
INDUSTRY OVERVIEW

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OVERVIEW OF THE GLOBAL PORT INDUSTRY

Introduction

The maritime industry provides a vital link in international trade, with oceangoing vessels representing one of the most efficient and cost-effective means of transporting large volumes of raw materials and finished products. Seaborne cargo can be categorized as dry bulk, liquid bulk, container and general cargo. Dry bulk consists of major dry bulk including coal, metal ore and grain, and other dry bulk (sugar, cement, fertilizer, etc.). Liquid bulk includes crude oil and refined petroleum products (including gasoline, diesel, kerosene and fuel oil, etc.) which are transported in oil tankers, and bulk liquid chemicals and liquefied gases which are transported in specialized tankers. Container cargo includes industrial and consumer products and other containerizable cargo. General cargo consists of a wide variety of cargoes that are not transported in containers or in bulk such as bagged cargo, barrels, crates, and cars. Cargoes are loaded onto ships at ports and transported by sea or along rivers from regions of supply to regions of demand. Consequently, ports are critical supply links supporting trade and the port industry plays an important role in the macroeconomic development of a country.

The development and operations of ports are increasingly specialized and ports have transformed from simple transit points linking land and sea transport segments to comprehensive logistic service providers offering stevedoring, stacking, warehousing, transportation, distribution and logistics services. They have become a vital and irreplaceable part of the entire value chain for transportation.

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Development of World Seaborne Trade

The following table sets forth the development of world seaborne trade by major cargo types from 2002 to 2012:

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-12 CAGR
	(million tonnes)											
Metal ore ¹	651	687	770	864	921	1,010	1,082	1,130	1,263	1,378	1,457	8.4%
Coal	590	619	650	675	769	833	830	784	885	897	1,028	5.7%
Grain	210	211	207	212	221	228	235	235	243	247	269	2.5%
Others	912	958	1,033	1,094	1,177	1,240	1,191	1,044	1,187	1,256	1,108	2.0%
Total dry												
bulk	2,363	2,475	2,660	2,845	3,088	3,311	3,338	3,193	3,578	3,778	3,862	5.0%
Total liquid												
bulk	2,681	2,855	3,002	3,115	3,183	3,215	3,286	3,244	3,374	3,409	3,491	2.7%
Total other												
cargo²	1,067	1,103	1,253	1,389	1,423	1,641	1,646	1,446	1,600	1,813	1,942	6.2%
of which												
container												
(million												
TEUs)	82	93	105	115	125	139	144	131	151	163	170	7.6%
World seaborne												
trade	6,111	6,433	6,915	7,349	7,694	8,167	8,270	7,883	8,552	9,000	9,295	4.3%

Note: 1. Metal ore is defined to include iron ore, bauxite, nickel ore, copper ore, zinc ore, chrome ore and manganese ore.

2. Other cargo includes container, general cargo and other cargo.

Source: Drewry

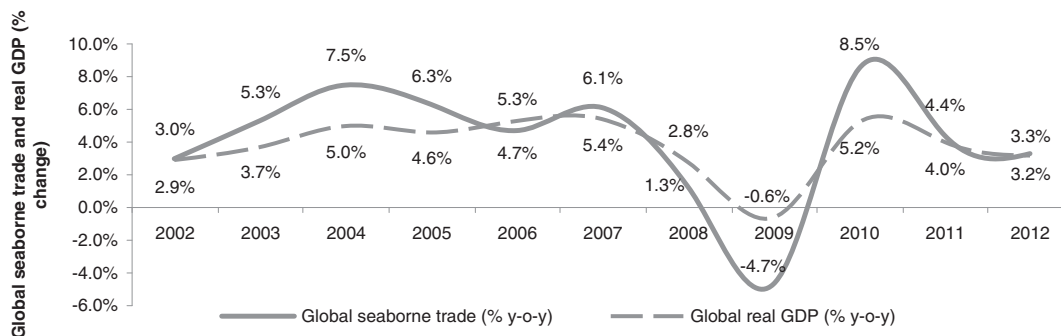
World seaborne trade grew from 6.1 billion tonnes in 2002 to 9.3 billion tonnes in 2012, representing a CAGR of 4.3%. Seaborne trade has grown steadily on the back of rising demand for commodities from rapidly growing economies like China, India and Latin America, and increasing trade of manufactured products between developing and developed countries or regions. 2009 was an exceptional year where global seaborne trade declined due to the global financial crisis. In the near term, continued concerns relating to Eurozone and US economies are expected to exert pressure on trade from developing to developed countries or regions, which are largely transported by containers. Demand for bulk commodities such as coal and metal ore from developing countries or regions is expected to remain strong due to continued economic development in these countries and regions.

The growth in seaborne trade of dry bulk commodities has been primarily driven by coal and metal ores, which recorded CAGR of 5.7% and 8.4% from 2002 to 2012, respectively. This growth has largely been led by the economic growth and rapid industrialization in China and India, which has and is expected to continue to benefit the dry bulk cargo port industry in these regions.

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Growth Drivers

The most important factor affecting trade and port throughput is economic growth. Economic growth drives the demand for raw materials and trade in manufactured goods. Over the past decade, there has been a strong correlation between economic growth and seaborne trade. To a large extent, economic cycles are mirrored by seaborne trade cycles and vice-versa. The following chart illustrates this relationship and sets forth the global real GDP growth rate and annual growth in global seaborne trade from 2002 to 2012:



Source: Drewry

Trade and port throughput for individual dry bulk commodities are closely tied to underlying industries that drive its demand, which are set forth in the table below:

Commodity

Iron ore, coking coal, iron and scrap steel, other ores
 Thermal coal, petroleum coke
 Grains and other agricultural products
 Fertilizers and fertilizer raw materials
 Steel, cement, wood products and other construction materials
 Bauxite/Alumina

Driving Industry

Steel manufacturing
 Power generation
 Food processing for human and livestock
 Agriculture
 Construction and infrastructure
 Aluminum manufacturing

Major Participants in the Global Dry Bulk Port Industry

Major participants in the global dry bulk port industry include independent port operators and dedicated port operators (such as port operating entities of mining conglomerates). Ports owned by dedicated port operators are often used exclusively and limited in terms of comprehensiveness of service offerings. In contrast, the ports owned by independent port operators are for public use and have comprehensive service offerings.

Our Group is the largest independent major dry bulk port operator in the world. Vale S.A., a leading global mining conglomerate, is the largest major dry bulk port operator in the world that operates ports to service its own mining operations.

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The following table sets forth the five largest major dry bulk port operators in the world in 2012:

Rank	Operator	Type	2012 Major Dry Bulk ¹ Throughput (million tonnes)
1	Vale S.A.	Dedicated port operator	313
2	Our Group ²	Independent port operator	282
3	BHP Billiton	Dedicated port operator	228
4	Rio Tinto	Dedicated port operator	192
5	Tianjin Port Holding Co., Ltd. ³	Independent port operator	180

Note: 1. Major dry bulk is defined to include coal, metal ore and grain. Throughput of port operators have been estimated based on their equity in respective ports, terminals and berths.

2. Our Group's throughput is provided by the Company.

3. Tianjin Port Holding Co., Ltd.'s throughput is based on estimates.

Source: Drewry, Listed Company Annual Reports

The following table sets forth the ten largest major dry bulk ports in the world in 2012:

Rank	Port	2012 Major Dry Bulk ¹ Throughput (million tonnes)
1	Tangshan Port (comprised of Caofeidian Port and Jingtang Port)	297
2	Ningbo-Zhoushan Port	282
3	Port Hedland	254
4	Qinhuangdao Port	247 ²
5	Tianjin Port	197
6	Shanghai Port	196
7	Rizhao Port	180
8	Qingdao Port	155
9	Dampier Port	145
10	Huanghua Port	122

Note: 1. Major dry bulk is defined to include metal ore, coal and grain; grain throughput for Chinese ports has been estimated and major dry bulk throughput for Ningbo-Zhoushan Port and Shanghai Port has been estimated.

2. Contains approximately 1 million tonnes of coal and 1 million tonnes of metal ore that is handled by other small third-party terminal operators in Qinhuangdao Port, according to Drewry.

Source: Drewry

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The following table sets forth the ten largest coal ports in the world in 2012:

Rank	Port	2012 Coal Throughput (million tonnes)
1	Qinhuangdao Port	238 ¹
2	Tangshan Port (comprised of Jingtang Port and Caofeidian Port)	145
3	Port of Newcastle	119
4	Huanghua Port	104
5	Suzhou Port	104
6	Shanghai Port	101
7	Ningbo-Zhoushan Port	98
8	Tianjin Port	94
9	Port of Hay Point	84
10	Guangzhou Port	78

Note: 1. Contains approximately 1 million tonnes of coal that is handled by other small third-party terminal operators in Qinhuangdao Port, according to Drewry.

Source: Drewry, Listed Company Annual Reports, MOT

OVERVIEW OF PORT INDUSTRY IN CHINA

Development of China's Port Industry

The Chinese economy has witnessed high growth in the past two decades that has led to significant growth in Chinese port throughput. Throughput of China's coastal ports grew from 1.7 billion tonnes in 2002 to 6.7 billion tonnes in 2012, representing a CAGR of 14.9%.

China's port throughput growth has been driven by growth in both foreign and domestic trade in China. Foreign trade throughput has experienced strong growth before 2008. After the global economic crisis in 2008, China's throughput continued to grow steadily on the back of growth in the domestic trade, which was less affected by the global environment, albeit at a slower pace.

The following table sets forth throughput of China's coastal ports from 2002 to 2012:

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-12 CAGR
	(million tonnes)											
Foreign trade	711	877	1,047	1,242	1,458	1,656	1,783	1,979	2,288	2,508	2,762	14.5%
Growth	18.5%	23.3%	19.4%	18.6%	17.4%	13.6%	7.7%	11.0%	15.6%	9.6%	10.1%	
Domestic trade	955	1,134	1,414	1,686	1,964	2,226	2,513	2,776	3,196	3,655	3,891	15.1%
Growth	15.6%	18.7%	24.7%	19.2%	16.5%	13.3%	12.9%	10.5%	15.1%	14.4%	6.5%	
China coastal port throughput	1,666	2,011	2,461	2,928	3,422	3,882	4,296	4,755	5,484	6,163	6,653	14.9%
Growth	16.8%	20.7%	22.4%	19.0%	16.9%	13.4%	10.7%	10.7%	15.3%	12.4%	8.0%	

Source: MOT

Apart from the continued growth in throughput, the following are key trends in the China port industry:

- *Development of large-scale hub ports.* With the accelerated integration of regional economies and the continual development of the transport technology, large-scale ports in China have maintained steady growth. China's ports are utilizing world-class modern port

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equipment and facilities to achieve world leading efficiency. Benefitting from strategic geographical location and ideal natural characteristics, large hub ports are playing an increasingly important role in regional economic activities. The number of ports in China with throughput over 100 million tonnes has increased from seven in 2002 to 29 in 2012, of which 13 are ports with throughput over 200 million tonnes. Aggregated volume handled by large ports with throughput above 100 million tonnes as a percentage of total throughput handled by China's coastal ports has increased from 37.3% in 2002 to 83.7% in 2012.

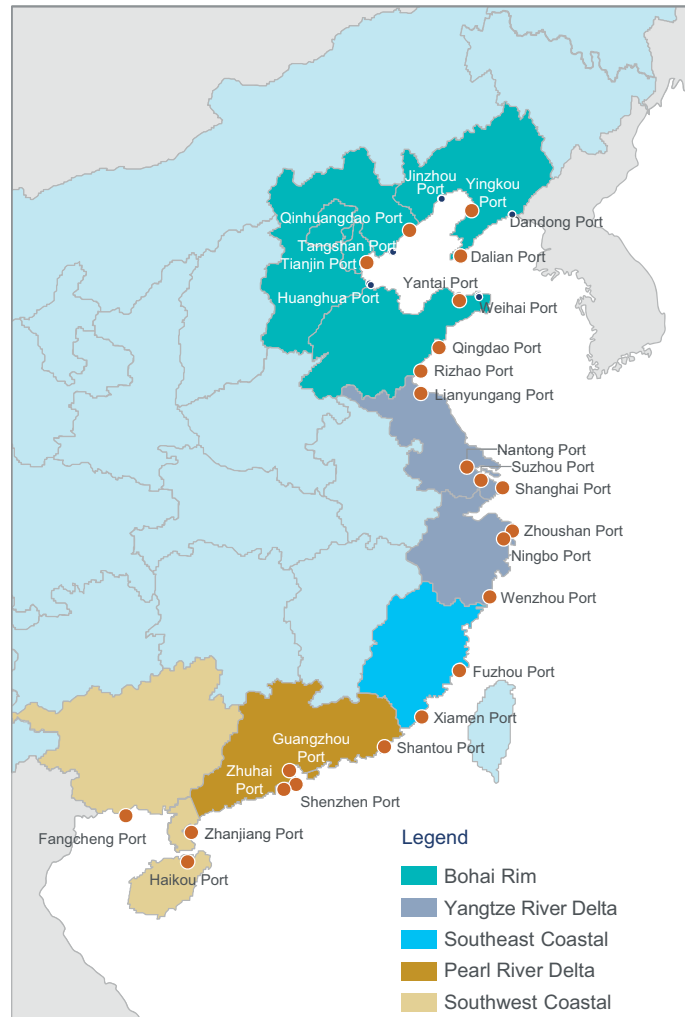
- *Development of deepwater berths and modern port facilities.* The global shipping industry has been moving toward larger vessels, which increase the operational efficiency and overall competitiveness of shipping companies. In response to this, Chinese ports are making efforts to develop deeper-water berths that can accommodate larger vessels and modernize port facilities such as channels, terminals, yards, as well as port machinery.
- *Development of port-centric logistics.* Comprehensive and integrated port services are an integral part of a modern port. Chinese ports have begun their transformation from pure port operators to comprehensive logistic service providers. Modern ports provide customers with one-stop-shop, tailored and value-added solutions that simplify their supply management processes. Certain modern ports have expanded their scope of operations beyond port areas to cover the connecting logistics service network, thereby providing a seamless and efficient transportation solution for their customers.

Coastal Port Regions in China

China's coastal ports are categorized into five regions based on the characteristics of different regions such as regional economic development, regional port characteristics, transportation linkages among ports and economic rationale for the transportation for key cargo types, namely Bohai Rim, Yangtze River Delta, Pearl River Delta, Southeast Coastal and Southwest Coastal regions. Bohai Rim, Yangtze River Delta and Pearl River Delta are the most important port regions, accounting for 89.6% of total throughput for coastal ports in 2012.

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The following map sets forth key ports across the five coastal port regions in China:



Source: Drewry

China's real GDP has rapidly grown with a CAGR of 10.5% from 2002 to 2012, according to the National Bureau of Statistics of China. The Bohai Rim and its hinterland has outpaced growth in the Yangtze River Delta and Pearl River Delta. Real GDP of the Bohai Rim and northeast China region and northwest China region grew at a CAGR of 10.6% and 11.8%, respectively, from 2002 to 2012, compared to 9.9% and 9.1% for the Yangtze River Delta and Pearl River Delta, respectively. Real GDP of the Bohai Rim and its hinterland (including Bohai Rim and northeast China region and northwest China region) represented 42.9% of China's real GDP in 2012.

Bohai Rim is the largest coastal port region in China. Benefitting from its large hinterland stretching into northeast and northwest China, Bohai Rim contributed 45.4% of the total throughput of coastal ports in China in 2012, compared to 31.2% for the Yangtze River Delta and 13.0% for the Pearl River Delta. Bohai Rim's share of throughput has increased steadily from 39.3% in 2002 to 45.4% in 2012, while the share of throughput from the Yangtze River Delta and Pearl River Delta has been gradually decreasing.

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The following table sets forth real GDP of China's coastal port and other regions from 2002 to 2012:

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-12 CAGR
	(RMB billion)											
Bohai Rim and northeast												
China	2,154	2,362	2,616	2,959	3,341	3,802	4,210	4,595	5,021	5,457	5,881	10.6%
Yangtze River												
Delta	1,423	1,594	1,757	1,945	2,178	2,470	2,651	2,894	3,193	3,436	3,641	9.9%
Pearl River												
Delta	689	771	839	941	1,070	1,215	1,294	1,384	1,489	1,577	1,649	9.1%
Northwest												
China	416	465	518	578	657	754	851	898	1,033	1,161	1,269	11.8%
Central west												
China	791	851	930	1,013	1,134	1,313	1,466	1,652	1,865	2,103	2,324	11.4%
Southeast												
Coastal	353	379	410	444	499	575	626	697	782	867	944	10.3%
Southwest												
Coastal	340	362	398	433	488	564	625	684	758	855	953	10.9%
China	6,166	6,784	7,468	8,313	9,367	10,693	11,723	12,804	14,141	15,456	16,661	10.5%

Note: Bohai Rim and northeast China is defined to include Beijing, Tianjin, Hebei Province, Henan Province, Shandong Province, Liaoning Province, Jilin Province and Heilongjiang Province. Northwest China includes Shanxi Province, Shaanxi Province, Ningxia Autonomous Region, Qinghai Province, Gansu Province, Xinjiang Autonomous Region and Inner Mongolia. Yangtze River Delta includes Shanghai, Jiangsu Province, Zhejiang Province, and Anhui Province. Central west China includes Hubei Province, Hunan Province, Sichuan Province, Chongqing, and Tibet Autonomous Region. Southeast Coastal includes Fujian Province and Jiangxi Province. Pearl River Delta refers to Guangdong Province. Southwest Coastal includes Yunnan Province, Guizhou Province, Guangxi Autonomous Region and Hainan Province.

Source: National Bureau of Statistics of China, International Monetary Fund

The following table sets forth throughput of China's five coastal port regions from 2002 to 2012:

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-12 CAGR
	(million tonnes)											
Bohai Rim	654	785	958	1,152	1,363	1,652	1,871	2,087	2,446	2,763	3,020	16.5%
Yangtze River												
Delta	592	728	885	1,056	1,171	1,280	1,401	1,521	1,736	1,957	2,073	13.4%
Pearl River												
Delta	290	343	422	479	573	642	673	688	795	845	866	11.6%
Southeast												
Coastal	100	122	153	188	250	238	273	318	342	407	482	17.0%
Southwest												
Coastal	30	33	43	53	65	70	78	141	165	191	212	21.6%
Total	1,666	2,011	2,461	2,928	3,422	3,882	4,296	4,755	5,484	6,163	6,653	14.9%

Note: Regional throughput is estimated based on market share of coastal ports in the period.

Source: MOT, Drewry

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Development of China's Port Throughput by Cargo Type

The following table sets forth throughput of China's coastal ports by cargo types from 2002 to 2012:

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-12 CAGR
	(million tonnes)											
Coal	403	469	571	635	705	819	889	949	1,163	1,370	1,381	13.1%
Metal ore	182	243	318	420	513	580	676	866	931	1,015	1,110	19.8%
Oil and liquefied chemicals	258	304	351	376	397	417	450	527	608	640	632	9.4%
Container ¹	344	454	576	713	874	995	1,147	1,144	1,371	1,580	1,760	17.7%
Container (million TEUs)	34	45	57	70	86	105	117	110	131	146	158	16.6%
Others	479	541	645	784	933	1,071	1,134	1,269	1,411	1,558	1,770	14.0%
Total	1,666	2,011	2,461	2,928	3,422	3,882	4,296	4,755	5,484	6,163	6,653	14.9%

Note: 1. Container throughput from 2002 to 2006 have been converted from TEU to tonnes based on the average tonnes/TEU ratio for 2007 to 2011.

Source: MOT, Drewry

Chinese port performance in the past decade has been characterized by the impressive increase in container, coal and metal ore throughput. In 2012, throughput of container, coal and metal ore represented 26.5%, 20.8% and 16.7% of throughput for coastal ports in China, respectively.

China's container throughput for coastal ports grew from 34 million TEUs in 2002 to 158 million TEUs in 2012, representing a CAGR of 16.6%. The key drivers for container trade growth have been increasing containerization and development of China's manufacturing industry, which is in turn driven by US and Europe demand for Chinese manufactured goods. In the near term, uncertainties surrounding the US and Eurozone economies will put pressure on the growth of China's export-driven container trade. Consequently, domestic container trade will be a primary driver of China's container throughput growth.

China's coal throughput for coastal ports grew from 403 million tonnes in 2002 to 1,381 million tonnes in 2012, representing a CAGR of 13.1%. Coal is China's main energy resource for power generation and industrial use, and its growth is primarily driven by domestic demand.

China's metal ore throughput for coastal ports grew from 182 million tonnes in 2002 to 1,110 million tonnes in 2012, representing a CAGR of 19.8%. Continued urbanization and infrastructure development in China have triggered the demand for imported iron ore for domestic steel production.

Coal

Overview

China's coal resources are mainly located in north and west China, including Inner Mongolia, Shanxi and Shaanxi provinces and consumed by power plants and industrial facilities in China's coastal provinces in south and east China. Coal is first transported from west to east from coal mines in north and west China to coastal ports by rail and then from north to south by sea to southern regions in China. Qinhuangdao Port, Tangshan Port, Huanghua Port and Tianjin Port in the Bohai Rim are strategically located at the east end of the west-to-east coal transportation routes, and are the most important loading ports for domestic seaborne coal in China.

More than half of China's domestic railway cargo traffic was for coal transportation. According to the Former Ministry of Railways of the PRC, China's railways transported a total of 3.8 billion tonnes

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of cargoes, of which 2.2 billion tonnes was coal in 2012. The most important railway carrying coal from west to east is the Daqin Line, which stretches from Datong in Shanxi Province to Qinhuangdao Port and has an overall length of 658 kilometers. Shuohuang Line, connecting Shaanxi Province and Tianjin Port and Huanghua Port, is also an important rail connection for west-to-east coal transportation, and is undergoing capacity expansion.

Three additional railways for west-to-east coal transportation are currently under construction. The Mengji Line will connect Inner Mongolia to Caofeidian Port and upon completion will become one of the three major railway lines (namely Daqin Line, Shuohuang Line, and Mengji Line) for the west-to-east coal transport in China. The Central and South Shanxi Line will connect Lvliang of Shanxi Province to Rizhao Port. Another railway line will connect east Inner Mongolia to ports in Liaoning Province, such as Huludao Port, Jinzhou Port and Yingkou Port.

The table below sets forth the information on the aforementioned five coal railway lines carrying coal from west to east in China:

Route	Main Railway	Coal Origin	Key Ports	Status
1st corridor	Daqin Line	Shanxi, west Inner Mongolia	Qinhuangdao	Operational
2nd corridor	Shuohuang Line	Shanxi, Shaanxi and west Inner Mongolia	Huanghua, Tianjin	Under expansion
3rd corridor	Mengji Line	Inner Mongolia	Caofeidian	Under construction
4th corridor	Central and South Shanxi Line	Central and west Shanxi	Rizhao	Under construction
5th corridor	East Inner Mongolia-Liaoning	East Inner Mongolia	Huludao, Jinzhou, Yingkou	Under construction

Source: Former Ministry of Railways of the PRC.

China Coal Production, Consumption and International Trade

The table below sets forth China's coal production, consumption, imports and exports for 2002 to 2012.

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-12 CAGR
	(million tonnes)											
Domestic Production ...	1,550	1,835	2,123	2,350	2,529	2,692	2,802	2,973	3,235	3,516	3,660	9.0%
Domestic Consumption	1,523	1,806	2,076	2,319	2,551	2,728	2,811	2,958	3,122	3,430	3,511	8.7%
Imports	11	11	19	26	38	51	40	126	163	182	289	38.7%
Exports	84	94	87	72	63	53	45	22	19	15	9	-20.0%

Source: National Bureau of Statistics of China

China is the largest coal producer in the world, representing approximately half of the global coal production. From 2002 to 2012, China's coal output increased from 1.6 billion tonnes to 3.7 billion tonnes, representing a CAGR of 9.0%. According to the 12th Five Year Plan (2011-15), China's coal production capacity is targeted to reach four billion tonnes per year by 2015. The government aims at removing inefficient production capacity and consolidating the coal industry by building up ten coal mining companies each with annual production over 100 million tonnes, and in aggregate represent 25% of China's total coal production capacity.

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China's coal reserves are mostly located in Inner Mongolia, Shanxi Province and Shaanxi Province in north and west China. In 2012, these three provinces accounted for 67.0% of China's total coal production. The following table sets forth coal production of the five largest coal producing provinces in China and China as a whole from 2002 and 2012:

	2002 (actual)	2003 (actual)	2004 (actual)	2005 (actual)	2006 (actual)	2007 (actual)	2008 (actual)	2009 (actual)	2010 (actual)	2011 (actual)	2012 (actual)	2002-2012 CAGR
	(million tonnes)											
Inner Mongolia	89	120	212	256	298	354	502	601	787	980	1,080	28.4%
Shanxi	244	295	484	554	581	630	645	594	741	872	911	14.1%
Shaanxi	59	74	131	152	183	204	242	296	362	411	463	22.9%
Henan	99	119	168	188	195	193	213	230	224	210	148	4.1%
Shandong	131	147	148	140	141	145	137	144	157	161	177	3.1%
China	1,550	1,835	2,123	2,350	2,529	2,692	2,802	2,973	3,235	3,516	3,660	9.0%

Source: National Bureau of Statistics of China

Coal is the primary energy resource in China, which accounts for approximately 70% of China's energy consumption. Thermal coal is the major energy source used in China's electricity generation as more than 80% of electricity was generated from thermal coal. Thermal coal is also used in the production of cement and chemical products and other industrial applications. Coking coal is one of the major feedstocks for iron and steel production.

China's coal consumption is largely driven by China's growing power generation and industrial needs, which is in turn driven by domestic infrastructure development and urbanization. According to the National Bureau of Statistics of China, China's coal consumption has grown from 1.5 billion tonnes in 2002 to 3.5 billion tonnes in 2012, representing a CAGR of 8.7%.

China's coal consumption and port throughput have been adversely affected by the recent slowdown of the Chinese and international economy. China's coal consumption and coastal port coal throughput grew by 2.4% and 0.8% in 2012 compared to 9.9% and 17.8% in 2011, respectively. The faltering global demand and low freight rate have contributed to a larger supply and lower price of international coal, which has led to falling domestic coal prices and a slowdown in the domestic coal industry. The Chinese economy has shown recent signs of recovery, bolstered by policymakers' series of measures aimed at stabilizing the economy. In parallel, coal usage has rebounded from recent lows as power generation and industrial outputs are starting to pick up. Given the coal industry's importance to China's national energy strategy, the Chinese government also recently announced initiatives to restrict coal imports of low calorific value and high sulfur content, including a 3% import tax on lignite since end August 2013, to help the domestic coal industry in the face of foreign competition. Nevertheless, in light of a slowing Chinese economy and competition from imported coal and renewable energy, China's domestic coal industry is expected to grow more moderately going forward. According to the US Energy Information Administration, coal consumption in China is expected to grow at an approximately 4% CAGR for the next five years. We believe a slowdown in the coal industry could have an adverse impact on coal ports in the Bohai Rim. However, ports that are connected to and fed by the major coal transportation railways, such as the Daqin Line and Qiancao Line, are in general more resilient to fluctuations in coal demand.

According to China's 12th Five Year Plan (2011-15), the PRC government has plans to develop renewable energy resources in China such as wind, nuclear, solar, and hydro power and reduce China's reliance on coal-fired electricity. While renewable energy resources will become increasingly important in China's energy supply mix, coal is expected to remain the most important source for power generation for the foreseeable future.

China has vast domestic coal resources and used to be a major coal exporting nation. However, with the country's ever increasing demand for energy and larger scale of steel manufacturing, China has become a net coal importer since 2009. Furthermore, with increased consolidation and streamlining in the coal mining industry, more small-scale and inefficient mines in China are being forced to close. With

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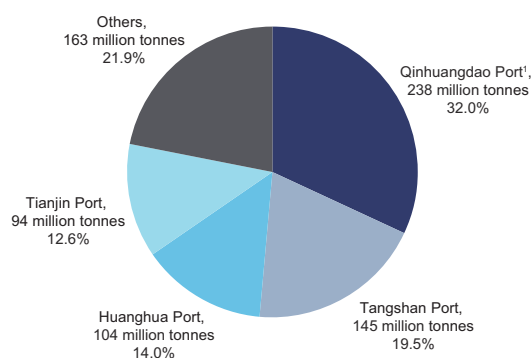
this capacity being gradually controlled, the gap between domestic production and demand will be filled by coal imports.

Australia and Indonesia are the two largest sources of coal imports to China, representing close to 80% of China's coal imports. China imported 182 million tonnes of coal in 2011, surpassing Japan to become world's largest coal importer. In 2012, China's demand for imported coal continued to grow, reaching 289 million tonnes. The growth of imported coal to China is driven in part by lower imported coal prices. Nevertheless, coal imports comprised only 8.2% of China's domestic coal consumption. Domestic production will still remain the primary source of coal in China in the future.

Major Coal Handling Ports in the Bohai Rim

Bohai Rim is the largest coal port region in China, which accounted for 53.9% of China's coastal port coal throughput in 2012. Qinhuangdao Port and Tangshan Port (comprised of Jingtang Port and Caofeidian Port), the most important coal ports in the Bohai Rim, are also the largest and second largest coal ports in the world, respectively. Other important coal handling ports in this region include Tianjin Port and Huanghua Port.

The following pie chart sets forth the major coal handling ports' share of 2012 coal throughput in the Bohai Rim:



Note: 1. Contains approximately 1 million tonnes of coal that is handled by other small third-party terminal operators in Qinhuangdao Port, according to Drewry.

Source: Drewry, *China Ports Year Book*

Metal Ore

Overview

Metal ore is mainly comprised of iron ore, bauxite, nickel ore, copper ore, zinc ore, chrome ore and manganese ore. Iron ore accounts for the large majority of metal ore demand and supply in China and represents approximately 90% of imported metal ore and more than 95% of domestic production.

China's demand for iron ore is largely driven by the domestic steel manufacturing industry, which is in turn driven by China's continued infrastructure development and urbanization. China lacks high-quality iron ore resources and domestic production has not been able to meet burgeoning domestic demand for iron ore. Consequently, there has been a growing demand for imported iron ore, which contributed approximately 71.4% of China's iron ore consumption in 2012.

Iron ore is mainly transported by sea to China's coastal ports and then transported by rail or road to inland steel manufacturing plants. China's iron ore are mainly imported from Australia, Brazil, Indonesia and South Africa, which cumulatively accounted for over 70% of China's iron ore imports in

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2012. China's steel manufacturing plants are mainly located in north, east and central China, particularly in the Bohai Rim and Jiangsu Province. Consequently, the major ports that handle iron ore are located in the Bohai Rim and Yangtze River Delta. Hebei Province is the largest steel manufacturing base in China and accounted for approximately 24.8% of China's crude steel production volume in 2012, according to the China Iron and Steel Association.

The map below sets forth the location of the major steel manufacturing plants in China:



Source: Drewry

China Iron Ore Production, Consumption and International Trade

The table below sets forth China's iron ore production, consumption, imports and exports from 2002 to 2012:

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2002-12
	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	(actual)	CAGR
	(million tonnes)											
Domestic production	160	191	192	272	330	373	323	274	326	338	299	6.5%
Domestic consumption	271	339	400	547	657	757	767	903	945	1,024	1,044	14.4%
Imports	111	148	208	275	326	384	444	628	619	687	745	21.0%
Exports	0	0	0	0	0	0	0	0	0	0	0	—

Source: Drewry, Global Trade Information Services

China's iron ore consumption has grown from 271 million tonnes in 2002 to 1,044 million tonnes in 2012, representing a CAGR of 14.4%. This has spurred the growth of iron ore imports, which have grown from 111 million tonnes in 2002 to 745 million tonnes in 2012, representing a CAGR of 21.0%. In contrast, China's domestic iron ore production has only grown from 160 million tonnes in 2002 to 299 million tonnes in 2012, representing a CAGR of 6.5%, largely due to the low and declining grades of domestically produced iron ore.

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China's iron ore consumption has been adversely affected by the weakened demand for steel driven by the recent slowdown in the Chinese and international economy. China's iron ore consumption grew by 2.0% in 2012 compared to 8.4% in 2011. While China's metal ore coastal port throughput grew steadily by 9.4% in 2012 compared to 9.0% in 2011, this was primarily due to restocking of inventory by Chinese steel mills. China's policymakers have recently introduced measures aimed at stabilizing the economy. These measures are expected to bolster steel consumption, and their effects have begun to emerge. China's medium- to long-term iron ore demand outlook is expected to remain healthy on the back of China's continued urbanization and infrastructure development, which will drive port throughput for iron ores.

Major Iron Ore Handling Ports in the Bohai Rim

The Bohai Rim is an important steel manufacturing and industrial base in China. Metal ore handling ports in the region are a conduit for imported iron ore to steel manufacturers in its hinterland. Major metal ore ports in the Bohai Rim include Tangshan Port (comprised of Caofeidian Port and Jingtang Port), Rizhao Port, Qingdao Port, Tianjin Port and Yingkou Port.

Tangshan Port (comprised of Caofeidian Port and Jingtang Port) surpassed Rizhao Port in 2012 to become the largest metal ore handling port in the Bohai Rim, with metal ore throughput of 152 million tonnes in 2012. Metal ore handling capacity and throughput in Tangshan Port has developed rapidly in recent years, supported by the relocation of Shougang Group to Hebei Province and the location of Tanggang Steel and other steel mills in northeast Hebei Province.

Rizhao Port and Qingdao Port are both located in Shandong Province and compete for cargoes in Shandong Province, south Hebei Province and north Henan Province. Tianjin Port and Huanghua Port are located in close proximity and compete for cargoes in the central and south Hebei Province. Tianjin Port is located in close proximity to the heavily populated areas of Beijing, Tianjin and Hebei Province, where there is limited growth potential for steel manufacturing capacity expansion and metal ore handling services. Huanghua Port is one of the most convenient and cost-efficient sea access points for central-south Hebei Province, north Shandong Province and north Henan Province. It is located in close proximity to Cangzhou, Xingtai and Handan, which are major steel manufacturing bases in Hebei Province. Huanghua Port is expanding its metal ore handling capacity and is expected to develop into a major metal ore port in the region.

The table below sets forth metal ore throughput for major metal ore handling ports in Bohai Rim from 2007 to 2012:

	<u>2007</u> <u>(actual)</u>	<u>2008</u> <u>(actual)</u>	<u>2009</u> <u>(actual)</u>	<u>2010</u> <u>(actual)</u>	<u>2011</u> <u>(actual)</u>	<u>2012</u> <u>(actual)</u>	<u>2007-12</u> <u>CAGR</u>
	(million tonnes)						
Tangshan Port	36	51	91	96	120	152	33.4%
Rizhao Port	76	82	107	127	133	138	12.7%
Qingdao Port	82	95	101	124	114	133	10.2%
Tianjin Port	54	66	94	79	87	98	12.7%
Yingkou Port	24	29	33	38	39	37	9.0%
Dalian Port	12	14	28	29	28	22	12.9%
Huanghua Port	0	0	3	4	14	18	—

Source: China Port Year Book

Oil and Liquefied Chemicals

Oil and liquefied chemicals is comprised of crude oil and refined petroleum products such as gasoline, diesel, kerosene and fuel oil. Crude oil represents a majority of oil and liquefied chemicals throughput and is the second largest energy source after coal in China. Oil and liquefied chemicals accounted for 9.5% of China's total coastal ports' throughput in 2012.

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China's demand for oil and liquefied chemicals is largely driven by the automotive, textile and manufacturing industries, which is in turn driven by China's continued economic development and urbanization. China's oil and liquefied chemicals throughput for coastal ports has grown from 258 million tonnes in 2002 to 632 million tonnes in 2012, representing a CAGR of 9.4%.

Container

Containerization enables faster and more flexible cargo movements, standardized loading and discharging, better security and lower costs, which has contributed to the significant growth in the container shipping industry since its introduction. Key drivers for the development of China's container trade include increasing containerization and the development of China's manufacturing industry, which is in turn driven by US and Europe demand for Chinese manufactured goods. China's container throughput for coastal ports has grown from 34 million TEUs in 2002 to 158 million TEUs in 2012, representing a CAGR of 16.6%. Growth of container throughput for coastal ports experienced a slowdown in 2009 due to the global financial crisis. In recent years, the Chinese government has been boosting domestic consumption, which has provided support for container throughput volumes. In the near term, uncertainties surrounding the Eurozone and U.S. economies will put pressure on the growth of China's export-driven international container trade.

Major Ports in China and Bohai Rim

China

The large-scale coastal ports in China are primarily located in the Bohai Rim, Yangtze River Delta and Pearl River Delta. Ports in the Bohai Rim have developed rapidly and are amongst the largest ports in China. In 2012, seven of the ten largest coastal ports in China were located in the Bohai Rim, compared to four in 2002. Of China's top ten ports, Qinhuangdao Port and Tangshan Port are the largest dry bulk-focused ports. Other large ports in China are mainly container-focused or integrated ports.

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Bohai Rim

The map below shows major ports in the Bohai Rim:



Source: Drewry

Ports in Bohai Rim include Tianjin Port; Qinhuaingdao Port, Tangshan Port and Huanghua Port in Hebei Province; Dalian Port, Yingkou Port, Dandong Port and Jinzhou Port in Liaoning Province; and Qingdao Port, Yantai Port, Rizhao Port and Weihai Port in Shandong Province.

For further details relating to the competition we face, please refer to “Business – Competition.”

In close proximity to the coal resources in Inner Mongolia, Shanxi and Shaanxi Provinces as well as large steel manufacturing bases via railway lines, the Bohai Rim is home to many large coal and metal ore handling ports. Tangshan Port (comprised of Jingtang Port and Caofeidian Port) and Qinhuaingdao Port are the largest and second largest dry bulk ports in the Bohai Rim, accounting for 20.8% and 17.3% of major dry bulk throughput in the region, respectively. Huanghua Port is planning to construct ore berths, and is expected to become another important port in the Bohai Rim.

Going forward, there is an opportunity for the continued growth of coal and metal ore throughput in the Bohai Rim, spurred by China’s growing economy and infrastructure development. Furthermore, the fast-growing economy in the Bohai Rim and its hinterland is expected to drive regional trade and port throughput across all cargo types in the region.

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The table below shows coal, metal ore, grain and major dry bulk throughput of key dry bulk ports in Bohai Rim for 2012:

	Coal	Metal Ore	Grain ¹	Major Dry Bulk
	(million tonnes)			
Tangshan Port	145	152	0	297
Qinhuangdao Port	238 ²	7 ³	2	247
Tianjin Port	94	98	5	197
Rizhao Port	34	138	8	180
Qingdao Port	17	133	5	155
Huanghua Port	104	18	0	122
Yingkou Port	38	37	8	83
Dalian Port	14	22	17	53
Yantai Port	27	19	2	48
Jinzhou Port	15	5	5	25
Dandong Port	14	0	2	16
Weihai Port	4	0	0	4

Note: 1. Grain throughput has been estimated.

2. Contains approximately 1 million tonnes of coal that is handled by other small third-party terminal operators in Qinhuangdao Port, according to Drewry.

3. Contains approximately 1 million tonnes of metal ore that is handled by other small third-party terminal operators in Qinhuangdao Port, according to Drewry.

Source: *China Ports Year Book, Drewry*

BARRIERS TO ENTRY

There are several barriers of entry to the development of a dry bulk port:

- *Inland accessibility and hinterland economy.* Dry bulk ports must be easily accessible (in particular by rail, highway and inland waterways) and in close proximity to major customers to provide stable cargo volumes. As inland transportation costs represent a significant proportion of the total transportation costs of dry bulk cargoes, cargo owners or shippers are highly sensitive to such costs and tend to call at the port that offers the lowest-cost connection to the inland cargo source or destination. For outgoing cargoes, proximity of the ports to the source, such as mines, is important. For incoming cargoes, proximity of the port to the destination, such as steel manufacturing plants or power plants, is important;
- *Favorable natural conditions.* Ports must be endowed with favorable natural conditions such as appropriate geological characteristics, sufficient berth depth and favorable weather conditions in order to develop and scale;
- *Long-term customer relationships and partnerships.* Dry bulk port operators typically rely on a small number of customers that operate facilities such as power plants, steel manufacturing plants or mines that they serve. Cargo owners (including dry bulk cargo owners) often invest in ownership stakes of terminals that are located along their transportation chain to ensure greater control over their cargo logistics and achieve vertical integration. Terminal operators participate in such arrangements to guarantee stable cargo volumes which in turn will support the long-term sustainability of the port. Establishing long-term relationships and partnerships with these customers is vital to the long-term viability of a dry bulk port;
- *Government support.* Port infrastructure and the provision of high-quality port services are essential to the development of the regional economy and the well being of its surrounding

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communities. Therefore, the development and operation of ports are closely supervised and regulated by the government and are conditional upon successfully obtaining the required government support and approvals; and

- *Capital intensive nature.* Ports require large capital investments that typically involve payback periods of ten years or more and substantial capital strength is necessary for an entrant. Furthermore, coastal ports are moving towards deeper-water berths to support larger vessels and the construction environment is becoming increasingly complex, driving up the capital investments required for the construction of ports.

REPORT COMMISSIONED FROM DREWRY AND USE OF INFORMATION

We commissioned Drewry, an independent industry advisor, to conduct an analysis of, and to report on, the global and PRC port industry. Drewry is the specialist research and advisory organization for the maritime sector and an independent third party.

Investors should note that Drewry was engaged to prepare the port industry markets report, for use in whole or in part in this prospectus.

All the information and data presented in this section has been provided by Drewry. Drewry has advised that the statistical and graphical information contained herein is drawn from its database and other sources. In connection therewith, Drewry has advised that:

- Certain information in Drewry's database is derived from estimates or subjective judgment based on sample information from and interviews with port and shipping companies, government agencies and other industry consultants, and is prepared primarily as a marketing research tool;
- The information in the databases of other maritime data collection agencies may differ from the information in Drewry's database;
- While Drewry has taken reasonable care in the compilation of the statistical and graphical information and believes it to be accurate and correct, data compilation is subject to limited audit and validation procedures;
- This section also contains forward-looking statements which are based on simplifying assumptions and current and expected market dynamics. The actual figures may vary as the market dynamics are ever changing. Drewry cannot be held liable for the realization of its forecasts; and
- Drewry's methodology for information and data collection, and therefore the information discussed in this section, may differ from those of other sources.

Investors should also note that no independent verification has been carried out on any facts or statistics that are directly or indirectly derived from official government publications, other publications as well as industry report we commissioned from Drewry. We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any part has been omitted that would render such information false or misleading in any material respect. We, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, representatives, affiliates or other advisors or any other persons or parties involved in the Global Offering make no representation as to the accuracy of the information that is directly or indirectly derived from official government publications, other publications as well as industry report we commissioned from Drewry. Such information may not be

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consistent with other information compiled within or outside the PRC. Accordingly, such information may not be accurate and should not be unduly relied upon.

The Company paid an aggregate amount of US\$96,000 to Drewry for the preparation and updating of this report.

Directors confirm that after taking reasonable care, there is no adverse change in the market information since the date of the report prepared by Drewry which may qualify, contradict or have an impact on the information set out in this section.