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

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2009

The unaudited consolidated results of the Group for the six months ended 30 June 2009 are as follows:–

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Turnover	1,244,923	2,323,283
Gross profit	81,162	394,126
Profit attributable to equity holders of the Company	10,891	207,114
Earnings per share	RMB0.01	RMB0.28

	Six months ended 30 June	
	2009	2008
	'000 tonnes	'000 tonnes
<i>Trading volume</i>		
Coal trading	1,550	3,896
Iron ore trading	1,142	–
Average coal selling price	RMB468	RMB577

Detailed information on the results of the Group is set forth below. The interim report for the six months ended 30 June 2009 containing additional information will be despatched to the Shareholders and available on the websites of the Company and the Stock Exchange in due course.

The board (the “**Board**”) of directors (the “**Directors**”) of China Qinfu Group Limited (the “**Company**”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2009 together with comparative figures for the corresponding period in 2008 as follows:–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	<i>Note</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
Turnover		1,244,923	2,323,283
Cost of sales		(1,163,761)	(1,929,157)
Gross profit		81,162	394,126
Other income		13,262	4,211
Distribution expenses		(38,620)	(87,930)
Administrative expenses		(20,978)	(27,339)
Other expenses		(2,821)	(356)
Profit from operations		32,005	282,712
Finance income		8,767	14,203
Finance costs		(20,074)	(30,408)
Net finance costs	5(a)	(11,307)	(16,205)
Profit before income tax		20,698	266,507
Income tax expense	6	(9,807)	(59,393)
Profit for the period		10,891	207,114

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Other comprehensive income			
Foreign currency transaction difference			
for foreign operations		810	(19,564)
Net changes in fair value of available-for			
– sales financial assets		–	19,543
Other comprehensive income for the period		810	(21)
Total comprehensive income for the period		11,701	207,093
Profit attributable to:			
Equity holders of the Company		10,891	207,114
Profit for the period		10,891	207,114
Total comprehensive income attributable to:			
Equity holders of the Company		11,701	207,093
Total comprehensive income for the period		11,701	207,093
Earnings per share			
Basic earnings per share (RMB)	7(a)	0.01	0.28
Diluted earnings per share (RMB)	7(b)	0.01	N/A

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

		At 30 June 2009	At 31 December 2008
	Note	RMB'000 (Unaudited)	RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	8	1,007,781	927,683
Lease prepayments		6,123	6,193
Deferred tax assets		10,251	11,411
		<u>1,024,155</u>	<u>945,287</u>
Current assets			
Inventories	9	223,746	77,713
Trade and other receivables	10	491,035	375,558
Pledged deposits		326,572	485,425
Cash and cash equivalents		112,014	201,499
		<u>1,153,367</u>	<u>1,140,195</u>
Current liabilities			
Interest-bearing borrowings	12	(1,125,530)	(907,266)
Trade and other payables	11	(185,714)	(123,995)
Income tax payables		(83,778)	(57,658)
		<u>(1,395,022)</u>	<u>(1,088,919)</u>
Net current (liabilities)/assets		<u>(241,655)</u>	<u>51,276</u>
Total assets less current liabilities		782,500	996,563
Non-current liabilities			
Interest-bearing borrowings	12	(123,773)	(261,608)
Net assets		<u>658,727</u>	<u>734,955</u>
Total equity attributable to equity holders of the Company		<u>658,727</u>	<u>734,955</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. COMPANY BACKGROUND AND BASIS OF PRESENTATION

1.1 The reorganisation and the basis of presentation

China Qinfu 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 Global Offering (as defined in the Prospectus) of the Company’s shares (the “**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 of the Company dated 19 June 2009 (the “**Prospectus**”). The 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 holders, the Group is regarded as a continuing entity resulting from the Reorganisation of entities under common control. This interim financial information has been prepared on the basis that the current group structure had been in existence at the beginning of the earliest period presented. Accordingly, the consolidated results of the Group for the six months ended 30 June 2008 and 2009 include the results of the Company and its subsidiaries with effect from 1 January 2008 or, if later, since their respective dates of incorporation as if the current group structure had been in existence throughout the two periods presented. The consolidated statements of financial position of the Group as at 31 December 2008 and 30 June 2009 have been prepared as if the current group structure 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

This interim financial information has been prepared in accordance with the applicable disclosure provisions of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) and, including compliance with IAS 34, “Interim financial reporting” issued by the International Accounting Standards Board (“**IASB**”). This financial information was authorised for issue on 27 August 2009.

This interim financial information has been prepared in accordance with the same accounting policies adopted in the Group’s financial statements for the year ended 31 December 2008, except as the changes in accounting policies described below.

This interim financial information has been prepared on the basis that the Group will continue to operate throughout the next twelve months as a going concern. The Group’s current liabilities exceeded its current assets by RMB241,655,000 as at 30 June 2009. Based on the anticipated ability of the Group to obtain continued bank financing and the estimated net proceeds received in relation to the Global Offering of the Shares to finance its continuing operation, the Company’s Directors have prepared this financial information on a going concern basis.

This interim financial information contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the financial statements for the year ended 31 December 2008. The consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards (“**IFRSs**”).

This interim financial information is unaudited, but has been reviewed by KPMG in accordance with HKSRE 2410, “Review of interim financial information performed by the independent auditor of the entity”, issued by the HKICPA.

The financial information relating to the year ended 31 December 2008 included in the interim financial information as being previously reported information does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements included in the Prospectus.

2. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2008.

2.1 Changes in accounting policies

The IASB has issued one new IFRS, a number of amendments to IFRSs and new Interpretations 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 8, Operating segments
- IAS1 (revised 2007), Presentation of financial statements
- Improvements to IFRSs (2008)
- IAS23 (revised 2007), Borrowing costs

The amendments to IFRS 23 and Improvements to IFRSs (2008) had no material impact on the Group’s financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments on the interim financial statements is as follows:–

- As at 1 January 2009 the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer (the “CEO”), who is the Group’s chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that related to transactions with any of the Group’s other components. An operating segment’s operating results are reviewed regularly by the CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total costs incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

- The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as at 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. This presentation has been applied in these condensed interim financial statements as at and for the six months ended 30 June 2009. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

2.2 Accounting policies for new transactions and events

Share-based payment

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Binomial model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

3. ESTIMATES

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2008.

4. SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has three reportable segments, as sales of coal, sales of iron ore and shipping transportation, 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 CEO reviews internal management reports on a monthly basis.

In presenting the information on the basis of business segments, segment turnover, profit before income tax, assets and liabilities are based on the sales of coal, sales of iron ore and shipping transportation.

Segment assets include all tangible, intangible assets and current assets with exceptions of deferred tax assets and other corporate assets. Segment liabilities include trade and other payables attributable to activities of the individual segments and interest-bearing borrowings managed directly by the segments.

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

For the six months ended 30 June	Sales of Coal		Sales of Iron ore		Shipping Transportation		Total	
	2009	2008	2009	2008	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover from external customers	726,061	2,247,219	503,428	–	15,434	76,064	1,244,923	2,323,283
Inter-segment turnover	–	–	–	–	42,779	34,205	42,779	34,205
Reportable segment turnover	726,061	2,247,219	503,428	–	58,213	110,269	1,287,702	2,357,488
Reportable segment profit before income tax	21,656	251,665	33,506	–	(20,589)	33,573	34,573	285,238
Reportable segment assets as at 30 June 2009/31 December 2008	1,921,839	1,521,885	75,047	–	862,576	957,546	2,859,462	2,479,431
Reportable segment liabilities as at 30 June 2009/31 December 2008	(1,113,893)	(853,931)	(58,188)	–	(971,270)	(843,382)	(2,143,351)	(1,697,313)

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

Turnover

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment turnover	1,287,702	2,357,488
Elimination of inter-segment turnover	(42,779)	(34,205)
Consolidated turnover	1,244,923	2,323,283

Profit

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment profit before income tax	34,573	285,238
Elimination of inter-segment (profit)/loss	(1,547)	842
Unallocated expenses	(1,021)	(3,368)
Net finance costs	(11,307)	(16,205)
Consolidated profit before income tax	20,698	266,507

Assets

	At	At
	30 June	31 December
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment assets	2,859,462	2,479,431
Elimination of inter-segment receivables and inventories	(710,991)	(405,554)
Deferred tax assets	10,251	11,411
Unallocated assets	18,800	194
Consolidated total assets	2,177,522	2,085,482

Liabilities

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Reportable segment liabilities	2,143,351	1,697,313
Elimination of inter-segment payables	(708,334)	(404,444)
Current tax liabilities	83,778	57,658
Consolidated total liabilities	1,518,795	1,350,527

5. PROFIT BEFORE TAX

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

(a) Net finance costs

	Six months ended 30 June 2009 RMB'000	2008 RMB'000
Interest income	(8,178)	(5,133)
Net foreign exchange gain	(589)	(9,070)
Finance income	(8,767)	(14,203)
Interest on borrowings	16,826	31,779
Less: interest capitalised into property, plant and equipment	(437)	(6,404)
	16,389	25,375
Bank charges	3,685	5,033
Finance costs	20,074	30,408
Net finance costs	11,307	16,205

(b) Other items

	Six months ended 30 June 2009 RMB'000	2008 RMB'000
Operating lease charges on premises	1,932	1,396
Depreciation for the property, plant and equipment	34,780	11,295
Amortisation of lease prepayments	70	70

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Current tax		
– PRC Income Tax	5,863	58,267
– Hong Kong Profits Tax	2,784	–
Deferred taxation	1,160	1,126
	<u>9,807</u>	<u>59,393</u>

Pursuant to the income tax rules and regulations of the Cayman Islands, the Company is exempt from income tax in the Cayman Islands. Also, certain subsidiaries located in foreign jurisdictions other than the PRC, except for those mentioned below, are not subject to any income tax in their jurisdictions.

The provision for PRC Income Tax is calculated by applying the estimated annual effective tax rate of 25% (2008: 25%) to the six months ended 30 June 2009. The provision for Hong Kong Profits Tax is calculated by applying the estimated annual effective tax rate of 16.5% to the six months ended 30 June 2009 (2008: Nil).

7. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2009 is based on the profit attributable to equity holders of the Company of RMB10,891,000 (six months ended 30 June 2008: RMB207,114,000) and 750,000,000 Shares (2008: 750,000,000 Shares) in issue and issuable, comprising 1,000,000 Shares in issue as at 30 June 2009 and 749,000,000 Shares to be issued pursuant to the Capitalisation Issue as set out in note 15(a), as if the Shares were outstanding throughout the period.

(b) Diluted earnings per share

Pursuant to the Pre-IPO Share Option Scheme (the “**Pre-IPO Share Option Scheme**”), one executive Director and 25 employees of the Group were granted on 12 June 2009 the rights to subscribe for 8,400,000 Shares with the subscription price of HK\$2.52 per Share. As at 30 June 2009, the Pre-IPO Share Option Scheme does not give rise to any dilution effect on the Company’s earnings per share.

No options was exercised during the six months ended 30 June 2009.

There were no dilutive potential ordinary shares in issue as at 30 June 2008.

8. PROPERTY, PLANT AND EQUIPMENT

	At 30 June 2009 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Cost		
At 1 January	1,004,341	595,831
Additions	120,120	456,703
Disposals	(5,581)	(1,946)
Exchange difference	(380)	(46,247)
At 30 June/31 December	<u>1,118,500</u>	<u>1,004,341</u>
Accumulated depreciation		
At 1 January	(76,658)	(42,645)
Charge for the period/year	(34,780)	(37,758)
Written back on disposals	675	1,292
Exchange difference	44	2,453
At 30 June/31 December	<u>(110,719)</u>	<u>(76,658)</u>
Carrying amounts		
At 30 June/31 December	<u><u>1,007,781</u></u>	<u><u>927,683</u></u>

During the six months ended 30 June 2009, the additions mainly represent the subsequent construction and renewing cost of RMB119,064,000 for the Group's vessels.

9. INVENTORIES

	At 30 June 2009 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Finished goods	212,869	57,450
Goods in transit	—	8,022
Fuel	10,877	12,241
	<u>223,746</u>	<u>77,713</u>

Provision of RMB10,807,000 was made against those inventories with net realisable value lower than carrying value as at 30 June 2009 (31 December 2008: RMB30,984,000).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2009 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Trade debtors and bills receivables	265,442	200,643
Deposits and prepayments	164,221	134,141
Other non-trade receivables	61,372	40,774
	<u>491,035</u>	<u>375,558</u>

Trade and bill receivables included bank accepted bills of RMB19,768,000 as at 30 June 2009 (31 December 2008: RMB4,900,000), which were discounted to the banks.

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

An ageing analysis of trade and bill receivables (net of impairment for bad and doubtful debts) of the Group is as follows:–

	At 30 June 2009 <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Within 1 month	247,554	157,816
Over 1 month but less than 3 months	3,838	33,173
Over 3 months but less than 6 months	14,050	9,654
	<u>265,442</u>	<u>200,643</u>

11. TRADE AND OTHER PAYABLES

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Trade and bill payables	147,647	24,885
Dividends payable	–	45,704
Other taxes payable	1,634	32,917
Receipts in advance	19,445	1,452
Accrued interest on shareholder's loans	–	7,333
Accrued port services fee and other expenses	12,787	7,776
Other miscellaneous payables	4,201	3,928
	<u>185,714</u>	<u>123,995</u>

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 month	136,930	23,414
Over 1 month but less than 3 months	2,073	1,159
Over 3 months but less than 6 months	1,220	312
Over 6 months but less than 1 year	7,424	–
	<u>147,647</u>	<u>24,885</u>

12. INTEREST-BEARING BORROWINGS

		At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Current			
Secured bank loans and bank advances	(i)	953,770	769,482
Unsecured bank loans		105,784	—
Bank advances under discounted bill receivables	(ii)	19,768	4,900
Other borrowings from a related party		—	51,817
Current portion of non-current secured bank loans	(iii)	46,208	81,067
		<u>1,125,530</u>	<u>907,266</u>
Non-current			
Secured bank loans	(iii)	123,773	261,608
		<u>1,249,303</u>	<u>1,168,874</u>

- (i) Current bank loans and bank advances carried interest rate ranging from 0.98% to 5.31% as at 30 June 2009 (31 December 2008: 1.75% to 6.77%) per annum. Current secured bank loans and bank advances were secured by the following assets and guaranteed by related parties:—

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Property, plant and equipment	409,906	327,034
Inventories	1,833	22,323
Trade and bill receivables	—	59,214
Pledged deposits	326,572	485,425

Unutilised bank facilities secured by pledged deposits for the Group were RMB83,304,000 as at 30 June 2009.

Unutilised bank facilities guaranteed by related parties were RMB1,245,131,000 as at 30 June 2009.

- (ii) The Group's discounted bank accepted bills with recourse have been accounted for as collateralised bank advances. The discounted bill receivables and the related proceeds of the same amount are included in the Group's "Trade and bill receivables" and "Bank advances under discounted bill receivables" as at the balance sheet dates.
- (iii) Non-current secured bank loans as at 30 June 2009 were pledged by certain fixed assets of RMB298,094,000 (31 December 2008: RMB569,807,000) and guaranteed by a related party.

Non-current secured bank loans as at 30 June 2009 carried variable interest rates based on (i) the LIBOR plus 1% and (ii) 5% discount on the per annum interest rate quoted by the People's Bank of China in respect of long-term borrowings over 5 years.

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

	At 30 June 2009 RMB'000	At 31 December 2008 RMB'000
Within 1 year	46,208	81,067
Over 1 year but less than 2 years	46,255	82,948
Over 2 years but less than 5 years	67,243	167,857
Over 5 years	10,275	10,803
	123,773	261,608
	169,981	342,675

13. CAPITAL, RESERVES AND DIVIDENDS

(a) Share capital

- (i) Share capital as at 1 January 2008 and 31 December 2008 represent the aggregate amount of paid-in capital of the companies comprising the Group at the respective dates, after elimination of investment in subsidiaries.
- (ii) The Company was incorporated in the Cayman Islands on 4 March 2008 with an authorised share capital of HK\$380,000 divided into 3,800,000 Shares of par value HK\$0.10 each. On 4 March 2008, one Share of par value HK\$0.10 was allotted and issued to the initial subscriber for cash at par and such Share was then transferred by Codan Trust Company (Cayman) Limited to Mr. XU Jihua (“**Mr. XU**”) on the same day. On 12 June 2009, Mr. XU transferred his one Share to Fortune Pearl International Limited (“**Fortune Pearl**”).
- (iii) Pursuant to the Reorganisation, on 12 June 2009, 999,999 Shares, credited as fully paid, were allotted and issued to Fortune Pearl, in consideration for the acquisition by the Company of the entire equity interest of Qinfa Investment Limited (“**Qinfa Investment**”), an intermediate holding company of the Group.

(b) Reserves

- (i) Merger reserve

Merger reserve as at 31 December 2008 represents the difference between the aggregate amount of paid-in capital of Perpetual Goodluck Limited, Liberal City Limited, Hong Kong Qinfa Shipping Limited, Hong Kong Qinfa Trading Limited (“**Qinfa Trading**”), Hong Kong Qinfa International Trading Limited and Super Grace Enterprises Limited and the amount of share capital of Qinfa Investment issued to Fortune Pearl on 6 October 2008 in exchange for the entire equity interests in the above six companies as part of the Reorganisation.

Merger reserve as at 30 June 2009 represents the difference between the aggregate amount of paid-in capital of the subsidiaries of the Company and the amount of share capital of the Company transferred and issued to Fortune Pearl in exchange for the entire equity interests in all members of the Group as part of the Reorganisation.

(ii) Share-based compensation reserve

Pursuant to the sole shareholder's written resolutions passed on 12 June 2009, the Company adopted the Pre-IPO Share Option Scheme whereby one executive Director and 25 employees of the Group were granted the rights to subscribe for Shares of the Company.

The total number of shares which may be issued upon the exercise of all options granted under the Pre-IPO Share Option Scheme is 8,400,000 Shares which were granted on 12 June 2009 with the subscription price of HK\$2.52 per Share.

Each option granted under the Pre-IPO Share Option Scheme has a vesting period of one to three years commencing from 3 July 2009, being the listing date of the Shares on the Stock Exchange and the options are exercisable for a period of ten years. The Company has no legal or constructive obligation to repurchase or settle the option in cash.

No options were exercised during the six months ended 30 June 2009.

(c) Dividends

Dividends paid to equity shareholders attributable to the interim period

	Six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
Interim dividend declared and paid during the interim period	88,152	—

According to the written resolution of the directors' meeting passed on 11 June 2009, Qinfa Trading declared a special interim dividend of HK\$100,000,000 (equivalent to RMB88,152,000) to its then shareholder. Such dividend was fully paid on 26 June 2009.

14. CAPITAL COMMITMENTS

Capital commitments outstanding as at 30 June 2009 not provided for in the interim financial report are as follows:—

	At	At
	30 June 2009	31 December 2008
	<i>RMB'000</i>	<i>RMB'000</i>
Authorised but not contracted for	2,240	5,000
Contracted for	1,905	45,853
	4,145	50,853

15. SUBSEQUENT EVENTS

(a) Capitalisation Issue

Capitalisation Issue (as defined in the Prospectus) was completed upon the completion of Global Offering.

(b) Global Offering

On 3 July 2009, 250,000,000 Shares of par value HK\$0.10 each were issued at a price of HK\$2.52 per Share under the Global Offering (as defined in the Prospectus). The proceeds of HK\$25,000,000 (equivalent to RMB22,042,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$605,000,000 (equivalent to RMB533,429,000), before issuing expenses, were credited to the share premium account.

(c) Exercise of Over-allotment Option

On 22 July 2009, the underwriters of the International Placing exercised the Over-allotment Option (as defined in the Prospectus) for the issuance of 37,500,000 Shares of par value HK\$0.10 each at HK\$2.52 per Share. The proceeds of HK\$3,750,000 (equivalent to RMB3,305,000) representing the par value, were credited to the Company's share capital. The remaining proceeds of HK\$90,750,000 (equivalent to RMB79,987,000), before issuing expenses, were credited to the share premium account.

(d) Acquisition of a Subsidiary

On 17 August 2009, one of the subsidiaries of the Company, 大同解家莊晉發運銷有限公司 (Datong Xiejiazhuang Jinfa Trading and Transportation Co., Ltd.) ("**Datong Jinfa**"), entered into an equity interest transfer agreement (the "**Equity Transfer Agreement**") with, amongst others, Shanxi Ruifeng Pharmaceutical Group Co., Ltd. ("**Shanxi Ruifeng**"), which held a 87.88% equity interest in Shanxi Hunyuan Ruifeng Coal Industry Co., Ltd. ("**Ruifeng Coal**"). Pursuant to the Equity Transfer Agreement, Shanxi Ruifeng agreed to sell its entire interest in Ruifeng Coal to Datong Jinfa at a consideration of RMB130,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group achieved a significant milestone on 3 July 2009 with all the Shares listed on Stock Exchange. The Directors believe that the successful listing of the Company on the Stock Exchange creates significant advantages to the future business development of the Group as a whole.

As disclosed in the Prospectus, the Group is principally engaged in the coal operation business involving purchase and sales, filtering, storage, blending, shipping and transportation of coal. During the six months ended 30 June 2009, the Group continued to focus on these business activities. In December 2008, leveraging its experience in the coal operation business, the Group entered into the first sales and purchase contracts for the trading business of iron ore fines. The relevant transactions were carried on and completed during the six months ended 30 June 2009.

Since September 2008, however, there was deterioration in the global financial markets, the global economies and the demand for energy products, including coal products. As a result of the global economic contraction and the slowing economic growth in China, the demand and the selling prices for thermal coal in China were affected adversely during the first quarter of 2009. Under such circumstances, the selling prices and the demand for coal from the Group's customers decreased substantially.

During the six months ended 30 June 2009, the total coal trading volume of the Group was approximately 1,550,000 tonnes, representing a decrease of approximately 60.2% as compared with the same period in 2008. The monthly average selling prices of coal during the six months ended 30 June 2009 were in the range between RMB400 per tonne and RMB489 per tonne, which was substantially lower than the selling price range of RMB503 per tonne and RMB710 per tonne during the same period in 2008.

The substantial decrease was primarily attributable to the poor business environment during the first quarter of 2009. Starting from April 2009, the coal trading volume of the Group has increased as compared with the three months ended 31 March 2009. The Group's coal trading volume in April 2009 was approximately 274,000 tonnes, representing a substantial increase from the average monthly coal trading volume of approximately 88,000 tonnes during the three months ended 31 March 2009. The Group's coal trading volume in May 2009 and June 2009 was approximately 435,000 tonnes and approximately 577,000 tonnes, respectively. The Group's average selling price of coal increased by approximately 22.3% from approximately RMB400 per tonne in January 2009 to approximately RMB489 per tonne in June 2009. The Group recorded net profit during the second quarter of 2009 to cover the operating loss during the first quarter of 2009. In addition, taking advantage of the Group's extensive procurement network and international trade experience, the Group sourced coal from various overseas suppliers. The amount of the imported coal increased to approximately 74.8% of the total coal purchase for the six months ended 30 June 2009, as compared with approximately 12.0% of the total coal purchase for the same period in 2008. With the global economy being stabilised and the continuous economic growth in China, the international demand for coal is expected to increase, so as the international coal prices. The Directors expect that the Group will strengthen the domestic coal trading business in China during the second half of 2009.

During the six months ended 30 June 2009, the Group was also engaged in the business of iron ore trading. Leveraging the Group's experience in the coal operation business and the international procurement network, the Directors consider that the iron ore trading business can be further developed without committing significant amount of resources. The turnover generated from the iron ore trading during the six months ended 30 June 2009 was approximately RMB503.4 million. The Directors expect that these business activities will continue to grow during the second half of 2009.

Business Outlook

With the stabilised international economic condition, the continuous economic growth in China and the RMB4 trillion stimulus package launched by the PRC government, the Directors believe that the level of domestic production and domestic consumption in China will increase steadily. These will stimulate the demand for electricity and thermal coal as the principal raw materials for power generation. The Directors are optimistic that the coal trading business of the Group will improve during the second half of 2009. Based on the current orders on hands and the latest business trends, the Directors anticipate that the Group's trading volume of coal and iron ore in 2009 is expected to exceed the same in 2008.

Preparing for the anticipated economic recovery and the increasing demand for coal products, the Group will continue to improve its business models with the following initiatives:—

- (1) Public bulk coal terminal in Zhuhai – After obtaining the approval from the relevant PRC government authorities, the Group is in the process of discussing with various business partners on the establishment of a project company in which 60% of the equity interest, in the aggregate amount of RMB900 million, is to be invested by the Group. The remaining 40% of the equity interest is to be invested by a specialised port management company in China.
- (2) Third coal loading station – The Group is actively looking for suitable locations in Inner Mongolia for the construction of its third coal loading station. In addition, the Group is also exploring acquisition opportunities of the existing coal stations along the Daqin Railway in order to strengthen the coal processing capability of the Group in the region.
- (3) Acquisition of coal mine – As the coal price has been adjusted significantly as compared with the price level in 2008, the amount of investment involved in coal mines in China has reached a reasonable level for long-term investment purpose.

In this connection, the Group entered into an agreement on 17 August 2009 with independent third parties for the acquisition of 87.88% equity interest in 山西渾源瑞風煤業有限責任公司 (Shanxi Hun Yuan Rui Feng Coal Company Limited) (the “**Ruifeng Coal**”) for a consideration of RMB130 million. The acquisition has yet to be completed and is subject to the approval of the relevant PRC government authorities. The Directors expect that the acquisition will be completed by the end of September 2009. The consideration is funded by the internally generated financial resources of the Group.

The Ruifeng Coal is the owner and operator of a coal mine in Hun Yuan County, Datong City, Shanxi Province, China which is located approximately 70km away from the existing coal loading station of the Group in Datong County, Shanxi Province, China. The coal mine has an available coal reserve of over 59 million tonnes and will be operated at an annual production capacity of not less than 900,000 tonnes. Leveraging the Group's expertise in coal operation, the Directors expect that the acquisition of the Ruifeng Coal will strengthen the integration of the coal supply chain of the Group and enable the Group to have a stable coal supply.

The Directors will continue to explore other coal mine acquisition opportunities.

- (4) Expansion of fleet – The Group has four Panamax vessels operating overseas and PRC inland routes for coal transportation as part of its supply chain and for chartering to independent third parties in order to optimise the utilisation rate of the vessels.

The Group's fleet can only support one-fifth of the annual coal and iron ore trading volume of the Group. In view of the shipping industry staying in a low level as compared with the historic high in the first half of 2008, the Directors believe that there are good opportunities for the Group to expand its fleet by acquiring or constructing an additional Panamax vessel. The purchase consideration is expected to be funded partly by the internally generated financial resources of the Group and partly by debt financing.

Result Analysis

Revenue and Trading Volume

	Six months ended 30 June	
<i>Revenue (Expressed in RMB '000)</i>	2009	2008
Coal Trading	726,061	2,247,219
Iron Ore Trading	503,428	–
Shipping	15,434	76,064

	Six months ended 30 June	
<i>Trading volume</i>	2009	2008
	'000 tonnes	'000 tonnes
Coal trading	1,550	3,896
Iron ore trading	1,142	–

As a result of the global financial turmoil starting from the second half of 2008 and the slowing down of the economic growth in China during the first quarter of 2009, the Group experienced a decrease in the turnover in the coal trading and the shipping transportation business. The turnover from coal trading decreased by approximately 67.7%, and the average coal selling prices also decreased by approximately 18.9%, as compared with the same period in 2008, because of the reduced electricity consumption and the corresponding decrease in coal-fired power generation in the PRC. Both the coal selling prices and the coal trading volume remained at low levels during the six months ended 30 June 2009. The average coal selling price and the coal trading volume for each of the three years ended 31 December 2008, the three months ended 31 March 2009 and the three months ended 30 June 2009 are set forth in the table below:—

	Year ended 31 December			Three months ended 31 March 2009	Three months ended 30 June 2009
	2006	2007	2008		
Average selling price (RMB per tonne)	392	443	646	432	476
Average monthly trading volume (thousand tonnes)	600	669	523	88	429

The turnover from the shipping transportation business decreased by approximately 79.7% because of reduction in the freight rates as a result of the economic slowdown and the over-supply of shipping transportation capacity.

Gross Profit Margin and Gross Profit

The Group's gross profit decreased by approximately RMB312.9 million during the six months ended 30 June 2009 to approximately RMB81.2 million from approximately RMB394.1 million during the same period in 2008, mainly because of the substantial decline in the coal trading volume and the coal selling prices.

Percentage of gross margin

	Six months ended 30 June	
	2009	2008
Group	6.5%	17.0%
Segments:		
Coal Trading	10.2%	15.9%
Iron Ore Trading	6.7%	—
Shipping	-32.4%	35.6%

The Group's overall gross margin decreased to approximately 6.5% from approximately 17.0% as compared with the same period in 2008, mainly resulting from:–

- (1) decrease in the gross profit margin of the coal trading business to approximately 10.2% for the six months ended 30 June 2009, which was mainly due to the increased purchase from coal traders instead of direct procurement from coal mines; and
- (2) decrease in the gross profit margin of the shipping transportation business to approximately -32.4% for the six months ended 30 June 2009 with the decrease in the freight volume and the freight rates and the charter hire rates.

Other Income

During the six months ended 30 June 2009, the Group's other income amounted to approximately RMB13.3 million, representing an increase of approximately 216.7% as compared with approximately RMB4.2 million in the same period in 2008. Such increase was primarily attributable to the increase in unconditional government grants as encouragement of the Group's business development.

Administrative Expenses

During the six months ended 30 June 2009, the Group's administrative expenses amounted to approximately RMB21.0 million, representing a decrease of approximately 23.1% as compared with approximately RMB27.3 million in the same period in 2008. Such decrease was mainly due to the decrease in various office and administrative and business promotional expenses as a result of the reduced coal trading volume.

Distribution Expenses

Distribution expenses decreased by approximately 56.1% to approximately RMB38.6 million during the six months ended 30 June 2009 because of the significant decline in the coal trading volume as well as the charter hire rate.

Profit Attributable to Shareholders

Profit attributable to Shareholders decreased by approximately 94.7% from approximately RMB207.1 million for the six months ended 30 June 2008 to approximately RMB10.9 million for the six months ended 30 June 2009 due to the overall economic slowdown during the first quarter of 2009. The decrease in the amount of profit was also attributable to the substantial and continuous decreases in the coal trading volume as a result of the economic slowdown. In addition, certain operating costs of the Group, such as selling and marketing and administrative expenses, could not be adjusted correspondingly with the decline in the coal trading volume.

As disclosed in the Prospectus, the Group recorded an unaudited loss for the four months ended 30 April 2009 in contrast to the unaudited profit recorded for the same period in 2008. Although the Group recorded net profit for the two months ended 30 June 2009 along with improved economic performance in China as well as overseas markets, the profitability of the Group for the six months ended 30 June 2009 was still substantially lower than the profitability of the Group for the same period in 2008.

Liquidity, Financial Resources and Capital Structure

The Group adopts stringent financial management policies and maintains a healthy financial condition. With the listing of the Shares on the Stock Exchange in July 2009 and raised net proceeds of approximately HK\$660 million, the Group continues to fund its business operations and general working capital principally by internally generated financial resources, bank borrowings and the net proceeds raised from the Global Offering (as defined in the Prospectus).

The net current liabilities as at 30 June 2009 were approximately RMB241.7 million (Net current assets as at 31 December 2008: approximately RMB51.3 million). As at 30 June 2009, the cash and bank balances of the Group amounted to approximately RMB112.0 million (At 31 December 2008: approximately RMB201.5 million).

As at 30 June 2009, the total bank and other borrowings of the Group were approximately RMB1,249.3 million (At 31 December 2008: approximately RMB1,168.9 million), among which approximately RMB1,125.5 million were repayable within one year and carried interest at market rates ranging from 0.98% to 5.31% per annum. Non-current secured bank loans as at 30 June 2009 carried variable interest rates based on (i) the LIBOR plus 1% and (ii) 5% discount on the per annum interest rate quoted by the People's Bank of China in respect of long-term borrowings over 5 years.

As at 30 June 2009, the Group's cash and cash equivalents, except amounts of approximately RMB2.2 million and RMB20.5 million held in HK\$ and US\$, respectively, were held in RMB. The Group's interest-bearing borrowings made in RMB, US\$, HK\$ were approximately 436.1 million, 670.8 million and 142.4 million, respectively.

The gearing ratio (calculated as interest-bearing borrowings divided by total assets) of the Group as at 30 June 2009 was approximately 57.4% (At 31 December 2008: approximately 56.0%).

Exposure to Fluctuations in Exchange Rates and Related Hedge

The Group's cash and cash equivalents are held predominately in HK\$, RMB and US\$. Operating outgoings incurred by the Company subsidiaries in the PRC are mainly denominated in RMB and these subsidiaries usually receive revenue in RMB. The Directors consider that the Group's exposure to foreign exchange rate risks is not significant, and that hedging by means of derivative instruments is therefore not necessary.

Pledge of Assets of the Group

As at 30 June 2009, the Group's assets in an aggregate amount of approximately RMB1,036.4 million (at 31 December 2008: approximately RMB1,463.8 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.

Global Offering

The Shares have been successfully listed on the Stock Exchange since 3 July 2009. The net proceeds from the Global Offering (as defined in the Prospectus) were approximately HK\$660 million. The Group will use the net proceeds to strengthen its competitiveness by implementing the future plans as stated in its Prospectus.

Employees and Remuneration

As at 30 June 2009, the Group employed 326 employees. The Group has adopted a performance-based rewarding system to motivate its staff and such system is reviewed on a regular basis. In addition to the basic salaries, year-end bonuses will be offered to those staff members with outstanding performance.

Members of the Group incorporated 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 incorporated 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 housing reserve fund. 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 was adopted in June 2009 to retain staff members who have made contribution to the success of the Group. As at 30 June 2009, options in aggregate of 8,400,000 Shares were granted to an executive Director and 25 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.

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

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

REVIEW OF THE INTERIM REPORT

The Group's interim report for the six months ended 30 June 2009 has not been audited but has been reviewed by the audit committee of the Board and auditors of the Company, KPMG.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2009 (2008: Nil).

CORPORATE GOVERNANCE

- (a) The Company's corporate governance practices are based on the principles and the code provisions (the "**Code Provisions**") set forth in The Code on Corporate Governance Practices (the "**CG Code**") contained in Appendix 14 to the Listing Rules. As the Shares have only been listed on the Stock Exchange since 3 July 2009, the CG Code was not applicable to the Company during the six months ended 30 June 2009. The Company regularly reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.
- (b) The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set forth in Appendix 10 to the Listing Rules. As the Shares have only been listed on the Stock Exchange since 3 July 2009, the Model Code was not applicable to the Company during the six months ended 30 June 2009.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the websites of the Company (www.qinfagroup.com) and the Stock Exchange (www.hkex.com.hk). The interim report for the six months ended 30 June 2009 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and available on the above websites in due course.

By Order of the Board
China Qinfagroup Limited
XU Jihua
Chairman

Guangzhou, 27 August 2009

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. CHEN Wenjing, Mr. HUANG Guosheng and Mr. LAU Sik Yuen as the independent non-executive Directors.