21(c)	5,011	–	–	–	–	–	–	5,011
Acquisition of minority interests/capital contribution	21(d)	1	–	–	–	(41)	1,455	(1,415)	–
Profit for the year		–	–	–	–	–	207,251	–	207,251
Appropriation to reserves		–	–	87,183	–	–	(87,183)	–	–
Net change in fair value of available-for-sale financial assets	13	–	–	36,100	–	–	–	36,100	
Exchange difference		–	–	–	(18,027)	–	–	–	(18,027)
<b>At 31 December 2007</b>	127,181	–	112,274	86,205	(28,148)	337,616	–	635,128	
Capital injection	21(e)	349	–	–	–	–	–	–	349
Arising on the Reorganisation	22(a)	(31,499)	31,499	–	–	–	–	–	–
Profit for the year		–	–	–	–	–	330,690	–	330,690
Appropriation to reserves		–	–	185,004	–	–	(185,004)	–	–
Disposal of available-for-sale financial assets	13	–	–	(86,205)	–	–	–	(86,205)	
Exchange difference		–	–	–	(24,666)	–	–	(24,666)	
Dividends to equity holders		–	–	–	–	(120,341)	–	–	(120,341)
<b>At 31 December 2008</b>	96,031	31,499	297,278	–	(52,814)	362,961	–	734,955	

The accompanying notes form part of this Financial Information.

## 4 Combined cash flow statements

	Years ended 31 December		
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>Operating activities</b>			
<b>Profit for the year</b>			
Profit for the year	52,850	207,251	330,690
Adjustments for:			
Depreciation for property, plant and equipment	15,104	15,868	37,758
Amortisation of lease prepayments	140	140	140
Net financing costs	17,698	30,192	48,577
Gain from disposal of available-for-sale financial assets	–	–	(97,085)
Provision for bad and doubtful debts	1,383	–	–
Income tax expense	<u>13,832</u>	<u>41,065</u>	<u>64,609</u>
<b>Operating profit before changes in working capital</b>			
Operating profit before changes in working capital	101,007	294,516	384,689
Change in inventories	(219,854)	(117,532)	326,551
Change in trade and other receivables	(73,133)	(76,953)	161,989
Change in trade and other payables	(47,237)	(16,980)	(135,059)
Interest paid	(20,055)	(38,476)	(64,678)
Income tax paid	<u>(1,708)</u>	<u>(8,767)</u>	<u>(121,513)</u>
<b>Net cash (used in)/generated from operating activities</b>			
Net cash (used in)/generated from operating activities	<u>(260,980)</u>	<u>35,808</u>	<u>551,979</u>

The accompanying notes form part of this Financial Information.

	Years ended 31 December		
	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>	2008 <i>RMB'000</i>
<b>Investing activities</b>			
Interest received	4,732	2,392	8,282
Proceeds from sale of property, plant and equipment	–	78	654
Proceeds from sale of available-for-sale financial assets	–	–	110,885
Payment for the purchase of property, plant and equipment	<u>(4,056)</u>	<u>(427,802)</u>	<u>(456,703)</u>
<b>Net cash generated from/(used in) investing activities</b>	<u>676</u>	<u>(425,332)</u>	<u>(336,882)</u>
<b>Financing activities</b>			
Capital injection	31,149	5,011	349
Proceeds from interest-bearing borrowings	1,650,090	2,599,940	2,748,544
Repayments of interest-bearing borrowings	(1,490,723)	(2,136,147)	(2,508,876)
Change in pledged deposits	<u>89,897</u>	<u>(142,533)</u>	<u>(339,684)</u>
<b>Net cash generated from/(used in) financing activities</b>	<u>280,413</u>	<u>326,271</u>	<u>(99,667)</u>
Net increase/(decrease) in cash and cash equivalents	20,109	(63,253)	115,430
Cash and cash equivalents at 1 January	131,844	148,079	85,060
Effect of foreign exchange rate changes	<u>(3,874)</u>	<u>234</u>	<u>1,009</u>
<b>Cash and cash equivalents at 31 December</b>	<b><u>148,079</u></b>	<b><u>85,060</u></b>	<b><u>201,499</u></b>

The accompanying notes form part of this Financial Information.

## C NOTES TO THE FINANCIAL INFORMATION

### 1. Summary of significant accounting policies

#### (a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IAS") and related Interpretations, promulgated by the International Accounting Standards Board ("IASB"). Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The IASB has issued a number of new and revised IFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised IFRSs to the Track Record Period, except for any new standards or interpretations that are not yet effective for the accounting periods ended 31 December 2008. The revised and new accounting standards and interpretations issued but not yet effective for the accounting periods beginning on or after 1 January 2008 are set out in Note C1(v).

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

#### (b) Basis of measurement

The Financial Information is presented in Renminbi ("RMB"), which is rounded to the nearest thousand. It is prepared on the historical cost basis except that the available-for-sale financial assets are stated at fair values (see Note 1(f)).

#### (c) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described as follows:

##### (i) Impairment losses on trade and other receivables

Impairment losses for trade and other receivables are assessed and provided based on management's regular review of ageing analysis and evaluation of collectability. A considerable level of judgment is exercised by the management when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the combined income statements in future years.

##### (ii) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual values. The management periodically reviews changes in technology and industry conditions, asset retirement activity and residual values to determine adjustments to estimated remaining useful lives and depreciation rates. Actual economic lives may differ from estimated useful lives. Periodic reviews could result in a change in depreciable lives and therefore depreciation expenses in future periods.

*(iii) Net realisable value of inventories*

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of distributing and selling products of similar nature. It could change significantly as a result of competitor's actions in response to severe industry cycles or other changes in market condition. Management will reassess the estimations at each balance sheet date.

*(iv) Recognition of income taxes and deferred tax assets*

Determining income tax provision involves judgment on the future tax treatment of certain transactions. The management carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations. Deferred tax assets are recognised in respect of temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

*(v) Fair value of available-for-sale financial assets*

If information on current or recent market prices of available-for-sale financial assets is not available, the fair values of available-for-sale financial assets are determined using valuation techniques.

**(d) Basis of combination***(i) Subsidiaries*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operation policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the combined financial statements from the date that control commences until the date that control ceases.

*(ii) Business combinations under common control*

The combined financial statements incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the Controlling Shareholders.

The assets and liabilities of the combining entities or businesses are combined at the carrying amounts previously recognised in the Group's combined financial statements.

The combined income statements include the results of each of the combining entities or businesses from the earliest date presented or since the date when combining entities or businesses first came under common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the combined financial statements are presented as if the entities or businesses had been combined at the earliest balance sheet date presented or when they first came under common control, whichever is the later.

*(iii) Transactions elimination*

Intra-group balances, transactions and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*(iv) Transactions with minority interests*

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Group, whether directly or indirectly by subsidiaries, are presented in the combined balance sheet and combined statement of changes in equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the combined income statements as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Transactions with minority equity holders are at book value and classified as equity transactions. Accordingly, when the Group acquires minority interests of its subsidiaries, the difference between the amounts of consideration and carrying values of minority interests are recognised as reserve movement.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

**(e) Foreign currency***(i) Functional and presentation currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity (the "Functional Currency"). The Financial Information is presented in RMB (the "Presentation Currency").

*(ii) Foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of the Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognised in profit or loss.

*(iii) Financial statements of foreign operations*

Items of turnover and expenses of operation outside the PRC are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Assets and liabilities are translated into RMB at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in equity. Cash flow is translated at exchange rates approximately ruling at the dates of the transactions.

**(f) Non-derivative financial instruments**

Non-derivative financial instruments comprise available-for-sale financial assets, trade and other receivables, pledged deposits, cash and cash equivalents, interest-bearing borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Subsequent to initial recognition, the available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses (see Note 1(j)) are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Pledged deposits, trade and other receivables and trade and other payables are measured at amortised cost using the effective interest method, less any impairment losses (see Note 1(j)).

Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the combined income statement over the period of the borrowings on an effective interest basis.

**(g) Property, plant and equipment****(i) Recognition and measurement**

Items of buildings, vessels and other property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (see Note 1(j)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

**(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

*(iii) Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

No depreciation is provided for assets under construction until such time as the relevant assets are completed and available for intended use. Assets under construction are transferred to relevant categories of property, plant and equipment upon the completion of their respective construction.

The estimated useful lives for the current and comparative periods are as follows:

Plant and buildings	10-20 years
Machinery	4-20 years
Electronic and other equipment	3-10 years
Motor vehicles	5-10 years
Vessels	10-15 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Cost incurred in replacing or renewing the separate assets in vessels (dry-docking costs) are capitalised and depreciated on a straight-line basis over the estimated period until the next dry-docking.

*(iv) Assets under construction*

Assets under construction represent primarily vessels under construction, which are stated at cost less accumulated impairment losses (see Note 1(j)). Cost includes all direct costs relating to the construction of the assets and acquisition.

*(v) Disposal*

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised in profit or loss.

**(h) Lease prepayments**

Lease prepayments represent cost of land use rights paid to the PRC's governmental authorities. Lease prepayments are carried at cost less accumulated amortisation and impairment losses (see Note 1(j)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

**(i) Inventories**

Inventories are stated at the lower of cost and net realisable value.

The cost of inventories is computed using the weighted average method and includes expenditure incurred in acquiring the inventories to bring them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs 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.

**(j) Impairment of assets***(i) Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

*(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(k) Employee benefits***(i) Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

*(ii) Defined contribution retirement plan*

Obligation for contributions to the PRC local government defined contribution retirement schemes pursuant to the relevant labour rules and regulations in the PRC are recognised as an expense in profit or loss as incurred.

**(l) Provision and contingent liabilities**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market of the time value of money and the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**(m) Revenue**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

*(i) Sales of goods*

Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts, volume rebates and value added tax. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, and there is no continuing management involvement with the goods.

*(ii) Income from charter hire*

Income from time charter, which is of operating lease in nature, is recognised on a straight-line basis over the period of each charter.

Income from voyage charter is recognised on a percentage-of-completion basis, which is determined on the time proportion method of each individual voyage.

*(iii) Government grants*

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

**(n) Operating lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**(o) Finance income and expenses**

Finance income comprises interest income and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expenses on borrowings, bank charges and foreign currency losses. All borrowing costs are recognised in profit or loss or capitalised using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(p) Income tax expense**

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(q) Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**(r) Borrowing costs**

Borrowing costs are expensed in profit or loss in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

**(s) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

**(t) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

**(u) Related parties**

For the purposes of the Financial Information, parties are considered to be related to the Group if:

- (i) The party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) The Group and the party are subject to common control;
- (iii) The party is an associate of the Group or a jointly controlled entity in which the Group is a venturer;
- (iv) The party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) The party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) The party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

## (v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective in respective of the financial periods included in the Track Record Period, and have not been applied in preparing the Financial Information:

		<b>Effective for accounting periods beginning on or after</b>
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 15	Agreements for the construction of real estate	1 January 2009
IFRS 8	Operating segments	1 January 2009
Revised IAS 1	Presentation of financial statements	1 January 2009
Revised IAS 23	Borrowing costs	1 January 2009
Amendment to IFRS 1 and IAS 27	Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards and IAS 27 Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly controlled entity or associate	1 January 2009
Amendment to IFRS 2	Share-based payment – vesting conditions and cancellations	1 January 2009
Amendments to IAS 32 and IAS 1	Financial instruments: Presentation and IAS 1, Presentation of financial statements – puttable financial instruments and obligations arising on liquidation	1 January 2009
Amendment to IFRS 7	Financial instruments: Disclosures-Improving disclosures about financial instruments	1 January 2009
Amendments to IFRIC 9 and IAS 39	Amendments to IFRIC 9 Reassessment of embedded derivatives and IAS 39 Financial instruments: Recognition and Measurement – Embedded derivatives	30 June 2009
Revised IFRS 1	First-time adoption of International Financial Reporting Standards	1 July 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
Amendment to IAS 39	Financial instruments: Recognition and measurement – Eligible hedged items	1 July 2009
Revised IFRS 3	Business combinations	1 July 2009
Amendment to IAS 27	Consolidated and separate financial statements	1 July 2009
Improvements to IFRSs		1 January 2009 or 1 July 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of the Financial Information, the Group believes that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

## 2. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

In presenting the information on the basis of business segments, segment turnover, results, assets and liabilities are based on the sales of coal and shipping transportation.

	Years ended 31 December											
	Sales of Coal			Shipping Transportation			Eliminations			Combined		
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000
External turnover	2,824,382	3,553,185	4,050,170	26,107	111,447	142,314	–	–	–	2,850,489	3,664,632	4,192,484
Inter-segment turnover	–	–	–	39,061	5,961	68,289	(39,061)	(5,961)	(68,289)	–	–	–
<b>Total segment turnover</b>	<b>2,824,382</b>	<b>3,553,185</b>	<b>4,050,170</b>	<b>65,168</b>	<b>117,408</b>	<b>210,603</b>	<b>(39,061)</b>	<b>(5,961)</b>	<b>(68,289)</b>	<b>2,850,489</b>	<b>3,664,632</b>	<b>4,192,484</b>
Cost of sales	(2,619,035)	(3,034,244)	(3,550,773)	(34,897)	(60,075)	(147,865)	39,061	1,081	66,070	(2,614,871)	(3,093,238)	(3,632,568)
Other expenses	(141,326)	(279,411)	(199,901)	(7,894)	(8,930)	(9,925)	–	–	5,989	(149,220)	(288,341)	(203,837)
<b>Segment result</b>	<b>64,021</b>	<b>239,530</b>	<b>299,496</b>	<b>22,377</b>	<b>48,403</b>	<b>52,813</b>	<b>–</b>	<b>(4,880)</b>	<b>3,770</b>	<b>86,398</b>	<b>283,053</b>	<b>356,079</b>
Unallocated income net of unallocated expenses										(2,018)	(4,545)	87,797
<b>Results from operating activities</b>										<b>84,380</b>	<b>278,508</b>	<b>443,876</b>
Net financing costs										(17,698)	(30,192)	(48,577)
Income tax expense										(13,832)	(41,065)	(64,609)
<b>Profit for the year</b>										<b>52,850</b>	<b>207,251</b>	<b>330,690</b>

	At 31 December														
	Sales of Coal			Shipping			Transportation			Eliminations			Combined		
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000										
Segment assets	1,068,752	1,403,119	1,521,885	138,970	553,104	957,546	(77,109)	(151,231)	(405,554)	1,130,613	1,804,992	2,073,877			
Unallocated assets										67,410	104,931	11,605			
<b>Total assets</b>											1,198,023	1,909,923	2,085,482		
Segment liabilities	(679,214)	(827,478)	(853,931)	(116,916)	(485,811)	(843,382)	77,109	146,351	404,444	(719,021)	(1,166,938)	(1,292,869)			
Unallocated liabilities										(74,209)	(107,857)	(57,658)			
<b>Total liabilities</b>											(793,230)	(1,274,795)	(1,350,527)		
Capital expenditure	4,056	30,677	9,322	–	397,125	447,381	–	–	–	4,056	427,802	456,703			
Depreciation	2,829	4,155	5,284	12,275	11,713	32,474	–	–	–	15,104	15,868	37,758			
Amortisation of lease prepayments	140	140	140	–	–	–	–	–	–	140	140	140			

The Group's total assets are primarily dominated by the assets handling its coal and shipping businesses. The coal is sold primarily to the PRC domestic customers and therefore related assets and liabilities are almost all located in the PRC. The vessels are primarily utilised across geographical markets for shipping transportation throughout the World. As a result, the directors consider that it is not meaningful to allocate the Group's assets and their related capital expenditure to specific geographical segments. Accordingly, geographical segment information is only presented for turnover, which is based on the geographical location of customers.

	Years ended 31 December									
	Inside Mainland PRC			Outside Mainland PRC			Combined			
	2006 RMB'000	2007 RMB'000	2008 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2006 RMB'000	2007 RMB'000	2008 RMB'000	2008 RMB'000
Turnover from external customers	2,830,874	3,659,952	3,986,609	19,615	4,680	205,875	2,850,489	3,664,632	4,192,484	

### 3. Turnover

The Group is mainly engaged in sales of coal and shipping transportation businesses.

Turnover mainly represents the sales of goods and charter hire income.

The amount of each significant category of turnover recognised during the Track Record Period is as follows:

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Sales of goods	2,824,382	3,553,185	4,050,170
Charter hire income	<u>26,107</u>	<u>111,447</u>	<u>142,314</u>
	<u><u>2,850,489</u></u>	<u><u>3,664,632</u></u>	<u><u>4,192,484</u></u>

### 4. Other income

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Government grants	(i) 5,870	4,368	3,230
Gain from disposal of available-for-sale financial assets	(ii) –	–	97,085
Others	<u>(iii) 8,198</u>	<u>658</u>	<u>888</u>
	<u><u>14,068</u></u>	<u><u>5,026</u></u>	<u><u>101,203</u></u>

- (i) The Group received unconditional grants from local government for the years of 2006, 2007 and 2008 as encouragement of its development.
- (ii) On 24 July 2008, the Group entered into a share sale agreement with a third party to dispose the available-for-sale financial assets, which represented the 2.3% equity interests held by the Group in Millennium Mine located at the Bowen Basin of Australia (see Note 13), at a consideration of 18,126,000 Australian dollars. The gain on such disposal amounted to RMB97,085,000.
- (iii) Others in 2006 mainly represent certain compensation income received from third parties who breached business contracts signed with the Group.

## 5. Profit before tax

## (i) Net financing costs

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Interest income	(4,732)	(4,039)	(9,838)
Net foreign exchange gain	(1,252)	(7,380)	(5,895)
Finance income	(5,984)	(11,419)	(15,733)
Interest expenses	19,689	38,262	66,062
Less: interest capitalised in property, plant and equipment	—	(1,265)	(8,634)
Net interest expenses charged in the combined income statements	19,689	36,997	57,428
Bank charges	3,993	4,614	6,882
Finance expenses	23,682	41,611	64,310
Net financing costs	17,698	30,192	48,577

## (ii) Staff costs

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Wages, salaries and other benefits	3,850	14,903	18,740
Contribution to defined contribution plan	162	253	534
	4,012	15,156	19,274

The Group participates in pension funds organised by the PRC government. According to the respective pension fund regulations, the Group is required to pay annual contributions during the Track Record Period. The Group remits all the pension fund contributions to the respective social security offices, which are responsible for the payments and liabilities relating to the pension funds. The Group has no obligation for payment of retirement and other post-retirement benefits of employees other than the contributions described above.

(iii) *Other items*

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Cost of inventories*	2,579,974	3,033,163	3,484,703
Operating lease charges on premises	4,731	2,748	4,211
Depreciation for property, plant and equipment	15,104	15,868	37,758
Amortisation of lease prepayments	140	140	140
Write-down of inventories to net realisable value	–	–	30,984
Provision for bad and doubtful accounts	1,383	–	–
Auditors' remuneration	122	216	237

\* Cost of inventories includes RMB1,426,000, RMB3,376,000 and RMB34,176,000 relating to staff costs, depreciation expenses and write-down of inventories to net realisable value for the three years ended 31 December 2006, 2007 and 2008, respectively, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

## 6. Income tax expense

(i) *Income tax expense in the combined income statements represents:*

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Current tax expense</b>			
Provision for PRC income tax	12,175	42,415	71,314
<b>Deferred tax</b>			
Origination and reversal of temporary differences	1,657	(4,225)	(6,705)
Effect of change in tax rate	–	2,875	–
	<b>13,832</b>	<b>41,065</b>	<b>64,609</b>

- (a) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (b) 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 Profits Tax during the Track Record Period.
- (c) In 2006 and 2007, the provision for the PRC corporate income tax was based on a statutory rate of 33% of the assessable profits of subsidiaries which carried on businesses in the PRC, except for subsidiaries carried on businesses in Zhuhai Special Economic Zone which were entitled to a preferential income tax rate of 15% according to the "Foreign Invested Enterprise and Foreign Enterprise Income Tax Law 《外商投資企業和外國企業所得稅法》". The income tax rate applicable to Zhuhai Qinfra Trading and Zhuhai Qinfra Shipping up to 31 December 2007 is 15%.
- (d) 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 Qinfra 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 and 2008. The deferred tax assets balance as at 31 December 2007 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.

*(ii) Reconciliation between tax expense and accounting profit at applicable tax rate:*

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Profit before tax	66,682	248,316	395,299
Expected tax on profit before tax, calculated at the respective rates applicable to subsidiaries	6i(c)(d)	21,075	53,259
Non-taxable income	6i(b)	(8,404)	(15,280)
Non-deductible expenses		1,161	211
Effect of changes in tax rate on deferred tax balance	6i(d)	—	2,875
Income tax expense	13,832	41,065	64,609

**7. Directors' remuneration**

Details of directors' remuneration are as follows:

Name of directors	Year ended 31 December 2006					Total RMB'000
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement benefit schemes RMB'000	Discretionary bonuses RMB'000		
<b>Executive directors</b>						
Mr. Xu	—	77	5	—	82	
Ms. Wang Jianfei	—	35	4	—	39	
Ms. Liu Xiaomei	—	22	3	—	25	
Mr. Weng Li	—	25	—	—	25	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	—	159	12	—	171	

Name of directors	Year ended 31 December 2007					Total RMB'000
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement schemes RMB'000	Discretionary benefit schemes RMB'000	Discretionary bonuses RMB'000	
<b>Executive directors</b>						
Mr. Xu	–	287	5	–	–	292
Ms. Wang Jianfei	–	226	4	–	–	230
Ms. Liu Xiaomei	–	198	4	–	–	202
Mr. Weng Li	–	223	–	–	–	223
	–	934	13	–	–	947
	–	–	–	–	–	–

Name of directors	Year ended 31 December 2008					Total RMB'000
	Fee RMB'000	Basic salaries, allowances and other benefits RMB'000	Contributions to retirement schemes RMB'000	Discretionary benefit schemes RMB'000	Discretionary bonuses RMB'000	
<b>Executive directors</b>						
Mr. Xu	–	307	5	–	–	312
Ms. Wang Jianfei	–	302	4	–	–	306
Ms. Liu Xiaomei	–	219	4	–	–	223
Mr. Weng Li	–	252	2	–	–	254
	–	1,080	15	–	–	1,095
	–	–	–	–	–	–

An analysis of directors' remuneration by the number of directors and remuneration range is as follows:

	Years ended 31 December		
	2006	2007	2008
	Number of directors	Number of directors	Number of directors
Nil to RMB1,000,000	4	4	4

There were no amounts paid during the Track Record Period to the directors in connection with their retirement from employment with the Group, or inducement to join. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

#### 8. Individuals with highest emoluments

The five highest paid individuals of the Group during the Track Record Period include four directors of the Company, whose remuneration are reflected in the analysis presented above. Details of remuneration paid to the remaining highest paid individual of the Group are as follows:

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Basic salaries, allowances and other benefits	34	190	582
Contributions to retirement benefit schemes	3	4	11
Discretionary bonuses	—	—	—
	<b>37</b>	<b>194</b>	<b>593</b>

The above individual's emoluments are within the band of Nil to RMB1,000,000.

There were no amounts paid during the Track Record Period to the five highest paid employees in connection with their retirement from employment with the Group, or inducement to join.

#### 9. Dividends

Dividends for the Track Record Period represent dividends declared by a subsidiary to its then equity holder:

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Dividends declared and approved during the year			
– Qinhuangdao Trading	—	—	<b>120,341</b>

Pursuant to the resolution passed at the board of directors' meeting on 1 August 2008, a dividend of RMB120,341,000 was declared to the equity holder of Qinhuangdao Trading. The directors consider that the dividend is not indicative of the future dividend policy of the Group.

As at the date of this report, the dividend had been fully paid.

#### 10. Earnings per share

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 Prospectus 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 12 June 2009" set out in Appendix V to the Prospectus, as if the shares were outstanding throughout the entire Track Record Period.

There were no dilutive potential ordinary shares during the Track Record Period and, therefore, diluted earnings per share are not presented.

## 11. Property, plant and equipment

	Plant and buildings RMB'000	Machinery RMB'000	Electronic and other equipment RMB'000	Motor vehicles RMB'000	Vessels RMB'000	Assets under construction RMB'000	Total RMB'000
<b>Cost</b>							
At 1 January 2006	11,908	3,510	1,042	8,755	158,649	–	183,864
Additions	–	428	399	3,229	–	–	4,056
Exchange difference	–	–	–	–	(5,141)	–	(5,141)
At 31 December 2006	11,908	3,938	1,441	11,984	153,508	–	182,779
Additions	27,750	1,060	957	910	–	397,125	427,802
Disposals	–	–	–	(78)	–	–	(78)
Exchange difference	–	–	–	–	(9,909)	(4,763)	(14,672)
At 31 December 2007	39,658	4,998	2,398	12,816	143,599	392,362	595,831
Additions	1,518	1,434	415	6,627	24,058	422,651	456,703
Disposals	–	–	–	(1,946)	–	–	(1,946)
Transfers	–	–	–	–	570,257	(570,257)	–
Exchange difference	–	–	–	–	(16,459)	(29,788)	(46,247)
At 31 December 2008	41,176	6,432	2,813	17,497	721,455	214,968	1,004,341
<b>Accumulated depreciation</b>							
At 1 January 2006	(913)	(1,033)	(734)	(2,989)	(8,284)	–	(13,953)
Charge for the year	(606)	(431)	(127)	(1,665)	(12,275)	–	(15,104)
Exchange difference	–	–	–	–	520	–	520
At 31 December 2006	(1,519)	(1,464)	(861)	(4,654)	(20,039)	–	(28,537)
Charge for the year	(1,486)	(479)	(202)	(1,987)	(11,714)	–	(15,868)
Exchange difference	–	–	–	–	1,760	–	1,760
At 31 December 2007	(3,005)	(1,943)	(1,063)	(6,641)	(29,993)	–	(42,645)
Charge for the year	(1,959)	(615)	(390)	(2,325)	(32,469)	–	(37,758)
Written back on disposals	–	–	–	1,292	–	–	1,292
Exchange difference	–	–	–	–	2,453	–	2,453
At 31 December 2008	(4,964)	(2,558)	(1,453)	(7,674)	(60,009)	–	(76,658)
<b>Carrying amounts</b>							
At 31 December 2006	10,389	2,474	580	7,330	133,469	–	154,242
At 31 December 2007	36,653	3,055	1,335	6,175	113,606	392,362	553,186
At 31 December 2008	36,212	3,874	1,360	9,823	661,446	214,968	927,683

## 12. Lease prepayments

	<i>RMB'000</i>
<b>Cost</b>	
At 1 January 2006, and 31 December 2006, 2007 and 2008	6,998
	<u>-----</u>
<b>Accumulated amortisation</b>	
At 1 January 2006	(385)
Charge for the year	<u>(140)</u>
	<u>-----</u>
At 31 December 2006	(525)
Charge for the year	<u>(140)</u>
	<u>-----</u>
At 31 December 2007	(665)
Charge for the year	<u>(140)</u>
	<u>-----</u>
At 31 December 2008	(805)
	<u>-----</u>
<b>Carrying amounts</b>	
At 31 December 2006	<u>6,473</u>
	<u>-----</u>
At 31 December 2007	<u>6,333</u>
	<u>-----</u>
At 31 December 2008	<u>6,193</u>

Lease prepayments represent cost of land use rights in respect of land located in the PRC with a lease period of 50 years when granted.

## 13. Available-for-sale financial assets

	<b>At 31 December</b>		
	<b>2006</b> <i>RMB'000</i>	<b>2007</b> <i>RMB'000</i>	<b>2008</b> <i>RMB'000</i>
Unlisted equity investments at fair value	<u>63,905</u>	<u>100,005</u>	<u>—</u>

The available-for-sale financial assets represent the equity interests held by the Group in Millennium Mine located at the Bowen Basin of Australia. The fair values of the available-for-sale financial assets were the amounts estimated by the directors that the Group would receive upon the derecognition of investments at the balance sheet dates, taking into account the current market conditions. The directors believed that the estimated fair values, which were recorded in the combined balance sheets, with the related changes in fair values recorded in the combined equity, were reasonable, and that they were the most appropriate value at the balance sheet dates.

On 24 July 2008, the Group entered into a share sale agreement with a third party to dispose all its unlisted equity investments in Millennium Mine at a consideration of 18,126,000 Australian dollars.

## 14. Deferred tax assets

Deferred tax assets recognised and the movements of deferred tax assets of the Group:

	At 1 January 2006	Credited/ (charged) to combined income statement	At 31 December 2006
<b>Deferred tax assets arising from:</b>			
Provision for bad and doubtful debts	3,991	(3,991)	–
Taxable losses carried forward	1,022	2,289	3,311
Unrealised profit arising from intra-group transactions elimination	–	45	45
	<b>5,013</b>	<b>(1,657)</b>	<b>3,356</b>

Deferred tax assets recognised and the movements of the Group during 2007:

	At 1 January 2007	Credited/ (charged) to combined income statement	At 31 December 2007
<b>Deferred tax assets arising from:</b>			
Taxable losses carried forward	3,311	(2,309)	1,002
Unrealised profit arising from intra-group transactions elimination	45	3,659	3,704
	<b>3,356</b>	<b>1,350</b>	<b>4,706</b>

Deferred tax assets recognised and the movements of the Group during 2008:

	At 1 January 2008	Credited/ (charged) to combined income statement	At 31 December 2008
<b>Deferred tax assets arising from:</b>			
Write-down of inventories	–	7,746	7,746
Taxable losses carried forward	1,002	(1,002)	–
Unrealised profit arising from intra-group transactions elimination	3,704	(39)	3,665
	<b>4,706</b>	<b>6,705</b>	<b>11,411</b>

## 15. Inventories

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Finished goods	271,976	398,871	57,450
Goods in transit	14,756	—	8,022
Fuel	—	5,393	12,241
	<b>286,732</b>	<b>404,264</b>	<b>77,713</b>

Provision of RMB30,984,000 was made against those inventories with net realisable value lower than carrying value as at 31 December 2008. The inventories as at 31 December 2006 and 2007 were stated at cost.

The analysis of the amount of inventories recognised as an expense is as follows:

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Carrying amount of inventories sold	2,579,974	3,033,163	3,453,719
Write-down of inventories	—	—	30,984
	<b>2,579,974</b>	<b>3,033,163</b>	<b>3,484,703</b>

## 16. Trade and other receivables

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Trade and bill receivables	230,762	259,653	200,643
Deposits and prepayments	221,464	178,223	134,141
Other non-trade receivables	22,300	22,404	40,774
Amount due from a related party (see Note 26(c))	57,502	150,348	—
	<b>532,028</b>	<b>610,628</b>	<b>375,558</b>

All of the trade and other receivables as at 31 December 2008 are expected to be recovered within one year.

Trade and bill receivables included bank accepted bills of RMB96,282,000, RMB35,037,000 and RMB4,900,000 as at 31 December 2006, 2007 and 2008, respectively, which were discounted to the banks.

During the Track Record Period, credit terms granted to customers ranged from 0 to 30 days depending on the customers' relationship with the Group, their creditworthiness and settlement record.

An ageing analysis of trade and bill receivables (net of impairment for bad and doubtful debts) of the Group is as follows:

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Within 1 month	147,199	222,363	157,816
Over 1 month but less than 3 months	60,510	17,200	33,173
Over 3 months but less than 6 months	22,753	20,090	9,654
Over 6 months	300	—	—
	<b>230,762</b>	<b>259,653</b>	<b>200,643</b>

#### 17. Pledged deposits

Bank deposits of RMB3,208,000, RMB145,741,000 and RMB485,425,000 as at 31 December 2006, 2007 and 2008, respectively, were pledged to the banks to secure the Group's certain bank facilities (see Note 19).

#### 18. Cash and cash equivalents

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Deposits with banks within three months' maturity	54,661	—	32,368
Cash at banks and on hand	<u>93,418</u>	<u>85,060</u>	<u>169,131</u>
	<b>148,079</b>	<b>85,060</b>	<b>201,499</b>

#### 19. Interest-bearing borrowings

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Current</b>			
Secured bank loans and bank advances	(i)	339,810	561,586
Unsecured bank loans	(i)	—	9,969
Bank advances under discounted bill receivables	(ii)	96,282	35,037
Other borrowings from a related party (see Note 26(b))		54,071	3,810
Current portion of non-current secured bank loans	(iii)	—	63,480
	<u>490,163</u>	<u>673,882</u>	<u>907,266</u>
<b>Non-current</b>			
Secured bank loans	(iii)	—	279,338
	<u>490,163</u>	<u>953,220</u>	<u>1,168,874</u>

(i) Current bank loans and bank advances carried interest rate ranging from 5.58% to 6.73%, 5.63% to 7.29% and 1.75% to 6.77% as at 31 December 2006, 2007 and 2008, respectively, per annum. Current secured bank loans and bank advances were secured by the following assets:

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Property, plant and equipment	133,469	113,606	327,034
Inventories	–	170,000	22,323
Trade and bill receivables	17,438	39,901	59,214
Pledged deposits	3,208	145,741	485,425

Unutilised bank facilities secured by pledged deposits for the Group were Nil, RMB12,564,000 and RMB27,065,000 as at 31 December 2006, 2007 2008, respectively.

(ii) The Group's discounted bank accepted bills with recourse have been accounted for as collateralised bank advances. The discounted bill receivables and the related proceeds of the same amount are included in the Group's "Trade and bill receivables" and "Bank advances under discounted bill receivables" as at the balance sheet dates.

(iii) Non-current secured bank loans as at 31 December 2007 and 2008 were pledged by certain fixed assets of RMB412,346,000 and RMB569,807,000 and guaranteed by a related party (see Note 26(d)).

Non-current secured bank loans as at 31 December 2007 and 2008 carried variable interest rates based on (i) the LIBOR plus 1% and (ii) 5% discount on the per annum interest rate quoted by the People's Bank of China in respect of long-term borrowings over 5 years.

The Group's non-current bank loans were repayable as follows:

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Within 1 year	–	63,480	81,067
Over 1 year but less than 2 years	–	68,605	82,948
Over 2 years but less than 5 years	–	198,588	167,857
Over 5 years	–	12,145	10,803
	–	279,338	261,608
	<hr/>	<hr/>	<hr/>
	<hr/>	342,818	342,675

## 20. Trade and other payables

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Trade and bill payables	137,967	107,647	24,885
Dividends payable (see Note 26(b))	–	–	45,704
Other taxes payable	44,966	58,149	32,917
Receipts in advance	22,666	13,813	1,452
Accrued interest on shareholder's loans (see Note 26(b))	6,317	7,246	7,333
Accrued port services fee and other expenses	11,863	19,691	7,776
Other miscellaneous payables	5,079	7,172	3,928
	<b>228,858</b>	<b>213,718</b>	<b>123,995</b>

During the Track Record Period, credit terms granted to the Group by its suppliers ranged from 0 to 30 days. An ageing analysis of trade and bill payables of the Group is as follows:

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Within 1 month	112,487	95,259	23,414
Over 1 month but less than 3 months	16,000	4,277	1,159
Over 3 months but less than 6 months	9,369	8,000	312
Over 6 months but less than 1 year	76	–	–
Over 1 year	35	111	–
	<b>137,967</b>	<b>107,647</b>	<b>24,885</b>

## 21. Paid-in capital

- (a) Paid-in capital in the Group's combined balance sheets as at 31 December 2006, 2007 and 2008 represent the aggregate amount of paid-in capital of the companies comprising the Group at the respective dates, after elimination of investment in subsidiaries.
- (b) The capital contribution of 2006 represented capital injection from the Controlling Shareholders to Qinf Trading.
- (c) The capital injection of 2007 represented capital injection from the Controlling Shareholders to Perpetual, Liberal, Qinf International and Zhuhai Qinf Shipping.
- (d) On 11 January 2007, the Controlling Shareholders acquired the 5% equity interest in Qinf Shipping from the minority shareholder and contributed such additional interest to the Group.
- (e) The capital injection of 2008 represented capital injection from the Controlling Shareholders to Super Grace.

**22. Reserves****(a) Merger reserve**

Merger reserve represents the difference between the aggregate amount of paid-in capital of Perpetual, Liberal, Qinfa Shipping, Qinfa Trading, Qinfa International and Super Grace and the amount of share capital of Qinfa Investment issued to Fortune Pearl International Limited (“Fortune Pearl”) in 2008 in exchange for the entire equity interests in the above six companies as part of the Reorganisation.

**(b) Reserves**

Reserves were established in accordance with the relevant PRC rules and regulations and the articles of association of the companies comprising the Group which are incorporated in the PRC. Appropriations to the reserves were approved by the respective shareholders' meetings.

Reserves include statutory reserves and discretionary reserves. For the entity concerned, statutory reserves can be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors, provided that the balance after such conversion is not less than 25% of the registered capital.

**(c) Fair value reserve**

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the balance sheet dates and is dealt with in accordance with the accounting policies set out in Notes 1(f) and 1(j).

**(d) Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in Note 1(e).

**23. Financial instruments**

Exposure to credit risk, market risk (including interest risk and foreign currency risk) and liquidity risk arises in the normal course of the Group's businesses. The Group's financial assets include available-for-sale financial assets, cash and cash equivalents, pledged deposits, trade and other receivables. The Group's financial liabilities include interest-bearing borrowings and trade and other payables. The risks associated with these financial instruments are limited by the Group's financial management policies described below:

**(a) Credit risk**

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

At the balance sheet dates, the Group had no significant concentration of credit risk with any of its customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets. The Group does not provide any guarantee which would expose the Group to credit risk.

**(b) 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 current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term.

*(c) Interest rate risk*

Cash and cash equivalents, pledged 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 ranging from 0.36% to 0.81% per annum as at 31 December 2006, 2007 and 2008, respectively. Pledged deposits are placed to satisfy conditions for borrowing facilities granted to the Group, with fixed interest rates 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 as below:

	Interest rate	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
		<u>490,163</u>	<u>953,220</u>	<u>1,168,874</u>

**Sensitivity analysis**

The Group does not account for any fixed rate borrowings at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

A general increase/decrease of 100 basis points in interest rates of variable rate borrowings prevailing at the balance sheet dates, with all other variable held constant, would decrease/increase the group's profit after tax and retained profits by approximately RMB583,000, RMB547,000 and RMB3,598,000 as of 31 December 2006, 2007 and 2008 respectively.

This sensitivity analysis has been determined assuming that the change in interest rates had occurred at the balance sheet dates and had been applied to the exposure to interest risk for financial investments in existence at those dates. The analysis has been performed on the same basis for 2006, 2007 and 2008.

*(d) Foreign currency risk*

RMB is not freely convertible into foreign currencies. All foreign exchange transactions involving RMB 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 denominated in USD, 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.

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.

	At 31 December		
	2006 USD'000	2007 USD'000	2008 USD'000
Cash and cash equivalents	–	–	573
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 table demonstrates the changes in the USD exchange rate during the Track Record Period.

	Years ended 31 December		
	2006	2007	2008
USD			
– Average rate	7.9718	7.6071	6.9480
– Reporting date mid-spot rate	7.8087	7.3046	6.8346

#### Foreign exchange sensitivity analysis

A 5 percent strengthening of the RMB against the USD at 31 December would have increased the profit by the amount shown below. This analysis assumes that the reasonably possible change in foreign exchange rates had occurred at the balance sheet dates and had been applied to each of the Group entities' exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. (The analysis has been performed on the same basis for 2006, 2007 and 2008.)

	Years ended 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Profit			
– USD	2,985	4,058	808

A 5 percent weakening of the RMB against the USD at 31 December would have had the equal but opposite effect on the above currency to the amounts shown above. The analysis has been performed on the basis that all other variables remain constant.

#### (e) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2006, 2007 and 2008, respectively.

#### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to financing at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of debt to equity ratio. For this purpose the Group defines debt as total loans and borrowings and equity as total equity attributable to equity holders of the Company.

The debt to equity ratio at 31 December 2006, 2007 and 2008 was as follows:

	Years ended 31 December		
	2006	2007	2008
Debt to equity ratio	121.51%	150.08%	159.04%

#### 24. Capital commitments

Capital commitments outstanding at the respective year end not provided for in the combined financial statements were as follows:

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Authorised but not contracted for	312,348	226,058	5,000
Contracted for	19,332	102,980	45,853
	<hr/>	<hr/>	<hr/>
	331,680	329,038	50,853

#### 25. Operating leases

##### (a) *Leases at lessee*

At each balance sheet date, the total future minimum lease payments of the Group under noncancelable operating leases in respect of land and buildings are payable as follows:

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Within 1 year	22,667	44,035	5,711
After 1 year but within 5 years	1,360	6,082	18,506
After 5 years	—	—	12,719
	<hr/>	<hr/>	<hr/>
	24,027	50,117	36,936

(b) *Leases at lessor*

The Group leases out its vessels under operating leases and the future minimum lease income under non-cancellable operating leases are receivable as follows:

	At 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Within 1 year	4,805	79,809	5,227

26. **Related party transactions**

The Group has transactions with Qinfra Industry and Mr. Xu. Mr. Xu is one of the Controlling Shareholders. Qinfra Industry is ultimately controlled by the Controlling Shareholders.

Particulars of significant transactions between the Group and the above related parties during the Track Record Period are as follows:

(a) *Significant related party transactions*(i) *Recurring transactions:*

	Years ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
Operating leases from – Qinfra Industry	1,216	1,323	1,209

The directors of the Company are of the opinion that the above related party transactions were conducted on terms no less favourable to the Group than terms available to or from independent third parties, and in the ordinary course of business.

(ii) *Non-recurring transactions:*

	Years ended 31 December		
	2006	2007	2008
	RMB'000	RMB'000	RMB'000
<b>Interest-bearing borrowings from</b> – Mr. Xu:	108,409	6,749	50,480
<b>Interest charge</b>	3,625	929	87
<b>Repayment of interest-bearing borrowings</b> to – Mr. Xu:	163,290	57,010	2,473
<b>Expenses paid by the Group on behalf of</b> – Qinfra Industry:	41,832	117,721	25,471

(b) *Amounts due to related parties*

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
<b>Shareholder's loan</b>			
– Mr. Xu	54,071	3,810	51,817
<b>Accrued interest</b>	<u>6,317</u>	<u>7,246</u>	<u>7,333</u>
	<u>60,388</u>	<u>11,056</u>	<u>59,150</u>
<b>Dividend payable to Qinfra Industry, the equity holder of Qinhuangdao Trading</b>	<u>–</u>	<u>–</u>	<u>45,704</u>

The amounts due to Mr. Xu represent interest-bearing borrowings and corresponding accrued interests at LIBOR rate (see Note 19 and 20).

The directors have confirmed that the balance of amounts due to Mr. Xu as at 31 December 2008 will be settled in full before the listing of the Company's shares on the Main Board of the Stock Exchange.

As at the date of this report, the dividend had been fully paid.

Qinfra Industry is ultimately controlled by the Controlling Shareholders.

(c) *Amount due from a related party*

	At 31 December		
	2006 RMB'000	2007 RMB'000	2008 RMB'000
Qinfra Industry	<u>57,502</u>	<u>150,348</u>	<u>–</u>

The amount due from a related party was non-interest bearing and repayable on demand.

(d) *Guarantees issued by related parties*

	At 31 December		
	2006 thousand	2007 thousand	2008 thousand
<b>Guarantees issued by Mr Xu:</b>			
– RMB	260,000	296,010	635,340
– HK Dollars	110,000	140,000	170,000
– US Dollars	–	60,088	75,088
<b>Guarantees issued by Qinfra Industry</b>			
– RMB	69,000	–	100,000

As at 31 December 2006, 2007 and 2008, Mr. Xu issued guarantees to banks for issuing banking facilities to the Group, equivalent to RMB370,517,000, RMB866,025,000 and RMB1,298,459,000, respectively.

The directors have confirmed the guarantees issued by Mr. Xu and Qinfra Industry will be released/discharged by the bankers upon the listing of the Company's shares on the Main Board of the Stock Exchange.

**(e) Key management personnel remuneration**

Key management personnel are those persons holding positions with authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including the Group's directors.

Remuneration for key management personnel of the Group, including amounts paid to the directors as disclosed in Note 7, is as follows:

	Years ended 31 December		
	2006	2007	2008
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Basic salaries, allowances and other benefits	279	1,618	2,450
Contributions to retirement benefit schemes	19	21	35
Discretionary bonuses	—	—	—
	<b>298</b>	<b>1,639</b>	<b>2,485</b>

**D. ULTIMATE HOLDING COMPANY**

The directors consider that the ultimate holding company of the Company as at the date of this report is Fortune Pearl, a company incorporated in the BVI.

**E. SUBSEQUENT EVENTS**

The following significant events took place subsequent to 31 December 2008:

**(a) Group reorganisation**

The companies comprising the Group underwent and completed a reorganisation on 12 June 2009 in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange. Further details of the Reorganisation are set out in the section headed "Reorganisation and the Structure Contracts" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

**(b) Valuation of properties**

For the purpose of the listing of the Company's shares on the Main Board of Stock Exchange, the properties of the Group were revalued as at 30 April 2009 by Vigers Appraisal & Consulting Limited, the independent property valuer.

The valuation gave rise to a revaluation surplus of approximately RMB55,218,000 from the carrying amount of the relevant assets at that date. According to the Group's accounting policy, the revaluation surplus will not be recorded in the Group's Financial Information. If the revaluation surplus were to be included in the Group's Financial Information, additional depreciation charge would be approximately RMB2,208,000 per annum. Details of the valuation are set out in the independent property valuers' certificate in Appendix III to the Prospectus.

**(c) Share Option Scheme**

Pursuant to the written resolution of the shareholders of the Company passed on 12 June 2009, the Company has conditionally adopted a Pre-IPO Share Option Scheme and a Share Option Scheme. The principal terms of the Pre-IPO Share Option Scheme and Share Option Scheme are summarized in Appendix V to the Prospectus.

**(d) Dividends**

According to the written resolution of the directors' meeting passed on 11 June 2009, Qinfra Trading declared special interim dividends of HKD100,000,000 to its ultimate shareholders. The directors have confirmed that such dividends will be fully paid before the listing of the Company's shares on the Main Board of the Stock Exchange.

**F. DIRECTORS' REMUNERATION**

Save as disclosed in Section C Note 7 above, no remuneration has been paid or is payable in respect of the Track Record Period by the Group to the directors of the Company.

**G. BALANCE SHEET OF THE COMPANY**

The balance sheet of the Company as at 31 December 2008 was as follows:

	31 December 2008 RMB
Cash and cash equivalents	0.09
Total assets	<u>0.09</u>
Share capital	0.09
Total equity	<u>0.09</u>

The Company was incorporated in Cayman Islands on 4 March 2008 with an authorised share capital of HKD380,000 divided into 3,800,000 shares of HKD0.10 each. On 4 March 2008, 1 share of HKD0.10 of the Company was allotted and issued fully paid to Codan Trust Company (Cayman) Limited as the initial subscriber, which was subsequently transferred by Codan Trust Company (Cayman) Limited to Mr. Xu on the same day. The Company has not carried on any business since its date of incorporation.

**H. SUBSEQUENT ACCOUNTS**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 31 December 2008.

Yours faithfully,

**KPMG**

*Certified Public Accountants*

Hong Kong

For illustrative purpose only, the unaudited pro forma financial information prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the investors with further information to access the Group's financial performance and to illustrate the financial condition after the completion of the Global Offering.

The unaudited pro forma financial information is derived according to a number of adjustments. Although reasonable care has been exercised in preparing such information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial performance and condition of the Group during the Track Record Period or any further date.

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

#### A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2008 and based on the audited combined net assets of the Group as at 31 December 2008 as shown in the Accountants' Report set forth in Appendix I to this prospectus and is adjusted as follows:

Audited combined net tangible assets of the Group attributable to the equity holders of the Company as at 31 December 2008 <i>RMB'000</i> (Note 1)	Estimated net proceeds from the Global Offering <i>RMB'000</i> (Note 2)	Unaudited pro forma adjusted net tangible assets <i>RMB'000</i> (Note 2)	Unaudited pro forma adjusted net tangible assets per Share <i>RMB</i> (Note 3)	Unaudited pro forma adjusted net tangible assets per Share <i>HK\$</i> (Note 4)
Based on the Offer Price of HK\$2.00 per Share (being the lowest)	734,955	400,408	1,135,363	1.14
Based on the Offer Price of HK\$2.52 per Share (being the highest)	734,955	511,540	1,246,495	1.25

This statement is presented for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Group following the Global Offering.

*Notes:*

1. The audited combined net tangible assets of the Group as at 31 December 2008 has been extracted without adjustment from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Global Offering are based on the minimum and maximum indicative Offer Price of HK\$2.00 and HK\$2.52 per Offer Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and taking no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company.
3. The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,000,000,000 Shares (including the Shares in issue as at 31 December 2008, Shares to be issued under the Capitalisation Issue and the Global Offering) are in issue and taking no account of any Shares which may be allotted and issued upon exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Share Option Scheme, or which may be allotted and issued or repurchased by the Company.
4. The unaudited pro forma adjusted net tangible assets per share amounts in RMB are converted to HK\$ with the exchange rate at RMB1 to HK\$1.13. No representation is made that the Renminbi amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate.
5. The Group's property interests as at 30 April 2009 have been valued by Vigers Appraisal & Consulting Limited, an independent property valuer. The details of such valuation are set out in Appendix III to this prospectus. The Group will not incorporate the revaluation surplus in its financial statements for the year ended 31 December 2008. It is the Group's accounting policy to state its lease prepayment at cost less accumulated amortisation and plant and buildings at cost less accumulated depreciation and any impairment loss in accordance with International Accounting Standard 17 and 16, respectively, rather than at revalued amounts. With reference to the valuation of the Group's property interests as set out in Appendix III to this prospectus, there was a revaluation surplus of the Group's relevant assets of approximately RMB55.2 million, which has not been included in the above net tangible assets of the Group. If such revaluation surplus was incorporated in the Group's financial statements for the year ended 31 December 2008, an additional depreciation charge of approximately RMB2.2 million per annum would be incurred.

**COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION  
RELATING TO THE ADJUSTED NET TANGIBLE ASSETS**

*The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, prepared for the purpose of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.*



8th Floor  
Prince's Building  
10 Chater Road  
Central  
Hong Kong

19 June 2009

The Directors  
**China Qinfa Group Limited**  
**China Everbright Capital Limited**

Dear Sirs,

**CHINA QINFA GROUP LIMITED (THE “COMPANY”)**

We report on the unaudited pro forma statement of adjusted net tangible assets (the “Unaudited Pro Forma Financial Information”) of China Qinfa Group Limited (the “Company”) and its subsidiaries (the “Group”) set out in part A of Appendix II of the prospectus dated 19 June 2009 (the “Prospectus”), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Global Offering might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in part A of appendix II of the Prospectus.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by Paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Our procedures on the Unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2008 or any future date.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company’s shares, the application of those net proceeds, or whether such use will actually take place as described under “Future Plans and Use of Proceeds” set out in the Prospectus.

**OPINION**

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**KPMG**

*Certified Public Accountants*

Hong Kong

*The following is the text of the letter, a summary of valuation and the valuation certificates received from Vigers Appraisal & Consulting Limited, an independent property valuer, prepared for the purpose for incorporation in this prospectus, in connection with their valuation of the property interests held by the Company and its subsidiaries as at 30 April 2009.*

**Vigers Appraisal & Consulting Limited**  
**International Assets Appraisal Consultants**

10th Floor, The Grande Building  
398 Kwun Tong Road  
Kowloon  
Hong Kong



19 June 2009

The Directors  
China Qinfa Group Limited  
Room 1303, 13th Floor  
MassMutual Tower  
No. 38 Gloucester Road  
Wanchai  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by China Qinfa Group Limited (the "Company") or its subsidiaries (collectively referred to as the "Group"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interests as at 30 April 2009 (the "date of valuation") for incorporating into the prospectus.

Our valuation is our opinion of the market value of the property interest which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

For properties in Groups I to II, which are located in the People's Republic of China (the "PRC"), we have been provided with certain extracts of title documents relating to the property interests. We have not caused title search to be made at the relevant government bureau in the PRC nor inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. In undertaking our valuation of the properties in the PRC, we have relied on the legal opinions provided by the Group's legal adviser, Commerce & Finance Law Offices.

In valuing Property 1, due to the lack of identifiable market transaction on properties of similar nature of the buildings and structure, we have adopted a combination of the market and depreciated replacement cost approaches in assessing the land portions of the properties and the buildings and structures standing on the land respectively. The sum of the two results represents the market value of the property as a whole. In the valuation of the land portion, reference has been made to the standard land prices in the relevant cities and the sales evidences in the locality as available to us.

The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The depreciated replacement cost approach generally furnishes a reliable indication of value for property in the absence of a known market based on comparable sales. It is subject to adequate potential profitability of the business or of the whole entity.

We have valued the property interests in Property 2 using Direct Comparison Approach assuming sale of the property with the benefit of immediate vacant possession and by making reference to comparable sales transactions as available in the relevant markets.

The properties in Groups II to III have been ascribed no commercial value due to the short-term nature of their tenancies, their prohibition against assignment or sub-letting, or otherwise the lack of substantial profit rent.

In valuing the properties, we have assumed that the property owner has free and uninterrupted rights to use the property and is entitled to transfer, lease or mortgage the property to any third party with the residual term without payment of any further premium or onerous fee to the government or any third party. All land use rights premium and other relevant costs and fees on utility provisions are assumed to have been fully settled.

Our valuation has been made on the assumption that the owners sell the property interests on the market without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to increase the value of the property interests. In addition, no forced sale situation in any manner is assumed in our valuation. Unless otherwise stated, the valuation represents the value of the entire property interest described in the valuation certificate and not the value of a share of it. Other assumptions in respect of each property, if any, have been set out in the footnotes of the valuation certificates for the respective properties.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, easements, tenure, occupation, lettings, site and floor areas, development plans, construction costs, identification of the properties and other relevant matters. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

We have had no reason to doubt the true and accuracy of the information provided to us by the Group, and have no reason to suspect that any material information has been withheld. All dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made and we are therefore unable to report whether the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have not carried out investigations on site to determine the suitability of ground conditions and services etc. for any future development, nor have we undertaken any ecological or environmental surveys. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during construction period.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors (“HKIS”).

We enclosed herewith a summary of our valuation and the valuation certificates.

Yours faithfully,  
For and on behalf of  
**Vigers Appraisal & Consulting Limited**  
**Raymond Ho Kai Kwong**  
*Registered Professional Surveyor*  
*MRICS MHKIS MSc (e-com)*  
*Managing Director*

*Note:* Raymond K.K. Ho, Chartered Surveyor, MRICS, MHKIS has over nineteen years' experience in undertaking valuations of properties in Hong Kong and Macau, and has over twelve years' experience in the valuation of properties in the PRC. Mr. Ho has been working with Vigers Group since 1989.

**SUMMARY OF VALUATION**

<b>Property</b>	<b>Capital Value in existing state as at 30 April 2009</b>
-----------------	--

**Group I – Property interests owned and occupied by the Group in the PRC**

1	Land, buildings and structures located at Lot No. 140232203007, Xiezhuang Village, Beijiazhao Town, Datong County, Shanxi Province, the PRC	RMB56,500,000
2.	Unit Nos. 2201 to 2208, Level 22, Poly International Plaza Tower B, No. 1 Pazhou Avenue East, Haizhu District, Guangzhou City, the PRC	RMB40,400,000
<hr/>		<b>Sub-total:</b> <span style="float: right;">RMB96,900,000</span>

**Property**

**Capital Value in  
existing state as at  
30 April 2009**

**Group II – Property interests leased or provided to and occupied by the Group in the  
PRC**

3.	The coal yard, platform and the second and third levels of the associated office building located to the north of Dongguan Village, Xicheng Town, Yangyuan County, Hebei Province, the PRC	No commercial value
4.	Units 10 and 11, Level 22, Yuecai Building, No. 188 Jidajingshan Road, Zhuhai City, Guangdong Province, the PRC	No commercial value
5.	Rooms 1107-1108, Shanghai Pudong Holiday Inn, No. 899 Dongfang Road, Pudong District, Shanghai, the PRC	No commercial value

<b>Property</b>	<b>Capital Value in existing state as at 30 April 2009</b>
6. Hotel Rooms Nos. 801, 802, 805 to 809, and 816 to 818, Qinfa Holiday Hotel, No. 123 Yingbin Road, Qinhuangdao City, Hebei Province, the PRC	No commercial value
7. Room 551, Gaolan Custom Administrative Building, Zhuhai, the PRC	No commercial value
8. Room 102, Ancillary Block of Gaolan Custom Administrative Building, Zhuhai, the PRC	No commercial value
9. Room 103, Ancillary Block of Gaolan Custom Administrative Building, Zhuhai, the PRC	No commercial value
	<hr/>
	<b>Sub-total:</b> _____
	Nil
<b>Group III – Property interests leased and occupied by the Group in Hong Kong</b>	
10. Room 1303 on 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong	No commercial value
	<hr/>
	<b>Sub-total:</b> _____
	Nil
	<b>Grand-total</b> _____
	<b>RMB96,900,000</b> _____

## VALUATION CERTIFICATES

## Group I – Property interests owned and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
1. Land, buildings and structures located at Lot No. 140232203007, Xiezhuang Village, Beijiaozao Town, Datong County, Shanxi Province, the PRC	<p>The property comprises a parcel of land having a total site area of approximately 106,460 sq. m. together with the various buildings and associated structures erected thereon.</p> <p>The buildings have a total gross floor area of approximately 2,221 sq.m. completed in about 2003.</p> <p>The buildings and structures mainly comprise an office and service rooms together with associated structures including platform, roadwork, railway links, open storage yard, dust filter and fencing wall.</p> <p>The property is held with land use rights for a term expiring on 9 April 2053.</p>	<p>The property is occupied by the Group as coal yard and loading/unloading platform.</p>	RMB56,500,000

## Notes:

- i. According to a State-owned Land Use Rights Certificate No. Da Guo Yong (2003) Zi Di 01005, the land use rights of the property having a site area of approximately 106,460 sq.m. have been granted to 大同解家莊晉發運銷有限公司 (Datong Xiezhuang Jinfa Trading and Transportation Co. Ltd. or "Datong Jinfa") for coal station use for a term expiring on 9 April 2053.
- ii. According to Building Ownership Certificate No. Da Fang Quan Zheng Pei Zi B0500004, the title of the buildings having a total gross floor area of approximately 2,220.77 sq.m. is vested in Datong Jinfa.
- iii. The PRC legal opinions state, inter alia, the follows:
  - (1) Datong Jinfa legally holds the title of the property under the land use rights certificate and building ownership certificate. It has fully settled the land use rights premium. The company is entitled to use, assign, mortgage or lease out the buildings for the residual year term of the land use rights in accordance with the laws.
  - (2) The property is not subject to mortgage, tenancy agreement or other encumbrances.
- iv. According to the Company, Datong Jinfa is a limited liability company established in the PRC on 18 April 2003, which is owned as to 49% by Mr. Xu Da (holding on behalf of Mr. Xu) and 51% by Qinfa Industry and a member of China Qinfa Group.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
2. Unit Nos. 2201 to 2208, Level 22, Poly International Plaza Tower B, No. 1 Pazhou Avenue East, Haizhu District, Guangzhou City, the PRC	<p>The property comprises 8 office units on the 22nd level of a 34-storey office tower completed in 2007.</p> <p>The property has a total gross floor area of approximately 1,758.38 sq.m.</p>	The property is occupied by the Group as office.	RMB40,400,000

*Notes:*

- i. Pursuant to eight Real Estate Ownership Certificates (Document Nos.: Yue Fang Di Zheng Zi Di Nos. C 6799828, C 6799829, C 6807048, C 6807049, C 6807050, C 6807051, C 6807052 and C 6807053), eight non-residential units (offices) with a total gross floor area of approximately 1,758.38 sq.m. is vested in 珠海秦發貿易有限公司 (Zhuhai Qinfa Trading Co. Ltd.) for non-residential uses (office uses).  
As stipulated, the property has been granted with the land use rights for a term of 50 years for commercial service (office) uses commencing from 2 June 2004.
- ii. According to 8 Commodity House Sale and Purchase Agreement entered into between 保利房地產(集團)股份有限公司 (Poly Real Estate Group Company Ltd.) (the Seller) and 珠海秦發貿易有限公司 (Zhuhai Qinfa Trading Co. Ltd. or “Zhuhai Qinfa Trading”) (the Purchaser) dated 19 December 2006, the property having an aggregate gross floor area of 1,786.56 sq.m. was agreed to be purchased by the Purchaser at a total consideration of RMB27,661,009.
- iii. The PRC legal opinions state, inter alia, the follows:
  - (1) The ownership of the property is legally vested in the Group.
  - (2) The Group has the right in accordance to the law to use, transfer and lease out the property.
  - (3) The property is subject to a mortgage in favour of 中國銀行(香港)有限公司深圳分行 (Bank of China (Hong Kong) Shenzhen Branch). Except the abovementioned mortgage, the property has not yet been subject to other encumbrances.
- iv. According to the Company, Zhuhai Qinfa Trading is a limited liability company established in the PRC on 21 September 2005, which is owned as to 90% by Mr. Xu and 10% by Mr. Liu Jingwei (holding on behalf of Mr. Xu), and a member of China Qinfa Group.

## Group II – Property interests leased or provided to and occupied by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
3. The coal yard, platform and the second and third levels of the associated office building located to the north of Dongguan Village, Xicheng Town, Yangyuan County, Hebei Province, the PRC	<p>The property comprises a parcel of land having a site area of approximately 66,000 sq. m. together with the second and third levels of the office building erected thereon.</p> <p>The buildings have a total gross floor area of approximately 6,500 sq.m. completed in about 1993.</p>	<p>The property (together with the exclusive use of the railway links and certain vehicles) is leased to 陽原國通煤炭運銷有限公司 (Yangyuan Guotong Coal Trading and Transportation Co. Ltd or “Yangyuan Guotong”) from 河北省陽原通源煤炭公司 (Hebei Province Yangyuan Tongyuan Coal Company), an independent third party, for a term of 8 years from 21 May 2008 at a yearly rent of RMB3,300,000 exclusive of profit tax. Yangyuan Guotong is also granted with the pre-emption right on the renewal of the lease and the purchase of the property.</p>	No commercial value

## Notes:

- i. The PRC legal opinions state, inter alia, the follows:
  - (1) The lessor legally holds a land use rights certificate of the land. It has the right to lease the property to the Group.
  - (2) The agreement has been registered with the Land Resources Bureau of Yangyuan County.
  - (3) No significant encumbrances against the land that may affect the operation of the lease has been found. The current use of the property is in compliance with the approved uses.
  - (4) The lease agreement on the state-owned land use rights is legal, valid, binding to the parties entered, and being executed.
- ii. According to the Company, Yangyuan Guotong is a limited liability company established in the PRC on 20 December 2003, which is owned as to 96% by Mr. Liu Jingwei (holding on behalf of Mr. Xu), and 4% by Ms. Zhou Lusha (holding on behalf of Mr. Xu), and a member of China Qinfra Group.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
4. Units 10 and 11, Level 22, Yuecai Building, No. 188 Jidajingshan Road, Zhuhai City, Guangdong Province, the PRC	<p>The property comprises 2 office units on the 22nd level of a 30-level office/hotel complex completed in about 2001.</p> <p>The property has a gross floor area of approximately 195.3 sq.m.</p>	<p>The property is leased to 珠海秦發貿易有限公司 (Zhuhai Qinfa Trading Co. Ltd or "Zhuhai Qinfa Trading") from 珠海粵財實業有限公司 (Zhuhai Yuecai Industrial Company Limited), an independent third party, for a term of 3 years from 28 May 2006 at a monthly rent of RMB10,741.50, exclusive of management fee and service charges. The rent is fixed during the lease period and if renew, the term and rent will be based on the then prevailing market condition to be mutually agreed upon.</p>	<p>No commercial value</p> <p>The property is occupied by the Group as office.</p>

*Notes:*

- i. According to the Company, the lease has been extended for a term of 2 years from 28 May 2009 at a monthly rent of RMB12,694.5. The rent is subject to an annual adjustment in accordance with the then prevailing market rent and within an up or down scale of 10%. The rent is exclusive of management fee and service charges.
- ii. The PRC legal opinions state, inter alia, the follows:
  - (1) The lessor legally holds a building ownership certificate of the property. It has the right to lease the property to the Group.
  - (2) The tenancy agreement has not been registered. However, the non-registration of the agreement will not affect its effectiveness. The parties are bound by the agreement once the agreement has been entered. The non-registration will not lead to any administrative liability on the side of the lessee.
  - (3) No significant encumbrances against the land that may affect the operation of the lease has been found.
  - (4) The agreement is legal, valid, binding to the parties entered and being executed. The current use of the property is in compliance with the approved uses.
- iii. According to the Company, Zhuhai Qinfa Trading is a limited liability company established in the PRC on 21 September 2005, which is owned as to 90% by Mr. Xu and 10% by Mr. Liu Jingwei (holding on behalf of Mr. Xu), and a member of China Qinfa Group.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
5. Rooms 1107-1108, Shanghai Pudong Holiday Inn, No. 899 Dongfang Road, Pudong District, Shanghai, the PRC	<p>The property comprises an office unit on the 11th floor of a 38-storey office/hotel complex completed in about 2001.</p> <p>The property has a gross floor area of approximately 210 sq.m.</p>	<p>The property is leased to 珠海秦發貿易有限公司 (Zhuhai Qinfa Trading Co. Ltd or "Zhuhai Qinfa Trading") from 上海中國煤炭大廈有限責任公司 (Shanghai China Coal Building Company Limited, Holiday Inn Pudong Shanghai), an independent third party, for a term of 3 years from 28 December 2007 at a monthly rent of RMB29,312.54, to be increased at 4% and 3% respectively for the second and the third years. The rent is inclusive of management fee but exclusive of utility services charges.</p>	<p>No commercial value</p> <p>The property is occupied by the Group as office.</p>

*Notes:*

- i. The PRC legal opinions state, inter alia, the follows:
  - (1) The lessor legally holds a building ownership certificate of the property. It has the right to lease the property to the Group.
  - (2) The tenancy agreement has not been registered. However, the non-registration of the agreement will not affect its effectiveness. The parties are bound by the agreement once the agreement has been entered. The non-registration will not lead to any administrative liability on the side of the lessee.
  - (3) No significant encumbrances against the property that may affect the operation of the lease has been found.
  - (4) The agreement is legal, valid, binding to the parties entered and being executed. The current use of the property is in compliance with the approved uses.
- ii. According to the Company, Zhuhai Qinfa Trading is a limited liability company established in the PRC on 21 September 2005, which is owned as to 90% by Mr. Xu and 10% by Mr. Liu Jingwei (holding on behalf of Mr. Xu), and a member of China Qinfa Group.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
6. Hotel Rooms Nos. 801, 802, 805 to 809, and 816 to 818, Qinfa Holiday Hotel, No. 123 Yingbin Road, Qinhuangdao City, Hebei Province, the PRC	<p>The property comprises 10 hotel rooms on the 8th level of a 24-storey hotel complex completed in about 2001.</p> <p>The property has a gross floor area of approximately 543 sq.m.</p>	<p>The property is leased to 秦皇島開發區秦發貿易有限公司 (Qinhuangdao Development Zone Qinfa Trading Co. Ltd. or "Qinhuangdao Trading") from 秦皇島秦發實業集團有限公司 (Qinhuangdao Qinfa Industry Group Co. Ltd or "Qinfa Industry"), a related party to the Group, for a term of 10 years from 1 January 2008 at a yearly rent of RMB680,000 for the first year and to be adjusted in accordance with the then prevailing market rent in the following years.</p>	<p>No commercial value</p> <p>The property is occupied by the Group as office.</p>

*Notes:*

- i. The PRC legal opinions state, *inter alia*, the follows:
  - (1) The lessor legally holds a building ownership certificate of the property. It has the right to lease the property to the Group.
  - (2) The tenancy agreement has been registered.
  - (3) No other significant encumbrances against the property that may affect the effective operation of the lease has been found.
  - (4) The agreement is legal, valid, binding to the parties entered and being executed. The current use of the property is in compliance with the approved uses.
- ii. According to the Company, Qinhuangdao Trading is a limited liability company established in the PRC on 13 February 1995, which is owned as to 49% by Mr. Xu Da (holding on behalf of Mr. Xu), and 51% by Qinfa Industry and a member of China Qinfa Group.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
7. Room 551, Gaolan Custom Administrative Building, Zhuhai, the PRC	<p>The property comprises an office unit on the 5th floor of a 12-storey administrative building completed in about 1997.</p> <p>The property has a gross floor area of approximately 38 sq. m.</p>	<p>The property is provided to 珠海秦發物流有限公司 (Zhuhai Qinfa Logistics Co. Ltd or "Qinfa Logistics") by 珠海高欄港經濟區管理委員會 (Management Committee of Zhuhai Gaolan Harbour Economic Zone), an independent third party, for a term expiring on 31 December 2010 free of rent.</p>	No commercial value

*Notes:*

- i. According to the Company, the use right of the office room to the Group free of rent is given by 珠海高欄港經濟區管理委員會 (Management Committee of Zhuhai Gaolan Harbour Economic Zone) or "the Management Committee" as an incentive on inviting investment made into the economic zone.
- ii. According to a certificate issued by the Management Committee dated 16 January 2009, the property has been provided to the Group for office use until 31 December 2010 free of rent.
- iii. The PRC legal opinions state, inter alia, the follows:
  - (1) According to a certificate issued by the Management Committee dated 25 December 2007, the property has been provided to the Group for office use.
  - (2) The Management Committee possesses a valid building ownership certificate of the building and has the right to provide the property to the Group free of rent.
  - (3) The provision of the property to the Group without consideration does not constitute a commercial lease. Therefore, no registration with the relevant authority is required.
  - (4) The current use of the property is in compliance with the approved use.
- iv. According to the Company, Qinfa Logistics is an indirectly wholly-owned subsidiary of the Company.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
8. Room 102, Ancillary Block of Gaolan Custom Administrative Building, Zhuhai, the PRC	<p>The property comprises an office unit on the first floor of a 7-storey administrative building completed in about 1994.</p> <p>The property has a gross floor area of approximately 20 sq. m.</p>	<p>The property is provided to 珠海秦發貿易有限公司 (Zhuhai Qinfa Trading Co. Ltd or "Zhuhai Qinfa Trading") by 珠海高欄港經濟區管理委員會 (Management Committee of Zhuhai Gaolan Harbour Economic Zone), an independent third party, for a long term (but unspecified) and office use free of rent.</p>	No commercial value

*Notes:*

- i. According to the Company, the use right of the office room to the Group free of rent is given by 珠海高欄港經濟區管理委員會 (Management Committee of Zhuhai Goalan Harbour Economic Zone or "the Management Committee" as an incentive on inviting investment made into the economic zone.
- ii. The PRC legal opinions state, inter alia, the follows:
  - (1) According to a certificate issued by the Management Committee dated 28 June 2006, the property has been provided to the Group for long term (but unspecified) office use.
  - (2) The Management Committee possesses a valid building ownership certificate of the building and has the right to provide the property to the Group free of rent.
  - (3) The provision of the property to the Group without consideration does not constitute a commercial lease. Therefore, no registration with the relevant authority is required.
  - (4) The current use of the property is in compliance with the approved use.
- iii. According to the Company, Zhuhai Qinfa Trading is a limited liability company established in the PRC on 21 September 2005, which is owned as to 90% by Mr. Xu and 10% by Mr. Liu Jingwei (holding on behalf of Mr. Xu), and a member of China Qinfa Group.

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
9. Room 103, Ancillary Block of Gaolan Custom Administrative Building, Zhuhai, the PRC	<p>The property comprises an office unit on the first floor of a 7-storey administrative building completed in about 1994.</p> <p>The property has a gross floor area of approximately 20 sq. m.</p>	<p>The property is provided to 珠海秦發航運有限公司 (Zhuhai Qinfa Shipping Co. Ltd. or “Zhuhai Qinfa Shipping”) by 珠海高欄港經濟區管理委員會 (Management Committee of Zhuhai Gaolan Harbour Economic Zone), an independent third party, for a long term (but unspecified) and office use free of rent.</p>	No commercial value

*Notes:*

- i. According to the Company, the use right of the office room to the Group free of rent is given by 珠海高欄港經濟區管理委員會 (Management Committee of Zhuhai Gaolan Harbour Economic Zone) or “the Management Committee” as an incentive on inviting investment made into the economic zone.
- ii. The PRC legal opinions state, inter alia, the follows:
  - (1) According to a certificate issued by the Management Committee dated 13 August 2007, the property has been provided to the Group for long term (but unspecified) office use.
  - (2) The Management Committee possesses a valid building ownership certificate of the building and has the right to provide the property to the Group free of rent.
  - (3) The provision of the property to the Group without consideration does not constitute a commercial lease. Therefore, no registration with the relevant authority is required.
  - (4) The current use of the property is in compliance with the approved use.
- iii. According to the Company, Zhuhai Qinfa Shipping is a limited liability company established in the PRC on 6 September 2007, which is owned as to 80% by Mr. Xu and 20% by Mr. Xu Da (holding on behalf of Mr. Xu), and a member of China Qinfa Group.

## Group III – Property interests leased and occupied by the Group in Hong Kong

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 April 2009
10. Room 1303 on 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong	<p>The property comprises an office unit on the 13th floor of a 26-storey office development completed in about 1985.</p> <p>The property has a lettable floor area of approximately 110 sq.m. (1,184 sq. ft.)</p>	<p>The property is leased to Hong Kong Qinfa Shipping Limited from Pioneer Time Investment Limited, an independent third party, for a term of 2 years from 8 December 2007 at a monthly rent of HK\$46,848, exclusive of government rates and service charges.</p>	No commercial value

The property is occupied by the Group as office.

*Notes:*

- i. According to the Land Registry, the registered owner of the property is Pioneer Time Investment Limited.
- ii. According to the Company, Hong Kong Qinfa Shipping Limited is an indirectly wholly-owned subsidiary of the Company.

*Set out below is a summary of certain provisions of the memorandum of association of the Company (the “**Memorandum**”) and the Articles and of certain aspects of Cayman company law.*

*The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 4 March 2008 under the Companies Law. The Memorandum and the Articles comprise its constitution.*

## **1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

## **2. ARTICLES OF ASSOCIATION**

The Articles were adopted on 12 June 2009. The following is a summary of certain provisions of the Articles:

### **(a) Directors**

#### *(i) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(ii) Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iii) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(iv) Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

*(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any

remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

*(vi) Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vii) Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee

so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(viii) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*Note:* These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

*(ix) Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

*(x) Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

**(b) Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(c) Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

**(d) Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

**(e) Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear Business Days, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear Business Days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

**(f) Voting rights**

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been

duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

**(g) Requirements for annual general meetings**

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

**(h) Accounts and audit**

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such

person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

**(i) Notices of meetings and business to be conducted thereat**

An annual general meeting shall be called by notice of not less than twenty-one (21) days and not less than twenty (20) clear Business Days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear Business Days. All other extraordinary general meeting shall be called by at least fourteen (14) clear days and not less than ten (10) clear Business Days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the Designated Stock Exchange (as defined in the Articles), it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and
- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(j) Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

**(k) Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

**(l) Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

**(m) Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a

good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(n) Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(o) Call on shares and forfeiture of shares**

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(p) Inspection of register of members**

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

**(q) Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

**(r) Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

**(s) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(t) Untraceable members**

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

**(u) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

**(c) Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a

company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

**(f) Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

**(h) Accounting and auditing requirements**

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 11 March 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

**(n) Winding up**

A company may be wound up compulsorily by order of the Court; voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its

debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributors), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributors (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributor in any manner authorised by the company's articles of association and published in the Gazette in the Cayman Islands.

**(o) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(p) Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(q) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraphs under "Documents available for public inspection in Hong Kong" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**FURTHER INFORMATION ABOUT THE COMPANY****1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law on 4 March 2008. The registered office of the Company as at the date of this prospectus is situated at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Hong Kong Companies Ordinance on 24 April 2008. Mr. MAK King Pui, Ricky of Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The principal place of business of the Company in Hong Kong is situated at Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong.

A summary of the Articles and the memorandum of association of the Company is set forth in Appendix IV to this prospectus.

**2. Changes in the share capital of the Company**

The following changes in the share capital of the Company have taken place since the date of incorporation up to the date of this prospectus:-

- (a) As at the date of incorporation of the Company, 4 March 2008, the authorised share capital of the Company was HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each. On the same date, one Share was transferred to Mr. XU from the subscriber.
- (b) On 12 June 2009, the Company issued 999,999 Shares to Fortune Pearl, credited as fully paid, and Mr. XU transferred his one Share to Fortune Pearl.
- (c) On 12 June 2009, the authorised share capital of the Company was increased by HK\$1,999,620,000 with the creation of 19,996,200,000 new Shares.
- (d) On 13 June 2009, Fortune Pearl transferred an aggregate of 209,333 Shares to Equity Trust (HK) Limited acting as the trustee of the Trust Scheme holding all the Shares for the benefit of Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha.

Assuming that the Global Offering becomes unconditional, the Capitalisation Issue is completed and the Offer Shares are issued but taking no account of any Shares that may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, the authorised share capital of the Company will be HK\$2,000,000,000 divided into 20,000,000,000 Shares and the issued share capital of the Company will be HK\$100,000,000 divided into 1,000,000,000 Shares, fully paid or credited as fully paid, and 19,000,000,000 Shares will remain unissued.

Save as disclosed in this prospectus, there has been no alteration in the share capital of the Company since the date of incorporation.

Other than the issue of the Offer Shares and the Shares pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Share Option Scheme and pursuant to the Issuing Mandate, the Directors have no present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company within twelve months from the Listing Date.

### **3. Changes in the share capital of the subsidiaries of the Company**

The Company's subsidiaries are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

*(a) Liberal*

On 3 May 2007, Liberal was established in Hong Kong with an authorised share capital of HK\$1,000. As of the date of this prospectus, Liberal is wholly-owned by Qinfra Investment.

*(b) Perpetual*

On 10 August 2007, Perpetual was established in Hong Kong with an authorised share capital of HK\$1,000. As of the date of this prospectus, Perpetual is wholly-owned by Qinfra Investment.

*(c) Qinfra Investment*

On 7 April 2008, Qinfra Investment was established in the BVI with the power of issuing a maximum of 50,000 shares of a single class each with a par value of US\$1.0. As of the date of this prospectus, Qinfra Investment is wholly-owned by the Company.

*(d) Qinfra International*

On 8 May 2007, Qinfra International was established in Hong Kong with an authorised share capital of HK\$10,000. As of the date of this prospectus, Qinfra International is wholly-owned by Qinfra Investment.

*(e) Qinfra Logistics*

On 5 February 2008, Qinfra Logistics was established in the PRC as a wholly foreign-owned limited liability company with a registered capital of HK\$20,000,000 with Qinfra Trading being its sole equity holder.

*(f) Qinfra Shipping*

On 20 August 2003, Qinfra Shipping was established in Hong Kong with an authorised share capital of HK\$10,000. As of the date of this prospectus, Qinfra Shipping is wholly-owned by Qinfra Investment.

*(g) Qinfra Trading*

Qinfra Trading, which was established in Hong Kong, has an authorised share capital of HK\$30,000,000. As at the date of this prospectus, Qinfra Trading is wholly-owned by Qinfra Investment.

*(h) Super Grace*

On 25 January 2008, Super Grace was established in the BVI with the power of issuing a maximum of 50,000 shares of a single class each with a par value of US\$1.0. As of the date of this prospectus, Super Grace is wholly-owned by Qinfra Investment.

*(i) Zhuhai Qinfra Shipping*

On 6 September 2007, Zhuhai Qinfra Shipping was established in the PRC as a limited liability company with a registered capital of RMB5,000,000.

Save as set forth in the above paragraphs, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

**4. Written resolutions of the Sole Shareholder**

Pursuant to the written resolutions passed by the sole Shareholder on 12 June 2009:-

- (a) the Articles were adopted and approved as the articles of association of the Company;
- (b) the authorised share capital of the Company was increased from HK\$380,000 to HK\$2,000,000,000 divided into 20,000,000,000 Shares with the creation of 19,996,200,000 new Shares;
- (c) upon completion of the transfer of 209,333 Shares from Fortune Pearl to Equity Trust (HK) Limited and conditional on the share premium account of the Company being credited as a result of the Global Offering on the terms set out in this prospectus, the Directors were authorised to issue and allot Shares pursuant to the Capitalisation Issue;

(d) conditional upon all the conditions set out in the section entitled “Structure of the Global Offering” in this prospectus being fulfilled:-

- (i) the Global Offering at the Offer Price on the terms and subject to conditions set out in this prospectus and the Application Forms and the Over-allotment Option were approved and the Directors were authorised to effect the same and to allot and issue new Shares pursuant thereto;
- (ii) the Pre-IPO Share Option Scheme and the Share Option Scheme were approved and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of any option that may be granted thereunder and to take all such actions as they consider necessary or desirable to implement or give effect to the provisions of the Pre-IPO Share Option Scheme and the Share Option Scheme;

(e) a general unconditional mandate was granted to the Directors authorising them to exercise all the powers of the Company to allot, issue and deal with, otherwise than by way of a rights issue or an issue of Shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme and any other option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other person of shares or rights to acquire shares or any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or a specific authority granted by the Shareholders in general meeting, Shares not exceeding the aggregate of 20% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalisation Issue;

(f) a general unconditional mandate was granted to the Directors authorising them to exercise all powers of the Company to repurchase Shares on the Stock Exchange or any other stock exchange on which Shares may be listed and recognized by the SFC and the Stock Exchange for this purpose provided that the number of Shares which the Directors were authorized to purchase may not exceed 10% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalisation Issue; and

(g) the general unconditional mandate as mentioned in paragraph (e) above was extended by the addition of an amount representing the Shares repurchased by the Company pursuant to paragraph (f) above, provided that such extended amount shall not exceed the aggregate of 10% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalisation Issue.

Each of the general mandates referred to in paragraphs (e) and (f) above will remain in effect until the earliest of: (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required to be held by the Companies Law or the Articles or any applicable laws of the Cayman Islands or (3) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate.

Pursuant to the written resolutions passed by the sole Shareholder on 12 June 2009, Dr. CHEN Wenjing, Mr. HUANG Guosheng and Mr. LAU Sik Yuen were appointed as independent non-executive Directors.

## **REORGANISATION**

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure for the Listing. As a result, the Company became the holding company of the Group. A diagram illustrating the Group's corporate structure after completion of the Reorganisation as of the date of this prospectus is set forth in the section headed "Reorganisation and the Structure Contracts" of this prospectus.

As part of the Reorganisation, the following steps took place:-

- (a) On 4 March 2008, the Company was established with Mr. XU as its sole shareholder.
- (b) On 30 March 2008, Qinhuangdao Trading and Qinfra Industry entered into a business transfer agreement, pursuant to which Qinfra Industry transferred its coal trading business to Qinhuangdao Trading.
- (c) On 7 April 2008, Qinfra Investment was incorporated in the BVI.
- (d) On 6 October 2008, Mr. XU transferred his one share in Qinfra Investment to Fortune Pearl. On the same date, pursuant to the First Share Exchange Agreement, Mr. XU and Ms. WANG Jianfei agreed to transfer their shares in various members of the Hong Kong Qinfra Group to Qinfra Investment in exchange for Qinfra Investment's allotment and issuance of 4,800 shares to Fortune Pearl, credited as fully-paid.
- (e) On 12 June 2009, Mr. XU, Ms. WANG Jianfei, Mr. XU Da, Mr. LIU Jingwei and Ms. ZHOU Lusha entered into the Deed of Common Control confirming that they were acting collectively in controlling the business of the Group when they were the equity holders of members of the Group.
- (f) On 12 June 2009, pursuant to the Final Share Exchange Agreement, the Company issued 999,999 Shares to Fortune Pearl in consideration of Fortune Pearl transferring 4,801 shares in Qinfra Investment to the Company. Following completion of this transaction, Qinfra Investment became a wholly-owned subsidiary of the Company. On the same date, Mr. XU transferred one Share to Fortune Pearl.

- (g) On 12 June 2009, Qinf Logistics and each member of the China Qinf Group and all its respective equity holders entered into the Structure Contracts.
- (h) On 13 June 2009, Fortune Pearl established the Trust Scheme whereby an aggregate of 209,333 Shares were transferred to Equity Trust (HK) Limited, acting as the trustee of the Trust Scheme, for the benefit of Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha. Following completion of the Global Offering and the Capitalisation Issue (without taking into consideration the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme), there will be 157,000,000 Shares held under the Trust Scheme which will represent 15.7% of the number of Shares in issue.

## **REPURCHASE OF ITS OWN SECURITIES BY THE COMPANY**

This section includes the information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

### **1. Provisions of the Listing Rules**

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:-

#### *(a) Shareholders' approval*

The Listing Rules provide that all repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

*Note:* Pursuant to the resolutions in writing passed by the sole Shareholder on 12 June 2009, the Repurchase Mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase the Shares on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of not more than 10% of the issued share capital of the Company immediately following completion of the Global Offering and the Capitalisation Issue (excluding any Share which may be issued pursuant to the exercise of the Over-allotment Option). The Repurchase Mandate will remain in effect until the earliest of: (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required to be held by the Companies Law or the Articles or any applicable laws of the Cayman Islands or (3) the time when such mandate is revoked, renewed or varied by an ordinary resolution of the Shareholders in general meeting.

#### *(b) Shares to be repurchased*

The Listing Rules provide that Shares proposed to be repurchased by the Company must be fully paid-up.

*(c) Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of the Company which, in the opinion of the Directors, are from time to time appropriate for the Company. However, there might be a material adverse impact on the working capital requirements of the Company as set out in this prospectus in the event that the Repurchase Mandate is exercised in full.

*(d) Status of repurchased securities*

The listing of all repurchased securities (whether on the Stock Exchange or otherwise) shall be automatically cancelled and the related share certificates shall be cancelled and destroyed.

*(e) Connected parties*

The Listing Rules prohibit a company from knowingly repurchasing securities on the Stock Exchange from a connected person and a connected person shall not knowingly sell his or her or its securities to the company.

## **2. Reasons for repurchase**

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares on the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share and will only be made when the Directors believe that such repurchase will benefit the Company and its Shareholders.

## **3. Exercise of the Repurchase Mandate**

Exercise in full of the Repurchase Mandate on the basis of 1,000,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue (excluding any Share which may be issued pursuant to the exercise of the Over-allotment Option) could accordingly result in up to 100,000,000 Shares being repurchased by the Company during the period prior to (1) the conclusion of the next annual general meeting of the Company; (2) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Law or the Articles to be held or any applicable laws of the Cayman Islands or (3) the revocation or variation of the Repurchase Mandate by ordinary resolution of Shareholders in general meeting, whichever is the earliest.

**4. General**

None of the Directors or, to the best of their knowledge after having made all reasonable enquiries, any of their respective associates have any present intention to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised. No connected person of the Company has notified the Company that he or she or it has a present intention to sell Shares to the Company, or has he or she or it undertaken not to do so if the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Articles and the applicable laws and regulations of the Cayman Islands.

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purposes of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code as a result of any such increase. The Directors are not aware of any other consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

No repurchase of Shares has been made by the Company since its incorporation.

**FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP****1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within the two years immediately preceding the date of this prospectus and are or may be material:—

- (1) a facility agreement dated 21 November 2007 in relation to a secured term loan facility of up to US\$42,088,000 and a secured term loan facility of up to US\$18,000,000 entered into between Qinfa Shipping, Qinfa Trading, Mr. XU and Bank of China (Hong Kong) Limited;
- (2) a Hong Kong ship mortgage dated 21 November 2007 and executed by Qinfa Shipping, as mortgagor, to Bank of China (Hong Kong) Limited, as mortgagee;
- (3) the second deed of covenants of m.v. "Qinfa 6" dated 21 November 2007 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (4) the second general assignment of m.v. "Qinfa 6" dated 21 November 2007 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (5) a subordination deed dated 21 November 2007 and entered into between Qinfa Shipping, Qinfa Trading and Bank of China (Hong Kong) Limited;

- (6) a Hong Kong ship mortgage dated 29 November 2007 and executed by Liberal, as mortgagor, to Bank of China (Hong Kong) Limited, as mortgagee;
- (7) a deed of covenants of m.v. "Qinfa 8" dated 29 November 2007 and entered into between Liberal and Bank of China (Hong Kong) Limited;
- (8) a general assignment of m.v. "Qinfa 8" dated 29 November 2007 and entered into between Liberal and Bank of China (Hong Kong) Limited;
- (9) a Hong Kong ship mortgage dated 10 December 2007 and executed by Perpetual, as mortgagor, to Bank of China (Hong Kong) Limited, as mortgagee;
- (10) a deed of covenants of m.v. "Qinfa 9" dated 10 December 2007 and entered into between Perpetual and Bank of China (Hong Kong) Limited;
- (11) a general assignment of m.v. "Qinfa 9" dated 10 December 2007 and entered into between Perpetual and Bank of China (Hong Kong) Limited;
- (12) an agreement named "業務轉讓協議" (in Chinese) dated 30 March 2008 and entered into between Qinhuangdao Trading and Qinfa Industry;
- (13) an agreement dated 13 May 2008 and entered into between Qinfa Shipping, Qinfa Trading, Mr. XU and Bank of China (Hong Kong) Limited;
- (14) the second supplemental agreement dated 6 June 2008 and entered into between Qinfa Shipping, Qinfa Trading, Mr. XU and Bank of China (Hong Kong) Limited;
- (15) a facility agreement dated 14 July 2008 in relation to a secured term loan facility of up to US\$15,000,000 and a secured term loan facility of up to US\$25,000,000 and entered into between Bank of Communications Co., Ltd. Hong Kong Branch and Super Grace;
- (16) a letter of undertaking dated 14 July 2008 issued by the Company to Bank of Communications Co., Ltd. Hong Kong Branch;
- (17) a subordination deed dated 14 July 2008 and entered into between Super Grace, Qinfa Shipping, Qinfa Trading and Bank of Communications Co., Ltd. Hong Kong Branch;
- (18) a debenture dated 14 July 2008 and entered into between Super Grace and Bank of Communications Co., Ltd. Hong Kong Branch;
- (19) a conversion contract assignment of m.v. "Qinfa 10" dated 14 July 2008 and entered into between Super Grace and Bank of Communications Co., Ltd. Hong Kong Branch;
- (20) a general assignment m.v. "Qinfa 10" dated 23 July 2008 and entered into between Super Grace and Bank of Communications Co. Ltd. Hong Kong Branch;

- (21) a first preferred Panamanian ship mortgage of m.v. “Qinfa 10” dated 23 July 2008 executed by Super Grace in favour of Bank of Communications Co. Ltd. Hong Kong Branch;
- (22) a share sale agreement dated 24 July 2008 entered into between Excel Coal Limited as Buyer (as defined therein) and various parties (including Qinfa Trading) as Sellers (as defined therein) relating to the Millennium Mine;
- (23) the Trademark Assignment Agreement (in Chinese);
- (24) the First Share Exchange Agreement;
- (25) a facility letter dated 14 April 2009 issued by Bank of China (Hong Kong) Limited to Qinfa International and Qinfa Trading;
- (26) a release dated 29 April 2009 executed by Bank of China (Hong Kong) Limited to release and discharge Liberal from all its obligations under the general assignment dated 29 November 2007 relating to the vessel “Qinfa 8”;
- (27) a release dated 29 April 2009 executed by Bank of China (Hong Kong) Limited to release and discharge Liberal from all its obligations under the deed of covenants dated 29 November 2007 relating to the vessel “Qinfa 8”;
- (28) the third supplemental agreement to a facility agreement dated 21 November 2007 as supplemented by a supplemental agreement dated 13 May 2008 and a second supplemental agreement dated 6 June 2008, dated 8 May 2009 and entered into between Qinfa Shipping, Qinfa Trading, Mr. XU, Qinfa International and Bank of China (Hong Kong) Limited;
- (29) the addendum to deed of covenants dated 10 December 2007 m.v. “Qinfa 9”, dated 8 May 2009 and entered into between Perpetual and Bank of China (Hong Kong) Limited;
- (30) the addendum to general assignment dated 10 December 2007 m.v. “Qinfa 9”, dated 8 May 2009 and entered into between Perpetual and Bank of China (Hong Kong) Limited;
- (31) a Hong Kong ship mortgage dated 8 May 2009 and executed by Perpetual, as mortgagor, to Bank of China (Hong Kong) Limited, as mortgagee;
- (32) the second deed of covenants of m.v. “Qinfa 9” dated 8 May 2009 and entered into between Perpetual and Bank of China (Hong Kong) Limited;
- (33) the second general assignment of m.v. “Qinfa 9” dated 8 May 2009 and entered into between Perpetual and Bank of China (Hong Kong) Limited;

- (34) the addendum to second deed of covenants dated 21 November 2007 m.v. "Qinfa 6", dated 8 May 2009 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (35) the addendum to second general assignment dated 21 November 2007 m.v. "Qinfa 6", dated 8 May 2009 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (36) a Hong Kong ship mortgage dated 8 May 2009 and executed by Qinfa Shipping, as mortgagor, to Bank of China (Hong Kong) Limited, as mortgagee;
- (37) the third deed of covenants of m.v. "Qinfa 6" dated 8 May 2009 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (38) the third general assignment of m.v. "Qinfa 6" dated 8 May 2009 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (39) a debenture dated 8 May 2009 and entered into between Qinfa Shipping and Bank of China (Hong Kong) Limited;
- (40) a debenture dated 8 May 2009 and entered into between Qinfa Trading and Bank of China (Hong Kong) Limited;
- (41) a debenture dated 8 May 2009 and entered into between Qinfa International and Bank of China (Hong Kong) Limited;
- (42) a deed of charge over the shares in Qinfa Shipping dated 8 May 2009 and entered into between Qinfa Investment and Bank of China (Hong Kong) Limited;
- (43) a deed of charge over the shares in Perpetual dated 8 May 2009 and entered into between Qinfa Investment and Bank of China (Hong Kong) Limited;
- (44) a supplemental agreement to facility agreement dated 14 July 2008, dated 29 May 2009 and entered into between Bank of Communications Co., Ltd. Hong Kong Branch and Super Grace;
- (45) the addendum to general assignment dated 23 July 2008 m.v. "Qinfa 10", dated 29 May 2009 and entered into between Super Grace and Bank of Communications Co., Ltd. Hong Kong Branch;
- (46) the addendum to a First Preferred Panamanian Ship Mortgage dated 23 July 2008 relating to the motor vessel "Qinfa 10", dated 29 May 2009 and entered into between Super Grace and Bank of Communications Co., Ltd. Hong Kong Branch;
- (47) a deed of charge over the shares in Super Grace dated 29 May 2009 and entered into between Qinfa Investment and Bank of Communications Co., Ltd. Hong Kong Branch;

(48) a bareboat charter assignment m.v. "Qinfa 10" dated 29 May 2009 and entered into between Super Grace, Zhuhai Qinfa Trading and Bank of Communications Co., Ltd. Hong Kong Branch;

(49) the Final Share Exchange Agreement;

(50) a deed of non-competition dated 12 June 2009 and entered into between the Controlling Shareholders, Ms. LIU Xiaomei and the Company;

(51) a deed of indemnity dated 12 June 2009 and entered into between Mr. XU, Fortune Pearl and the Company;

(52) the Structure Contracts dated 12 June 2009 including the Engagement Agreements and the Pledge Agreements; and

(53) the Hong Kong Underwriting Agreement.

## 2. Intellectual property

### *Trademarks*

As of the Latest Practicable Date, the Group had registered the following trademarks:-

Trademark	Registrant/ Transferee (Note)	Place of registration	Class	Expiry date	Registration number
	Qinfa Logistics (Note)	PRC	35	27 August 2015	3708000
	Qinfa Logistics (Note)	PRC	39	27 October 2015	3708001
	Qinfa Logistics (Note)	PRC	43	27 January 2016	3708002
	the Company	Hong Kong	4, 7, 35, 39, 40	8 April 2018	301088974
	the Company	Hong Kong	4, 7, 35, 39, 40	8 April 2018	301088983

*Note:* The trademarks are being transferred to Qinfa Logistics. The Directors expect that the transfers will be completed by October 2009.

***Domain name***

As of the Latest Practicable Date, the Group had registered the following domain name:–

<b>Domain name</b>	<b>Name of Proprietor</b>	<b>Registration date</b>	<b>Expiry date</b>
www.qinfagroup.com	the Company	12 December 2001	12 December 2013

**3. Further information about members of the Group**

The following sets forth further information on each member of the Hong Kong Qinfagroup in the PRC:–

**Qinfagroup**

Type of company	Wholly foreign-owned limited liability company
Business licence number of enterprise legal person	440400400013501
Address of registered office	Room 551, Gaolan Custom Administrative Building, Zhuhai, PRC
Date and place of incorporation	5 February 2008, Zhuhai
Total investment	HK\$28.0 million
Registered capital	HK\$20.0 million (of which HK\$3.0 million was settled according to the approved schedule with the remaining balance to be settled within two years from the date of incorporation)
Business scope	Warehouse services (pending); information consultation services on domestic shipping agency; consultation and management services on energy projects; consultation services on energy application skills and enterprise management and plan services
Equity holder	Qinfagroup
Legal representative	Mr. XU
Term	5 February 2008 to 5 February 2028

The following sets forth further information on each member of the Hong Kong Qinfra Group in Hong Kong:–

**Qinfra Trading**

Type of company	Limited company
Company number	821988
Address of registered office	Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong
Date and place of incorporation	15 November 2002, Hong Kong
Authorised share capital	HK\$30,000,000 divided into 30,000,000 shares of HK\$1.0 each
Issued share capital	HK\$30,000,000 divided into 30,000,000 shares of HK\$1.0 each
Shareholder	Qinfra Investment
Director(s)	Mr. XU and Ms. WANG Jianfei
Term	Perpetual

**Qinfra Shipping**

Type of company	Limited company
Company number	858182
Address of registered office	Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong
Date and place of incorporation	20 August 2003, Hong Kong
Authorised share capital	HK\$10,000 divided into 10,000 shares of HK\$1.0 each
Issued share capital	HK\$10,000 divided into 10,000 shares of HK\$1.0 each
Shareholder	Qinfra Investment
Director(s)	Mr. XU and Ms. WANG Jianfei
Term	Perpetual

**Perpetual**

Type of company	Limited company
Company number	1157510

Address of registered office	Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong
Date and place of incorporation	10 August 2007, Hong Kong
Authorised share capital	HK\$1,000 divided into 1,000 shares of HK\$1.0 each
Issued share capital	HK\$1,000 divided into 1,000 shares of HK\$1.0 each
Shareholder	Qinfa Investment
Director(s)	Mr. XU and Ms. WANG Jianfei
Term	Perpetual

**Liberal**

Type of company	Limited company
Company number	1129250
Address of registered office	Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong
Date and place of incorporation	3 May 2007, Hong Kong
Authorised share capital	HK\$1,000 divided into 1,000 shares of HK\$1.0 each
Issued share capital	HK\$1,000 divided into 1,000 shares of HK\$1.0 each
Shareholder	Qinfa Investment
Director(s)	Mr. XU and Ms. WANG Jianfei
Term	Perpetual

**Qinfa International**

Type of company	Limited company
Company number	1130783
Address of registered office	Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong

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Date and place of incorporation	8 May 2007, Hong Kong
Authorised share capital	HK\$10,000 divided into 10,000 shares of HK\$1.0 each
Issued share capital	HK\$10,000 divided into 10,000 shares of HK\$1.0 each
Shareholder	Qinfa Investment
Director(s)	Mr. XU and Ms. WANG Jianfei
Term	Perpetual

The following sets forth further information on each member of the Hong Kong Qinfa Group in the BVI:-

**Qinfa Investment**

Type of company	Limited company
Company number	1474179
Address of registered office	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Date and place of incorporation	7 April 2008, BVI
Authorised share capital	Authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.0
Issued share capital	US\$4,801 divided into 4,801 shares of US\$1.0 each
Shareholder	the Company
Director(s)	Mr. XU
Term	Perpetual

**Super Grace**

Type of company	Limited company
Company number	1460848
Address of registered office	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands

Date and place of incorporation	25 January 2008, BVI
Principal place of business in Hong Kong	Room 1303, 13th Floor, MassMutual Tower, No. 38 Gloucester Road, Wanchai, Hong Kong
Authorised share capital	Authorised to issue a maximum of 50,000 shares of a single class each with a par value of US\$1.0
Issued share capital	US\$50,000 divided into 50,000 shares of US\$1.0 each
Shareholder	Qinfa Investment
Director(s)	Mr. XU and Ms. WANG Jianfei
Term	Perpetual

#### **Further information about members of China Qinfa Group**

The following sets forth further information on each member of the China Qinfa Group in the PRC:-

#### **Datong Jinfa**

Type of company	Limited liability company
Business licence number of enterprise legal person	140227000003951
Address of registered office	Xiejiazhuang Village, Beijiaozao Town, Datong County Shanxi Province PRC
Date and place of incorporation	18 April 2003, Datong
Registered capital	RMB8,000,000 (fully paid-up according to the approved schedule)
Business scope	Coal distribution and transportation, sales, cleaned coal, metal materials (except those subject to national special approval), chemical raw materials (except those subject to national special approval), mechanical and electrical products, decoration materials, consulting service
Equity holders	Qinfa Industry and Mr. XU Da (holding on behalf of Mr. XU)

Legal representative

Mr. XU

Term

18 April 2003 to 31 December 2009

**Qinhuangdao Trading**

Type of company

Limited liability company

Business licence number of  
enterprise legal person

130301000012842

Address of registered office

15 Huanghe Zhong Lu  
Economic & Technological Development Zone  
Qinhuangdao City

Date and place of incorporation

13 February 1995, Qinhuangdao

Registered capital

RMB68,000,000 (fully paid-up according to the  
approved schedule)

Business scope

Wholesale of coal (effective until 1 July 2010);  
sales of coke, steel materials, chemical raw  
materials (not including dangerous chemicals) and  
building materials; railway transportation of goods  
by way of self-organised trains and import and  
export of technology (except for technology  
subject to special examination and approval of the  
state)

Equity holders

Qinfa Industry and Mr. XU Da (holding on behalf  
of Mr. XU)

Legal representative

Mr. XU

Term

13 February 1995 to 12 February 2025

**Yangyuan Guotong**

Type of company

Limited liability company

Business licence number of  
enterprise legal person

130727000001058

Address of registered office

North of Dongguan Village  
Xicheng Town  
Yangyuan County  
Hebei Province  
PRC

Date and place of incorporation	20 December 2003, Yangyuan
Registered capital	RMB10,000,000 (fully paid-up according to the approved schedule)
Business scope	Coal transportation and sales
Equity holders	Mr. LIU Jingwei and Ms. ZHOU Lusha (both holding on behalf of Mr. XU)
Legal representative	Mr. LIU Jingwei
Term	3 December 2007 to 2 December 2027

**Zhuhai Qinfa Shipping**

Type of company	Limited liability company
Business licence number of enterprise legal person	440400000016500
Address of registered office	Room 103 Office Building (Ancillary Block) Rongshu Bay Gaolan Port Zhuhai Guangdong Province PRC
Date and place of incorporation	6 September 2007, Zhuhai
Registered capital	RMB5,000,000 (fully paid-up according to the approved schedule)
Business scope	Inland ordinary cargo shipping transportation along the coast and the middle-down stream of Yangtze River (valid until 31 October 2012)
Equity holders	Mr. XU and Mr. XU Da (holding on behalf of Mr. XU)
Legal representative	Mr. XU
Term	6 September 2007 to 6 September 2037

**Zhuhai Qinfa Trading**

Type of company	Limited liability company
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Business licence number of enterprise legal person	440400000157291
Address of registered office	Room 102 Office Building (Ancillary Block) Rongshu Bay Gaolan Port Zhuhai Guangdong Province PRC
Date and place of incorporation	21 September 2005, Zhuhai
Registered capital	RMB5,000,000 (fully paid-up according to the approved schedule)
Business scope	Domestic trading (except those which require other administrative licences or are prohibited by the laws and regulations), coal wholesale and retail (valid until 27 June 2010)*
Equity holders	Mr. XU and Mr. LIU Jingwei (holding on behalf of Mr. XU)
Legal representative	Mr. XU
Term	21 September 2005 to 21 September 2035

\* The previous business licence of Zhuhai Qinfa Trading stated that it was valid for Zhuhai Qinfa Trading to conduct coal wholesale and retail business until 28 March 2009. The current business licence was obtained on 21 April 2009. The PRC Legal Advisers confirm that the business scope set forth in the business licence of Zhuhai Qinfa Trading is reiterating the approval set forth in the Coal Operation Certificate issued to Zhuhai Qinfa Trading on 28 June 2007. As the Coal Operation Certificate is for a period of three years, the PRC Legal Advisers confirm that Zhuhai Qinfa Trading was permitted to conduct coal trading business during the renewal period of business licence between 28 March 2009 and 20 April 2009.

## FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

### 1. Disclosure of interests

#### *Directors*

Immediately following completion of the Global Offering and the Capitalisation Issue without taking into consideration the Shares which may be taken up under the Global Offering and that may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he or she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, will be as follows:-

#### (a) Long positions in Shares

Name of Director	Capacity	Number of Shares	Percentage of issued Shares (%)
Mr. XU <sup>(1)</sup>	Corporate interest	593,000,000	59.3
Ms. WANG Jianfei <sup>(2)</sup>	Beneficial owner	50,000,000	5.0
Mr. WENG Li <sup>(2)</sup>	Beneficial owner	3,000,000	0.3
Ms. LIU Xiaomei <sup>(3)</sup>	Beneficial owner	600,000	0.06

#### Notes:-

- (1) Mr. XU is the beneficial owner of all the issued share of Fortune Pearl which holds 593,000,000 Shares.
- (2) The beneficial interest is held under the Trust Scheme.
- (3) The beneficial interest is in the form of options granted under the Pre-IPO Share Option Scheme.

## (b) Long positions in the shares of associated corporations

Name of Director	Name of associated corporations	Capacity	Number of share	Percentage of issued shares (%)
Mr. XU	Fortune Pearl	Beneficial owner	1	100

**Substantial shareholders**

So far as is known to any Director or chief executive of the Company, the following persons (other than a Director or chief executive of the Company), will, following completion of the Global Offering and the Capitalisation Issue without taking into consideration the Shares which may be taken up under the Global Offering and that may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme, have an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:—

Name	Capacity	Number of Shares	Approximate percentage of issued Shares (%)
Fortune Pearl	Beneficial interest	593,000,000	59.3
Equity Trust (HK) Limited <sup>(1)</sup>	Trustee	157,000,000	15.7
Mr. XU Da <sup>(2)</sup>	Beneficial interest	100,000,000	10.0

*Notes:-*

1 Equity Trust (HK) Limited is the trustee of the Trust Scheme holding on trust 157,000,000 Shares for the benefit of the participants of the Trust Scheme, namely Ms. WANG Jianfei, Mr. XU Da, Mr. WENG Li, Mr. LIU Jingwei and Ms. ZHOU Lusha.

2 Mr. XU Da is a participant of the Trust Scheme entitled to 100,000,000 Shares.

Save as disclosed above, the Directors are not aware of any person who will, immediately following completion of the Global Offering and the Capitalisation Issue, have an interest or short position in Shares or, underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**2. Particulars of the Directors' service contracts and appointment letters with the independent non-executive Directors**

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 12 June 2009. The service contract shall continue thereafter and may only be terminated in accordance with the provisions therein contained by either party giving to the other not less than three months' prior notice in writing.

The annual salary (after taxation) of the executive Directors under their service contracts with the Company are as follows:–

<b>Name of the executive Director</b>	<b>Annual salary (RMB)</b>
Mr. XU	1,200,000
Ms. WANG Jianfei	960,000
Mr. WENG Li	600,000
Ms. LIU Xiaomei	360,000

The annual salary of each executive Director shall be determined by the Board. Each of the executive Directors will also be entitled to a discretionary bonus provided that the aggregate amount of bonus to be paid to all executive Directors in each year ending 31 December shall not exceed 1% of the audited consolidated net profit after taxation but before extraordinary items of the Group for the relevant year (and before deducting such discretionary bonus, salary and benefits).

Dr. CHEN Wenjing, Mr. HUANG Guosheng and Mr. LAU Sik Yuen have been appointed from 12 June 2009 as independent non-executive Directors. Each of their annual fee (after taxation) is set forth below:–

<b>Name of the independent non-executive Director</b>	<b>Annual fee (RMB)</b>
Dr. CHEN Wenjing	240,000
Mr. HUANG Guosheng	240,000
Mr. LAU Sik Yuen	240,000

Save as disclosed above, none of the Directors has entered or has proposed to enter into any service agreements with the Company or any other member of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

**3. Directors' remuneration**

Under the arrangements presently in force, all the executive Directors will be entitled to receive remuneration which, for the year ending 31 December 2009, is expected to be in the aggregate amount of RMB2.19 million, excluding the discretionary bonus payable to the executive Directors. All the independent non-executive Directors will be entitled to receive director fee which, for the year ending 31 December 2009, is expected to be in the aggregate amount of RMB398,001.

Save as disclosed in this prospectus, no Director in the promotion of the Company has been paid in cash or shares or otherwise by any person either to induce him or her to become, or to qualify him or her as a Director, or otherwise for services rendered by him or her in connection with the promotion or formation of the Company.

**4. Disclaimers**

- (a) Save as disclosed in this prospectus, none of the Directors has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group.
- (b) None of the experts named in the paragraphs under "Other Information – 7. Consents of experts" in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) Save as disclosed in this appendix under the section "Further Information About the business of the Group", none of the Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole.

**5. Trust Scheme**

Pursuant to the Trust Scheme, Fortune Pearl initially contributed 209,333 Shares to a trust created under the laws of Hong Kong with Equity Trust (HK) Limited as trustee of the Trust Scheme. Five participants have participated in the Trust Scheme and they are the beneficiaries of the Trust Scheme. The Shares are held by Equity Trust (HK) Limited as trustee of the Trust Scheme until all those Shares are vested to the participants in accordance with the terms and conditions of the trust deed of the Trust Scheme and the applicable laws and regulations. There will not be any person issuing letter of wishes subsequent to the establishment of the Trust Scheme.

As trustee of the Trust Scheme, Equity Trust (HK) Limited shall hold and manage the trust property as if it were the owner without regarding any instructions from the participants but subject to the trustee's duties, powers and obligations set forth in the relevant trust deed. The participants will not be entitled to affect or influence the decision of the trustee.

The Trust Scheme has been established to hold the Shares and to provide incentive to the participants to continue to contribute to the success of the Group. The purpose of the Trust Scheme is to streamline the shareholding structure of the Company. The 209,333 Shares contributed by Fortune Pearl to the Trust Scheme were transferred to Equity Trust (HK) Limited at a consideration of HK\$20,933.30 paid by Equity Trust (HK) Limited on behalf of the participants.

Two of the participants of the Trust Scheme are executive Directors, namely Ms. WANG Jianfei and Mr. WENG Li.

Following completion of the Global Offering and the Capitalisation Issue, an aggregate of 157,000,000 Shares will be held by Equity Trust (HK) Limited under the Trust Scheme, representing approximately 15.7% of the issued Shares (without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme).

The following table sets forth the number of Shares beneficially owned by each participant under the Trust Scheme:—

<b>Name of the participants</b>	<b>Number of Shares under the Trust Scheme</b>
Ms. WANG Jianfei <sup>(1)</sup>	50,000,000
Mr. XU Da <sup>(2)</sup>	100,000,000
Mr. WENG Li <sup>(1)</sup>	3,000,000
Mr. LIU Jingwei <sup>(3)</sup>	2,000,000
Ms. ZHOU Lusha <sup>(3)</sup>	2,000,000
<b>Total</b>	<b><u>157,000,000</u></b>

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Notes:-

- (1) Ms. WANG Jianfei and Mr. WENG Li are executive Directors and Controlling Shareholders.
- (2) Mr. XU Da is the son of Mr. XU and a Controlling Shareholder.
- (3) In addition to his beneficial interest in the Shares under the Trust Scheme, Mr. LIU Jingwei holds 10% equity interest in Zhuhai Qinf Trading, 96% equity interest in Yangyuan Guotong and 0.41% equity interest in Qinf Industry, all on behalf of Mr. XU. Mr. LIU Jingwei is the legal representative of Yangyuan Guotong. In addition to her beneficial interest in the Shares under the Trust Scheme, Ms. ZHOU Lusha holds 4% equity interest in Yangyuan Guotong on behalf of Mr. XU. Because of their previous involvement in the management of the Group and their previous equity interest in certain members of the Group, Mr. LIU Jingwei and Ms. ZHOU Lusha are considered to be Controlling Shareholders.

The Shares held under the Trust Scheme will be vested in three tranches. The first tranche, which represents 30% of the total number of the Shares held thereunder, will be vested to the participants immediately after the first anniversary of the Listing Date. The second tranche, which represents 30% of the total number of the Shares held thereunder, will be vested to the participants immediately after the second anniversary of the Listing Date. The third tranche, which represents 40% of the total number of the Shares held thereunder, will be vested to the participants immediately after the third anniversary of the Listing Date. Following the vesting, all the relevant Shares will be freely transferable and will be identical in all aspects to the Shares in issue.

All dividend declared and paid by the Company before vesting shall be held by the trustee of the Trust Scheme and shall be transferred to the relevant participants upon vesting after deduction of the fees due to be payable to the trustee for its services rendered under the Trust Scheme.

In the event that a participating employee ceases to be an employee of the Group, the unvested Shares shall not vest on the relevant participating employee and the Trustee shall transfer the unvested Shares to Fortune Pearl. All vested Shares will not be required to be transferred to Fortune Pearl even though the relevant participating employee ceases to be an employee of the Group.

Following the transfer of the Shares by Fortune Pearl to the trustee of the Trust Scheme, Fortune Pearl ceases to have any interest in those Shares, except that all the unvested Shares will be transferred back to Fortune Pearl in the event that any participants of the Trust Scheme ceases to be entitled to these Shares. This arrangement will not result in Fortune Pearl being deemed to have interests in those Shares as those Shares are held by the trustee of the Trust Scheme for the benefit of the participating employees. All the Shares held by the trustee of the Trust Scheme will not be considered to be Shares held by members of the public for the purpose of the Listing Rules. The Trust Scheme was duly implemented on 13 June 2009 in full compliance with Rule 9.09 of the Listing Rules.

## **SHARE OPTION SCHEMES**

### **1. Pre-IPO Share Option Scheme**

The Company adopted the Pre-IPO Share Option Scheme on 12 June 2009. The Pre-IPO Share Option Scheme is intended to give the participants an opportunity to share in the success of the Group and to provide them with incentive to the future performance of the Group. The principal terms of the Pre-IPO Share Option Scheme are similar to the terms of the Share Option Scheme except for the following:-

- (a) the subscription price per Share shall represent the Offer Price; and
- (b) save for the options which have been granted, no further options will be offered or granted, after the Latest Practicable Date and the Pre-IPO Share Option Scheme will terminate upon the Listing.

As at the date of this Prospectus, options to subscribe for an aggregate of 8,400,000 Shares, representing approximately 0.84% of the Shares in issue immediately following completion of the Global Offering and the Capitalisation Issue (taking no account of the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme), have been granted to 26 grantees, for nominal consideration of HK\$1.00 paid by each grantee, under the Pre-IPO Share Option Scheme.

An option granted under the Pre-IPO Share Option Scheme shall be personal to the grantee and shall not be assignable or transferable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option. Any breach of the foregoing by the grantee shall entitle the Company to cancel any outstanding option or any part thereof to the extent not already exercised.

Detailed information on the grantees under the Pre-IPO Share Option Scheme and the number of options granted thereunder are set forth below:-

Name of the grantee	Position within the Group	Residential address	Number of Shares to be issued upon exercise of all options	Percentage of Shares in issue upon exercise of all options	Exercise price per Share
LIU Xiaomei	Executive Director General manager, Accounting and Finance Department	No. 100, Street 12 District A Clifford Estates Panyu Guangzhou China	600,000	0.06	Offer Price
SHEN Hongwu	General Manager, Purchase and Sales Department	Room 304, No. 23, Huaming Road, Tianhe District, Guangzhou, China	600,000	0.06	Offer Price
MA Baofeng	Deputy General Manager, Purchase and Sales Department and Purchasing Manager, Mining Zone	Panzhuangcun, Panzhuang Town, Lulong County, Hebei Province, China	600,000	0.06	Offer Price
DAI Dongwu	Deputy General Manager, Logistics	No. 13, Suite 1, Block 6, Xinbeili, Haigang District, Qinhuangdao, Hebei Province, China	600,000	0.06	Offer Price
ZHANG Guicun	Deputy General Manager, Logistics and Manager, Railway Transportation	No. 3, Dongguandong Main Street, Xicheng Town, Yangyuan, Hebei Province, China	600,000	0.06	Offer Price

Name of the grantee	Position within the Group	Residential address	Number of Shares to be issued upon exercise of all options	Percentage of Shares in issue upon exercise of all options	Exercise price per Share
LI Yong	Standing Deputy General Manager, Zhuhai Qinfa Shipping	No. 7, Suite 2, Block 15, Coal Factory, Haigang District, Qinhuangdao, Hebei Province, China	600,000	0.06	Offer Price
SU Wenyong	General Manager, Zhuhai Qinfa Shipping	No. 4, Suite 1, Block 2, Bolinxiaoqu, Haigang District, Qinhuangdao, Hebei Province, China	400,000	0.04	Offer Price
MA Yuhong	Assistant to General Manager, Logistics Department	No. 11, Suite 2, Block 72, Yufengli, Haigang District, Qinhuangdao, Hebei Province, China	400,000	0.04	Offer Price
LU Yong	Sales Manager, Eastern China	No. 10, Suite 2, Block 14, Shenglicun, Haigang District, Qinhuangdao, Hebei Province, China	400,000	0.04	Offer Price
CHEN Yunpeng	Manager, Corporate, Yangyuan Guotong	No. 30, Block 4, Fuwubeili, Haigang District, Qinhuangdao, Hebei Province, China	400,000	0.04	Offer Price
MA Lingyan	Assistant to General Manager, Logistics Department	No. 533, Meilingcheng, Qinhuangdao Economic and Technological Development Zone, Hebei Province, China	200,000	0.02	Offer Price
LU Cheng	Deputy Manager, Group Finance Department	Room No. 602, Suite 1, Block 11, Xinwenli, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
YANG Qing	Deputy Manager, Group Finance Department	No. 9 Jingwen Road, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
ZHANG Zhenmei	Financial Controller, Qinhuangdao Trading	No. 11, Suite 1, Block 16, Baojia Garden, Qinhuangdao Economic Development Zone, Hebei Province, China	200,000	0.02	Offer Price
HU Song	Manager, Import and Export Department	No. 4, Yingqili, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price

Name of the grantee	Position within the Group	Residential address	Number of Shares to be issued upon exercise of all options	Percentage of Shares in issue upon exercise of all options	Exercise price per Share
MENG Xianzhang	Manager, Marketing Information Department	No. 11, Suite 3, Block 20, Jiananli, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
YE Jianhua	Manager, Import and Export Department	Room 502, Unit 1, Block 42, Jianxingli, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
ZANG Yongqing	Manager, Shipping Machinery Department	288, Binjiangzhonglu, Haizhu District, Guangzhou, China	200,000	0.02	Offer Price
YU Tao	Standing Deputy General Manager, Qinfa Shipping and Zhuhai Qinfa Shipping	14-14, No. 100, Zhigong Street, Zhongshan District, Dalian, Liaoning Province, China	200,000	0.02	Offer Price
LI Yang	Manager, Storage Department	Baishiyuncun, Xianghou, Zhugezhuang, Changli County, Hebei Province, China	200,000	0.02	Offer Price
XIAO Xu	Sales Manager, Southern China	No. 4, Suite 2, Block 1, Jungongli, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
YANG Ying	Finance Section Chief, Qinfa Trading and Qinfa Shipping	No. 4, Suite 3, Block 4, Heanli, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
CAO Yu	Finance Section Chief, Qinhuangdao Trading	No. 9, Suite 2, Block 18, Yanxili, Haigang District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
GAO Yongchun	Finance Section Chief, Datong Jinfa	No. 5, Zhonglou Street, Lulong Town, Lulong County, Hebei Province, China	200,000	0.02	Offer Price
LI Bai	Finance Section Chief, Yangyuan Guotong	Jiedongshichang Weiyizu, Qimalu, Tiedong District, Siping City, Jilin Province, China	200,000	0.02	Offer Price

Name of the grantee	Position within the Group	Residential address	Number of Shares to be issued upon exercise of all options	Percentage of Shares in issue upon exercise of all options	Exercise price per Share
ZHANG Ying	Deputy General Manager, Qinhuangdao Trading	No. 13, Caochangdong Road, Beidaihe District, Qinhuangdao, Hebei Province, China	200,000	0.02	Offer Price
			_____	_____	
	<b>Total Shares:</b>		<b>8,400,000</b>	<b>0.84</b>	

Exercise in full of all options granted under the Pre-IPO Share Option Scheme would result in an increase in the number of Shares in issue by approximately 0.84% of the total number of Shares in issue immediately upon completion of the Global Offering and the Capitalisation Issue (taking no account of the Shares that may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme) and assuming no further issue of Shares whether pursuant to the Over-allotment Option or otherwise, which may dilute the shareholdings of the Shareholders and reduce the earnings per Share on a pro rata basis.

All holders of options granted under the Pre-IPO Share Option Scheme may only exercise their options in the following manner:—

Period of exercise of the relevant option	Maximum percentage of options exercisable
Immediately after the first anniversary of the Listing Date (both days inclusive)	30%
Immediately after the second anniversary of the Listing Date (both days inclusive)	30%
Immediately after the third anniversary of the Listing Date (both days inclusive)	40%

None of the options under the Pre-IPO Share Option Scheme are exercisable within the first 12 months from the Listing Date. Ms. LIU Xiaomei, being an executive Director, has agreed not to exercise any option granted under the Pre-IPO Share Option Scheme to the extent that the public float of the Company will as a result of such exercise be less than the minimum requirements under the Listing Rules.

Assuming that all options granted under the Pre-IPO Share Option Scheme had been exercised in full during the financial year ending 31 December 2009 and that an aggregate of 1,000,000,000 Shares were in issue throughout the financial year ending 31 December 2009, the Company would be required to issue 8,400,000 new Shares, representing 0.84% of the Shares in issue.

Application has been made to the Listing Committee for the listing of, and permission to deal in, the 8,400,000 Shares which may be issued pursuant to the exercise of all options granted under the Pre-IPO Share Option Scheme.

## 2. Share Option Scheme

### *Summary of terms*

The following is a summary of the terms of the Share Option Scheme conditionally adopted pursuant to written resolutions of the sole Shareholder passed on 12 June 2009:–

#### *(a) Who may join and purpose*

The Board may at its discretion offer options to:–

- (i) any executive, non-executive or independent non-executive Director of the Group;
- (ii) any employee or officer (whether full-time or part-time) (the “**Employee**”) of the Group; and
- (iii) any customer, supplier, agent, business or joint venture partner, consultant, distributor, promoter, service provider, adviser or contractor to any member of the Group.

The above persons are collectively referred to as “**Eligible Participants**” and each an “Eligible Participant”. In order for a person to satisfy the Board that he or she is qualified to be (or, where applicable, continues to qualify to be) an Eligible Participant, such person shall provide all such information as the Board may request for the purpose of assessing his or her eligibility (or continuing eligibility). Subject to the terms and conditions of the Share Option Scheme, the Board shall have an absolute discretion as to granting options to any particular Eligible Participant.

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that the Eligible Participants have made or may make to the business development of the Group. Apart from the determination of the subscription price, the Directors will have an absolute discretion to impose performance targets on the option holders before any option that can be exercised with reference to the objectives of the Share Option Scheme. A consideration of HK\$1.0 will be payable upon acceptance of the offer.

*(b) Subscription price of the Shares*

The subscription price in respect of each Share under the Share Option Scheme shall, subject to any adjustments made as described in paragraph (l) below, be a price determined by the Board and notified to the Eligible Participant and shall be no less than the highest of:-

- (i) the nominal value of a Share;
- (ii) the closing price of each Share as stated in the Stock Exchange's daily quotations sheet on the date of offer to the Eligible Participant, which must be a day on which licenced banks are open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities (a "**Trading Day**"); and
- (iii) the average closing price of each Share as stated in the Stock Exchange's daily quotations sheets for the five (5) consecutive Trading Days immediately preceding the date of offer to the Eligible Participant, provided that the final Offer Price shall be used as the closing price for any Trading Day falling within the period before the Listing Date if the Shares have been listed on the Main Board for less than five Trading Days before the date of grant.

*(c) Grant of options*

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until an announcement of such price sensitive information has been published in accordance with the Listing Rules. In particular, during the period commencing one (1) month immediately preceding the earlier of (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and (2) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no option may be granted.

*(d) Maximum number of Shares available for subscription*

- (i) Subject to paragraphs (d)(ii), (iii) and (iv) below, the maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes involving the issue or grant of options or similar rights over Shares or other securities by the Company (excluding those options that have already been granted by the Company prior to the date of approval of the Share Option Scheme) (the "**Scheme Mandate Limit**") shall not, in aggregate, exceed 10% of the Shares in issue upon

completion of the Global Offering and the Capitalisation Issue on the Listing Date (being currently expected to be 100,000,000 Shares) unless approved by the Shareholders pursuant to paragraphs (d)(ii) and (iii) below.

- (ii) Subject to paragraphs (d)(iii) and (iv) below, the Scheme Mandate Limit may be refreshed by the Shareholders in general meeting from time to time, provided always that the Scheme Mandate Limit so refreshed must not exceed 10% of the Shares in issue as at the date of approval of such refreshment by the Shareholders in general meeting. Upon such refreshment, all options granted under the Share Option Scheme and any other share options schemes of the Company (including those exercised, outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company) prior to the approval of such refreshment shall not be counted for the purpose of calculating whether the refreshed Scheme Mandate Limit has been exceeded. In such a case, the Company shall send to the Shareholders a circular containing such information from time to time as required under the Listing Rules.
- (iii) Subject to paragraph (d)(iv) below, the Board may seek separate Shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit (whether or not refreshed), provided that the options in excess of the Scheme Mandate Limit (whether or not refreshed) are granted only to the Eligible Participants specified by the Company before such approval is sought and the Company shall send to the Shareholders a circular containing such information from time to time required under the Listing Rules in relation to any such proposed grant to such Eligible Participants.
- (iv) The maximum number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of Shares in issue from time to time. Options may not be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the said 30% limit being exceeded.

*(e) Maximum entitlement of each Eligible Participant*

Unless approved by the Shareholders, no option may be granted to any Eligible Participants which if exercised in full would result in the total number of Shares issued and to be issued upon exercise of the share options already granted or to be granted to such Eligible Participant (including exercised, cancelled and outstanding share option) in the 12-month period up to and including the date of such new grant exceeding 1% of the total number of Shares in issue as at the date of such new grant.

*(f) Grant of options to Substantial Shareholders, Directors and chief executive of the Company or connected persons*

Any grant of options under the Share Option Scheme to any Director and chief executive of the Company or a Substantial Shareholder or any of their respective associate must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person under the Share Option Scheme and any other schemes of the Company in the 12-month period up to and including the date of such grant:—

- (i) representing in aggregate more than 0.1% of the total number of Shares in issue as at the date of such grant; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of each grant of option, in excess of HK\$5.0 million,

such further grant of options must be approved by Shareholders. For the purpose of seeking approval of Shareholders under paragraphs (d), (e) and (f) above, the Company shall send to the Shareholders a circular containing the information required under the Listing Rules and the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll during which those persons required under the Listing Rules to abstain from voting, will not vote.

*(g) Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during the period to be notified by the Board to the grantee save that such period shall not be more than 10 years from the business day on which the option is deemed to have been granted in accordance with the terms of the Share Option Scheme. There is no minimum period for which an option must be held before it can be exercised.

*(h) Performance target*

Unless the Board otherwise determined and stated in the offer of grant of options to the grantee, a grantee is not required to achieve any performance target before any options granted under the Share Option Scheme can be exercised.

*(i) Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable or transferable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option, failing which the option (to the extent it has not already been exercised) shall lapse.

*(j) Rights on death*

In the event of the grantee who is an Employee ceasing to be a participant of the Share Option Scheme by reason of his or her death before exercising his or her option in full and none of the events which would be a ground for termination of his or her employment as specified in the Share Option Scheme having arisen, his or her legal personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within 12 months following his or her death.

*(k) Rights on ceasing employment*

- (i) In the event of the grantee who is an Employee ceasing to be a participant of Share Option Scheme by reason of the termination of his or her employment or directorship on one or more of the grounds specified in the Share Option Scheme, his or her option (to the extent not already exercised) shall lapse automatically and immediately and shall not be exercisable on or after the date of termination of his or her employment and to the extent the grantee has exercised the option in whole or in part pursuant to the Share Option Scheme, but Shares have not been allotted to him or her, the grantee shall be deemed not to have so exercised such option and the Company shall return to the grantee the amount of the subscription price for the Shares received by the Company in respect of the purported exercise of such option.
- (ii) In the event of the grantee who is an Employee ceasing to be a participant of the Share Option Scheme for any reason other than his or her death or the termination of his or her employment or directorship on one or more of the grounds specified in the Share Option Scheme, the option (to the extent not already exercised) shall lapse on the date of cessation or termination of such employment (which date shall be the grantee's last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not) and shall on that day cease to be exercisable.
- (iii) In the event of the grantee who is not an Employee ceasing to be a participant of the Share Option Scheme as and when determined by the Board by resolution for any reason other than his or her death, the Board may by written notice to such Grantee within one month from the date of such cessation determine the period within which the option (or such remaining part thereof) shall be exercisable following the date of such cessation.

*(l) Reorganisation of capital structure*

In the event of any alteration in the capital structure of the Company which arises from a capitalisation issue, bonus issue, rights issue, open offer, sub-division or consolidation of the Shares or reduction of capital of the Company (excluding any alteration in the capital structure of the Company as a result of an issue of securities as consideration in respect of a transaction to which the Company is a party) at any time after the Listing Date, such corresponding alterations (if any) certified in writing by an independent financial adviser appointed by the Company or the auditors for the time being of the Company as fair and reasonable will be made to the subscription price at which the offeror gives notice to acquire the remaining Shares and/or the number or nominal amount of Shares subject to the option so far as unexercised, provided that (i) any such alterations shall give a grantee as nearly as possible the same proportion of the issued share capital of the Company as that to the option he or she was previously entitled; (ii) no such alteration shall be made to the effect that Share would be issued at less than its nominal value; and (iii) any such alterations shall be in compliance with the requirements set forth in Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange from time to time, including those set forth in the letter from the Stock Exchange dated 5 September 2005.

*(m) Rights on a general offer*

If a general offer (whether by way of takeover offer or scheme of arrangement or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional (within the meaning of the Takeovers Code) prior to the expiry date of the relevant option, the grantee shall be entitled to exercise the option in full (to the extent not exercised) at any time within such period as shall be notified by the Company.

*(n) Rights on winding-up*

If notice is duly given by the Company to Shareholders to convene a general meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the grantee and the grantee may at any time thereafter exercise the relevant option to its full extent or to the extent specified in such notice or in part and the Company shall, as soon as possible and in any event no later than three(3) business days immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which fall to be issued on such exercise, credited as fully paid and registered the grantee as holder thereof. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse and not be exercisable.

*(o) Rights on a compromise or arrangement*

In the event of a compromise or arrangement between the Company and the Shareholders or its creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company (other than any relocation schemes as contemplated in Rule 7.14(3) of the Listing Rules), the Company shall give notice thereof to all grantees on the same date as it despatches notice of the meeting to its shareholders or creditors to consider such a compromise or arrangement and thereupon any grantees may at any time thereafter exercise the relevant option in full or to the extent notified by the Company and the Company shall, as soon as possible and in any event no later than three business days, allot and issue such number of Shares to the grantee which fall to be issued on such exercise, credited as fully paid and registered the grantee as holder thereof. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as exercised under this paragraph.

*(p) Ranking of Shares*

The Shares to be allotted upon the exercise of an option shall be subject to all the provisions of the Articles in force as at the date of allotment and shall rank pari passu in all respects with the existing fully paid Shares in issue on such date of allotment and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made on or after such date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the date of allotment. A Share allotted upon the exercise of an option shall not carry voting rights until the name of the grantee has been duly entered into the register of members of the Company as the holder thereof.

*(q) Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

*(r) Alteration*

The Directors may from time to time amend the rules of the Share Option Scheme by resolution of the Board save and except the following which shall be approved by the Shareholders in general meeting:-

- (i) the provisions of the Share Option Scheme relating to the matters set forth in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the Eligible Participant;
- (ii) any alterations to the terms and conditions of the Share Option Scheme which are of a material nature, except where such alterations take effect automatically under the existing terms of the Share Option Scheme; and
- (iii) any change to the authority of the Board as scheme administrator in relation to any alteration to the terms of the Share Option Scheme,

provided always that the amended terms of the Share Option Scheme must continue to comply with the relevant provisions of the Listing Rules as may be amended from time to time.

*(s) Lapse of option*

An option (to the extent such option has not already been exercised) will lapse and not be exercisable on the earliest of:-

- (i) the expiry of the exercise period of the options;
- (ii) the expiry of any of the periods referred to in paragraphs (j) and (k) above;
- (iii) subject to any competent court in any jurisdiction not making an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in paragraph (m) above;
- (iv) the date of the commencement of the winding-up of the Company;
- (v) the date when the proposed compromise or arrangement becomes effective in respect of the situation contemplated in paragraph (o) above;
- (vi) the date on which the grantee who is an Employee of any member of the Group ceases to be an Employee of any member of the Group by reason of the termination of his employment on the grounds set out in paragraph (k)(i) above;
- (vii) the date on which a situation as contemplated in paragraph (i) arises;
- (viii) the date on which the grantee commits a breach of any terms or conditions attached to the grant of the option, unless otherwise resolved to the contrary by the Board; or
- (ix) the date on which the Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuing eligibility criteria as may be prescribed pursuant to the Share Option Scheme.

*(t) Cancellation of options*

The Board shall have the absolute discretion to cancel any option granted at any time at the request of the grantee, provided that where an option is cancelled and a new option is proposed to be issued to the same grantee, the issue of such new option may only be made with available Shares in the authorised but unissued share capital of the Company, and available and ungranted options within the limits referred to in paragraph (d) above (and for the purpose of calculating such limits, all cancelled options shall be treated as granted options).

*(u) Termination of the Share Option Scheme*

The Company may by resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event, no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

*Conditions of the Share Option Scheme*

The Share Option Scheme is conditional on:-

- (a) the passing of the resolution by the sole Shareholder to approve and adopt the Share Option Scheme and to authorise the Board to grant options under the Share Option Scheme and to allot and issue Shares pursuant to the exercise of any option under the Share Option Scheme;
- (b) the Listing Committee of the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any option which may be granted under the Share Option Scheme; and
- (c) the commencement of dealings in the Shares on the Main Board.

If any of the above conditions is not satisfied on or before the date falling 30 days after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

*Disclosure in annual and interim reports*

The Company shall disclose details of the Share Option Scheme in its annual and interim reports in accordance with the Listing Rules in force from time to time.

*Administration of the Share Option Scheme*

The Share Option Scheme shall be administered by the Board whose decision shall be final and binding on all parties.

*Present status of the Share Option Scheme*

As at the date of this Prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the 100,000,000 Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

## **OTHER INFORMATION**

### **1. Deed of Indemnity**

Each of Mr. XU and Fortune Pearl has, pursuant to a deed of indemnity referred to in the paragraphs under “Further Information About the Business of the Group – Summary of material contracts” in this Appendix, given joint and several indemnities in respect of among other things (a) any liability for Hong Kong estate duty which might be incurred by any member of the Group by virtue of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, as amended)) to any member of the Group on or before the date on which the Global Offering becomes unconditional, (b) any tax liabilities which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received or deemed to have been earned, accrued or received on or before the Listing Date, and (c) any tax liabilities which might be payable by any member of the Group in respect of the transfer of business in Qinfa Industry to Qinhuangdao Trading, further information on which is set out in the paragraphs under “Reorganisation and the Structure Contracts – Transfer of coal trading business conducted by Qinfa Industry to Qinhuangdao Trading” of this prospectus under the relevant PRC or Cayman Islands or Hong Kong laws, rules and regulations or any other applicable laws, rules and regulations, together with such other relevant payments, suits, settlement payment, cost, liability, damages or expense under the relevant PRC or Cayman Islands or Hong Kong laws, rules and regulations or any other applicable laws, rules and regulations, on or before the Listing Date or as a result of or in relation to all litigations, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings by or against the Group which was issued, accrued and/or arising from any act of the Group at any time on or before the Listing Date, save as to such circumstances including:-

- (a) to the extent that full provision or allowance has been made for such taxation in the audited accounts of the Group for the Track Record Period;
- (b) to the extent that such taxation arises or is incurred as a result of any retrospective change in law or the interpretation thereof or retrospective increase in tax rates coming into force after the Listing Date;
- (c) to the extent that such taxation or liability would not have arisen but for any act or omission voluntarily effected by, any of the members of the Group without the prior written consent or agreement of the Indemnifiers (such consent or agreement not to be unreasonably withheld or delayed), otherwise than in the ordinary course of business after the date of the deed of indemnity; or
- (d) to the extent of any provisions or reserve made for taxation in the audited accounts of the Group for the Track Record Period which is finally established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty is likely to fall on any member of the Group in the Cayman Islands, the PRC and other jurisdictions in which the companies comprising the Group are incorporated.

Pursuant to the deed of indemnity, each of Mr. XU and Fortune Pearl has given a joint and several indemnity in favour of the Group in relation to any loss, payments, suits, settlement payment, cost, liability, damages or expenses arising from or in connection with the non-registration of the tenancy agreements in relation to (i) Units 10 and 11, Level 22, Yuecai Building, No. 188 Jidajingshan Road, Zhuhai City, Guangdong Province, the PRC (particulars of which are set forth in property numbered 4 in the valuation report under appendix III to this prospectus) and (ii) Rooms 1107-1108, Shanghai Pudong Holiday Inn, No. 899 Dongfang Road, Pudong District, Shanghai, the PRC (particulars of which are set forth in property numbered 5 in the valuation report under Appendix III to this prospectus) under the relevant PRC or Cayman Islands or Hong Kong laws, rules and regulations or any other applicable laws, rules and regulations, together with such other relevant payments, suits, settlement payment, cost, liability, damages or expense under the relevant PRC or Cayman Islands or Hong Kong laws, rules and regulations or any other applicable laws, rules and regulations, on or before the Listing Date or as a result of or in relation to all litigations, arbitration, claims (including counter-claims), complaints, demands and/or legal proceedings by or against the Group which was issued, accrued and/or arising from any act of the Group at any time on or before the Listing Date.

## **2. Litigation**

As of the Latest Practicable Date, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Group that would have a material adverse effect on the Group's results of operations or financial condition.

## **3. Sponsor**

China Everbright Capital Limited, being the sole sponsor to the Listing, has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Offer Shares and the Shares which may be issued pursuant to the exercise of the Over-allotment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Share Option Scheme. All necessary arrangements have been made enabling such Shares to be admitted to CCASS.

## **4. Preliminary expenses**

The preliminary expenses of the Company are estimated to be approximately US\$10,000 (equivalent to approximately RMB68,000) and are payable by the Company.

**5. Promoter**

There are no promoters of the Company and no cash, securities or other benefit has been paid, allotted or given, or proposed to be paid, allotted or given, to any promoters within two years preceding the date of this prospectus.

**6. Qualifications of experts**

The following are the qualifications of the experts who have given opinion or advice which are contained in, or referred to in, this prospectus:—

<b>Name</b>	<b>Qualifications</b>
China Everbright Capital Limited	Licenced under the SFO to engage in type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) activities as defined under the SFO
KPMG	Certified public accountants
Vigers Appraisal & Consulting Limited	Property valuers
Conyers Dill & Pearman	Cayman Islands attorney-at-law
Commerce & Finance Law Offices	Qualified PRC legal adviser
JSM	Hong Kong legal adviser to the Company as to shipping law

**7. Consents of experts**

Each of China Everbright Capital Limited, KPMG, Vigers Appraisal & Consulting Limited, Conyers Dill & Pearman, Commerce & Finance Law Offices and JSM has given and has not withdrawn its consent to the issue of this prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and/or references to its name included in the form and context in which it is respectively included.

As of the Latest Practicable Date, none of the experts named above has any shareholding interests in the Group or the right (whether legally enforceable or not) to subscribe for or, to nominate persons to subscribe for securities in any member of the Group.

**8. Binding effect**

This prospectus shall have the effect if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Hong Kong Companies Ordinance insofar as applicable.

**9. Bilingual prospectus**

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Hong Kong Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

**10. Miscellaneous**

- (1) Save as disclosed under "Further Information About the Business of the Group – Summary of material contracts" and in prospectus:–
  - (i) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
  - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
  - (iii) no outstanding convertible debt securities or debentures issued by the Company or any of its subsidiaries;
  - (iv) no founders, management or deferred shares of the Company or, any of its subsidiaries have been issued or agreed to be issued;
  - (v) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any capital of the Company or any of its subsidiaries; and
  - (vi) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription for any Shares or any equity interest in any of the subsidiaries of the Company.
- (2) No member of the Group is presently listed on any stock exchange or traded on any trading system.
- (3) There is no arrangement under which future dividends are waived or agreed to be waived.

- (4) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twelve (12) months immediately preceding the date of this prospectus.
- (5) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

**DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG**

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were:

- copies of the Application Forms;
- the written consents set forth under “Other Information – 7. Consents of experts” in Appendix V to this prospectus;
- a statement of adjustments in arriving at the figures set forth in the accountants’ report and giving the reasons thereof; and
- copies of material contracts set forth under “Further Information About the Business of the Group – 1. Summary of material contracts” in Appendix V to this prospectus.

**DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION IN HONG KONG**

Copies of the following documents will be available for inspection at the offices of Squire, Sanders & Dempsey at 24th Floor, Central Tower, 28 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:–

- the memorandum of association of the Company and the Articles;
- the accountants’ report prepared by KPMG, the text of which is set out in Appendix I to this prospectus;
- the audited financial statements of each member of the Group for each of the three years ended 31 December 2006, 31 December 2007 and 31 December 2008;
- the report from KPMG relating to the unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- the statement of adjustments in arriving the figures set forth in the accountants’ report and giving the reasons thereof;
- the letter, the summary of valuation and the valuation certificates relating to the property interests of the Group prepared by Vigers Appraisal and Consulting Limited, the text of which is set out in Appendix III to this prospectus;
- the letter of advice prepared by Conyers Dill & Pearman summarising certain aspects of the Cayman Islands company law as referred to in Appendix IV to this prospectus;

- the legal opinions issued by Commerce & Finance Law Offices in respect of, amongst other things, general matters, property interests and taxation matters of the Group in the PRC;
- the legal opinion issued by JSM in respect of shipping matters of the Group in Hong Kong;
- the Companies Law;
- the rules of the Pre-IPO Share Option Scheme;
- the rules of the Share Option Scheme;
- the material contracts set forth under “Further Information About the Business of the Group – 1. Summary of material contracts” in Appendix V to this prospectus;
- the service agreements referred to in the paragraphs under “Further Information About Directors and Substantial Shareholders – 2. Particulars of the Directors’ service contracts and appointment letters with the independent non-executive Directors” in Appendix V to this prospectus; and
- the written consents set forth under “Other Information – 7. Consents of experts” in Appendix V to this prospectus.



中國秦發集團有限公司  
CHINA QINFA GROUP LIMITED