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## FINANCIAL INFORMATION

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You should read the following discussion and analysis in conjunction with our combined financial information prepared in conformity with IFRSs, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, together with the accompanying notes, set forth in the accountants' report included as Appendix I to this prospectus. Information presented in this section that is not extracted or derived from the accountants' report has been extracted or derived from unaudited management accounts (which are not included in this prospectus) as of and for the 8 month period ended 31 August 2010 for the section headed "Liquidity and Capital Resources — Net current assets" in this prospectus and as of and for the 7 month period ended 31 July 2010 for the section headed "Liquidity and Capital Resources – Indebtedness" in this prospectus or from other records. You should read the whole of the accountants' report included as Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our actual results reported in future periods could differ materially from those discussed below. Factors that could cause or contribute to such differences include those discussed in the sections headed "Risk Factors" and "Business" and elsewhere in this prospectus.

For the purpose of this section, unless the context otherwise requires, references to 2007, 2008 and 2009 refer to our financial year ended 31 December of such year. Unless the context otherwise requires, financial information described in this section is described on a combined basis.

### 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 the AME estimates and our internal data, 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 were approximately 34.4 mt and approximately 75.4 mt respectively.

We believe we are one of the pioneers in 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.

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## FINANCIAL INFORMATION

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The following table sets out our turnover and profit from our continuing operations attributable to equity shareholders of our Company for each of 2007, 2008 and 2009 and for the six months ended 30 June 2009 and 2010, respectively.

	<u>Years ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover .....	198,641	993,540	4,655,636	817,984	4,298,827
Gross profit .....	39,088	440,703	846,896	151,736	945,818
Profit attributable to equity shareholders of our Company .....	17,811	244,606	454,049	64,983	528,925

We have financed our operations primarily through contributions from Shareholders, advances from our Shareholders and other related parties, bank and other loans, proceeds from the issuance of the Convertible Bonds and the Preference Shares and internally generated cash flow. We typically follow a financing model under which our start-up cost is mainly financed by contributions and advances from our Shareholders and investors. Our general working capital is mainly financed through bank facilities, trade credits and internally generated cash flow.

- **Contributions from Shareholders.** We have relied to a certain extent on capital contributions from our Shareholders to finance our start-up cost and other costs in respect of infrastructure and our facilities, such as coal processing plants and logistics parks.
- **Advances from Shareholders and other related parties.** In the past, we have also relied to a certain extent on advances from our Shareholders and other related parties to finance our capital expenditure and expansion plans. Such advances were accounted as amounts due to related parties in our combined balance sheets. Our Directors confirm that all outstanding balances with Shareholders and other related parties will be settled upon Listing.
- **Bank and other loans.** As at 30 June 2010, we had total bank and other borrowings of RMB2,195.3 million. We have obtained bank facilities and trade credits and general bank and other borrowings to finance our operation. Our bank and other loans are secured by our fixed deposits placed in banks with an aggregate carrying value of RMB435.1 million, RMB208.5 million of coking coal inventories in aggregate carrying value and pledged trade and bills receivables with an aggregate carrying value of RMB1,164.1 million. In addition, Mr. Wang and a number of his controlled corporations have provided guarantees of an aggregate amount of RMB862.8 million in respect of our bank and other loans as at 30 June 2010. Save for the ANZ Guarantee which will be released within 15 days following the Listing, all such guarantees will be released upon Listing. We usually repay such borrowings using new bank and other borrowings and internally generated cash flow. For details of the ANZ Guarantee, please refer to the section headed “Relationship with Controlling Shareholders and Connected Transactions — Connected Transactions — Exempt continuing connected transactions — Guarantee from our connected persons” in this prospectus.
- **Proceeds from the issuance of the Convertible Bonds and the Preference Shares.** With a view to obtaining additional capital to fund our operations, infrastructure and coal processing facilities construction, we and the Controlling Shareholders entered into a subscription agreements with a number of investors, namely HOPU, China Minmetals Corporation, Silver Grant and ITOCHU, in March and April 2010, pursuant to which the investors agreed to subscribe for the Convertible Bonds and the Preference Shares amounting to an aggregate of

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## FINANCIAL INFORMATION

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US\$120.0 million. For further details please refer to the section headed “History, Reorganisation and Group Structure” in this prospectus.

- **Internally generated cash flow.** In addition to the financing mentioned above, our daily operations are also funded by our internally generated cash flow. Our profit attributable to equity shareholders of our Company was RMB17.8 million, RMB244.6 million, RMB454.0 million and RMB528.9 million for each of 2007, 2008 and 2009 and the six months ended 30 June 2010, respectively.

After the Listing of our Shares, we expect to fund our expansion by using a combination of sources, including internally generated cash flow, bank and other loans and proceeds from the Global Offering. In particular, as at 30 June 2010, our total contracted capital commitment amounted to RMB508.9 million. For details of our capital commitments as at 30 June 2010, please refer to the section headed “Financial Information — Contractual Commitments and Capital Expenditures” in this prospectus.

### **Basis of Presentation of Financial Information**

Our Company was incorporated in the BVI with limited liability on 17 September 2007. Pursuant to our reorganisation, the Company became the holding company of the companies now comprising the Group as at 31 December 2007. Since our Company and our subsidiaries are ultimately controlled by the Founder both before and after the completion of our reorganisation, our reorganisation has been treated as a business combination under common control for accounting purposes, and the financial information (the “**Financial Information**”) of our Group for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010 has been prepared using the merger basis of accounting as if the Group has always been in existence.

The Financial Information presented in the accountants’ report includes the following assumptions:

- Our combined income statement, combined statements of comprehensive income, combined statements of changes in equity and combined cash flow statements for each of 2007, 2008 and 2009 and the six months ended 30 June 2010 include the results of operations of the companies now comprising our Group, as if the current group structure had been in existence and remained unchanged throughout the Track Record Period, or since the dates of their incorporation or establishment where this is a shorter period;
- Our combined balance sheets as at 31 December 2007, 2008 and 2009 and 30 June 2010 have been prepared to present the combined assets and liabilities of the companies now comprising our Group as at the respective dates; and
- All material intra-group transactions and balances have been eliminated on combination.

For more information on the basis of presentation of the Financial Information included herein, see section A of the accountants’ report included as Appendix I to this prospectus.

## FINANCIAL INFORMATION

### Selected Historical Financial Information of Our Group

The following combined income statement information for the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2009 and 2010 and the selected combined balance sheet information as at 31 December 2007, 2008 and 2009 and 30 June 2010 prepared in accordance with IFRSs, which are derived from the accountants' report set forth in Appendix I to this prospectus.

### Selected combined income statements and other financial data

	Years ended 31 December			Six months ended 30 June	
	2007	2008	2009	2009	2010
	RMB '000	RMB '000	RMB '000	RMB '000 (unaudited)	RMB '000
<b>Continuing operations</b>					
<b>Turnover</b> .....	198,641	993,540	4,655,636	817,984	4,298,827
Cost of sales .....	(159,553)	(552,837)	(3,808,740)	(666,248)	(3,353,009)
<b>Gross profit</b> .....	39,088	440,703	846,896	151,736	945,818
Other revenue .....	444	6,166	7,844	2,366	12,792
Distribution costs .....	(2,869)	(109,558)	(236,998)	(74,734)	(126,411)
Administrative expenses .....	(13,774)	(62,275)	(91,623)	(28,555)	(114,561)
Other operating expenses, net .....	(729)	(10,012)	(643)	(1,077)	(9,698)
<b>Profit from operating activities</b> .....	22,160	265,024	525,476	49,736	707,940
Finance income .....	3,790	4,480	6,205	1,264	7,773
Finance costs .....	(3,690)	(3,331)	(37,041)	(11,020)	(74,895)
Net finance income/(costs) .....	100	1,149	(30,836)	(9,756)	(67,122)
<b>Profit before taxation</b> .....	22,260	266,173	494,640	39,980	640,818
Income tax .....	150	10,639	(62,008)	4,146	(111,910)
<b>Profit from continuing operations</b> .....	22,410	276,812	432,632	44,126	528,908
<b>Profit attributable to:</b>					
Equity shareholders of our Company .....	17,811	244,606	454,049	64,983	528,925
Non-controlling interests .....	(2,164)	(935)	-	-	(17)
	15,647	243,671	454,049	64,983	528,908
<b>Other financial data</b>					
Net cash (used in)/generated from operating activities .....	(242,415)	126,545	(311,504)	(124,022)	(54,218)

## FINANCIAL INFORMATION

### Selected combined balance sheets data

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB '000	RMB '000	RMB '000	RMB '000
<b>Total assets</b> .....	<b>650,575</b>	<b>1,409,367</b>	<b>3,960,829</b>	<b>6,372,180</b>
Current assets .....	499,087	1,035,252	3,478,485	5,532,437
Including: Cash and cash equivalents .....	37,999	99,141	244,167	542,023
Non-current assets .....	151,488	374,115	482,344	839,743
<b>Total liabilities</b> .....	<b>341,837</b>	<b>874,537</b>	<b>2,953,423</b>	<b>4,728,184</b>
Current liabilities .....	339,248	872,643	2,953,423	3,970,430
Including: Secured bank and other loans .....	123,822	599,038	1,399,547	2,195,274
Non-current liabilities .....	2,589	1,894	-	757,754
<b>Total equity</b> .....	<b>308,738</b>	<b>534,830</b>	<b>1,007,406</b>	<b>1,643,996</b>
Attributable to equity shareholders of the Company .....	308,041	534,830	1,007,406	1,640,093
Non-controlling interests .....	697	-	-	3,903

### Factors Affecting Our Results of Operations

Our business, results of operations and financial condition are affected by a number of factors, many of which are beyond our control, including those set forth below.

#### Average selling price of our coking coal products

We derive most of our turnover from sales of coking coal. Coal and coal-related products are commodity products, the price of which is subject to supply and demand dynamics and other factors. The coal markets tend to be cyclical and, historically, the PRC coal and coal-related product markets have at times experienced alternating periods of increased demand and resulting price increases, followed by periods of excess supply and resulting price declines.

The average selling price of our coal products was approximately RMB905 per tonne in 2009 and RMB1,007 per tonne for the six months ended 30 June 2010. The average selling prices of our coal products are affected by a number of factors including (i) global and domestic macro economic cycles, (ii) overall supply of raw coal globally and domestically, (iii) overall demand for cleaned and raw coking coal and overall domestic consumption in the PRC, (iv) overall demand of coking coal and performance of downstream industries, such as the steel making industry, (v) demand of our coal products in our target markets or geographical regions and (vi) product characteristics and specifications. The average selling price of our Mongolian coal products is generally less sensitive to price volatility in the global markets than our seaborne coal products. The pricing of our Mongolian coal products has generally tracked market prices of the PRC domestic market, while the pricing of our seaborne coal products has a greater exposure to price volatility in the global markets. Please refer to the section headed "Industry Overview" in this prospectus for more detailed information on the global, the PRC and Mongolian coking coal market and the coal transportation network and infrastructure.

In addition, by developing our own coal processing facilities and expanding our coal processing capacity to produce cleaned coking coal, we have been able to provide a variety of coal products from both Mongolia and the rest of the world, to suit our customers' needs and specification requirements. As a result, we are able to capture market price premium.

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## FINANCIAL INFORMATION

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### Sales volume

The sales volume of our coking coal increased substantially during the Track Record Period. The sales volume of our coal products is largely dependent upon the market demand of our products and our ability to meet such demand.

In the three years ended 31 December 2007, 2008 and 2009 and the six months ended 30 June 2010, we sold an aggregate of approximately 539,789 tonnes, 1,008,155 tonnes, 5,073,829 tonnes and 4,255,460 tonnes of coking coal, respectively. We have sourced raw coking coal primarily from Mongolian miners and seaborne coal from other countries such as Australia, the US, Canada and Russia. We have established long-term commercial relationships and have strategic cooperation arrangements in place with a number of these suppliers and hence are able to secure our coal supplies at a reasonable price. Our strategy to invest in upstream mining assets will also enable us to secure long-term and stable supply of coking coal in order to meet the increasing demand of our customers. Our plan to expand our existing coal processing facilities and to invest in new coal processing plants will also facilitate future growth in our cleaned coking coal production capabilities and sales volume.

Our future growth in sales volume is also dependant on the throughput capacities at the Sino-Mongolian border crossings and at various seaports, as well as our ability to secure sufficient freight capacity on railway and road in a cost efficient manner to transport our coal products to target customers and markets. We have established long-term and exclusive relationship with Moveday in respect of transportation of coal in Mongolia and established relationships with third party transportation companies for transportation of coal in the PRC and have strategically invested, or planned to strategically invest, in a heavy duty road in Mongolia and railway logistics centres, railways and railway loading stations in the PRC, which will enable us to transport coal from our suppliers and to our customers. Currently, our seaborne coal is usually delivered to Jingtang port, Rizhao port and Caofeidian port. 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, depending on the needs of our customers. For further details on our transportation arrangements, please refer to the section headed “Business — Transportation” in this prospectus.

### Cost of Sales

Cost of sales mainly include the cost of coal purchased from our suppliers, coal transportation cost, coal processing costs, depreciation, amortisation and maintenance costs of our motor vehicles, machinery, coal processing facilities, logistics park and other infrastructure and other costs.

The following factors have affected and will continue to affect our cost of sales:

- fluctuation in the purchase cost of coal;
- increase in the cost incurred for transporting our coal from the Sino-Mongolian border to our distribution points through road transportation;
- increase in the costs incurred for coal processing, such as staff costs and cost of water, electricity, power and other utilities; and
- increase in depreciation, amortisation and maintenance costs of our motor vehicles, machinery, coal processing facilities, logistics park and other infrastructure, due to our additional capital expenditures for the purpose of our business expansion.



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## FINANCIAL INFORMATION

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### **Distribution costs**

Another important factor that affects our profitability is our distribution costs. Our distribution costs consist primarily of railway and road transportation costs associated with delivering our coking coal products and other coal related products to our customers. For 2007, 2008 and 2009 and the six months ended 30 June 2010, we recorded distribution costs of RMB2.9 million, RMB109.6 million, RMB237.0 million and RMB126.4 million, respectively. Road transportation services have primarily been provided by third party transportation companies and our self-owned trucks. We have developed long-term relationship with third party transportation companies, which will enable us to control road transportation charges at a reasonable level. We also rely on the national railway to transport coal to our coal processing plants and customers. The cost of railway transportation through the national railway is relatively stable and tracked national railway prices. During the Track Record Period, we had not experienced any material transport capacity shortage or delay which affected the sales or delivery of our products.

Our target sales region will also affect our total distribution costs as road and railway transportation costs are charged by third party transportation companies and the national railway based on volume of coal and the distance being transported. During the Track Record Period, the increase in our distribution costs was principally due to the increase in our sales volume as well as the extension of our sales network from Inner Mongolia to cover other target markets in Hebei, Shanxi, Shandong and other provinces in southern China.

Our ability to expand our throughput capacities and to secure sufficient freight capacities on the national railway to transport our coal products to target markets will also affect our ability to control and manage our transportation costs. However, any future congestion in the railway system in the PRC or increases in railway transportation unit prices or increases in the transportation costs charged by third party transportation companies or any future restriction imposed by the PRC Government in granting relevant transportation licenses will increase our distribution costs and could adversely affect our results of operations.

### **Anticipated capital expenditures**

We have committed to capital expenditures of RMB508.9 million as at 30 June 2010 to acquire or invest in new infrastructure, including logistics park, railway logistics centres, docking facilities and new coal processing facilities. We intend to fund the expected capital expenditure with internally generated cash flow, bank and other loans and proceeds from the Global Offering. Such capital expenditure and its associated increases in amortisation and depreciation expenses will increase our cost of sales and could have a significant impact on our future combined results of operations. For further details of our future expansion plan and the amount of net proceeds from the Global Offering which will be used for such future acquisition or expansion, please refer to the sections headed “Future Plans and Outlook” and “Use of Proceeds” in this prospectus.

### **Critical Accounting Policies and Estimates**

The discussion and analysis of our financial condition and results of operations are based upon our combined financial information for 2007, 2008 and 2009, and the six months ended 30 June 2009 and 2010, which have been prepared in accordance with IFRSs. Our reported financial condition and results of operations are sensitive to accounting methods and assumptions and estimates that underlie the preparation of the financial information.

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## FINANCIAL INFORMATION

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### **Critical accounting policies**

#### ***Revenue recognition***

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to our Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

Revenue associated with the sale of coal is recognised when the risks and rewards of ownership of the goods have been passed to the customer. Revenue excludes value added tax and other sales taxes and is after deduction of any trade discounts.

We recognise revenue when the goods are received and accepted at the point of delivery, which generally takes place (i) for goods sold to our overseas customers, when title passes to our customer on shipment (in the case of our goods being sold to our overseas customers); or (ii) for goods sold within the PRC, when the risks and rewards of ownership passes to our customers, which takes place upon receipt of our coal products by our customer or when our coal products leave our warehouse pursuant to relevant terms of the contract of sales.

#### ***Inventories***

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

#### ***Property, plant and equipment***

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Construction in progress represents property, plant and equipment under construction and equipment pending installation, and is initially recognised in the balance sheet at cost less impairment losses. The construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

The cost of self-constructed assets includes the cost of materials and direct labour, and the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located and an appropriate proportion of production overheads and borrowing costs.



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## FINANCIAL INFORMATION

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Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives. Where parts of an item of property, plant and equipment have a different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

### *Trade and other receivables*

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost.

### *Convertible notes*

Convertible notes that contain an equity component and can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible notes is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the other reserve until either the note is converted or redeemed.

If the note is converted, the other reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the other reserve is released directly to retained profits.

### *Preferred shares*

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Company's option and any dividends are discretionary. Dividends on preferred shares classified as equity are recognised as distributions within equity.

Preferred shares are classified as liabilities if they are redeemable on a specific date or at the option of the equity shareholders of the Company, or if dividend payments are not discretionary. The liabilities are recognised in accordance with our Group's policy for derivative financial instruments and interest-bearing borrowings and dividends thereon are recognised as interest expense in profit or loss on an accrual basis.

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## FINANCIAL INFORMATION

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### *Share-based payments*

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

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

### **Critical accounting judgments in applying our Group's accounting policies**

Our Group's financial position and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the Financial Information. Our Group bases the assumptions and estimates on historical experience and on various other assumptions that our Group believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in condition and assumptions are factors to be considered when reviewing the Financial Information. Our Group believes the following critical accounting policies are among those that involve the most significant judgments and estimates used in the preparation of the Financial Information.

### *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value, if any. Our Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### *Impairment of assets*

If circumstances indicate that the carrying amount of an asset may not be recoverable, this asset may be considered "impaired", and an impairment loss may be recognised in profit or loss. The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount.

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## FINANCIAL INFORMATION

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The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for our Group's assets are not readily available. In determining the value in use, expected cash flow generated by the asset are discounted to their present value, which requires significant judgment relating to the level of sales revenue and amount of operating costs. Our Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales revenue and amount of operating costs.

### *Income taxes*

Our Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

### **Description of Certain Income Statement Items**

#### **Turnover**

Turnover represents the sales value of our coking coal products supplied to our customers, net of value added or other sales taxes, and the deduction of any trade discounts.

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

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

As we derive a substantial portion of our total turnover from the sale of coal, our results of operations for a given period are dependent upon the type of coal we sell during that period, as well as the market demand and the average selling price for each type of coal. Our coal products can be categorised in three principal types, namely Mongolian coal, which comprise raw coking coal and cleaned coking coal, and seaborne coal, which solely consist of hard coal. We also sold other coal-related by-products such as middlings, waste rock and slime. Our business focus is to supply imported coking coal, primarily Mongolian coal and to be supplemented by coal from other origins. In 2007, we focused on the sale of Mongolian raw coking coal, which accounted for 96.4% of our total turnover. In 2008, our Group commenced the sale of Mongolian cleaned coking coal, which quickly became a significant component of our turnover and accounted for 82.7% of our total turnover in 2008, as we established our Urad Zhongqi coal processing plant in the same year. Based on favourable market

## FINANCIAL INFORMATION

conditions in 2009 and as a natural expansion in addition to our supply of imported Mongolian coal to customers in the PRC, we commenced the sale of hard coal sourced from Australia, the US, Canada and Russia, which accounted for 60.9% of our turnover in 2009, with the purpose of meeting our customers' demand for a variety of coking coal for their coke blend. For the six months ended 30 June 2010, our sales split was fairly consistent with that in 2009, and for the same period, the sale of Mongolian cleaned coking coal, Mongolian raw coking coal and seaborne coal accounted for 38.2%, 7.3% and 54.2% of our total turnover, respectively. Our significant increase in turnover, on an annualised basis, for the six months ended 30 June 2010 as compared to that for the year ended 31 December 2009 was mainly due to the significant increase in our total sales volume attributable from (i) our increased coal processing capacity at the Urad Zhongqi coal processing plant from 2.0 mtpa at the beginning of 2009 to 4.0 mtpa as at 30 June 2010 and (ii) an increase in the volume of seaborne coal purchased from our overseas suppliers and supplied to our customers to meet their specific demand for a variety of coking coal for their coke blend, where such sales and purchases of seaborne coal had only accelerated since the second half of 2009.

The table below sets forth, for the periods and the type of coal indicated, the total sales volume and the average selling price per tonne for each type of coal, which is calculated by dividing the turnover attributable to the coal sold by type by the total volume of that type sold:

	Years ended 31 December						Six Months ended 30 June			
	2007		2008		2009		2009		2010	
	Total sales volume (Tonnes)	Average selling price (per tonne) (RMB)	Total sales volume (Tonnes)	Average selling price (per tonne) (RMB)	Total sales volume (Tonnes)	Average selling price (per tonne) (RMB)	Total sales volume (Tonnes) (unaudited)	Average selling price (per tonne) (RMB)	Total sales volume (Tonnes)	Average selling price (per tonne) (RMB)
<b>Mongolian coal</b>										
Cleaned coking coal . . . . .	-	-	657,895	1,249	1,796,081	877	733,417	778	1,551,157	1,060
Raw coking coal . . . . .	539,789	355	350,260	459	344,811	531	9,213	400	697,070	449
<b>Seaborne coal</b>										
Hard coal . . . . .	-	-	-	-	2,932,937	966	272,737	891	2,007,233	1,160
<b>Total</b> . . . . .	<u>539,789</u>	<u>355</u>	<u>1,008,155</u>	<u>975</u>	<u>5,073,829</u>	<u>905</u>	<u>1,015,367</u>	<u>805</u>	<u>4,255,460</u>	<u>1,007</u>

In terms of our target markets, our Group had predominantly focussed our sales of raw coking coal in the Inner Mongolia regions in 2007. In 2008, our Group expanded into other geographical regions or target markets, such as Hebei, Shanxi and other provinces in southern China. In 2009 and in the first half of 2010, we further extended our sales to customers, which are mainly steel makers, in Hebei, which became our largest target market.

### Cost of sales

Cost of sales mainly comprises the costs we incur directly in relation to the processing and sale of coking coal. The principal component of our cost of sales is the cost of coal purchased from our suppliers, cost incurred for transporting our coal from the Sino-Mongolian border to our distribution points through road transportation, coal processing costs which include staff costs and cost of water, electricity, power and other utilities, depreciation, amortisation and maintenance costs of our motor vehicles, machinery, coal processing facilities, logistics park and other infrastructure and other costs.

## FINANCIAL INFORMATION

The table below sets forth information relating to the cost of sales for each period during the Track Record Period and for the six months ended 30 June 2009 and 2010.

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Cost of coal purchased . . . .	136,169	85.3	450,319	81.5	3,515,042	92.2	555,575	83.4	3,151,848	94.0
Transportation cost . . . . .	8,234	5.2	65,540	11.9	112,445	3.0	32,257	4.8	113,368	3.4
Coal processing costs . . . . .	-	-	9,626	1.7	23,633	0.6	9,650	1.4	19,887	0.6
Staff cost . . . . .	2,006	1.3	2,807	0.5	7,068	0.2	2,366	0.4	5,879	0.2
Depreciation and amortisation . . . . .	6,782	4.3	12,756	2.3	26,023	0.7	13,117	2.0	15,011	0.4
Custom charges . . . . .	2,923	1.8	8,213	1.5	108,998	2.9	40,734	6.1	11,485	0.3
Others . . . . .	3,439	2.1	3,576	0.6	15,531	0.4	12,549	1.9	35,531	1.1
<b>Total cost of sales . . . . .</b>	<b>159,553</b>	<b>100.0</b>	<b>552,837</b>	<b>100.0</b>	<b>3,808,740</b>	<b>100.0</b>	<b>666,248</b>	<b>100.0</b>	<b>3,353,009</b>	<b>100.0</b>

The overall increase in cost of sales over the Track Record Period was mainly driven by the increase in sales volume of coal. During the Track Record Period, the cost of coal purchased constituted the largest component of our cost of sales and accounted for 85.3%, 81.5%, 92.2% and 94.0% for 2007, 2008 and 2009 and for the six months ended 30 June 2010, respectively. The increase in the percentage of the cost of coal purchased to the total cost of sales in 2009 was attributable to the commencement of our sales of seaborne coal, the purchase price of which was generally more expensive than Mongolian coal.

The table below sets forth, for the periods and the type of coal indicated, the total purchase volume and the average purchase price per tonne for each type of coal, which is calculated by dividing the total purchase cost attributable to the coal purchased by type by the total purchase volume of that type:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	Total purchase volume (Tonnes)	Average purchase price per tonne (RMB)	Total purchase volume (Tonnes)	Average purchase price per tonne (RMB)	Total purchase volume (Tonnes)	Average purchase price per tonne (RMB)	Total purchase volume (Tonnes)	Average purchase price per tonne (RMB)	Total purchase volume (Tonnes)	Average purchase price per tonne (RMB)
Mongolian coal . . . . .	964,994	274	1,267,990	424	3,771,636	364	1,581,748	344	2,366,763	455
Hard coal . . . . .	-	-	-	-	3,361,228	856	498,363	880	1,995,687	969
<b>Total . . . . .</b>	<b>964,994</b>	<b>274</b>	<b>1,267,990</b>	<b>424</b>	<b>7,132,864</b>	<b>596</b>	<b>2,080,111</b>	<b>472</b>	<b>4,362,450</b>	<b>690</b>

The increase in transportation cost was generally in line with the increase in our sales and purchase volume of coal. The percentage of the transportation cost to total cost of sales in 2008 was relatively higher than 2007 and 2009 as a result of the additional costs incurred for transporting coal to our coal processing plant in Urad Zhongqi, which commenced operations in 2008 and which was also when we began our sale of cleaned coking coal. Transportation costs remained fairly consistent as a percentage to total cost of sales since 2009. In addition, we began to incur coal processing costs as we commenced the sale of cleaned coking coal in 2008. The decrease in the coal processing costs as a percentage of total cost of sales in 2009 was mainly attributable to the commencement of our sales of seaborne coal, which are delivered directly to our customers without further processing. Custom charges represents import charges payable for the import of Mongolian and seaborne coal by the Group. The increase in the percentage of custom charges to the total cost of sales in 2009 was mainly attributable to the import of seaborne coal which borne relatively higher import charges than Mongolian coal.

## FINANCIAL INFORMATION

In addition, the table below sets forth, for the periods and the type of coal indicated, the total cost of sales and the average cost of sales per tonne for each type of coal, which is calculated by dividing the cost of sales attributable to the coal sold by type by the total volume of that type sold:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	Total cost of sales (RMB'000)	Average cost of sales per tonne (RMB)	Total cost of sales (RMB'000)	Average cost of sales per tonne (RMB)	Total cost of sales (RMB'000)	Average cost of sales per tonne (RMB)	Total cost of sales (RMB'000) (unaudited)	Average cost of sales per tonne (RMB)	Total cost of sales (RMB'000)	Average cost of sales per tonne (RMB)
<b>Mongolian coal</b>										
Cleaned coking coal .....	-	-	404,194	614	1,132,703	631	423,699	578	1,014,718	654
Raw coking coal .....	153,469	284	142,631	407	138,357	401	2,860	310	227,778	327
<b>Seaborne coal</b>										
Hard coal .....	-	-	-	-	2,482,102	846	239,289	877	2,102,516	1,047
<b>Total cost of sales of coal .....</b>	<b>153,469</b>	<b>284</b>	<b>546,825</b>	<b>542</b>	<b>3,753,162</b>	<b>740</b>	<b>665,848</b>	<b>656</b>	<b>3,345,012</b>	<b>786</b>

As illustrated in the table above, the average cost of sales per tonne of raw coking coal sold is the lowest amongst the three products. This is principally due to the fact that the distribution points are generally at a location near the Sino-Mongolian border crossing or in Inner Mongolia, thereby leading to lower transportation costs. On the other hand, the average cost of sales per tonne of cleaned coking coal sold is relatively higher than that of raw coking coal. This is mainly attributable to the additional coal processing cost incurred, increased costs associated with a larger amount of raw coal required for processing into cleaned coal and higher costs incurred for the transportation of coal to our coal processing plants. In addition, seaborne coal has the highest average cost of sales per tonne of coal sold. This is because the purchase cost of seaborne coal, which generally tracks global coking coal prices, is higher than the purchase cost of Mongolian coal, which generally tracks domestic coal prices. The average cost of sales per tonne of coking coal sold in 2008 was relatively higher than 2007 and 2009, which was also in line with the general increase in global and domestic coal prices in the same year. Notwithstanding the increase in average cost of sales per tonne of seaborne coal sold in the six months ended 30 June 2010, our average total cost of sales per tonne of Mongolian coal for the six months ended 30 June 2010 remained relatively stable as compared to the year ended 31 December 2009. This was mainly attributable to the long-term relationship which we have developed with our suppliers and our leading market position in supplying Mongolian coal to China, enabling us to secure our coal supplies at a reasonable price. Please refer to the section headed "Industry Overview" in this prospectus for more detailed information on the global and domestic coking coal market and prices.

We recognise the cost of sales of our coal for a given period to the extent that turnover from the sale of coal has been recognised in that period. The components of our cost of sales may change in any given year based on the type of coal we sell to our customers.

### Gross profit

As a result of the factors affecting our turnover and cost of sales of each type of coal as mentioned above and taking into consideration the average selling prices and average cost of sales per tonne for each type of coal, the gross profit margin for Mongolian cleaned coking coal is generally higher than Mongolian raw coking coal and seaborne coal. The decrease in gross profit margin in 2009 was attributable to the overall decline in global and domestic coal prices, whilst cost of cleaned coking



## FINANCIAL INFORMATION

coal increased and the contribution of seaborne coal, which has a relatively lower margin than Mongolian coal, also increased. The increase in our gross profit margin for the six months ended 30 June 2010 was mainly attributable to the increase in overall average selling price while the overall average cost of sales remained relatively consistent with that of 2009. Gross profit from our Mongolian business remained as the major contributor to our total gross profit during the Track Record Period and for the six months ended 30 June 2010. In addition, gross profit margin of our Mongolian cleaned coking coal increased from 28.1% in 2009 to 38.3% for the six months ended 30 June 2010 mainly because of the increase in the average selling price of our Mongolian cleaned coking coal mainly attributable to the strong demand from steel makers and also in line with the increase in spot price for coking coal in China; while the average cost of sales of Mongolian cleaned coking coal remained relatively stable with that of 2009 as a result of the sell-down of lower cost inventories that were purchased in 2009, where the Company, in anticipation of the enlarged processing capacity and severe weather conditions in the winter, kept a relatively high level of raw coal inventory at the end of 2009. However, gross profit margin of our seaborne coal decreased from 12.4% in 2009 to 9.7% for the six months ended 30 June 2010 mainly because of the strong demand and shortage of supply of coal in the global markets leading to an increase in international coal prices in the first half of 2010, thereby increasing the cost of seaborne coal purchased in the six months ended 30 June 2010 as compared to that of 2009, whilst our average selling price grew at a relatively slower pace in line with the growth in coal prices in the domestic market. The table below sets forth the breakdown of gross profit by cleaned coking coal, raw coking coal, hard coal and others for each period during the Track Record Period and for the six months ended 30 June 2009 and 2010.

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)	Gross Profit (RMB'000) (unaudited)	Gross Profit Margin (%)	Gross Profit (RMB'000)	Gross Profit Margin (%)
<b>Mongolian coal</b>										
Cleaned coking coal . . . . .	-	-	417,802	50.8	442,141	28.1	146,811	25.7	629,364	38.3
Raw coking coal . . . . .	37,958	19.8	18,300	11.4	44,681	24.4	825	22.4	85,163	27.2
<b>Seaborne coal</b>										
Hard coal . . . . .	-	-	-	-	351,769	12.4	3,696	1.5	226,864	9.7
Others . . . . .	1,130	15.7	4,601	43.4	8,305	13.0	404	50.2	4,427	35.6
Total gross profit . . . . .	39,088	19.7	440,703	44.4	846,896	18.2	151,736	18.5	945,818	22.0

### Distribution costs

Distribution costs represent our costs of transporting and delivering our coking coal products and other coal related products to our customers. Distribution costs include primarily railway and road transportation expenses charged by local railway bureau and third party transportation companies and incurred by our self-owned trucks, which deliver our coal and other coal related products to our customers. It also includes other sundry expenses including loading charges and handling charges paid to agencies incurred in relation to the distribution of our coal products to our customers. We generally bear the costs for delivering products to the locations designated by our customers.

## FINANCIAL INFORMATION

In addition, the table below sets forth, for the periods and the type of coal indicated, the total distribution costs and the average distribution costs per tonne for each type of coal, which is calculated by dividing the distribution costs attributable to the coal sold by type by the total volume of that type sold:

	Year ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	Total distribution costs (RMB'000)	Average distribution costs per tonne (RMB)	Total distribution costs (RMB'000)	Average distribution costs per tonne (RMB)	Total distribution costs (RMB'000)	Average distribution costs per tonne (RMB)	Total distribution costs (RMB'000) (unaudited)	Average distribution costs per tonne (RMB)	Total distribution costs (RMB'000)	Average distribution costs per tonne (RMB)
Mongolian coal . . . . .	2,869	5.32	109,558	108.67	233,555	109.09	74,734	73.60	122,237	54.37
Seaborne coal . . . . .	-	-	-	-	3,443	1.17	-	-	4,174	2.08
Total distribution costs . . . . .	2,869	5.32	109,558	108.67	236,998	46.71	74,734	73.60	126,411	29.71

The total distribution costs in 2007 represented the total costs for distribution of our Mongolian raw coking coal to our customers. Delivery points of our Mongolian raw coking coal are usually at a location near the Sino-Mongolian border crossing or in Inner Mongolia, leading to relatively low average distribution costs per tonne. In 2008, we commenced the sale of Mongolian cleaned coking coal and expanded the geographic target market reach from Inner Mongolia to Hebei and Shanxi provinces, which in turn increased the associated transportation costs and hence the average distribution costs per tonne. The average distribution costs per tonne for Mongolian coal in 2009 remained consistent with that of 2008. In addition, average total distribution costs decreased in 2009 as a result of the increased contribution from the sale of seaborne coal, which has a relatively lower distribution cost as compared to Mongolian coal as most of our seaborne coal are being delivered to our customers at seaports. Average distribution costs for the six months ended 30 June 2010 further decreased as a result of (i) economies of scale derived from our increased volume of coal sold and transported and (ii) shortening of the transportation distance in respect of the delivery of our Mongolian cleaned coking coal to our customers as most customers have designated their delivery points closer to our coal processing plants or have decided to collect our cleaned coking coal products directly from our coal processing plants.

### Administrative expenses

Our administrative expenses primarily consists of staff costs for administrative staff, depreciation and amortisation of administration related assets, travelling and entertainment expenses, professional expenses, insurance costs and other miscellaneous expenses.

### Finance income/(costs)

Our finance income primarily consists of interest income and net foreign exchange gain. Our finance costs primarily consists of interest on bank and other loans and discounted bills, as well as the net foreign exchange loss on such bank and other loans, other borrowings and trade facilities.

### Income tax

Income tax represents provisions for Hong Kong, the PRC, the BVI, Singapore and Australia corporate income tax. No provision for Hong Kong profits tax has been made for the years or periods during the Track Record Period as our Group did not generate any assessable profits arising in Hong Kong. Our PRC subsidiaries are subject to the PRC corporate income tax at the statutory rates of 33% for 2007 and 25% from 2008 onwards. All of our PRC tax provision is made with respect to assessable

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## FINANCIAL INFORMATION

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profits generated by our PRC subsidiaries and do not relate to our BVI-incorporated entities. Our BVI-incorporated entities contributed to most of our profits for 2007, 2008 and 2009. Pursuant to the rules and regulations of the BVI, our Group is not subject to any income tax in the BVI. The main businesses of these BVI-incorporated entities are purchasing coking coal from third party suppliers and reselling to other entities within our Group for further processing or selling to external customers directly. Our BVI-incorporated entities have engaged certain third party residents in the BVI to act as trade agent and document processing agent in the BVI and have also entered into service agreements with a related party company in Macau, namely Winsway (Group) Enterprises Limited, for the provision of book-keeping and document processing services to our BVI-incorporated entities. The management team of our BVI-incorporated entities usually travel around Mongolia, Australia, Canada and the United States to undertake and negotiate for the procurement of coal from our overseas suppliers. Placing of the purchase orders and signing of procurement agreements would normally take place at the locality of our supplier, whilst such agreements shall only be effected after the BVI trade agent affix the company chop on the agreements in the BVI. Relevant shipping documents were being processed by our agent in Macau, and will be endorsed by our management team at the locality of our overseas supplier. Accordingly, our Directors are of the view that the effective management of these BVI-incorporated entities are situated outside of the PRC and they should not be regarded as PRC resident enterprises and subject to PRC income tax. In relation to other jurisdictions, our Directors consider that as the effective management of the BVI-incorporated entities is in the BVI and that purchase contracts are substantially effected in the BVI when the BVI trade agent affixes the relevant company chop on the agreements in the BVI, the tax exposure to the relevant BVI-incorporated entities in other jurisdictions, including Macau, BVI, Mongolia, Australia, Canada, the United States and the locality of the suppliers where the agreements are signed, to be remote. In this regard, we have appointed a tax adviser which has advised us that, based on the operations and arrangements described above, our BVI-incorporated entities should not be subject to any significant tax exposure in the BVI, PRC, Macau, Mongolia, Japan, Russia, Canada or the United States. Our tax adviser has advised us that although there is technically income tax in BVI, the effective tax rate is zero. However, our tax adviser has also advised us that there may be certain risk that part of the profits derived by our BVI-incorporated entities from the purchase and sale of coal will be considered to be sourced in Australia, particularly because the relevant contracts are negotiated, concluded and executed in Australia. Our tax adviser has further advised us that under Australian tax law, there is no fixed guidance or precedents on how the profit should be calculated while the procurement contracts were negotiated and signed in Australia and the sales occurred outside Australia. Turnover arising from transactions involving supply contracts that were negotiated, concluded and executed in Australia was RMB199.5 million for the year ended 31 December 2009, representing 4.3% of our total turnover, and the cost of coal purchased recorded by us in relation to these supply contracts was RMB180.8 million in 2009, leading to a gross profit (calculated by subtracting the cost of coal purchased from the turnover arising from or associated with the supply contracts) of RMB18.7 million. Our procurement activities in Australia only commenced in 2009 and we have not negotiated, concluded and executed any contract in Australia during the six months ended 30 June 2010. On the basis of the gross profit arising from or associated with these supply contracts that were negotiated, concluded and executed in Australia and a statutory income tax rate of 30% in Australia, we have been advised that our total tax exposure can amount to RMB5.7 million, although it is uncertain that any exposure, if at all, would reach such an amount. In addition, our tax adviser has advised us that interest may be chargeable on the amount of tax underpaid at a uniformed general interest charge (“GIC”) rate announced by the Australian Taxation Office on a quarterly basis and which ranged from 10.16% to 11.76% per annum in 2009. The Australian Taxation Office may also at its sole discretion impose a 25% penalty charge on the amount of tax underpaid. As our procurement activities in Australia only took place in 2009, based on our total tax exposure of RMB5.7 million, the high end of the GIC rate of 11.76% for 2009 and on the assumption that the amount of tax, if at all, will be deemed underpaid since 1 January 2009, the amount of interest and

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## FINANCIAL INFORMATION

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penalty which may be charged or imposed on tax underpaid can amount to RMB671,000 and RMB1,425,000 respectively. In consideration of our current operating structure and procurement activities carried out by our BVI-incorporated entities, our tax adviser has advised us that, the likelihood that our Group be exposed to Australian income tax as a result of profit arising from or associated with our procurement contracts that were negotiated, concluded and executed in Australia is remote. Accordingly, the likelihood of the Australian Taxation Office imposing or charging interest or penalty on underpaid tax is also remote. However, in the event that we are deemed to have underpaid Australian tax as a result of our procurement activities in Australia, it is likely that the Australian Taxation Office will impose the 25% penalty plus GIC interest charges on the relevant amount of underpaid tax. Based on the above and taking into consideration our management have not spent an extended period of time in Australia for our coal procurement activities during the Track Record Period, our management have assessed that it is less than likely that our Group's coal procurement activities in Australia would expose our Group to Australian income tax and that our Directors consider such tax exposure in Australia to be unlikely and impossible to quantify, we have not made any provision in the accountants' report as set out in Appendix I of this prospectus. In respect of Macau Complementary Tax, our tax adviser has also advised us that, although the term "business activities carried out in Macau" is not clearly defined in the Macau Complementary Tax Ordinance, as (i) our BVI-incorporated entities are incorporated as offshore companies in Macau and do not maintain any office nor employ any staff in Macau during the Track Record Period and (ii) except for the accounting and payment functions which were performed by our Macau agent on behalf of our BVI-incorporated entities and all business activities were performed by senior management and our BVI trade agent entirely outside Macau, such BVI-incorporated entities should have a basis to argue that they should not be considered as carrying out business activities in Macau and hence no Macau Complementary Tax liability should arise. In addition, Mr. Wang has agreed to indemnify us for any taxation liability which may arise in relation to the above. Please see the section headed "Relationship with Controlling Shareholders and Connected Transactions — Relationship with Controlling Shareholders — Deed of indemnity" in this prospectus.

From 2010 onwards, our subsidiary in Singapore, Winsway Singapore, is subject to Singapore corporate income tax at a 10% concessionary tax rate under the Global Trader Programme, a programme launched by Singapore's Trade Development Board which encourages qualified products and commodities trading companies to choose Singapore as their regional or global base of operations. In addition to the risk associated with the Australian tax exposure in relation to the purchase and sale of coal by our BVI-incorporated entities as disclosed above, and as our only presence in Australia is through our wholly-owned subsidiary, Winsway Australia, which engages in local industrial research activities for the Group and has not carried out any purchase and sale of coal or other procurement activities in Australia during the Track Record Period since its establishment in November 2009 and has only earned insignificant amount of intra-group services income from us in Australia for which no significant amount of Australian income tax shall arise, apart from this, we consider that no other Australian tax provision is required to be made. Whilst our BVI-incorporated entities contributed to most of our profits, they are not subject to any income tax in the BVI as companies incorporated or registered under the Companies Act are currently exempt from income and corporate tax. As a result of deferred tax credits generated from government grants and unrealised profits in inventories held by our PRC subsidiaries, we enjoyed net tax credits or relatively lower tax charges during the Track Record Period. We had a credit balance of income tax of RMB0.2 million and RMB10.6 million in 2007 and 2008, respectively. For 2009 and the six months ended 30 June 2010, our profit before taxation are RMB494.6 million and RMB640.8 million, respectively, and our income tax expenses are RMB62.0 million and RMB111.9 million, respectively, as a result of which, our effective tax rate for CIT from our continuing operations was 12.5% and 17.5%, respectively. For further details of the taxation of our Group, please refer to the section headed "Taxation and Foreign Exchange — Taxation of the Group" in Appendix VI to this prospectus.

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## FINANCIAL INFORMATION

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Our BVI-incorporated entities mainly engage in the procurement of coal from overseas market for our Group, including the establishment of procurement plan, identification of optimal suppliers and negotiation of pricing terms; whilst our PRC subsidiaries, based on their respective geographic locations and functions performed, are mainly in charge of importing coal, processing coal and distributing coal to customers. In addition, our Group's transfer pricing policy is based on contemporaneous market price. Our Group has a team responsible for tracking latest market prices, trend on market supply and demand, as well as differences in national policies within the Asia Pacific region and overseas. Our management shall make necessary adjustment to our transfer pricing policy based on our business strategies and taking into consideration projection of future market prices before finalising the terms and amount of our inter-company transactions. Our Directors consider that our transfer pricing policies are based on arm's-length principle and will not subject our Group to any transfer pricing exposure. We have also engaged our tax adviser to conduct a transfer pricing review on the pricing policies and related party transactions carried out by our Group between 1 January 2007 to 30 June 2010. Our tax adviser has concluded that our BVI-incorporated entities perform procurement functions and play the key roles of the supply chain of the Group and that our PRC subsidiaries are mainly responsible for importing and washing coal and sales and marketing respectively and in light of the tax adviser's economic analysis and benchmarking results, our tax adviser considers that it is reasonable to conclude that our Group's transfer pricing policies are in line with the arm's length principle and PRC transfer pricing rules. Our adviser was not aware of any significant transfer pricing non-compliance issues arising from our transfer pricing policy for the period under review. Pursuant to relevant tax requirements, rules and regulations of the BVI, our Company is not subject to any statutory tax filing requirements and we have not been subject to challenges by tax bureaus since our incorporation and up to the Latest Practicable Date.

### **Discontinued operations**

During the Track Record Period, our Group disposed of or liquidated several subsidiaries of our Group. Each of these subsidiaries previously carried out a separate line of business or has a specific geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate line of business in a geographical area of operations. Classification as a discontinued operation occurs upon disposal or when the operation is abandoned. The result from each of these subsidiaries is presented on the combined income statements as discontinued operations. These disposed subsidiaries were mainly engaged in the trading of petrochemicals and the provision of logistics services in Mongolia. The disposals of such companies are consistent with the strategy of our Group, which is to focus on developing our coking coal business, while developing long-term strategic cooperation relationship with our Mongolian suppliers and service providers, which have a strong presence in Mongolia. Our Directors believe that the opportunities to improve our operating efficiency through the economies of scale created by leveraging the competitive advantage of our Mongolian suppliers and service providers is beneficial to our Group as a whole. We had also disposed of a loss-making PRC subsidiary engaged in inactive business in 2009. All of these disposed subsidiaries were sold to Independent Third Parties. The loss from the discontinued operations for 2007, 2008 and 2009 and for the six months ended 30 June 2010 was RMB11.3 million, RMB33.3 million, RMB8.1 million and nil, respectively. The gain on sale of such discontinued operations recorded by our Group for each of 2007, 2008 and 2009 and for the six months ended 30 June 2010 was RMB4.5 million, RMB0.1 million, RMB29.6 million and nil, respectively.

### **Exchange differences on translation of financial statements of overseas subsidiaries**

The functional currencies of certain of our overseas subsidiaries are currencies other than RMB. The combined financial statements are presented in RMB since most operations of our Group are in the PRC. The results of foreign operations are translated into RMB at the exchange rates

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## FINANCIAL INFORMATION

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approximating the foreign exchange rates prevailing at the dates of the transactions. Balance sheet items are translated into RMB at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised directly in other comprehensive income and accumulated separately in equity in the exchange reserve. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.



## FINANCIAL INFORMATION

### Combined Results of Operations

The following table shows the line items of our combined income statements and combined statements of comprehensive income, expressed in absolute figures and as a percentage of turnover, for 2007, 2008 and 2009, and the six months ended 30 June 2009 and 2010:

	Years ended 31 December						Six months ended 30 June			
	2007		2008		2009		2009		2010	
	(RMB'000)	(Percentage of turnover)	(RMB'000)	(Percentage of turnover)	(RMB'000)	(Percentage of turnover)	(RMB'000) (unaudited)	(Percentage of turnover)	(RMB'000)	(Percentage of turnover)
<b>Continuing operations</b>										
Turnover	198,641	100.0	993,540	100.0	4,655,636	100.0	817,984	100.0	4,298,827	100.0
Cost of sales	(159,553)	(80.3)	(552,837)	(55.6)	(3,808,740)	(81.8)	(666,248)	(81.5)	(3,353,009)	(78.0)
<b>Gross profit</b>	<b>39,088</b>	<b>19.7</b>	<b>440,703</b>	<b>44.4</b>	<b>846,896</b>	<b>18.2</b>	<b>151,736</b>	<b>18.5</b>	<b>945,818</b>	<b>22.0</b>
Other revenue	444	0.2	6,166	0.6	7,844	0.2	2,366	0.3	12,792	0.3
Distribution costs	(2,869)	(1.4)	(109,558)	(11.0)	(236,998)	(5.1)	(74,734)	(9.1)	(126,411)	(2.9)
Administrative expenses	(13,774)	(6.9)	(62,275)	(6.3)	(91,623)	(2.0)	(28,555)	(3.5)	(114,561)	(2.7)
Other operating expenses, net	(729)	(0.4)	(10,012)	(1.0)	(643)	(0.0)	(1,077)	(0.1)	(9,698)	(0.2)
<b>Profit from operating activities</b>	<b>22,160</b>	<b>11.2</b>	<b>265,024</b>	<b>26.7</b>	<b>525,476</b>	<b>11.3</b>	<b>49,736</b>	<b>6.1</b>	<b>707,940</b>	<b>16.5</b>
Finance income	3,790	1.9	4,480	0.4	6,205	0.1	1,264	0.1	7,773	0.2
Finance costs	(3,690)	(1.9)	(3,331)	(0.3)	(37,041)	(0.8)	(11,020)	(1.3)	(74,895)	(1.8)
Net finance income/(costs)	100	-	1,149	0.1	(30,836)	(0.7)	(9,756)	(1.2)	(67,122)	(1.6)
<b>Profit before taxation</b>	<b>22,260</b>	<b>11.2</b>	<b>266,173</b>	<b>26.8</b>	<b>494,640</b>	<b>10.6</b>	<b>39,980</b>	<b>4.9</b>	<b>640,818</b>	<b>14.9</b>
Income tax	150	0.1	10,639	1.1	(62,008)	(1.3)	4,146	0.5	(111,910)	(2.6)
<b>Profit from continuing operations</b>	<b>22,410</b>	<b>11.3</b>	<b>276,812</b>	<b>27.9</b>	<b>432,632</b>	<b>9.3</b>	<b>44,126</b>	<b>5.4</b>	<b>528,908</b>	<b>12.3</b>
Loss from discontinued operations (net of income tax)	(11,260)	(5.7)	(33,267)	(3.4)	(8,148)	(0.2)	(7,673)	(0.9)	-	-
Gain on sale of discontinued operations (net of income tax)	4,497	2.3	126	0.0	29,565	0.7	28,530	3.4	-	-
<b>Profit for the year/period</b>	<b>15,647</b>	<b>7.9</b>	<b>243,671</b>	<b>24.5</b>	<b>454,049</b>	<b>9.8</b>	<b>64,983</b>	<b>7.9</b>	<b>528,908</b>	<b>12.3</b>
<b>Other comprehensive income for the year/period</b>										
Exchange differences on translation of financial statements of overseas subsidiaries (net of income tax)	(5,911)	(3.0)	(16,989)	(1.7)	(2,112)	(0.1)	(3,529)	(0.4)	(8,832)	(0.2)
<b>Total comprehensive income for the year/period</b>	<b>9,736</b>	<b>4.9</b>	<b>226,682</b>	<b>22.8</b>	<b>451,937</b>	<b>9.7</b>	<b>61,454</b>	<b>7.5</b>	<b>520,076</b>	<b>12.1</b>
Profit attributable to:										
Equity shareholders of the Company	17,811	9.0	244,606	24.6	454,049	9.8	64,983	7.9	528,925	12.3
Non-controlling interests	(2,164)	(1.1)	(935)	(0.1)	-	-	-	-	(17)	0.0
	15,647	7.9	243,671	24.5	454,049	9.8	64,983	7.9	528,908	12.3
Total comprehensive income attributable to:										
Equity shareholders of the Company	11,900	6.0	227,617	22.9	451,937	9.7	61,454	7.5	520,093	12.1
Non-controlling interests	(2,164)	(1.1)	(935)	(0.1)	-	-	-	-	(17)	0.0
	9,736	4.9	226,682	22.8	451,937	9.7	61,454	7.5	520,076	12.1

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## FINANCIAL INFORMATION

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### Six Months Ended 30 June 2010 Compared to the Six Months Ended 30 June 2009

#### *Turnover*

Our turnover increased by RMB3,480.8 million, or 4.3 times, to RMB4,298.8 million in the six months ended 30 June 2010 from RMB818.0 million in the six months ended 30 June 2009. This increase was primarily due to the increase in our sales volume from approximately 1,015,367 tonnes for the six months ended 30 June 2009 to approximately 4,255,460 tonnes for the six months ended 30 June 2010. It was also attributable to the increase in the average selling price from RMB805 for the six months ended 30 June 2009 to RMB1,007 for the six months 30 June 2010, which was generally in line with the trend in global and domestic market coal prices.

#### *Cost of sales*

Our cost of sales increased by RMB2,686.8 million, or 4.0 times, to RMB3,353.0 million in the six months ended 30 June 2010 from RMB666.2 million in the six months ended 30 June 2009. This increase was primarily driven by the increase in sales volume of coal for the six months ended 30 June 2010. It was also attributable to the increase in the average cost of sales from RMB656 for the six months ended 30 June 2009 to RMB786 for the six months 30 June 2010, particularly in the average cost of sales for seaborne coal as global coal prices rose in the first half of 2010 which led to an increase in the amount of total cost of coal purchased.

#### *Gross profit*

As a result of the above, our gross profit increased by RMB794.1 million, or 5.2 times, to RMB945.8 million in the six months ended 30 June 2010 from RMB151.7 million in the six months ended 30 June 2009. Our gross profit margin was 22.0% for the six months ended 30 June 2010 as compared to 18.5% for the six months ended 30 June 2009. The increase in gross profit margin was mainly due to the increased contribution of our Mongolian cleaned coking coal to the total gross profit for the six months ended 30 June 2010. The increased gross profit margin of our Mongolian cleaned coking coal was principally driven by the increase in its average selling price while the average cost of sales of Mongolian cleaned coking coal remained fairly consistent with that for the six months ended 30 June 2009. Such increase is also attributable to the increase in gross profit margin of our seaborne coal for the six months ended 30 June 2010 as compared to the margin for the same period in 2009. This was principally driven by the increase in global coal prices as well as the economies of scale derived from the acceleration of the sales and purchases of seaborne coal since the second half of 2009.

#### *Other revenue*

Our other revenue increased by RMB10.4 million, or 4.3 times, to RMB12.8 million in the six months ended 30 June 2010 from RMB2.4 million in the six months ended 30 June 2009. Our other revenue for the six months ended 30 June 2009 and 2010 mainly comprise government grants, which increased as a result of our increased tax contribution. The amount to be granted by local finance department or relevant PRC governmental authorities were determined, at their sole discretion, with reference to the total level of tax received in the specific municipality within a given period, their assessment on the amount of tax contributed by a specific entity in such municipality, with the amount being quantified and calculated on a case-by-case basis.

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## FINANCIAL INFORMATION

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### *Distribution costs*

Our distribution costs increased by RMB51.7 million, or 69.2%, to RMB126.4 million in the six months ended 30 June 2010 from RMB74.7 million in the six months ended 30 June 2009. This increase was primarily due to the increased volume of coal sold and delivered to our customers, which in turn increased the transportation costs for delivering our coal products to such customers and the associated loading charges. However, distribution costs as a percentage of turnover decreased from 9.1% in the six months ended 30 June 2009 to 2.9% in the six months ended 30 June 2010 as a result of (i) economies of scale derived from our increased volume of coal sold and transported, (ii) shortening of the transportation distance in respect of the delivery of our Mongolian cleaned coking coal to our customers as most customers have designated their delivery points closer to our coal processing plants or have decided to collect our cleaned coking coal products directly from our coal processing plants, and (iii) the increase in volume of seaborne coal sold in the six months ended 30 June 2010, which led to a relatively lower distribution cost as compared to Mongolian cleaned coking coal, as most of our seaborne coal are being delivered to our customers at the seaports.

### *Administrative expenses*

Our administrative expenses increased by RMB86.0 million, or 3.0 times, to RMB114.6 million in the six months ended 30 June 2010 from RMB28.6 million in the six months ended 30 June 2009. This increase was primarily attributable to the increase in salaries, wages, bonuses and other benefits to employees and senior management from RMB11.5 million in the six months ended 30 June 2009 to RMB35.6 million in the six months ended 30 June 2010 and share-based payment expenses of RMB30.7 million in respect of the share options granted pursuant to the Pre-IPO Option Scheme on 30 June 2010. For details of the Pre-IPO Option Scheme, please refer to the section headed “Statutory and General Information — 8. Pre-IPO Option Scheme” in Appendix VII to this Prospectus. It was also attributable to the increase in business travelling expenses from RMB1.9 million for the six months ended 30 June 2009 to RMB12.4 million for the six months ended 30 June 2010. Such increase in business travelling expenses was mainly due to the geographic expansion of our Company’s business.

### *Other operating expenses, net*

Our other operating expenses increased by RMB8.6 million, or 7.8 times, to RMB9.7 million in the six months ended 30 June 2010 from RMB1.1 million in the six months ended 30 June 2009. The increase was mainly attributable to the loss on disposal of certain property, plant and equipment, including certain trucks and machinery, in the six months ended 30 June 2010 amounted to RMB6.7 million.

### *Finance income*

Our finance income increased by RMB6.5 million, or 5.0 times, to RMB7.8 million in the six months ended 30 June 2010 from RMB1.3 million in the six months ended 30 June 2009. This increase was primarily attributable to the increase in our bank balances and restricted bank deposits, as well as the net foreign exchange gain of RMB4.2 million generated in the six months ended 30 June 2010.

### *Finance costs*

Our finance costs increased by RMB63.9 million, or 5.8 times, to RMB74.9 million in the six months ended 30 June 2010 from RMB11.0 million in the six months ended 30 June 2009. This increase was primarily attributable to the interest on the liability component of the Convertible Bonds

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## FINANCIAL INFORMATION

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of RMB19.7 million and the interest on the liability component of the Preference Shares of RMB20.2 million, which were both issued in April 2010. It was also attributable to the increase in our outstanding bank and other loans and the increase in the interest on our discounted bills.

### *Profit before taxation*

As a result of the above, our profit before taxation increased by RMB600.8 million, or 15.0 times, to RMB640.8 million in the six months ended 30 June 2010 from RMB40.0 million in the six months ended 30 June 2009.

### *Income tax*

Our income tax was RMB111.9 million for the six months ended 30 June 2010, while our income tax had a credit balance of RMB4.1 million for the six months ended 30 June 2009. The income tax expenses for the six months ended 30 June 2010 was primarily due to, and in line with, the increase in our profit before tax. Based on our profit before taxation of RMB640.8 million for the six months ended 30 June 2010, our effective income tax rate on the profit from continuing operations for the six months ended 30 June 2010 was 17.5%. The credit balance of income tax for the six months ended 30 June 2009 was primarily attributable to the tax effect of our BVI-incorporated entities which are not subject to income tax in the BVI and the tax effect of deferred tax assets on unrealised profit of our inventory.

### *Profit from continuing operations*

As a result of the above, our profit from our continuing operations increased by RMB484.8 million, or 11.0 times, to RMB528.9 million in the six months ended 30 June 2010 from RMB44.1 million in the six months ended 30 June 2009. Net profit margin for the six months ended 30 June 2010 was 12.3% as compared to 5.4% for the six months ended 30 June 2009.

### *Exchange differences on translation of financial statements of overseas subsidiaries*

Our exchange loss on translation of financial statements of overseas subsidiaries increased by RMB5.3 million, or 1.5 times, to RMB8.8 million in the six months ended 30 June 2010 from RMB3.5 million in the six months ended 30 June 2009. This increase was primarily due to the increased exposure to foreign currency arising from trade payables and bank loans denominated in USD, as well as the RMB appreciation by approximately 0.7% against USD in the first half of 2010, thereby creating a loss from the translation of the financial statements of our overseas subsidiaries that use USD as their functional currencies into RMB.

### *Non-controlling interests*

Our non-controlling interests was seventeen thousand RMB for the six months ended 30 June 2010, and was nil in the six months ended 30 June 2009. Our non-controlling interests for the six months ended 30 June 2010 represented interests of, and loss attributable to, Mongolia Hutie, the shareholder which holds the remaining 49% equity interest in three of our non-wholly owned subsidiaries, namely Ejinaqi Winsway, Erlianhaote Haotong and Erlianhaote Winsway Logistics.

## **2009 Compared to 2008**

### *Turnover*

Our turnover increased by RMB3,662.1 million, or 3.7 times, to RMB4,655.6 million in 2009 from RMB993.5 million in 2008. This increase was due to our ability to source more raw coal from our Mongolian suppliers and the commencement of our seaborne coal business to meet our customers'

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## FINANCIAL INFORMATION

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demand, which led to an increase in total sales volume of coal from approximately 1,008,155 tonnes in 2008 to approximately 5,073,829 tonnes in 2009. Such increase was partially offset by the decrease in the overall average selling price from approximately RMB975 per tonne in 2008 to RMB905 per tonne in 2009, which was in line with the overall decline in global and domestic coal prices in 2009, as well as the one-off export sales to Japan in 2008, which had a relatively higher average selling price as compared to our coal products sold to customers in the PRC.

### *Cost of sales*

Our cost of sales increased by RMB3,255.9 million, or 5.9 times, to RMB3,808.7 million in 2009 from RMB552.8 million in 2008. This increase was mainly driven by the increase in sales volume of coal in 2009. It was also attributable to the commencement of our sales of seaborne coal, which were relatively more expensive than Mongolian coal in 2009.

### *Gross profit*

As a result of the above, our gross profit increased by RMB406.2 million, or 92.2%, to RMB846.9 million in 2009 from RMB440.7 million in 2008. Our gross profit margin was 18.2% in 2009 as compared to 44.4% in 2008. The decrease in gross profit margin was principally attributable to the commencement of the sale of our seaborne coal products in 2009, which has a relatively lower margin than Mongolian coal. It was also attributable to the decrease in the average selling prices for our Mongolian coal as a result of the overall decline in global and domestic coal prices, whilst cost of sales on a per tonne basis increased.

### *Other revenue*

Our other revenue increased by RMB1.6 million to RMB7.8 million in 2009 from RMB6.2 million in 2008. Our other revenue for 2008 and 2009 mainly comprised government grants, which was increased as a result of our increased tax contribution.

### *Distribution costs*

Our distribution costs increased by RMB127.4 million, or 1.2 times, to RMB237.0 million in 2009 from RMB109.6 million in 2008. This increase was primarily due to the increased volume of cleaned coking coal delivered to our customers, which in turn increased the associated transportation costs for delivering our coal products to such customers. Nevertheless, distribution costs as a percentage of turnover decreased from 11.0% to 5.1% due to the increased contribution from the sale of seaborne coal, which has a relatively lower distribution cost as compared to Mongolian cleaned coking coal, as most of our seaborne coal are being delivered to our customers at the seaports. The decrease as a percentage of turnover was also due to the distribution costs associated with the one-off export sales to Japan in 2008. The total amount associated with such one-off-export sales to Japan (including shipment costs, export and custom charges) in 2008 is RMB11.7 million.

### *Administrative expenses*

Our administrative expenses increased by RMB29.3 million, or 47.0%, to RMB91.6 million in 2009 from RMB62.3 million in 2008. This increase was primarily attributable to (i) the increase in staff costs from RMB17.9 million in 2008 to RMB29.2 million in 2009. The increase in staff cost was mainly attributable to the increase in the total number of our employees and despatched staff in 2009; and (ii) the increase in business travelling expenses from RMB2.3 million in 2008 to RMB12.4 million

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## FINANCIAL INFORMATION

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in 2009. Such increase in business travelling expenses was mainly due to the geographic expansion of our Company's business.

### *Other operating expenses*

Our other operating expenses decreased by RMB9.4 million to RMB0.6 million in 2009 from RMB10.0 million in 2008. This decrease was primarily attributable to a non-recurring loss on sale of chemical materials and motor vehicles of RMB10.6 million in 2008.

### *Finance income*

Our finance income increased by RMB1.7 million, or 37.8%, to RMB6.2 million in 2009 from RMB4.5 million in 2008. The increase was in line with the increase in our bank balances and restricted bank deposits.

### *Finance costs*

Our finance costs increased by RMB33.7 million to RMB37.0 million in 2009 from RMB3.3 million in 2008. The increase was primarily due to the increase in our outstanding bank and other loans and the increase in the interest on our discounted bills.

### *Profit before taxation*

As a result of the above, our profit before taxation increased by RMB228.4 million, or 85.8%, to RMB494.6 million in 2009 from RMB266.2 million in 2008.

### *Income tax*

Our income tax was RMB62.0 million for 2009, while our credit balance of income tax was RMB10.6 million for 2008. The credit balance of income tax in 2008 was primarily due to the tax effect of deferred tax assets on unrealised profit on our inventory, while the income tax expenses in 2009 was primarily resulted from the increase in our profit before tax. Based on our profit before taxation of RMB494.6 million in 2009, our effective income tax rate on the profit from continuing operations for 2009 was 12.5%.

### *Profit from continuing operations*

As a result of the above, our profit from our continuing operations increased by RMB155.8 million, or 56.3%, to RMB432.6 million in 2009 from RMB276.8 million in 2008. Net profit margin for 2009 was 9.3% as compared to 27.9% in 2008.

### *Exchange differences on translation of financial statements of overseas subsidiaries*

Our exchange loss on translation of financial statements of overseas subsidiaries decreased by RMB14.9 million, or 87.6%, to RMB2.1 million in 2009 from RMB17.0 million in 2008. This decrease was primarily due to the slowdown of the pace of RMB appreciation against the USD in 2009, thereby reducing the loss from the translation of the financial statements of our overseas subsidiaries that use USD as their functional currencies into RMB. In 2009, RMB has depreciated approximately 0.05% against USD.

### *Non-controlling interests*

Our non-controlling interests was RMB0.9 million in 2008 and nil in 2009. The nil balance in 2009 was primarily due to the disposal of all of our non-wholly-owned subsidiaries or the acquisition



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## FINANCIAL INFORMATION

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of the remaining non-controlling interest in such subsidiaries in 2008. All of our subsidiaries were wholly-owned as at 31 December 2009.

### **2008 Compared to 2007**

#### ***Turnover***

Our turnover increased by RMB794.9 million, or 4.0 times, to RMB993.5 million in 2008 from RMB198.6 million in 2007. The increase was primarily due to the increase in average selling price per tonne of coal sold from approximately RMB355 in 2007 to RMB975 in 2008 as a result of the introduction of the sale of cleaned coking coal, which has a relatively higher average selling price as compared to that of raw coking coal and which accounted for approximately 82.7% of our total turnover in 2008, as we established our Urad Zhongqi coal processing plant in 2008. This increase was also attributable to the increase in total sales volume of coal from approximately 539,789 tonnes in 2007 to approximately 1,008,155 tonnes in 2008 as we began to expand our customer base of steel makers and coke plants in 2008.

#### ***Cost of sales***

Our cost of sales increased by RMB393.2 million, or 2.5 times, to RMB552.8 million in 2008 from RMB159.6 million in 2007. This increase was primarily due to the increase in sales volume of our coal in 2008 and also due to the increase in the costs incurred for coal processing and transportation of coal to our coal processing plants upon the commencement of our sale of cleaned coking coal in 2008.

#### ***Gross profit***

As a result of the above, our gross profit increased by RMB401.6 million, or 10.3 times, to RMB440.7 million in 2008 from RMB39.1 million in 2007. Our gross profit margin increased from 19.7% in 2007 to 44.4% in 2008. The increase in gross profit margin was principally due to the sale of cleaned coking coal has a relatively higher margin than our raw coking coal.

#### ***Other revenue***

Our other revenue increased by RMB5.8 million to RMB6.2 million in 2008 from RMB0.4 million in 2007. This was primarily due to the increase in government grants as a result of our increased tax contribution.

#### ***Distribution costs***

Our distribution costs increased by RMB106.7 million, or 36.8 times, to RMB109.6 million in 2008 from RMB2.9 million in 2007. This increase was primarily due to the introduction of the sale of cleaned coking coal and the geographic expansion of our target market reach from Inner Mongolia to Hebei and Shanxi provinces in 2008, which in turn increased the associated transportation costs. The costs for distributing our cleaned coking coal is generally higher than the distribution of raw coking coal because the delivery points of raw coking coal are usually at a location near the Sino-Mongolian border crossing or in Inner Mongolia, while the delivery points of our cleaned coking coal are usually at customers' plants or other designated delivery points further away from the Sino-Mongolian border crossing or in other provinces such as Hebei and Shanxi. The increase in total distribution costs was also attributable to the increased volume of coking coal delivered to our customers.

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## FINANCIAL INFORMATION

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### *Administrative expenses*

Our administrative expenses increased by RMB48.5 million, or 3.5 times, to RMB62.3 million in 2008 from RMB13.8 million in 2007. This increase was primarily attributable to (i) the increase in staff costs from RMB2.5 million in 2007 to RMB17.9 million in 2008. The staff cost increase was mainly attributable to a number of new hires in 2008 to facilitate the expansion of our business; (ii) the increase in tax expenses and other duties from RMB4.2 million in 2007 to RMB10.6 million in 2008. Such increases in tax expenses was mainly attributable to the increase in the amount of stamp duty chargeable on the amount of sales as stipulated in our increasing number of sale and purchase agreements entered into by our Group with respect to our sale of coking coal and tax charged on our land use rights; and (iii) the increase in legal and professional fees from RMB0.4 million in 2007 to RMB11.7 million in 2008. Such increase in expenses was mainly incurred as a result of additional legal, professional and consultancy fees in relation to our reorganisation and business expansion.

### *Other operating expenses*

Our other operating expenses increased by RMB9.3 million to RMB10.0 million in 2008 from RMB0.7 million in 2007. This increase was primarily attributable to the loss on sale of chemical materials and motor vehicles of RMB10.6 million.

### *Finance income*

Our finance income increased by RMB0.7 million to RMB4.5 million in 2008 from RMB3.8 million in 2007. The increase was mainly attributable to the increase in our restricted bank deposits in 2008.

### *Finance costs*

Our finance costs remain fairly stable in 2007 and 2008. Our finance costs was RMB3.3 million in 2008 and RMB3.7 million in 2007, which mainly comprised interest on bank and other loans and discounted bills, as well as net foreign exchange loss on such bank and other loans, other borrowings and trade facilities.

### *Profit before taxation*

As a result of the above, our profit before taxation increased by RMB243.9 million, or 10.9 times, to RMB266.2 million in 2008 from RMB22.3 million in 2007.

### *Income tax*

Our credit balance of income tax increased by RMB10.4 million, or 52.0 times, to RMB10.6 million in 2008 from RMB0.2 million in 2007. This increase was primarily attributable to the deferred tax arising from unrealised profits on intra-group transactions of RMB17.1 million.

### *Profit from continuing operations*

As a result of the above, our profit from our continuing operations increased by RMB254.4 million, or 11.4 times, to RMB276.8 million in 2008 from RMB22.4 million in 2007. Net profit margin for 2008 was 27.9% as compared to 11.3% in 2007.

### *Exchange differences on translation of financial statements of overseas subsidiaries*

Our exchange loss on translation of financial statements of overseas subsidiaries increased by RMB11.1 million, or 1.9 times, to RMB17.0 million in 2008 from RMB5.9 million in 2007. This

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## FINANCIAL INFORMATION

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increase was primarily due to RMB appreciation by approximately 6.9% against USD in 2008, thereby creating a loss from the translation of the financial statements of our overseas subsidiaries that use USD as their functional currencies into RMB.

### *Non-controlling interests*

Our non-controlling interests was RMB2.2 million in 2007 and RMB0.9 million in 2008. Such amount mainly represents interests of, and loss attributable to, the 20% minority shareholders in our then subsidiary, Sanhe. The decrease in our non-controlling interests in 2008 was primarily due to the acquisition of the remaining 20% interest in Sanhe in 2008.

## Liquidity and Capital Resources

### Overview

We have historically financed, and expect to continue to finance, our working capital, capital expenditure and other capital requirements through internally generated cash flow, short-term bank and other borrowings and capital contributions from our Shareholders. Our short-term liquidity requirements relate to servicing our debt, funding our working capital requirements and our construction of coal processing facilities and other infrastructure and repayment of our bank and other loans. Our sources of short-term liquidity include cash and cash equivalents, payments received from our customers and new loans. Our long-term liquidity requirements relate to funding of the development of our new coal processing assets, logistics parks, facilities and infrastructure, and the acquisition of potentially upstream coal mining assets. Our sources of long-term liquidity include internally generated cash flow, loans, capital contributions from shareholders and proceeds from the Global Offering.

Our Group's primary objectives when managing capital are to safeguard our Group's ability to continue as a going concern, so that we can continue to provide returns for our Shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce cost of capital. Our Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

### Cash flow

The table below summarises our combined cash flow for the periods indicated:

	<u>For the year ended 31 December</u>			<u>Six months ended 30 June</u>	
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Selected cash flow statement data</b>					
Net cash (used in)/generated from operating activities . . . . .	(242,415)	126,545	(311,504)	(124,022)	(54,218)
Net cash used in investing activities . . . . .	(105,466)	(526,071)	(569,634)	(418,513)	(294,005)
Net cash generated from financing activities . . . . .	374,294	460,665	1,026,162	498,314	646,086
Net increase/(decrease) in cash and cash equivalents . . . . .	26,413	61,139	145,024	(44,221)	297,863

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## FINANCIAL INFORMATION

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### *Cash flow from operating activities*

Net cash flow from operating activities primarily consists of profit for the year/period adjusted for non-cash items including depreciation and amortisation and finance costs and the effect of changes in working capital. Our cash from operations is generated principally from our turnover and supplemented by increases in trade and other payables, which have been accrued but are not yet due. Our operation has experienced net operating cash outflow during the Track Record Period, particularly when imbalances occurred between the timing of our cash inflow relating to the settlement of trade and other receivables by our customers and our cash outflow relating to the payment of trade and other payables for our purchases and other financing costs as well as the increase in inventory levels.

In the six months ended 30 June 2010, net cash used in operating activities was RMB54.2 million, compared to profit for the period of RMB528.9 million. The difference of RMB583.1 million was primarily attributable to (i) an increase in trade and other receivables of RMB685.5 million, (ii) a decrease in trade and other payables of RMB53.9 million, and (iii) income tax paid of RMB71.3 million, which were partially offset by (i) income tax of RMB111.9 million, (ii) interest expense of RMB74.9 million, and (iii) equity settled share-based transactions amounted to RMB30.7 million.

In 2009, net cash used in operating activities was RMB311.5 million, compared to profit for the year of RMB454.0 million. The difference of RMB765.5 million was primarily attributable to (i) an increase in trade and other receivables of RMB1,547.6 million, (ii) an increase in inventories in the amount of RMB804.1 million. The increase was primarily attributable to increased production; and (iii) income tax paid of RMB34.6 million, which were partially offset by (i) an increase in trade and other payables of RMB1,502.4 million, (ii) depreciation of property, plant and equipment of RMB50.0 million and (iii) interest expense of RMB43.0 million.

In 2008, net cash generated from operating activities was RMB126.5 million, compared to profit for the year of RMB243.7 million. The difference of RMB117.2 million was primarily attributable to an increase in inventories in the amount of RMB149.1 million primarily due to increased production.

In 2007, net cash used in operating activities was RMB242.4 million, compared to profit for the year of RMB15.6 million. The difference of RMB258.0 million was primarily attributable to (i) an increase in inventories in the amount of RMB143.4 million. The increase was primarily attributable to increased production; and (ii) a decrease in trade and other payables of RMB176.6 million. The increase indicated that our Group had utilised a greater amount of internally generated cash resources for our daily operations. These factors were partially offset by the decrease in trade and other receivables of RMB53.4 million.

### *Cash flow from investing activities*

Our cash flow used in investing activities primarily reflects the payment for acquisition of property, plant and equipment and construction in progress, increase in restricted bank deposits which are required to be placed in designated bank accounts as securities for our bank and other loans and payment for investment in jointly controlled entity.

In the six months ended 30 June 2010, net cash used in investing activities was RMB294.0 million, consisting primarily of (i) payment for purchase of property, plant and equipment and construction in progress of RMB133.8 million. These payments were mainly related to the construction of our coal processing plants; (ii) payment for investment in jointly controlled entity of RMB102.7 million. Such payment related to our acquisition of the 50% equity interest in the Peabody-Winsway

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## FINANCIAL INFORMATION

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JV; and (iii) increase in restricted bank deposits of RMB106.2 million. These cash outflows were partially offset by the proceeds from sales of property, plant and equipment of RMB56.0 million. The sale of property, plant and equipment during the six months ended 30 June 2010 mainly represents our disposal of motor vehicles totalling RMB75.9 million. The disposal was carried out in accordance with our strategy to focus on developing our coking coal business and not to undertake the truck transportation business. As a result of the above strategy, we have disposed of most of our motor vehicles associated with truck transportation in the first half of 2010 to Sanhe, which is an Independent Third Party at the time of the disposal, and have outsourced our transportation services to third-party transportation companies which we believe would benefit our Group through increased efficiency and economies of scale. The consideration for the disposal was determined after arm's length negotiation between the parties and with reference to the fair value of the motor vehicles. Such disposal was on normal commercial terms and is consistent with the overall business strategy of our Group.

In 2009, net cash used in investing activities was RMB569.6 million, consisting primarily of (i) payment for purchase of property, plant and equipment and construction in progress of RMB169.2 million. These payments were mainly in relation to the construction of our coal processing plants and logistics parks; and (ii) increase in restricted bank deposits of RMB471.4 million.

In 2008, net cash used in investing activities was RMB526.1 million, consisting primarily of (i) payment for purchase of property, plant and equipment and construction in progress of RMB253.1 million. These payments were mainly in relation to the purchase of trucks for the transportation of our products; and (ii) increase in restricted bank deposits of RMB285.4 million.

In 2007, net cash used in investing activities was RMB105.5 million, consisting primarily of payment for purchase of property, plant and equipment and construction in progress of RMB120.2 million mainly in relation to the construction of our coal processing plant in Urad Zhongqi and the purchase of trucks for the transportation of our products.

### *Cash flow from financing activities*

Our cash inflow from financing activities is mainly generated from new bank and other loans, capital contribution from shareholders and proceeds from the issue of Convertible Bonds and Preference Shares. Our cash outflow from financing activities reflects repayment of bank and other loans.

In the six months ended 30 June 2010, net cash generated from financing activities was RMB646.1 million, primarily as a result of (i) proceeds from bank and other loans of RMB1,846.7 million, (ii) proceeds from the issue of Convertible Bonds, net of issuing expenses, of RMB392.2 million, and (iii) proceeds from the issue of Preference Shares (also referred to as redeemable convertible preferred shares in the accountants' report in Appendix I to this prospectus), net of issuing expenses, of RMB388.7 million. These factors are partially offset by the cash used in the repayment of bank and other loans of RMB2,003.7 million.

In 2009, net cash generated from financing activities was RMB1,026.2 million, primarily as a result of proceeds from bank and other loans of RMB1,965.8 million in aggregate for general working capital purposes. This was partially offset by the repayment of bank and other loans of RMB907.0 million.

In 2008, net cash generated from financing activities was RMB460.7 million, primarily as a result of (i) additional bank and other loans mainly obtained or drawn down by us in the amount of RMB706.8 million in aggregate. These loans were drawn down or obtained for general working capital

## FINANCIAL INFORMATION

purposes; and (ii) capital injections from equity shareholders of the Company of RMB77.1 million. These proceeds were mainly received from Sincere Hill, our previous holding company prior to our reorganisation and which shares were subsequently transferred to Winsway Resources Holdings in 2009 pursuant to our reorganisation. These were partially offset by (i) the repayment of bank and other loans of RMB227.0 million and (ii) dividends paid of RMB69.0 million.

In 2007, net cash generated from financing activities was RMB374.3 million, primarily as a result of (i) proceeds from bank and other loans of RMB124.0 million in aggregate. These additional loans were mainly obtained or drawn down for general working capital purposes; and (ii) capital injections from equity shareholders of the Company of RMB278.9 million. These proceeds included those in respect of the increase in registered capital of Beijing Winsway and Inner Mongolia Haotong in 2007.

### Net current assets

As at 31 December 2007, 2008 and 2009 and 30 June 2010, we had net current assets of RMB159.8 million, RMB162.6 million, RMB525.1 million and RMB1,562.0 million, respectively. Our current assets mainly comprise inventories and trade and other receivables. Our current liabilities mainly comprise secured bank and other loans repayable within one year and trade and other payables. The table below sets forth the breakdown of our current assets and current liabilities as at the dates indicated.

	As at 31 December			As at 30 June	As at 31 August
	2007	2008	2009	2010	2010
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Current assets</b>					
Inventories . . . . .	173,181	322,258	1,048,181	1,058,573	1,518,814
Trade and other receivables . . . . .	250,829	290,432	1,620,375	3,259,883	3,105,620
Receivables under finance lease . . . . .	25,578	26,483	-	-	-
Restricted bank deposits . . . . .	11,500	296,938	565,762	671,958	669,971
Cash and cash equivalents . . . . .	37,999	99,141	244,167	542,023	389,322
	<u>499,087</u>	<u>1,035,252</u>	<u>3,478,485</u>	<u>5,532,437</u>	<u>5,683,727</u>
<b>Current liabilities</b>					
Secured bank and other loans . . . . .	123,822	599,038	1,399,547	2,195,274	2,161,714
Current portion of Convertible Bonds . . . . .	-	-	-	13,921	13,962
Current portion of Preference Shares . . . . .	-	-	-	14,261	14,302
Trade and other payables . . . . .	194,258	264,134	1,522,434	1,667,182	1,824,672
Income tax payable . . . . .	21,168	9,471	31,442	79,792	70,358
	<u>339,248</u>	<u>872,643</u>	<u>2,953,423</u>	<u>3,970,430</u>	<u>4,085,008</u>
<b>Net current assets</b> . . . . .	<u>159,839</u>	<u>162,609</u>	<u>525,062</u>	<u>1,562,007</u>	<u>1,598,719</u>

As at 31 August 2010, we had net current assets of RMB1,598.7 million, consisting of RMB5,683.7 million of current assets and RMB4,085.0 million of current liabilities, which represented a RMB36.7 million increase from the net current assets of RMB1,562.0 million as at 30 June 2010. Our current assets mainly comprise inventories and trade and other receivables. Our current liabilities principally comprise secured bank and other loans and trade and other payables.

### Inventories

Our inventories mainly comprise raw and cleaned coking coal and other by-products. The increase in our inventories over the Track Record Period is in line with the growth in our operations.



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## FINANCIAL INFORMATION

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We exercise tight control over our inventory and keep daily inventory records and carry out an inventory count and examine the condition of our inventories on a monthly basis. During the Track Record Period, we did not have, nor did we encounter any problems associated with, any obsolete inventory. Accordingly, we did not make any provision for obsolete inventory over the Track Record Period save for the write-down of certain vehicle fittings and other spare parts of RMB0.8 million in 2008.

Our inventory level increased from RMB173.2 million in 2007 to RMB322.3 million in 2008 mainly as a result of the increase in our sales volume year-on-year and the extension of our sales and logistics network. In addition, our inventory level increased from RMB322.3 million in 2008 to RMB1,048.2 million in 2009 mainly as a result of the increase in our sales volume year-on-year, the further extension of our sales and logistics network, and a higher level of ending inventory of raw coking coal intentionally kept and reserved to fulfil our ramped-up coal processing capacity. Our ending inventory as at 30 June 2010 remained fairly consistent with that at the end of 2009, which is in line with our inventory policy to maintain a level of coal products sufficient to fulfil our customers' demands.

Inventory turnover days (which is derived from by dividing the average inventory by the cost of sales for the relevant financial period and then multiplied by (i) 365 days for each of 2007, 2008 and 2009 or (ii) 183 days for the six months ended 30 June 2010) for 2007, 2008 and 2009 and for the six months ended 30 June 2010 was 247, 164, 66 and 57, respectively. The high inventory turnover days in 2007 was mainly due to the mismatch between turnover generated from the sale of raw coking coal, and our inventory of raw coal intentionally kept and reserved for the purpose of our future coal processing in anticipation of the commencement of operations of our coal processing plant in Urad Zhongqi in 2008. The decrease in the inventory turnover days in 2008 was mainly attributable to the commencement of operations of our coal processing plant, leading to an increase in our coal processing capabilities. The further decrease in the inventory turnover days in 2009 and 2010 was mainly attributable to the further ramping-up of our coal processing activity and the significant contribution of seaborne coal which has a much quicker turnover due to much shorter sales radius than Mongolian coal.

### *Trade and other receivables*

Our trade and other receivables mainly comprise trade and bills receivables from customers, receivables from import agents, amount due from related parties, advance payments to suppliers, receivables for disposal of discontinued operations and deposits and other receivables. The table below sets forth the breakdown of our trade and other receivables as at the dates indicated.

	<b>As at 31 December</b>			<b>As at 30 June</b>
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables .....	4,214	153,567	456,973	747,865
Bills receivable .....	28,000	20,078	73,000	863,426
Receivables from import agents .....	-	-	793,457	897,196
Amount due from related parties .....	157,134	26,962	120,029	497
Advance payments to suppliers .....	18,126	32,357	127,574	383,899
Receivables for disposal of discontinued operations .....	24,702	24,702	-	-
Deposits and other receivables .....	18,653	32,766	49,342	367,000
	<u>250,829</u>	<u>290,432</u>	<u>1,620,375</u>	<u>3,259,883</u>

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## FINANCIAL INFORMATION

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The increase in trade receivables over the Track Record Period was principally due to the increase in turnover, especially the increase in sales to our key customers such as Baogang Group, and Hebei Steel and Risun Coke during the Track Record Period and for the six months ended 30 June 2010.

Bills receivable mainly represents outstanding trade bills or letter of credits from our customers, which generally have a term of 90 days to 180 days. The increase in amount of bills receivable in 2009 to RMB73.0 million was mainly due to the commencement of the sale of seaborne coal in 2009, which were mainly settled through the use of trade bills and letter of credits. The further increase in the outstanding bills receivable as at 30 June 2010 to RMB863.4 million was attributable to the further expansion of the scale of our operations in the six months ended 30 June 2010 and thereby increasing the associated amount of sales settled by trade bills and letter of credits.

Turnover days of trade and bills receivables (which is derived from by dividing the average balances of trade receivables by the total turnover for the relevant financial period and then multiplied by (i) 365 days for each of 2007, 2008 and 2009 or (ii) 183 days for the six months ended 30 June 2010) for 2007, 2008 and 2009 and for the six months ended 30 June 2010 was 34, 38, 28 and 46 days, respectively. The credit terms for trade debtors are generally within 90 days, while the terms of our bills receivables are generally 90 days to 180 days. Our turnover days of trade and bills receivables remained fairly stable in 2007 and 2008 and is generally in line with our credit terms and the terms of our bills receivables. The slight increase in turnover days of our trade receivables in 2008 was mainly attributable to the expansion of our operations and the commencement of the sale of cleaned coking coal which enabled us to secure credible customers (including large steel makers) and to develop long-term relationship with such customers. Accordingly, we had more customers in 2008 which were being granted a longer credit term by our Company. The decrease in turnover days of our trade and bills receivables in 2009 was primarily due to the increasing demand of our products, which strengthened our bargaining power in setting payment terms with our customers. Turnover days of our trade and bills receivables for the six months ended 30 June 2010 increased as a result of the continued expansion of our operations and the increase in the amount of sales settled by trade bills and letter of credits by our customers, which has a longer term of 90 days to 180 days as compared to our credit terms for trade debtors of 90 days in general. During the Track Record Period and for the six months ended 30 June 2010, we did not encounter any settlement issues in relation to our customers.

The increase in total trade and other receivables was also attributable to the receivables from import agents, the arrangement of which began in 2009 in order to facilitate our sale and purchase of coal through the issuance of letters of credit by our Group. In considering the issue of international letters of credit, banks would usually take into account the track record and credentials of a company in terms of its international dealings and business. As a result of our needs for additional funding for our increased purchases through issuance of letters of credit, we had engaged import agents, at our own discretion, to issue letters of credit or payment undertakings to us in order to enhance our credit profile by extending our credit terms to 90 to 180 days. Other letters of credit issued by us generally have credit terms of less than 90 days. In addition, all of our import agents have good credit standing in international dealings and business, so banks would generally be able to issue letters of credit for us on an expedited basis, therefore enhancing efficiency of the approval process as we would not be required to provide excessive supporting documents or, among others, various pledge, for the purpose of such issue. All of our import agents are Independent Third Parties except for China Minmetals Corporation, one of our Pre-IPO Investors which will indirectly hold approximately 4.00% of our issued Shares upon completion of the Global Offering (assuming that the Convertible Bonds and the Preference Shares have been fully converted and all the Peabody Energy Consideration Shares have been issued based on the Offer Price of HK\$3.875 per Share (being the mid-point of the indicative Offer Price range) and the Over-allotment Option is not exercised).

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## FINANCIAL INFORMATION

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For their issuance of letters of credit or payment undertakings, we generally pay a handling fee at a market rate. Considering the savings in time and expenses, we believe our import agents are able to facilitate our Group in a time and cost effective way to arrange relevant trade facilities and issue relevant letters of credit with respect to the import of coal purchased from Mongolia, Australia, the US, Canada and Russia. As part of the arrangement, our import agents will also facilitate our Group in importing coal sourced directly by our offshore subsidiaries from Mongolian and overseas suppliers into China to our subsidiaries in the PRC. Our PRC legal adviser has advised us that legal documents, including contracts and letter of credits which are governed by PRC laws, in relation to the procurement transactions of our Group involving an import agent are not found to be against any mandatory legal requirements and are valid and legally binding under PRC laws.

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## FINANCIAL INFORMATION

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The table below sets forth details of the transaction flow in respect of a typical coal procurement transaction of the Group involving an import agent:

No.	Customer/ Deemed buyer	Supplier/ Deemed seller	Type of transaction	Payment method	Accounting treatment
1	Offshore operating entity of our Group	Our coal supplier	Procurement of coal by our Group — We will enter into a purchase contract with such supplier	Offshore operating entity of our Group will issue a letter of credit, with a term of 90 to 180 days in general, in favour of the supplier as the payee to cover the purchase amount	Our Group will recognise the balance of inventory and payables to the supplier associated with such procurement transaction
2	Import agent	Offshore operating entity of our Group	Deemed sale of coal by our Group — Our offshore operating entity will enter into a sales contract with the import agent for selling the equivalent amount of coal being purchased directly from the Group's supplier (as mentioned in step 1 above)	Import agent will issue a letter of credit, with a term of 90 to 180 days in general, in favour of our offshore operating entity as the payee	Our Group will recognise and account for the sales to import agent and the related cost of sales, the decrease in inventory and the increase in receivable from import agent in respect of our sales to the import agent <i>(Note)</i>
3	PRC operating entity of our Group	Import agent	Deemed purchase of coal by our Group — The import agent will enter into a sales contract with our PRC operating entity for the purchase of the matching and equivalent amount of coal as mentioned in step 2 above from the import agent. Such sale would be made at a gross-up price, which shall include the handling fee to be charged by the import agent	Payable by cash to the import agent shortly before or upon maturity, which is generally 90 to 180 days, of the relevant letter of credit arranged by the import agent as mentioned in step 2 above	Our Group will recognise the balance of inventory and payable to import agents in association with the purchase by our PRC operating entity from the import agent <i>(Note)</i>
4	Our customer	PRC operating entity of our Group	Direct sale of coal or processed coal by our Group to our customer	Based on credit term granted to specific customer, which is generally by prepayment or payable within 90 days	Our Group will recognise the sales and trade receivables associated with such sale transaction when goods are delivered to our PRC customers. Our Group will also recognise the related cost of sales, with the decrease in inventories and increase in trade receivables in respect of such sale

*Note: For the preparation of our Group's combined financial information, sales generated by our offshore operating entities in respect of the deemed sales to the import agent shall be eliminated with the corresponding cost of coal purchased by our PRC operating entity. The net accounting effect of the transaction with import agent is the handling fee charged by our import agent.*

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## FINANCIAL INFORMATION

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The outstanding balance of receivables from import agents amounted to RMB793.5 million as at 31 December 2009 and RMB897.2 million as at 30 June 2010, which mainly represented the total amount of coal pending to be imported to our subsidiaries in the PRC as at each of the relevant dates. The outstanding receivables from import agents are generally settled when coal is imported into China and when associated letters of credit or trade facilities are being fully settled by our Group. The settlement period of the letters of credit or trade facilities are, in general, 90 to 180 days. We have not entered into any long term agreement with our import agents.

From 1 July 2010 up to the Latest Practicable Date, total settlement of our outstanding trade receivables amounted to RMB625.3 million, representing 83.6% of our total trade receivables as at 30 June 2010. In addition, from 1 July 2010 up to the Latest Practicable Date, total settlement of our outstanding receivables from import agents amounted to RMB703.5 million, representing 78.4% of our total receivables from import agents as at 30 June 2010. As the receivables from our import agents represent letters of credit generally with a term of 90 to 180 days, most of these letters of credit remain unexpired and unsettled as at the Latest Practicable Date and accordingly the rate of settlement of receivables from our import agents for the period from 1 July 2010 to the Latest Practicable Date is lower than the rate of settlement of our trade receivables for the same period. However, we do not anticipate any collectibility issue as such receivables from import agents are, or will be, backed by an equivalent amount of payables to import agents. Please also refer to the sub-section headed “Trade and other payables” below for further details of our payables to import agents.

Advance payments to suppliers mainly represents (i) prepayments and deposits paid to suppliers for the purchase of coal, (ii) prepaid transportation expenses to third party logistics companies and (iii) prepayments to our third party contractors for the construction and enhancement of our coal processing and logistics facilities, which are made in accordance with relevant settlement terms as set out in the supply contracts with some of our suppliers. The increase in prepayments to our suppliers, logistics service providers and contractors during the Track Record Period and for the six months ended 30 June 2010 are generally in line with the increase in our sale and purchases, as well as consistent with our facilities expansion plan.

Deposits and other receivables mainly represent (i) input VAT receivables, (ii) government receivable and (iii) loan receivable. The substantial increase in deposits and other receivables as at 30 June 2010 was mainly attributable to the loan totalling US\$40 million lent to Moveday pursuant to the loan agreement entered into between us and Moveday on 10 April 2010. For further details on this financing arrangement, please refer to the section headed “Business — Transportation — Transportation in Mongolia” in this prospectus. It was also attributable to the increase in input VAT and government receivables as a result of our increased sales volume and the increase in government grants as a result of our increased tax contribution.

Our amounts due from related parties mainly represent advances to certain companies controlled by Mr. Wang and other related parties. As at 31 December 2009, amounts due from related parties also include the amount of receivable outstanding of RMB120.0 million from two companies controlled by Mr. Wang, which was generated from the sale of our coking coal products which amounted to RMB346.4 million in 2009. Such outstanding amounts due from related parties have been fully settled as at 30 June 2010. In addition, no further sale of coking coal has been made to related parties during the six months ended 30 June 2010. As at 30 June 2010, our amounts due from related parties amounted to RMB0.5 million, which represented our advance to Mongolia Jieyou Company, a company in which Mr. Wang has an indirect non-controlling interest, for the purpose of the purchase of equipment. Our Group will assess the feasibility as to whether to continue such related party transactions after Listing based on then market conditions and actual circumstances. In the event that our Group shall enter into such related party transactions after Listing, we shall ensure that such

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## FINANCIAL INFORMATION

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transactions shall only be entered into on normal commercial terms, in the ordinary course of business and on an arm's length basis, and our Company will comply with applicable and relevant requirements set out in Chapters 14 and 14A of the Listing Rules. Our Directors confirm that all outstanding balances with related parties will be settled upon Listing.

### *Receivables under finance lease*

Receivables under finance lease represent finance lease payments receivable from two Independent Third Parties (collectively, the "Lessees") which provide coal transportation services to our Group and for the trucks leased by Sanhe under respective finance lease agreements. These trucks were mainly used by the Lessees for the purpose of transportation of coal from our designated pick-up and delivery points. In March 2009, we disposed of our entire equity interest in Sanhe, and as a result, the balance of our receivables under finance leases was reduced to nil. Our Group did not engage in any other finance lease business after our disposal of Sanhe and we currently do not have any plans to further engage in any finance lease business in the future.

### *Trade and other payables*

Our trade and other payables mainly comprise trade and bills payables to suppliers, payables to import agents, amount due to related parties, advances from customers, payables in connection with construction projects, payables for purchase of equipment and other payables. The table below sets forth the breakdown of our trade and other payables as at the dates indicated.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables . . . . .	22,232	154,822	483,794	490,103
Payables to import agents . . . . .	-	-	850,814	834,461
Amounts due to related parties . . . . .	43,238	15,166	-	6
Advance from customers . . . . .	83,256	50,008	52,565	70,695
Payables in connection with construction projects . . . . .	5,414	9,182	19,759	25,018
Payables for purchase of equipment . . . . .	21,277	16,515	35,308	6,859
Payables for investment in jointly controlled entity . . . . .	-	-	-	211,385
Others . . . . .	18,841	18,441	80,194	28,655
	<u>194,258</u>	<u>264,134</u>	<u>1,522,434</u>	<u>1,667,182</u>

The increase in trade and bills payables over the Track Record Period was principally due to the increase in the volume of purchases of raw coal to meet the increase in demand of our coal products and which is in line with the increase in our turnover over the Track Record Period. In addition, the increase in trade and bills payables in 2009 was also attributable to the commencement of our seaborne coal business since 2009. The average costs of such seaborne coal and the related transportation costs are generally higher than coal imported from Mongolia, thereby increasing the amount of total trade payables to our overseas suppliers. As at 30 June 2010, bills payable amounting to RMB173.0 million was secured by bank deposits placed in a bank with an aggregate carrying value of RMB173.0 million. Turnover days of trade and bills payables (which is derived from by dividing the average balances of trade payables by the total cost of sales for the relevant financial period and then multiplied by (i) 365 days for each of 2007, 2008 and 2009 or (ii) 183 days for the six months ended 30 June 2010) for each of 2007, 2008 and 2009 and for the six months ended 30 June 2010 was 35, 58, 31 and 27 days, respectively, which is generally in line with the credit terms granted by our suppliers of 30 to 90 days. The increase in our turnover days of trade payables in 2008 was mainly attributable to our ability to obtain better credit terms. The decrease in our turnover days of trade payables in 2009 was mainly attributable to the commencement of our purchase of seaborne coal, which generally has a



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## FINANCIAL INFORMATION

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much shorter credit term as compared to the credit terms granted by our Mongolian suppliers, or requires our payment on delivery. Turnover days of our trade payables for the six months ended 30 June 2010 remained fairly consistent with that of 2009.

The increase in total trade and other payables was also attributable to the additional payables to import agents in 2009. Details of the arrangement between our Group and the import agents are set out in the section headed “Financial Information — Liquidity and Capital Resources — Net current assets — Trade and other receivables” in this prospectus. The outstanding balance of the payables to import agents amounted to RMB850.8 million as at 31 December 2009 and RMB834.5 million as at 30 June 2010, which mainly represents the total amounts due to our third party import agents including (i) the amount of money advanced by our third party import agents which is equivalent to the amount of relevant trade facilities arranged or letters of credit obtained for our Group in respect of the import of coal and (ii) the handling fee charged by these third party import agents for facilitating our Group in arranging relevant trade facilities as well as importing the coal to our subsidiaries in the PRC. The amount of receivables from our import agents as at 30 June 2010 was higher than the amount of payables to our import agents as at the same date. This was largely due to the timing difference between the settlement of receivables from, and payables to, import agents of the Company in respect of matching transactions involving letters of credit issued by the import agent with a maturity date that fell after 30 June 2010. As the PRC subsidiaries of the Company are required to settle the payables to import agents shortly before the maturity date and the related receivables from import agents were only settled by the import agents to offshore subsidiaries of the Company upon maturity which took place after 30 June 2010, the amount of payables to our import agents as at 30 June 2010 was lower than the amount of receivables notwithstanding that the recognition of the payables was made at a grossed-up price.

From 1 July 2010 up to the Latest Practicable Date, total settlement of our outstanding trade payables amounted to RMB371.7 million, representing 75.8% of our total trade payables as at 30 June 2010. In addition, from 1 July 2010 up to the Latest Practicable Date, total settlement of our outstanding payables to import agents amounted to RMB603.0 million, representing 72.3% of our total payables to import agents as at 30 June 2010. As the payables to our import agents generally have a term of 90 to 180 days, most of our outstanding payables were not due as at the Latest Practicable Date.

Our amounts due to related parties mainly represent advances from certain companies controlled by Mr. Wang and other related parties. All outstanding balances due to such related parties incurred in 2007 and 2008 had been fully settled in 2009. As at 30 June 2010, our amounts due to related parties amounted to RMB6,000, which represents advance from Winsway Group, and which will be settled upon Listing.

Advances from customers mainly represent prepayments made by our customers in respect of our sales of coal. As part of our credit policy, we usually request our new customers or customers with relatively smaller scale to prepay for the entire sales amount before we will deliver our coking coal to such customers. Payables in connection with construction work mainly represent amount payable to third party contractors in respect of the construction of our coal processing plants and our logistics parks over the Track Record Period. Payables for purchase of equipment mainly represent amounts payable in respect of the purchase of our coal processing equipment. Other payables mainly include value-added tax payable and employees’ bonus and welfare. The significant increase in other payables in 2009 was mainly attributable to the increase in other tax payable from RMB6.8 million in 2008 to RMB65.0 million in 2009 arisen from the increase in sales volume, as well as the increase in employees’ bonus and welfare from RMB1.5 million in 2008 to RMB5.3 million in 2009. Such increase in employees’ bonus and welfare was due to the increase in the total number of employees and

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## FINANCIAL INFORMATION

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labour despatched staff from 631 persons in 2008 to 1,126 persons in 2009 in our Group, which were new employees and labour despatched staff hired to facilitate the expansion of our business.

Payables for investment in a jointly controlled entity of RMB211.4 million as at 30 June 2010 represents consideration payable for our acquisition of the 50% interest in Peabody-Winsway JV in June 2010. This consideration was paid as to US\$15.0 million 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. Details of this investment are set forth in the section headed “Business — Our Operation — Upstream investments” in this prospectus. For details of the percentage of shareholding represented by the, please refer to the section headed “History, Reorganisation and Group Structure — Our Shareholding and Corporate Structure as at the Latest Practicable Date and Immediately after Completion of the Global Offering” in this prospectus.

### **Working capital**

Taking into account the estimated net proceeds from the Global Offering, the presently available banking facilities and the expected continual renewal of bank loans upon maturity and cash generated from our operations and internal financial resources of our Group, our Directors confirm that we have sufficient working capital for our operations for at least the next 12 months from the date of this prospectus.

### **Indebtedness**

#### **Bank and other loans**

As at 31 December 2007, 2008 and 2009 and 30 June 2010, our outstanding bank and other loans amounted to RMB123.8 million, RMB599.0 million, RMB1,399.5 million and RMB2,195.3 million, respectively. All of our bank and other loans are secured and are repayable within one year. The proceeds of the increased amount of bank and other loans were primarily used to fund and finance our general working capital. Our bank and other loans did not have any restrictive covenants and our Group did not breach, nor were we in default of, any of our loan agreements during the Track Record Period.

As at 31 July 2010, we had obtained credit facilities from banks of RMB4,894.9 million, of which RMB1,704.5 million had been utilised and RMB3,190.4 million had not been utilised. In addition, as at 31 July 2010, our outstanding secured bank and other loans amounted to RMB1,803.9 million, of which RMB709.3 million are denominated in USD and the remaining balance are denominated in RMB. As at 31 July 2010, bank and other loans amounting to (i) RMB830.2 million were secured by pledged bills receivables, (ii) RMB255.7 million were secured by pledged trade receivables, (iii) RMB231.2 million were secured by coking coal inventories of our Group, (iv) RMB528.1 million were secured by fixed deposits placed in banks, (v) RMB1.6 million were secured by fixed assets, and (vi) RMB512.4 million were guaranteed by Mr. Wang and certain related parties which are under common control of Mr. Wang and all such guarantees will be released prior to Listing. We also have total outstanding bills payable of RMB173.0 million as at 31 July 2010. We do not anticipate any difficulties in renewing our existing loans in the foreseeable future.

Save for RMB11.3 million, RMB366.3 million, RMB1,022.0 million and RMB1,025.7 million of our bank and other loans as at each of 31 December 2007, 2008 and 2009 and 30 June 2010, respectively, which are denominated in USD, our bank and other loans are primarily denominated in RMB and bear interest at the range of 7.45% to 7.50% per annum, 3.90% to 8.35% per annum, 0.90%

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## FINANCIAL INFORMATION

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to 6.78% per annum and 1.18% to 6.32% per annum, respectively, for 2007, 2008, 2009 and the six months ended 30 June 2010. The carrying amounts of our bank and other loans approximate to their fair values due to the short-term maturity of such loans.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, bank and other loans amounting to RMB11.3 million, RMB292.2 million, RMB711.8 million and RMB711.9 million were secured by fixed deposits placed in banks with an aggregate carrying value of RMB11.5 million, RMB296.9 million, RMB565.8 million and RMB435.1 million, respectively.

As at 31 December 2007, 2008 and 2009 and 30 June 2010, bank and other loans amounting to RMB112.5 million, RMB306.9 million, RMB404.2 million and RMB287.5 million were secured by coking coal of our Group with an aggregate carrying value of RMB76.4 million, RMB164.2 million, RMB267.6 million and RMB208.5 million, respectively. As at 30 June 2010, coking coal of our Group with an aggregate carrying value of RMB80.7 million were pledged as collateral for the Group's banking facilities in respect of issuance of letters of credit by our Group.

As at 31 December 2009 and 30 June 2010, bank and other loans amounting to RMB283.5 million and RMB1,222.8 million were secured by pledged trade and bills receivables with an aggregate carrying value of RMB283.5 million and RMB1,164.1 million, respectively, were pledged as collateral for bank and other loans. The total pledged trade and bills receivables of RMB1,164.1 million as at 30 June 2010 comprises RMB846.9 million of discounted bills and RMB317.2 million of trade receivables.

As at 31 December 2009 and 30 June 2010, bank facilities utilised by certain of our Group entities and our Company to the extent of RMB551.0 million and RMB862.8 million, respectively, were guaranteed by Mr. Wang and certain related parties which are under common control of Mr. Wang. Save for the ANZ Guarantee, which will be released within 15 days following the Listing, all such guarantees provided by Mr. Wang and the related parties will be released upon Listing.

Our net debt-to-equity ratio was 24.1%, 37.9%, 58.5% and 59.8% as at 31 December 2007, 2008 and 2009 and 30 June 2010, respectively. This ratio is calculated as net debt (which includes bank and other loans less restricted bank deposits and cash and bank balances) divided by total equity (including equity attributable to equity shareholders of our Company). The increase in net debt-to-equity ratio over the Track Record Period was mainly attributable to the increase in secured bank and other loans from RMB123.8 million as at 31 December 2007 to RMB2,195.3 million as at 30 June 2010. These secured bank and other loans were mainly obtained to finance our general working capital purposes to facilitate our business and operation expansion over the Track Record Period. Our turnover had increased by 22.4 times from RMB198.6 million in 2007 to RMB4,655.6 million in 2009 and further to RMB4,298.8 million for the six months ended 30 June 2010, and our Directors believe that we have sustainable and sufficient internally generated cash flow to repay our borrowings as and when they fall due.

### **Convertible Bonds and Preference Shares**

In March and April 2010, we and the Controlling Shareholders entered into various subscription agreements with the Pre-IPO Investors, namely HOPU, China Minmetals Corporation, Silver Grant and ITOCHU, pursuant to which the Pre-IPO Investors agreed to subscribe for the Convertible Bonds and the Preference Shares amounting to an aggregate of US\$120.0 million. For further details, please refer to the section headed "History, Reorganisation and Group Structure — Reorganisation — Step 6: Pre-IPO investments" in this prospectus. Both the Convertible Bonds and the Preference Shares contain liability and equity components, and the fair value of the respective

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## FINANCIAL INFORMATION

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liability component upon the issuance of the Convertible Bonds and the Preference Shares was valued by our Directors with reference to a valuation report issued by Jones Lang LaSalle Sallmanns Limited using the discounted cash flows method. As at 30 June 2010, the liability component of the Convertible Bonds amounted to RMB393.7 million, of which RMB13.9 million was classified as current liability. In addition, as at 30 June 2010, the liability component of the Preference Shares amounted to RMB392.2 million, of which RMB14.3 million was classified as current liability. Moreover, as at 31 July 2010, the liability component of the Convertible Bonds and the Preference Shares amounted to RMB401.4 million and RMB399.9 million, respectively.

### **Contingent liabilities**

We have issued certain guarantees to banks in respect of bank facilities granted to certain companies controlled by Mr. Wang, namely Qinquangdao Winsway Petroleum Co., Ltd., a joint venture company held by Winsway Group, and Manzhouli New Winsway Chemicals Co., Ltd., Nantong Yinghui Petrochemicals Co., Ltd., and Nantong Chenghui Petrochemicals Co., Ltd.. These companies are mainly engaged in international commodities business, including importing oil and petrochemical products from Russia and Mongolia into the PRC, and have facilitated our Group in obtaining letters of credit and trade facilities in China for the purpose of our sale and purchase of coal during the Track Record Period. The guarantees which we have provided in favour of the banks were mainly associated with the bank facilities granted to these related parties in respect of the issuance of letters of credits for our Group. Our maximum liability as at 31 December 2007, 2008 and 2009 and 30 June 2010 under these guarantees was RMB29.2 million, RMB612.4 million, RMB1,034.0 million and RMB535.3 million, respectively. As at 31 July 2010, we have issued certain guarantees to banks in respect of bank facilities granted to certain companies controlled by Mr. Wang, namely Manzhouli New Winsway Chemicals Co., Ltd. and Winsway International Petroleum & Chemicals Limited and our maximum liability as at 31 July 2010 under these guarantees was RMB413.7 million. These amounts represent the total outstanding amount of the aforementioned bank facilities as at each of the relevant date. Pursuant to the terms of the guarantees, upon default on payments by these related parties, we are responsible for repaying the outstanding amount together with the accrued interest and liquidated damages owed by the defaulted parties to the banks. Our Group will discontinue all such practice and arrangement upon Listing.

As at 31 December 2009, we had issued guarantees to banks in respect of bank facilities granted to third parties, namely Harbin Yueze Petrochemicals Co., Ltd and Nantong Shoukong Petrochemicals Co., Ltd, both an Independent Third Party. These two companies are mainly engaged in international commodities and petrochemical business and have facilitated our Group in obtaining letters of credit and trade facilities with respect to the import of coal. The guarantees which we have provided in favour of the banks were mainly associated with the bank facilities granted to these third parties in respect of the issuance of letters of credits for our Group. Our maximum liability as at 31 December 2009 and 30 June 2010 under these guarantees issued is the outstanding amount of the bank facilities total of RMB170.5 million and nil as at each of the relevant dates. Our Group will discontinue all such practice and arrangement upon Listing.

As at 31 December 2009, coking coal of our Group with an aggregate carrying value of RMB81.2 million were pledged as collateral for bank and other loans of a third party. Further, as at 31 December 2009, buildings with a carrying amount of RMB35.3 million were pledged as collateral for a third party's borrowings. In addition, as at 31 December 2009, land use rights with a total carrying amount of RMB1.0 million were pledged as collateral for a related party's borrowings. These pledges were used to secure borrowings of certain related party and third parties associated with the issuance of letter of credits and trade facilities for our Group. All these pledges have been released as at 30 June 2010.

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## FINANCIAL INFORMATION

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As at 31 July 2010, the maximum liability of our Group under the guarantees mentioned above was reduced to RMB413.7 million and we are currently applying for the release of all these guarantees. We also maintain close relationship and communications with these related parties and third parties so as to ensure that we will be informed of any material adverse changes in the financial condition of such companies. Accordingly, based on our best knowledge and belief of the financial condition of these companies, our Directors do not consider it probable that a claim will be made against our Group under any of the guarantees.

All such guarantees and collateral to banks in respect of bank facilities granted to related parties and other third parties will be fully settled or released upon Listing.

### Contractual Commitments and Capital Expenditures

For each of 2007, 2008 and 2009 and for the six months ended 30 June 2010, we made payment for purchase of property, plant and equipment and construction in progress of RMB120.2 million, RMB253.1 million, RMB169.2 million and RMB133.8 million, respectively. Our capital expenditures mainly represent the acquisition of motor vehicles and machinery, as well as the construction of coal processing plants and logistics parks. As part of our future growth strategy, we have committed to capital expenditures of RMB60.0 million as at 31 December 2009 and RMB508.9 million as at 30 June 2010 and we expect to spend a further of approximately RMB1,100.0 million in capital expenditures in 2010 to acquire or invest in new infrastructure, including logistics park, railway logistics centres, docking facilities and new coal processing facilities. For further details of our future capital expenditure plans, please refer to the section headed “Future Plans and Outlook” in this prospectus. Set forth below is a summary of our capital commitments as at the dates indicated.

	As at 31 December			As at 30 June
	2007	2008	2009	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted for . . . . .	27,870	12,781	60,010	508,909
Authorised but not contracted for . . . . .	-	16,000	535,270	2,439,107
	27,870	28,781	595,280	2,948,016

As at 31 July 2010, our capital commitments amounted to RMB2,913.7 million, of which RMB508.7 million was contracted for, and RMB2,405.0 million was authorised but not contracted for. These mainly represent our capital expenditures with respect to our acquisition and investment in new infrastructure.

We intend to fund our planned capital expenditures with internally generated cash flow, bank and other loans and proceeds from the Global Offering. For further details of the amount of net proceeds from the Global Offering which will be used for such future acquisition or expansion, please refer to the sections headed “Future Plans and Outlook” and “Use of Proceeds” in this prospectus. However, the estimated amounts of our capital expenditure may vary from actual amounts of expenditures for a variety of reasons, including changes in market conditions and other factors. Any expansion of our capacity beyond our proposed future expansion and development as set out in the section headed “Future Plans and Outlook” in this prospectus may require additional debt or equity funding. Our ability to obtain additional funding in the future is subject to a variety of uncertainties including our future results of operations, financial condition and cash flow, economic, political and other conditions in the PRC and Hong Kong, and the PRC Government’s policies in relation to foreign currency borrowings.



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## FINANCIAL INFORMATION

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### Operating lease commitment

During the Track Record Period, we leased certain of our offices and dormitories in the PRC, Hong Kong and Australia under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to five years. Our total future minimum lease payments under non-cancellable operating leases in respect of buildings and others as at 31 December 2007, 2008 and 2009 and 30 June 2010, are payable as follows:

	As at 31 December			As at
	2007	2008	2009	30 June
	RMB'000	RMB'000	RMB'000	RMB'000
Within 1 year .....	3,600	35	2,003	8,350
After 1 year but within 5 years .....	-	3	-	11,468
	<u>3,600</u>	<u>38</u>	<u>2,003</u>	<u>19,818</u>

As at 31 July 2010, our total future minimum lease payments under non-cancellable operating leases amounted to RMB19.7 million, of which, RMB8.1 million are payable within 1 year and RMB11.6 million are payable after 1 year but within 5 years.

### Off-balance sheet commitments and arrangements

Except for the contingent liabilities set forth above, we have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We do not have a retained or contingent interest in assets transferred to an uncombined entity or a similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholders' equity, or that are not reflected in our combined financial statements. We do not have any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing or hedging or research and development services with us.

### Restricted bank deposits

As disclosed in the section headed "Indebtedness — Bank and other loans" above, pursuant to relevant bank facility agreements entered into by a number of our subsidiaries with their banks, they are required to pledge certain bank deposits in designated bank accounts as securities for bank and other loans and banking facilities in respect of issuance of bills and letters of credit by the Group with original maturity of more than three months. As at 31 December 2007, 2008 and 2009 and 30 June 2010, such restricted bank deposits amounted to RMB11.5 million, RMB296.9 million, RMB565.8 million and RMB672.0 million, respectively. As at 31 July 2010, our restricted bank deposits amounted to RMB555.6 million. This represent our pledged bank deposits of maturity more than three months of RMB555.6 million as at 31 July 2010 as collateral for our borrowings and banking facilities in respect of issuance of bills and letters of credit by our Group.

### Disclaimer

Save as disclosed in the section headed "Liquidity and Capital Resources" in this prospectus, as at 31 July 2010, being the latest practicable date for the purpose of the indebtedness statement, we did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank and other loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, guarantees or any other material contingent



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## FINANCIAL INFORMATION

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liabilities. Our Directors confirm that there has not been any material change in our indebtedness since 31 July 2010.

### **Financial Risks Management**

We are exposed to various types of financial risks, including credit risk and risks arising from the changes in interest rates and foreign exchange rates, in the ordinary course of business.

#### **Credit risk**

Our Group's credit risk is primarily attributable to trade and other receivables. We monitored the exposures to these credit risks on an ongoing basis.

With respect to trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past payment or settlement history and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Debtors with balances that are more than 90 days past due are normally requested to settle all outstanding balances before any further credit will be granted. Our Group generally does not obtain collateral from customers. No allowance of impairment loss was recorded in respect of our trade and other receivables.

With respect to receivables under finance lease, our Group manages credit risk throughout the entire credit process including pre-lending evaluations, credit approval and post-lending monitoring. To mitigate risks, where appropriate, our Group requests lessees to provide collateral and guarantees.

Our Group's exposure to credit risk is mainly influenced by individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when our Group has significant exposure to individual customers. As at 31 December 2007, 2008 and 2009 and 30 June 2010, 0%, 53%, 5% and 1% of the trade receivables of our Group were due from our single largest customer, and 8%, 56%, 11% and 13% of the trade receivables of our Group are due from our five largest customers. Our senior management considers that each of our five largest customers has a high credit standing and based on the good settlement history of such customers, our senior management does not consider that there will be a significant credit risk exposure arising from our customer concentration.

The maximum exposure to credit risk without taking account of any collateral held by us is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. Except for the financial guarantees given by our Group as disclosed in the section headed "Contingent liabilities" above, our Group does not provide any other guarantees which would expose our Group to credit risk.

#### **Liquidity risk**

Individual operating entities within our Group are responsible for their own cash management, including short-term investment of cash surplus and the raising of loans to cover expected cash demand. The policy of our Group is to regularly monitor our liquidity requirements and our compliance with lending covenants, to ensure that we maintain sufficient cash reserves and adequate committed funding and facilities from major financial institutions to meet both our short-term and long-term liquidity requirements. Our senior management considers that our internally generated cash flow is sufficient for, and will be able to sustain, the expansion of our business and operations. Our

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## FINANCIAL INFORMATION

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senior management also considers that we will be able to meet our liquidity requirements through our internally generated cash flow.

### **Currency risk**

We maintain our accounting records and prepare our financial statements in RMB. Our sales and the associated trade receivables are principally denominated in RMB, while our purchases are mainly denominated in USD. Our Group is exposed to currency risk primarily through sales, purchases and borrowings which give rise to payables, cash and cash equivalents and bank and other loans that are denominated in a foreign currency, which represents a currency other than the functional currency of the operations to which the transactions relate. The currency that gives rise to this risk is primarily USD. In respect of our other trade receivables and payables denominated in foreign currencies, our Group manages the currency risk by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances and to ensure that the net exposure is kept to an acceptable level. The net exposure to foreign currencies arising from recognised assets and liabilities as at 31 December 2007, 2008 and 2009 and 30 June 2010 were RMB12.6 million, RMB368.8 million, RMB765.3 million and RMB1,421.1 million, respectively.

We have not entered into any hedging transactions in an effort to reduce our Group's exposure to currency risk. While our Group may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to hedge our exposure successfully, or at all.

In addition, a substantial portion of our turnover and operating expenses are denominated in RMB. As at 31 December 2007, 2008 and 2009 and 30 June 2010, cash and cash equivalents of RMB30.7 million, RMB87.1 million, RMB177.6 million, and RMB202.8 million, respectively, was held by our Group in the PRC. RMB is currently not a freely convertible currency. The PRC Government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of China. Shortages in the availability of foreign currencies may restrict the ability of our PRC subsidiaries to remit sufficient foreign currencies to pay dividends or other amounts to us. For further details of the PRC laws and regulations concerning foreign exchange control, please refer to the section headed "Taxation and Foreign Exchange" in Appendix V to this prospectus.

### **Property Interests and Property Valuation**

We own all of our properties located in the PRC. These properties include buildings and construction in progress, mainly representing our coal processing plants and logistics parks located at the Sino-Mongolian border crossings in the PRC. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has valued our property interests as at 31 August 2010 and is of the opinion that the capital value of our property interests in aggregate amounted to RMB482.1 million as at 31 August 2010. Please refer to the property valuation report in Appendix IV to this prospectus for details of our property interests as at 31 August 2010.

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## FINANCIAL INFORMATION

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The reconciliation of the net book value of our properties as derived from our audited financial statements as of 30 June 2010 to the property valuation report in Appendix IV, is set forth below:

	<u>As of</u> <u>31 August 2010</u> <u>(RMB'000)</u>
Net book value of properties of our Group as at 30 June 2010 as set out in the accountants' report in Appendix I to this prospectus .....	232,906
Add: Additions during the period from 1 July 2010 to 31 August 2010 (unaudited) .....	20,271
Less: Disposals during the period from 1 July 2010 to 31 August 2010 (unaudited) .....	-
Less: Depreciation and amortisation of properties during the period from 1 July 2010 to 31 August 2010 (unaudited) .....	1,450
Net book value of properties of our Group as at 31 August 2010 .....	<u>251,727</u>
Valuation surplus .....	<u>293,785</u>
Valuation of properties as at 31 August 2010 (including those properties with proper legal title with a total capital value of RMB482,080,000 and those properties without proper legal title with a total value for reference of RMB63,432,000) as set out in the property valuation report in Appendix IV to this prospectus .....	<u><u>545,512</u></u>

### Disclosure Required Under the Listing Rules

As at the Latest Practicable Date, our Directors confirm that there were no circumstances that would give rise to a disclosure requirement under Rule 13.13 to Rule 13.19 of the Listing Rules.

### Profit Forecast for the Year Ending 31 December 2010

Our Directors forecast that, on the bases and assumptions set out in Appendix III to this prospectus and in the absence of unforeseen circumstances, the forecast combined profit attributable to our equity shareholders for the year ending 31 December 2010 will be not less than RMB764 million. In deriving the forecast combined profit attributable to equity shareholders of our Company for the year ending 31 December 2010, we have taken into account estimated accounting charges totalling RMB155.4 million, which comprise (i) share-based payment expenses of RMB62.4 million in respect of the share options granted pursuant to the Pre-IPO Option Scheme, (ii) interest on liability component of Convertible Bonds of RMB46.2 million, and (iii) interest on liability component of Preference Shares of RMB46.8 million, for the year ending 31 December 2010. It is also forecasted that listing expenses of approximately RMB33 million to be incurred will be chargeable to profit and loss in the year ending 31 December 2010.

The profit forecast for the year ending 31 December 2010 has been prepared by our Directors based on the audited combined results of our Group for the six months ended 30 June 2010, the unaudited combined results for one month ended 31 July 2010 and a forecast of the combined results of our Group for the remaining five months ending 31 December 2010. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by us and are based on the assumptions set out in Appendix III to this prospectus.

On a pro forma fully diluted basis using RMB764 million as our forecast profit and on the assumption that the Global Offering had been completed and assuming that the Convertible Bonds and the Preference Shares have been fully converted and all the Peabody Energy Consideration Shares have been issued based on the Offer Price of HK\$3.875 per Share (being the mid-point of the indicative range of the Offer Price between HK\$3.25 and HK\$4.50 per Share), a total of 3,787,313,494 Shares will be in issue (taking no account of any Shares that may be allotted and issued upon the exercise of

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## FINANCIAL INFORMATION

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any options granted under the Pre-IPO Option Scheme), our forecast earnings per Share are HK\$0.233, representing a price/earnings multiple of 16.6 times based on the Offer Price of HK\$3.875 per Share.

If the Offer Price is fixed at HK\$4.50 per Offer Share, being the highest end of the indicative range of the Offer Price, a total of 3,784,530,089 Shares will be in issue, and our forecast earnings per Share will be HK\$0.233, representing a price/earnings multiple of 19.3 times. If the Offer Price is fixed at HK\$3.25 per Offer Share, being the lowest end of the indicative range of the Offer Price, a total of 3,791,167,440 Shares will be in issue, and our forecast earnings per Share will be HK\$0.233, representing a price/earnings multiple of 14.0 times.

### Sensitivity analysis

The following table illustrates the sensitivity of the profit forecast of our Group for the year ending 31 December 2010 with reference to the potential movements in the average selling price and average purchase price of coal:

	For the year ending 31 December 2010 (RMB'000)
	Increase/(decrease) in profit before taxation for the year
<b>(A) Movement in the average selling price of coal</b>	
Increase 5% .....	401,713
Decrease 5% .....	(401,713)
Increase 10% .....	803,426
Decrease 10% .....	(803,426)
Increase 15% .....	1,205,139
Decrease 15% .....	(1,205,139)
<b>(B) Movement in the average purchase price of coal</b>	
Increase 5% .....	(242,287)
Decrease 5% .....	242,287
Increase 10% .....	(484,574)
Decrease 10% .....	484,574
Increase 15% .....	(726,861)
Decrease 15% .....	726,861

The above sensitivity illustration is intended for reference only, and any variation could exceed the ranges given, and potential investors should note in particular that (i) this sensitivity illustration is not intended to be exhaustive, and (ii) the profit forecast is subject to further and additional uncertainties. While we have considered for the purpose of the profit forecast what our Directors believe is the best estimate of the average selling price and average purchase price of coal for the year ending 31 December 2010, such financial data may differ materially from our forecast, and is dependent on market conditions and other factors that are beyond our control and our profit forecast involves estimates and assumptions in this regard which may prove to be incorrect.

### Dividends and Distributable Reserves

#### Dividends

Subject to the Companies Act, we may declare final dividends in any currency, but no dividend may be declared in excess of the amount recommended by our Board. Our Articles of

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## FINANCIAL INFORMATION

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Association provide that dividends may be declared and paid out if the Directors are satisfied, on reasonable grounds, that, immediately after the payment of the dividends, the value of our Company's assets will exceed its liabilities and our Company will be able to pay its debts as they fall due.

Except insofar as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends will be declared and paid according to the amount paid up on the Shares in respect of which the dividend is paid, but no amount paid up on a Share in advance of equity calls will for this purpose be treated as paid up on the Share and (ii) all dividends will be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. Our Directors may deduct from any dividend or other monies payable to any member or in respect of any Shares all sums of money (if any) presently payable by him to us on account of calls or otherwise.

In addition, the declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend on:

- our general business condition;
- our financial results;
- our solvency requirements;
- the interests of our Shareholders; and
- any other factors which our Board may deem relevant.

Future dividend payments will also depend upon the availability of dividends received from our subsidiaries in China. The PRC laws require that dividends be paid only out of net profits, calculated in accordance with the PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including IFRSs. The PRC laws also require foreign-invested enterprises to set aside part of their net profits as statutory reserves, which are not available for distribution as cash dividends. Furthermore, distributions from our subsidiaries may be restricted if they incur debt or losses or as a result of any restrictive covenants in bank facilities, convertible bond instruments or other agreements that we or our subsidiaries may enter into in the future.

We had declared and paid a total dividend of RMB69.0 million to the then existing equity shareholders of our Company in 2008. In addition, one of our Pre-IPO Investors, Winstar, is entitled to a preferred dividend per Preference Share from the date of issue at the rate of 3.5% per annum, calculated and accruing daily on the basis of a 360-day year on a principal of US\$60 million, being the subscription price paid by Winstar for the Preference Shares. On 16 September 2010, our Board declared and approved the payment of a dividend totalling RMB287,732,611 (including additional preferred dividend and interest of RMB74,248,513 payable to our Pre-IPO Investors under the terms of their respective subscription agreements), representing approximately 25% of our retained earnings as at 30 June 2010, to our existing equity Shareholders as of 16 September 2010, holders of the Convertible bonds and holders of the Preference Shares. Such dividend payment will be funded from our internal financial resources available prior to Listing and out of our distributable reserves of RMB731.5 million as at 30 June 2010. The dividend will be paid upon Listing. Save as disclosed herein, we have not declared any other dividends from the date of incorporation of our Company to the Latest Practicable Date.

## FINANCIAL INFORMATION

Pursuant to written resolutions of our Directors on 16 September 2010, the Board resolved that an indicative dividend payout ratio of 25% of our Company's annual net profit generated be considered as a reference percentage for dividend declaration in future financial years. Our Directors are expected to declare dividends, if any, in Hong Kong dollars with respect to Shares on a per Share basis and we expect to pay such dividends in Hong Kong dollars. Such indicative dividend payout ratio is neither definitive nor binding on our Company and any declaration of dividends will depend upon a number of factors including our earnings and financial conditions, operation requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to the approval of our Shareholders. There can be no assurance that dividends of any amount will be declared or distributed in any given year. There are no arrangements in existence under which future dividends are to be waived or agreed to be waived.

### Distributable reserves

As at 30 June 2010, the reserves available for distribution to our Shareholders were RMB731.5 million.

### Unaudited Pro Forma Adjusted Net Tangible Assets

The following illustrative statement of our unaudited pro forma adjusted combined net tangible assets is based on the combined net assets of our Group as at 30 June 2010, as shown in our audited combined financial statements, which are included in the accountants' report in Appendix I to this prospectus, and adjusted as described below:

	<b>Combined net tangible assets attributable to the equity shareholders of the Company as at 30 June 2010</b>	<b>Estimated net proceeds from the Global Offering</b>	<b>Unaudited pro forma adjusted net tangible assets attributable to the equity shareholders of the Company</b>	<b>Unaudited pro forma adjusted net tangible assets per Share</b>	
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB</b>	<b>HK\$</b>
	<b>(Note 1)</b>	<b>(Note 2)</b>		<b>(Note 3)</b>	
Based on an Offer Price of HK\$3.25 per Share .....	1,640,093	2,643,393	4,283,486	1.13	1.30
Based on an Offer Price of HK\$4.50 per Share .....	1,640,093	3,677,559	5,317,652	1.41	1.63

*Notes:*

- (1) The combined net tangible assets attributable to the equity shareholders of the Company as at 30 June 2010 is based on the combined net assets attributable to the equity shareholders of the Company of RMB1,640,093,000. The combined net tangible assets attributable to the equity shareholders of the Company were extracted from the accountants' report as set out in Appendix I to this Prospectus.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK\$3.25 and HK\$4.50 per Share, respectively, after deduction of the underwriting fees and other relevant expenses payable by the Company. The estimated net proceeds from the Global Offering are converted to Hong Kong dollars at an exchange rate of RMB0.8660 to HK\$1.00.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the above paragraphs and on the assumption of a total of 3,791,167,440 Shares and 3,784,530,089 Shares based upon the indicative Offer Prices of HK\$3.25 and HK\$4.50 per Share respectively, being the number of Shares in issue upon completion of the Global Offering (including Shares in issue as at the date of this prospectus and those Shares to be issued pursuant to the Global Offering, the full conversion of the Convertible Bonds (as converted on 24 September 2010), the automatic conversion of the Preference Shares and the Peabody Energy Consideration Shares for acquisition of jointly controlled entity), which takes no account of any Shares which may be issued upon the



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## FINANCIAL INFORMATION

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exercise of any options granted under the Pre-IPO Option Scheme, or which may be allotted and issued or repurchased by the Company. The unaudited pro forma adjusted net tangible assets per Share is converted to Hong Kong dollars at an exchange rate of RMB0.8660 to HK\$1.00.

- (4) Details of the valuation of the Group's properties as at 31 August 2010 are set out in the property valuation report as set out in Appendix IV to this prospectus. The revaluation surplus or deficit of these properties was not incorporated in our Group's combined financial information for the six months ended 30 June 2010 and will not be included in our Group's financial information for the year ending 31 December 2010. The above adjustments do not take into account the revaluation surplus or deficit.
- (5) On 16 September 2010, the Company declared and approved the payment of a dividend totalling RMB287,732,611 (including additional preferred dividend and interest of RMB74,248,513 payable to our Pre-IPO Investors under the terms of their respective subscription agreements), representing approximately 25% of retained earnings as at 30 June 2010 to the Company's existing equity shareholders as at 16 September 2010, holders of the Convertible Bonds and holders of the Preference Shares. The dividend will be paid upon Listing. Taken into account the dividend declared, the unaudited pro forma adjusted net tangible assets per Share should be reduced by RMB0.08 to RMB1.05 and RMB1.33 (equivalent to approximately HK\$1.21 and HK\$1.54) based on the indicative Offer Prices of HK\$3.25 and HK\$4.50 per Share respectively.

### **No Material Adverse Change**

Our Directors confirm that there has been no material adverse change in our financial or trading position or our prospects since 30 June 2010, being the date of the latest audited combined balance sheets as set forth in the accountants' report in Appendix I to this prospectus.