中國秦發集團有限公司

CHINA QINFA GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 866)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

The Group has achieved a significant improvement in operating results in 2011 as follows:

- Total turnover was approximately RMB9,971.1 million in 2011, representing an increase of approximately 54.5% from approximately RMB6,455.8 million in 2010.

- Coal handling and trading volume was approximately 15.9 million tonnes in 2011, representing an increase of approximately 45.9% from approximately 10.9 million tonnes in 2010.

- Profit for the year was approximately RMB598.0 million in 2011, representing an increase of approximately 58.7% from approximately RMB376.7 million in 2010.

- Excluding the amount of bargain purchase gain of RMB54.9 million arising from the acquisition of 80% equity interest in Shanxi Huameiao Energy Group Limited ("Huameiao Energy"), the profit attributable to equity shareholders of the Company for the year ended 31 December 2011 would have been RMB515.5 million, representing an increase of 42.5% from the profit attributable to equity shareholders of RMB361.7 million, excluding the bargain purchase gain arising from the acquisition of Shanxi Hun Yuan Rui Feng Coal Company Limited ("**Ruifeng Coal**") in 2010.

- Basic and diluted earnings per Share for the year ended 31 December 2011 were RMB27 cents, representing an increase of 50.0% as compared to the same period in 2010.

- The Board does not recommend the payment of any dividend.

The board (the "**Board**") of directors (the "**Directors**") of China Qinfa Group Limited (the "**Company**") is pleased to announce the annual consolidated results and financial position of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2011 with comparative figures for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Turnover	4	**9,971,106**	6,455,805
Cost of sales		**(8,882,698)**	(5,698,188)
Gross profit		**1,088,408**	757,617
Other income	5	**105,966**	45,717
Distribution expenses		**(127,036)**	(119,748)
Administrative expenses		**(203,614)**	(122,906)
Other expenses		**(3,927)**	(4,808)
Results from operating activities		**859,797**	555,872
Finance income		**84,476**	48,722
Finance costs		**(270,555)**	(100,784)
Net finance costs	6(a)	**(186,079)**	(52,062)
Share of profit/(loss) of associate		**23,419**	(1,922)
Profit before taxation	6	**697,137**	501,888
Income tax expense	7	**(99,105)**	(125,236)
Profit for the year		**598,032**	376,652
Other comprehensive income			
Foreign currency translation differences for foreign operations		**(45,736)**	(24,583)
Net change in fair value of available-for-sale financial assets		**–**	(12,918)
Other comprehensive income for the year (after tax and reclassification adjustment)		**(45,736)**	(37,501)
Total comprehensive income for the year		**552,296**	339,151
Profit attributable to:			
Equity shareholders of the Company		**570,470**	377,222
Non-controlling interests		**27,562**	(570)
Profit for the year		**598,032**	376,652

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

		Year ended 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Total comprehensive income attributable to:			
Equity shareholders of the Company		**524,734**	339,721
Non-controlling interests		**27,562**	(570)
Total comprehensive income for the year		**552,296**	339,151
Earnings per share			
Basic earnings per share (restated)	10(a)	**RMB 0.27**	RMB 0.18
Diluted earnings per share (restated)	10(b)	**RMB 0.27**	RMB 0.18

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment		**3,924,147**	1,441,241
Coal mining rights		**4,458,446**	210,659
Lease prepayments		**129,728**	51,884
Investment in associate		**38,308**	45,129
Deferred tax assets		**4,075**	8,648
		8,554,704	1,757,561
Current assets			
Inventories		**504,840**	527,481
Derivatives		**466**	4,225
Trade and bills receivable	11	**1,341,025**	1,026,229
Prepayments and other receivables		**1,550,282**	1,867,212
Pledged deposits		**535,745**	951,807
Cash and cash equivalents		**592,027**	287,161
		4,524,385	4,664,115
Current liabilities			
Loans and borrowings	12	**(1,565,273)**	(2,874,690)
Trade and bills payable	13	**(2,012,289)**	(477,147)
Other payables		**(1,737,558)**	(301,353)
Derivatives		**(2,127)**	(211)
Current taxation		**(269,348)**	(209,333)
		(5,586,595)	(3,862,734)
Net current (liabilities)/assets		**(1,062,210)**	801,381
Total assets less current liabilities		**7,492,494**	2,558,942
Non-current liabilities			
Deferred tax liabilities		**(1,151,071)**	(48,992)
Other payables		**(1,232,000)**	–
Loans and borrowings	12	**(1,782,778)**	(735,321)
Accrued reclamation obligations		**(71,797)**	–
		(4,237,646)	(784,313)
Net assets		**3,254,848**	1,774,629

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		At 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Capital and reserves			
Share capital		**176,266**	91,474
Reserves		**2,069,400**	1,628,056
Total equity attributable to equity shareholders of the Company		**2,245,666**	1,719,530
Non-controlling interests		**1,009,182**	55,099
Total equity		**3,254,848**	1,774,629

NOTES TO THE FINANCIAL STATEMENTS

1 COMPANY BACKGROUND AND BASIS OF PREPARATION

1.1 General information

China Qinfa Group Limited (the "Company") was incorporated in the Cayman Islands on 4 March 2008 as an exempted company with limited liability under the Companies Law (2007 Revision) of the Cayman Islands. The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 3 July 2009 (the "Listing Date"). The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are coal mining, purchase and sales, filtering, storage, blending of coal, shipping transportation and port business.

1.2 Basis of preparation

(a) Statement of compliance

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

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

(b) Basis of measurement

These financial statements are presented in Renminbi ("RMB"), which is rounded to the nearest thousand, except when otherwise indicated. They have been prepared on the historical cost basis except that the derivatives are measured at fair value.

(c) Use of estimates and judgements

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

- IAS 24 (revised 2009), Related party disclosures
- Improvements to IFRSs (2010)

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

The impacts of the above developments are discussed below:

- IAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods. IAS 24 (revised 2009) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to IFRSs (2010) omnibus standard introduces a number of amendments to the disclosure requirements in IFRS 7, Financial instruments: Disclosures. The disclosures about the Group's financial instruments have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the financial statements in the current and previous periods.

3 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these financial statements, the IASB has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

		Effective for accounting periods beginning on or after
Amendments to IFRS 7	Financial instruments: Disclosures – Transfer of financial assets	1 July 2011
Amendments to IAS 12	Income taxes – Deferred tax: Recovery of underlying of assets	1 January 2012
Amendments to IAS 1	Presentation of financial statements – Presentation of items of other comprehensive income	1 July 2012
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 11	Joint arrangements	1 January 2013
IFRS 12	Disclosure of interest in other entities	1 January 2013

IFRS 13	Fair value measurement	1 January 2013
IAS 27	Separate financial statements (2011)	1 January 2013
IAS 28	Investments in associates and joint ventures (2011)	1 January 2013
Revised IAS 19	Employee benefits	1 January 2013
Amendments to IFRS 7	Financial instruments: Disclosures – Mandatory	1 January 2015
IFRS 9	Financial instruments	1 January 2015
Amendments to IFRS 9	Financial instruments	1 January 2015

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

4 SEGMENT REPORTING

(a) Segment results, assets and liabilities

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

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

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

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

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

During the year, the Group changed the reporting structure of its operating segments as follows:

i) The coal mining segment has been combined with the sales of coal segment into one reportable segment of coal business as Shanxi Huameiao Energy Group Co., Ltd. ("Huameiao Energy") became a subsidiary of the Group (see Note 8), and its coal mining activities formed part of the business chain of the Group's coal business.

ii) The iron ore segment, as previously reported, is no longer considered as a reportable segment due to the cessation of sales of iron ore in 2010.

The corresponding comparative amounts of the segment information have been revised to reflect the above changes and to conform to the current year's presentation.

	Coal business		Shipping transportation		Port business		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
		(restated)						(restated)
Turnover from external customers	**9,836,259**	6,316,821	**134,847**	138,984	–	–	**9,971,106**	6,455,805
Inter-segment turnover	–	–	**545,928**	724,805	–	–	**545,928**	724,805
Reportable segment turnover	**9,836,259**	6,316,821	**680,775**	863,789	–	–	**10,517,034**	7,180,610
Reportable segment profit before taxation	**859,874**	447,951	**35,040**	114,559	–	–	**894,914**	562,510
Depreciation and amortisation for the year	**15,146**	6,925	**74,928**	84,354	–	–	**90,074**	91,279
Reportable segment assets	**11,810,855**	5,578,609	**1,561,831**	1,351,985	**554,563**	205,030	**13,927,249**	7,135,624
(including investments in associate)	**38,308**	45,129	–	–	–	–	**38,308**	45,129
Reportable segment liabilities	**(8,021,592)**	(4,395,868)	**(1,327,261)**	(1,145,000)	**(426,704)**	(127,170)	**(9,775,557)**	(5,668,038)

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

Turnover

	2011	2010
	RMB'000	*RMB'000*
Reportable segment turnover	**10,517,034**	7,180,610
Elimination of inter-segment turnover	**(545,928)**	(724,805)
Consolidated turnover	**9,971,106**	6,455,805

Profit

	2011	2010
	RMB'000	*RMB'000*
Reportable segment profit before taxation	**894,914**	562,510
Elimination of inter-segment profit	**(633)**	(662)
Unallocated head office and corporate expenses	**(11,065)**	(7,898)
Net finance costs	**(186,079)**	(52,062)
Consolidated profit before taxation	**697,137**	501,888

Assets

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Reportable segment assets	**13,927,249**	7,135,624
Elimination of inter-segment receivables and inventories	**(322,832)**	(340,539)
Elimination of receivables from head office	**(530,224)**	(383,119)
Deferred tax assets	**4,075**	8,648
Unallocated assets	**821**	1,062
Consolidated total assets	**13,079,089**	6,421,676

Liabilities

	2011	2010
	RMB'000	*RMB'000*
		(restated)
Reportable segment liabilities	**9,775,557**	5,668,038
Elimination of inter-segment payables	**(320,474)**	(338,815)
Elimination of payables to head office	**(1,051,285)**	(942,696)
Current tax liabilities	**269,348**	209,333
Deferred tax liabilities	**1,151,071**	48,992
Unallocated liabilities	**24**	2,195
Consolidated total liabilities	**9,824,241**	4,647,047

(c) Geographic information

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

Turnover from external customers

	2011	2010
	RMB'000	*RMB'000*
Mainland China	**9,779,018**	6,359,543
Outside Mainland China	**192,088**	96,262
Total	**9,971,106**	6,455,805

5 OTHER INCOME

	Note	2011 RMB'000	2010 RMB'000
Government grants	(i)	**20,212**	3,710
Bargain purchase gain on business combination	8	**28,057**	15,563
Bargain purchase gain on acquisition of an associate	8	**26,880**	–
Gain from deemed disposal of interest in an associate	8	**21,974**	–
Gain from disposal of available-for-sale financial assets		**–**	19,584
Gain on derivatives		**7,000**	6,757
Others		**1,843**	103
		105,966	45,717

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

6 PROFIT BEFORE TAXATION

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

(a) Net finance costs

	2011 RMB'000	2010 RMB'000
Interest income	**(18,856)**	(21,710)
Net foreign exchange gain	**(65,620)**	(27,012)
	(84,476)	(48,722)
Interest on borrowings	**256,639**	82,876
Less: interest capitalised into property, plant and equipment*	**(6,208)**	(186)
	250,431	82,690
Bank charges	**20,124**	18,094
Finance costs	**270,555**	100,784
Net finance costs	**186,079**	52,062

* The borrowing costs have been capitalised at an annual rate of 4.13% (2010: 3.75%).

(b) Other items

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories*	**8,258,507**	4,952,099
Operating lease:		
– properties	**4,496**	6,346
– vessels	**353,059**	491,223
Depreciation for the property, plant and equipment	**88,887**	91,139
Amortisation of lease prepayments	**140**	140
Amortisation of coal mining rights	**1,047**	–
Auditors' remuneration		
– audit services	**5,260**	3,096
– non-audit services	**588**	100

* Cost of inventories includes RMB9,471,000 (2010: RMB2,865,000) relating to staff costs, depreciation and amortisation expenses, which amounts are also included in the respective total amounts disclosed separately above for each of these types of expenses.

7 INCOME TAX EXPENSE

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

	2011	2010
	RMB'000	*RMB'000*
Current tax expense		
– PRC Corporate Income Tax	**142,794**	127,323
– Overprovision of PRC Corporate Income Tax in prior years (v)	**(48,015)**	–
Deferred tax		
– Origination and reversal of temporary differences	**4,326**	(2,087)
	99,105	125,236

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

(ii) No provision for Hong Kong Profits Tax has been made for the subsidiaries located in Hong Kong as these subsidiaries did not have assessable profits subject to Hong Kong Profits Tax during the year (2010: Nil).

(iii) The provision for the PRC corporate income tax was based on the statutory rate of 25% of the assessable profits of subsidiaries which carried on businesses in the PRC.

(iv) Pursuant to the Corporate Income Tax Law of the PRC, 5% withholding tax is levied on the foreign investor in respect of dividend distributions arising from a foreign investment enterprise's profits earned after 1 January 2008. As at 31 December 2011, temporary withholding tax differences relating to the undistributed profits of PRC subsidiaries amounted to approximately RMB738,108,000 (2010: RMB208,433,000). Deferred tax liabilities of RMB36,905,000 (2010: RMB10,422,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these PRC subsidiaries and it has been determined that it is probable that undistributed profits of these PRC subsidiaries will not be distributed in the foreseeable future.

(v) A subsidiary of the Group made provisions for PRC corporate income tax of RMB48,015,000 in previous years. During the year ended 31 December 2011, the Group started to implement a business plan to enhance the subsidiary's operations and the directors believe that the likelihood of utilization of this PRC corporate income tax provision have become remote and therefore have decided to release it to profit or loss during the year.

8 ACQUISITION OF A SUBSIDIARY

Business combination

On 17 November 2010, Shuozhou Guangfa Energy Investment Co., Ltd. ("Shuozhou Guangfa"), a subsidiary of the Company, entered into an equity interest transfer agreement (the "Equity Agreement") with Shanxi Huiyong Jinyuan Energy Technology Co., Ltd. ("Huiyong Jinyuan") and other individual investors of Huameiao Energy (collectively referred to as the "Huameiao Energy Vendors"), all independent third parties of the Group. Pursuant to the Equity Agreement, the Huameiao Energy Vendors agreed to sell 32% of their equity interest in Huameiao Energy to Shuozhou Guangfa for a consideration of RMB1,600,000,000.

On 1 January 2011, the Group completed the acquisition and Huameiao Energy became an associate of the Group. The fair value assigned to the Group's equity interest in Huameiao Energy's identifiable assets and liabilities assumed was determined to be RMB1,626,880,000 as at the date of acquisition. A bargain purchase gain of RMB26,880,000 was recorded in other income.

On 30 June 2011, the Group received from Huameiao Energy dividends attributable to the six months ended 30 June 2011 of RMB32,000,000.

On 26 October 2011, Shuozhou Guangfa entered into another equity interest transfer agreement ("Second Equity Agreement") with the Huameiao Energy Vendors. Pursuant to the Second Equity Agreement, the Huameiao Energy Vendors agreed to further sell 48% of their equity interest in Huameiao Energy to Shuozhou Guangfa for a cash consideration of RMB2,160,000,000. On 23 December 2011, the shareholders of the Company approved this acquisition at an Extraordinary General Meeting, and the Group obtained control of Huameiao Energy thereupon.

Upon completion of the acquisition of the 48% equity interest in Huameiao Energy, the Group's interest in associates was treated as disposed of and reacquired at fair value on the date of obtaining control. As a result, a gain on disposal of RMB21,974,000 has been recognised in profit or loss for the year ended 31 December 2011.

Fair value of the identifiable assets acquired and liabilities assumed as of the date of acquisition of the 48% equity interest in Huameiao Energy:

	RMB'000
Property, plant and equipment	1,736,454
Coal mining rights	4,243,834
Inventories	157,059
Trade and bills receivable	110,822
Prepayments and other receivables	410,567
Cash and cash equivalents	124,264
Loans and borrowings	(900,000)
Deferred tax liabilities	(1,091,651)
Total net identifiable assets	4,791,349

Bargain purchase gain

Bargain purchase gain has been recognised as a result of the acquisition of the 48% equity interest in Huameiao Energy as follows:

	RMB'000
Total cash consideration transferred	2,160,000
Fair value of interests in associates on the date of obtaining control	1,645,022
Less: 80% fair value of net identifiable assets	(3,833,079)
Bargain purchase gain	(28,057)

The bargain purchase gain is mainly attributable to the increase in the value of the coal mining rights, as a result of increase in market price of coal during the period from the date at which the Second Equity Agreement was concluded to 23 December 2011. The bargain purchase gain was recognised in other income (see Note 5).

9 DIVIDENDS

(i) No final dividend is proposed for the year ended 31 December 2011 (2010: Nil).

(ii) On 26 August 2011, the directors proposed a bonus issue of one share for every one existing share held by the shareholders whose names are on the register of members on 10 October 2011. The extraordinary general meeting held on 30 September 2011 approved the bonus issue.

10 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB570,470,000 (2010: RMB377,222,000) and the weighted average number of 2,075,104,000 (2010: 2,075,060,000, after adjustment for the capitalisation issue in 2011) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2011	2010
	Number of shares	*Number of shares*
Ordinary shares issued at 1 January	**1,037,500,000**	1,037,500,000
Effect of share option exercised	**44,000**	–
Effect of capitalisation issue	**1,037,560,000**	1,037,560,000
Weighted average number of ordinary shares at 31 December	**2,075,104,000**	2,075,060,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB570,470,000 (2010:RMB377,222,000) and the weighted average number of 2,080,233,000 (2010:2,075,860,000 (after adjustment for the capitalisation issue in 2011)) ordinary shares (diluted).

Weighted average number of ordinary shares (diluted) for the year ended 31 December 2011 is calculated as follows:

	2011	2010
	Number of shares	*Number of shares*
Weighted average number of ordinary shares at 31 December	**2,075,104,000**	2,075,060,000
Effect of deemed issue of Pre-IPO share options	**5,129,000**	800,000
Weighted average number of ordinary shares at 31 December (diluted)	**2,080,233,000**	2,075,860,000

11 TRADE AND BILLS RECEIVABLE

All of the trade and bills receivable are expected to be recovered within one year.

An ageing analysis of trade and bills receivable of the Group is as follows:

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**1,337,473**	897,041
Over 1 month but within 3 months	**3,552**	86,056
Over 3 months but within 6 months	**–**	43,132
	1,341,025	1,026,229

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

The ageing is counted from the date when trade and bills receivable are recognised.

12 LOANS AND BORROWINGS

The Group

		2011	2010
	Note	***RMB'000***	*RMB'000*
Current			
Secured bank loans and bank advances	(i)	**934,865**	2,660,646
Bank advances under discounted bills receivable		**–**	70,057
Current portion of non-current secured bank loans	(ii)	**630,408**	143,987
		1,565,273	2,874,690
Non-current			
Secured bank loans	(ii)	**1,782,778**	735,321
		3,348,051	3,610,011

(i) Current bank loans and bank advances bear interest at rates ranging from 3.47% to 11.50% (2010: 1.05% to 6.13%) per annum. Current secured bank loans and bank advances were secured by the following assets:

	2011	2010
	RMB'000	*RMB'000*
Property, plant and equipment	**525,456**	779,689
Inventories	**425,968**	160,267
Trade and bills receivable	**–**	195,468
Pledged deposits	**202,750**	951,807

RMB100,000,000 (2010: RMB259,991,000) of the current secured bank loans and bank advances were guaranteed by a related party in addition to being secured by the above assets.

Unutilised bank facilities secured by pledged deposits for the Group was nil as at 31 December 2011 (2010: RMB506,062,000).

(ii) Non-current secured bank loans as at 31 December 2011 were pledged by property, plant and equipment with carrying amounts of RMB1,067,451,000 (2010: RMB235,026,000), coal mining rights with carrying amounts of RMB3,282,384,000 (2010: Nil), the Group's equity interest in Huameiao Energy, Xingtao Coal and Chongsheng Coal, and guaranteed by a related party and a subsidiary owned by Huiyong Jinyuan, one of the Huameiao Energy Vendors.

Non-current secured bank loans as at 31 December 2011 bear the following variable interest rates:

	2011	2010
	RMB'000	*RMB'000*
(1) LIBOR plus 1%	**24,962**	84,308
(2) 10% discount on the per annum interest rate quoted by the People's Bank of China in respect of three-year borrowings ("3-year interest rate of PBOC")	**145,000**	145,000
(3) 30% premium on the per annum interest rate quoted by the People's Bank of China in respect of five-year borrowings ("5-year interest rate of PBOC")	**700,000**	650,000
(4) USD best lending rate plus 1.5%	**204,464**	–
(5) 20% premium on the 5-year interest of PBOC	**500,000**	–
(6) 5% premium on the per annum interest rate quoted by the People's Bank of China with terms longer than five years	**98,760**	–
(7) 5-year interest rate of PBOC	**540,000**	–
(8) 15% premium on the 3-year interest rate of PBOC	**200,000**	–
	2,413,186	879,308

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

	2011	2010
	RMB'000	*RMB'000*
Within 1 year	**630,408**	143,987
Over 1 year but within 2 years	**590,446**	240,321
Over 2 years but within 5 years	**991,338**	495,000
Over 5 years	**200,994**	–
	1,782,778	735,321
	2,413,186	879,308

13 TRADE AND BILLS PAYABLE

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

	The Group	
	2011	2010
	RMB'000	*RMB'000*
Within 1 month	**1,125,185**	428,772
Over 1 month but within 3 months	**688,172**	29,638
Over 3 months but within 6 months	**198,932**	18,737
	2,012,289	477,147

14 CAPITAL COMMITMENTS

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

	2011	2010
	RMB'000	*RMB'000*
Contracted for	**1,352,728**	1,078,739

15 SUBSEQUENT EVENTS

On 17 January 2012, the Company granted 20,751,196 share options to certain eligible participants of the Group to subscribe for ordinary shares with a nominal value of HKD0.1 each under the Share Option Scheme adopted by the Company on 12 June 2009. The exercise price was HKD1.5 per share and the exercise period is from 17 January 2012 to 16 January 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a leading non-State owned thermal coal supplier in China, and it operates an integrated coal supply chain, including coal mining, purchase and sales, filtering, storage, blending, shipping transportation and port business. During the year ended 31 December 2011, the Group continued to focus on these business activities and expanded its integrated coal supply chain through upward vertical integration.

Significant Growth in the Operating Results

The growth in China's gross domestic product (GDP) has slowed down but remained strong. The GDP of China posted a year-on-year growth of 9.2% in 2011. The steadily growing economy facilitated a growth in the demand for coal-fired electricity. Led by the members of the Board, the Group captured the business opportunities successfully. During the year ended 31 December 2011, the Group expanded its coal customer base and established business relationship with new large power plants (such as China Resources Power Holdings Co., Ltd. Henan Branch, China Resources Power Holdings Co., Ltd. Jiangsu Branch, Fujian Huadian Kemen Power Generation Co., Ltd. and Huaneng Jinggangshan Power Plant) and Stated-owned coal suppliers (such as China Coal Energy Limited and Datong Coal Mine Group Co., Ltd). In addition, with the management's effort on strengthening the existing logistics facilities, the coal supply chain capability of the Group was further enhanced which resulted in the strong growth of revenue and net profit of the Group during the year ended 31 December 2011.

During the year ended 31 December 2011, the Group achieved a significant growth in the handling and trading volume of coal as compared to 2010. The coal handling and trading volume of the Group was 15,927,000 tonnes, representing an increase of 45.9% as compared to 2010. The monthly average selling prices of coal during the year ended 31 December 2011 were in the range between RMB563 per tonne and RMB677 per tonne, which were higher than the average selling prices between RMB539 per tonne and RMB620 per tonne during the same period in 2010.

Profit attributable to equity shareholders of the Company, excluding the bargain purchase gain arising from the acquisition of Shanxi Huameiao Energy Group Limited ("**Huameiao Energy**") during the year, was RMB515.5 million, representing an increase of 42.5% from the profit attributable to equity shareholders of RMB361.7 million, excluding the bargain purchase gain arising from the acquisition of Shanxi Hun Yuan Rui Feng Coal Company Limited ("**Ruifeng Coal**") in 2010.

Vertical Integration and Improvement in Coal Supply Chain

The Directors consider upstream investments are part of the Group's core strategy to achieve a vertically fully integrated supply chain and enhance our distribution margin given their close proximity to our logistics network.

In November 2010, the Group entered into an equity interest transfer agreement for the acquisition of 32% equity interest in Huameiao Energy for consideration of RMB1.6 billion. The acquisition was completed on 1 January 2011. In October 2011, the Group has enter into another equity interest transfer agreement for the acquisition of an additional 48% equity interest in Huameiao Energy for consideration ("**Second Consideration**") of RMB2.88 billion. After acquisition of the additional equity interest, the interest of the Group in Huameiao Energy has been increased from 32% to 80%.

The Second Consideration will be payable in three installments:

- RMB1,000 million has already been paid;
- RMB1,232 million will be payable not later than 30 June 2013;
- RMB648 million will be settled by way of the Group taking up the responsibility to repay the banking facilities of Huameiao Energy in the amount of RMB648 million, upon obtaining approval from the relevant PRC government on the transfer of equity interest of Huameiao Energy.

Since the completion of the acquisition of the additional 48% equity interest in Huameiao Energy which took place on 23 December 2011, Huameiao Energy has become a subsidiary of the Group and its financial results were consolidated into the financial statements of the Group. Huameiao Energy has three wholly-owned subsidiaries and each subsidiary holds the mining right of one coal mine in Shuozhou, Shanxi Province, China.

Further information on the acquisition was set forth in the Company's circular dated 8 December 2011.

As at 31 December 2011, the Group controlled a total of four PRC coal mines and have a significant interest in one Australian coal mine. The table sets forth certain information about these coal mines.

	Location	Ownership	Site area	Operation status	Total coal reserves	Total coal resources
				As at 31 December 2011		
			sq. km		*million tonnes*	*million tonnes*
Huameiao Energy – Xingtao Coal *(Note 1)*	Shuozhou Shanxi	80%	4.3	Under operation	**82**	**121**
Huameiao Energy – Fengxi Coal *(Note 1)*	Shuozhou Shanxi	80%	2.4	Under operation (full production has commenced in early 2011)	**50**	**78**
Huameiao Energy – Chongsheng Coal *(Note 1)*	Shuozhou Shanxi	80%	2.9	Under operation (scheduled to be in full production in 2013)	**51**	**81**
Ruifeng Coal *(Note 2)*	Datong Shanxi	87.88%	2.7	Under development	**n.a.**	**67**
Tiaro Coal	Australia	21.15%	n.a.	Under exploration	**n.a.**	**n.a.**

Note:

1. The Group engaged an independent mineral industry consultant to estimate the total coal reserves and resources as of 30 September 2011 in accordance with the JORC Code. For the period from 1 October 2011 to 31 December 2011, there was no material change in total coal reserves and resources. The total coal reserves and resources as of 31 December 2011 were derived from the estimated figures after deducting the raw coal production for the period from 1 October 2011 to 31 December 2011.

2. The total coal resources were estimated under the PRC standards.

The following table sets forth the historical full-year production figures at the abovementioned mines for the periods indicated:

	Year ended 31 December		
	2009	2010	**2011**
Raw coal production volume	*('000 tonnes)*	*('000 tonnes)*	***('000 tonnes)***
Huameiao Energy – Xingtao Coal	1,800	2,837	**2,800**
Huameiao Energy – Fengxi Coal	–	860*	**1,862**
Huameiao Energy – Chongsheng Coal	–	–	**486**
Ruifeng Coal	–	–	**300***
Total	1,800	3,697	**5,448**

	Year ended 31 December		
	2009	2010	**2011**
Commercial coal production volume	*('000 tonnes)*	*('000 tonnes)*	***('000 tonnes)***
Huameiao Energy – Xingtao Coal	1,170	1,844	**1,820**
Huameiao Energy – Fengxi Coal	–	559*	**1,210**
Huameiao Energy – Chongsheng Coal	–	–	**316**
Ruifeng Coal	–	–	**300***
Total	1,170	2,403	**3,646**

* These represented development coal produced from construction of the coal mines.

Expenditure on exploration, mining and development activities for the year ended 31 December 2011 were RMB476.7 million.

FINANCIAL REVIEW

Revenue and Handling and Trading Volume

	Year ended 31 December	
Revenue	**2011**	2010
	RMB'000	*RMB'000*
Coal business	**9,836,259**	6,316,821
Shipping transportation	**134,847**	138,984

	Year ended 31 December	
Handling and Trading volume	**2011**	2010
	'000 tonnes	*'000 tonnes*
Coal Handling and Trading	**15,927**	10,918

Due to the increased efficiency of the Group's entire coal supply chain capability, the Group achieved a significant growth in handling and trading volume of coal as compared to the same period in 2010. During the year ended 31 December 2011, the total coal handling and trading volume of the Group was approximately 15,927,000 tonnes, representing an increase of approximately 5,009,000 tonnes or 45.9% as compared to the same period in 2010.

The monthly average selling price of coal during the year ended 31 December 2011 were in range between RMB563 per tonne and RMB677 per tonne, which were higher than the average selling prices between RMB539 per tonne and RMB620 per tonne during the same period in 2010.

The average coal selling price and the coal handling and trading volume for each of the three years ended 31 December 2011 are set forth in the table below:

	Year ended 31 December		
	2009	2010	**2011**
Average selling price *(RMB per tonne)*	493	579	**618**
Average monthly handling and trading volume *(thousand tonnes)*	569	910	**1,327**

The Group sells blended coal which is sourced from both overseas and the PRC domestic markets to customers, including power plants, cement plants and coal traders. Most of the Group's customers are located in the coastal regions of China. Power plants, being the major customers of the Group, purchase coal for their use in the combustion processes to produce steam for power and heat. Cement plants consume coal as primary fuel in their production process. The following table sets forth information regarding the Group's coal sales by industry segment during 2011 and 2010:

	Year ended 31 December			
	2011		2010	
	Net sales	**Percentage of Net sales**	Net sales	Percentage of Net sales
	RMB'000	***% of total***	*RMB'000*	*% of total*
Power plants	**4,666,856**	**47.4**	4,158,910	65.8
Coal traders	**3,683,752**	**37.5**	1,222,689	19.4
Cement plants and others*	**1,485,651**	**15.1**	935,222	14.8
Total	**9,836,259**	**100.0**	6,316,821	100.0

* Others mainly represented large State-owned coal suppliers. Most of them were new customers of the Group in current year.

The segment turnover for shipping transportation from external customers for the year ended 31 December 2011 was RMB134.8 million, representing a slight decrease of RMB4.2 million or 3.0% from RMB139.0 million for the same period in 2010. There was decrease in freight rates during the year as a result of decrease in demand due to the increase in charter fuel prices and the over-supply of shipping transportation capacity, but the negative impact of declining in freight rates was compensated by the increase in revenue from two new vessels which have come into operation during 2011.

Gross Profit and Gross Profit Margin

The Group's gross profit increased by approximately RMB330.8 million during the year ended 31 December 2011 to approximately RMB1,088.4 million from approximately RMB757.6 million during the same period in 2010, mainly because of the substantial increase in the coal handling and trading volume.

The Group's annual gross profit margin has remained stable at approximately 10 to 12% over the past three years.

Other Income

During the year ended 31 December 2011, the Group's other income amounted to approximately RMB106.0 million, representing an increase of approximately 131.9% as compared with approximately RMB45.7 million in the same period in 2010. Other income mainly represented the bargain purchase gain on the acquisition of 80% equity interest in Huameiao Energy of RMB54.9 million and gain from deemed disposal of the 32% equity interest in Huameiao Energy of RMB22.0 million.

Cost of sales

Cost of sales of the Group in 2011 amounted to approximately RMB8,882.7 million, representing an increase of approximately 55.9% as compared with approximately RMB5,698.2 million in 2010. The increase was in line with the increase in turnover.

The following table set forth the cost of sales of the coal business segment:

	Year ended 31 December	
	2011	2010
	RMB million	*RMB million*
Cost of coal purchased	**7,769.4**	4,523.9
Cost of coal transportation*	**776.1**	1,115.1
Cost of self-produced coal *(Note 1)*	**728.1**	–
Materials, fuel, power	**137.9**	–
Staff costs	**81.2**	–
Transportation	**21.3**	–
Depreciation and amortisation	**71.6**	–
Others	**416.1**	–
Other costs	**46.6**	37.3
Total cost of sales of coal business segment	**9,320.2**	5,676.3

* Cost of coal transportation refers to the transportation cost before elimination on consolidation.

Note 1: The cost of self-produced coals represented the full-year cost of Huameiao Energy and Ruifeng coal. The Group has acquired 80% equity interest of Huameiao Energy since 23 December 2011 (the date of which Huameiao Energy became a subsidiary of the Group).

The Group purchases coal from both overseas and the PRC domestic market. The following table sets forth information regarding the Group's origins of coal based on sales volume and net sales in 2011 and 2010:

	Year ended 31 December			
	2011		2010	
Origins of coal	**Sales volume**	**Net sales**	Sales volume	Net sales
	'000 tonnes	***RMB'000***	*'000 tonnes*	*RMB'000*
Indonesia	**6,237**	**3,920,590**	4,051	2,282,820
China	**6,906**	**3,890,176**	3,497	1,889,436
Canada	**843**	**855,182**	490	435,457
Vietnam	**966**	**538,971**	881	476,358
South Africa	**532**	**318,304**	955	551,177
Australia	**443**	**313,036**	907	591,901
Others	–	–	137	89,672
Total	**15,927**	**9,836,259**	10,918	6,316,821

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

The Group has established stable cooperative relationships with its key overseas and PRC domestic coal suppliers and has developed business relationships with the majority of them over a period of not less than 3 years. The Group has also been undergoing upstream expansion through acquisition of companies holding coal mines. This enables the Group to obtain a reliable supply of quality coal.

Administrative Expenses

During the year ended 31 December 2011, the Group's administrative expenses amounted to approximately RMB203.6 million, representing an increase of approximately 65.7% as compared with approximately RMB122.9 million in the same period in 2010. Such increase was mainly contributed by the increase in staff cost, professional fee for consultancy services and auditor's remuneration. The increase in auditor's remuneration was mainly contributed by the audit service fee incurred for the acquisition of 32% and 48% equity interest in Huameiao Energy.

Distribution Expenses

Distribution expenses increased slightly by approximately 6.1% to approximately RMB127.0 million during the year ended 31 December 2011.

Net Finance Costs

Net finance costs of the Group in 2011 amounted to approximately RMB186.1 million, representing an increase of approximately RMB134.0 million or approximately 257.2% from approximately RMB52.1 million in 2010. This was principally due to the increase in interest rate as a result of the tightening of fiscal policy in the PRC, the increase in the trade finance to support the increase in the coal handling and trading volume during 2011 and the loan relating to the acquisition of the equity interest in Huameiao Energy.

Income Tax Expense

The Group's income tax expense in 2011 was approximately RMB99.1 million, representing a decrease of approximately 20.8% from approximately RMB125.2 million in 2010. The Group's effective income tax rate was 14.2% in 2011 and 25.0% in 2010. The reduction in effective tax rate was mainly due to the reversal of tax provision, the non-taxable nature of one-off bargain purchase gain arising from the acquisition of Huameiao Energy and gain from deemed disposal of the 32% equity interest in Huameiao Energy.

Profit Attributable to Equity Shareholders

Profit attributable to equity shareholders of the Company, excluding the bargain purchase gain on the acquisition of Huameiao Energy during the year ended 31 December 2011 was RMB515.5 million, representing an increase of 42.5% from the profit attributable to equity shareholders of RMB361.7 million, excluding the bargain purchase gain on the acquisition of Ruifeng Coal, for the same period in 2010. This was mainly contributed by the increase in profitability of the coal handling and trading business as a result of the increasing demand and the average selling prices of coal during the year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

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

As at 31 December 2011, the Group recorded net current liabilities of RMB1,062.2 million which were mainly due to the payment in cash for the acquisition of the 80% equity interest in Huameiao Energy. The Group has taken initiative to enhance the financial flexibility by diversifying the funding bases and obtain medium term loans to replace short term loans.

The management has also taken initiative to strengthen the Group's working capital cycle during the year. As at 31 December 2011, the cash and cash equivalents of the Group amounted to RMB592.0 million, representing an increase of 106.2%. During the financial year ended 31 December 2011, the net cash generated from operating activities by the Group also increased significantly from RMB167.7 million in the previous year to RMB948.6 million.

As at 31 December 2011, the total bank and other borrowings of the Group were RMB3,348.1 million (as at 31 December 2010: RMB3,610.0 million), RMB1,565.3 million of which were repayable within one year and carried interest at market rates ranging from 3.47% to 11.50% (31 December 2010: 1.05% to 6.13%) per annum.

Non-current bank loans as at 31 December 2011 and 31 December 2010 carried at variable interest rates.

As at 31 December 2011, the Group had total banking facilities of RMB13,024.9 million (as at 31 December 2010: RMB4,659.8 million), of which RMB4,894.0 million (as at 31 December 2010: RMB3,107.5 million) were utilised.

As at 31 December 2011, the Group's cash and cash equivalents, except amounts of RMB1.7 million and RMB77.8 million held in Hong Kong dollars ("HKD") and United States dollars ("USD"), respectively, were held in RMB. The Group's interest-bearing borrowings made in RMB and USD were RMB3,022.4 million and RMB325.6 million, respectively.

The gearing ratio (calculated as bank debt netted off cash and cash equivalents plus pledged deposits divided by total assets) of the Group as at 31 December 2011 was 17.0% (as at 31 December 2010: 36.9%). The significant decrease was mainly due to the increase in shareholders' equity of the Group after the acquisition of Huameiao Energy.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGING

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

The Group has entered into several foreign exchange forward contracts with banks in order to reduce the negative impact caused by the appreciation of RMB. The purpose of these transactions is to control the cost of the Group's RMB investments, in terms of foreign currencies, that are required to be injected into the PRC in the near future. As at 31 December 2011, the Group had two foreign exchange option contracts and three foreign exchange forward contracts. The aggregate fair value of these contracts was net assets of approximately RMB0.1 million as at 31 December 2011.

PLEDGE OF ASSETS OF THE GROUP AND GUARANTEE

As at 31 December 2011, the Group's assets in an aggregate amount of RMB5,837.0 million (as at 31 December 2010: RMB2,392.3 million) in forms of property, plant and equipment, coal mining rights, inventories and bank deposits were pledged to banks for credit facilities granted to the Group.

As at 31 December 2011, Mr. XU Jihua, the chairman of the Board and an executive Director, provided guarantees to banks for granting banking facilities of an amount equivalent to RMB4,226.4 million (as at 31 December 2010: RMB1,568.5 million) to the Group.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any material contingent liabilities.

FINAL DIVIDEND

The Directors have considered the dividend policy as set forth in the Prospectus. In light of the anticipated capital expenditure and investments of the Group, the Directors consider that it would be more appropriate to deploy the financial resources to further strengthen the capital position and business development of the Group. On this basis, the Directors have decided not to declare any final dividend for the year ended 31 December 2011. No proposal for declaring the final dividend for the year ended 31 December 2011 will be made at the forthcoming annual general meeting of the Company (the "Annual General Meeting"). The Directors are committed to the proposed dividend policy set forth in the Prospectus and will consider the declaration and payment of such dividend in accordance with such policy in the forthcoming financial years.

SHARE CAPITAL STRUCTURE

The Board has proposed the issue of bonus shares on the basis of one bonus share for every one existing share (the "**Bonus Issue**") held by the qualifying shareholders whose names appear on the register of members of the Company on 10 October 2011 by way of capitalisation from the Company's share premium account. Details of the Bonus Issue are set out in the Company's circular dated 14 September 2011.

The Bonus Issue has been approved by the shareholders of the Company at the extraordinary general meeting held on 30 September 2011. Accordingly, 1,037,560,000 bonus shares were issued and allotted on 12 October 2011 credited as fully paid at par. As at 31 December 2011, the total number of issued shares of the Company was 2,075,120,000.

Save as the above, there was no change in the share capital structure of the Company during the year ended 31 December 2011.

EMPLOYEES AND REMUNERATION

As at 31 December 2011, the Group employed 1,686 employees. The Group has adopted a performance-based reward system to motivate its staff and such system is reviewed on a regular basis. In addition to the basic salaries, year-end bonuses may be offered to staff members with outstanding performance.

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

Moreover, a Pre-IPO share option scheme was adopted in June 2009 to retain staff members who have made contribution to the success of the Group. As at 31 December 2011, there were 15,200,000 outstanding share options granted under the Pre-IPO Share Option Scheme to an executive Director and 21 employees of the Group. On 17 January 2012, the Company has further granted share options to subscribe for a total of 20,751,196 ordinary shares of the Company under the Share Option Scheme adopted on 12 June 2009 to 15 employees. As at the date of this announcement, the total number of share options outstanding is 35,951,196.The Directors believe that the compensation packages offered by the Group to its staff members are competitive in comparison with market standards and practices.

BUSINESS OUTLOOK

Although China's economy is slowing down due to both the government's deliberation (macro tightening) and a deteriorating export environment, a growth of 7-8% can still be maintained, and the Directors are optimistic about the future of the coal sector due to the following reasons:

– It is expected that the average annual growth in coal demand will be above 5% during the Twelve Five-Year Plan period, and that the coal demand in China will reach about 4.3 billion tonnes by 2015. It is expected that there will be certain shortage of coal supply during the Twelve Five-Year Plan period, therefore coal price is expected to maintain a stable upward trend;

– Railway transport is still a bottleneck in China;

– Coal is still the most economical consumable energy source that cannot be substituted, while in times of high oil price, coal is so far the best substitution energy.

The Group possesses the complete supply chain of coal in providing services emerging from the geographical disparity and the transportation bottlenecks and has four quality coal mines in Shanxi Province, of which the Xingtao coal mine of Huameiao Energy were graded as Grade 1 Safe and Efficient Mine by China National Coal Association. The pent-up capacity of these four mines is being gradually released. With good development prospect of the industry and enhanced operating conditions of the Group, it is very optimistic about the future development and business growth of the Group.

In addition to the established business relationship, the Group has taken the initiative to increase the coal sales to the existing customers. Many of the Group's customers are large scale Stated-owned enterprises with several dozens of power plants under operation in China, and the Group is a supplier only to some of the power plants of these customers, there are ample room for expansion of business with the existing customers. Therefore, the Group will further boost the coal sales to these customers. Moreover, the Group is actively looking for opportunities to expand the customer base and developing new business relationships with sizable domestic power groups as well as concrete and chemical manufacturers in China.

The acquisition of the 80% equity interest in Huameiao Energy further reinforced the Group to become a fully integrated thermal coal supply chain operator and enabled the Group to enter into high growth phase.

Upon successfully acquisition of Huameiao Energy, the Group can be benefited from stable coal supply, higher gross profit margin and stronger cash flow. With the growing coal production from Huameiao Energy, the Group can provide sufficient coal to meet the demands from the power plants, which require stable source of coal supply. The Group also operates a well-developed logistic network which allows ample absorption and realisation of the coal produced. The management expects the gross profit margin will be improved with the increased portion of self-produced coal to purchase coal. The resulting stronger cash flow also enables the Group to achieve a healthier capital structure.

The Group will continue to implement plans to acquire suitable coal mines and will keep up its efforts in identifying mines in operation for potential mergers and acquisition opportunities. The Group is also actively exploring construction, acquisition or leasing opportunities of the additional coal loading stations along the Daqin Railway in order to further strengthen the coal processing and transportation capacity of the Group.

As at 31 December 2011, the gearing ratio of the Group was 17.0%, representing a significant drop of 19.9% as compared to the 36.9% as at 31 December 2010. The significant drop was mainly due to the increase in shareholders' equity of the Group after the acquisition of Huameiao Energy. The management will continue to take initiative to strengthen the Group's working capital management and further optimize its capital structure.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company was in full compliance with the applicable code provisions in the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") during the financial year ended 31 December 2011.

AUDIT COMMITTEE OF THE BOARD

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

The audit committee has reviewed the financial statements of the Group for the financial year ended 31 December 2011.

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

During the year ended 31 December 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for the financial year ended 31 December 2011 containing all the information required by Appendix 16 to the Listing Rules and any other applicable laws and regulations will be dispatched to the Shareholders and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.qinfagroup.com) in due course.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held in May 2012. A notice convening the Annual General Meeting will be published on the websites of the Stock Exchange and the Company and will be dispatched to the Shareholders in due course.

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

Guangzhou, 26 March 2012

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