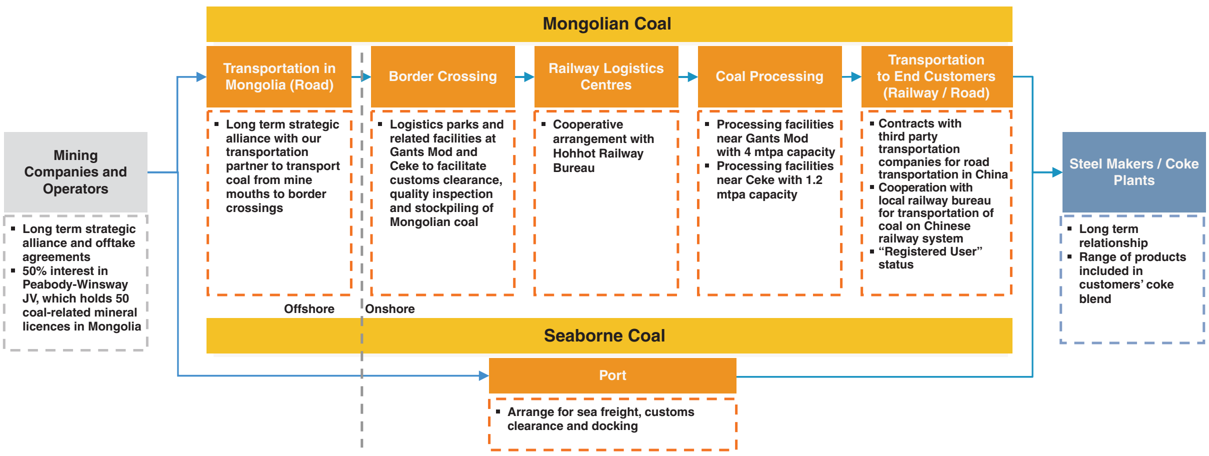
OVERVIEW

We are an integrated supplier of imported coking coal into China, the world's largest and fastest-growing coking coal consuming market. In addition to supplying coking coal, we also provide services to our suppliers and customers through our integrated platform, comprising logistics parks, coal processing plants, and road and railway transportation capabilities. We believe we have established ourselves as one of the leading suppliers in China of imported coking coal. We also believe we were the largest offtaker of Mongolian coal in terms of volume purchased in 2009. Based on AME estimates, the total coal imported from Mongolia into China in 2009 amounted to approximately 6.00 mt. Based on our internal data, we procured approximately 3.77 mt of coal from Mongolia and approximately 3.36 mt of seaborne coal, and imported a total of approximately 6.69 mt of coal, comprising approximately 3.33 mt of coal from Mongolia and approximately 3.36 mt of seaborne coal in 2009. Accordingly, our coal imported from Mongolia accounted for approximately 55.5% of all Mongolian coal imported into China in 2009. Based on the AME Report, the total coking coal and thermal coal (including anthracite) imported into China in 2009 was approximately 34.4 mt and 75.4 mt, respectively.

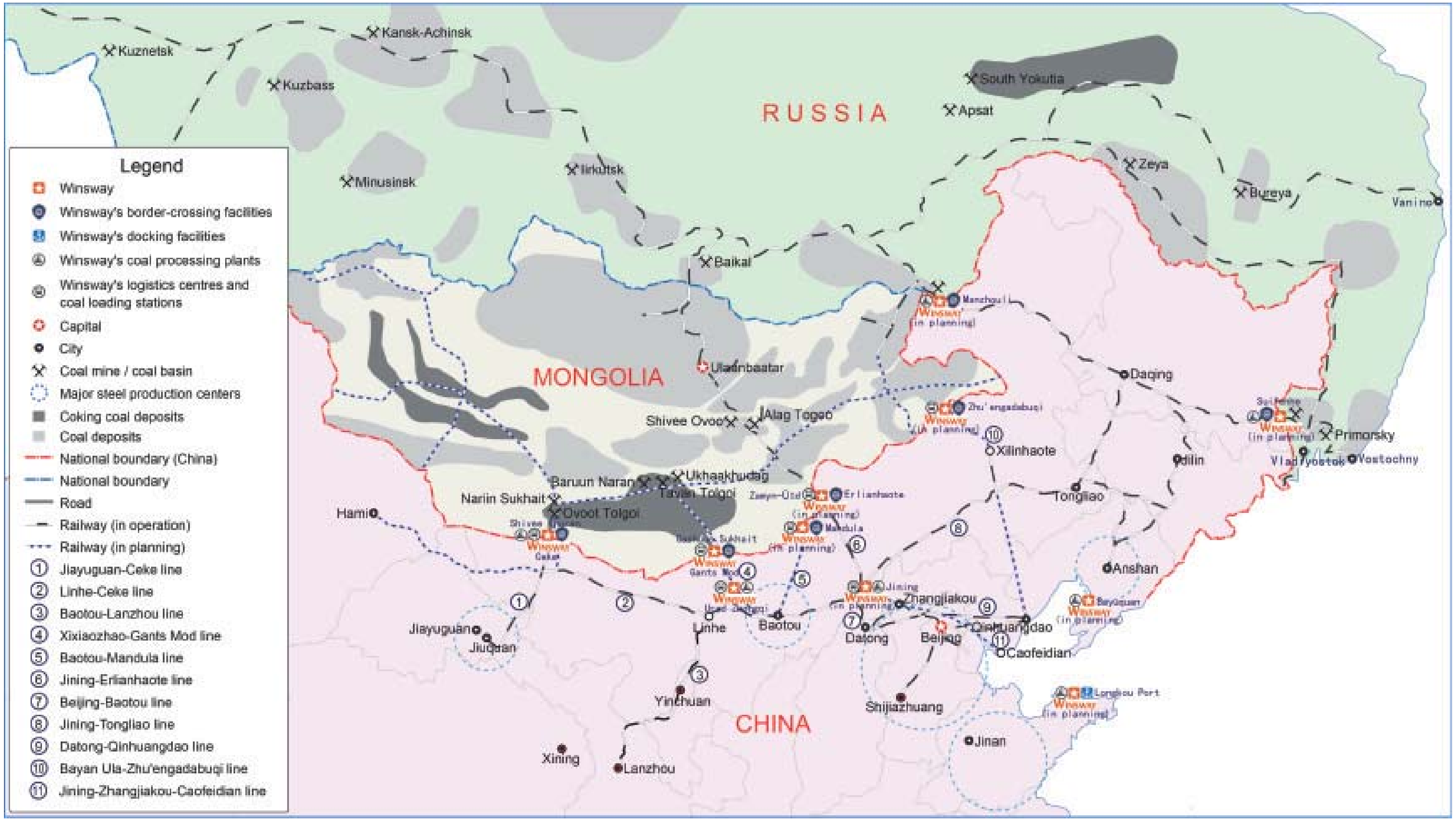
We believe we are one of the pioneers in the large-scale transportation of Mongolian coking coal into China, and also one of the few companies which have substantial investments in logistics and transportation infrastructure at two tier-one Sino-Mongolian border crossings and have access to a transportation network through arrangements with third parties on both sides of the border. We also believe we are one of the few companies which have built an integrated coking coal supply business model to supply Mongolian coking coal into China, which is distinguishable through the considerable scale and profitability we have achieved.

Set forth below is the coking coal supply value chain which we participate in:



We plan to further strengthen our market position and foothold in the coking coal supply chain by adopting the following approaches. In respect of our supply, we plan to selectively acquire upstream resources and develop coal tenements in Mongolia together with affiliates of Peabody Energy. In respect of our infrastructure, we plan to cooperate with one of our Mongolia-based suppliers to construct a heavy duty road connecting Tavan Tolgoi with Gants Mod, expand infrastructure at our existing logistics parks and replicate our proven model to the Erlianhaote, Manzhouli and Suifenhe border crossings, invest in docking facilities in Longkou port, and cooperate with Hohhot Railway Bureau to construct railway logistics centres and railway-related infrastructure at border crossings and along major coal transportation railways, as well as ramp-up the capacity of our coal processing facilities by expanding the existing plant at Urad Zhongqi and constructing new plants at Bayuquan port, Longkou port, Jining, Manzhouli and Suifenhe. In respect of our sales, we plan to develop new clients and increase the penetration level of our products with existing customers. Other than the procurement of coal from Mongolia and Russia and the operation of the Peabody-Winsway JV, a jointly controlled entity owned by us and Peabody Energy, we currently do not have any business operations in Mongolia and Russia. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

The map below shows the approximate locations of certain identified coal deposits in Mongolia and Russia, certain existing and planned railways, and our current and planned logistics parks and coal processing plants.



We have established strong relationships with a number of Mongolia-based and other coal mining companies and operators globally. We started our cooperation with our Mongolia-based suppliers in 2006, being one of the first to do so on a large scale. Since our entry into the Mongolian market in 2006, the total Mongolian coal imported into China increased from approximately 2.4 mt in 2006 to approximately 6.0 mt in 2009. We also believe that we are one of the major customers of our Mongolia-based suppliers taking into account our market position in terms of Mongolian coal imported into China. We have also entered into strategic alliance agreements with two of our Mongolia-based suppliers. Please refer to the section headed "Business — Procurement and Suppliers — Suppliers in Mongolia" in this prospectus for more details. Our Mongolia-based suppliers are all leading mining companies in Mongolia.

In the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we procured approximately 1.0 mt, 1.3 mt, 3.8 mt and 2.4 mt of Mongolian coal, respectively. A substantial portion of our Mongolian coal is processed and sold as cleaned coking coal, and a small portion is sold directly to our customers.

We have also procured seaborne coal from countries such as Australia, the US, Canada and Russia since 2009. In the year ended 31 December 2009 and the six months ended 30 June 2010, we procured approximately 3.4 mt and 2.0 mt of seaborne coal, respectively. We have also entered into a non-binding strategic cooperation agreement with one of our seaborne coal suppliers. Please refer to the section headed "Business — Procurement and Suppliers — Suppliers of seaborne coal" in this prospectus.

We have built a stable and growing customer base including more than 60 steel makers and coke plants in China, including Baogang Group, Hebei Steel, Tangshan Jiahua Coal Chemical, and Risun Coke. We have also entered into long-term strategic alliance agreements and memoranda of understanding with a number of our customers, where we have agreed with such customers to supply different types of coal possessing specific characteristics required by such customers.

For the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our total turnover was RMB198.6 million, RMB993.5 million, RMB4,655.6 million and RMB4,298.8 million, respectively, and our profit attributable to equity shareholders of our Company was RMB17.8 million, RMB244.6 million, RMB454.0 million and RMB528.9 million, respectively.

Border crossings

The map below shows the approximate locations of our current and planned logistics parks at border crossings.

Recognising the strategic importance of border crossings for the supply of coking coal into China, the development and expansion of our infrastructure and capacity at border crossings has been one of our core focuses. In 2007 and 2008, we started building strategic infrastructure at two major Sino-Mongolian border crossings, Gants Mod (甘其毛都) and Ceke (策克), respectively, which are close to our Mongolia-based suppliers' resources, including Tavan Tolgoi, one of the world's largest undeveloped coking coal deposits. Our infrastructure on the China side of the Gants Mod and Ceke border crossings currently includes logistics parks with border-crossing facilities, stockpile areas, and additionally at Ceke, a coal processing plant.

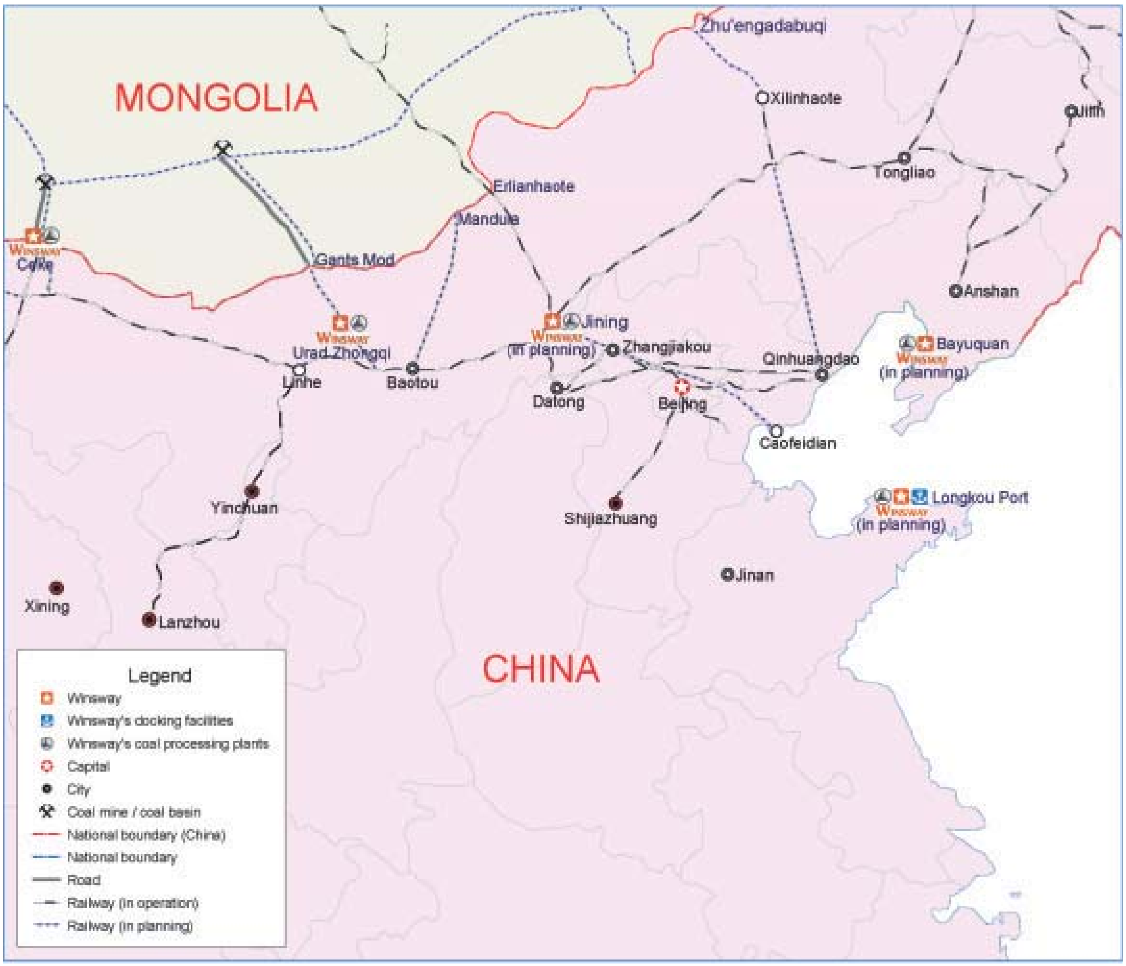
Railway logistics and transportation

The map below shows the approximate locations of existing and planned railways relevant to our infrastructure.

We believe railways are and will remain an integral part of the logistical solution for coal transportation. As part of our development strategy, we have invested and plan to invest in infrastructure to facilitate coal transportation to the eastern coastal area and other major coal-consuming regions in China, including railway, railway logistics centres and railway-related infrastructure. For example, we have entered into an agreement to subscribe for equity capital with a value of RMB75.0 million in Xixiaozhao Gants Mod Railway Co., Ltd., representing 5% of the equity interest in Xixiaozhao Gants Mod Railway Co., Ltd. which will undertake the construction of a railway line connecting Xixiaozhao to Gants Mod. As at the Latest Practicable Date, we have made a total capital contribution of RMB40.65 million in Xixiaozhao Gants Mod Railway Co., Ltd. We are also at the planning stage of our various planned railway logistics centres and related infrastructure, including the railway logistics centres at Gants Mod and Urad Zhongqi which will be located along the Xixiaozhao - Gants Mod railway line, and the railway logistics centre at Ceke. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details on our plans in respect of these railway logistics centres. We expect to make investments in respect of our various planned railway logistics centres in the aggregate amount of approximately RMB1,004.5 million by end of year 2012.

Coal processing

The map below shows the approximate locations of our current and planned coal processing plants.



To enable us to provide a broad range of coking coal and more value-added services to our customers, we have built two coal processing plants located at Urad Zhongqi and Ceke. The plants had a processing capacity of 4.0 mtpa and 1.2 mtpa as at 30 June 2010, respectively.

Our integrated end-to-end service platform, comprising our logistics parks and coal processing plants and road and railway transportation capabilities through our arrangements with third-party transportation companies, enables us to secure stable and cost-effective supplies and maintain our position as a long-term supplier to steel makers and coke plants in various parts of China. At the same time, our service platform and sales network also provide international coking coal mining companies and operators with access to the China coking coal market. Furthermore, our logistical expertise enables us to extend our reach from Inner Mongolia to the eastern coastal area of China where demand and the average selling price for coking coal are generally higher and through our coal processing services, we are able to enhance our profitability. Given our first-mover advantage in establishing a land-borne coking coal route to China and the scale we have achieved thus far, we believe our business model is difficult to replicate and creates a high entry barrier for potential competitors.

In line with our business strategy, we plan to expand and enhance the various components of our service platform through our future development plans. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details of our plans.

We are expanding our infrastructure and facilities rapidly, and plan to undertake various further projects, including the expansion and construction of (i) logistics parks and railway logistics centres at Sino-Mongolian border crossings, Sino-Russian border crossings and in PRC inland, (ii) port docking facilities, and (iii) coal processing plants. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details. Our rapid growth over the past few years and our expansion plans have presented, and continue to present, significant challenges for our management and administrative systems and resources. Please refer to the section headed ''Risk Factors — Risks Related to Our Business and Our Industry — We are experiencing a period of rapid growth and may not be able to manage our growth effectively" in this prospectus for more details associated with our rapid development and expansion plans.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths contribute to our success in the China coking coal industry and distinguish us from our competitors:

We are a major gateway for global coking coal into China and we believe we are one of the few companies which have built an integrated coking coal supply business model to supply Mongolian coking coal into China, with considerable scale and profitability

Based on AME estimates and our internal data, we are one of the largest imported coking coal suppliers in China by volume. In addition, we were the largest importer of Mongolian coal by volume, accounting for approximately 55.5% of all Mongolian coal imported into China in 2009.

Offtaking Mongolian coal on a large scale requires significant infrastructure and logistical capability, which creates considerable barriers to entry. Therefore, we do not expect the number of large-scale integrated coking coal suppliers to increase substantially in the near term. We believe that our capability to secure our coal supplies combined with our integrated end-to-end service platform will further enhance our position as a major gateway for global coking coal entering China.

Our integrated service platform provides us with a competitive advantage in providing a stable supply of high-quality coking coal to end customers in China

Our infrastructure investment at border crossings, our ability to supply Mongolian coal to our customers profitably and on a large scale and our significant coal processing capacity are the three cornerstones of our integrated service platform.

Our strategic infrastructure investment at border crossings

Our main Mongolia-based suppliers are operating at Tavan Tolgoi and Nariin Sukhait deposits, all located in the southern regions of Mongolia. The Sino-Mongolian border crossing closest to the Tavan Tolgoi deposit is the Gants Mod border crossing, which is approximately 270 km away and the Sino-Mongolian crossing closest to the Nariin Sukhait deposit is the Ceke border crossing, which is approximately 40 km away.

Our strength lies in the strategic location of our logistics parks at the Gants Mod and Ceke border crossings. As the respective mines of our main suppliers in Mongolia are only connected to both the Gants Mod border crossing and the Ceke border crossing by road, transportation of coal on a large scale can only be carried out by trucks. However, trucks from Mongolia and China cannot operate in each other's territory beyond the immediate border crossing areas, where our logistics parks are located. As such, Mongolian trucks carrying coal can travel directly from the loading points in

Mongolia and unload the same at our logistics parks. This allows us to arrange for onward transportation of coal in China to our coal processing plants or to our customers expediently. An efficient logistics hub at the relevant Sino-Mongolian border crossing becomes critical in transporting Mongolian coking coal into China. In addition, as Erlianhaote is the only Sino-Mongolian border crossing serviced by railway and as China and Mongolia use different railway gauges, it is currently not possible to have through travel at Singo-Mongolian border crossings. We expect this to continue for the foreseeable future and accordingly believe that our competitive advantage of having strategically placed logistics infrastructure at border crossings will continue to be significant.

Our Gants Mod and Ceke logistics parks, respectively occupying an area of approximately 666,659 sqm and 679,100 sqm, are strategically located in close proximity to the two border crossings which will provide us with the potential to further expand and continue to build our infrastructure to facilitate large-scale transportation of imported Mongolian coal at the two border crossings. We believe our logistics parks, which were among the first ones developed in the area and at a relatively low land cost, have the potential to further expand and continue to be a critical part of the infrastructure in facilitating large-scale transportation at both the Gants Mod and Ceke border crossings.

Our ability to supply Mongolian coal to our customers profitably and on a large scale

We believe we stand out from our competitors as being one of a few suppliers with an ability to supply Mongolian coking coal on a large scale and profitably to major steel makers and coke plants as far as 2,000 km away from the border crossings from which we operate, and to do so in a cost-effective manner. We are able to do this by utilising our logistical expertise to procure large-scale and cost-effective transportation capacity through third parties to deliver goods to our customers.

Our significant coal processing capacity

We believe the strategic location of our coal processing plants and our large-scale coal processing capacity are our critical strengths. We have two coal processing plants, one in Urad Zhongqi along the transportation route connecting Gants Mod border crossing and Baotou and another one in Ceke.

As at 30 June 2010, the Urad Zhongqi coal processing plant had an annual processing capacity of 4.0 mtpa and the Ceke coal processing plant had an annual processing capacity of 1.2 mtpa.

We believe our capability to process raw coking coal sourced from various mines has helped us stand out from other coal suppliers in China by offering our customers with a variety of coking coal products to suit their distinctive needs. Through expansion of our coal processing capacity strategically located across China, we believe we are able to provide value-added services to our customers located in a broader geographical coverage and to capitalise on the attractive growth opportunities in China's coking coal market.

We have established long-term and strategic relationships with a number of mining companies globally

We have secured coking coal supplies through long-term supply agreements with coal mining companies and operators in Mongolia for offtaking agreed amounts of coal produced by them. We started our cooperation with our Mongolia-based suppliers in 2006, being one of the first to do so on a large scale. We have established strong relationships with a number of Mongolia-based and global suppliers. Since our entry into the Mongolian market in 2006, the total Mongolian coal imported into China increased from approximately 2.4 mt in 2006 to approximately 6.0 mt in 2009. We also believe that we are one of the major customers of our Mongolia-based suppliers taking into account our market position in terms of Mongolian coal imported into China. Our main Mongolia-based suppliers are all leading mining companies in Mongolia. We also have in place strategic alliance agreements with two of our main Mongolia-based suppliers to ensure our stable supply of coking coal.

We secure our seaborne coal supply from a number of international coal mining companies and operators in Australia, the US, Canada and Russia, such as Peabody Energy, Anglo Coal, SUEK AG and Marubeni Corporation. We have also entered into a non-binding strategic cooperation agreement with Marubeni Corporation where we agree to develop our cooperation on coal business.

Our established relationships and our market position, particularly with respect to Mongolian coking coal, contribute to our ability to secure a stable supply of high-quality coking coal from around the world.

We have established strong relationships with some of the leading steel makers and coke producers in China

We are able to source a range of Mongolian coking coal, most of which can be substituted for domestically produced high-quality coking coal. Together with a steady supply of seaborne coal, we are able to supply our customers with a variety of coking coal products at competitive prices. We believe this ability gives us an advantage compared to other coal suppliers in China who focus principally either on seaborne coal or land-borne coal. Through this "one-stop shop" solution and our value-added coal processing services, we have been able to build a stable and growing customer base. Our customers include some of the largest steel makers and coke producers in China.

We have entered into long-term strategic alliance agreements and memoranda with a number of our customers where we have agreed with such customers to supply different types of coal possessing specific characteristics required by such customers in the future, with the actual volume and price to be determined at a later date based on their actual needs and our production capacity. We believe that the strategic alliance agreements and memoranda entered between us and our customers as well as the recurrent business we have with our major customers since the establishment of our relationships with them, demonstrate our customers' confidence in us and our ability to supply coking coal products with consistent physical characteristics.

We have an experienced management team with a proven track record and outstanding execution capabilities

Our management team, which is built around our founder, Chairman and Chief Executive Officer, Mr. Wang, consists of seasoned managers with diverse skill sets, extensive international working experience and domestic know-how in natural resources and transportation industries. Mr. Wang himself has over 20 years of international commodities business experience, including importing oil and petrochemical products from Russia and Mongolia into China. The core members of our management team, comprising Mr. Wang, Ms. Zhu Hongchan, Mr. Yasuhisa Yamamoto, Mr. Apolonius Struijk and Mr. Cui Yong, have spent on average more than nine years with the Winsway Group.

In early 2010, HOPU, Minmetals, Silver Grant and ITOCHU became our investors and each of HOPU, Minmetals and Silver Grant has appointed a director representative to our Board. As a result, our Board has been able to benefit from the industry and financial expertise these investors can bring to us.

OUR BUSINESS STRATEGIES

Our vision is to become the leading gateway to the coking coal market of China by providing global premium coking coal products and solutions to China's steel industry through our integrated end-to-end service platform. We plan to accomplish our goal through the following strategies:

Strengthening our leading position in supplying Mongolian coking coal through further infrastructure investments and replicating our successful model at other Sino-Mongolian border crossings with further enhanced facilities

We intend to make further investments in infrastructure to facilitate increased volumes of imported coking coal from Mongolia to China. For example, we are in discussions to form a joint venture to build a heavy-duty road connecting Tavan Tolgoi to Gashuun Sukhait in Mongolia. We are also at the initial stage of planning the construction of conveyor belt systems which will connect our Gants Mod and Ceke logistics parks to the contiguous lands in Gashuun Sukhait and Shivee Khuren respectively in Mongolia to enhance our Sino-Mongolian border crossing efficiency and capacity. The construction and operation of these conveyor belt systems would be subject to the receipt of necessary governmental and regulatory approvals in both China and Mongolia.

In addition to the border crossings at Gants Mod and Ceke, we plan to replicate our operational model at other Sino-Mongolian border crossings, starting with Erlianhaote, and we are further exploring the possibility of expanding to Mandula and Zhu'engadabuqi in the future. The proposed railway logistics centres at Mandula and Zhu'engadabuqi are dependent on the development of the railways connecting Mandula and Zhu'engadabuqi respectively to the PRC railway network by the relevant PRC governmental departments and authorities. As far as we are aware, the connecting railways are currently in the planning stage, and their actual completion dates are uncertain. We also plan to invest in key infrastructure including railway logistics centres at these border crossings to capitalise on expected increased imports of natural resources from Mongolia into China.

Capitalising on expected future flows of Russian coking coal into China by replicating our successful Mongolian business model at the Chinese side of key Sino-Russian border crossings with further enhanced facilities

To facilitate the future transportation of Russian coal to China, we plan to construct infrastructure including logistics parks, railway logistics centres and coal processing plants, each of which is expected to have an initial coal processing capacity of 5.0 mtpa at the Chinese side of two key Sino-Russian border crossings, Manzhouli and Suifenhe. We also plan to leverage our management's extensive experience acquired through importing oil and petrochemical products from Russia in order to secure stable coal supplies. For example, we plan to form long-term strategic cooperation relationships with key Russian coal producers like SUEK AG and Mechel, who are already our suppliers. We also intend to further develop our relationship with Chinese railway authorities in order to facilitate transportation of Russian coal into China and, through our existing sales network in China, to promote Russian coking coal to Chinese steel makers and coke plants.

Further securing Chinese domestic railway capacity by becoming a strategic partner with Chinese railway authorities and a key stakeholder in the supply chain

We believe that our leading position in supplying Mongolian coking coal and potential expansion into Russian coal can be strengthened by further securing transportation capacity within China's national railway system. To that end, we have subscribed for a 5% equity interest in Xixiaozhao Gants Mod Railway Co., Ltd., a joint venture company with Hohhot Railway Bureau and other third parties which will construct a railway connecting Xixiaozhao to Gants Mod, expected to be completed in 2011. Further, we also plan to undertake the following:

- developing and operating, jointly with Hohhot Railway Bureau, the primary regulator and operator of a number of China's most important coal transportation railways in northern China, railway logistics centres at five Sino-Mongolian border crossings, Gants Mod, Ceke, Erlianhaote, Mandula and Zhu'engadabuqi;
- developing jointly with Hohhot Railway Bureau two inland railway logistics centres in Inner Mongolia, at Urad Zhongqi and Jining;
- developing jointly with another railway bureau logistics parks and railway logistics centres at the Chinese side of two Sino-Russian border crossings, Manzhouli and Suifenhe; and
- investing jointly with Hohhot Railway Bureau in railway rolling stock and maintenance facilities.

As at the Latest Practicable Date, Hohhot Railway Bureau and we invested in five joint venture companies, Bayannao'er Winsway, Ejinaqi Winsway, Erlianhaote Haotong, Urad Zhongqi Haotong and Inner Mongolia Hutie Winsway Logistics, for the purpose of developing and operating railway logistics centres at Gants Mod, Ceke, Erlianhaote, Urad Zhongqi and Jining respectively. We own a 51% equity interest and have majority board representation in each of these joint venture companies. We believe that our cooperative arrangements with the Hohhot Railway Bureau will improve our logistics capability.

Further expanding our coal processing capacity

To enable us to provide a broader range of coking coal and more value-added services to our customers, we plan to expand our coal processing capability by way of capacity expansion at our existing coal processing plants and development of new coal processing plants at various strategic locations.

Further securing our supply by entering into long-term offtake contracts and selectively pursuing opportunities to acquire upstream resources

We are in discussion with Mongolia-based coal producers to secure further long-term supply agreements to offtake additional coal in line with our business expansion and expected increase in their production volume. Meanwhile, we are exploring joint venture and acquisition opportunities in upstream resources to secure cost-effective, long-term coking coal supply. This includes our recent acquisition of Polo Resources Coóperatief's 50% interest in the Peabody-Winsway JV, the 100% holder of Peabody-Winsway Mongolia, a Mongolian legal entity engaging in coal exploration and mining in Mongolia. In total, Peabody-Winsway Mongolia holds 50 coal-related mineral licences as at the Latest Practicable Date. As of the Latest Practicable Date, we have not entered into any agreement or negotiation, nor do we have any definite plans at present, in relation to any potential acquisition of upstream coal resources save for our investment in Peabody-Winsway JV.

We aim to develop a Russian coal procurement business by replicating our Mongolian model and exploiting Mr. Wang's extensive experience in importing oil and chemical and other commodity products from Russia to China. We will also explore acquisition opportunities to secure upstream coal resources in Russia.

In order to complement our supply of Mongolian coking coal, we have established a presence in Singapore, Brisbane and Hong Kong to exploit seaborne market opportunities. We plan to establish a long-term supply relationship with our seaborne coal suppliers to offtake their coal products to secure our seaborne supplies and we will also pursue upstream investment opportunities relating to seaborne supplies.

Expanding our presence in China sea ports

We plan to further strengthen our ability to provide a variety of products to satisfy different quality specifications required by our customers. To that end, we plan to construct coal processing facilities at Bayuquan port and Longkou port and explore possibility of constructing a coal processing plant at Yangkou port. We also plan to invest in docking facilities dedicated to coal transportation and shipment in Longkou port. We expect Bayuquan and Longkou ports primarily to serve as receiving ports for coal from Russia and to also service the Northeast China and Shangdong province markets.

The coal processing facilities at Bayuquan and Longkou ports are each expected to have an initial coal processing capacity of 4.0 mtpa. We expect the coal processing plant at Bayuquan and Longkou ports, when completed, to also serve as important contributors to our value chain due to their strategic location and proximity to our key markets in Hebei province and other coastal regions in China.

Exploring new markets

To increase penetration of our products, we plan to continue to expand our sales network to cover the major steel makers and coke plants in China. We conducted a one-off export sale to Japan in 2008 and are currently exploring further opportunities in Japan through our internal feasibility studies with a view to undertaking more export sales to Japan in future. At the same time, we are also conducting preliminary assessment on potential opportunities in India although no feasibility study has been performed on the Indian market as at the Latest Practicable Date. As we are still at a preliminary stage of our business expansion to these new markets we have not engaged any external party to conduct any evaluation/feasibility study. We believe our "one-stop shop" coking coal supply solution to our customers is critical to our success. As a result, we will cater to our customers' needs by continuing to develop a broader range of standardised coking coal products.

OUR OPERATION

Our principal business involves the procurement of coking coal from around the world, particularly from Mongolia and the provision of value-added services to our customers in China. These services include sourcing, transportation, storage, processing and sale of coking coal. We have established an integrated end-to-end service platform comprising our logistics parks and border-crossing infrastructure and coal processing plants and road and railway transportation capabilities through our arrangements with third-party transportation companies. We believe this platform allows us to secure stable and cost-effective supplies and has enabled us to become a long-term supplier to steel makers and coke plants in various parts of China.

We source a substantial portion of our coking coal from our Mongolia-based suppliers, and through arrangements between our suppliers, a third-party transportation company and ourselves, Mongolian coal is transported directly from our suppliers' mines to our logistics parks in Gants Mod and Ceke. A substantial portion of our Mongolian coking coal is processed at our coal processing plants located at Urad Zhongqi and Ceke, and a small portion is sold directly to our customers.

Seaborne coal we source from countries such as Australia, the US, Canada and Russia is usually delivered to Jingtang, Rizhao or Caofeidian ports. Our customers usually take delivery from these ports or, if required, we arrange delivery by road and rail transportation to our customers.

PROCUREMENT AND SUPPLIERS

Overview

Based on AME estimates and our internal data, in 2009, we accounted for approximately 55.5% of the total Mongolian coal imported into China by volume. In the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we procured approximately 1.0 mt, 1.3 mt, 7.2 mt and 4.4 mt of coal, respectively, with a breakdown by source as follows:

	Year ended 31 December			Six months ended
	2007	2008	2009	30 June 2010
Origins of coal	Volume (mt)	Volume (mt)	Volume (mt)	Volume (mt)
Mongolia	1.0	1.3	3.8	2.4
Seaborne	-	-	3.4	2.0
Total	1.0	1.3	7.2	4.4

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, coal purchases from our five largest suppliers accounted for 72.9%, 71.1%, 64.7% and 46.8% of our total purchases, respectively.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, purchases from our single largest supplier accounted for 66.1%, 34.4%, 20.7% and 11.8% of our total purchases, respectively.

None of our Directors or their associates or, to the best knowledge of our Directors, our existing Shareholders who own more than 5% of our issued capital, has any interest in our five largest suppliers.

Suppliers in Mongolia

Due to its large, untapped and high-quality coking coal resources, low production costs and close proximity to China, Mongolia has in recent years emerged as one of the major coking coal exporters to China. Most of the Mongolian coal resources are situated in the eastern and southern regions of Mongolia. Those include Tavan Tolgoi located approximately 270km from the Gants Mod border crossing, and the Nariin Sukhait deposit, located approximately 40km north of the Ceke border crossing.

We started our supply relationship with our largest Mongolia-based supplier in 2006 and have since expanded our supplier base and established supply relationships with three other leading Mongolia-based coal mining companies during the Track Record Period.

At the end of each year we discuss with our suppliers their production and development plans for the following year. After taking into consideration production plans and requirements of our customers, transportation and our coal processing capacity, we reach an understanding with our customers on the price, volume and specifications of the coking coal to be supplied for the following year. Our management and procurement and sales teams will work closely to determine the yearly supply plan with our main Mongolia-based suppliers around the same time the yearly sales plan is determined, although the timing of signing of formal supply contracts may not match that of the sales contracts. In the past, we have also procured an insignificant volume of Mongolian coal from other suppliers on an ad hoc and one-off basis in order to satisfy changing customer demands. We do not expect the volume of any such procurement to be material going forward.

As at the Latest Practicable Date, we have entered into the following contracts with three Mongolia-based suppliers:

(i) Strategic alliance agreement and offtake contract with our largest Mongolia-based supplier

We entered into a binding coal supply contract with our largest Mongolia-based supplier which has the right to supply coal from two pits located in Tavan Tolgoi ("**Supplier No. 1**") for the supply of 1.0 mt to 4.0 mt of coal in each year, also known as coal offtake contract ("**Offtake Contract No. 1**"). The Offtake Contract No. 1 expires on 28 October 2010.

Consistent with our procurement policy and past practices, we discuss and agree with the Supplier No. 1 our supply plan and delivery schedule for the following year at the end of each year, and communicate from time to time should any adjustment to the plan or schedule need to be made. We are not committed to purchasing any coal if the price cannot be agreed.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we procured approximately 1.0 mt, 1.1 mt, 1.8 mt and 0.8 mt of coal from the Supplier No. 1.

We further entered into a binding ten-year strategic cooperation agreement entered in March 2010 with another company ("**New Supplier**") which granted the Supplier No. 1 the right to mine at the same two pits located in Tavan Tolgoi. Under that cooperation agreement, the New Supplier has committed to sell us at least 5.0 mt of raw coking coal per year or 50% of its total annual output, whichever is the higher, with an increase in volume each year based on actual production. The price will be set annually between us and the New Supplier each year with reference to the Chinese market price of coking coal. We are not committed to purchasing any coal if the price cannot be agreed. We have an understanding with the Supplier No. 1 and the New Supplier that, and pursuant to the strategic cooperation agreement between the New Supplier and us, we will enter into a new coal offtake agreement with the New Supplier upon the expiration of the Offtake Contract No. 1 on 28 October 2010. We consider the risk of a new supply agreement not being signed with the New Supplier upon the expiry of the Offtake Contract No. 1 not to be material.

(ii) Strategic alliance agreement and coal offtake contract

We have also entered into a binding strategic alliance agreement with another Mongolia-based supplier ("**Supplier No. 2**") under which the Supplier No. 2 agreed that up to 2.0 mt of coking coal will be supplied to us each year from 2010 to 2013, with an increase in volume each year based on actual production. The price will be set between the Supplier No. 2 and us based on the prevailing market price. We are not committed to purchase any coal if the price cannot be agreed.

We currently have in place a binding coal supply contract with the Supplier No. 2 for the supply of 1.5 mt to 2.0 mt of coal for the one year ending 1 February 2011, also known as coal offtake contract, under which the coal transportation and export plan for the Supplier No. 2 during the term of the contract has been set out. The sales price for the coal to be supplied is set out in the contract. Such price shall be subject to quarterly adjustment depending on market conditions.

(iii) Offtake contract

We currently have in place a binding coal supply contract with a Mongolia-based supplier ("**Supplier No. 3**") for the supply of 5,700 tonnes of coal each day up to 31 December 2010. Our relationship with that Mongolia-based supplier can be traced back to 2008. The total amount of coal to be supplied and delivery schedule has been amended from time to time by mutual agreement between the Supplier No. 3 and us. Sales price in respect of the coal to be supplied will be amended each time the contract is extended to reflect the agreement of the parties.

We have also entered into a non-binding memorandum of understanding for long-term strategic cooperation with a potential Mongolia-based supplier on 7 July 2010 for the supply of coking coal during year 2010 to 2012, and in particular the coking coal to be supplied in years 2010, 2011 and 2012 are expected to be up to 1.0 mt, 3.0 mt and 5.0 mt respectively, with an increasing volume based on status of production. The price will be set annually between the potential supplier and us based on the international market price of coking coal.

We usually enter into tri-partite agreements with our suppliers and Moveday, an Independent Third Party, for the delivery of coal from the mine mouth to the relevant border crossing. These tri-partite agreements will typically set out the term, transportation price, pick-up and delivery points, and other responsibilities of the parties. In some cases, our Mongolia-based suppliers may choose to arrange delivery of our coal supply directly by themselves. Our purchase price usually includes both mine mouth price and transportation cost from the mine mouth to the relevant border crossings. We usually pay the mine mouth purchase price and the transportation cost directly to the suppliers and the transportation company, respectively. Payments to our Mongolia-based suppliers are normally made by telegraphic transfer or letter of credit in US dollars. Payments to transportation companies are normally made by telegraphic transfer.

We believe our ability to secure a stable supply of coal from our Mongolia-based suppliers stems from the following: (i) our logistics parks located at Gants Mod and Ceke, located approximately 270km from the Tavan Tolgoi and approximately 40km from the Nariin Sukhait deposit, respectively, where our suppliers are operating; (ii) our ability to transport coal from Mongolia to the border crossings via road transportation arranged through our suppliers and a third-party transportation company; and (iii) our considerable scale and our strong relationships with our main Mongolia-based suppliers. We have not experienced any material disputes related to coal supplies during the Track Record Period.

Other potential suppliers

We have been actively seeking other potential coking coal suppliers in Mongolia which will provide us with potential to further expand our business. Leveraging on our integrated end-to-end service platform and reputation as a trusted coking coal offtaker in Mongolia, we believe we will continue to be one of the preferred customers for our existing suppliers and be able to attract further supplies from the growing number of Mongolia-based coking coal producers and operators.

Procurement and Pricing

In addition to the yearly sales plan which will be determined around the same time the yearly supply plan with our Mongolia-based suppliers are determined, our procurement decisions are also affected by various factors, including: (a) overall supply of Mongolian coal and the likely demand from our target market; (b) characteristics and specifications of the coal to be supplied; (c) prevailing market prices of comparable coking coal in the Chinese local market; and (d) prevailing transportation and other relevant costs.

Suppliers of seaborne coal

Other than Mongolian coal, we also started to procure seaborne coal, which consists solely of hard coal, from 2009. We consider the seaborne coal market an integral part of our business strategy and provides synergy to our business as we consider our ability to produce a range of coal products with customised specifications at competitive pricing to suit our customers' needs is critical to maintaining a solid and stable relationship with our customers. Further, we recognise that the opportunity in the seaborne coal market which will not only allow the Group to supply coal with various different characteristics, the availability and accessibility of seaborne coal will also contribute to our total turnover and enhance the return to our shareholders. We primarily sourced our seaborne coal from countries such as Australia, the US, Canada and Russia. We have secured supply from international coal mining companies and operators such as Peabody Energy, Anglo Coal, SUEK AG and Marubeni Corporation in year 2010 through a combination of spot contracts and term contracts. Our term contracts are typically for a term of up to a year, and provide for shipments in accordance with a provisional delivery schedule, with deliveries to be made on mutually agreeable laydays. Depending on our negotiations with our suppliers, prices may be fixed for the entire tonnage agreed for, or may be fixed for a specified number of shipments with prices for additional to be further agreed. Payment is usually made in respect of each shipment against delivery.

We have also entered into a non-binding strategic cooperation agreement with Marubeni Corporation where we agree to develop our cooperation on coal business. Under our agreement, Marubeni Corporation will supply us with various types of coal, including coal produced in Australia, Canada, New Zealand, the US, Russia, and will purchase from us coal produced in China, Mongolia and Russia, with a total target annual sales and purchase volume of 1.3 mt to 2.3 mt of coal under contracts entered into or to be entered into between 1 April 2009 and 31 March 2011.

Most of our purchases of seaborne coal are either on an FOB basis at the loading port, with our overseas suppliers paying for all the costs before loading whereas we are responsible for the costs of ocean freight, insurance and other costs, or on a CIF or CFR basis at the disembarkation port, with our overseas suppliers paying for all costs before delivery.

Payments are usually made by way of letter of credit or telegraphic transfer and are all settled in US dollars.

Procurement and Pricing

Our overseas coal procurement department sources coal primarily through direct contact with coal mining companies and operators and formulates our procurement policy for seaborne coal based on the pricing of coal in the international markets, taking into consideration various factors including (a) current market demand and supply and the anticipated market trends in the Chinese market; and (b) characteristics and specifications of the coal to be supplied. Our usual practice is to place order for seaborne coal in accordance with orders or requests from our customers. Upon receipt of orders or requests from our customers, we will approach our suppliers which are able to supply the required coal to discuss the purchase price. As we are sourcing our seaborne coal supply from various suppliers from several countries, we believe we are able to source for coal possessing characteristics sought by our customers in the amount required from the most competitive supplier, or if required, from a combination of several suppliers. Further as the international coking coal market is a mature and established market, we are confident that we will be able to find alternative suppliers to satisfy our customers' requirements should the need arise. The purchase price will typically be determined based on the prevailing international coal price and after taking into account the delivery schedule, our profit margin and other relevant costs, such as import agent's fees and transportation costs. We have also adopted certain preventive measures to minimise our exposure in respect of price fluctuation. In the past, in most cases we were able to carry out our seaborne coal trade by committing to the purchase price and amount with our suppliers to ensure that we are able to supply coal possessing characteristics sought by our customers in the amount required after receipt of orders or requests from our customers.

We generally will not enter into a trade transaction if the market or other prevailing conditions render the trade unprofitable or not commercially viable for us. Through our international procurement team's experience, market knowledge and extensive network, we have been able to source seaborne coal at generally competitive levels. For risks associated to fluctuation in coking coal price and associated costs, please refer to the sections headed "Risks Factors — Risks Related to Our Business and Our Strategy — Our results of operations may be affected by a number of factors beyond our control, including the average selling prices, fluctuations in raw material prices and sales volumes of our processed and raw coking coal products" and "Risk Factors — Risks Related to Our Business and Our Strategy — We generate a part of our turnover from seaborne coal trade. Fluctuation in international coking coal price or freight cost may potentially cause our seaborne coal business to be unprofitable" in this prospectus.

Upstream investments

In order to enhance our ability to obtain a steady supply of high-quality coking coal in the medium to long term, we also plan to selectively pursue investments in minority interests in upstream mining assets. On 29 June 2010, we acquired a 50% interest in Peabody-Winsway JV, a joint venture company with Peabody Holland (a subsidiary of Peabody Energy), from Polo Resources Coóperatief, for a consideration of US$35 million and replaced Polo Resources Coóperatief as one of the two shareholders of Peabody-Winsway JV. The total consideration payable was arrived at based on commercial negotiations, with reference to factors including the net asset value of Peabody-Winsway JV and the strategic value of the various licences held by Peabody-Winsway JV. Out of the US$35 million consideration, US$15 million has been paid in cash and the remainder will be settled by payment in cash within three Business Days after the Listing Date or, if the Listing does not take place within 12 months from 29 June 2010, on the Business Day immediately following such 12-month period. In addition, we agreed to pay to Peabody Energy a facilitation fee of US$10 million which is to be satisfied by the issue to Peabody Energy of the Peabody Energy Consideration Shares if the Listing takes place within 12 months from 29 June 2010 or by cash if the Listing does not take place within such 12-month period under a cooperation and facilitation fee agreement dated 29 June 2010, pursuant to which Peabody Holland, amongst other things, consented to and waived pre-emption rights and other restrictions on transfer and rights of veto in respect of the transfer of 50% interest in Peabody-Winsway JV by Polo Resources Coóperatief. Since the applicable percentage ratios in Rule 14.07 of the Listing Rules in respect of the acquisition of the Peabody-Winsway JV are less than 25%, the acquisition of the Peabody-Winsway JV should not be regarded as a material business of our Company, nor should it be classified as a major transaction or very substantial acquisition if the acquisition had been made by the Company at the date of the Listing application. Accordingly, no pre-acquisition financial information shall be required to be disclosed in this prospectus pursuant to Rule 4.05A of the Listing Rules.

Assuming the issuance of all the Peabody Energy Consideration Shares based on an Offer Price of HK$3.875 (being the mid-point of the indicative range of the Offer Price) upon Listing, there will be 20,040,516 Shares issued to Peabody Energy Coóperatief as the Peabody Energy Consideration Shares, which will represent 0.53% of the Shares in issue upon Listing (taking no account of any Shares that may be allotted and issued upon the exercise of any options granted under the Pre-IPO Option Scheme).

Under the relevant joint venture agreement between us and Peabody Holland, the management of Peabody-Winsway JV is vested in the board of directors, and each of Peabody Holland and our Company is entitled to appoint up to two directors to the board. The board currently consists of four directors, with two directors appointed by us and two directors appointed by Peabody Holland. Peabody Holland is responsible for managing, overseeing, coordinating and providing management services to the joint venture company and is entitled to appoint an appointee to oversee such services and to manage, control, administer and operate the business of the joint venture company and report regularly to the board of directors. The shareholders may, but are not obliged to, provide funding for any future cash needs by shareholder loans or subscription for new shares on a pro rata basis. The annual dividend is to be determined by the board of Peabody-Winsway JV and it will be distributed on a pro rata basis. The Peabody-Winsway JV is being accounted for as a jointly-controlled entity of our Company and our investment in the Peabody-Winsway JV is being accounted for using the equity method of accounting.

Peabody-Winsway JV holds, amongst other things, a 100% equity interest in Peabody-Winsway Mongolia, a Mongolian legal entity engaging in coal exploration and mining in Mongolia. In total, Peabody-Winsway Mongolia holds 50 coal-related licences in Mongolia (including 47 exploration licences and three mining licences). The coal exploration and mining licenses held by Peabody-Winsway Mongolia cover land in four main areas in Mongolia, with a total coverage area of approximately 7,210 square kilometres, which includes a large area in the strategically important South Gobi Coal Basin (which is in relatively close proximity to the Gants Mod and Ceke border crossings).

The table below sets out selected information on the coal-related licences held by Peabody-Winsway Mongolia:

	License No.	Approximate Mining Area Covered (hectare)	Validity Period		Location of Project		Estimated Investment Cost within the Next 12 Months (US$)	Proposed Method of Mining	Granting Authority	Fees Paid for Application/ Acquisition (US$)	Annual Fee Paid by Peabody-Winsway JV (US$)	Stage of Exploration	Approximate Costs Incurred as at the Latest Practicable Date (US$)
			Issue Date	Expiring Date	Province	SubProvince							
							TSAIDAM COAL FIELD						
1	**9884X**	65.37	05/26/05	05/26/14	Tuv	Bayanjargalan	22,415	Open-cut	Minerals Resource Authority (“**MRA**”)	286,666	65	Early stage of exploration. No drilling conducted	21,565
2	**7715X**	624.77	06/11/04	06/11/13	Tuv	Bayanjargalan	23,093	Open-cut	MRA	222,222	1,938	Early stage of exploration. No drilling conducted	24,927
3	**10715X**	486.77	06/13/05	06/13/14	Tuv	Bayan	23,679	Open-cut	MRA	343,234	487	Early stage of exploration. No drilling conducted	128,554
4	**3066A**	81.84	03/19/01	03/19/31	Tuv	Bayan	50,410	Open-cut	MRA	559,611	409	Advanced stage of exploration with defined resources	1,364,660
5	**7863A**	202.46	03/19/01	03/19/31	Tuv	Bayan	51,818	Open-cut	MRA	559,611	1,012	Advanced stage of exploration with defined resources	834,722
							ERDS BASIN						
6	**11162X**	19875.92	01/19/06	01/19/15	Dornogovi	Altanshiree	41,064	Open-cut	MRA	1,260,000	19,884	Past drilling conducted	231,962
7	**9068X**	31366.74	01/03/05	01/03/14	Dornogovi	Ikh Khet	96,412	Open-cut	MRA	250,000	31,392	Past drilling conducted	251,013
8	**9739X**	23446.82	05/05/05	05/05/14	Dornogovi, Khentii	Ikh Khet, Altanshiree, Tamir	72,938	Open-cut	MRA	250,000	23,427	Past drilling conducted	201,605
9	**7457X**	132.81	05/12/04	05/12/13	Dornogovi	Ikh Khet	1,710	Open-cut	MRA	3,200,000	1,198	Past drilling conducted	562,585
10	**13045X**	8310.7	12/12/07	12/12/16	Dornogovi	Altanshiree	18,655	Open-cut	MRA	8,000,000	9,318	Past drilling conducted	620,669
							EREEN						
11	**8766A**	35.31	08/26/03	08/26/33	Bulgan	Saihan	10,177	Open-cut	MRA	4,000,000	177	Reclamation monitoring stage	3,021,340
12	**12764X**	21485.63	10/03/07	10/03/16	Bulgan	Saikhan	68,973	Open-cut	MRA	350,000	22,507	Past drilling conducted	791,611
13	**13380X**	683.52	03/19/08	03/19/17	Bulgan	Gurvanbulag	3,679	Open-cut	MRA	41,111	205	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	5,836
14	**13381X**	1752.84	03/19/08	03/19/17	Bulgan	Gurvanbulag	5,817	Open-cut	MRA	41,111	526	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	6,464

	License No.	Approximate Mining Area Covered (hectare)	Validity Period		Location of Project		Estimated Investment Cost within the Next 12 Months (US$)	Proposed Method of Mining	Granting Authority	Fees Paid for Application/ Acquisition (US$)	Annual Fee Paid by Peabody-Winsway JV (US$)	Stage of Exploration	Approximate Costs Incurred as at the Latest Practicable Date (US$)
			Issue Date	Expiring Date	Province	SubProvince							
								SOUTH GOBI					
15	**12483X**	22071.01	06/11/02	06/11/11	Umnugovi	Noyon	128,849	Open-cut	MRA	352,000	33,134	Past drilling conducted	1,409,689
16	**10566X**	25782.02	10/03/05	10/03/14	Umnugovi	Gurvantes	107,469	Open-cut	MRA	2,200,000	25,796	Early stage of exploration, currently conducting geophysical mapping. No drilling conducted	276,976
17	**13353X**	4100	03/05/08	03/05/17	Umnugovi	Gurvantes	10,512	Open-cut	MRA	420,000	1,231	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	29,408
18	**12000X**	7364.56	09/12/06	09/12/15	Umnugovi	Gurvantes	-	Open-cut	MRA	420,000	7,370	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	30,688
19	**13535X**	6486.76	04/11/08	04/11/17	Umnugovi	Gurvantes	15,285	Open-cut	MRA	420,000	1,948	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	26,433
20	**13418X**	14633.1	03/25/08	03/25/17	Umnugovi	Bayandalai, Khurmen	-	Open-cut	MRA	420,000	4,392	Early stage of exploration, currently conducting geophysical mapping. No drilling conducted	54,655
21	**13600X**	8991.63	04/23/08	04/23/17	Umnugovi	Gurvantes, Noyon	-	Open-cut	MRA	444,444	2,697	Early stage of exploration, currently conducting geophysical mapping. No drilling conducted	28,748
22	**13601X**	15381.25	04/23/08	04/23/17	Umnugovi	Noyon	65,375	Open-cut	MRA	444,444	4,622	Early stage of exploration, currently conducting geophysical mapping. No drilling conducted	44,511
23	**10413X**	72928.82	09/07/05	09/07/14	Umnugovi	Bayan-Ovoo, Tsogt Tsetsii	390,266	Open-cut	MRA	2,777,777	73,017	Past drilling conducted	723,997
24	**4520X**	30107.53	06/11/02	06/11/11	Umnugovi	Noyon	310,985	Open-cut	MRA	333,235	45,191	Past drilling conducted	313,496
25	**4522X**	52023.94	06/11/02	06/11/11	Umnugovi	Nomgon, Khan Khongor	230,193	Open-cut	MRA	333,235	78,290	Past drilling conducted	1,016,901
26	**5254X**	20574.25	12/28/02	12/28/11	Umnugovi	Khan Khongor	135,193	Open-cut	MRA	333,235	30,782	Past drilling conducted	230,294
27	**13212X**	27535.15	01/29/08	01/29/17	Umnugovi	Noyon	89,683	Open-cut	MRA	777,778	8,265	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	105,148

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			Issue Date	Expiring Date	Province	SubProvince							
28	**13706X**	5625.31	05/15/08	05/15/17	Umnugovi	Nomgon	-	Open-cut	MRA	777,777	1,689	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	12,566
29	**11180X**	58737.19	01/23/06	01/23/15	Umnugovi	Bayandalai	243,960	Open-cut	MRA	1,200,000	58,779	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	286,650
30	**11468X**	72382.73	03/03/06	03/03/15	Umnugovi	Khankhongor	218,601	Open-cut	MRA	1,250,000	73,574	Past drilling conducted	700,533
31	**12789X**	2253.79	10/09/07	10/09/16	Umnugovi	Nomgon	6,535	Open-cut	MRA	1,250,000	3,255	Past drilling conducted	101,701
32	**13389X**	38531.34	03/20/08	03/20/17	Umnugovi	Gurvantes	-	Open-cut	MRA	200,000	1,054	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	75,239
33	**13349X**	3266.96	03/05/08	03/05/17	Umnugovi	Gurvantes	-	Open-cut	MRA	200,000	981	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	8,015
34	**13350X**	1256.57	03/05/08	03/05/17	Umnugovi	Gurvantes	-	Open-cut	MRA	200,000	377	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	6,169
35	**13397X**	5021.49	03/20/08	03/20/17	Umnugovi	Gurvantes	-	Open-cut	MRA	200,000	1,508	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	1,227
36	**13396X**	2092.3	03/20/08	03/20/17	Umnugovi	Gurvantes	-	Open-cut	MRA	200,000	628	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	6,401
37	**13398X**	3511.44	03/20/08	03/20/17	Umnugovi	Gurvantes	-	Open-cut	MRA	300,000	1,054	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	6,894
38	**13692X**	26720.18	05/13/08	05/13/17	Umnugovi	Khan Khongor	128,276	Open-cut	MRA	455,555	8,022	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	105,632
								NORTH WEST					
39	**9837X**	3001.41	05/20/05	05/20/14	Uvs	Umnugovi	11,316	Open-cut	MRA	1,300,000	3,003	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	113,298

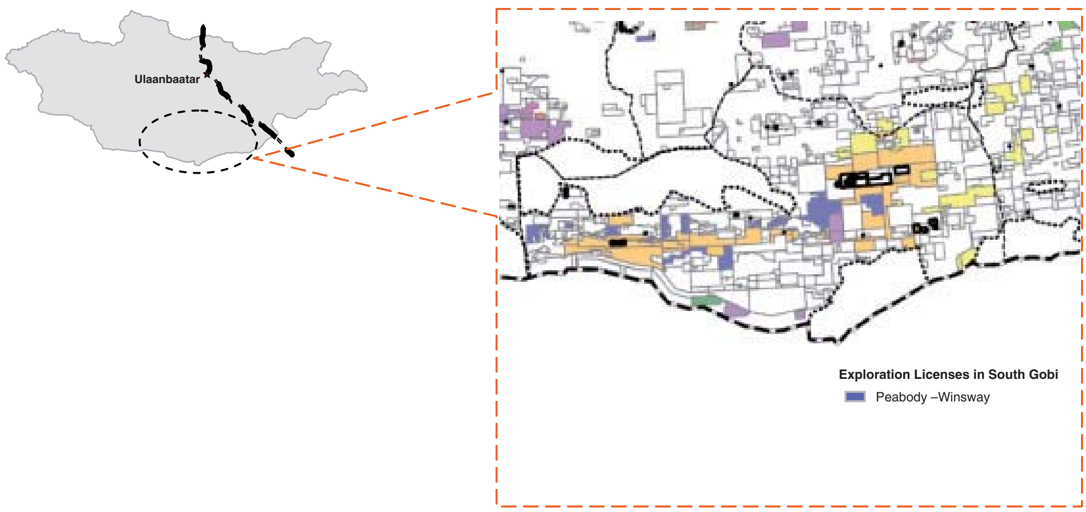
	License No.	Approximate Mining Area Covered (hectare)	Validity Period		Location of Project		Estimated Investment Cost within the Next 12 Months (US$)	Proposed Method of Mining	Granting Authority	Fees Paid for Application/ Acquisition (US$)	Annual Fee Paid by Peabody-Winsway JV (US$)	Stage of Exploration	Approximate Costs Incurred as at the Latest Practicable Date (US$)
			Issue Date	Expiring Date	Province	SubProvince							
40	**13521X**	4881.22	04/10/08	04/10/17	Uvs	Umnugovi	12,074	Open-cut	MRA	355,555	1,465	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	20,971
41	**7590X**	102.43	05/28/04	05/28/13	Uvs	Tarialan	1,619	Open-cut	MRA	505,555	1,153	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	50,386
								OTHER					
42	**12930X**	1147.01	11/13/07	11/13/16	Sukhbaatar	Tumentogt	4,321	Open-cut	MRA	43,334	2,148	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	12,366
43	**11353X**	1919.65	02/13/06	02/13/15	Sukhbaatar	Bayandelger	5,151	Open-cut	MRA	43,334	1,921	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	21,404
44	**11063X**	11.06	01/05/06	01/05/15	Sukhbaatar	Sukhbaatar	1,334	Open-cut	MRA	43,332	11	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	25,046
45	**11295X**	2017.87	02/07/06	02/07/15	Govisumber, Tuv	Bayantal, Bayanjargalan	-	Open-cut	MRA	-	2,109	Past drilling conducted	111,486
46	**9116X**	883.89	01/10/05	01/10/14	Ovorkhangei	Khairkhandulaan	4,963	Open-cut	MRA	-	883	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	14,746
47	**13581X**	541.26	04/21/08	04/21/17	Ovorkhangei	Nariinteel	3,394	Open-cut	MRA	300,000	163	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	10,348
48	**13879X**	2219.51	07/16/08	07/16/17	Ovorkhangei	Nariinteel	3,912	Open-cut	MRA	326,389	666	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	39,491

	License No.	Approximate Mining Area Covered (hectare)	Validity Period		Location of Project		Estimated Investment Cost within the Next 12 Months (US$)	Proposed Method of Mining	Granting Authority	Fees Paid for Application/ Acquisition (US$)	Annual Fee Paid by Peabody-Winsway JV (US$)	Stage of Exploration	Approximate Costs Incurred as at the Latest Practicable Date (US$)
			Issue Date	Expiring Date	Province	SubProvince							
49	**13880X**	14460.66	07/16/08	07/16/17	Ovorkhangei	Khairkhandulaan	19,828	Open-cut	MRA	326,389	4,342	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	52,643
50	**13156X**	59396.64	01/10/08	01/10/17	Umnugovi	Bayan-Ovoo, Tsogt Tsetsii	150,365	Open-cut	MRA	702,222	17,834	Early stage of exploration, currently conducting mapping and sampling. No drilling conducted	92,148

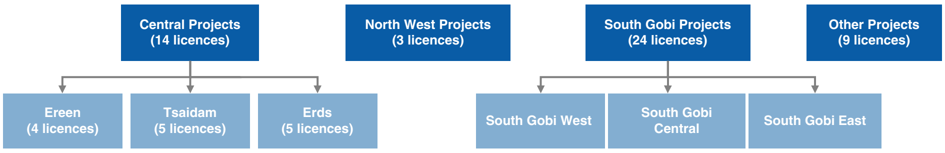
We estimate the investment cost in relation to Peabody-Winsway JV to be contributed by us within the next 12 months to be approximately US$1.40 million. However, the management of Peabody-Winsway JV is unable to determine the actual date for commencement of commercial production in respect of the various exploration or mining licences as commercial production will depend on various factors, including results of exploration, logistics arrangements, the timing of obtaining mining license and actual mine development plan. Based on the experience of the management of Peabody-Winsway JV and the current exploration status of the various coal-related licences, commercial production in the Erds Basin and South Gobi Coal Basin is expected to commence around the end of 2011 and mid 2012, respectively.

The map below illustrates the approximate geographic location of the licensed areas for Peabody-Winsway Mongolia and the licensed areas in the South Gobi Coal Basin:

The map below illustrates the approximate geographic location of the licensed areas of Peabody-Winsway Mongolia in the South Gobi Coal Basin:



Overview of license areas in Mongolia and number of licences held



Peabody-Winsway Mongolia projects in the central and north-western regions of Mongolia are generally thermal coal projects and they are in relatively advanced stages, whilst projects in the South Gobi Coal Basin are still at the preliminary stage in terms of exploration and readiness for production. The South Gobi Coal Basin is known for its huge coal resources, including the Tavan Tolgoi coking coal/thermal coal deposits and the rich deposits in Baruun Nuran, Ovoot Tolgoi and Nariin Sukhait.

Peabody Holland is entrusted with providing management services to Peabody-Winsway JV and its subsidiaries. Under relevant agreements, Peabody Gobi, LLC, a subsidiary of Peabody Holland, has been appointed to provide such management services to Peabody-Winsway Mongolia, and its subsidiaries, MUC Resources, LLC and GraviMag LLC and to designate appointees to manage, control, administer and operate the businesses of Peabody-Winsway Mongolia and its subsidiaries for a fee of US$25,000 per month, adjustable every 12 months. Peabody Gobi LLC will also receive an additional US$5,000 to cover recurring expenses in connection with the performance of the services. Peabody COALTRADE International, LLC, a subsidiary of Peabody Holland, has been appointed as the exclusive sales and marketing representative of Peabody-Winsway JV and its subsidiaries, and is entitled to a commission equal to the greater of 1% of the gross selling price or US$1 per tonne for each tonne of coal sold. Royalties equal to 1% of the total revenue arising from the sale of coal mined under licences currently held by Peabody-Winsway JV and its subsidiaries will be payable to Polo Resources up to an aggregate amount of US$ 50 million. Such royalty payments will terminate in 25 years.

All exploration licenses issued under the Mongolia Minerals Law will not be designated as "strategically important" until they are converted into mining licenses and have a reserve estimate approved by the Mongolia Minerals Professional Council. Out of 50 coal-related licenses held by Peabody-Winsway Mongolia, 47 licences are exploration licences three licences are mining licences. None of these licenses, so far as we are aware, relate to deposits that have been designated as "strategically important" mineral deposits by the Mongolian Parliament.

We believe that our acquisition of a 50% interest in the Peabody-Winsway JV will enhance our ability to obtain upstream coal resources in Mongolia, further complete our value chain and reduce upstream coal supply risk.

LOGISTICS PARKS AND BORDER CROSSING FACILITIES

Logistics parks and border crossing facilities at Sino-Mongolian border

As an important part of our end-to-end service platform, we have built strategic infrastructure at the two major Sino-Mongolian border crossings nearest to the mines of our Mongolia-based suppliers. To date, all our Mongolian coal supply has been delivered into China through the Gants Mod border crossing and the Ceke border crossing.

Trucks from Mongolia and China cannot operate in each other's territory beyond the immediate border crossing areas. Trucks carrying coal from Mongolia can travel directly from the loading points in Mongolia and unload at our logistics park. Our logistics parks serve as a point of delivery for our coal supply from Mongolia, and as logistics hubs which allow us to arrange for the onward transportation of coal in China to our coal processing plants and our customers.

Logistics park at Gants Mod Border Crossing

We started building strategic infrastructure, including a logistics park and border-crossing facilities, at the Gants Mod border crossing in 2007. We are the owner of the land use rights of the land on which the logistics parks are located and all buildings and structures erected thereon. As the owner, we may occupy and use the lands and all buildings and structures, and may at our discretion, grant or authorise third parties the right to use or access to the logistics parks and the buildings and structures erected thereon and if so, with a priority given to our Group companies. As at the Latest Practicable Date, the logistics facilities and services provided in the Gants Mod logistics park, including the stockpile area under customs supervision together with the office building for use by PRC customs, have only been made available to our Group companies. The logistics park comprises an office area, loading facilities for the trucks, a stockpile area under customs supervision together with an office building for use by PRC customs authority, a coal testing centre, staff quarters, commercial lots and a wind shield, occupying a total land area of approximately 666,600 sqm. The Gants Mod border crossing, a tier-one Sino-Mongolian border crossing in Inner Mongolia which is generally open throughout the year, is located approximately 270km from Tavan Tolgoi in Mongolia, one of the world's largest undeveloped coking coal deposits. The stockpile area in the Gants Mod logistics park has a coal storage capability of approximately 1.5 mt. We also own equipment and machinery such as bulldozers, coal piling machines and coal loading machines at the Gants Mod logistics park.

We have a designated access road connecting our logistics park in Gants Mod to the Chinese customs inspection facility, which allows us to efficiently deliver coal to our stockpile area. Our coal supply is primarily delivered to our coal processing plant in Urad Zhongqi which is located approximately 160km south of our Gants Mod logistics park. The Xixiaozhao - Gants Mod railway line which will connect Xixiaozhao, a station on the Baolan line, to Gants Mod is expected to be completed and become operational in 2011.

According to Chinese customs data, the total throughput volume at the Gants Mod border crossing for the year ended 31 December 2009 was approximately 3.2 mt, which we believe represents the optimal throughput capacity of the Gants Mod border crossing at that time. We believe that the current throughput capacity of our logistics park in Gants Mod is dependent on the border-crossing handling capacity at the Gants Mod border crossing, which is currently constrained by a number of factors including the operating hours, customs clearance speed and number of customs clearance lanes. The operating hours at the Gants Mod border crossing have been extended and the total clearance lanes designated for coal transportation have been increased from two lanes to four lanes in year 2010, contributing to an increase in throughput efficiency at the Gants Mod border crossing. Further, based on public information, a new express clearance system has been approved for the Gants Mod border crossing. We expect that upon implementation of the new system, the total time required for clearance for each motor vehicle passing through the Gants Mod border crossing will be reduced. In line with policies of the Chinese government and Mongolian government to expand the throughput capacities at the Gants Mod border crossing, we expect the border-crossing handling capacity at the Gants Mod border crossing to progressively increase in the future.

In May 2010, Hohhot Railway Bureau approved a cooperation arrangement with us to jointly develop and operate railway logistics centres in Gants Mod and a joint venture company, Bayannao'er

Winsway, was incorporated on 14 July 2010. We expect the new railway logistics centre jointly developed by us and Hohhot Railway Bureau, when completed, to significantly increase our access to rail transportation. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

Logistics park at Ceke border crossing

The Ceke border crossing, a tier-one Sino-Mongolian border crossing in Inner Mongolia generally open throughout the year, is located in Ejinaqi county in Inner Mongolia. It is approximately 40km from the Nariin Sukhait deposit in Mongolia. Ceke is currently serviced by two rail lines, the Jiayuguan-Ceke line and the newly built Linhe-Ceke line.

We started building strategic infrastructure, including a logistics park and border-crossing facilities at the Ceke border crossing in 2008 to enhance our border-crossing capability. We are the owner of the land use rights of the land on which the logistics park is located and all buildings and structures erected thereon. As the owner, we may occupy and use the lands and all buildings and structures, and may at our discretion, grant or authorise third parties the right to use or access to the logistics park and the buildings and structures erected thereon and if so, with a priority given to our Group companies. As at the Latest Practicable Date, the logistics facilities and services provided in the Ceke logistics park, including the stockpile area under customs supervision together with the office building for use by PRC customs, have only been made available to our Group companies. Our logistics park currently occupies a total land area of approximately 679,100 sqm. It currently comprises loading facilities for the trucks, a stockpile area under customs supervision together with an office building for use by PRC customs authority, staff quarters and commercial lots. The stockpile area in the Ceke logistics park has a coal storage capability of approximately 1.5 mt. We also own equipment and machinery such as coal loading machines at the Ceke logistics park. We are currently expanding our facilities at the Ceke logistics park, which upon completion will also comprise an office area, a coal testing centre and a wind shield. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

Our logistics park and coal processing plant are located within close proximity to the Ceke train station, which allows us to deliver our products to our customers through the national rail network efficiently.

The existing customs inspection facility at the Ceke border crossing is currently only equipped with one customs clearance lane. After clearing customs, the majority of our raw coal is delivered to our coal processing plants located within our Ceke logistics park or at Urad Zhongqi for processing or be sold directly to our customers.

The total throughput volume at the Ceke border crossing for the year ended 31 December 2009 was 3.6 mt, which we believe represents the optimal throughput capacity of the Ceke border crossing at that time. We believe that the current throughput capacity of our logistics park in Ceke is dependent on the border-crossing handling capacity at the Ceke border crossing, which is also currently constrained by a number of factors including the operating hours, customs clearance speed and the number of customs clearance lanes. The operating hours at the Ceke border crossing have been extended and an additional inspection passage has been added on the Mongolian side of the border crossing in year 2010, contributing to an increase in throughput efficiency at the Ceke border crossing. In line with supportive policies of the Chinese government and Mongolian government to expand the throughput capacities at the Ceke border crossing, we expect the border-crossing handling capacity at the Ceke border crossing to increase as a result of the construction of the new customs inspection facility and dedicated customs clearance lanes for coal transportation.

In May 2010, Hohhot Railway Bureau approved a cooperation arrangement with us to jointly develop and operate railway logistics centre in Ceke and a joint venture company, Ejinaqi Winsway, has been incorporated on 30 June 2010. We expect the new railway logistics centre jointly developed by us and Hohhot Railway Bureau, when completed, to significantly increase our access to rail transportation. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

We are also aggressively expanding the infrastructure and throughput capacities at the Gants Mod and Ceke logistics parks where additional land has been earmarked for expansion. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

We also plan to build additional railway logistic centres jointly with Hohhot Railway Bureau at other Sino-Mongolian border crossings such as Erlianhaote and explore further cooperation in respect of construction and operation of railway logistics centres at Mandula and Zhu'engadabuqi. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

Sea ports

Currently, almost all of our seaborne coal is delivered to Jingtang, Rizhao or Caofeidian port on an FOB, CIF or CRF basis, and upon arrival at such ports, will be transported to our customers by road or rail or delivered to our customers at these ports.

In order to further expand the range of value-added services for our seaborne products, we plan to construct logistics parks and coal processing plants in Bayuquan and Longkou ports, and exploring the possibility of expanding to Yangkou port. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

TRANSPORTATION

Transportation in Mongolia

All of our coal from our suppliers' mines located at Tavan Tolgoi and Nariin Sukhait are transported to the Gants Mod and Ceke border crossings, respectively, by road.

All of our Mongolian-based suppliers primarily use Moveday, an Independent Third Party, to transport coal for them from their respective mines to our stockpile areas in Gants Mod logistics park or Ceke logistics park since 2008. As Moveday is delegated by our Mongolia-based suppliers to provide us with transportation services in Mongolia when we enter into our supply contracts with our Mongolian suppliers, we also arrange and agree with them and Moveday on the delivery of coal through entering into tri-partite agreements. Under the tri-partite agreement entered into between us, each of our Mongolia-based suppliers and Moveday, Moveday is appointed by the supplier to undertake customs clearance and transportation of coal to us at designated delivery points. The fees payable to Moveday in respect of its services are agreed between the parties and are determined after taking into account the amount of coal transported, the distance covered fuel cost, labour cost and prevailing market condition, and will be payable by us to Moveday directly. For the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, the total expenses associated with coal transportation services provided by Moveday amounted to US$31.0 million, US$53.8 million and US$39.0 million respectively, and Moveday was responsible for the transportation of more than 85% of the coal supplied by our Mongolia-based suppliers to us in each of the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 respectively.

We have decided to focus on developing our coking coal business and not to undertake truck transportation business. Moveday is primarily engaged in organising and providing transportation services in Mongolia since the commencement of its business operation in 2008. Based on the information provided by Moveday, as at 30 June 2010, the sole shareholder, Ng Pui Heng who is an Independent Third Party holding a Macau Passport, and who also serves as chairman of the board of Moveday, oversees the overall operations and management of Moveday, and the daily operation of its truck fleet is led by several truck fleet supervisors to ensure timely delivery of its goods. As a result of adopting the above strategy and as the main business of Moveday is to provide coal transportation services in Mongolia which is not a business that our Company intends to be involved in, and further in anticipation of a ramping-up of production by our Mongolia-based suppliers and our planned expansion in coal throughput and processing capacities, we have provided financing to Moveday to enable it to expand its truck fleet to provide transportation services to us. Under a binding, amended and restated ten-year strategic alliance agreement which took effect from 21 December 2009 we agreed to provide a loan to Moveday to purchase additional vehicles to meet with the increasing volume of coal procured by us in Mongolia, and Moveday has agreed to use the trucks purchased through financing provided by us solely for the provision of transportation services to us during the term of the agreement. Pursuant to a loan agreement entered into on 10 April 2010 (as amended by a supplemental deed on 15 September 2010) and the strategic alliance agreement, we agreed to lend Moveday up to US$40 million solely for the purpose of purchasing vehicles for transporting coal purchased by us in Mongolia. Our loan to Moveday is provided on an unsecured basis, at an interest rate of LIBOR plus 3% and repayable over five years in equal annual installments of US$8 million, commencing from 18 months after the receipt of the loan by Moveday, with interest payable semi-annually in arrears. Should Moveday fail to pay any part of the principal or interest when it falls due, Moveday will be liable to pay default interest calculated at an annual rate of LIBOR plus 8% accruing daily on all overdue payments for the first 15 days following the payment due date. If Moveday still fails to pay the principal and interest (including default interest) after such 15-day period, Moveday will be liable to pay default interest calculated at an annual interest rate of LIBOR plus 12% accruing daily on all overdue payments, and upon the expiry of three days following such 15-day period, we also have the right to set off all unpaid principal, interest (including default interest) under the loan agreement against amounts owing by us to Moveday for the provision of coal transportation services. Such financing, which is entered into on an arm's-length basis and is governed by Hong Kong law, does not contravene PRC law or Mongolian law. As at the Latest Practicable Date, the entire loan amount has been fully drawn down. Such financing was advanced as a loan to Moveday and does not constitute a finance lease arrangement. As Moveday is an Independent Third Party and the loan to Moveday is an unsecured loan, we do not have an interest in or control over the cash flows or other assets of Moveday other than in accordance with the terms of the loan agreement (as amended). Please refer to the section headed "Risk Factors — Risks Related to Our Business and Our Strategy — We may not be able to recover all or part of our loan to Moveday" in this prospectus for more details on the risks associated with this loan.

As at the Latest Practicable Date, based on information provided by Moveday, Moveday owned a total of 750 trucks of which 700 trucks were purchased through financing provided by us. Moveday also arranges for the provision of transportation services within Mongolia from a pool of other third-party contractors, typically individuals with self-owned trucks, in the event its trucks are insufficient to satisfy our transportation needs. Based on information provided by Moveday, Moveday also provides transportation services to other small-scale customers in Mongolia through its own trucks and third-party contractors' trucks coordinated and organised by Moveday. Since the commencement of its operation in 2008, the total expenses associated with coal transportation services paid by us to Moveday constituted approximately 92.3%, 70.2% and 59.2% of its turnover for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010 respectively.

Based on the agreements and memoranda of understanding we have entered into as at the Latest Practicable Date, more particularly described in the section headed "Business — Procurement and Suppliers — Suppliers in Mongolia" in this prospectus, we expect the total coal which may be supplied to us are up to 10.0 mt, 12.0 mt and 12.0 mt for the three years ending 2013 respectively. The actual amount supplied will be subject to, amongst other things, the changing demand of our customers, market conditions, our suppliers' capability to produce the contracted output amount, throughput capacity at the border crossings and the total coal processing capacity of the Group.

Based on our past experience, we estimate approximately 670 trucks and 800 trucks respectively would be required to transport approximately 10.0 mt and 12.0 mt coal from our suppliers to us, although this is subject to change depending on factors outside our control. Please see the section headed "Risk Factors — Risks Related to Our Business and Our Strategy — The supply of coal from Mongolia to China may be limited by the availability and stability of transportation services and border-crossing handling capacity at Sino-Mongolian boarder crossings. Our future growth may accordingly be adversely affected" in this prospectus for a discussion of such factors. Through our arrangements with our suppliers and Moveday, we expect to be able to secure sufficient transportation capability to satisfy our needs in future. Save for the agreements with Moveday, we have not entered into any other agreement to secure transportation capacity for transportation of coal from our suppliers to us in Mongolia for the three years ending 31 December 2013 as at the Latest Practicable Date.

Transportation in China

Primarily through third-party transportation companies and service providers, we are able to transport coal from the Chinese side of the border crossings to our coal processing plants, to third-party coal processing plants, to customers nearby or to coal loading stations along the Jingbao and Baolan railway lines, such as Baotou and Dalahai (打拉亥), for onward transportation to our other customers by rail. We engage transportation companies with sizeable fleets of truck and also individual transportation service providers on an ad hoc basis to satisfy our transportation need. Based on information provided by the relevant transportation companies, as at the Latest Practicable Date, the main transportation companies engaged by us for the transportation of coal within China are as follows:

Name of Company	Number of Trucks	Commencement of relationship
包頭穆華物流有限公司 (Baotou Muhua Logistics Company Limited)	537	October 2008
烏海市廣通物流有限公司 (Wuhai City Guangtong Logistics Company Limited)	89	April 2009
包頭市順達興物流運輸有限責任公司 (Baotou City Shundaxing Logistics and Transportation Company Limited)	431	November 2009

We will usually determine the mode of delivery employed for the above transportation after taking into consideration factors such as the transportation route, distance, costs and time efficiency and available capacity.

To track the progress of delivery and to ensure the safety of our inventory and products on a real-time basis, we use a central computer system to monitor each of our trucks and third-party delivery trucks handling our coal supply within China through GPS technology. A central control room with live video feeds is also located in our main operations centre located in Beijing, China.

Based on our past experience, we estimate that approximately 420 trucks and 500 trucks respectively would be required to transport approximately 10.0 mt and 12.0 mt coal from our Gants Mod logistics park to our Urad Zhongqi coal processing plant, although this is subject to change depending on factors outside our control. Further, we estimate that approximately 310 trucks and 380 trucks respectively are required to transport cleaned coal from our Urad Zhongqi coal processing plant to our customers or railway loading stations. We also estimate that we will need to transport the cleaned coal of approximately 6.0 mt and 7.5 mt coal respectively from the relevant railway loading stations located near to our coal processing plant to our customers in other parts of the PRC through the national railway. As at the Latest Practicable Date, we have not entered into any long-term or cooperation agreement in the PRC to secure transportation capacity for transportation of coal by road or railway within the PRC for the three years ending 31 December 2013.

In June 2010, we have been granted a "registered user" status for carriage of coal by rail (煤炭立戶) by the Hohhot Railway Bureau. As a "registered user", we are allowed to submit our transportation requirements and plans to Hohhot Railway Bureau for its consideration, and if accepted, for inclusion in the railway transportation capacity allocation plan.

Transportation of Seaborne Coal

Our seaborne coal suppliers, who supply on an FOB basis, arrange for transportation of coal up to the exporting ports and pay for all the costs before loading, whereas we are responsible for the costs before loading, ocean freight, insurance and other costs. Our seaborne coal suppliers who supply on a CIF or CFR basis arrange for transportation of coal to the disembarkation ports, and pay for the costs of ocean freight, insurance and other costs, whereas we are responsible for the charges on arrival.

We engage various shipping companies for the transportation of seaborne coal from our suppliers located in Australia, the US, Canada and Russia.

Depending on the needs of our customers upon arrival at the relevant port, our seaborne coal will be transported to our customers by road or rail or delivered to our customers at the port. We plan to construct docking facilities at Longkou port and coal processing plants at Bayuquan port and Longkou port. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details. We expect most of our seaborne coal to be delivered to these ports in the future.

As at the Latest Practicable Date, we have not entered into any agreement to secure transportation capacity for seaborne freight for the three years ending 31 December 2013.

Strategic investment in a railway line and railway logistics centres in the PRC

We entered into a capital contribution agreement with Hohhot Railway Bureau and various other parties in 2009 to subscribe for a 5% equity interest in Xixiaozhao Gants Mod Railway Co., Ltd. for a total amount of RMB75.0 million which will undertake the construction of a railway line connecting Xixiaozhao to Jinquan in Inner Mongolia, where our Urad Zhongqi processing plant is located, and from Jinquan to Gants Mod border crossing. Save for the capital contribution amounting to RMB75.0 million, we have no further commitment in respect of Xixiaozhao Gants Mod Railway Co., Ltd and its project as at the Latest Practicable Date. As at the Latest Practicable Date, we have contributed RMB40.65 million and RMB19.35 million is payable by November 2010 according to a capital contribution schedule agreed by the parties, and the remainder RMB15.0 million payable at a later date to be determined by the parties. We believe our investment will help us to secure transportation capacity, particularly at times of heavy utilisation. The Xixiaozhao-Jinquan portion of the line is expected to be completed and become operational in late 2010. This line will be further extended to Gants Mod and it is estimated to be completed in 2011. Xixiaozhao is located near Baotou, where several major national railway lines converge.

In May 2010, the Hohhot Railway Bureau approved its cooperation arrangement with us to:

- jointly develop and operate railway logistics centres at five border crossings, namely Gants Mod, Ceke, Erlianhaote, Mandula and Zhu'engadabuqi, through joint venture companies to be incorporated which will be 51% held by us;

- jointly develop two inland railway logistics centres in Inner Mongolia, at Urad Zhongqi and Jining;

- jointly invest in railway rolling stock and maintenance facilities; and

- support us in further securing transportation capacity on the national railway system.

As at the Latest Practicable Date, Hohhot Railway Bureau and we invested in five joint venture companies, Bayannao'er Winsway, Ejinaqi Winsway, Erlianhaote Haotong, Urad Zhongqi Haotong and Inner Mongolia Hutie Winsway Logistics, for the purpose of developing and operating railway logistics centres at Gants Mod, Ceke, Erlianhaote, Urad Zhongqi and Jining respectively. We own a 51% equity interest and have a majority board representation in each of these joint venture companies. We also plan to build railway logistics centres at Manzhouli and Suifenhe along the Sino-Russian border which are connected to inland PRC by both road and railway lines. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details of these planned railway logistics centres.

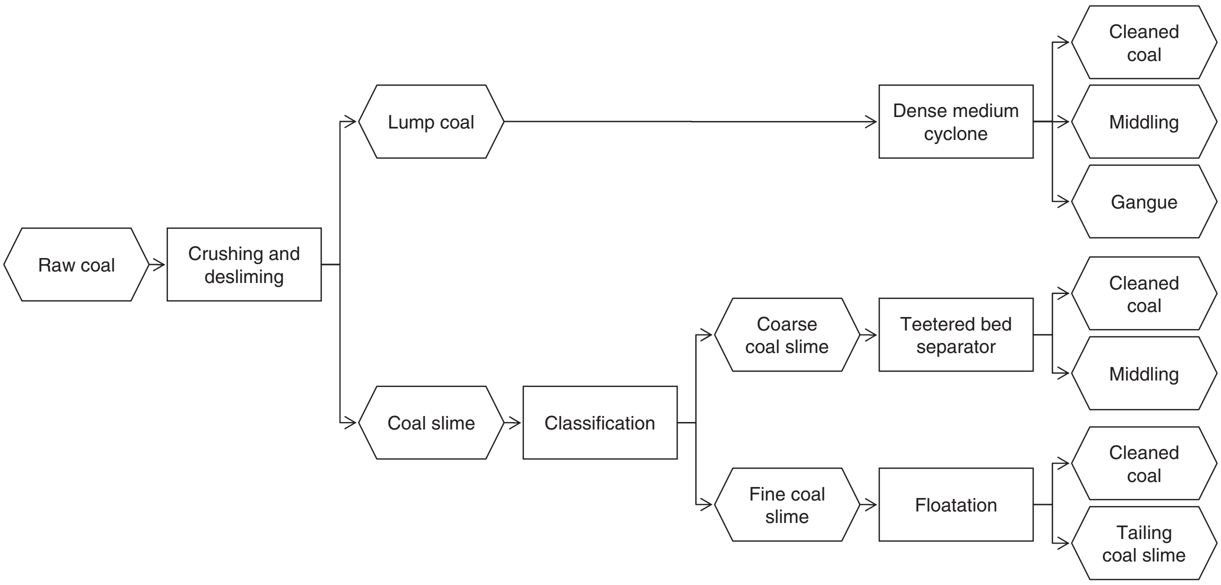
COAL PROCESSING

We recognise that not having processing capabilities can be a major impediment to the growth or profitability for some coal mining companies and operators. For example, coal mining companies and operators based in Mongolia and Russia may be unable to process raw coal and transport cleaned coal in cold weather during the winter months. Further, coal mining companies and operators located in Mongolia and other arid areas may be unable to process coal where the water supply is scarce. There is also a large number of coal mining companies and operators who operate on a smaller scale for whom coal processing is economically unviable. Further, most of the independent coal processing plants and coal processing plants affiliated with coal producers only process raw coking coal from a single coal mine located in proximity to the coal processing plants. We believe our large capacity for processing raw coking coal from various suppliers, and in particular those which do not possess their own coal processing capability, plays a key role in bridging these mines with steel makers and coke plants in China which typically require a long-term and stable supply of coking coal with varying characteristics.

Coal delivered to our coal processing plants is processed so that rock, sulphur and other contaminants are reduced according to our customers' specifications. As a result, our processed coking coal will have a higher carbon content, lower ash and sulphur content and a more stable quality than our raw coking coal which makes it suitable for coke production. Currently our Mongolian coal is processed at one of the two coal processing plants we operate at Ceke and Urad Zhongqi. These plants are strategically located along the transportation route connecting the Sino-Mongolian border and the main railway network in China allowing us to provide value-added coal processing services before delivery to our customers.

Urad Zhongqi coal processing plant

The coal processing plant at Urad Zhongqi uses a dense-medium separation process. The dense-medium separation process has a higher set up cost than the dry separation process and requires a large amount of water at the outset of the operation, but is capable of a more effective separation compared to the dry separation technology. The following flow chart illustrates the process flow of the dense-medium separation process:



The coal processing plant at Urad Zhongqi had a processing capacity of 4.0 mtpa as at 30 June 2010. For the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, the utilisation rate of the coal processing plant at Urad Zhongqi is set out as follows:

	Annual design[(6)] capacity (mt)	Utilisation (%)
2008 1Q[(1)(2)(3)]	1	52.2%
2008 2Q	1	93.8%
2008 3Q[(3)(4)]	2	83.8%
2008 4Q	2	73.6%
2009 1Q[(1)]	2	61.2%
2009 2Q	2	93.3%
2009 3Q	2	103.2%
2009 4Q[(3)(5)]	4	90.7%
2010 1Q[(1)]	4	58.5%
2010 2Q	4	97.9%

Notes:

(1) Utilisation rate is typically low in the first quarter mainly due to the Chinese and Mongolian new year holidays.

(2) The first production line commenced production in mid-February 2008 with a design capacity of 1 mtpa.

(3) It usually takes 1 to 3 months for a line to reach full capacity after commencing production. During this period, utilisation is relatively low.

(4) The second production line commenced production in mid-August 2008 with a design capacity of 1 mtpa, bringing the total capacity to 2 mtpa.

(5) The third production line commenced production in mid-December 2009 with a design capacity of 2 mtpa, bringing the total capacity to 4 mtpa.

(6) Annual design capacity refers to the annual design capacity as at the last day of the relevant quarter.

The total set up costs of the Urad Zhongqi coal processing plant incurred up to 31 December 2009 amounted to RMB192.8 million.

Ceke coal processing plant

The coal processing plant at Ceke uses a dry separation process and had a processing capacity of 1.2 mtpa as at 30 June 2010. Since its completion of construction in December 2009, we have commenced our trial operation at the coal processing plant at Ceke and are currently in the final stage of testing and fine tuning the production line.

The total set up costs of the Ceke coal processing plant incurred up to 31 December 2009 amounted to RMB9.0 million.

The total average time for loading/unloading, testing and processing of raw coking coal at our coal processing plants is one to two days.

In the past, we have also engaged third-party coal processing plants to undertake coal processing for us. For the years ended 31 December 2008 and 2009 and six months ended 30 June 2010, approximately 0.1 mt, 0.7 mt and 0.3 mt were processed by third-party coal processing plants. We had not engaged third party coal processing plants to undertake coal processing for us for the year ended 31 December 2007. This arrangement is currently being phased out and we expect all future coal processing to be undertaken by our own plants, particularly upon the completion of the expansion of our coal processing plants in Urad Zhongqi and the new plants at Jining, Bayuquan port, Longkou port, Manzhouli and Suifenhe.

We use electricity in our coal processing operations. Electricity prices are under government control. We have not experienced any material disruption in electricity supply in recent years. The water we use in our coal processing operations is primarily from the district water supply system and underground sources. Water prices are under government control. We have not experienced any material disruption in or shortage of water supply in recent years.

We plan to expand our coal processing capability by way of capacity expansion at our existing coal processing plant at Urad Zhongqi and development of new coal processing plants at Jining, Bayuquan port, Longkou port, Manzhouli and Suifenhe. Please refer to the section headed “Future

Plans and Outlook" in this prospectus for more details on our development plans for our coal processing plants.

CUSTOMERS AND SALES

Major customers

Most of our products are sold to steel makers and coke plants in China with steel makers considered to be our premium target clients given their high level of demand as an end-user for our products. We have built a stable and growing customer base in China, comprising 11 steel makers and 40 coke plants in China in 2009. Our major customers include Baogang Group, Hebei Steel, Tangshan Jiahua and Risun Coke.

We believe there are two main factors contributing to our success in building a large and stable customer base of steel makers and coke plants. The first is our ability to supply a range of high-quality coking coal products with consistent physical characteristics and the second is our ability to provide a reliable supply in large volumes. Steel makers and coke plants need a stable coke blend for their operations, and our ability to satisfy their requirements allow us to develop strong and long-term relationships with them.

We have entered into two binding 30-year long-term strategic alliance agreements and a binding long-term co-operation memorandum with a number of our customers where we have agreed with such customers to supply different types of coal possessing specific characteristics for such amount of coal as may be required by such customers and agreed by the parties in the future and at such price to be determined with reference to the prevailing market price and surrounding circumstances. It is market practice that steel makers or coke producers enter into such type of strategic alliance agreements and memoranda with its key suppliers in order to agree upon the framework for future supplies and that subsequent formal sales contracts are executed pursuant to such agreements and memoranda. We believe that the strategic alliance agreements and memoranda entered between us and our customers as well as the recurrent business we have with our major customers since the establishment of our relationships with them demonstrate the confidence of our customers in us and our ability to supply coking coal products with consistent physical characteristics.

For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales to our five largest customers accounted for 95.3%, 91.1%, 33.0% and 41.4% respectively of our total sales. For the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, our sales to our single largest customer accounted for 82.1%, 56.7%, 9.7% and 14.2% of our total sales, respectively. The table below sets forth our sales to our customers breakdown by category for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010:

	Year ended 31 December						Six months ended 30 June 2010	
	2007		2008		2009			
Customers	Sales (RMB '000)	%	Sales (RMB '000)	%	Sales (RMB '000)	%	Sales (RMB '000)	%
Steel makers	163,039	82.1	575,152	57.9	1,444,779	31.0	2,073,353	48.2
Coke plants	0.0	0.0	197,394	19.9	1,799,253	38.7	856,754	19.9
Coal traders	35,602	17.9	220,993	22.2	1,408,276	30.2	1,363,079	31.7
Others	0.0	0.0	0.0	0.0	3,328	0.1	5,641	0.2
Total	198,641	100.0	993,540	100.0	4,655,636	100.0	4,298,827	100.0

None of our Directors or their associates or, to the best knowledge of our Directors, our existing Shareholders who owns more than 5% of our issued capital, has any interest in our five largest customers.

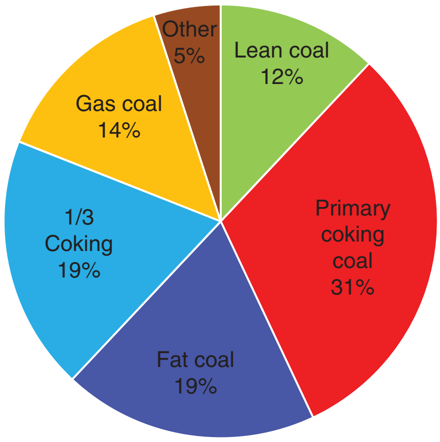
We usually enter into discussions with our customers prior to the end of each year to ascertain their production needs for the following year, and will make allocations of our products accordingly after taking into consideration the expected production capacity of our suppliers and our expected processing capacity. Consistent with Chinese coal market practices, we will then enter into formal sales contracts with our customers on a periodic basis with the term of the contract varying from a few months to one year and with specified quantities and timing of delivery during the term. In formulating our sales contracts, we will take into account the delivery schedule of our suppliers, transportation and processing time and capacity (including stocks in transit), and possible contingencies. The time of execution and length of sales contracts may differ from customer to customer, and is subject to our cooperation model and the operational needs of the customers concerned. We will enter into discussion with our customers and make adjustments to the sales volume and delivery schedule if required. In the past, we have not experienced any major deviation of actual sales volume and delivery schedule from the sales plan agreed between us and our customers.

Our sales contracts with our customers typically set out the terms of our sales, such as the amount and characteristics of coal to be sold, the sales price, mode of delivery, delivery date and mode of payment. The final sales price, in particular, is determined between us and our customers when we start delivery of the products. Typically our sales contracts with a delivery schedule spreading over a period of more than three months will contain a price adjustment clause, allowing the sales price to be adjusted through mutual agreement after taking into account the prevailing market rate of coking coal in the PRC market, typically referring to the prevailing contracted coking coal price between major coking coal producers in Shanxi Province and large steel makers in China. Both our customers and us have the right to initiate such price adjustment discussion and if required, supplemental sales contracts will be executed to reflect the price adjustment. In the past, towards the end of each quarter, we and our customers have reviewed the sales price for the coal to be delivered over the following quarter.

We extend credit (generally for periods not exceeding 90 days) to certain large steel makers and require most coke plants to make payment prior to delivery. Our customers usually settle their payments by account transfer or remittance. We did not experience any material payment defaults from our customers during the Track Record Period. Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Net current assets — Trade and other receivables” in this prospectus for more details.

Products

We supply our coal to our customers, comprising primarily steel makers and coke plants, for their coke blending purpose. The figure below represents the estimated typical Chinese coke blend, with hard coking coal comprising the largest component of the blends. The blends are then heated in the coke oven to produce coke. Please refer to the section headed "Industry Overview" in this prospectus for more details.



Source: AME Report

Note: Primary coking coal and Fat Coal are Chinese termed names and are equivalent to hard coking coals.

Coke in blast furnaces functions not only as a source of fuel and a reducing agent, but also has to maintain permeability in the furnace, since coke is the only solid present in the shaft bottom and lower zone where the ore and flux soften and melt. The most important quality of coke is its strength under high temperature conditions. The coke should resist physical degradation during its passage through the blast furnace until it reaches the high temperature at the tuyeres where it is burnt. It is also important that the coke should not be degraded chemically by reacting with carbon dioxide and other gases, molten iron, alkalis and the like. The larger the blast furnace the stronger and less reactive the coke must be. As the Chinese steel industry modernises with the addition of larger blast furnaces, the demand for hard coking coal will increase because coke producers need to increase the hard coking coal proportion in the coke blend in order to make stronger coke.

Typically cleaned coal will have lower ash and sulphur content than raw coal, but will otherwise maintain its original characteristics despite the coal processing. The following table sets forth the main characteristics of some of the raw Mongolian coal and cleaned Mongolian coal we supply to our customers which will be used in the coke blending process:

Products	Total Moisture (%)	Total Sulfur (%)	Ash Content (%)	Volatile Matter Vdaf(%)	Chinese Caking Index (G)	Chinese Plasticity Index (Y)	International Coal Classification	Chinese Coking Coal Classification
Raw coal								
Coking coal No. 3 . . .	≈ 5	≈1.0	≈ 15	≈26	≈80	≈17	Premium hard coking coal	Primary coking coal
Coking coal No. 4 . . .	≈ 5	≈1.0	≈ 15	≈28	≈80	≈17	Premium hard coking coal	Primary coking coal
1/3 coking coal	≈ 5	≈1.0	≈ 10	≈35	≈70	≈11	Semi-hard coking coal	1/3 coking coal
Cleaned coal								
Coking coal No. 3 . .	≤10	≤0.7	≤ 11	≤26	≥80	≥16	Premium hard coking coal	Primary coking coal
Coking coal No. 4 . .	≤10	≤0.7	≤10.5	≤28	≥80	≥16	Premium hard coking coal	Primary coking coal
1/3 coking coal	≤10	≤0.9	≤ 6.5	≤35	≥60	≥ 8	Semi-hard coking coal	1/3 coking coal

Currently all seaborne coal supplied by us to our customers comprises solely hard coal and is used in the coke blending process. The characteristics of seaborne coal supplied by us may vary depending on its source and our customers' requirements for their coke blend. In the future, we will continue to import seaborne coal and plan to process raw seaborne coal at our planned coal processing plants to be constructed at Bayuquan and Longkou ports. Please refer to the section headed "Future Plans and Outlook" in this prospectus for more details.

Some seaborne coal may possess certain characteristics similar to those of the Mongolian coal supplied by us. However, even two types of coal with certain similar characteristics cannot be used interchangeably, as the remaining unique characteristics may contribute differently to the coke blend. Coke blend requirements of our customers and market prices are the key factors driving the demand for different types of coking coal that we supply. We work closely together with our customers to understand their coke blend requirements at the outset, and upon establishing our customers' requirements, will supply coal which possesses characteristics required by our customers in accordance with an agreed schedule. In order to produce coke with steady and acceptable quality, we understand that it is of utmost importance for our customers that a steady supply of coal, both in terms of volume and characteristics, can be assured.

Prior to the completion of our coal processing plant at Urad Zhongqi in year 2008, all our Mongolian coal was sold to our customers directly. Since then and for the years ended 31 December 2008 and 2009 and the six months ended 30 June 2010, approximately 1.1 mt, 2.5 mt and 2.1 mt Mongolian coal were processed, and approximately 0.3 mt, 0.3 mt and 0.7 mt Mongolian coal were sold directly to our customers as raw coking coal.

The following table sets forth our turnover from our continuing operations by source for each of years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2009 and 2010, respectively.

	Year Ended 31 December			Six Months Ended 30 June	
	2007	2008	2009	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover					
Mongolian coal					
Cleaned coking coal	-	821,996	1,574,844	570,510	1,644,082
Raw coking coal(1)	191,427	160,931	183,038	3,685	312,941
Seaborne coal					
Hard coal(2)	-	-	2,833,871	242,985	2,329,380
Others	7,214	10,613	63,883	804	12,424
Total	198,641	993,540	4,655,636	817,984	4,298,827

Notes:

(1) sold directly to customers without processing on our part

(2) sold directly to customers without processing on our part, save for a minimal amount of less than 50,000 tonnes processed by third-party coal processing plant in 2009

While we expect a significant portion of our sales to continue to come from Mongolian coking coal, we believe our ability to produce a range of coal products from other sources with customised specifications at a competitive cost to suit our customers' needs is critical to maintaining a solid and stable relationship with them.

Sales team

We place a great emphasis on sales and marketing. Our general sales and marketing strategy is to strengthen our relationship with our existing customers as well as to explore opportunities with potential customers to enhance our market position.

We have a dedicated sales team to service our customers across China. As at the Latest Practicable Date, our sales team employed 25 staff divided into six departments based on geographical area: (i) Northeast region of China (including Heilongjiang, Jilin and Liaoning provinces); (ii) Inner Mongolia; (iii) Beijing municipality and Hebei province; (iv) Shanxi province; (v) Shandong province; and (vi) Central, Eastern and Southern regions of China, each led by a manager to coordinate marketing efforts within that geographic area.

Our sales staff visit our customers on a regular basis to understand their production plans, logistics arrangements, coke blend requirements, market conditions and market trends in coal prices, as well as to provide after-sales consultation. We develop our new business mainly through visiting potential customers and providing them with product samples at trial price.

INVENTORY

As a result of the long transit time from Sino-Mongolian border to our customers in various parts of China and the time spent on coal processing, our inventory has a relatively long operating cycle. On average, the delivery time from our suppliers' mine to our logistics parks at the Gants Mod and Ceke border crossings to be one to two days, total time for transportation to our coal processing plants, loading/unloading, testing and coal processing to be one to two days and transit time from our border crossings or coal processing plants to designated delivery points of our customers to be eight to ten days. In order to maintain a smooth flow of product across the supply chain and to ensure a stable supply to our customers, we need to maintain a sufficient level of inventory for our business operations. Compared with Mongolian coal, our seaborne coal generally has a shorter operating cycle due to its simpler delivery process and shorter sales radius.

We have an inventory policy to maintain a level of coal products sufficient to fulfil our customers' demands and, at the same time, manage our exposure to market fluctuations. It is our policy to purchase sufficient amount of raw coal based on our production schedule and sales schedule and to maintain an average of two week's supply of raw coal at our stockpile area for our coal processing needs and one week's supply for coal processing. If in anticipation of a change in demand according to our production capacity or sales schedule, or any circumstance arises which requires us to change our stock level, such issue will be discussed amongst our senior management and procurement teams, and once a decision is reached, our procurement teams will discuss adjustments with our suppliers and adjust our purchase schedule where necessary. For Mongolian cleaned coal, it is our practice to keep minimal stock of cleaned coal in the storage warehouse at our coal processing plants to minimise inventory risk. We also have on average two weeks' supply of cleaned coal in transit, arranged in accordance with our sales schedule. We do not however make inventory decisions based on market speculation. In order to achieve that, our procurement teams, sales teams and production teams work closely to monitor our inventory flow and stock level on a regular basis, including conducting stock-take on a monthly basis.

We have designated staff responsible for maintaining suitable storage conditions for all our coal inventories stored in stockpile areas at our Gants Mod and Ceke logistic parks and our coal processing plants at Urad Zhongqi and Ceke.

During the Track Record Period and the six months ended 30 June 2010, our inventory turnover days calculated as the average ending inventory balances on its cost of goods sold was 247 days, 164 days, 66 days and 57 days, respectively. For details of the fluctuation on the inventory turnover days, please refer to the section headed "Financial Information — Liquidity and Capital Resources — Net current assets — Inventories" in this prospectus.

QUALITY CONTROL

Recognising that a long-term and stable supply of coking coal with consistent physical characteristics is crucial to our customers, we have implemented a quality control system to ensure that the characteristics and specifications of our coal products are able to meet the requirements of our customers.

All Mongolian coal delivered to us is weighed and inspected upon arrival at our stockpile area to verify the amount delivered. Our Mongolian coal is then measured and tested where samples from each batch of delivery are taken for testing at the coal testing centres located within our Gants Mod and Ceke logistics parks to confirm that the coal meets our requirements.

Coal arriving at our coal processing plants is tested again upon arrival. After being processed, the cleaned coal is further tested before it is delivered to our customers to ensure that it conforms to their specifications and requirements.

We adopt standard international practices in relation to coal testing for our seaborne coal. Samples of our seaborne coal are taken at ports for quality determination during loading operations by independent inspection companies appointed by our suppliers. Our seaborne coal undergoes the China Inspection and Quarantine testing after being unloaded at the disembarkation port in China by qualified laboratories in China appointed by us. Sampling work including preparation of the samples and quality analysis are all performed in accordance with ISO standards, British standards or ASTM standards.

Our suppliers do not have a sales return policy. In general, we may deduct a certain sum from the amount payable by us if there is any discrepancy between specifications of the coal supplied to us and the specifications stated in the relevant sales contract. During the Track Record Period, we made no such deductions.

Likewise, we do not have a sales return policy for our sales. In general, our customers may deduct a certain sum from the amount payable to us if there is any discrepancy between specifications of the coal supplied by us and the specifications stated in the relevant sales contract. During the Track Record Period, our customers made no such deductions.

COMPETITION

We believe we are one of the few companies which have built an integrated coking coal supply business model to supply Mongolian coking coal into China. We believe our integrated coking coal supply business model is distinguishable through the considerable scale and profitability we have achieved. We believe our integrated service platform comprising logistics parks at border crossings, coal processing plants located along our transportation and distribution routes and established relationships with transportation companies in Mongolia and in China, is difficult to replicate and create a high entry barrier for potential competitors. In particular a replication of our business model would require substantial initial capital outlay, strong distribution network and large offtaking capability.

We believe, at present, there is no other company engaged in supplying Mongolian coking coal into China which has established an integrated services or provide a range of products on a scale comparable to ours. We also believe that there is no other company engaged in supplying Mongolian coking coal which has a sales network in China as extensive as ours.

We believe most of the other companies supplying Mongolian coal into China only participate in limited parts of the supply chain, are mostly purchasing Mongolian coal for their own consumption and operating on a smaller scale and/or do not possess or have access to key infrastructure at border crossings.

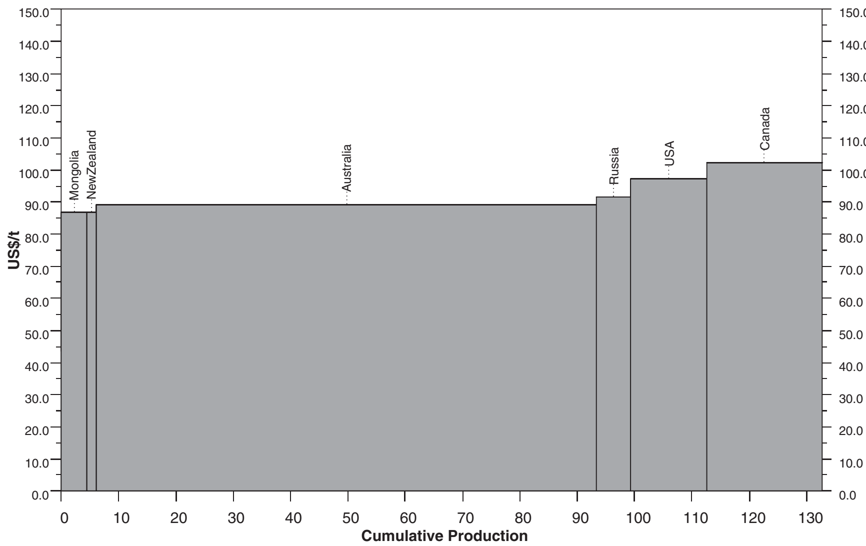
Whilst we believe that we have a unique position in the market with no direct competitors, as a supplier of coking coal we are still subject to the same competitive dynamics as other participants in the industry. Competition in the Chinese coking coal market is significant with participants competing on numerous bases such as price and cost, production capacity and transport capabilities and coal quality and characteristics.

Price and Cost

As coal is a commodity product most participants in the coal industry do not have pricing power and instead must accept the prevailing price in the market and adjust their costs to meet such prevailing price levels. As a result, a key area of focus and competitive advantage in the coal industry is cost.

As shown in the cost curve below, Mongolia is one of the lowest cost producers of coking coal in the world. By sourcing our coal from Mongolia, we are able to ensure that our cost remains competitive in China, compared to other imported coking coal suppliers. Please refer to the section headed "Industry Overview" in this prospectus for more details.

Estimated Export Hard Coking Coal Mine Cash Costs by Country (US$ per tonne CIF)



Source: AME Report

Production Capacity and Transport Capabilities

As a bulk commodity, a key area of competition between participants in the coal industry is scale of production and associated activities such as processing and transportation. Economies of scale mean that the cost position of industry participants is enhanced as they achieve greater production capacities. Scale of production capacity also requires commensurate scale in transportation capabilities in order to realise fully the benefits of economies of scale. As coal is a relatively low value per tonne product, scale of production and transport are critical to ensuring a participant remains competitive on a cost basis.

We are able to compete successfully in this market due to our large scale processing capacity. As at 30 June 2010, the Urad Zhongqi coal processing plant has a capacity of 4.0 mtpa and the Ceke coal processing facility has a capacity of 1.2 mtpa.

We have access to an efficient transport network in Mongolia as well as China through our arrangements with various third parties transportation service providers. All of our Mongolian-based suppliers primarily use Moveday, an Independent Third Party, to transport coal for them from their respective mines to us. We have signed a ten-year strategic alliance agreement with Moveday and also provide them with financing to enable it to expand its truck fleet. In China, the main transportation companies engaged by us for the transportation of coal have a combined fleet of 1,057 trucks as at the Latest Practicable Date.

Coal Quality and Characteristics

Coal quality and characteristics are inherently linked to the price of the coal. Whilst higher calorific value coal with fewer impurities will generally attract higher prices, as different customers have different requirements for coking coal, competition in the coking coal sector is not completely dependent upon quality. For example caking strength and level of volatile matter are crucial in producing high quality coke, and typically in China different types of coking coal with different characteristics are proportionally blended before the coking process begins. Given their blending requirements, different customers will have preferences for coking coal with different sets of characteristics.

Given the size of the coal industry in China, there are a range of producers providing different quality coal products to meet demand. We have built a strong position in the market relative to our peers due to our ability to supply various types of coking coal products with different characteristics to meet the requirements of our customers. By sourcing coal from producers in Mongolia which have competitive pricing in large volumes, whilst also sourcing complementary products from overseas suppliers in locations such as Russia and Australia, we are able to provide a range of coking coal products to meet our customers' needs whilst maintaining a competitive cost position.

The seaborne coking coal market is characterised by its global and fragmented nature with a large number of participants and is highly transparent in pricing. In bringing global high-quality coking coal into China, we compete with international coal producers and domestic and international trading houses. We believe the extensive experience of our management team in both Chinese domestic and global coking coal markets will position us well against our competitors.

REGULATORY COMPLIANCE

Other than our operating subsidiaries that conduct international procurement, all of our operating subsidiaries conduct business operations in China. We have obtained all necessary licenses, permits, certificates and registrations for our coal supply business in China.

The main permit required for our operation is a coal operation certificate. As at the Latest Practicable Date, we have obtained the following coal operation certificates:

Entity	Date of issue	Date of expiry
Inner Mongolia Haotong	21 June 2010	30 April 2013
Yiteng	17 June 2010	30 June 2013
Baotou Haotong	9 December 2008	31 December 2011
Nantong Haotong	9 July 2009	9 July 2012
Erlianhaote Haotong	9 October 2008	31 December 2011
Ejina Qi Haotong	28 August 2009	31 December 2012

Our legal advisers as to PRC law, King & Wood, have confirmed that there are no specific restrictions on foreign invested enterprises applying for and obtaining coal operation certificates, and that foreign invested enterprises are entitled to apply for such certificates after satisfying the required conditions. According to Measures for the Regulation of Coal Operations, an entity applying for a coal operation certificate is required to submit necessary documents and evidence to illustrate its capability for carrying out a coal operation business. In that regard, that entity must have (a) appropriate registered capital for the scale of its operation; (b) fixed place of operation; (c) appropriate facilities and coal storage for the scale of its operation; (d) coal quantity measure and quality examination facilities that adhere to prescribed standards; (e) reasonable compliance with national requirements in relation to the overall business arrangement and environmental protection of coal operation enterprises; and (f) other conditions as may be stipulated under other relevant laws and administrative regulations.

The total amount of coal sold and total turnover of each of the above operating subsidiaries (primarily derived from sales of coal) for the years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 are set out as follows:

	Year ended 31 December						Six months ended 30 June 2010	
	2007		2008		2009			
Entity	Total sales volume (tonnes)	Total turnover (RMB'000)	Total sales volume (tonnes)	Total turnover (RMB'000)	Total sales volume (tonnes)	Total turnover (RMB'000)	Total sales volume (tonnes)	Total turnover (RMB'000)
Inner Mongolia Haotong	531,080	188,333	1,030,209	986,355	3,368,539	3,102,301	1,071,222	1,397,090
Yiteng	4,798	1,762	2,150	2,187	1,142,465	884,949	966,609	857,890
Baotou Haotong	-	-	-	-	53,300	51,569	7,550	8,366
Nantong Haotong	-	-	-	-	106,674	106,724	663,744	653,807
Erlianhaote Haotong	-	-	-	-	-	-	-	-
Ejina Qi Haotong	-	-	-	-	119,712	77,255	794,269	393,888
Disposed subsidiary — Sanhe	3,911	8,546	-	4,998	-	-	-	-
Other offshore operating subsidiaries	-	-	-	-	543,541	432,838	838,009	987,786
Total	539,789	198,641	1,032,359	993,540	5,334,231	4,655,636	4,341,403	4,298,827

As at the Latest Practicable Date, we had not encountered any material breaches of any relevant laws, regulations or rules in relation to our operations.

Our legal advisers as to the PRC law, King & Wood, confirm that, other than certain regulatory inspections with respect to completion of the expansion at our Urad Zhongqi coal processing plant and Ceke coal processing plant, our operating subsidiaries in the PRC possess all the necessary licenses, permits and certificates in respect of the business activities currently conducted by them and such activities are in compliance with all applicable PRC laws and regulations.

Further during the Track Record Period and up to the Latest Practicable Date, we had not encountered any material non-compliance with any rule, regulation or law to which our business is subject, or any irregularities as a result of periodic visits and audits, in the jurisdictions in which we operate.

Measures to ensure compliance

In order to continuously improve our corporate governance and to ensure compliance with any laws, rules and regulations, we intend to adopt the following measures:

(i) to establish a Nomination and Corporate Governance committee headed by Yasuhisa Yamamoto, who is an executive Director, and with James Downing and Ng Yuk Keung as members. Such committee is responsible, in particular, for:

(a) periodically assessing the compliance of the Group's projects with the relevant laws and regulations;

(b) investigating and rectifying any actual or potential non-compliance, and reporting to the senior management or the Board in accordance with the reporting guidelines of the committee;

(c) reviewing the project approval documents or permits obtained by a new project company to ensure the required procedures are complied with before the new project company commences construction;

(d) monitoring any legal and regulatory developments that may be relevant to the Company's business, and making internal policy recommendations as appropriate based on evaluation of the impact of any change of laws, rules or regulations on the Company's compliance; and

(ii) providing internal training to the relevant personnel to ensure continuous compliance with the applicable laws, rules and regulations.

ENVIRONMENTAL

We are subject to the PRC environmental protection laws and regulations which currently impose fees for the discharge of waste substances, require the payment of fines for serious pollution and provide for the discretion of the PRC government to close any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage. Except as disclosed in the section headed "Business — Property — Properties owned and occupied" in this prospectus and risk factor headed "Risk Factor — Risks Relating to Our Business and Our Industry — We have not obtained the relevant regulatory permit for the operation of certain facilities and processing plants and are applying for the land use rights and construction permits for some of our new projects in China" in this prospectus, during the Track Record Period and as at the Latest Practicable Date, all of our facilities were in compliance with the requirements of the relevant environmental protection and reclamation laws and regulations. During the Track Record Period and as at the Latest Practicable Date, we had also obtained all environmental assessment required for the construction of our coal processing plants and logistics parks.

We did not incur any discharge fees in years 2007 and 2008, and paid a total discharge fees of RMB320,000 and RMB250,000 for the year ended 31 December 2009 and six months ended 30 June 2010. We expect to pay further discharge fees of approximately RMB429,000 for the second half of year 2010 and approximately RMB2,275,000 and RMB2,400,000 for 2011 and 2012 respectively. We also expect to pay a one-off fee for the construction of environmental infrastructure amounting to approximately RMB1,600,000.

In order to reduce the amount of coal dust released into the environment during transportation and loading and unloading at our stockpile areas and coal processing plants, we require all transportation trucks transporting coal for us to be covered by tarpaulin and we have constructed wind shields at our logistics parks at Gants Mod and Ceke. We also require all our workers involved in handling or loading and unloading of coal to wear safety helmets, masks, glasses and gloves provided by us.

We have a team of over 20 experienced environmental and safety personnel who are in charge of the formulation of the reporting requirements, management of estimated costs and related management oversight of safety and environmental protection. In the future, we plan to construct enclosed coal warehouses at our logistics parks to step up our commitment to conducting our operations in a manner that complies with applicable environmental laws and regulations, and endeavours to mitigate adverse impact of our operations on the environment.

During the Track Record Period and as at the Latest Practicable Date, we were not subject or party to any environmental investigations or disputes, and did not have any outstanding penalties payable for any breaches of environmental protection laws and regulations.

PROPERTY

Properties owned and occupied

We have made substantial investments in acquiring land use rights for our existing operations as well as for our future development and expansion.

As at the Latest Practicable Date, we had obtained all the required land use rights and building ownership certificates for the following properties:

(i) a parcel of land located in Gants Mod with a site area of approximately 666,659.4 sqm ("**Gants Mod Land**") and 19 buildings erected thereon with a total gross floor area of approximately 35,645.0 sqm;

(ii) a parcel of land located in Jinquan Industrial Park with a site area of approximately 636,531.0 sqm ("**Jinquan Land**") and 28 buildings erected thereon with a total gross floor area of approximately 31,073.1 sqm, forming part of the first phase of the Urad Zhongqi coal processing plant; and

(iii) a parcel of land located in Ceke with a total site area of approximately 679,100 sqm ("**Ceke Land**").

As at 31 August 2010, the following properties are completed:

(i) four buildings with a total gross floor area of approximately 89.44 sqm located on the Gants Mod Land. We are currently applying for the building ownership certificate for these buildings;

(ii) 17 buildings with a total gross floor area of approximately 2,436.1 sqm located on the Gants Mod Land which are temporary buildings for ancillary uses. We are of the view that the lack of ownership certificates of these buildings would not have any significant impact on our operation and financial status;

(iii) eight buildings with a total gross floor area of approximately 37,365.8 sqm erected on the Jinquan Land which form part of the second phase of our Urad Zhongqi coal processing plant (4.0 mtpa expansion) currently in operation. We have completed the examination and acceptance in respect of these buildings and are currently applying for the building ownership certificate for these buildings including the environmental protection examination and acceptance. We expect that all these non-compliance to be rectified within two months from the Listing Date;

(iv) eight buildings with a total gross floor area of approximately 11,177.9 sqm located on the Ceke Land and forming part of the Ceke coal processing plant. We have completed the examination and acceptance in respect of these buildings and are currently applying for the building ownership certificates for these eight buildings and the environmental protection examination and acceptance for three of these buildings with a total gross floor area of approximately 1,273.9 sqm; and

(v) two other completed buildings with a total gross floor area of approximately 55.0 sqm erected on the Ceke Land which are temporary buildings for ancillary uses. We are not applying for ownership certificates for these temporary ancillary buildings and are of the view that the lack of ownership certificates of these buildings would not have any significant impact on our operation and financial status.

As at the 31 August 2010, the following properties are at their various stages of construction:

(i) a building with a total planned gross floor area of approximately 170 sqm and various structures on the Gants Mod Land being ancillary facilities of our Gants Mod logistics park, of which no corresponding permit for commencement of construction works has been obtained. We are of the view that the lack of permit for commencement of construction works of these buildings would not have any significant impact on our operation and financial status;

(ii) a building with a total planned gross floor area of approximately 90 sqm and various structures located on the Jinquan Land. These building and structures form the ancillary facilities of the second phase of our Urad Zhongqi coal processing plant currently in operation. We are of the view that the lack of examination and acceptance in respect of these building and structures would not have any significant impact on our operation and financial status; and

(iii) buildings with a total planned gross floor area of approximately 2,501.0 sqm located on the Ceke Land, in respect of which we are applying for the construction work commencement permits, and ancillary buildings with a total planned gross floor area of approximately 333.0 sqm located on the Ceke Land. We are of the view that the lack of work commencement permits for these buildings would not have any significant impact on our operation and financial status.

As at the Latest Practicable Date, the Group has completed all completion examination and acceptance procedures required for the expansion of Urad Zhongqi coal processing plant and the Ceke coal processing plant, which are both in operation, save for those relating to environmental protection. We have submitted all necessary documents and information in relation to the environmental protection examination and acceptances in respect of these projects and we do not anticipate any legal impediments in obtaining the above. We have been advised by our PRC legal adviser, King & Wood, that both the expansion portion of the Urad Zhongqi coal processing plant and the Ceke coal processing plant, which have yet to complete the environmental protection examination and acceptance may be ordered to suspend operation and a fine of no more than RMB100,000 in respect of each of the coal processing plants may be imposed on us. Notwithstanding the potential consequences above, we believe that the absence of the environmental protection examination of acceptances in respect of the above projects will not have material adverse impact on the financials or operation of our business because in the event any of these projects is ordered to suspend operation pending the completion of the environmental protection examination of acceptances, we will be able to satisfy our coal processing need through a combination of fully utilising the first phase of the Urad Zhongqi coal processing plant which has a designed capacity of 2.0 mtpa and engaging third party coal processing plants on a temporarily basis and at the prevailing market rate. In addition, we will need to have scheduled outage for each of these coal processing plants for the purpose of maintenance for a duration of one month in each year, and if any of these projects is ordered to suspend operation pending the completion of the environmental protection examination of acceptances, we will use that time to carry out the maintenance work for such project in order to minimise the disruption to the operation of such project. Save in respect of the Urad Zhongqi coal processing plant and the Ceke coal processing plant, we are not aware of any properties with defective titles or the lack of any permit and licence in respect of any of our properties that may have a material impact on our operation. Please see the section headed "Risk Factors — Risks Related to Our Business and Our Strategy — We have not obtained the relevant regulatory permits for the operation of certain facilities and processing plants and are applying for the land use rights and construction permits for some of our new projects in China" in this prospectus.

As at the Latest Practicable Date, we had also obtained the required land use rights for the following properties on which we have not commenced any construction:

(i) a parcel of land with a site area of approximately 398,993.0 sqm located at the western side of the railway station of Baiyun'ebo District in Baotou ("**Baiyun'ebo Land**");

(ii) a parcel of land with a site area of approximately 1,500,000.0 sqm located in Erlianhaote ("**Erlianhaote Land**"); and

(iii) a parcel of land located in Bayuquan port with a total site area of approximately 56,700 sqm.

We have been advised by our legal advisers as to the PRC law, King & Wood, that:

(i) In respect of the Baiyun'ebo Land

Pursuant to our agreement with the Land and Resources Bureau of Baotou City Baiyun'ebo Mining Area, we are allowed to postpone the commencement of the construction of our project on the Baiyun'ebo Land due to the delay in the development of the border crossings and pending the amalgamation of administration of the Baiyun'ebo District and Damaoqi District. The postponement in the commencement of the construction of our project is therefore not in breach of the terms of our land use rights in respect of the Baiyun'ebo Land and the applicable PRC laws. We are however still required to finish the construction of the fence around the Baiyun'ebo Land and to make investment of not less than RMB300,000 per hectare (i.e. 10,000 sqm) before 8 December 2010 and to complete our construction and commence our operation on the Baiyun'ebo Land by 9 December 2011. The Land and Resources Bureau of Baotou City Baiyun'ebo Mining Area is a department under the State Land Administration Department and competent authority to administer issues pertaining to idle lands, including the extension of construction period. We estimate our total investment in respect of the Baiyun'ebo Land to be approximately RMB12.0 million based on an investment of no less than RMB300,000 per hectare. We expect the total time required for the construction of the fence around the Baiyun'ebo Land to be approximately one month. As at the Latest Practicable Date, we have not commenced the construction of the fence around the Baiyun'ebo Land or made any investment in respect thereof.

(ii) In respect of the Erlianhaote Land

As a substantial portion of the Erlianhaote Land falls within the delineated area within the new international logistics park in Erlianhaote city, we were ordered by Erlianhaote Administration Committee to cease our construction on the Erlianhaote Land in 2008 and to wait for instructions before resuming our construction. Delay in commencement of construction on the Erlianhaote land will not attract any penalty for idle land. Erlianhaote Administration Committee, the local administration branch of the People's Government of Erlianhaote City, possesses the authority to manage the matters within the economic cooperation zone where the Erlianhaote Land is located, and is the competent authority to require us suspend our construction on the Erlianhaote Land.

We were subsequently notified by the Erlianhaote Administration Committee on 9 September 2010 that we may continue our construction on the Erlianhaote Land.

Properties leased

As at 31 August 2010, we leased 25 properties in China with an aggregate lettable area of approximately 3,372.6 sqm and a parcel of land with a total site area of approximately 16,000 sqm from Independent Third Parties for office, dormitory and storage purposes.

In addition, we leased two properties located in Beijing with an aggregate gross floor area of 2,000 sqm from Beijing Winsway Investment. Each of these two leases constitutes an exempt continuing connected transaction.

Further information in respect of these two leases is set forth in the section headed "Relationship with Controlling Shareholders and Connected Transactions" in this prospectus.

As at 31 August 2010, we leased four properties located in Hong Kong, Australia and the People's Republic of Mongolia with an aggregate lettable area of approximately 1,366.8 sqm from Independent Third Parties for office and dormitory purposes.

Valuation

Jones Lang LaSalle Sallmanns Limited, an independent property valuation firm, has assessed our property interests as at 31 August 2010. The text of Jones Lang LaSalle Sallmanns Limited's letter, the summary of valuation and the valuation certificate are set out in Appendix IV to this prospectus.

INSURANCE

We have, in accordance with relevant regulations, maintained occupational injury, medical, and retirement insurance for our employees. We have also taken out insurance coverage for all our sea freights. We will continue to review and assess our risks and make necessary adjustments to our insurance practice in line with our needs and industry practice in the PRC.

INTELLECTUAL PROPERTY

We have operated under the "WINSWAY" and "永暉", trademarks. These trademarks are registered in China and owned by Beijing Winsway Investment. Beijing Winsway Investment has agreed to grant us and our PRC subsidiaries a license to use these trademarks within China under the Trademark (Onshore) Licence Agreements for a period of ten years on a royalty-free and non-exclusive basis.

We have also operated under the "浩通", "永暉焦煤", "浩通焦煤" and "Bestway" trademarks. Beijing Winsway Investment has granted us and our PRC subsidiaries a license to use these trademarks pending registration by it under the Licence for Non-registered Trademarks. Beijing Winsway Investment has agreed that once these trademarks are officially registered with the relevant trademark authorities of the PRC, it will license them to us and our PRC subsidiaries for a period of 10 years commencing from the date of approval of registration of such trademarks on a royalty-free and non-exclusive basis.

The "WINSWAY®" trademark is also registered in Hong Kong and owned by Winsway Resources Holdings. Winsway Resources Holdings has granted us and our subsidiaries a license to use the "WINSWAY®" trademark in Hong Kong under the Trademark (Offshore) Licence Agreements for a period of 10 years on a royalty-free and non-exclusive basis.

For further details of these licensing arrangements, please refer to the section headed "Relationship with Controlling Shareholders and Connected Transactions — Connected Transactions — Exempt continuing connected transactions" in this prospectus.

Further details of our intellectual property rights are set forth in the sections headed "Relationship with Controlling Shareholders and Connected Transactions" in this prospectus.

LEGAL PROCEEDINGS

We are currently not involved in any material contractual disputes or legal proceedings. During the Track Record Period and as at the Latest Practicable Date, we have not been a party to any material litigation, arbitration or claim that could have a material adverse effect on our financial condition or results of operations and we are not aware of any material threatened litigation, arbitration or claim against us.