You should carefully consider all of the information set out in this prospectus, including the risks factors and uncertainties described below, before making any investment decision in relation to the Offer Shares. Should any of the possible events described below occur, our business, financial condition or results of operations could be materially and adversely affected and the market price of the offer Shares could decline significantly and you may lose all or part of your investment.

Risks Related to Our Business and Our Industry

We are experiencing a period of rapid growth and may not be able to manage our growth effectively

We have grown rapidly over the past few years and intend to further expand our operation and infrastructure in the future. For instance, our logistics parks at Gants Mod and Ceke and our coal processing plants at Urad Zhongqi and Ceke have only been in operation for less than three years. Our design capacity at our Urad Zhongqi coal processing plant increased from 1.0 mtpa to 2.0 mtpa in the third quarter of 2008, and to 4.0 mtpa in the fourth quarter of 2009. In addition, we plan to expand our logistics parks at Gants Mod and Ceke, expand our coal processing capacity at our Urad Zhongqi coal processing plant, construct and operate new coal processing plant at Jining while continue to operate our coal processing plant in Ceke, as well as jointly develop and operate railway logistics centres at Gants Mod, Ceke, Urad Zhongqi, Jining, and potentially Mandula and Zhu'engadabuqi, with Hohhot Railway Bureau. We also plan to replicate our Mongolia business model in respect of our procurement of Russian coal by developing and operating logistics parks, jointly construct and operate railway logistics centres with another local railway bureau, and construct coal processing plants at both Manzhouli and Suifenhe. It is also our plan to invest in and construct docking facilities at Longkou port, as well as coal processing plants at Bayuquan port and Longkou port, and possibly Yangkou port. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

There are various risks associated with the development and construction of these projects. For example, each of these projects are subject to the approvals of various governmental departments in the PRC, and there is no assurance that we will be able to obtain all necessary approvals expediently or be allowed to implement our projects in accordance with our plans. Further, our rapid development in the past few years has created a strong demand for new capital in order to finance our projects and we expect we will continue to require substantial initial capital outlay in order to implement the above projects in accordance to our plan. There can be no assurance that we will be able to secure sufficient financing to fund these projects, given that these projects may require a higher capital outlay than that expected by us and that, if sufficient financing is available, we are able to efficiently deploy our capital to meet the investment schedule or in accordance with the actual requirements of these projects. In addition, there can be no assurance that our management team possesses the required technical and operational expertise required for the development and operation of these projects, and there can be no assurance that we will be able to attract and retain sufficient experienced technical personnel to implement and manage these projects. Please also refer to the section headed "Risk Factors — Risks Related to Our Business and Our Industry — We are exposed to certain risks in respect of the development and construction of new logistics parks, railway logistics centres and coal processing plants and expansion of our seaborne coal operations to certain seaports" in this prospectus.

To accommodate our planned growth, we anticipate that we will need to implement a variety of new and upgraded operational and financial systems, procedures and controls, including the improvement of our accounting and other internal management systems, all of which require substantial management effort, human resources, expertise and significant additional expenditures. As we have a limited history operating on such a large scale, we may not have sufficient experience and expertise to address the risks frequently encountered by companies that attempt to realise a large increase in capacity in a short time, including our potential failures to:

- effectively manage large scale production;
- manage the logistics, utility and supply needs of our expanded operations;
- maintain adequate control over our expenses; or
- attract, train, motivate and retain qualified personnel.

We cannot assure you that we will be able to manage our growth effectively, and failure to do so may have an adverse effect on our business, prospects, financial condition and results of operations.

The supply of coal from Mongolia to China may be limited by the availability and stability of transportation services and border-crossing handling capacity at Sino-Mongolian border crossings. Our future growth may accordingly be adversely affected

Currently all our Mongolian coal is transported into China through the two border crossings at Sino-Mongolian border, namely the Gants Mod and Ceke border crossings. Currently all our major Mongolia-based suppliers' mines are only connected to Sino-Mongolian borders by unpaved gravel roads. Further, we and our Mongolia-based suppliers primarily rely on an Independent Third Party, Moveday, for transportation of coal from our suppliers' mine to our logistics parks at Gants Mod and Ceke border crossings. In each of the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 respectively, Moveday was responsible for the transportation of more than 85% of the coal supplied by our Mongolia-based suppliers to us. Although we have not experienced any major disruption to the transportation service in Mongolia in the past, there can be no assurance that inadequate or disruption to transportation service, which may be caused by severe weather conditions, changes to political and legal environment in Mongolia or impairment to the available infrastructure, as well as any major disruption to business and operations of Moveday, will not occur in the future. In particular as Moveday is an Independent Third Party, there is no assurance that we will be able to continue to procure services from Moveday which are sufficient to meet our future needs and that we will be able to find a satisfactory replacement of Moveday and, if so, in a timely manner if it is unable or unwilling to meet our needs. Any shortage or disruption to the transportation service is likely to affect the volume and stability of supply from Mongolia. At these Sino-Mongolian border crossings, a bottleneck in the transportation and import of coal may arise if the border-crossing handling capacity at these Sino-Mongolian border crossings is not sufficient to support an increase in the amount of coal transportation and import. Potential customers are likely to factor in any delays and the costs and availability of transportation in determining whether they are willing to purchase coal from us and the price they are prepared to pay.

Our operations are also highly dependant on the throughput volume of the Sino-Mongolian border crossings. Although there have been improvements to the clearance infrastructure to increase the throughput capacity and efficiency at the Gants Mod and Ceke border crossings in the first half of 2010, there can be no assurance that there will be further improvements made to the infrastructure at the Gants Mod and Ceke border crossings, and there can be no assurance any the improvement will achieve its intended results in increasing throughput capacity and efficiency at these border crossings. There can be no assurance that the PRC and Mongolian governments will continue to support the further development and expansion of border-crossing handling capacity at these border crossings, and if such support is not forthcoming, there may not be any future increase in throughput volume and capacity. There can also be no assurance that our coal will be handled by the respective customs authorities in priority over other coal or freight being transported by third parties including our competitors. The opening hours of the Gants Mod and Ceke border crossings also affect our ability to increase the volume and rate of our coal shipment. In addition, there can be no assurance that the customs authorities at the border crossings can handle the throughput in an efficient manner throughout the year due to various factors that are beyond our control. As a result, we may experience difficulty in moving our coal shipments across the Sino-Mongolian borders efficiently, which could affect our sales volume and reduce our profitability. If the capacity of transportation infrastructure and infrastructure at border crossings does not increase, our future growth may be adversely affected.

We may not be able to recover all or part of our loan to Moveday

We have provided a loan to Moveday to purchase additional vehicles to meet with the increasing volume of coal procured by us in Mongolia. The loan is for an amount of US$40 million and is required to be used by Moveday solely for the purpose of purchasing vehicles for transporting coal purchased by us in Mongolia. The loan is made at an interest rate of LIBOR plus 3% and is repayable in five years in equal instalments of US$8 million, commencing from 18 months after the receipt of the loan by Moveday. As at the Latest Practicable Date, the entire amount of the loan has been drawn down. Please refer to the section headed "Business — Transportation" in this prospectus for further details. The loan was made by us in order to assist Moveday to meet with the increasing volume of coal procured by us in Mongolia. As Moveday is an Independent Third Party and the loan to Moveday is an unsecured loan, we do not have an interest in or control over the cash flows or other assets of Moveday other than in accordance with the terms of the loan agreement (as amended). Based on our business relationship with Moveday, which is an Independent Third Party, we believe Moveday represents a good credit. There is, however, no assurance that our all or part of our loan will be recovered, through exercise of our right to offset or otherwise, and if so, in accordance with the schedule of repayment as agreed. As a result of major disruption to its business or operations or other unforeseen changes, it is possible that Moveday may not be able to repay all or part of our loan. Further, we have not obtained any collateral over the loan and in the event Moveday is unable to repay our loan, our financial condition may be adversely affected.

Shortage or suspension of coking coal supply from our Mongolia-based suppliers could result in an adverse impact on our business operation, profitability and our return on investment in the infrastructure at border crossings, railway network and coal processing plants

We have enjoyed supply relationships with four Mongolia-based mining companies, which have allowed us to secure a stable supply of Mongolia coal to meet the increasing demands for our products during the Track Record Period and the six months ended 30 June 2010. The total turnover derived from coal supplied from our four main Mongolia-based suppliers amounted to RMB191.4 million, RMB982.9 million, RMB1,757.9 million and RMB1,957.0 million, representing 96.4%, 98.9%, 37.8% and 45.5% of our total turnover for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively. We anticipate that we will continue our supply relationship with our Mongolia-based suppliers in order to be able to obtain a stable and constant supply of coking coal. Supply contracts between these Mongolia-based suppliers and ourselves are entered into on a quarterly or yearly basis and we may enter into discussions with our suppliers to discuss any adjustment to the purchase price based on prevailing market conditions on a quarterly basis. The coal supply contract between us and our largest Mongolia-based supplier ("**Supplier**

No. 1") is expiring on 28 October 2010. We have an understanding with the Supplier No. 1 and another supplier ("**New Supplier**") which granted the Supplier No. 1 the right to mine at the same two pits located in Tavan Tolgoi that we will enter into a new coal offtake agreement with the New Supplier upon the expiration of the supply contract with Supplier No. 1 on 28 October 2010. There can be no assurance that the transition will not have an adverse effect on our supply or relationship with our suppliers. Although we have not experienced any major dispute, interruption, delay or shortage in supply from our suppliers in Mongolia in the past, there is, however, no assurance that we will be able to agree with our suppliers the terms of our annual or quarterly supply agreements or that we will not encounter any form of disputes, interruption, delay or shortage in supply from our suppliers in Mongolia in the future. If this happens, we may need to source our coking coal supply from other suppliers including those from Australia, the US, Canada and Russia. We may not be able to secure sufficient supply from other existing and new suppliers and if so, at the same price or volume. As such, any interruption, delay or shortage of coal supplies which we encounter from our Mongolia-based suppliers may have an adverse impact on our business operation or profitability.

In addition, to increase our capacity to handle the expected increasing supply of Mongolia coal to China, we have made a series of investments in the infrastructure at border crossings and railway network. Investment return on such infrastructure depends on our ability to obtain stable and sufficient quantities of coal from our suppliers in Mongolia. If we cannot secure sufficient supply volumes from our Mongolia-based suppliers, our return on investment in the infrastructure at border crossings, railway network and coal processing plants may be adversely affected and our investment may not be justified at all.

We utilise the PRC national railway to transport our coal products to our coal processing plants and customers, any major disruption of which may adversely affect our business and results of operations. We may have limited ability to secure sufficient freight capacity on national railway to transport our coal products to target markets

We utilise the PRC national railway system to deliver our coal products to our customers. Due to the limited railway transportation capacity available and the great demand for such capacity by customers, the allocation of transportation capacity is subject to a number of factors including market conditions, government policy and regulatory decisions. Accordingly, there is no assurance that our transportation requirements can be fully satisfied in the future, nor is there assurance that we will not experience any material delay in the transportation of our coal as a result of insufficient railway transport capacity. After raw coking coal is processed at our coal processing plants, we will still rely primarily on the national railway system to transport our products from those locations to our end customers. There can also be no assurance that the local railway system will be able to secure sufficient railway transportation capacity to transport the processed coking coal products we produce. It cannot be assured that the railway transportation capacity connecting to major steel consumption regions will improve. In addition, in the PRC, railway infrastructure and capacity have in the past been affected by extreme weather conditions, earthquakes, delays caused by major rail accidents, the diversion of rolling stock needed to deliver emergency food relief and seasonal congestion during public holidays. There can be no assurance that these problems will not recur or that new problems will not occur. Under any of these circumstances, the customers may not be able to take delivery of our coal, which may lead to delays in payment, or refusal to pay, for our coal and, as a result, our business and results of operations could be adversely affected.

In addition, any significant increase in transportation costs would add to our overall cost base, which may in turn have an adverse effect on our business and results of operations.

We rely on a number of third-party transportation companies to transport coal to our coal processing plants and customers in China. Any major disruption of their business may adversely affect our business and results of operations

In addition to the railway transportation, we also rely on a number of third-party transportation companies to transport coal from our suppliers' mines to our logistic parks at the border crossings or to China's sea ports and to our coal processing plants and customers within China. Although we have not experienced any major disruption in respect of the transportation services provided to us, there can be no assurance that sufficient transportation services will remain available to us. Any major disruption of their business and operation may adversely affect our business and results of operations and if we cannot replace them with alternative transport capacity, our business and results of operations may be adversely affected.

There are a number of risks associated with our dependence on a limited number of customers

Most of our products are sold to steel makers and coke plants in the PRC. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales to our five largest customers accounted for 95.3%, 91.1%, 33.0% and 41.4%, respectively, of our total sales. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales to our single largest customer accounted for 82.1%, 56.7%, 9.7% and 14.2%, respectively, of our total sales.

We anticipate that we will continue to rely on the business activities of our major customers, particularly those in the steel manufacturing industry. Our business, results of operations and financial position may be adversely affected by any economic or market downturn suffered by the PRC steel industry.

We have established long-term business relationships with Baogang Group, Hebei Steel, Tangshan Jiahua, and Risun Coke. However, as with the industry practice, our customers have not agreed to any long-term purchase commitment at the outset. In addition, our sales contracts generally have yearly or quarterly terms, which specify the quantities and timing of purchases planned over the following year or quarter. Prices with respect to purchases made under letters of intent are generally determined near to the time of sale.

We cannot assure you that any of our customers will continue to place orders with us in the future, or if so at the same level or at the same price, as in previous periods. In particular, if we lose any of our major customers, we cannot assure you that we will be able to attract any new customer with the same scale or requirements or that any of our remaining customers will increase their demand to offset such shortfall on an expedited basis. As a result, our results of operations may fluctuate significantly in the future. Our profitability, working capital position and financial condition could also be adversely affected.

Our results of operations are vulnerable to any significant downturn in the PRC steel industry

Our business and prospects are heavily dependent on the demand for coking coal by steel makers and coke plants in China and especially in Hebei province and Inner Mongolia. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, sales to our top five customers accounted for 95.3%, 91.1%, 33.0% and 41.4%, respectively, of our total sales and all of these top five customers are steel makers or coke plants.

Our growth during the Track Record Period was to a great extent fueled by the growth of the PRC steel industry in recent years. However, there can be no assurance that this growing demand will continue for our coking coal products from steel manufacturers in Hebei province and Inner Mongolia or other parts of China. Any significant downturn in the steel industry in China including performance of major steel manufacturers in Hebei province and Inner Mongolia could adversely affect our business, results of operations and financial condition.

Our results of operations may be affected by a number of factors beyond our control, including the average selling prices, fluctuations in raw material prices and sales volumes of our processed and raw coking coal products

Our future results of operations may be significantly affected by a number of factors beyond our control, including the average selling prices, fluctuations in raw material prices and sales volumes of our processed coking coal, which will be further affected by factors including, but not limited to, coal and coal-related product market conditions, steel market conditions, transportation costs and our ability to maintain safe operations and expand the scale of our operations. See also the section headed "We utilise the PRC national railway to transport coal to our coal processing plants and customers, any major disruption of which may adversely affect business and results of operations. We may have limited ability to secure sufficient freight capacity on national railway to transport our coal products to target markets" in this prospectus.

Our operating results may be negatively affected by fluctuations in the price of raw coking coal. For example, in the seaborne market, recent coking coal price increases have affected the Australian spot market. According to AME, for the year 2010, spot prices for Australian hard coking coal exported from Newcastle have increased by approximately 30% from US$193 per tonne in January to US$250 per tonne in May (excluding VAT). These price increases have affected China to a lesser extent where spot prices have increased 15% for the same period. However, spot prices have fallen in July and August, 2010. The average spot price for Australian hard coking coal was US$203 per tonne FOB in July 2010. Please refer to the section headed "Industry Overview" in this prospectus for more details. We are subject to short-term coal price volatility and may have to purchase raw coking coal at prices higher than we expect. We may not always be able to pass the cost increase of raw coal on to customers and we may not be able to do so in the future either. This may adversely affect our gross margins and profitability. If we fail to agree on a price with our customer under our purchase agreements, consistent with the market practices in China, customers may terminate the contract or refuse to buy all of the quantities contracted for. Further, sales prices of our coal to our customers are subject to quarterly adjustment after taking into account the prevailing market rate of coking coal in the PRC market, which typically correlate with the prevailing contracted coking coal price between major coking coal producers in Shanxi Province and large steel makers in China. The purchase price of the coal supplied by our Mongolia-based suppliers is primarily set annually or quarterly based on the prevailing market price. There can be no assurance that we will be able to perfectly match our sales prices with our purchase prices during a particular time period, and such mismatch, to the extent exists, may affect our profit margin and business operation adversely.

Our business and results of operations are susceptible to the cyclical nature of coal markets and are vulnerable to fluctuations in prices for coal. We expect to derive substantially all of our turnover and cash flow from the sale of coking coal. Therefore, our ability to raise additional financing and maintain ongoing operations and our financial condition and results of operations will be directly related to the demand for, and price of, coking coal products. Coking coal demand and price are determined by numerous factors beyond our control, including the international demand for steel and steel products, the availability of competitive coal supplies, international exchange rates, political and economic conditions in Mongolia, the PRC and elsewhere in the world, weather conditions, and production costs in major coal producing regions. The PRC and international coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year.

There has been significant price volatility on the coal spot market. In the seaborne market, for example, according to the AME Report, for the first six months of 2010, spot price for Australian seaborne coking coal exported overseas has increased by approximately 30% from January (approximately US$193 per tonne) to May (approximately US$250 per tonne), and Chinese spot prices have increased by approximately 15% from the beginning of the year to May 2010. However, spot prices have fallen in July and August, 2010. Average spot price for Australian hard coking coal was US$203 per tonne FOB in July 2010. An oversupply of coal in the PRC or a general downturn in its economy could materially and adversely affect our business and results of operations. In addition, our dependence on the PRC markets may result in instability in our operations due to political and economic factors in the PRC beyond our control which could affect domestic demand. The combined effects of any or all of these factors on coal prices or volumes are impossible for us to predict. If realised coal prices fall below the full cost of production of any of our future operations and remain at such a level for any sustained period, we could experience losses which could have a material and adverse effect on our financial condition.

We have not entered into any hedging transactions to reduce our exposure to risks associated with price volatility of coal. There can be no assurance that global and domestic coal prices will remain steady or move in tandem, and any fluctuation may affect the profitability, and in extreme cases, the feasibility of our business.

We generate a part of our turnover from seaborne coal trade. Fluctuation in international coking coal price or freight cost may potentially cause our seaborne coal business to be unprofitable

Other than Mongolian coal, we also source coal from other countries such as Australia, the US, Canada and Russia to supply to our customers. For the year ended 31 December 2009 and the six months ended 30 June 2010, 60.9% and 54.2% of our turnover was derived from the sale of seaborne coal (hard coal). We anticipate that we will continue to derive a portion of our turnover from seaborne coal business.

However, seaborne coal markets are cyclical and have in the past exhibited significant fluctuations in supply, demand and prices from year to year. For example, according to the AME Report, the benchmark price for premium hard coking coal was approximately US$96 per tonne in 2007, US$300 per tonne in 2008 and US$129 per tonne in 2009, respectively. According to AME, for the year 2010 to date, spot prices for Australian hard coking coal exported from Newcastle, have increased by approximately 30% from US$193 per tonne in January to US$250 per tonne in May (excluding VAT). These price increases have affected China to a lesser extent where spot prices have increased 15% for the same period. Since September 2009, the spot price for Australian hard coking coal on a FOB basis has been higher than the spot price for China hard coking coal equivalent. However, spot prices have fallen in July and August, 2010. The average spot price for Australian hard coking coal was US$203 per tonne FOB in July 2010. Please refer to the section headed “Industry Overview” in this prospectus for more details. Any increase in worldwide demand for seaborne coking coal, in whole or in part, may lead to an increase in the prices we will pay for the seaborne coal. Although China has continued to import Australian hard coking coal, there is no assurance that the coal price in China will remain at its current level or China will continue to import seaborne coal despite the relatively high price. Any decrease in the coal price in China may affect the profitability of our seaborne coal business. Freight charges form a significant component of the cost of seaborne coal. There is no assurance that freight charges will remain at its current level. Our seaborne coal business may be unprofitable if the price for the seaborne coal we buy is and remains higher than the price for which we sell to our PRC customers or if the freight cost for the transportation of seaborne coal to us increases significantly.

In addition, in light of changing regulations and market conditions in countries from which we source our seaborne coal, the supply of seaborne coal is determined by factors beyond our control and in the event that our suppliers are not able to supply us with the amount and quality of coking coal that we request for or that we encounter any form of disputes, interruption, delay or shortage in supply from our seaborne suppliers in the future including failure to renew our supply contracts, we may not be able to secure sufficient supply from other existing and new suppliers.

We need to maintain a number of licenses and permits required by relevant laws and regulations, and if we are not able to remain in compliance with all such laws and regulations, such licenses and permits may be revoked

Our business operations are subject to a number of licenses and permits required under relevant laws and regulations of the PRC. For example, we are required to obtain a coal operation certificate for coal trading in China. Details of the relevant PRC regulations are set out in "Regulatory Overview" in this prospectus. We may not be able to continue to comply with such laws and regulations due to factors that are beyond our control, and under those circumstances, our licenses and permits may be revoked and we may be subject to penalty. Our operational income derived under such licenses or permits may also be forfeited. To the extent that these laws, regulations and legal requirements are evolving, additional licenses and permits may be required or we may be required to adjust our activities in order to comply with such regulations and in doing so, may incur substantial costs. Our failure to comply with applicable laws and regulations could subject us to administrative liabilities, including fines, injunctions, recalls or seizures, as well as potential criminal sanctions, which could have a material and adverse effect on our business, operations and finances.

Under applicable PRC laws and regulations, only large state-owned coal enterprises or state-controlled coal enterprises can be licensed to export coal from China. If we wish to export coal from China in the future, we will be required to comply with applicable laws and regulations in respect of export of coal from China and conduct such export business through these enterprises. There can be no assurance that we will be able to secure sufficient export quota through these enterprises.

In addition, the laws and regulations promulgated by the PRC central government may be principle-based only and therefore involve significant vagueness. It is therefore possible that local authorities, including those in Inner Mongolia, may interpret the laws and regulations differently from the central government authorities, which could lead to substantial uncertainties regarding our operations and activities in Inner Mongolia.

Our investments in Mongolia, our operations at Sino-Mongolian border crossings and procurement of coal from Mongolia are subject to uncertainty associated with the legal system in Mongolia, which could limit the legal protection available to us and potential investors

The Mongolian legal system shares several of the qualitative characteristics typically found in a developing country. Many of its laws are still evolving.

The legal system in Mongolia has inherent uncertainties that could limit the legal protections available to us, which include (i) inconsistencies between laws and regulations; (ii) limited judicial and administrative guidance on interpreting Mongolian legislation; (iii) substantial gaps in the regulatory structure due to delay or absence of implementing regulations; (iv) the lack of established interpretation of new principles of Mongolian legislation, particularly those relating to business, corporate and securities laws; (v) a lack of judicial independence from political, social and commercial forces; (vi) a judiciary unaware of how to handle complex commercial transactions; (vii) bankruptcy procedures that are not well developed and are subject to abuse; and (viii) a national bias. Due to the understaffed and developing nature of the judiciary and the high volume of cases, it may be difficult to obtain swift and equitable enforcement, especially when complex commercial matters are the centrepiece of legal debate. Further, though the judiciary has no obligation to, and will not, enforce a judgement by a court of another jurisdiction, Mongolia is a signatory of the New York Convention and is bound to enforce foreign arbitral award. However, such enforcement has not been tested in practice in Mongolia and Mongolia has registered a reservation so that only foreign arbitral awards of a commercial, and not administrative, nature can be enforced.

Although our Group does not currently have any direct operation in Mongolia, our business is strongly connected to, and places significant reliance on, operations in Mongolia. We rely on our major suppliers in Mongolia to supply raw coal to us and third-party transportation companies to deliver raw coal to us. In addition, we are in the process of pursuing opportunities to acquire upstream coal resource in Mongolia in order to secure stable supply volume. For example, on 29 June 2010, we acquired a 50% interest in the Peabody-Winsway JV, the 100% holder of Peabody-Winsway Mongolia, a Mongolian legal entity engaging in coal exploration and mining in Mongolia. In total, Peabody-Winsway Mongolia holds 50 coal related mineral licenses.

The protections provided by Mongolian anti-expropriation and anti-nationalisation laws may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of our assets, or portions thereof, potentially without adequate compensation, could materially and adversely affect our business and results of operations.

Development of roads infrastructure in Mongolia can be done by private parties; however, the land associated with the road-base cannot be transferred into private ownership. Please refer to the section headed "Regulatory Overview — Mongolian Operations — 7. Investment in Road Infrastructure" in this prospectus.

Further, there can be no assurance that future political and economic conditions in Mongolia will not result in the Mongolian Government adopting different policies in relation to foreign development and ownership of mineral resources. Any such changes in government or policy may result in changes in laws affecting ownership of assets, environmental protection, labour relations, repatriation of income, return of capital, investment agreements, income tax laws, royalty regulation, government incentive and other areas, each of which may materially and adversely affect our or our suppliers' ability to undertake exploration and development activities in the manner currently contemplated. Similarly, any restrictions imposed, or Mongolian Government charges levied or raised (including royalty fees), under Mongolian law on the export of coal could harm our competitiveness.

The global financial markets have experienced significant deterioration and volatility recently, which may adversely affect our financial condition and results of operations. We may have limited ability to obtain financing to invest in new capacity and face capacity restraints

The current global financial crisis has adversely affected the world economy. With a deteriorating worldwide economy, demand for coking coal may diminish in China. In addition, the credit tightening environment may affect our ability to obtain financing, or banks may even reduce the amount of or discontinue the banking facilities currently available to us. This can adversely affect our ability to secure sufficient financing to fund our projects. In the short to medium-term, we are expanding our infrastructure and throughput capacities at Sino-Mongolian border crossings, and we plan to expand our seaborne coal operations to Bayuquan port, Longkou port and possibly Yangkou Port. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details. Such expansion would require investment in new facilities or acquisition of stakes in other existing facilities. The construction of logistics parks and docking facilities is capital intensive and any new facilities that we establish will require substantial expenditure. Any expansion of our capacity will be highly dependent upon our ability to obtain additional financing, which is subject to a variety of uncertainties, including:

- our future financial condition and credit rating;
- general market conditions for financing activities;
- our Share price; and
- the PRC government policies and regulations relating to ports operators and lending in general.

External financing may not be available in a timely manner, on acceptable terms, or at all. If we are unable to expand our capacity we may be unable to grow our business and remain competitive, or provide services to companies with significant capacity requirements, which may have a material adverse effect on our ability to grow our turnover.

There can be no assurance that actions taken by the PRC government or other governments will be effective in addressing the global financial and economic crisis. In the event the global financial and economic crisis continues, becomes more severe, or lasts longer than currently estimated, our business, liquidity, financial condition, results of operations and prospects could be materially and adversely affected.

Our business may be adversely affected if we are unable to extend or refinance our short-term borrowings

We rely on short term financing to fund our projects. We may fund capital expenditures with internally generated cash flow and short-term bank loans in the future. Our future liquidity, payment of trade and other payables and repayment of our outstanding debt obligations as and when they become due will primarily depend on our ability to maintain adequate cash inflows from our operating activities and adequate external financing. We may not be able to renew or refinance our existing short-term bank loans or secure additional external financing and, in that event, our business may be materially and adversely affected.

We are dependent on future cash flows generated from our business and obtaining additional financing to support our business operations

We have cash requirements both for ongoing operating expenses, working capital, general corporate purposes and for interest and principal payments on our outstanding indebtedness. As of 30 June 2010 we had cash and cash equivalents of RMB542.0 million and net current assets of RMB1,562.0 million, respectively. For further details on changes in our cash flows, please refer to the section headed “Financial Information — Liquidity and Capital Resources — Cash flow” in this prospectus.

Our ability to generate adequate cash inflows from operating activities may be affected by decreasing sales or downward movements in coal product prices. We cannot assure you that we will be able to generate sufficient net cash inflow from our operations in the future. If we are unable to generate sufficient cash from our operations or secure additional financing to meet our obligations, we may be forced to reduce our capital expenditures or may not be able to continue as a going concern. Reduction of our capital expenditures could have a negative impact on our business and would make it more difficult for us to execute our strategy, including our expansion plans, in accordance with our expectations.

We are exposed to certain risks in respect of the development and construction of new logistics parks, railway logistics centres and coal processing plants and expansion of our seaborne coal operations to certain seaports

Our business strategy depends in large part on expanding and further developing our logistic parks, railway logistics centres and coal processing plants and expansion of our seaborne coal operations to certain seaports. To expand our throughput capacities at Sino-Mongolian crossings, we are currently at the initial stage of planning for the construction of our conveyor belt systems which will connect the Ceke logistics park and the Gants Mod logistics park across the Sino-Mongolian border to their contiguous land in Mongolia.

There is no assurance that we will be able to complete our various projects within budget or in a timely manner, or at all. If we are unable to successfully construct these projects, we may not grow as rapidly as we expect, and our competitiveness may be adversely affected.

The development of the logistics parks, railway logistics centres and coal processing plants and expansion of our seaborne coal operations to certain seaports may be affected by interference of natural conditions or an increase in construction costs. Further, the total investment of the logistics parks, railway logistics centres and coal processing plants and expansion of our seaborne coal operations to certain seaports will require capital expenditure. There is no assurance that we will be able to obtain sufficient funding for these projects.

We are still in the process of applying for construction permits for certain our projects. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details. Furthermore, there is no assurance that approvals will be granted by relevant local government or regulatory authority to the development of the logistic parks, railway logistics centres, coal processing plants and seaports 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 our 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 our original budget. As a result of project delays, cost overruns, changes in market circumstances or other reasons, we may not be able to achieve intended economic benefits or demonstrate commercial viability of the planned projects, which may in turn adversely affect our business, operating results and growth prospects.

We face competition from a number of PRC and international competitors

Competition in the PRC coking coal industry is based on many factors, including, among others, on numerous bases such as price and cost, production capacity and transport capabilities and coal quality and characteristics. We compete in the PRC with other large PRC and international coal mining companies in the supply of coal for the coke blend requirements of steel makers and coke plants. Due to their location and scale of operation, some of our PRC competitors may have lower transportation costs than we do. The PRC coking coal market is fragmented and we face price competition from other mining companies or mining operators that produce coal for significantly lower costs than us due to various factors, including their lower expenditure on safety and regulatory compliance. In addition, international coal producers, including those from Mongolia, may have more stable upstream supply, greater coal production capacity as well as greater financial, marketing, distribution and other resources than we do, and may benefit from more established brand names in international markets.

We believe our integrated service platform provides us with a competitive advantage in providing a stable supply of high-quality coking coal. Our competitors may attempt to establish business models similar to ours and it is possible that coking coal mines or steel plants may scale up their operations by expanding downstream or upstream and hence become our direct competitors in certain stages of the business of supplying coal into to China. In addition, it is possible for coking coal mines and our customers such as steel plants to directly contract with each other and thereby bypass the services that we currently provide to them. In such circumstances, these coking coal mines or steel plants may have advantages over us and we may not be able to compete effectively against them.

Our future success will depend on our ability to respond in an effective and timely manner to competitive pressure.

Our current and planned strategic cooperations and investments (coal mining, construction of paved road and railways) may not be successful

We plan to carry out and develop some of our business and infrastructure through joint ventures in the future. Details of our contractual arrangement with our partners are set out in the section headed "Future Plans and Outlook" in this prospectus. Such joint venture arrangements involve a number of risks, including but not limited to:

- disputes with project development partners in connection with the performance of their obligations under the relevant project or joint venture agreements;
- disputes as to the scope of each party's responsibilities under these arrangements;
- financial difficulties encountered by a project development partner affecting its ability to perform its obligations under the relevant project or joint venture agreements; and
- conflicts between the policies or objectives adopted by the project development partners and those adopted by us.

Any of the above and other factors may adversely affect our ability to complete projects on a timely basis and within budget, which would affect our results of operations.

Prolonged periods of severe weather conditions could materially and adversely affect our business and results of operations

Severe weather conditions, such as sandstorm and blizzard, may require us to evacuate personnel or curtail operations and may cause damages to the logistics parks and railways which we rely on for our business, and which could result in the temporary suspension of operations or generally reduce our productivity. Prolonged sandstorm and heavy snow fall may also halt or cause delay in coal transportation to us. Any damage to our projects or delays in our operations caused by prolonged periods of severe weather could materially and adversely affect our business and results of operations.

Our business may be adversely affected by shortages in electricity, water and gasoline supply or increases in electricity, water and gasoline prices

We consume a substantial amount of electricity, water and gasoline in connection with our coal processing and transportation operations. We expect our demand for electricity, water and gasoline to increase as our production capabilities increase and our business grows. Although we have not experienced any major shortage or disruption in electricity or water or gasoline supply in the past, there can be no assurance that sufficient supply of electricity, water and gasoline will be available to us in the future. Any shortages or disruption in electricity or water or gasoline supply could lead to lengthy production shutdowns and increased costs related to recommencement of operations.

Insufficient electricity or water or gasoline supply may force us to limit or delay our production, which could have a material adverse effect on our business, financial condition or results of operations. Any significant increase in electricity, water and gasoline prices will increase our production costs and may adversely affect our results of operations if we are not able to pass the increased costs on to our customers.

Failure in our information and technology systems could result in delays to our business operations

Our operations are controlled and managed by modern software and hardware systems. These systems are intended to enable us to maximise efficiencies and monitor and control all aspects of our operations and are fundamental to ensuring that we maintain our competitiveness in our industry. We use information and technology systems that link our computers, communications control systems, global positioning system and geographic information system to control our transportation and logistics system. Although we have not experienced any major failure or breakdown in these systems in the past, there can be no assurance that there will not be any failure or breakdown of these systems in the future. Any failure or breakdown in these systems could interrupt our normal business operations and result in a significant slowdown in operational and management efficiency during such failure or breakdown. Any prolonged failure or breakdown could dramatically impact our ability to offer services to our customers, which could have a material adverse effect on our business and results of operations.

We have not obtained the relevant regulatory permits for the operation of certain facilities and processing plants and are applying for the land use rights and construction permits for some of our new projects in China

As of the Latest Practicable Date, we have not obtained permits and approvals in respect of construction and use of certain buildings and facilities at our coal processing plants. Our Ceke coal processing plant and the expansion at our Urad Zhongqi coal processing plant have commenced operation notwithstanding they have not passed certain regulatory inspections with respect to completion of construction. Our PRC legal adviser has advised us that we may, as a result, be subject to various legal consequences such as being ordered to suspend any operation actually carried out at the Ceke coal processing plant and the expansion portion of our Urad Zhongqi coal processing plant and being imposed with a fine of up to RMB100,000 respectively.

Separately, we are in the process of obtaining the relevant land use right certificates and construction permits for some of our new projects in China, such as the railway logistics centres and the coal processing plants. However, we may not be able to obtain such certificates, in which case our rights as owner or occupier of relevant properties and our ability to complete the construction on some of the coal processing plants may be adversely affected. Accordingly, the expansion of our coal processing capacity, and in turn our business and financial condition could also be adversely affected.

Some of the properties that we lease or occupy have defective or unclaimed title

We leased 30 properties for office, dormitory and auxiliary uses in the PRC out of which 11 had defective title as at the Latest Practicable Date.

The properties with defective titles or unregistered titles are mainly used for dormitories and administrative purposes. We cannot predict how our rights as a lessee of these properties, and our operations carried out on or from these properties, may be adversely affected as a result of the absence of vested legal title in these properties or sufficient right to lease or use these properties, or any dispute, claims or litigation arising thereof. We may be required to relocate our business operations carried out on properties that we do not have unassailable legal rights to use or occupy and such relocation could adversely affect our financial condition and results of operations. See the section headed "Business — Property — Properties leased" in this prospectus for further details.

Our operations are exposed to risks in relation to environmental protection

We are subject to certain laws and regulations concerning the protection of the environment. The particular environmental laws and regulations that apply to each property development project vary according to its location, the environmental factors associated with such development, construction and/or operations and the current and future use of the land and the properties. As the PRC Government increases its focus on the environment, our facilities including logistics parks and coal processing plants may be more strictly reviewed and inspected, and approval processes for future facilities or any alteration to existing facilities may be prolonged. Compliance with environmental laws and regulations may result in delays, cause us to incur substantial compliance and other costs and prohibit or severely restrict our activity in environmentally-sensitive regions or areas.

We cannot assure you that future environmental investigations will not reveal material environmental liabilities. Also, we cannot assure you that the PRC Government will not change existing laws and regulations or impose additional or stricter laws or regulations, compliance with which may cause us to incur a significant cost. In addition, we cannot assure you that we will be able to comply with all such laws and regulations in the future. lf we are unable to effectively and promptly comply with these changes, we may incur significant costs and may be subject to fines or be forced to suspend or shut down certain operations, which could have a material and adverse effect on our operations.

We may not maintain sufficient insurance coverage for the risks associated with the operation of our business and insurance coverage could prove inadequate to satisfy potential claims

We only have limited insurance coverage. As a result, we may have to pay out of our funds for financial and other losses, damages and liabilities, including those caused by fire, weather, disease, civil strife, industrial strikes, breakdowns of equipment, difficulties or delays in obtaining raw materials and equipment, natural disasters, terrorist incidents, industrial accidents or other causes. We also do not have any business interruption insurance or third party liability insurance. Although we have not suffered any major losses where our insurance coverage was insufficient to satisfy our claims, there can be no assurance that our insurance coverage will be sufficient in the future. Any business disruption or natural disaster may result in substantial costs and diversion of resources. Further, as at the Latest Practicable Date, we engaged 466 staff through a labour despatch arrangement. Under such arrangement, if the labour despatch agent violates the applicable laws and causes damages to the staff despatched, we could be held jointly and severally liable for losses suffered by the staff concerned if we are found to be in default of our obligations or not fulfilled our legal obligations. Losses incurred or payments we may be required to make may have a material adverse effect on our business, prospects, financial condition and results of operations to the extent such losses or payments are not insured or the insured amount is not adequate.

The interests of our principal shareholder, Mr. Wang, may differ from those of our other Shareholders

Mr. Wang, our Chairman and Chief Executive Officer, will beneficially own approximately 49.73% of our outstanding Shares upon completion of the Global Offering (assuming full conversion of the Convertible Bonds and the Preference Shares and the issuance of the Peabody Energy Consideration Shares at HK$3.875 (being the mid-point of the indicative Offer Price range), but no exercise of any options granted under the Pre-IPO Option Scheme). Accordingly, Mr. Wang has substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of directors and other significant corporate actions, timing and amount of our dividend payments, and otherwise controls or influences actions that require the approval of our Shareholders. These actions may be taken even if they are opposed by our other Shareholders, including those who purchase the Shares in the Global Offering.

We believe that third parties may be discouraged from making a tender offer or bid to acquire us because of this concentration of ownership. For further information on the ownership of the Shares, see the section headed "Shares" in this prospectus.

Foreign currency fluctuations could affect expenses and future earnings

Over 90% of our income in 2009 are denominated in Renminbi, a currency not freely convertible into other currencies. Our cost of coal purchased, accounting for over 90% of our total cost of sales in 2009, and some of our operating expenses are denominated in US dollar. The value of Renminbi against other foreign currencies is subject to changes in the PRC's policies and international economic and political developments. The PRC Government has, with effect from 21 July 2005, reformed the exchange rate regime by moving into a managed floating exchange regime based on market supply and demand with reference to a basket of currencies, pursuant to which the Renminbi is no longer pegged solely to the US dollar. From 2005 to 2007, there were several instances where the PRC Government and the PBOC widened the daily trading band for Renminbi against non-US dollar currencies and enlarged the floating band for the trading prices in the inter-bank spot exchange market of the Renminbi against the US dollar around the central parity rate. Since then, the PRC central bank has allowed the official Renminbi 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 dollar or any other foreign currency in the future.

There has been pressure from foreign countries on the PRC Government to adopt a more flexible currency system that could lead to appreciation of the Renminbi. The exchange rate may become volatile, the Renminbi may be revalued further against the US dollar or other currencies, or the Renminbi may be permitted to enter into a full or limited free float, which may result in an appreciation or depreciation in the value of the Renminbi against the US dollar or other currencies. Fluctuations in exchange rates may adversely affect the value of our net assets, earnings or any declared dividends as Renminbi is translated or converted into US dollars or Hong Kong dollars. Any unfavourable movement in the exchange rate may lead to an increase in our costs or a decline in sales, which could materially affect our results of operations. We have not entered into any agreements to hedge our exchange rate exposure.

Our organisation and operating structure may subject us to unintended tax liability

We utilise a number of BVI-incorporated entities within our Group to purchase coking coal from third party suppliers and resell to other entities within our Group for further processing or selling to external customers directly. The management team of our BVI-incorporated entities usually travel around Mongolia, Australia, Canada, the United States and other jurisdictions to undertake and negotiate for the procurement of coal from our overseas suppliers. Placing of the purchase orders and signing of procurement agreements are effected after our BVI trade agent affixes the relevant company chop on the agreements. Relevant shipping documents are being processed by our agent in Macau and will be endorsed by our management team at the locality of our overseas supplier. Our Directors are of the view that the effective management of these BVI-incorporated entities are situated outside of the PRC and on this basis they should not be treated as PRC tax resident. Please refer to the section headed "Financial Information — Description of Certain Income Statement Items — Income tax" in this prospectus for more information. With respect to these BVI-incorporated entities, we have not made any income tax provision as, pursuant to relevant BVI rules and regulations, our Group is not subject to any income tax in the BVI. However, as a result of the activities of the management of our BVI-incorporated entitles, which consist of travelling, negotiating, entering into supply contracts with our suppliers in a number of jurisdictions including Mongolia, Australia, Canada, United States, there is no assurance that such activities will not be challenged or deemed by relevant tax authorities to have triggered filing or tax obligations pursuant to relevant regulations. In particular, our tax adviser has advised us that there may be certain risk that part of the profits derived by our BVI-incorporated entities from the purchase and sale of coal will be considered to be sourced in Australia, particularly because the relevant contracts are negotiated, concluded and executed in Australia. Turnover arising from transactions involving supply contracts that were negotiated, concluded and executed in Australia was RMB199.5 million for the year ended 31 December 2009, representing 4.3% of our total turnover, and the cost of coal purchased recorded by us in relation to these supply contracts was RMB180.8 million in 2009, leading to a gross profit (calculated by subtracting the cost of coal purchased from the turnover arising from or associated with the supply contracts) of RMB18.7 million. Our procurement activities in Australia only commenced in 2009 and we have not negotiated, concluded and executed any contract in Australia during the six months ended 30 June 2010. On the basis of the gross profit arising from or associated with these supply contracts that were negotiated, concluded and executed in Australia and a statutory income tax rate of 30% in Australia, we have been advised that our total tax exposure can amount to RMB5.7 million, although it is uncertain that any exposure, if at all, would reach such an amount. In addition, our tax adviser has advised us that interest may be chargeable on the amount of tax underpaid at a uniformed general interest charge ("**GIC**") rate announced by the Australian Taxation Office on a quarterly basis and which ranged from 10.16% to 11.76% per annum in 2009. The Australian Taxation Office may also at its sole discretion impose a 25% penalty charge on the amount of tax underpaid. As our procurement activities in Australia only took place in 2009, based on our total tax exposure of RMB5.7 million, the high end of the GIC rate of 11.76% for 2009 and on the assumption that the amount of tax, if at all, will be deemed underpaid since 1 January 2009, the amount of interest and penalty which may be charged or imposed on tax underpaid can amount to RMB671,000 and RMB1,425,000 respectively. If any of our BVI-incorporated entities is challenged or deemed by relevant tax authorities to have triggered any obligation to prepare tax filings or returns or even to pay tax or charges, our business, operations and financial condition may be adversely affected.

In addition, from 2010 onwards, our subsidiary in Singapore, Winsway Singapore, is subject to Singapore corporate income tax at a 10% concessionary tax rate under the Global Trader Programme, a programme launched by Singapore's Trade Development Board which encourages qualified products and commodities trading companies to choose Singapore as their regional or global base of operations. There is, however, no assurance that Winsway Singapore will continue to qualify under the Global Trader Programme and enjoy such concessionary tax rate as a result of future changes to Winsway Singapore or future changes to relevant regulations relating to the Global Trader Programme including the termination of the programme itself. If any of this happens, our business, operations and financial condition may be adversely affected.

We may be unable to retain or secure key qualified personnel, key senior management or other personnel for our operations

We believe that the effective operation of our company depends, to a significant extent, upon the experience and continued efforts of our key management personnel. In particular, we rely on the expertise and experience of Mr. Wang, our founder, Chairman and Chief Executive Officer. Mr. Wang, with the co-operation of the other members of our senior management team, has formulated our strategies and been fundamental to our achievements to date. If we lose the service of Mr. Wang or any other key management personnel and are not able to replace any such personnel with someone who has similar knowledge or experience, our business may be disrupted and our results of operations may be materially and adversely affected. In addition, our ability to train operating and maintenance personnel is a key factor for the success of our business activities. If we are not successful in recruiting, training and retaining such personnel, our business and results of operations could be materially and adversely affected.

Our future plans at the Sino-Russian border crossings and procurement of coal from Russia are subject to uncertainty associated with the legal framework in Russia

Russia is still developing the legal framework required to support a market economy. The following risk factors relating to the Russian legal system create uncertainty with respect to the legal and business decisions that we make, many of which uncertainties do not exist in countries with more developed market economies:

- inconsistencies between and among the constitution, federal laws, presidential decrees and governmental, ministerial and local orders, decisions, resolutions and other acts;
- conflicting local, regional and federal rules and regulations;
- the lack of judicial and administrative guidance on interpreting legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing legislation;
- the relative inexperience of judges and courts in interpreting legislation;
- lack of an independent judiciary;
- corruption within the judiciary;
- a high degree of discretion on the part of governmental authorities, which could result in arbitrary actions such as suspension or termination of our licenses; and
- poorly developed bankruptcy procedures that are subject to abuse.

The nature of Russian legislation, the lack of consensus about the scope, content and pace of economic and political reform and the rapid evolution of the Russian legal system in ways that may not always coincide with market developments place the enforceability and underlying constitutionality of laws in doubt and results in ambiguities, inconsistencies and anomalies. In addition, Russian legislation often contemplates implementing regulations which have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect our ability in Russia to enforce our rights, or to defend ourselves against claims by others.

Our future plans include constructing and developing logistic parks and other facilities at the Chinese side of the Sino-Russia border crossings at Manzhouli and Suifenhe. As a result of the uncertainty associated with the legal framework in Russia, the feasibility of construction and development of our planned investments at the Sino-Russian border crossings, as well as our procurement of coal from Russia in the manner currently contemplated may be materially and adversely affected.

Risks Related to Doing Business in the PRC

Our results of operations are subject, to a significant extent, to economic, political and legal developments in the PRC

Most of our business operations are conducted in the PRC and we anticipate continuing to supply all of our coal products in China in the near future. Accordingly, our business, financial condition, results of operations and prospects are significantly exposed to the economic, political and legal environment in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the degree of government involvement, the level of development, the growth rate, the control of foreign exchange, access to financing, and the allocation of resources.

The PRC's economic growth over the past 30 years has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. These measures may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us.

The PRC economy is in transition from a planned economy to a more market-oriented economy and a substantial portion of the productive assets in the PRC is still owned by the PRC government. The continued control of these assets and other aspects of the national economy by the PRC government could materially and adversely affect our business. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. In the past, the PRC government has implemented a number of measures, such as raising bank reserves against deposit rates to place additional limitations on the ability of commercial banks to make loans and raise interest rates, in order to decrease the growth rate of specific segments of the PRC's economy which it believed to be overheating. These actions, as well as future actions and policies of the PRC government, could materially and adversely affect our liquidity and access to capital and our ability to operate our business.

Our turnover is primarily denominated in Renminbi, which is not freely convertible for capital account transactions and may be subject to exchange rate volatility

Our turnover is primarily denominated in Renminbi. The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. Under the existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from SAFE provided that we satisfy certain procedural requirements. However, approval from SAFE or its local counterpart is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies.

Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders.

In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies. This could affect the ability of our subsidiaries in China to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Further, the value of the Renminbi against the US dollar and other currencies fluctuates and is affected by, among other things, changes in the PRC and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar and the US dollar, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. On 21 July 2005, the PRC government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. This change in policy has resulted in an approximately 21.9% appreciation of Renminbi against the US dollar between 21 July 2005 and 30 June 2010. There remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which may result in a further and more significant appreciation of the Renminbi against the US dollar.

As we do not use any hedging instruments to protect us from the fluctuation of foreign exchange rates, any appreciation of the Renminbi against the Hong Kong dollar or the US dollar or any other foreign currencies may result in the decrease in the value of the proceeds from the Global Offering. Conversely, any devaluation of the Renminbi may adversely affect the value of, and any dividends payable on, our ordinary shares in foreign currency terms. In addition, any devaluation in the value of Renminbi against foreign currencies may make our products more expensive and thus less attractive to our customers in China. All of these factors could materially and adversely affect our financial condition and results of operations.

Our operations are subject to uncertainty associated with the legal system in the PRC, which could limit the legal protection available to us and potential investors

Almost all of our business are conducted in China through our PRC subsidiaries and are governed by the PRC laws, regulations and legislative policies. Some of our PRC subsidiaries are generally subject to laws and regulations applicable to foreign investment in the PRC and, in particular, laws applicable to foreign-invested enterprises. The PRC legal system is based on written statutes, and prior court decisions may be cited for reference but have limited precedential value. The interpretations of many PRC laws, regulations and rules are not always consistent among different government authorities with judicial power, and enforcement of these laws, regulations and rules involve uncertainties, which may limit legal protections available to us. Laws, regulations and rules in the PRC and requirements of government authorities in the PRC may change over time and new requirements may impose restrictions or limit the scope of our operation or substantially increase the difficulty in our operation, or may impose additional licensing requirements on us. In addition, the PRC administrative and judicial authorities have significant discretion in interpreting and implementing statutory and contractual terms, it may be more difficult to assess the outcome of administrative and legal proceedings and the level of legal protection we enjoy than in other well-developed legal systems. These uncertainties may impede our ability to enforce the contracts we have entered into with our business partners and suppliers and could adversely affect our business and results of operations.

There may be difficulties in seeking recognition and enforcement of foreign judgments

We conduct all of our operations in China and significantly all of our assets are located in China. In addition, most of our Directors and executive officers reside within China or Hong Kong. As a result, it may not be possible to effect service of process within the US or elsewhere outside of China upon some of our directors and senior executive officers, including with respect to matters arising under US federal securities laws or applicable state securities laws. Moreover, our PRC legal counsel, King & Wood, has advised us that the PRC does not have treaties with the US or many other countries providing for the reciprocal recognition and enforcement of judgment of courts. Therefore, it may be difficult for you to enforce against us in the PRC any judgments obtained from non-PRC courts.

On 14 July 2006, the Supreme People's Court of the PRC and the Hong Kong government signed the "Arrangement on Reciprocal Recognition and Enforcement of Judgments in Civil or Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region Pursuant to Choice of Court Agreements between Parties Concerned" (最高人民法院關於內地與香港特別行政區法院相互認可和執行當事人協議管轄的民商事案件判決的安排). Under this arrangement, which came into effect on 1 August 2008, whenever a designated People's Court of the Mainland or a designated Hong Kong court has made an enforceable final judgment requiring payment of money in a civil or commercial case pursuant to any written agreement between the parties on choice of forum for dispute resolution, the party concerned may apply to the relevant People's Court of the Mainland or Hong Kong court for recognition and enforcement of the judgment. However, we understand that the rights under the arrangement may be limited and the interpretation of and cases decided under the arrangement have not been fully developed, and, therefore, the outcome and effectiveness of any action brought under the arrangement are unclear.

We rely on dividends paid by our subsidiaries for our cash needs

We are a holding company incorporated in the BVI and conduct substantially all of our operations through our PRC subsidiaries. We will rely on dividends paid by our PRC subsidiaries for our future cash needs that cannot be provided by equity issuance or borrowings outside of the PRC, including the funds necessary to pay dividends and other cash distributions to our shareholders, to service any debt we may incur and to pay our operating expenses in excess of such amounts will depend on dividends from our PRC subsidiaries. Regulations in the PRC currently permit payment of dividends by the PRC subsidiaries only out of accumulated profits as determined in accordance with the PRC generally accepted accounting principles. According to applicable PRC laws and regulations, each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profit based on the PRC generally accepted accounting principles each year for its statutory reserves until the amount of such reserves reach 50% of its registered capital. These reserves are not distributable as dividends. Contributions to such reserves are made from each of our PRC subsidiaries' net profit after taxation. In addition, if any of our PRC subsidiaries incurs debt in the future, the instruments governing the debt may restrict its ability to pay dividends or make other distributions to us. As a result, each of our PRC subsidiaries is restricted in its ability to transfer the net profit to us in the form of dividends. If our PRC subsidiaries cannot pay dividends due to government policy and regulations, or because they cannot generate the requisite cash flow, we may not be able to pay dividends, service our debt or pay our expenses, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

We may be deemed a PRC resident enterprise under the PRC EIT Law and may be subject to PRC taxation on our worldwide income, and dividends payable by us to our foreign investors and gains on the sale of Shares may become subject to withholding taxes under the current PRC tax laws

Under the current the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) (the "**PRC EIT Law**"), an enterprise established outside of the PRC with "de facto management bodies" within the PRC may be considered a resident enterprise and will normally be subject to enterprise income tax at the rate of 25% of its global income. The Implementation Rules for the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅實施條例) (the "**Implementation Rules for the PRC EIT Law**") provide that the term "de facto management bodies" refers to management bodies that substantially carry out comprehensive management and control of operations, personnel, finance and assets of the enterprise. In April 2009, the PRC State Administration of Taxation (國家稅務總局) promulgated a circular to clarify the definition of "de facto management bodies" for enterprises incorporated overseas with controlling shareholders being PRC enterprises. However, there have been no official implementation rules regarding the determination of "de facto management bodies" for enterprises that are not controlled by PRC enterprises, such as companies like us. Most of our directors and senior management are currently based inside China. The above elements may be relevant for the tax authorities to determine whether we are a PRC resident enterprise for tax purposes. However, there is no clear standard published by the tax authorities for making such determination.

There is currently no official statutory or judicial interpretation on "de facto management bodies" or guidance on the application of the PRC EIT Law in that respect. It is unclear under the PRC tax law whether we have a "de facto management body" located in China for the PRC tax purposes. Our Company takes the position that we are not a PRC resident enterprise for tax purposes. However, there can be no assurance that the tax authorities will agree with our position. If our Company is deemed a PRC resident enterprise for tax purposes, we would be subject to the PRC enterprise income tax at the rate of 25% on our global income.

Under the PRC EIT Law and the Implementation Rules for the PRC EIT Law, the PRC income tax at the rate of 10% (or lower treaty rate) is applicable to dividends payable to investors that are "non-resident enterprises" to the extent such dividends have their source within the PRC. Similarly, any gain realised on the transfer of shares by such investors is also subject to a 10% the PRC income tax if such gain is regarded as income derived from sources within the PRC. If we are considered a PRC "resident enterprise", it is unclear whether the dividends we pay with respect to our Shares, or the gain you may realise from the transfer of our Shares, would be treated as income derived from sources within the PRC and be subject to the PRC taxation. If we are required under the PRC EIT Law to withhold the PRC income tax on our dividends payable to our foreign Shareholders, or if you are required to pay the PRC income tax on the transfer of your Shares, the value of your investment in our Shares may be materially and adversely affected.

The PRC regulation of direct investment and loans by offshore holding companies to the PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the proceeds of the Global Offering, are subject to the PRC regulations. For example, loans to each of our PRC subsidiaries which is a foreign invested enterprise, cannot exceed the difference between the total amount of investment it is approved to make under the relevant PRC laws and its registered capital, and must be registered with the local branch of the SAFE as a procedural matter. In addition, our capital contributions to each of our PRC subsidiaries must be approved by the Ministry of Commerce of the PRC or its local counterpart. We cannot assure you that we will be able to obtain these approvals on a timely basis, or at all. If we fail to obtain such approvals, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may adversely affect their liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

Risks Related to the Global Offering and Our Shares

You may face difficulties in protecting your interests because we are incorporated under the laws of the BVI, and the laws of the BVI relating to the protection of the interests of minority shareholders may be different from those under the laws of Hong Kong and other jurisdictions

We are incorporated under the laws of the BVI, and the laws of the BVI differ in some respects from those of Hong Kong or other jurisdictions where investors may be located. Our corporate affairs are governed by our Memorandum and Articles, the Companies Act and the common law as applied in the BVI. The laws of the BVI relating to the protection of the interests of minority shareholders differ in some respects from those established under the statutes or judicial precedent in existence in other jurisdictions. For instance, the Companies Act provides minority shareholders of companies incorporated or registered under the Companies Act with statutory rights to apply to the High Court of the BVI to take derivative actions where the BVI company or its director engages in, or proposes to engage in, conduct that contravenes the Companies Act or the memorandum of association or articles of association of the BVI company. In addition, a shareholder who considers that the affairs of the BVI company have been or are likely to be conducted in a manner that is likely to be oppressive, unfairly discriminatory or unfairly prejudicial to him in the capacity as a shareholder may apply to the High Court of the BVI for relief. The High Court of the BVI may, if it considers it just and equitable to do so, make one or more orders including requiring the BVI company or any other person to acquire the shares of the applicant, requiring the BVI company or another person to pay compensation to the applicant, regulating the future conduct of the BVI company's affairs, amending the memorandum of association or articles of association of the BVI company, appointing a receiver or liquidator, directing rectification of the corporate records of the BVI company or setting aside any decision or action taken by the BVI company or its directors in breach of the Companies Act or the memorandum of association or articles of association of the BVI company. This may mean that the remedies available to our minority Shareholders, which are available regardless of whether they are resident in the BVI, may be different from those they would have under the laws of other jurisdictions. For a summary of the BVI law as well as our Memorandum and Articles, please refer to Appendix VI to this prospectus.

Volatility in the global financial markets could cause significant fluctuations in the price of our Shares

Financial markets around the world have been experiencing heightened volatility and turmoil since 2008 and may still be vulnerable if the global economy deteriorates again. Upon listing, the price and trading of our Shares will likely be exposed to the similar market fluctuations and risk which are irrelevant to our operating performance or prospects. Factors that may significantly impact the volatility of our stock price include:

- developments in our business or in the financial sector generally, including the effect of direct governmental actions in the financial markets;
- the operating and share price performance of companies that investors consider to be comparable to us;
- announcements of strategic developments, acquisitions and other material events by us or our competitors; and

- changes in global financial markets, global economies and general market conditions, such as interest or foreign exchange rates as well as stock and commodity valuations and volatility.

Given the potential market fluctuations described above, the price of our Shares may decline significantly, and you may incur losses on your investments.

There has been no public market for our Shares prior to the Global Offering, and the liquidity and market price of our Shares may be volatile

Prior to the listing of our Shares on the Hong Kong Stock Exchange, there has been no public market for our Shares. The Offer Price for our Shares will be the result of negotiations between the Joint Bookrunners (on behalf of the Underwriters) and us, and may differ from the market prices for our Shares after Listing. We have applied to the Hong Kong Stock Exchange for the listing of, and permission to deal in, our Shares. However, there can be no assurance that the listing of our Shares on the Hong Kong Stock Exchange will result in the development of an active and liquid public trading market for our Shares. The market price, liquidity and trading volume of our Shares may be volatile. Factors that may affect the volume and price at which our Shares will be traded include, among other things, variations in our turnover, earnings, cash flows, announcements of new investments and changes in laws and regulations in the PRC. We can give no assurance that these developments will not occur in the future. In addition, Shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in the PRC have experienced price volatility in the past, and it is possible that our Shares may be subject to changes in price not directly related to our performance.

We cannot assure you that we will declare dividends in the future

There can be no assurance that we will declare and pay dividends as other companies in our industry because the declaration, payment and amount of dividends are subject to the full discretion of our Directors depending on, among other considerations, our operations, financial conditions, cash requirements and applicable laws. Please see “Financial Information — Dividends and Distributable Reserves — Dividends”.

Purchasers of our Shares in the Global Offering will experience immediate dilution in the pro forma net tangible assets value because the Offer Price is higher than the net tangible assets per Share and may experience further dilution if we issue additional equity interest in the future

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. As a result, purchasers of our Shares will experience immediate dilution of approximately HK$2.71 per Share based on the maximum offer price of HK$4.50 per Share. Furthermore, in order to expand our business, we may consider issuing additional equity interests in the future. Purchasers of our Shares may experience further dilution in the net tangible asset book value per Share of their Shares if we issue additional Shares in the future at a price which is lower than the net tangible assets book value per Share.

Future sales or perceived sales of substantial amounts of our Shares in the public market could cause the prevailing market price of our Shares to decline

The Shares held by certain shareholders are subject to lock-up periods after the date on which trading in our Shares commences on the Hong Kong Stock Exchange. We cannot assure you that, after such restrictions expire, those shareholders will not sell any Shares held by them. Sales of substantial amounts of our Shares in the public market after the Global Offering or even perception that such sales might occur could cause decline of the prevailing market price of our Shares.

The market price of our Shares could be lower than the Offer Price

The Offer Price will be determined on the Price Determination Date. However, the Offer Shares will not commence trading on the Hong Kong Stock Exchange until they are delivered, which is expected to be the sixth Business Day after the Price Determination Date. As a result, investors may not be able to sell or otherwise deal in the Offer Shares during that period. Accordingly, holders of the Offer Shares are subject to the risk that the price of the Offer Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur between the time of sale and the time trading begins.

Certain facts and statistics contained in this prospectus have come from official government sources or other industry publications, the reliability of which cannot be assumed or assured

Certain facts and statistics in this prospectus related to the PRC and other countries, their respective economies and the industries in which we operate are derived directly or indirectly from official government sources, generally believed to be reliable. However, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified by us, the Joint Sponsors, the Underwriters or any of our or their respective affiliates or advisors or any other parties involved in the Global Offering and, therefore, we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice, the facts and statistics in this prospectus may be inaccurate and the statistics may not be comparable to statistics produced by other authorities. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on all such facts and statistics.

You should read the entire prospectus carefully and are strongly cautioned against placing any reliance on the information in any press articles or other media coverage which contains information not being disclosed or which is inconsistent with the information included in this prospectus

There may have been prior to the publication of this prospectus, and there may be subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. We would like to emphasise to prospective investors that we do not accept any responsibility for the accuracy or completeness of such information and that such information was not sourced from or authorised by our Directors or our management. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information included in or referred to by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding us or our Shares. To the extent that any statements are inconsistent with, or conflict with, the information contained in this prospectus, our Directors would not accept any responsibility for such statements. Accordingly, prospective investors are cautioned that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the application forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the application forms.