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中國秦發集團有限公司
CHINA QINFA GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 866)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2010

FINANCIAL HIGHLIGHTS

The Group has achieved a significant improvement in operating results in 2010 as follows:

- Total turnover was approximately RMB6,455.8 million in 2010, representing an increase of approximately 64.4% from approximately RMB3,927.0 million in 2009.
- Coal handling and trading volume was approximately 10.9 million tonnes in 2010, representing an increase of approximately 60.3% from approximately 6.8 million tonnes in 2009.
- Profit attributable to equity shareholders of the Company in 2010 was approximately RMB377.2 million, representing an increase of approximately 191.3% from approximately RMB129.5 million in 2009.
- Diluted earnings per share were RMB0.36.
- The Board does not recommend the payment of any dividend.

The board (the “**Board**”) of directors (the “**Directors**”) of China Qinfra Group Limited (the “**Company**”) is pleased to announce the consolidated results and financial position of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2010 with comparative figures for the year ended 31 December 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<i>Note</i>	Year ended 31 December	
		2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Turnover	4	6,455,805	3,926,993
Cost of sales		(5,698,188)	(3,501,338)
Gross profit		757,617	425,655
Other income	5	45,717	15,195
Distribution expenses		(119,748)	(100,025)
Administrative expenses		(122,906)	(80,267)
Other expenses		(4,808)	(2,937)
Results from operating activities		555,872	257,621
Finance income		48,722	13,234
Finance costs		(100,784)	(43,291)
Net finance costs	6(a)	(52,062)	(30,057)
Share of loss of associate		(1,922)	–
Profit before taxation	6	501,888	227,564
Income tax expense	7	(125,236)	(98,061)
Profit for the year		376,652	129,503
Other comprehensive income			
Foreign currency translation differences for foreign operations		(24,583)	(46)
Net change in fair value of available-for-sale financial assets		(12,918)	12,918
Other comprehensive income for the year (after tax and reclassification adjustment)		(37,501)	12,872
Total comprehensive income for the year		339,151	142,375
Profit attributable to:			
Equity shareholders of the Company		377,222	129,503
Non-controlling interests		(570)	–
Profit for the year		376,652	129,503

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Year ended 31 December	
		2010	2009
<i>Note</i>		<i>RMB'000</i>	<i>RMB'000</i>
Total comprehensive income attributable to:			
Equity shareholders of the Company		339,721	142,375
Non-controlling interests		(570)	–
		339,151	142,375
Total comprehensive income for the year		339,151	142,375
Earnings per share			
Basic earnings per share (RMB)	10(a)	0.36	0.15
Diluted earnings per share (RMB)	10(b)	0.36	0.15

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2010	2009
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		1,441,241	996,231
Intangible assets		210,659	–
Lease prepayments		51,884	6,053
Other investments		–	30,390
Investment in associate		45,129	–
Deferred tax assets		8,648	6,561
		<u>1,757,561</u>	<u>1,039,235</u>
Current assets			
Inventories		527,481	358,124
Derivatives		4,225	–
Trade and other receivables	11	2,893,441	1,349,832
Pledged deposits		951,807	1,037,328
Cash and cash equivalents		287,161	376,187
		<u>4,664,115</u>	<u>3,121,471</u>
Current liabilities			
Loans and borrowings	12	(2,874,690)	(2,013,813)
Trade and other payables	13	(778,500)	(370,104)
Derivatives		(211)	–
Current taxation		(209,333)	(167,578)
		<u>(3,862,734)</u>	<u>(2,551,495)</u>
Net current assets		<u>801,381</u>	<u>569,976</u>
Total assets less current liabilities		<u>2,558,942</u>	<u>1,609,211</u>
Non-current liabilities			
Deferred tax liabilities		(48,992)	–
Loans and borrowings	12	(735,321)	(231,924)
		<u>(784,313)</u>	<u>(231,924)</u>
Net assets		<u>1,774,629</u>	<u>1,377,287</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		At 31 December	
	<i>Note</i>	2010	2009
		RMB'000	RMB'000
Capital and reserves			
Share capital		91,474	91,474
Reserves		1,628,056	1,285,813
		<hr/>	<hr/>
Total equity attributable to equity shareholders of the Company		1,719,530	1,377,287
Non-controlling interests		55,099	–
		<hr/>	<hr/>
Total equity		1,774,629	1,377,287
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information and the basis of presentation

China Qinfra Group Limited (the “Company”) was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands.

Pursuant to a reorganisation (the “Reorganisation”) of the Company and its subsidiaries (collectively referred to as the “Group”) which was completed on 12 June 2009 to rationalise the Group’s structure in preparation for the public offering (as defined in the prospectus of the Company dated 19 June 2009 (the “Prospectus”)) of the Company’s shares on the Main Board of The Stock Exchange of Hong Kong Limited (“The Stock Exchange”), the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the Prospectus. The Company’s shares have been listed on the Main Board of The Stock Exchange since 3 July 2009.

Since all entities which took part in the Reorganisation were under common control of a group of ultimate equity shareholders, the Group is regarded as a continuing entity resulting from the reorganisation of entities under common control. These financial statements have been prepared on the basis that the current group structure, except for the subsidiaries acquired in 2010, had been in existence at the beginning of the earliest year presented. Accordingly, the consolidated results of the Group for the years ended 31 December 2009 and 2010 include the results of the Company and its subsidiaries with effect from 1 January 2009 or, if later, since their respective dates of incorporation as if the current group structure, except for the subsidiaries acquired in 2010, had been in existence throughout the two years presented. The consolidated statement of financial position of the Group as at 31 December 2009 and 31 December 2010 have been prepared as if the current group structure, except for the subsidiaries acquired in 2010, had been in existence as at the respective dates. All material intra-group transactions and balances have been eliminated on consolidation.

1.2 Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRSs”), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (“IAS”) and related Interpretations, promulgated by the International Accounting Standards Board (“IASB”), and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of measurement

These financial statements are presented in Renminbi (“RMB”), which is rounded to the nearest thousand. They have been prepared on the historical cost basis except that the available-for-sale financial assets and derivatives are measured at fair value.

(c) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other resources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

2 CHANGES IN ACCOUNTING POLICIES

The IASB has issued two revised IFRSs, a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), Business combinations
- Amendments to IAS 27, Consolidated and separate financial statements
- Amendments to IAS 39, Financial instruments: Recognition and measurement-eligible hedged items
- Improvements to IFRSs (2009)

The amendments to IAS 39 and Improvements to IFRSs (2009) have had no material impact on the Group's financial statements as the amendments were consistent with policies already adopted by the Group.

Details of changes in accounting policies as a result of adoption of IFRS 3 (revised 2008) and amendments to IAS 27 are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:
 - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
 - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.

- In addition to the Group’s existing policy of measuring the non-controlling interests (previously known as the “minority interests”) in the acquiree at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:

- If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
- If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the end of reporting period the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, Investments in associates, the following policies will be applied as from 1 January 2010:
 - If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
 - If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

3 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2010

Up to the date of issue of these financial statements, the IASB has issued the following amendments, interpretations and one new standard which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these financial statements.

		Effective for accounting periods beginning on or after
Amendments to IAS 32	Financial instruments: Presentation– Classification of rights issues	1 February 2010
IFRIC 19	Extinguishing financial liabilities with equity instruments	1 July 2010
Amendments to IFRS 1	First-time adoption of International Financial Reporting Standards-Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 July 2010
Improvements to IFRSs 2010		1 July 2010 or 1 January 2011
Revised IAS 24	Related party disclosures	1 January 2011
Amendments to IFRIC 14, IAS 19	The limit on a defined benefit asset, minimum funding requirements and their interaction-Prepayments of a minimum funding requirement	1 January 2011
Amendments to IFRS 1	First-time adoption of International Financial Reporting Standards-Severe hyperinflation and removal of fixed dates for first-time adopters	1 July 2011
Amendments to IFRS 7	Financial instruments: Disclosures– Transfer of financial assets	1 July 2011
Amendments to IAS 12	Income taxes-Deferred tax: Recovery of Underlying of financial assets	1 January 2012
IFRS 9	Financial instruments (2010) Basis for conclusions on IFRS 9 (2010) Implementation guidance on IFRS 9 (2010)	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

4 SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has five major reportable segments, as sales of coal, sales of iron ore, shipping transportation, coal mining and port business which are the Group's strategic business units. The strategic business units offer different products and services, and are managed separately because they require different technology and marketing strategies. For each of the strategic business units, the Chief Executive Officer (the "CEO") reviews internal management reports on a monthly basis.

For the purposes of assessing segment performance and allocating resources between segments, the CEO monitors the results, assets and liabilities attributable to each reportable segment on the following basis:

The measure used for reporting segment profit is adjusted profit before net finance costs and taxes. Items not specifically attributable to individual segments, such as unallocated head office and corporate administration costs are further adjusted.

Segment assets include all tangible, intangible assets and current assets with the exception of investments in financial assets, deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to activities of the individual segments and loans and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

	Sales of Coal		Sales of Iron Ore		Shipping Transportation		Coal Mining		Port Business		Total	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover from external customers	6,316,821	3,361,403	-	506,845	138,984	58,745	-	-	-	-	6,455,805	3,926,993
Inter-segment turnover	-	-	-	-	724,805	148,036	-	-	-	-	724,805	148,036
Reportable segment turnover	6,316,821	3,361,403	-	506,845	863,789	206,781	-	-	-	-	7,180,610	4,075,029
Reportable segment profit/(loss) before taxation	436,737	255,648	-	34,076	114,559	(25,553)	11,214	-	-	-	562,510	264,171
Depreciation and amortisation for the year	6,925	5,911	-	-	84,354	70,364	-	-	-	-	91,279	76,275
Reportable segment assets (including investments in associate)	3,981,540	3,442,403	16,170	16,864	1,351,985	1,138,966	1,883,107	-	205,030	-	7,437,832	4,598,233
	-	-	-	-	-	-	45,129	-	-	-	45,129	-
Reportable segment liabilities	(3,048,182)	(2,592,010)	-	-	(1,145,000)	(1,060,935)	(1,644,344)	-	(127,170)	-	(5,964,696)	(3,652,945)

(b) Reconciliations of reportable segment turnover, profit or loss, assets and liabilities**Turnover**

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Reportable segment turnover	7,180,610	4,075,029
Elimination of inter-segment turnover	(724,805)	(148,036)
Consolidated turnover	<u>6,455,805</u>	<u>3,926,993</u>

Profit

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Reportable segment profit before taxation	562,510	264,171
Elimination of inter-segment (profit)/loss	(662)	249
Unallocated head office and corporate expenses	(7,898)	(6,799)
Net finance costs	(52,062)	(30,057)
Consolidated profit before taxation	<u>501,888</u>	<u>227,564</u>

Assets

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Reportable segment assets	7,437,832	4,598,233
Elimination of inter-segment receivables and inventories	(642,747)	(256,563)
Elimination of receivables from head office	(383,119)	(219,502)
Deferred tax assets	8,648	6,561
Unallocated assets	1,062	31,977
Consolidated total assets	<u>6,421,676</u>	<u>4,160,706</u>

Liabilities

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Reportable segment liabilities	5,964,696	3,652,945
Elimination of inter-segment payables	(635,473)	(255,469)
Elimination of payables to head office	(942,696)	(790,855)
Current tax liabilities	209,333	167,578
Deferred tax liabilities	48,992	—
Unallocated liabilities	2,195	9,220
Consolidated total liabilities	<u>4,647,047</u>	<u>2,783,419</u>

(c) Geographic information

The Group's total assets are primarily dominated by the assets handling its coal trading, shipping transportation and coal mining businesses. The coal are sold primarily to the PRC domestic customers and most investments in coal mines are physically located in PRC. Therefore, related assets and liabilities are almost all located in the PRC. The vessels are primarily deployed across geographical markets for shipping transportation throughout the world. As a result, the directors consider that it is not meaningful to allocate the Group's assets and their related capital expenditure to specific geographical segments. Accordingly, geographical segment information is only presented for turnover, which is based on the geographical location of customers.

Turnover from external customers

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Mainland China	6,359,543	3,522,518
Outside Mainland China	96,262	404,475
	<hr/>	<hr/>
Total	6,455,805	3,926,993
	<hr/> <hr/>	<hr/> <hr/>

5 OTHER INCOME

	<i>Note</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Government grants	(i)	3,710	14,254
Bargain purchase gain arising from business combination (see Note 8)		15,563	–
Gain from disposal of available-for-sale financial assets		19,584	–
Gain on derivatives		6,757	–
Others		103	941
		<hr/>	<hr/>
		45,717	15,195
		<hr/> <hr/>	<hr/> <hr/>

- (i) The Group received unconditional grants from local government during the year as recognition of the Group's contribution to the development of local economy.

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance costs

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Interest income	(21,710)	(11,532)
Net foreign exchange gain	(27,012)	(1,702)
	<u>(48,722)</u>	<u>(13,234)</u>
Interest on borrowings	82,876	33,413
Less: interest capitalised into property, plant and equipment*	(186)	(437)
	<u>82,690</u>	<u>32,976</u>
Bank charges	18,094	10,315
	<u>100,784</u>	<u>43,291</u>
Finance costs	<u>100,784</u>	<u>43,291</u>
Net finance costs	<u><u>52,062</u></u>	<u><u>30,057</u></u>

* The borrowing costs have been capitalised at an annual rate of 3.75% (2009: 3.20%).

(b) Other items

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Cost of inventories*	4,952,099	3,287,155
Operating lease charges on premises	6,346	5,425
Depreciation for the property, plant and equipment	91,139	76,135
Amortisation of lease prepayments	140	140
Auditors' remuneration	3,196	2,339
– audit services	3,096	2,234
– non-audit services	100	105

* Cost of inventories includes RMB2,865,000 (2009: RMB1,833,000) relating to staff costs and depreciation expenses, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX EXPENSE

Income tax expense in the consolidated statement of comprehensive income represents:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current tax expense		
– PRC Income Tax	127,323	93,211
Deferred tax		
– Origination and reversal of temporary differences	(2,087)	4,850
	<u>125,236</u>	<u>98,061</u>

- (i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.
- (ii) No provision for Hong Kong Profits Tax has been made for the subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year (2009: Nil).
- (iii) The provision for the PRC corporate income tax was based on the statutory rate of 25% of the assessable profits of subsidiaries which carried on businesses in the PRC.
- (iv) Pursuant to the Corporate Income Tax Law of the PRC, 5% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profits earned after 1 January 2008. As at 31 December 2010, temporary withholding tax differences relating to the undistributed profits of PRC subsidiaries amounted to approximately RMB208,433,000 (2009: RMB97,012,000). Deferred tax liabilities of RMB10,422,000 (2009: RMB4,851,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

8 ACQUISITION OF A SUBSIDIARY

Business combination

On 26 February 2010, a subsidiary of the Company, Datong Xiejiashuang Jinfu Trading and Transportation Co., Ltd. ("Datong Jinfu"), obtained control of Shanxi Hun Yuan Ruifeng Coal Company Limited ("Ruifeng Coal") by acquiring 87.88% of the equity interest in Ruifeng Coal for a consideration of RMB130,000,000.

Ruifeng Coal was the owner and operator of a coal mine in Hun Yuan County, Datong City, Shanxi Province, China. During the period from the acquisition date to 31 December 2010, Ruifeng Coal was still in pre-operating stage. Therefore, no revenue was generated by Ruifeng Coal and the loss during that period was RMB4,700,000. If the acquisition has occurred on 1 January 2010, management estimates that the consolidated revenue for the year ended 31 December 2010 would have been RMB6,455,805,000, and consolidated profit for the year would have been RMB376,085,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would remain the same even if the acquisition had occurred on 1 January 2010.

Fair value of the identifiable assets acquired and liabilities assumed as of the acquisition date:*RMB'000*

Property, plant and equipment	24,543
Intangible assets	210,659
Inventories	176
Trade and other receivables	4,850
Cash and cash equivalents	655
Other liabilities	(26,253)
Deferred tax liabilities	(48,992)
	<hr/>
Total net identifiable assets	<u>165,638</u>

Bargain purchase gain

Bargain purchase gain has been recognised as a result of the acquisition as follows:

RMB'000

Total consideration transferred	130,000
Non-controlling interests, based on their proportionate interest in the recognised amounts of the asset and liabilities of the acquiree	20,075
Less: value of net identifiable assets	(165,638)
	<hr/>
Bargain purchase gain	<u>(15,563)</u>

The bargain purchase gain is mainly attributable to the increase in the value of the coal mine exploitation rights, as a result of the increase in market price of coal during the period from the date at which the purchase contract was agreed upon to the acquisition date. The bargain purchase gain was recognised in other income (see Note 5).

9 DIVIDENDS

- (i) No final dividend is proposed for the year ended 31 December 2010 (2009: Nil).
- (ii) Dividends paid to equity shareholders attributable to the previous year, approved and paid during the year

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend declared and paid during the year	<u>–</u>	<u>88,152</u>

According to the written resolution of the directors' meeting passed on 11 June 2009, Qinfa Trading declared a special interim dividend of HKD100,000,000 (equivalent to RMB88,152,000) to its then equity shareholder. Such dividend was fully paid on 26 June 2009.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB377,222,000 (2009: RMB129,503,000) and the weighted average number of 1,037,500,000 (2009: 890,616,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2010	2009
	<i>Number of shares</i>	<i>Number of shares</i>
Ordinary shares issued at 1 January	1,037,500,000	1
Issuance of shares upon the Reorganisation	–	999,999
Effect of capitalisation issue	–	749,000,000
Effect of shares issued on Initial Public Offering	–	123,972,000
Effect of shares issued under the over-allotment option related to the placement	–	16,644,000
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December	1,037,500,000	890,616,000
	<hr/> <hr/>	<hr/> <hr/>

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB377,222,000 (2009: RMB129,503,000) and the weighted average number of 1,038,300,000 (2009: 890,616,000) ordinary shares (diluted).

Weighted average number of ordinary shares (diluted) for the year ended 31 December 2010 is calculated as follows:

	2010	2009
	<i>Number of shares</i>	<i>Number of shares</i>
Weighted average number of ordinary shares at 31 December	1,037,500,000	890,616,000
Effect of deemed issue of Pre-IPO share options	800,000	–
	<hr/>	<hr/>
Weighted average number of ordinary shares at 31 December (diluted)	1,038,300,000	890,616,000
	<hr/> <hr/>	<hr/> <hr/>

11 TRADE AND OTHER RECEIVABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade debtors and bills receivable (<i>see Note (i)</i>)	1,026,229	565,451
Prepayment for investments (<i>see Note (ii)</i>)	1,300,000	169,320
Deposits and prepayments	483,131	556,358
Other non-trade receivables	84,081	58,703
	<u>2,893,441</u>	<u>1,349,832</u>

All of the trade and other receivables are expected to be recovered within one year.

- (i) Trade debtors and bills receivable included bank acceptance bills of RMB70,057,000 as at 31 December 2010 (2009: RMB41,687,000), which have been discounted to banks.

An ageing analysis of trade debtors and bills receivable (net of impairment for bad and doubtful debts) of the Group is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 1 month	897,041	501,197
Over 1 month but less than 3 months	86,056	42,693
Over 3 months but less than 6 months	43,132	21,561
	<u>1,026,229</u>	<u>565,451</u>

Credit terms granted to customers ranged from 0 to 30 days depending on the customer's relationship with the Group, their creditworthiness and settlement record.

- (ii) Prepayment for investments as at 31 December 2010 represents prepayment for the acquisition of Shanxi Huameiao Energy Group Co., Ltd. ("Huameiao Energy").

On 17 November 2010, Shuozhou Guangfa, a subsidiary of the Company, entered into an equity interest transfer agreement (the "Equity Agreement") with Shanxi Huiyong Jinyuan Energy Technology Co., Ltd. and other individual investors of Huameiao Energy (collectively referred to as the "Huameiao Energy Vendors"). Pursuant to the Equity Agreement, the Huanmeiao Energy Vendors agreed to sell their 32% equity interest in Huameiao Energy to Shuozhou Guangfa at a consideration of RMB1,600,000,000. As at 31 December 2010, Shuozhou Guangfa had paid RMB1,300,000,000 of the total consideration. Up to the date of issuance of the Group's consolidated financial statements, this acquisition is still pending for shareholders' approval.

Prepayment for investments as at 31 December 2009 represents the prepayment of RMB108,120,000 to the investors of Ruifeng Coal and the prepayment of RMB61,200,000 to the investors of Ordos Bayin Mengke Nayuan Coal Co., Ltd. (“Nayuan Coal”) for the respective acquisitions. The acquisition of Ruifeng Coal was completed by the Group on 26 February 2010 (see Note 8). The acquisition of Nayuan Coal was terminated on 19 July 2010 and the prepaid consideration of RMB129,000,000, including further payment of RMB67,800,000 in 2010, was fully refunded to the Group in August 2010.

12 LOANS AND BORROWINGS

	<i>Note</i>	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Current			
Secured bank loans and bank advances	(i)	2,660,646	1,912,238
Bank advances under discounted bills receivable	(ii)	70,057	41,687
Current portion of non-current secured bank loans	(iii)	143,987	59,888
		<u>2,874,690</u>	<u>2,013,813</u>
Non-current			
Secured bank loans	(iii)	735,321	231,924
		<u>3,610,011</u>	<u>2,245,737</u>

- (i) Current bank loans and bank advances carried interest at rates ranging from 1.05% to 6.13% (2009: 0.83% to 4.86%) per annum. Current secured bank loans and bank advances were secured by the following assets:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Property, plant and equipment	779,689	387,446
Inventories	160,267	101,400
Trade debtors and bills receivable	195,468	171,494
Pledged deposits	951,807	1,037,328

RMB259,991,000 of the current secured bank loans and bank advances were guaranteed by a related party in addition to being secured by above assets.

Unutilised bank facilities secured by pledged deposits for the Group were RMB506,062,000 as at 31 December 2010 (2009: RMB702,723,000).

- (ii) The Group’s discounted bank acceptance bills with recourse have been accounted for as collateralised bank advances. The discounted bills receivable and the related proceeds of the same amount are included in the Group’s “Trade debtors and bills receivable” and “Bank advances under discounted bills receivable” as at the reporting date.
- (iii) Non-current secured bank loans as at 31 December 2010 were pledged by fixed assets with carrying amounts of RMB235,026,000 (2009: RMB263,927,000) and the Group’s equity interest in Huameiao Energy and guaranteed by a related party.

Non-current secured bank loans as at 31 December 2010 carried one of the following variable interest rates: (i) the LIBOR plus 1%, (ii) 10% discount on the per annum interest rate quoted by the People's Bank of China in respect of three-year borrowings and (iii) 30% up on the per annum interest rate quoted by the People's Bank of China in respect of five-year borrowings (2009: (i) the LIBOR plus 1% and (ii) 10% discount on the per annum interest rate quoted by the People's Bank of China in respect of three-year borrowings).

The Group's non-current bank loans were repayable as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 1 year	143,987	59,888
Over 1 year but less than 2 years	240,321	45,352
Over 2 years but less than 5 years	495,000	186,572
	735,321	231,924
	879,308	291,812

13 TRADE AND OTHER PAYABLES

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Trade and bill payables	477,147	192,251
Other taxes payable	139,961	76,201
Receipts in advance	61,217	39,053
Accrued expenses	59,151	36,164
Other miscellaneous payables	41,024	26,435
	778,500	370,104

Credit terms granted to the Group by its suppliers ranged from 0 to 30 days. An ageing analysis of trade and bill payables of the Group is as follows:

	2010 <i>RMB'000</i>	2009 <i>RMB'000</i>
Within 1 month	428,772	190,429
Over 1 month but less than 3 months	29,638	968
Over 3 months but less than 6 months	18,737	854
	477,147	192,251

14 CAPITAL COMMITMENTS

Capital commitments outstanding at the year end not provided for in the consolidated financial statements are as follows:

	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised but not contracted for	–	313,420
Contracted for	1,078,739	1,251,561
	<u>1,078,739</u>	<u>1,564,981</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal. During the year ended 31 December 2010, the Group continued to focus on these business activities and expanded its integrated coal supply chain through upward vertical integration.

Significant Improvement in the Operating Results

Since the beginning of the fourth quarter in 2009, the global economy has gradually recovered from the financial crisis. There has been a revival in the market demand for thermal coal for electricity generation. The increase in the market demand continued during 2010. In addition, the Group was able to expand its coal customer base and establish business relationship with several new large State-owned power plants such as Beijing Datang Fuel Company Limited and Shandong Rizhao Power Company Limited. Hence, the Group achieved a significant growth in the handling and trading volume of coal as compared to the same period in 2009.

During the year ended 31 December 2010, the coal handling and trading volume of the Group was approximately 10,918,000 tonnes, representing an increase of approximately 60.0% as compared to the same period in 2009. The monthly average selling prices of coal during the year ended 31 December 2010 were in the range between RMB539 per tonne and RMB620 per tonne, which were significantly higher than the range of the average selling prices between RMB400 per tonne and RMB539 per tonne during the same period in 2009.

During the year ended 31 December 2010, the Group recorded net profit of approximately RMB376.7 million, which represented a significant increase of approximately RMB247.2 million, or approximately 190.9%, as compared with the same period in 2009. The satisfactory results were primarily due to the substantial increase in the coal handling and trading volume as a corollary of revival in the demand for coal-fired electricity in China and the recovery of the global economy since 2009, and the improvement on the integrated coal supply chain by the efforts of the management of the Group.

Taking advantage of the Group's extensive procurement network and international trade experience, the Group sourced coal from various overseas suppliers. The quantity of imported coal increased to approximately 69.7% of the Group's total coal purchase for the year ended 31 December 2010, as compared with approximately 56.3% of the Group's total coal purchase for the year ended 31 December 2009.

Vertical Integration and Improvement in the Integrated Coal Supply Chain

In order to secure a stable coal supply amid the fluctuating coal prices, the Group, capitalising the opportunities arising from the substantial decrease in coal prices and the PRC coal industry consolidation in 2009, entered into an equity interest transfer agreement in August 2009 to acquire 87.88% equity interest in Shanxi Hun Yuan Rui Feng Coal Company Limited ("**Ruifeng Coal**") at a consideration of RMB130 million. The acquisition was completed around the end of February 2010. Ruifeng Coal is the owner and operator of a coal mine in Hun Yuan County, Datong City, Shanxi Province, the PRC. The current approved annual production capacity of the coal mine is 900,000 tonnes. The mine shaft has a coal reserve of over 59 million tonnes and the coal is of prime thermal grading. Located approximately 70km from the existing coal loading station of the Group in Datong City, the coal mine enjoys convenient transportation. The Directors expect that the coal mine will commence pilot production in the second half of 2011. The commencement of production was delayed because in the second half of 2010 Ruifeng Coal applied to the relevant government authority for the change of coal extraction method from underground to surface mining which is safer and can achieve a higher exploitation rate. The application is under process as at the date of this announcement.

Besides, in November 2010, 朔州市廣發能源投資有限公司 (Shuozhou Guangfa Energy Investment Company Limited) ("**Guangfa Energy**"), a subsidiary of the Company, entered into an equity interest transfer agreement (the "**Equity Interest Transfer Agreement**") to acquire 32% equity interest in 山西華美奧能源集團有限公司 (Shanxi Huameiao Energy Group Company Limited) ("**Huameiao Energy**") for a cash consideration of RMB1.6 billion. Up to the date of this announcement, this acquisition is still pending for shareholders' approval.

Huameiao Energy has three wholly-owned subsidiaries and each subsidiary holds the mining right of one coal mine in Shuozhou, Shanxi Province, China. All three coal mines are located only approximately 100 kilometers away from the Group's coal loading station in Datong, and hence, the Directors expect that the acquisition will enable the Group to strengthen its strategic position in sourcing quality coal resources in Shanxi Province and provide the Group with a stable supply of coal. Besides, the Group's overall transportation costs can be lowered through procurement of coal from Huameiao Energy.

Please refer to the section headed "Business Outlook" on page 28 of this announcement for more details on the above acquisition.

Ordos Jinfa Materials Co., Ltd ("**Ordos Jinfa**"), a subsidiary of the Company, entered into an Acquisition and Debt Restructuring Agreement in December 2009 to acquire 60% equity interest in Ordos Bayin Mengke Nayuan Coal Co., Ltd. ("**Nayuan Coal**") at a consideration of RMB857 million. However, the acquisition has been terminated due to the significant differences between the Group and the existing management of Nayuan Coal in the management of Nayuan Coal. In August 2010, Ordos Jinfa received the amount of RMB129 million as a refund of the paid purchase consideration for the 60% equity interest in Nayuan Coal. Further information was stated in the Company's announcements dated 19 July 2010 and 17 August 2010.

Expansion of International Coal Operation Business

On 23 April 2010, the Group subscribed for a further 8,000,000 new shares of Tiaro Coal Limited (“**Tiario Coal**”) at the subscription price of A\$0.25 per share. As at 31 December 2010, the Group held a total of 21,400,000 shares of Tiario Coal, representing approximately 26.35% equity interest in Tiario Coal.

Tiario Coal is a company incorporated in the State of New South Wales in Australia with its shares listed on the Australian Securities Exchange with the stock code of TCM, and is mainly engaged in exploration of coal. As part of the equity investment by the Group in Tiario Coal, a coal off-take undertaking has been granted by Tiario Coal to the Group, in which the Group enjoys a right of first refusal to the supply of all the coal and other mineral resources produced by Tiario Coal or its subsidiaries. Leveraging the Group’s expertise in coal operation in China and the previous experience in investing in Australian coal mines, the Directors believe that the acquisition of equity interest in Tiario Coal will strengthen the Group’s capability in sourcing coal overseas and managing the risk of fluctuating coal prices in the long run.

Strengthening of Coal Transportation Capacity

The Group placed confirmed orders for the construction of two additional 82,000 DWT bulk carriers from 中國船舶工業貿易公司 (China Shipbuilding Trading Company Limited) and 中船廣州龍穴造船公司 (CSSC Guangzhou Longxue Shipbuilding Co., Ltd.) in May 2010, at a total consideration of about HK\$538.2 million. As at 31 December 2010, the Group has ordered a total of four 82,000 DWT bulk carriers. As at the date of this announcement, three vessels are under construction and the construction of the fourth vessel is expected to commence by the end of July 2011. The Directors expect that two vessels will be completed and can commence operation in 2011. As the Group’s coal handling and trading volume continues to increase, the vessels will strengthen the Group’s coal transportation capacity and the ability to control the cost of shipping transportation, and will reduce the risk of increasing shipping transportation costs.

FINANCIAL REVIEW

Revenue and Handling and Trading Volume

	Year ended 31 December	
<i>Revenue (expressed in RMB'000)</i>	2010	2009
Coal Handling and Trading	6,316,821	3,361,403
Iron Ore Trading	–	506,845
Shipping	138,984	58,745

	Year ended 31 December	
<i>Handling and Trading volume (expressed in '000 tonnes)</i>	2010	2009
Coal Handling and Trading	10,918	6,825
Iron Ore Trading	–	1,158

Due to the revival in the demand for coal-fired electricity and the recovery of the global economy from the financial crisis, the Group achieved a significant growth in handling and trading volume of coal as compared to the same period in 2009. During the year ended 31 December 2010, the total coal handling and trading volume of the Group was approximately 10,918,000 tonnes, representing an increase of approximately 4,093,000 tonnes or 60.0% as compared to the same period in 2009. The average selling price of coal during the year ended 31 December 2010 was approximately RMB579 per tonne, which was substantially higher than the average selling price of approximately RMB493 per tonne during the same period in 2009.

The average coal selling price and the coal handling and trading volume for each of the three years ended 31 December 2010, and the six months ended 30 June 2010 and 31 December 2010 are set forth in the table below:–

	Year ended 31 December			Six months ended 30 June 2010	Six months ended 31 December 2010
	2008	2009	2010	2010	2010
Average selling price (RMB per tonne)	646	493	579	557	596
Average monthly handling and trading volume (thousand tonnes)	523	569	910	810	1,010

The Group sells coal which is sourced from both overseas and the PRC domestic markets to customers, including power plants, cement plants and coal traders. Most of the Group's customers are located in the coastal regions of China. Power plants, being the major customers of the Group, purchase coal for their use in the combustion processes to produce steam for power and heat. Cement plants consume coal as primary fuel in their production process. Coal traders purchase coal for export to overseas markets as well as for sale to other coal consumers in China. The following table sets forth information regarding the Group's coal sales by industry segment during 2009 and 2010:

	Year ended 31 December			
	2010		2009	
	Net sales RMB'000	Percentage of Net sales % of total	Net sales RMB'000	Percentage of Net sales % of total
Power plants	4,158,910	65.8	2,018,953	60.1
Coal traders	1,396,683	22.1	799,654	23.8
Cement plants and others	761,228	12.1	542,796	16.1
Total	<u>6,316,821</u>	<u>100.0</u>	<u>3,361,403</u>	<u>100.0</u>

The overall segment turnover for shipping transportation in 2010, including charter hire income from third parties and members within the Group, increased significantly as compared with 2009. The total segment turnover for shipping transportation for the year ended 31 December 2010 was approximately RMB863.8 million, representing an increase of approximately RMB657.0 million or approximately 317.7% from approximately RMB206.8 million for the year ended 31 December 2009. The significant improvement was contributed by the increase in freight rates and charter hire rates compared to 2009 when there was over-supply of shipping transportation capacity under economic downturn, especially during the first half of 2009. Besides, the Group generated more income from sublet shipping business in 2010.

During the year ended 31 December 2009, the Group was engaged in the business of iron ore trading and generated revenue of approximately RMB506.8 million. During the year ended 31 December 2010, the Group did not carry out any iron ore trading activity as the Directors consider that the fluctuation in the iron ore market in 2010 might bring on additional risk to the Group.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by approximately RMB331.9 million during the year ended 31 December 2010 to approximately RMB757.6 million from approximately RMB425.7 million during the same period in 2009, mainly because of the substantial increase in the coal handling and trading volume.

The Group's overall gross profit margin slightly increased to approximately 11.7% from approximately 10.8% during the same period in 2009, mainly resulting from: –

- (1) slight decrease in the gross profit margin of the coal handling and trading business from approximately 12.0% for the year ended 31 December 2009 to approximately 10.1% for the same period in 2010 which was mainly due to the fact that in the second half of 2010, the coal purchase cost was stimulated greatly by the floods in Australia, which is the Group's third largest origins of coal; and
- (2) increase in the gross profit margin of the shipping transportation business from approximately -3.6% for the year ended 31 December 2009 to approximately 13.6% for the same period in 2010 with the increase in the freight rates and the charter hire rates.

Other Income

During the year ended 31 December 2010, the Group's other income amounted to approximately RMB45.7 million, representing an increase of approximately 200.7% as compared with approximately RMB15.2 million in the same period in 2009. Such increase was primarily attributable to the purchase bargain gain on the acquisition of Ruifeng Coal and the gain on revaluation of the Group's equity interest in Tiaro Coal. The investment in Tiaro Coal was classified as available-for-sale financial assets for the year ended 31 December 2009.

Cost of inventories

Cost of inventories of the Group in 2010 amounted to approximately RMB4,952.1 million, representing an increase of approximately 50.6% as compared with approximately RMB3,287.2 million in 2009. The increase was in line with the increase in turnover.

The Group purchases coal from both overseas and the PRC domestic market. The following table sets forth information regarding the Group's origins of coal based on sales volume and net sales during 2009 and 2010:

Origins of coal	Year ended 31 December			
	2010		2009	
	Sales volume '000 tonnes	Net sales RMB'000	Sales volume '000 tonnes	Net sales RMB'000
Indonesia	4,051	2,282,820	1,772	839,056
China	3,497	1,889,436	2,238	1,035,486
South Africa	955	551,177	157	90,429
Australia	907	591,901	1,270	680,322
Vietnam	881	476,358	575	214,703
Canada	490	435,457	722	454,879
Others	137	89,672	91	46,528
Total	<u>10,918</u>	<u>6,316,821</u>	<u>6,825</u>	<u>3,361,403</u>

The Group keeps increasing the network of overseas suppliers to ensure a supply of coal with reliable and stable quantity and quality.

The Group has established stable cooperative relationships with its key overseas and PRC domestic coal suppliers and has developed business relationships with the majority of them over a period of not less than 3 years. The Group has also been undergoing upstream expansion through various initiatives, including acquisition of companies holding coal mines in China and equity interest in an Australian mining company holding several exploitation rights in Australia. This enables the Group to obtain a reliable supply of quality coal.

Administrative Expenses

During the year ended 31 December 2010, the Group's administrative expenses amounted to approximately RMB122.9 million, representing an increase of approximately 53.1% as compared with approximately RMB80.3 million in the same period in 2009. Such increase was mainly due to the increase in staff cost.

Distribution Expenses

Distribution expenses increased by approximately 19.7% to approximately RMB119.7 million during the year ended 31 December 2010.

The increase was mainly contributed by the net effect of:

- (1) increase in port service fees by approximately RMB37.4 million or 52.0% which was in line with the increase in coal sales volume in 2010; and
- (2) decrease in transportation cost by approximately RMB19.4 million or 77.2% as the Group successfully negotiated with more of its customers to bear the transportation cost.

Net Finance Costs

Net finance costs of the Group in 2010 amounted to approximately RMB52.1 million, representing an increase of approximately RMB22.0 million or approximately 73.1% from approximately RMB30.1 million in 2009. Such increase was mainly due to the increase in the average outstanding amount of interest-bearing borrowings and average interest rate during the year.

Income Tax Expense

The Group's income tax expense in 2010 was approximately RMB125.2 million, representing an increase of approximately 27.6% from approximately RMB98.1 million in 2009. The increase was in line with the increase in profitability in current year. In addition, the increment was due to the taxation on profit after tax of the PRC subsidiaries arising from the structure contract arrangement as described on page 129 of the Prospectus. The Group's effective income tax rate was 43.1% in 2009 and 25.0% in 2010. The non-taxable nature of the one-off gain on revaluation of available-for-sale financial assets and the increase in profitability of shipping transportation business which is not subject to income tax reduced the effective income tax rate in 2010.

Profit Attributable to Equity Shareholders

Profit attributable to equity shareholders increased by approximately 191.3% from approximately RMB129.5 million for the year ended 31 December 2009 to approximately RMB377.2 million for the year ended 31 December 2010 due to the increase in profitability of the coal handling and trading and the shipping business as a result of recovery of the global economy from financial crisis and a revival in the demand of coal-fired electricity, and hence an increasing demand of coal.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group adopts stringent financial management policies and maintains a healthy financial condition. The Group funds its business operations and general working capital principally by internally generated financial resources, bank borrowings and the aforesaid net proceeds.

The financial position was strengthened in 2010. The Group's net current assets as at 31 December 2010 were approximately RMB801.4 million (Net current assets as at 31 December 2009: approximately RMB570.0 million). As at 31 December 2010, the cash and bank balances of the Group amounted to approximately RMB287.2 million (as at 31 December 2009: approximately RMB376.2 million).

As at 31 December 2010, the total bank and other borrowings of the Group were approximately RMB3,610.0 million (as at 31 December 2009: approximately RMB2,245.7 million), approximately RMB2,874.7 million of which were repayable within one year and carried interest at market rates ranging from 1.05% to 6.13% (2009: 0.83% to 4.86%) per annum. Non-current secured bank loans as at 31 December 2010 carried variable interest rates based on one of the followings: (i) the LIBOR plus 1%, (ii) 10% discount on the per annum interest rate quoted by the People's Bank of China in respect of three-year borrowings and (iii) 30% up on the per annum interest rate quoted by the People's Bank of China in respect of five-year borrowings. (31 December 2009: (i) the LIBOR plus 1% and (ii) 10% discount on the per annum interest rate quoted by the People's Bank of China in respect of three-year borrowings).

As at 31 December 2010, the Group's cash and cash equivalents, except amounts of approximately RMB25.6 million and RMB121.6 million held in Hong Kong dollars ("**HKD**") and United States dollars ("**USD**"), respectively, were held in RMB. The Group's interest-bearing borrowings made in RMB and USD were approximately RMB1,735.5 million and RMB1,874.5 million, respectively.

The gearing ratio (calculated as interest-bearing borrowings divided by total assets) of the Group as at 31 December 2010 was approximately 56.2% (as at 31 December 2009: approximately 54.0%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGING

The Group's cash and cash equivalents are held predominately in HKD, RMB and USD. Operating outgoings incurred by the Group's subsidiaries in the PRC are mainly denominated in RMB while overseas purchases are usually denominated in USD. The Group's subsidiaries usually receive revenue in RMB.

The Group has entered into several RMB forward contracts with authorised financial institutions in order to reduce the negative impact caused by RMB appreciation. The purpose of these transactions is to control the cost of the Group's RMB investments, in terms of foreign currencies, that are required to be injected into the PRC in the near future. As at 31 December 2010, the Group had four outstanding foreign exchange option contracts and eight outstanding non-deliverable forward portfolio contracts. The fair value of these contracts was assets of approximately RMB4.2 million as at 31 December 2010.

PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

As at 31 December 2010, the Group's assets in an aggregate amount of approximately RMB2,392.3 million (as at 31 December 2009: approximately RMB2,003.3 million) in forms of property, plant and equipment, inventories, trade and bill receivables and bank deposits were pledged to banks for credit facilities granted to the Group.

As at 31 December 2010, Mr. XU Jihua, the chairman of the Board and an executive Director, provided guarantees to banks for granting banking facilities of an amount equivalent to approximately RMB1,568.5 million to the Group.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any material contingent liabilities.

FINAL DIVIDEND FOR THE YEAR ENDED 31 DECEMBER 2010

The Directors have considered the dividend policy as set forth in the Prospectus. In light of the anticipated capital expenditure and investments of the Group, the Directors consider that it would be more appropriate to deploy the financial resources to further strengthen the capital position and business development of the Group. On this basis, the Directors have decided not to declare any final dividend for the year ended 31 December 2010. Hence, there will not be any resolution for the final dividend for the year ended 31 December 2010 to be tabled at the forthcoming annual general meeting of the Company (the “**Annual General Meeting**”). The Directors are committed to the proposed dividend policy set forth in the Prospectus and will consider the declaration and payment of such dividend in accordance with such policy in the forthcoming financial years.

EMPLOYEES AND REMUNERATION

As at 31 December 2010, the Group employed 486 employees. The Group has adopted a performance-based reward system to motivate its staff and such system is reviewed on a regular basis. In addition to the basic salaries, year-end bonuses may be offered to those staff members with outstanding performance.

Members of the Group established in the PRC are also subject to social insurance contribution plans organised by the PRC government. In accordance with the relevant national and local labour and social welfare laws and regulations, members of the Group established in the PRC are required to pay on behalf of their employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance and other relevant insurance. Members of the Group incorporated in Hong Kong have participated in mandatory provident fund scheme, if applicable, in accordance with the applicable Hong Kong laws and regulations.

Moreover, the Pre-IPO Share Option Scheme (as defined in the Prospectus) was adopted in June 2009 to retain staff members who have made contribution to the success of the Group. As at 31 December 2010, options to subscribe for in aggregate 8,000,000 Shares were granted to an executive Director and 23 employees of the Group. The Directors believe that the compensation packages offered by the Group to its staff members are competitive in comparison with market standards and practices.

BUSINESS OUTLOOK

Although the global economy has recovered from the financial crisis and the international commodity markets are generally stabilised, there are a number of uncertainties, such as debt crisis amongst the European countries and the macro-economic control, inflation, potential interest rate hike, tightened liquidity and policy transformation in China, which could adversely affect the demand for electricity in China and demand for thermal coal in the forthcoming years. The Group will continue to take advantage of the continuous economic growth in China. The Directors also believe that the level of domestic production and consumption in China will continue to increase steadily. These will stimulate the demand for electricity and the thermal coal as the principal raw materials for power generation.

In view of the anticipated increase in the demand for coal products, the Group will continue to improve its business models with the following activities:

(1) Construction of the Zhuhai Terminal as a strategic integration of existing supply chain

A joint venture agreement was entered into in October 2009 with 河北港口集團有限公司 (Hebei Port Group Company Limited) (“**Hebei Port Group**”) for the establishment of a joint venture company for the construction and operation of the Zhuhai Terminal (as defined in the Prospectus). The agreement became effective from 22 March 2010. The joint venture company will have a registered capital of RMB519 million of which the Group will contribute 60% and Hebei Port Group will contribute 40%. The Group will contribute a total of RMB311.4 million (equivalent to approximately HK\$353.9 million) for the registered capital of the joint venture company out of the net proceeds from the Global Offering (as defined in the Prospectus). The total investment amount of the joint venture company will be approximately RMB1.5 billion and shall be arranged by the joint venture company. As at the date of this announcement, the Group had invested approximately RMB47.8 million from the net proceeds from the Global Offering for the development of the Zhuhai Terminal.

The Zhuhai Terminal is strategically located in the southeast region of Zhuhai, Guangdong Province, China, thereby allowing the Group to (i) take advantage of its proximity to customers located in the coal consuming coastal cities in southern China; (ii) react more quickly to customers’ need; and (iii) lower transportation cost. The berthing capacity of Zhuhai Terminal is 100,000 DWT (construction structure: 150,000 DWT) which enables it to accommodate Capesize and Panamax vessels for coal transshipment. The Group will be able to further strengthen its coal storage and blending capacities as Zhuhai Terminal can serve as a site for blending and storage of coal. As Zhuhai Terminal will have an annual throughput capacity of 20 million tonnes which can also serve as a centre for coal exchange, it can facilitate an advancement in the Group’s ability to further procure and sell coal in the coal trading market.

The Zhuhai Terminal is expected to commence operation in mid 2012. Upon the completion of Zhuhai Terminal, and taking into consideration the four existing coal loading stations of the Group, a dominant and integrated sourcing, transportation and sales network running across the territory of China can be formed.

Please refer to the Company’s announcement dated 22 March 2010 for further details.

(2) Construction of two new vessels to strengthen existing transportation capabilities

As discussed above, the Group placed confirmed orders for the construction of two additional 82,000 DWT bulk carriers in May 2010 at a total consideration of about HK\$538.2 million.

The Group has been planning to improve the efficiency of its fleet. The construction of vessels is consistent with this plan. Also, as the Group’s coal handling and trading volume continues to expand, the increase in the number of the Group’s own vessels, and thus its shipping transportation capacity, could enhance the Group’s control over its handling and trading costs and reduce the risk faced by the Group due to any fluctuation in transportation costs.

Further information is stated in the Company's announcement and circular dated 15 May 2010 and 26 July 2010, respectively.

(3) Expansion of the customer base

In addition to the existing customers with whom the Group has maintained established business relationship, the Group is actively looking for opportunities to expand the customer base, developing business relationship with new sizable domestic power groups in China. The expansion of the Group's customer base is an important strategic step in consolidating the customer base, developing coal production and sales and expanding the Group's income sources.

(4) Coal loading stations along Daqin Railway and in coal producing area

The Group is actively looking for suitable locations in Shanxi Province, China for the construction, leasing or acquisition of additional coal loading stations. In addition, the Group is also exploring acquisition or leasing opportunities of the existing coal stations along the Daqin Railway in order to strengthen the coal processing and transportation capacity of the Group in the region.

(5) Acquisition of equity interest in coal mining company as a vertical integration strategy to ensure stable supply of coal

Although the Group terminated the acquisition of 60% equity interest in Nayuan Coal in July 2010 and received the refund of paid purchase consideration in August 2010, the Directors consider that acquisition of coal mine or equity interest in coal mining company plays an important role in reinforcing the Group's vertical integrated supply chain of coal. This vertical integration strategy will enable the Group to secure a supply of coal with reliable and stable quality and quantity, which can then enhance the Group's competitiveness as well as strengthen the relationship with our customers.

Huameiao Energy

As discussed above, in November 2010, Guangfa Energy, a subsidiary of the Company, entered into the Equity Interest Transfer Agreement to acquire 32% equity interest in Huameiao Energy for a cash consideration of RMB1.6 billion. Up to the date of this announcement, this acquisition is still pending for shareholders' approval.

According to a document in relation to the Approval of Merging and Reorganisation of Coal Enterprises in Pinglu District, Shuozhou (the "**Document**") issued in September 2009 by the Work Leading Group Office of the Merging and Reorganisation of Coal Enterprises in Shanxi Province (山西省煤礦企業兼併重組整合工作領導組辦公室), Huameiao Energy is defined as a merging and reorganisation entity, with qualifications for the acquisition or integration of coal mines. According to the Document, Huameiao Energy is allowed to acquire and consolidate three coal mines in Shuozhou, Shanxi Province, China. All three coal mines are located approximately 100 kilometres away from the Group's coal loading station in Datong and have road and railway connections. The coal mining rights are held through the three subsidiaries of Huameiao Energy as follows:–

- 山西朔州平魯區華美奧興陶煤業有限公司 (Shanxi Shuozhou Pinglu District Huameiao Xingtao Coal Company Limited) holds the mining right of the coal mine with a site area of approximately 4.3 sq. km (“**Xingtao Coal Mine**”). According to a document issued by the Coal Industry Bureau of Shanxi Province in July 2010, Xingtao Coal Mine has coal reserve of approximately 127.8 million tonnes and an annual output capacity of not less than 1.5 million tonnes. Xingtao Coal Mine produced approximately 2.3 million tonnes of coal for 2010 and is expected to produce not less than 3 million tonnes of coal annually thereafter.
- 山西朔州平魯區華美奧馮西煤業有限公司 (Shanxi Shuozhou Pinglu District Huameiao Fengxi Coal Company Limited*) holds the mining right of the coal mine with a site area of approximately 2.4 sq. km (“**Fengxi Coal Mine**”). According to a report issued by the Shanxi Province Coal Geological Company (山西省煤炭地質公司) in June 2005, Fengxi Coal Mine has coal reserve of approximately 92.4 million tonnes. Fengxi Coal Mine has commenced coal production by the end of 2010 with an annual planned production capacity of not less than 2.5 million tonnes of coal.
- 山西朔州平魯區華美奧崇升煤業有限公司 (Shanxi Shuozhou Pinglu District Huameiao Chongsheng Coal Company Limited*) holds the mining right of the coal mine with a site area of approximately 2.9 sq. km (“**Chongsheng Coal Mine**”). According to a document issued by the Coal Industry Bureau of Shanxi Province in July 2010, Chongsheng Coal Mine has coal reserve of approximately 88.2 million tonnes and an annual output capacity of not less than 0.9 million tonnes. Chongsheng Coal Mine is now under technological modification and is expected to commence coal production in the third quarter of 2011 with an annual planned production capacity of not less than 2.5 million tonnes of coal.

Please refer to the Company’s announcement dated 17 November 2010 for further details.

The Group is in the process of preparing the circular in relation to this acquisition. The circular is expected to be dispatched to the shareholders of the Company (the “**Shareholders**”) on or before 31 May 2011. The Group expects the acquisition will be completed upon obtaining approval from the Shareholders.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the applicable code provisions in the Code on Corporate Governance Practices (the “**Code**”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) during the financial year ended 31 December 2010.

AUDIT COMMITTEE OF THE BOARD

An audit committee was established by the Board on 12 June 2009 with written terms of reference in compliance with the Code. The primary duties of the audit committee are to review and approve the Group's financial reporting process and internal control system. The members of the audit committee of the Board are the three independent non-executive Directors, i.e. Mr. LAU Sik Yuen, Dr. QIAN Pingfan and Mr. HUANG Guosheng. Mr. LAU Sik Yuen is the chairperson of the audit committee of the Board.

The audit committee has reviewed the financial statements of the Group for the financial year ended 31 December 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2010 containing all the information required by Appendix 16 to the Listing Rules and any other applicable laws and regulations will be dispatched to the Shareholders and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.qinfagroup.com) in due course.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held in May 2011. A notice convening the Annual General Meeting will be published on the websites of the Stock Exchange and the Company and dispatched to the Shareholders in due course.

By Order of the Board of
China Qinfra Group Limited
XU Jihua
Chairman of the Board

Guangzhou, 25 March 2011

As at the date of this announcement, the Board comprises Mr. XU Jihua, Ms. WANG Jianfei, Ms. LIU Xiaomei and Mr. WENG Li as the executive Directors, and Dr. QIAN Pingfan, Mr. HUANG Guosheng and Mr. LAU Sik Yuen as the independent non-executive Directors.