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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 2010

FINANCIAL HIGHLIGHTS

- Turnover for the six months ended 30 June 2010 was approximately RMB2,785.6 million, representing an increase of approximately 123.8% as compared to the six months ended 30 June 2009;
- Coal trading volume was approximately 4.86 million tonnes, representing an increase of approximately 213.4% as compared to the six months ended 30 June 2009;
- Profit attributable to equity shareholders was approximately RMB206.5 million, representing an increase of approximately 1,794.5% as compared to the six months ended 30 June 2009; and
- Basic earnings per share was RMB20 cents, representing an increase of approximately 1,900.0% as compared to the six months ended 30 June 2009;
- The Board does not recommend the payment of interim dividend.

The board (the “**Board**”) of directors (the “**Directors**”) of China Qinfa Group Limited (the “**Company**”) is pleased to announce the unaudited consolidated results and financial position of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2010 with comparative figures for the six months ended 30 June 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
	Note	RMB'000	RMB'000
Turnover	4	2,785,616	1,244,923
Cost of sales		(2,371,479)	(1,163,761)
Gross profit		414,137	81,162
Other income		39,521	13,262
Distribution expenses		(57,609)	(38,620)
Administrative expenses		(72,965)	(20,978)
Other expenses		(17,230)	(2,821)
Profit from operating activities		305,854	32,005
Finance income		13,977	8,767
Finance costs		(40,098)	(20,074)
Net finance costs	5(a)	(26,121)	(11,307)
Share of loss of associate		(343)	—
Profit before income tax		279,390	20,698
Income tax expense	6	(73,246)	(9,807)
Profit for the period		206,144	10,891
Other comprehensive income			
Foreign currency translation differences for foreign operations		(3,460)	810
Net movement in fair value reserve of available-for-sale financial assets		(12,918)	—
Other comprehensive income for the period (after tax and reclassification adjustment)		(16,378)	810
Total comprehensive income for the period		189,766	11,701
Profit attributable to:			
Equity shareholders of the Company		206,524	10,891
Non-controlling interests		(380)	—
Profit for the period		206,144	10,891
Total comprehensive income attributable to:			
Equity shareholders of the Company		190,146	11,701
Non-controlling interests		(380)	—
Total comprehensive income for the period		189,766	11,701
Earnings per share			
Basic earnings per share (RMB)	8(a)	0.20	0.01
Diluted earnings per share (RMB)	8(b)	0.20	0.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

At 30 June 2010

		At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		1,083,142	996,231
Intangible assets		207,148	—
Lease prepayments		5,983	6,053
Other investments		—	30,390
Investments in associate		47,864	—
Deferred tax assets		6,645	6,561
		1,350,782	1,039,235
Current assets			
Inventories		379,332	358,124
Derivatives		3,244	—
Trade and other receivables	9	1,384,867	1,349,832
Pledged deposits		1,009,935	1,037,328
Cash and cash equivalents		337,703	376,187
		3,115,081	3,121,471
Current liabilities			
Loans and borrowings	10	(2,171,120)	(2,013,813)
Trade and other payables	11	(227,024)	(370,104)
Derivatives		(14,016)	—
Current taxation		(171,908)	(167,578)
		(2,584,068)	(2,551,495)
Net current assets		531,013	569,976
Total assets less current liabilities		1,881,795	1,609,211
Non-current liabilities			
Deferred tax liabilities		(52,851)	—
Loans and borrowings	10	(208,897)	(231,924)
		(261,748)	(231,924)
Net assets		1,620,047	1,377,287
Capital and reserves			
Share capital		91,474	91,474
Reserves		1,477,734	1,285,813
Total equity attributable to equity shareholders of the Company		1,569,208	1,377,287
Non-controlling interests		50,839	—
Total equity		1,620,047	1,377,287

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1 COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information 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 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. This unaudited interim financial report 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 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 had been in existence throughout the two periods presented. All material intra-group transactions and balances have been eliminated on consolidation.

1.2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange, including compliance with International Accounting Standard (“**IAS**”) 34, *Interim financial reporting*, issued by the International Accounting Standards Board (“**IASB**”).

This interim financial report contains condensed 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 2009 annual financial statements. The condensed 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**”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the year ended 31 December 2009 that is included in the interim financial report 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. Statutory financial statements for the year ended 31 December 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated on 26 March 2010.

2 CHANGES IN ACCOUNTING POLICIES

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the changes in accounting policies set out below.

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 Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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

In order to be consistent with the amendments to IFRS 3 and IAS 27, the relevant contents of IAS 28, Investments in associates, were amended accordingly.

3 ESTIMATES

The preparation of interim financial reports 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 this interim financial report, 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 for the year ended 31 December 2009.

4 SEGMENT REPORTING

(a) Segment results, assets and liabilities

The Group has three major reportable segments, as sales of coal, sales of iron ore, 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 Chief Executive Officer ("CEO") reviews internal management reports on a monthly basis.

Financial results from other operating segments are below the quantitative threshold for determining reportable operating segments and consist primarily of business segments of coal mining and port business. These two operating segments are combined and reported as "all other segments".

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		All other segments		Total	
	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
For the six months ended 30 June										
Turnover from external customers	2,704,536	726,061	–	503,428	81,080	15,434	–	–	2,785,616	1,244,923
Inter-segment turnover	–	–	–	–	266,047	42,779	–	–	266,047	42,779
Reportable segment turnover	2,704,536	726,061	–	503,428	347,127	58,213	–	–	3,051,663	1,287,702
Reportable segment profit/(loss) before income tax	214,006	21,656	–	33,506	67,051	(20,589)	9,951	–	291,008	34,573
Reportable segment assets as at 30 June 2010/31 December 2009	3,442,545	3,442,403	16,635	16,864	1,263,592	1,138,966	497,622	–	5,220,394	4,598,233
(including investments in associate)	–	–	–	–	–	–	47,864	–	47,864	–
Reportable segment liabilities as at 30 June 2010/31 December 2009	(2,626,636)	(2,592,010)	–	–	(1,123,816)	(1,060,935)	(207,577)	–	(3,958,029)	(3,652,945)

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

Turnover

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Reportable segment turnover	3,051,663	1,287,702
Elimination of inter-segment turnover	(266,047)	(42,779)
Consolidated turnover	2,785,616	1,244,923

Profit

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Reportable segment profit before income tax	291,008	34,573
Elimination of inter-segment loss/(profit)	834	(1,547)
Unallocated head office and corporate gain/(expenses)	13,669	(1,021)
Net finance costs	(26,121)	(11,307)
Consolidated profit before income tax	279,390	20,698

Assets

	At 30 June	At 31 December
	2010	2009
	RMB'000	RMB'000
Reportable segment assets	5,220,394	4,598,233
Elimination of inter-segment receivables and inventories	(410,506)	(256,563)
Elimination of receivables from head office	(352,737)	(219,502)
Deferred tax assets	6,645	6,561
Unallocated assets	2,067	31,977
Consolidated total assets	4,465,863	4,160,706

Liabilities

	At 30 June	At 31 December
	2010	2009
	RMB'000	RMB'000
Reportable segment liabilities	3,958,029	3,652,945
Elimination of inter-segment payables	(410,001)	(255,469)
Elimination of payables to head office	(926,999)	(790,855)
Current tax liabilities	171,908	167,578
Deferred tax liabilities	52,851	—
Unallocated liabilities	28	9,220
Consolidated total liabilities	2,845,816	2,783,419

5 PROFIT BEFORE TAX

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

(a) Net finance costs

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Interest income	(9,281)	(8,178)
Net foreign exchange gain	(4,696)	(589)
Finance income	(13,977)	(8,767)
Interest on borrowings	29,652	16,826
Less: interest capitalised into property, plant and equipment	—	(437)
	29,652	16,389
Bank charges	10,446	3,685
Finance costs	40,098	20,074
Net finance costs	26,121	11,307

(b) Other items

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Operating lease charges on premises	2,867	1,932
Depreciation for the property, plant and equipment	47,382	34,780
Amortisation of lease prepayments	70	70
Amortisation of intangible assets	3,511	—
Net realised and unrealised loss on derivatives	10,176	—
Fair value change of available-for-sale financial assets	(19,584)	—

6 INCOME TAX EXPENSE

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax		
– PRC Income Tax	69,471	5,863
– Hong Kong Profits Tax	—	2,784
Deferred taxation	3,775	1,160
	73,246	9,807

- (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 period.
- (iii) The provision for the PRC corporate income tax was based on a 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. Deferred tax liabilities have been recognised for the profits earned by the Group's PRC subsidiaries for the six months ended 30 June 2010 to the extent that the earnings would be distributed in the foreseeable future.

7 DIVIDENDS

Dividends paid to equity shareholders attributable to the previous years, declared and paid during the interim period

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
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, Hong Kong Qinfa Trading Limited declared a special interim dividend of HKD100,000,000 (equivalent to RMB88,152,000) to its then shareholder. Such dividend was fully paid on 26 June 2009.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2010 is based on the profit attributable to equity shareholders of the Company of RMB206,524,000 (six months ended 30 June 2009: RMB10,891,000) and the weighted average of 1,037,500,000 ordinary shares (2009:750,000,000) in issue during the period.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2010 and the six months ended 30 June 2009 is the same as the calculation of basic earnings per share for these periods.

The Pre-IPO Share Option Scheme does not give rise to any dilution effect on the Company's earnings per share and there were no other dilutive potential ordinary shares in existence during the six months ended 30 June 2010 and the six months ended 30 June 2009.

No options were exercised during the six months ended 30 June 2010 (2009: Nil).

9 TRADE AND OTHER RECEIVABLES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade debtors and bills receivable (see Note (i))	538,762	565,451
Prepayment for investments (see Note (ii))	129,000	169,320
Deposits and prepayments	659,900	556,358
Other non-trade receivables	57,205	58,703
	<u>1,384,867</u>	<u>1,349,832</u>

- (i) Trade debtors and bills receivable included bank acceptance bills of RMB85,210,000 as at 30 June 2010 (31 December 2009: RMB41,687,000), 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 bills receivable (net of impairment for bad and doubtful debts) of the Group is as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 1 month	449,675	501,197
Over 1 month but less than 3 months	27,070	42,693
Over 3 months but less than 6 months	51,495	21,561
Over 6 months but less than 1 year	10,522	—
	<u>538,762</u>	<u>565,451</u>

- (ii) The prepayment for investments include:

1) Prepayment for the acquisition of Ruifeng Coal

On 17 August 2009, Datong Xiejia Zhuang Jinfa Trading and Transportation Co. Ltd. ("**Datong Jinfa**"), a subsidiary of the Company, 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 Hun Yuan Rui Feng Coal Company Limited ("**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. As at 31 December 2009, Datong Jinfa had paid RMB108,120,000 of the total consideration.

On 26 February 2010, Datong Jinfa entered into an escrow agreement with Shanxi Ruifeng. Pursuant to the escrow agreement, Datong Jinfa was granted the power to govern the operation and finance policies over Ruifeng Coal and obtained the control of Ruifeng Coal.

2) Prepayment for the acquisition of Ordos Bayin Mengke Nayuan Coal Co., Ltd. (“**Nayuan Coal**”)

On 30 December 2009, Ordos Jinfa Materials Co., Ltd. (“**Ordos Jinfa**”), a subsidiary of the Company, entered into an Acquisition and Debt Restructuring Agreement (the “**Agreement**”) with Ordos Bayin Mengke Investment Group Co., Ltd and other individual investors of Nayuan Coal (collectively referred to as the “**Vendors**”). Pursuant to the Agreement, the Vendors agreed to sell their 60% equity interest in Nayuan Coal to Ordos Jinfa at a consideration of RMB857,300,000. As at 31 December 2009, Ordos Jinfa had paid RMB61,200,000 of the total consideration. During the six months ended 30 June 2010, Ordos Jinfa paid RMB67,800,000 of the total consideration.

On 19 July 2010, the acquisition was terminated and Ordos Jinfa received the prepaid purchase consideration on 17 August 2010 (see Note 13).

10 LOANS AND BORROWINGS

		At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Current			
Secured bank loans and bank advances	(i)	2,040,806	1,912,238
Bank advances under discounted bills receivable	(ii)	85,210	41,687
Current portion of non-current secured bank loans	(iii)	45,104	59,888
		<u>2,171,120</u>	<u>2,013,813</u>
Non-current			
Secured bank loans	(iii)	208,897	231,924
		<u>2,380,017</u>	<u>2,245,737</u>

- (i) Current bank loans and bank advances borne interest at rates ranging from 0.83% to 5.31% per annum as at 30 June 2010 (31 December 2009: 0.83% to 4.86% per annum). Current secured bank loans and bank advances were secured by the following assets and guarantees issued by related parties:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Property, plant and equipment	341,567	387,446
Inventories	23,980	101,400
Trade and bills receivable	104,610	171,494
Pledged deposits	1,009,935	1,037,328

Unutilised bank facilities secured by pledged deposits of the Group were RMB206,794,000 as at 30 June 2010 (31 December 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 and bills receivable" and "Bank advances under discounted bills receivable" as at the balance sheet date.

- (iii) Non-current secured bank loans as at 30 June 2010 were pledged by certain fixed assets of RMB252,603,000 (31 December 2009: RMB263,927,000) and guarantees issued by a related party.

Non-current secured bank loans as at 30 June 2010 and 31 December 2009 borne variable interest at rates based on either (i) the LIBOR plus 1% or (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:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 1 year	45,104	59,888
Over 1 year but less than 2 years	190,104	45,352
Over 2 years but less than 5 years	18,793	186,572
	208,897	231,924
	254,001	291,812

11 TRADE AND OTHER PAYABLES

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade and bills payable	57,409	192,251
Other taxes payable	51,541	76,201
Receipts in advance	24,121	39,053
Accrued port services fee and other expenses	33,359	36,164
Other miscellaneous payables	60,594	26,435
	227,024	370,104

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Within 1 month	27,958	190,429
Over 1 month but less than 3 months	19,027	968
Over 3 months but less than 6 months	1,438	854
Over 6 months but less than 1 year	5,181	—
Over 1 year but less than 2 years	3,805	—
	57,409	192,251

12 CAPITAL COMMITMENTS

Capital commitments outstanding as at the period end but not provided for in the interim financial report were as follows:

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Authorised but not contracted for	2,020	313,420
Contracted for	1,076,744	1,251,561
	<u>1,078,764</u>	<u>1,564,981</u>

13. SUBSEQUENT EVENTS

Termination of acquisition of Nayuan Coal

On 19 July 2010, Ordos Jinfa entered into a Termination of Acquisition and Debt Restructuring Agreement (the “**Termination Agreement**”) with the Vendors (see Note 9). Pursuant to the Termination Agreement, the Vendors shall repay the entire balance of the prepaid purchase consideration made by Ordos Jinfa.

On 17 August 2010, the Vendors made a refund of RMB129,000,000 in cash to Ordos Jinfa, representing the aggregate amount of the consideration prepaid by Ordos Jinfa in respect of the acquisition.

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 six months ended 30 June 2010, the Group continued to focus on these business activities.

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 the first half of 2010. Hence, the Group achieved a significant growth in the trading volume of coal as compared to the same period in 2009. During the six months ended 30 June 2010, the coal trading volume of the Group was approximately 4,858,000 tonnes, representing an increase of approximately 213.4% as compared to the same period in 2009. The monthly average selling prices of coal during the six months ended 30 June 2010 were in the range between RMB538 per tonne and RMB602 per tonne, which were significantly higher than the range of the average selling prices between RMB400 per tonne and RMB489 per tonne during the same period in 2009.

During the six months ended 30 June 2010, the Group recorded net profit of approximately RMB206.1 million, which represented a significant increase of approximately RMB195.2 million, or 1,790.8%, as compared with the same period in 2009. Taking advantage of the Group's extensive procurement network and international trade experience, the Group sourced coal from various overseas suppliers. The volume of the coal imported by the Group to China amounted to approximately 69.1% (first half year of 2009: 74.8%) of the Group's total coal purchase for the six months ended 30 June 2010.

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 transfer agreement in August 2009 to acquire 87.88% equity interest in 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 2010.

Ordos Jinfa, a subsidiary of the Company, entered into the Agreement in December 2009 to acquire 60% equity interest in Nayuan Coal at a consideration of RMB 857 million. However, the acquisition has been terminated due to the significant differences in the management of the coal mines with the other management owners of Nayuan Coal. As at the date hereof, Ordos Jinfa has received the amount of RMB129 million as prepaid 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 ("**Tiaro Coal**") at the subscription price of A\$0.25 for each share. As at 30 June 2010, the Group held a total of 21,400,000 shares of Tiaro Coal, representing approximately 30.05% equity interest in Tiaro Coal.

Tiaro Coal is a company incorporated in the State of New South Wales in Australia with its shares listed on the Australian Securities Exchange (the "**ASE**") with the stock code of TCM, and is mainly engaged in exploration of coal. As part of the equity investment by the Group in Tiaro Coal, a coal off-take undertaking has been granted by Tiaro 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 Tiaro 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 Tiaro Coal will strengthen the Group's capability in sourcing coal overseas and managing the risk of fluctuating coal prices in the long run.

Strengthening 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 cost of about HK\$538.2 million. As at 30 June 2010, the Group had a total of four 82,000 DWT bulk carriers under construction. As the Group's coal trading volume continues to increase, the vessels will strengthen the Group's coal transportation capacity, the ability to control the cost of shipping transportation and reduce the risk of increasing shipping transportation costs.

RMB Forward Contracts

The Group entered into several RMB forward contracts with banks in order to reduce the negative impact caused by RMB appreciation. The purpose of entering into these forward contracts 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. Although there was unfavorable change in fair value of the forward contracts which was reflected as an unrealised financial liability in the financial statements, the Group has been continuously making realised profits since the entry into the forward contracts. The Directors also expect the change in fair value of the forward contracts will become less unfavourable when the forward contracts are close to their maturity dates.

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, tightened liquidity and policy transformation in China, which could adversely affect the demand for electricity in China and demand for thermal coal in the second half of 2010. 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. 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 of the Company dated 19 June 2009 (“**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.

It 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 of 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 the second quarter of 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 cost 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 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 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.

(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 Inner Mongolia

The Group is actively looking for suitable locations in Inner Mongolia for the construction or acquisition of additional coal loading stations. 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 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 prepaid 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 stable supply of coal, in terms of quality and quantity, for our customers which then can enhance the Group's competitiveness as well as strengthen the relationship with our customers. Therefore, the Group will continue to identify domestic and overseas coal related development projects for acquisition or business cooperation in order to further integrate the supply chain of coal.

FINANCIAL REVIEW

Revenue and Trading Volume

Revenue (expressed in RMB'000)	Six months ended 30 June	
	2010	2009
Coal trading	2,704,536	726,061
Iron ore trading	—	503,428
Shipping	81,080	15,434

Trading volume (expressed in '000 tonnes)	Six months ended 30 June	
	2010	2009
Coal trading	4,858	1,550
Iron ore trading	—	1,142

Due to the revival in the demand for coal-fired electricity and the recovery of the global economy from financial crisis, the Group achieved a significant growth in trading volume of coal as compared to the same period in 2009. During the six months ended 30 June 2010, the total coal trading volume of the Group was approximately 4,858,000 tonnes, representing an increase of approximately 3,308,000 tonnes or 213.4% as compared to the same period in 2009. The monthly average selling price of coal during the six months ended 30 June 2010 was approximately RMB557 per tonne, which was substantially higher than the average monthly selling price of approximately RMB468 per tonne during the same period in 2009.

The average coal selling price and the coal trading volume for each of the three years ended 31 December 2009, the six months ended 30 June 2009 and 2010 are set forth in the table below:

	Year ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
Average selling price (RMB per tonne)	443	646	493	468	557
Average monthly trading volume (thousand tonnes)	669	523	569	258	810

The segment turnover for the shipping transportation for the six months ended 30 June 2010 was approximately RMB81.1 million, representing an increase of about RMB65.7 million or 426.6% from approximately RMB15.4 million for the same period in 2009. The significant improvement was contributed by the increase in freight rates and charter hire rates compared to the same period in 2009 when there was over-supply of shipping transportation capacity under economic downturn.

During the six months ended 30 June 2009, the Group was engaged in the business of iron ore trading and generated revenue of approximately RMB503.4 million. During the six months ended 30 June 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 the first half of 2010 might bring on additional risk to the Group.

Gross Profit Margin and Gross Profit

The Group's gross profit increased by approximately RMB332.9 million during the six months ended 30 June 2010 to approximately RMB414.1 million from approximately RMB81.2 million during the same period in 2009, mainly because of the substantial increase in the coal selling prices and coal trading volume.

The Group's overall gross margin increased to approximately 14.9% from approximately 6.5% during the same period in 2009, mainly resulting from:

- (1) an increase in gross profit margin of the coal trading business from 10.2% for the period ended 30 June 2009 to approximately 13.1% for the same period in 2010, which was mainly due to recovery of global economy and revival in demand of coal-fired electricity; and
- (2) an increase in the gross profit margin of the shipping transportation business from -23.4% for the period ended 30 June 2009 to approximately 21.0% for the same period in 2010 with the increase in the freight rates and the charter hire rates.

Other Income

During the six months ended 30 June 2010, the Group's other income amounted to approximately RMB39.5 million, representing an increase of approximately 197.0% as compared with approximately RMB13.3 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 was classified as available-for-sale financial assets for the year ended 31 December 2009.

Other Expenses

During the six months ended 30 June 2010, the Group's other expenses amounted to approximately RMB17.2 million, representing an increase of approximately 514.3% as compared with approximately RMB2.8 million in the same period in 2009. Such increase was primarily attributable to unrealised losses on fair value of forward contracts. Although there was an unfavorable change in fair value of these forward contracts, the Directors expect the change in fair value will become favorable when the contracts are close to their maturity dates.

Administrative Expenses

During the six months ended 30 June 2010, the Group's administrative expenses amounted to approximately RMB73.0 million, representing an increase of approximately 247.6% as compared with approximately RMB21.0 million in the same period in 2009. Such increase was mainly due to the increase in staff cost.

Distribution Expenses

During the six months ended 30 June 2010, distribution expenses increased by approximately 49.2% to approximately RMB57.6 million because of the increase in port service fee which was in line with the increase in coal sales volume in 2010.

Net Finance Cost

During the six months ended 30 June 2010, net financing cost of the Group amounted to RMB26.1 million, representing an increase of approximately RMB14.8 million or 131.0% from approximately RMB11.3 million in the same period in 2009. Such increase was mainly due to the increase in average outstanding amount of interest-bearing borrowings.

Income Tax Expenses

The Group's income tax expense for the six months ended 30 June 2010 was approximately RMB73.2 million, representing an increase of approximately 646.9% from approximately RMB9.8 million in the same period in 2009. The increase was in line with the increase in profitability in current period. 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 rates for the six months ended 30 June 2009 and 2010 were 47.4% and 26.2% respectively. 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 1,794.5% from approximately RMB10.9 million for the six months ended 30 June 2009 to approximately RMB206.5 million for the six months ended 30 June 2010 due to the increase in profitability of coal trading and 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. With the listing of the Shares on the Stock Exchange in July 2009 raising 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 aforesaid net proceeds.

The Group's net current assets as at 30 June 2010 were approximately RMB531.0 million (Net current assets as at 31 December 2009: approximately RMB570.0 million). As at 30 June 2010, the cash and bank balances of the Group amounted to approximately RMB337.7 million (as at 31 December 2009: approximately RMB376.2 million). The liquidity was ample and the financial position was strong in 2010.

As at 30 June 2010, the total bank and other borrowings of the Group were approximately RMB2,380.0 million (as at 31 December 2009: approximately RMB2,245.7 million), approximately RMB2,171.1 million of which were repayable within one year and carried interest at market rates ranging from 0.83% to 5.31% (2009: 0.83% to 4.86%). Non-current secured bank loans as at 30 June 2010 and 31 December 2009 carried variable interest rates based on either (i) the London Interbank Offered Rate ("**LIBOR**") plus 1% or (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 30 June 2010, the Group's cash and cash equivalents, except amounts of approximately RMB157.9 million and RMB47.9 million held in US\$ and HK\$, respectively, were held in RMB. The Group's interest-bearing borrowings made in RMB, US\$, HK\$ were approximately RMB675.5 million, RMB1,645.6 million and RMB58.9 million, respectively.

The gearing ratio (calculated as interest-bearing borrowings divided by total assets) of the Group as at 30 June 2010 was approximately 53.3% (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 HK\$, RMB and US\$. Operating outgoings incurred by the Group's subsidiaries in the PRC are mainly denominated in RMB while overseas purchases are usually denominated in US\$. The Group's subsidiaries usually receive revenue in RMB.

Early this year, the Group entered into several RMB forward contracts with banks 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. Although there was an unfavorable change in fair value of the forward contracts which was reflected as an unrealised financial liability in the financial statements, the Group has been continuously making realised profits since the inception of the contracts. The Directors also expect the change in fair value of the forward contracts will become less unfavourable when the forward contracts are close to their maturity dates.

PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

As at 30 June 2010, the Group's assets in an aggregate amount of approximately RMB1,800.6 million (as at 31 December 2009: approximately RMB2,003.3 million) in forms of property, plant and equipment, inventories, trade and bills receivable and bank deposits were pledged to banks for credit facilities granted to the Group.

As at 30 June 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 RMB1,199.8 million to the Group.

CONTINGENT LIABILITIES

As at 30 June 2010, the Group did not have any material contingent liabilities.

INTERIM DIVIDEND

The Directors do not recommend any interim dividend for the six months ended 30 June 2010.

EMPLOYEES AND REMUNERATION

As at 30 June 2010, the Group employed 481 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 reward staff members who have made contribution to the success of the Group. As at 30 June 2010, options to subscribe for an aggregate of 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.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company was in full compliance with the code provisions set out in the Code on Corporate Governance Practices as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) throughout the six months ended 30 June 2010.

NON-COMPLIANCE WITH RULE 3.10(1) AND RULE 3.21 OF THE LISTING RULES

On 21 June 2010, Dr. CHEN Wenjing (“**Dr. CHEN**”) resigned as an independent non-executive Director, member of the audit committee, member of the remuneration committee and member of the nomination committee of the Board with effect from 21 June 2010.

Following the resignation of Dr. CHEN, the Company has only two independent non-executive Directors, namely Mr. HUANG Guosheng and Mr. LAU Sik Yuen, and does not meet the requirements under Rule 3.10(1) and Rule 3.21 of the Listing Rules to have at least three independent non-executive Directors and at least three audit committee members. The Board will identify a suitable candidate to replace Dr. CHEN to be an independent non-executive Director, member of the audit committee, member of the remuneration committee and member of the nomination committee of the Board as soon as possible and in any event within three months from 21 June 2010 as required under Rule 3.11 of the Listing Rules.

REVIEW OF THE INTERIM RESULTS

The Group's interim results for the six months ended 30 June 2010 have not been audited but have been reviewed by the audit committee of the Board and auditors of the Company, KPMG.

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

During the six months ended 30 June 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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 2010 containing all the information required by 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 2010

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