
BUSINESS

OVERVIEW

We are the world's largest independent port operator for major dry bulk cargo in terms of throughput in 2012, according to Drewry. We operate Qinhuangdao Port, the world's largest coal port by throughput in 2012, which accounted for approximately 31.9% of the total volume of seaborne coal loaded by coastal ports in China in the same year, according to Drewry. We are also one of the most important ore port operators in the Bohai Rim of China. We believe that we will grow into one of the leading integrated port operators in China in the next five years. Through increasing investment in port facilities and equipment to continually expand our throughput capacity, we are able to provide high-quality and highly efficient integrated port services, including stevedoring, stacking, warehousing, transportation and logistics, and handle various types of cargo including coal, metal ores, oil and liquefied chemicals, containers and general cargo.

We operate Qinhuangdao Port, terminals in Caofeidian Port through an associate company and terminals in Huanghua Port, all of which are located in the Bohai Rim. Qinhuangdao Port has over 100 years of operating history, while Caofeidian Port and Huanghua Port are undergoing significant development and experiencing rapid growth. Our operations in Caofeidian Port and Huanghua Port have expanded our hinterland coverage and are expected to become a main driver of our future growth. We and our associate company operate a total of 62 berths and achieved total throughput of 309.94 million tonnes, 349.56 million tonnes, 336.07 million tonnes and 182.56 million tonnes, respectively, for the years ended December 31, 2010, 2011 and 2012, and the six months ended June 30, 2013. Building upon our extensive experience in port operations and successful consolidation of port resources in the Bohai Rim, we believe we are well positioned to benefit from the strong growth of the Chinese economy and, in particular, the economy of the Bohai Rim.

Qinhuangdao Port is the most important port-of-call for China's domestic coal trade and plays a pivotal role in coal transportation in China. China's coal resources are mainly located in north and west China, such as Inner Mongolia, Shanxi and Shaanxi provinces and mainly consumed in the economically developed coastal provinces in south and east China. Generally speaking, coal produced in north and west China is first transported west to east by rail from coal mines to coastal ports and then north to south by sea to the southern regions. The Daqin Line is the most important railway line in China carrying coal from its western region to eastern region. Qinhuangdao Port is strategically located at the east end of, and directly connected to, the Daqin Line, and therefore is the main port-of-call for coal transported through the Daqin Line. The port is also endowed with advantageous natural and geographical attributes. It is a natural deepwater port, ice-free and silt-free and also connected to several national highways.

Caofeidian Port is connected to the Daqin Line through the Qiancao Line. Tangshan Port (comprised of Jingtang Port and Caofeidian Port) is the second largest port-of-call for coal transported through the Daqin Line following Qinhuangdao Port. After the completion of the Mengji Line, Caofeidian Port is expected to be directly connected with Inner Mongolia, an important coal producing region in north China. The Mengji Line is expected to become one of the three major transportation arteries for the west-to-east coal transfer in China and thereby further consolidate the strategic position occupied by Caofeidian Port in the transportation of coal for domestic trade in China. Furthermore, Hebei Province is the largest steel manufacturing base in China and accounted for approximately 24.8% of China's crude steel production in 2012, according to China Iron and Steel Association. The hinterland of Caofeidian Port is home to many leading steel producers in China. As such, Caofeidian Port is well positioned to benefit from the robust local demand for imported iron ore.

Huanghua Port is strategically located in close proximity to the economic hinterland comprising central and south Hebei Province and northwest Shandong Province and is the preferred port-of-call for seaborne trade in the region. It is also one of the most convenient and cost efficient sea access points in central and south Hebei Province. Huanghua Port is expected to be developed into a major port-of-call for iron ore imported by steel producers in these regions, including Cangzhou, Xingtai and

BUSINESS

Handan, among other places, and to become a major ore port in the Bohai Rim. The Hanhuang Line, currently under construction, is expected to directly connect Huanghua Port to coal mines and steel manufacturing bases in its hinterland and hence expected to bring a significant volume of coal and iron ore cargoes to Huanghua Port. In addition, Cangzhou is an important chemical manufacturing base in the Bohai Rim, which has a high demand for oil products. We plan to develop Huanghua Port into one of the largest integrated ports in the Bohai Rim.

We offer comprehensive and integrated port services to our customers to effectively meet their diverse transportation needs. We have highly efficient operations benefiting from our extensive experience in port operation and management and world advanced port facilities and equipment. We also work closely with relevant railways, maritime bureaus and maritime pilot departments. Such integration promotes efficiency in operational control and allows seamless intermodal transits. We also offer value-added services, such as coal blending and providing a coal trading service platform, to further promote our capabilities in offering integrated and comprehensive services for coal transport. Our Qinhuangdao Coal Market is a comprehensive coal trading service platform and coal supply chain management service provider that integrates information exchange and logistics management with a focus on coal trading. The “Bohai-Rim Steam-Coal Price Index” reported by the Qinhuangdao Coal Market has served as a benchmark for price-setting in domestic coal trading in China and is becoming an important reference for international coal trading, according to Drewry. The coal spot trading service platform developed by the Qinhuangdao Coal Market is now an important service platform for coal trading among coastal ports for seaborne coal, according to Drewry, and has established a solid foundation for future integration of coal spot trading and futures trading and trading of related derivative products and the establishment of a market model for integrating spot and futures trading.

We maintain long-term relationships with our major customers, which include Shenhua Group, China Coal Group, Datong Mine, Yitai Group, China Guodian Corporation, Zheneng Fuxing and Datang Group, among other customers. We also jointly develop and operate terminals with certain major customers, thereby strengthening our relationship with them and securing stable supplies of cargo to such terminals from these customers. We also provide dedicated facilities such as stacking space, berths and related port facilities to certain major customers with whom we have long-term contracts to promote customer satisfaction and operational efficiency. Moreover, our existing shareholders include some of our important customers including Datong Mine and Shougang Group, as well as key partners, Daqin Railway and China Shipping. We believe the fact that our important customers and partners have invested in and with us is an affirmation of our achievements and demonstrates their strong faith in our success and future growth.

We have achieved rapid growth in the Track Record Period and plan to further consolidate our position as the largest independent port operator for major dry bulk cargo in the world. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, our total revenue was RMB5.11 billion, RMB5.73 billion, RMB6.25 billion and RMB3.39 billion, respectively. Our profit attributable to shareholders for the same periods was RMB1.10 billion, RMB1.06 billion, RMB1.40 billion and RMB1.20 billion, respectively.

COMPETITIVE STRENGTHS

We believe that our historical success and future prospects are attributable to the following competitive strengths.

Being the world’s largest coal port and the major hub connecting China’s most important coal transportation arteries, Qinhuangdao Port is of strategic importance to the nation’s economy.

We operate Qinhuangdao Port, the largest coal port in the world by throughput for the year 2012, according to Drewry. For the year ended December 31, 2012, Qinhuangdao Port accounted for

BUSINESS

approximately 31.9% of the total volume of seaborne coal loaded by coastal ports in China, according to Drewry.

Qinhuangdao Port has an operating history of over 100 years. The port is operated with high efficiency and provides stable cash flow to our Group. China's coal resources are mainly located in north and west China, such as Inner Mongolia, Shanxi and Shaanxi provinces and mainly consumed in the economically developed coastal provinces in south and east China. Generally speaking, coal produced in north and west China is first transported by rail from coal mines in the west to coastal ports in the east and then from north to south by sea to the south and east regions. The Daqin Line is the most important coal-transport railway line with the largest carrying capacity in China. The Daqin Line plays a key role in transporting coal west to east, accounting for more than 15% of China's railway coal freight volume in 2012. Strategically located at the east end of the Daqin Line, Qinhuangdao Port is the main port-of-call for coal carried through the Daqin Line, and the major hub connecting China's most important coal transportation arteries for the west-to-east and north-to-south coal transfers, and is of strategic importance to, and a barometer of, the nation's economy.

We have successfully consolidated port resources in the Bohai Rim, which has enabled us to expand our hinterland, realize synergies across ports and diversify our cargo mix and is expected to drive our future growth.

Leveraging our operational experience in Qinhuangdao Port and strong support from Hebei provincial government, we have successfully expanded into Caofeidian Port and Huanghua Port. Our successful consolidation of port resources in the Bohai Rim has enabled us to:

- strengthen our pivotal role in China's coal transportation. Caofeidian Port is connected to the Daqin Line through the Qiancao Line. Tangshan Port (comprised of Jingtang Port and Caofeidian Port) is the second largest port-of-call for the Daqin Line following Qinhuangdao Port. After the completion of the construction of the Mengji Line, Caofeidian Port is expected to be directly connected with Inner Mongolia, an important coal production region in north China. The Mengji Line is expected to serve as one of the three major transportation arteries for the west-to-east coal transfer in China and further consolidate Caofeidian Port's strategic position in domestic coal transportation in China. Moreover, the Hanhuang Line, which is currently under construction, is expected to directly connect Huanghua Port to coal mines in its hinterland and expected to bring a significant volume of coal cargoes to Huanghua Port;
- expand our market share and hinterland in the Bohai Rim. Caofeidian Port serves a hinterland that is home to some of the largest steel companies in China with a high demand for iron ore imports for which Caofeidian Port is the preferred port-of-call. Huanghua Port is strategically located in close proximity to an economic hinterland that covers central and south Hebei Province and northwest Shandong Province and is the preferred port-of-call for seaborne trade in such regions. It is one of the lowest-cost and most convenient sea access points in central and south Hebei Province and is expected to be developed into a major port-of-call for iron ore imported by major steel producers in these regions. In addition, Cangzhou is an important chemical manufacturing base in the Bohai Rim, which has a high demand for oil products. We plan to develop Huanghua Port into one of the largest integrated ports in the Bohai Rim. Our operations in Caofeidian Port and Huanghua Port are expected to further expand our market share and hinterland in the Bohai Rim;
- expand port throughput capacity and drive future growth. Caofeidian Port and Huanghua Port are newly developed ports in the Bohai Rim that are undergoing significant development and experiencing rapid growth. We have five coal berths under construction in Caofeidian Port and are planning to develop two 200,000-tonne level ore berths in Huanghua Port. Once completed, the new berths are expected to further drive our growth;
- realize synergies across ports and further strengthen our regional competitive position. By having operations in multiple ports in the Bohai Rim, we are able to effectively manage cargo

BUSINESS

and vessel flows across ports, relieve any cargo flow bottlenecks, enhance our operational efficiency and improve the quality of our comprehensive services to our customers, which is expected to further increase our pricing power in the Bohai Rim; and

- diversify our cargo mix. By expanding the iron ore, container and general cargo business through the operation of our and our associated company's ore and multi-purpose berths in Caofeidian Port and Huanghua Port, we are able to further diversify our cargo mix to capture more growth opportunities.

Port development and services are of significant importance to the local economy and social development. Therefore, our business development has received strong support from the government of Hebei Province, which has played a key role in our consolidation of port resources under the guidance of the provincial government.

We believe we will continue to benefit from the fast growth of China's economy and the economy of the Bohai Rim.

Unlike container ports in China whose business is largely driven by China's exports, our coal and iron ore businesses are largely driven by China's domestic demand. As a result, our business is closely tied to the development of China's economy. We are well-positioned to benefit from the growth of China's economy and the continuing strong growth of the economy of the Bohai Rim. We are also able to capture opportunities brought about by China's infrastructure development and urbanization.

Coal resources in China are mainly located in north and west China, whereas the domestic demand for coal consumption mainly arises from the economically developed south and east China. The general pattern of coal production and consumption in China is not expected to change significantly in the foreseeable future. Qinhuangdao Port and Caofeidian Port are important gateways linking the west-to-east and north-to-south coal transfers along China's domestic coal trade routes. Therefore, our coal handling services in Qinhuangdao Port and Caofeidian Port allow us to continue to benefit from the robust demand of coal produced domestically in China.

The Bohai Rim is one of the fastest growing economic regions in China. The real GDP of the Bohai Rim and its surrounding hinterland, which includes northeast and northwest China, grew at a CAGR of 10.8% from RMB2.6 trillion in 2002 to RMB7.2 trillion in 2012, compared to the national average of 10.5% and the average growth rates of the Yangtze River Delta and Pearl River Delta of 9.9% and 9.1%, respectively, during the same periods, according to Drewry. Under China's 11th and 12th Five Year Plans, the Bohai Rim will be developed into a major steel, petrochemical and heavy industry manufacturing base and logistics center in China. We believe that the economic development in the Bohai Rim and its surrounding hinterland will continue to underpin our growth.

Furthermore, Hebei Province is the largest steel manufacturing base in China, accounting for approximately 24.8% of China's steel manufacturing output in 2012, according to Drewry. In particular, Tangshan, Handan and Xingtai are major steel manufacturing bases in Hebei Province and are located in close proximity to Caofeidian Port and Huanghua Port, respectively. China's iron ore imports have grown from 384 million tonnes in 2007 to 745 million tonnes in 2012 at a CAGR of 14.2%, according to Drewry. In particular, the metal ore throughput of the major ore ports in the Bohai Rim grew from 284 million tonnes in 2007 to 598 million tonnes in 2012, at a CAGR of 16.1%. We believe we will continue to benefit from the increasing demand for imported iron ore by steel producers in Hebei Province.

Our ports are endowed with advantageous natural and geographical attributes and enjoy high accessibility.

Our ports have advantageous natural and geographical attributes and enjoy convenient access by rail and road to the surrounding hinterland.

BUSINESS

Qinhuangdao Port is endowed with advantageous natural conditions and is ice-free and silt-free with open waters and a flat seabed. The port's navigable waterways require limited maintenance. Qinhuangdao Port also enjoys high inland accessibility. The port is connected to the Daqin Line and a number of national highways, major expressways and pipelines, which form a comprehensive inland transportation network comprised of railways, roads and pipelines linking the port to its hinterland and other areas it serves.

Caofeidian Port is also an ice-free and silt-free deepwater port and is an ideal site for the construction of 300,000-tonne deepwater berths. Furthermore, Caofeidian Port is well connected to major railway lines, such as the Daqin Line (through the Qiancao Line). After the completion of the Mengji Line, Caofeidian Port is expected to be directly connected with Inner Mongolia, an important coal producing region in north China. The Mengji Line is expected to become one of the three major transportation arteries for the west-to-east coal transfer in China and is expected to be completed in 2014. Caofeidian Port is also easily accessible by major highways and expressways that offer convenient access to the port's hinterland.

Huanghua Port is one of the most convenient and lowest-cost sea access points in central and south Hebei Province. It enjoys convenient inland access. The port will be connected to Handan, Xingtai and other major steel production bases in Hebei Province by rail through the Hanhuang Line, which is expected to be completed and in full operation by 2014, and is connected to other major railway lines. Moreover, the port is close and connected to an extensive network of national highways comprising three north-to-south running and two west-to-east running highways.

We have established long-term relationships with our major customers.

We maintain long-term and stable relationships with our major customers, which mainly comprise of major coal and power companies in China, such as Shenhua Group, China Coal Group, Datong Mine, Yitai Group, China Guodian Corporation, Zheneng Fuxing and Datang Group. We have entered into long-term contracts with many of our major customers which offer favorable terms, including dedicated stacking space, berth and related port facilities to certain customers so as to secure stable cargo supplies. We also offer scheduled shipping services to some customers. Such arrangements enable us to promote customer satisfaction and enhance our operational efficiency.

Additionally, we jointly develop and operate terminals with certain major customers to combine our expertise in port operations with their stable supply of cargoes. For instance, we developed and operate our ore terminals in Caofeidian Port together with Shougang Group, a leading iron and steel manufacturer in China, through a jointly-owned entity, which became the largest ore port operator in Caofeidian Port by throughput in 2012. We are also developing coal berths in Caofeidian Port with leading coal mining and power companies in China, including China Coal Group, Datong Mine, China Huaneng Group and Yitai Group through a jointly-owned entity. Moreover, our existing shareholders include some of our important customers, Datong Mine and Shougang Group, and main partners, Daqin Railway and China Shipping. We believe that the fact that our important customers and partners have invested in and with us is an affirmation of our achievements and demonstrates their strong faith in our future growth.

We have specialized and efficient business management and operating systems.

We have developed a specialized and efficient management system for port operations over the course of our long operating history.

Our operations and systems are highly integrated with those of relevant railway departments, maritime bureaus and maritime pilot departments, which allows seamless intermodal transit of coal cargoes and enhances our operational efficiency. We have also established an information communication system with the customs, inspection and quarantine, and border inspection departments to effectively promote efficiency in vessel berthing and customs clearance. Such measures also work to promote our overall operational efficiency and quality of service.

BUSINESS

Through our extensive experience working with coal, railway and power companies, we have developed an effective model for transportation planning which collects, analyzes and feeds information about trends of the domestic demand for coal to the relevant railway departments to facilitate the efficient management of coal cargo flows. This in turn enhances our service quality and increases our cargo turnover rate and facility utilization rates.

Our advanced facilities and equipment also contribute to our highly efficient port operations. Our single train unloading rate can reach up to 7,200 tonnes per hour and our vessel loading rate can reach up to 8,000 tonnes per hour. Our stevedoring system also enjoys low cargo loss rates benefiting from our advanced equipment and efficient operations. In addition, we have adopted advanced information technology systems to improve the overall efficiency of our business operations.

We offer integrated and comprehensive port services and other value-added services to our customers.

We offer integrated and comprehensive port services to our customers to meet their diverse transportation needs. Our integrated port services include stevedoring, stacking, warehousing, transportation and other logistical services. We also offer value-added services, such as coal blending and providing seaborne coal trading service, to further expand our capabilities in providing integrated and comprehensive services for coal transfer.

Our coal blending services enable us to better serve our customers' diverse needs. When our customers' demand for coal of certain specific qualities cannot be met directly with supplies from coal producers, we are able to employ coal blending techniques at the port to produce the coal with the specific attributes required by the customers, which helps to satisfy customer needs and lower their procurement costs.

Our Qinhuangdao Coal Market is a comprehensive coal trading and coal supply chain management service provider that integrates information exchange with logistics management and focuses on services relating to coal trading. The "Bohai-Rim Steam-Coal Price Index" reported by Qinhuangdao Coal Market has served as a benchmark for price-setting in domestic coal trading in China and is becoming an important reference for international coal trading, according to Drewry. The coal spot trading services platform developed by Qinhuangdao Coal Market is now an important services platform for coal trading among coastal ports for seaborne coal, according to Drewry. Our Qinhuangdao Coal Market has established a solid foundation for the integration of coal spot and futures trading and trading of related derivative products and the establishment of a market model for integrating coal spot and futures trading.

We have an experienced and stable management team and well-trained employees.

Qinhuangdao Port has an operating history of over 100 years. As a result, we have developed expertise in port management and operations. We have trained and nurtured many talents who have developed best-in-class practices and operational standards.

We have an experienced and stable senior management team. Our management team has on average more than 20 years of experience in the port industry and has been with our Group and our Company's predecessor for an average of more than 20 years. Our management team has strong capabilities and extensive experience in corporate management and has played a key role in developing our business. In particular, our Chairman, Mr. XING Luzhen and our General Manager and Executive Director, Mr. HE Shanqi, each has over 25 years of experience in the port industry, corporate management and public administration and provides strong leadership and vision to our Group.

We place great emphasis on the continual training of our management team to further enhance their overall effectiveness. We have established long-term cooperative relationships with some top-tier higher learning institutions in China to provide further education on managerial and industry-

BUSINESS

specific skills to our management. We also have comprehensive training programs for our employees to improve their skills, service standards and productivity. Our experienced, dedicated and effective management team and our highly motivated employees enable us to capture business opportunities, adapt quickly to changing business environments, enhance our overall competitiveness and maximize value for our shareholders.

BUSINESS STRATEGIES

We are committed to further strengthening our position as a world leading port operator and comprehensive logistical service provider. We intend to pursue the following strategies to capture future growth opportunities and consolidate our leading market position.

Develop our Group into a world leading integrated port operator and strengthen our leading position as the world's largest independent port operator for major dry bulk cargo.

We plan to continue to enhance our operating efficiency and integrated service capabilities at Qinhuangdao Port to strengthen its leading position in coal handling. We plan to accelerate our investment in and development of terminals in Huanghua Port and Caofeidian Port to expand our hinterland coverage. To capture opportunities arising from the economic growth of the Bohai Rim, we also plan to intensify our efforts in developing new businesses relating to other types of major bulk cargo, such as iron ore, grain and oil products, as well as containers and general cargo to diversify our cargo mix.

Qinhuangdao Port is a major coal port with an operating history of over 100 years and plays a pivotal role in China's coal transportation. The Chinese government has designated Qinhuangdao Port as one of the first emergency coal reserve bases in China. We plan to continue to enhance our operational efficiency by improving our organization of port transportation, optimizing our operating processes and stevedoring techniques, introducing advanced port equipment and strengthening our cooperation with relevant government agencies, transportation partners and customers. We also plan to further enhance our storage, trading, financial, logistics park service and inland transportation capabilities to enhance our ability to provide comprehensive logistical services and further strengthen the leading position of Qinhuangdao Port as a major hub for energy transportation in China.

Caofeidian Port is a newly developed port in the Bohai Rim. The ore and coal terminals that we operate or are constructing in Caofeidian Port are expected to be a key driver for our future growth. Following the completion of the Mengji Line, which is expected to serve as one of the three major west-to-east coal-transportation arteries in China, Caofeidian Port is expected to be directly connected to Inner Mongolia, a major coal production base in China. We currently have five coal berths under construction in Caofeidian Port, which are expected to be substantially completed in 2014 and to increase our designed annual throughput capacity in Caofeidian Port by 50 million tonnes. We aim to increase our investment in new terminals and double our designed annual throughput capacity in Caofeidian Port in five years.

We are the main ore terminal operator in Huanghua Port and our long-term plan is to develop Huanghua Port into the largest integrated port in the Bohai Rim and a leading integrated port in China. With government plans to encourage the relocation of China's steel industry from inland to coastal areas, Cangzhou Bohai New District and other coastal areas are expected to become the focal point for the development of the steel industry in Hebei Province. Leveraging on port resources in Huanghua Port, China's leading steel companies such as Sinosteel Corporation have already begun setting up plants in the Cangzhou Bohai New District. With the completion of its planned development, Huanghua Port plans to greatly expand its ability to serve steel companies located further inland and effectively attract cargo supply from its hinterland while continuing to serve steel companies in Cangzhou. Furthermore, upon completion, the Hanhuang Line is expected to directly link Huanghua Port to its hinterland and provide the port with significant volumes of coal and iron ore cargoes. Cangzhou is also an important chemical manufacturing base in the Bohai Rim with a high demand for oil products. We plan to construct two ore berths in Huanghua Port with designed annual

BUSINESS

throughput capacity of 30 million tonnes, which are expected to be completed in 2014. In the future, contingent on obtaining the requisite government approvals, we also plan to construct dedicated ore and oil berths, as well as coal berths in connection with the commencement of operations of the Hanhuang Line. We expect our terminals in Huanghua Port to reach annual throughput capacity of over 100 million tonnes within the next five years.

Continue to enhance our port logistical service capabilities and develop our Group into a world leading provider of comprehensive logistical services.

We intend to fully leverage our port resources and surrounding rail and road networks to enhance our comprehensive logistical service capabilities and develop our Group into a world leading provider of comprehensive logistical services.

We plan to further promote our port logistical service capabilities, including providing more efficient services for cargo transshipping, stevedoring, storage, freight forwarding, shipping agency, customs clearance, cargo tallying, processing and trading. We intend to enhance our efficiency in port logistical services by strengthening our cooperation with relevant railway, maritime, customs, inspection and quarantine as well as maritime pilot departments. In addition, subject to government approval and where appropriate, we also plan to establish tariff-free port zones to actively promote tariff-free trade and logistical services.

Coal is the main focal area of our future development of logistical service business. Building upon our existing offering of coal transportation, storage, processing and other value-added services, and fully leveraging our port resources and the advantage of Qinhuangdao Port as one of China's first emergency coal reserve bases, we plan to expand the scope of our services and establish a business model that covers the entire coal logistical value chain. For instance, we intend to cooperate with relevant strategic partners to set up specialized storage facilities for coal trading settlement, which will reduce the restrictions of offsite settlement. We intend to offer highly efficient financial logistical services including consignment, entrustment, commissioning, storage, agency and consultancy services. We plan to provide highly efficient third-party coal logistical services to enhance the overall efficiency of coal transportation from origin to destination.

Furthermore, we plan to further strengthen our sales network and information systems. We plan to expand our service network in our hinterland. We also intend to build a public information platform to achieve information sharing and promote coordination with relevant railway, port, customs and shipping departments and with our customers to increase cargo turnover, lower operational costs and provide our customers with highly integrated logistical services.

Develop a comprehensive and specialized nationwide bulk commodity trading platform focused on coal and ore.

In a short span of five years since its establishment in 2007, Qinhuangdao Coal Market has developed a coal trading and supply chain management system service provider that integrates coal trading, information exchange and logistical management. The "Bohai-Rim Steam-Coal Price Index" reported by the Qinhuangdao Coal Market has become a benchmark for price setting in domestic coal trading and an important indicator for the global coal industry. We plan to continue to leverage this platform to actively promote capital market transactions and services for coal-related financial derivative products. For instance, we plan to extend our spot trading service platform to provide online trading and medium to long term coal spot trading. We strive to build Qinhuangdao Coal Market into the largest coal trading market in China with the most comprehensive functions and a focus on logistical services.

We also plan to establish a seaborne coal trading center for the Bohai Rim in Caofeidian Port, an ore trading market in Cangzhou and coal trading sub-markets or settlement points in the coastal areas in south China and the Yangtze River area by leveraging our platform of seaborne coal trading markets. Once such facilities are developed, we believe that we may become the most influential bulk commodity trading platform operator in China.

BUSINESS

Continue to strengthen relationships with our customers and partners to achieve mutual development.

We are committed to building strong and long-term relationships with major customers through long-term contracts, jointly-owned entities in terminals and other strategic alliances. We plan to promote customer loyalty and increase our cargo supply by continuing to provide dedicated facilities to our long-term customers. We also plan to continue to form strategic alliances with major customers in terminal development to combine our operating expertise with our customers' stable supply of cargoes. Furthermore, we plan to continue to work with customers and shipping companies to provide scheduled shipping services to increase customer satisfaction and strengthen our relationship with them.

We intend to develop relationships with new customers. We intend to promote and expand relationships with coal cargo suppliers in Inner Mongolia to increase our hinterland coverage. We plan to continue to strengthen our cooperation with steel companies in our hinterland to increase the supply of imported iron ore cargo. In addition, we plan to leverage the fast development of the economy of the Bohai Rim to secure abundant supplies of oil, container and general cargo.

Furthermore, we plan to further strengthen our strategic relationships with other coastal ports and the relevant railway departments. We plan to achieve significant growth in our container business by proactively working with coastal hubs and other major container ports to promote the development of our transshipment business for containers and working with railway departments to enable coordinated intermodal transits for containers.

Continue to focus on research and development and human resource development to enhance our operational efficiency and core competitive strengths.

We intend to intensify our research and development efforts. We plan to conduct further research on port operation techniques; optimize stevedoring systems, equipment configuration and work processes; and research into environmental technologies for coal ports. We also intend to establish e-commerce and logistical information service platforms to provide our customers with more efficient and comprehensive services. We plan to upgrade our information systems, which includes improving our enterprise asset management system as well as building an electronic data interchange center, e-port system, customer relationship management system, human resource management system and financial management system to improve internal communication, management and operational efficiency.

Furthermore, we intend to further promote the quality of our workforce by improving our recruitment, training, career development and incentive mechanisms to attract and retain high-quality talents, laying a solid foundation for our long-term development. We strive to build a highly skilled, well managed, motivated and capable workforce that can quickly adapt to changing market environments and drive our business growth.

Building upon our operations in the Bohai Rim, pursue suitable acquisition opportunities in China and abroad to extend our leading competitive position.

We plan to leverage our port resources and opportunities that arise from the fast growing economy of the Bohai Rim to further consolidate port resources in the region and expand our business and hinterland coverage through acquisitions and investments in other terminals in the region to drive our sustainable growth.

We also plan to build upon our extensive experience in port operations by prudently exploring potential synergistic acquisition opportunities in China and abroad. This includes developing or acquiring dry bulk terminals in south China and abroad to further expand our leading advantage in dry bulk cargo operations.

BUSINESS

Continue to promote our international brand name

We seek to promote our brand name, international image as a world leading port operator and industry influence by improving our brand image and service efficiency and quality as well as through innovation in our operational models and management systems. Additionally, we plan to continue to improve customer satisfaction and our industry reputation and status by establishing a comprehensive logistical service platform and providing high quality services to our customers.

OUR SERVICES

We provide integrated port services including stevedoring, stacking, warehousing, transportation and logistics services. We handle various types of cargo mainly including coal, metal ores, oil and liquefied chemicals, containers and general cargo. We also provide value-added services such as coal blending and providing a coal trading service platform.

The following tables set forth the revenue and throughput breakdown by cargo type we serviced for the periods indicated:

	Year Ended December 31,						Six Months Ended June 30,	
	2010		2011		2012		2013	
	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue	Revenue	Percentage of Total Revenue
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Dry bulk ¹	4,485,781	87.79	5,111,270	89.13	5,580,911	89.29	3,067,769	90.59
Coal	4,278,900	83.74	5,003,611	87.25	5,310,414	84.96	2,669,601	78.83
Metal Ore	206,881	4.05	107,659	1.88	270,497	4.33	398,168	11.76
Oil and liquefied								
chemicals	119,065	2.33	143,097	2.50	142,822	2.29	59,551	1.76
Container	61,546	1.20	85,720	1.49	77,429	1.24	41,743	1.23
General and other								
cargoes ³	165,384	3.24	146,786	2.56	183,080	2.93	91,074	2.69
Others	277,772	5.44	247,437	4.32	265,920	4.25	126,389	3.73
Total	<u>5,109,548</u>	<u>100.00</u>	<u>5,734,310</u>	<u>100.00</u>	<u>6,250,162</u>	<u>100.00</u>	<u>3,386,526</u>	<u>100.00</u>

	Year Ended December 31,						Six Months Ended June 30,	
	2010		2011		2012		2013	
	Throughput	Percentage of Total Throughput	Throughput	Percentage of Total Throughput	Throughput	Percentage of Total Throughput	Throughput	Percentage of Total Throughput
	(Million tonnes)	(%)	(Million tonnes)	(%)	(Million tonnes)	(%)	(Million tonnes)	(%)
Dry bulk ¹	290.80	93.82	329.16	94.17	314.84	93.69	171.09	93.72
Coal	226.33	73.02	254.65	72.85	239.40	71.24	120.01	65.74
Metal Ore	64.47	20.80	74.51	21.32	75.44	22.45	51.08	27.98
Oil and liquefied								
chemicals	8.48	2.74	9.20	2.63	9.07	2.70	3.98	2.18
Container ²	4.85	1.56	6.41	1.83	5.56	1.65	3.73	2.04
General and other								
cargoes ³	5.81	1.88	4.79	1.37	6.60	1.96	3.76	2.06
Total ^{4,5}	<u>309.94</u>	<u>100</u>	<u>349.56</u>	<u>100</u>	<u>336.07</u>	<u>100.00</u>	<u>182.56</u>	<u>100.00</u>

Notes: 1. The dry bulk cargoes we handle mainly consist of coal and metal ores.

2. Using "TEU" as the measuring units, our throughput of containers are 340,000 TEUs, 430,000 TEUs, 394,000 TEUs and 264,000 TEUs for the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively.

3. Other cargoes include grain, fertilizer and other general cargoes.

BUSINESS

4. Throughput includes that of Caofeidian Shiye Port Company which is a non-consolidated associate company of, and 35% owned by, our Company. Our Company is the largest shareholder of Caofeidian Shiye Port Company. For the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, the throughput of terminals operated by Caofeidian Shiye Port Company in Caofeidian Port was 53.75 million tonnes, 70.10 million tonnes, 66.23 million tonnes and 36.32 million tonnes, respectively, in total; 2.39 million tonnes, 1.98 million tonnes, 2.11 million tonnes and 1.41 million tonnes, respectively, for coal; 51.04 million tonnes, 67.64 million tonnes, 63.50 million tonnes and 34.91 million tonnes, respectively, for metal ores; and 0.32 million tonnes, 0.48 million tonnes, 0.62 million tonnes and nil, respectively, for general cargo.
5. Our total throughput includes throughput of our subsidiary, Cangzhou Bohai, from October 1, 2012.

Coal

We conduct our coal service business principally through 21 coal berths in Qinhuangdao Port. We also have two coal berths in Qinhuangdao Port under renovation and five coal berths in Caofeidian Port under construction, which are expected to be completed by 2014.

Almost all of the coal we handle is for outbound shipment. With Qinhuangdao Port and Caofeidian Port strategically located at the east end of the Daqin Line, the west-to-east transportation artery for China's domestic coal trade, most of the coal we handle is carried through the Daqin Line from coal mines in Inner Mongolia, Shanxi Province and Shaanxi Province and loaded onto vessels for further north-to-south transportation to China's south and east coastal regions.

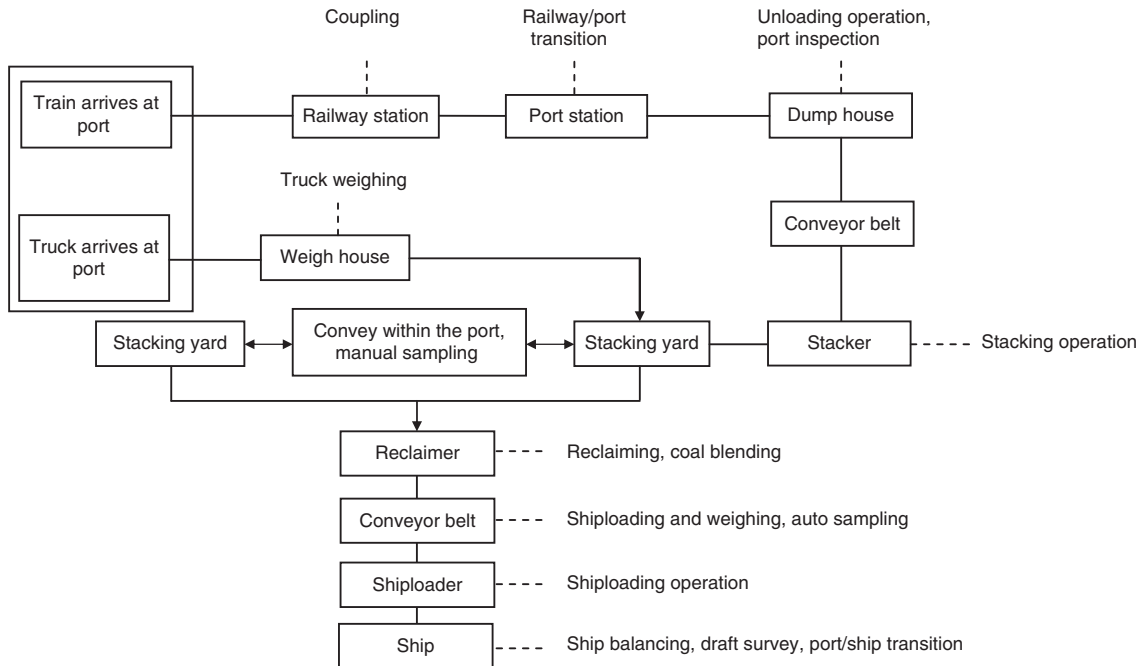
Coal mainly arrives at our ports via railway and is unloaded from railcars and transported to the stacking yard by conveyer belts. A small amount of coal we handle arrives at our ports via trucks, which is first weighed at a weighing house and then transported to the stacking yard. Coal in the stacking yard is moved through stacker-reclaimer and conveyor belt systems to be discharged to ships upon loading.

Our coal handling services are mainly supported by the following facilities and equipment:

- *Dumper system.* Upon arrival at the port, each railcar carrying coal will be unloaded in a dump house using rotary dumpers. The locating vehicle of dumper system automatically pulls the strings of railcars into a rotary dumper, which clamps one or three railcars at a time securely and rotates them to dump the load. Our dump houses are also equipped with dust control systems to reduce dust pollution during the unloading process.
- *Conveying systems.* Specialized conveyor belts move coal to the stacking yard to be distributed by stackers to stockpiles in the stacking yard. Coal will be sampled through a sampling process before being loaded onto a ship.
- *Stacking yard.* The stacking yard is a linear arrangement of rows of standard coal stockpiles. There are conveyor belts between stockpile rows to transport coal to and from the stacking yard.
- *Stacker-Reclaimer.* While stackers distribute coal from conveyor belts to stockpiles in the stacking yard, reclaimers reclaim coal from stockpiles and move it to conveyor belts for ship loading.
- *Ship loader.* A loading machine that discharges coal into ships from the conveyor belts.

BUSINESS

The following chart summarizes our operating process with respect to coal:



Our highly automated and integrated operation system is able to efficiently unload and load coal from trains to ships, which increases our service quality and loading and unloading efficiency and further increases port throughput capacity. Our designed rate of train unloading and ship loading for coal is 6,000 tonnes/hour, which is among the top tier in the industry, according to Drewry. Also, we work closely with relevant railways, maritime bureaus and maritime pilot departments. This enables us to enhance our operational efficiency, improve information exchange, achieve seamless intermodal transits and promote organized ship loading and orderly berthing.

Through our extensive experience in working with coal, railway and power companies, we have developed an effective communication model regarding transport plans, and a cooperation mechanism that collects, analyzes and feeds trend information in the domestic demand for coal to the relevant railway departments to facilitate the efficient management of coal cargo flows, which in turn enhances our service quality and increases our cargo turnover rate and facility utilization rates.

Metal Ores

We operate 17 general cargo berths in Qinhuangdao Port, six berths in Huanghua Port, as well as four ore berths and two general bulk berths in Caofeidian Port through our associate company, Caofeidian Shiye Port Company. Most of these berths (except for designated grain berths) are also able to handle metal ores. We are planning to develop two 200,000-tonne ore berths in Huanghua Port, which are expected to be completed in 2014.

Imported iron ores are unloaded from ships at our ports for further delivery to steel companies in our hinterland. When ships arrive at our ports, iron ore is unloaded using a grabbing crane onto conveyor belts through a filling funnel and transported by conveyer belts to the stacking yard to be stockpiled by stackers. We use both trains and trucks to transport iron ores that arrive at our berths. When using trains for such transportation, we retrieve iron ores from the stacking yard with reclaimers, transport them to the loading floor through conveyor belts, and then load them onto the trains. When using trucks for transportation, we load the iron ores directly onto the trucks with loading machines in the stacking yard.

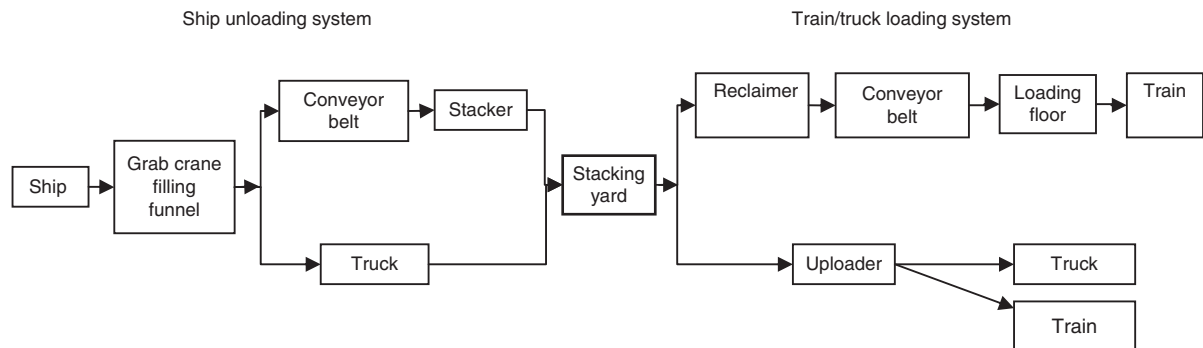
BUSINESS

The process for other types of metal ores is similar to that of iron ores, except that instead of being moved to the stacking yard through conveyor belts, other metal ores are directly unloaded at the front apron to be transported to the rear apron where they are loaded to trains or trucks for inland delivery or stored in a warehouse or stacking yard awaiting pickup.

Our iron ore handling services are mainly supported by the following facilities and equipment:

- *Ship unloading system.* Upon berthing, vessels are unloaded by grabbing cranes that transfer iron ores to conveyor belts through the filling funnel.
- *Conveying system.* Specialized conveyor belts move iron ores to the stacking yard to be distributed by stackers to stockpiles in the stacking yard. At pickup, conveyor belts move iron ores to the loading floor to be loaded onto trains.
- *Stacking yard.* Iron ores are stockpiled in the stacking yard awaiting pickup.
- *Stacker-Reclaimer.* While stackers distribute iron ores from conveyor belts to stockpiles in the stacking yard, reclaimers reclaim iron ores from stockpiles for train or truck loading.
- *Loading system.* In train transportation, we use reclaimers to retrieve iron ores from the stacking yard, transport them to the loading floor by conveyor belts, and then load them onto trains. In truck transportation, we use loader machines to load iron ores onto trucks directly.

The following chart summarizes our general operating process with respect to iron ores:



Oil and Liquefied Chemicals

We operate four crude oil berths, one refined oil berth and two liquefied chemical berths in Qinhuangdao Port.

A large portion of the oil and liquefied chemicals we handle are in connection with ship loading and unloading. When unloading oil and liquefied chemicals from tankers, we pump the oil and liquefied chemicals from the vessels, use oil loading arms and oil rubber hoses to discharge the oil and liquefied chemicals through pipelines into storage tanks, and then load it onto trains or trucks through a pump house to be transported to oil refineries or petrochemical companies. In ship loading, oil and liquefied chemicals are transported via oil loading arms and oil rubber hoses to vessels.

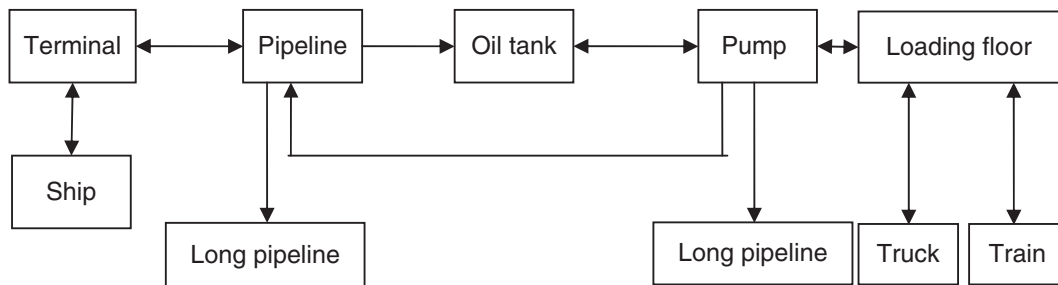
Our oil and liquefied chemical handling services are mainly supported by the following facilities and equipment:

- *Ship unloading system.* Upon berthing, oil or chemical tankers are unloaded using marine loading arms, which are devices consisting of articulated steel pipes that connect tankers to our terminals.

BUSINESS

- *Pipeline system.* We use pipelines to connect berths, storage tanks and loading floor for trains or trucks. Also, we use long pipelines to connect with refineries and oil fields. Such pipelines can be used in different types of operations including ship, train and truck loading and unloading, and tank inversion.
- *Storage tanks.* We use two types of aboveground steel storage tanks for storing oil or liquefied chemicals, which include tanks with floating and dome roofs for storing crude or refined oil or liquefied chemicals.
- *Loading system.* We use designated railroads, oil trucks, heavy oil trucks and refined oil trucks to load oil and liquefied chemicals onto train or trucks.

The following chart summarizes our operating process with respect to oil and liquefied chemicals:



Container

We operate three container berths in Qinhuangdao Port and four multipurpose berths in Huanghua Port which may handle containers.

We provide stevedoring and depot services to container shipping companies engaged in both international and domestic container trade.

Outbound containers are delivered to us by trucks or trains and through our dedicated railway lines in the port area and stored in a designated loading stacking yard using gantry cranes for temporary storage before shipment. After confirming that necessary customs clearances have been obtained, we then use container trucks to deliver containers from the stacking yard at the terminals to the designated berths, where the containers will be loaded by container loading bridge onto outbound vessels docked at the berths.

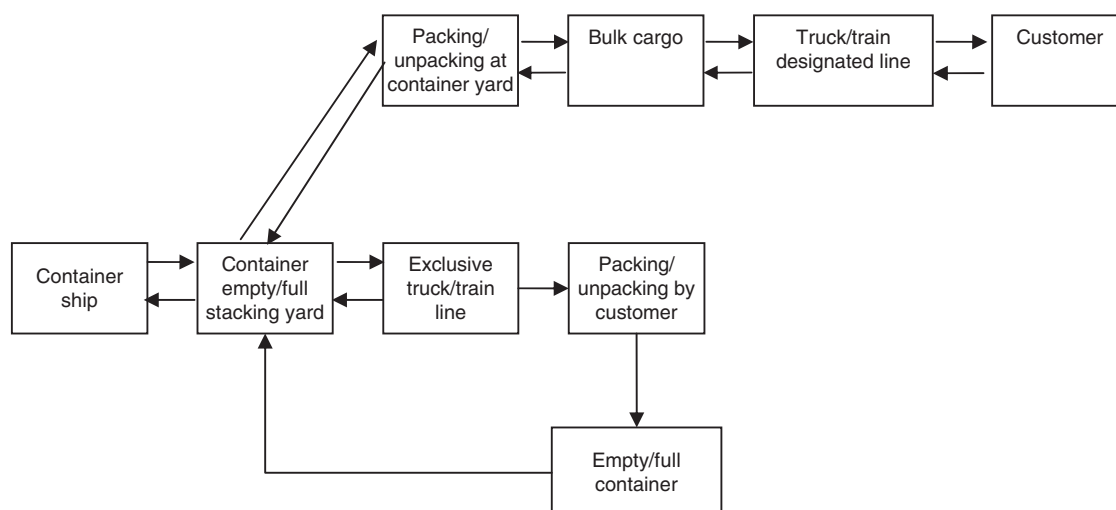
For inbound shipments, upon berthing of the vessel, container cranes lift the containers off the vessel and gantry cranes transport and unload the containers into the stacking yard. Where requested by customers, the containers may be unpacked for pick-up or further storage in warehouses. At pick-up, we use gantry cranes to load the containers onto trucks or trains for inland transportation.

Our container services are mainly supported by the following facilities and equipment:

- *Container crane.* Container cranes are special rail-mounted cranes at terminals designed to lift containers.
- *Mobile gantry crane.* Mobile gantry cranes are designed for stacking intermodal containers in the stacking areas of the container terminal. It mounts on multiple rails with a large boom spanning the distance between the ship's cargo hold and the quay, moving parallel to the ship's side.

BUSINESS

The following chart summarizes our operating process with respect to containers:



General Cargo

We operate 17 general cargo berths in Qinhuangdao Port and six general cargo berths in Huanghua Port, which can be used for handling general cargo. Our associate company, Caofeidian Shiye Port Company, operates two bulk cargo berths in Caofeidian Port.

The process of handling general cargo varies based on the specific type of cargo being loaded or unloaded. The process of general cargo unloading is similar to that of metal ores, except that, instead of using conveyor belts, general cargo is unloaded from a ship on the front apron to be transferred to the rear apron of a terminal. From there, it is loaded onto trucks or trains for inland delivery or into warehouses or stacking yards for storage awaiting pickup. The process of general cargo loading is the reverse of the unloading process. Cargo first arrives at the port via trains or trucks and is stacked in the stacking yard. When vessels arrive at the port, cargo is reclaimed from the stacking yard, transported to the front apron using the conveyor system and loaded onto the vessels. Another process for handling general cargo is to have the cargo that has been unloaded from trains or trucks directly loaded onto vessels without going through the stacking and reclaiming process.

Ancillary Port Services and Value-Added Services

We also provide a variety of ancillary port services and value-added services. Our ancillary port services include tugging, tallying, transshipping, and shipping agency services, among other services. According to Drewry, these are common ancillary port services provided by port operators in China. Our value-added services mainly include coal blending, providing coal trading related services and tariff-free warehouse and export supervisory warehouse services to be provided. Our ancillary port services and value-added services are mainly provided by Ship Branch, Qinhuangdao OSTC, Cangzhou OSTC, Qinyun Energy, Qinhuangdao Coal Market, Power Branch, Mobile Machinery Branch, Labor Service Branch and Ruigang Tech. For the years ended December 31, 2010, 2011, and 2012, and the six months ended June 30, 2013, our revenue generated from the above subsidiaries and branches was RMB277.77 million, RMB247.44 million, RMB265.92 million and RMB126.39 million, respectively, which accounted for 5.44%, 4.32%, 4.25% and 3.73% of our total revenue for that period, respectively.

Coal Blending

We also provide coal blending services to satisfy the diverse requirements of our coal user customers, some of whom are unable to purchase directly from coal producers the types of coal they need and therefore require blending services. Coal blending is carried out before shipping and

BUSINESS

involves the process of mixing two or more different types of coals to obtain a coal product with the desired properties. Our coal blending services enable us to meet different needs of coal users, lower costs for our customers and fully utilize our logistics capabilities to provide value-added services to our customers, which in turn helps to enhance our overall competitiveness.

Coal Trading Market

Together with a few partners, we formed Qinhuangdao Coal Market in 2007. With coal trading as its core service, Qinhuangdao Coal Market has developed a comprehensive trading service platform with multiple service functions serving both upstream and downstream customers. Our Qinhuangdao Coal Market is a comprehensive coal trading service platform and coal supply chain management service provider that integrates information exchange and logistics management with a focus on coal trading. The “Bohai-Rim Steam-Coal Price Index” reported by the Qinhuangdao Coal Market has served as a benchmark for price-setting in domestic coal trading in China and is becoming an important reference for international coal trading, according to Drewry. The coal trading platform operated by Qinhuangdao Coal Market is an online information service platform developed by Qinhuangdao Coal Market which provides our existing and potential customers as well as government agencies with timely and convenient access to a broad range of real-time information and historical data regarding coal production, transportation and trading in China. For such services, the Qinhuangdao Coal Market has obtained the applicable website operating permit, which is the permit required for the operation of the online information. In reporting the Bohai-Rim Steam-Coal Price Index, Qinhuangdao Coal Market collects steam coal price information from more than 100 coal producers, corporate coal consumers and coal trading companies. The information collected mainly comprises of trading information from coal markets, industry associations and market participants, which is then further processed using complex algorithm for compiling the index. The index is used by market participants as a benchmark for setting coal trading prices, and by fund managers and securities traders to analyze market trends.

The total revenue of Qinhuangdao Coal Market was approximately RMB14.11 million and RMB3.70 million for the year ended December 31, 2012 and six months ended June 30, 2013, respectively, which was mainly attributable to membership fees charged for certain privileged access to its online information platform, charges to corporate customers for provision of coal pricing information, commissions charged to coal providers for intermediary services such as collateral escrow, as well as conference and exhibition service charges.

The collateral escrow service provided by Qinhuangdao Coal Market mainly involves the monitoring of collateral (in the form of coal) stored in our stack yards pledged by coal providers for bank borrowing. In practice, the coal provider (as pledgor), the bank (as pledgee) and Qinhuangdao Coal Market (as pledgee’s agent) shall sign a three-party collateral escrow agreement, as part of the financing arrangement between the bank and coal provider, which typically includes the following major terms relating to Qinhuangdao Coal Market:

- in order to secure the performance of the relevant financing facility agreements between the collateral provider and the bank, the collateral provider agrees to pledge its goods to the bank;
- both the bank and collateral provider agree that the pledged goods shall be supervised by Qinhuangdao Coal Market as the bank’s agent, and Qinhuangdao Coal Market agrees to accept the bank’s assignment and supervise the goods in accordance with the bank’s instructions and the terms of the collateral escrow agreement;
- during the period of supervision, Qinhuangdao Coal Market shall supervise the collateral, arrange the delivery-taking and/or supervise any change to collateral for the collateral provider in accordance with the written instruction of the bank and terms of the agreement;
- all the relevant expenses resulting from the collateral escrow service shall be borne by the collateral provider;

BUSINESS

- the collateral provider shall maintain an insurance with terms to the satisfaction of the bank;
- the collateral provider shall compensate all damages to the bank and Qinhuangdao Coal Market if the collateral provider fails to maintain insurance and the collateral is damaged or lost due to force majeure, or breaching other terms of the agreements;
- Qinhuangdao Coal Market shall compensate the actual losses of the bank and the collateral provider (the bank has the priority to get compensation) if the collateral is lost or damaged because it fails to perform its escrow responsibilities other than force majeure or the collateral provider's fault; or the collateral is taken delivery without following the terms of the agreement; or breaching other terms of the agreement.

Although Qinhuangdao Coal Market might be held liable for the damages of the collateral, the financial losses due to the insured's negligence shall be covered in accordance with the terms of insurance policy and applicable laws by the asset supervision insurance which is maintained according to the terms of the collateral escrow agreement by each collateral provider. Moreover, we place significant emphasis on safety control to minimize the amount and impact of any safety incidents in connection with our port services, including the safety storage at the stock yards. As such, we believe that the insurance arrangement and our significant emphasis on safety have efficiently minimized our risks in connection with providing collateral escrow services.

Moreover, Qinhuangdao Coal Market provides information consultancy, domestic advertising, convention and exhibition and collateral escrow services for coal spot trading. The coal spot trading service platform developed by Qinhuangdao Coal Market is now one of the most important trading service platforms among coastal ports for seaborne coal, according to Drewry, and has established a solid foundation for future integration of coal spot and futures trading and trading of related derivative products and the establishment of a market model for integrating spot and futures trading. The growth of Qinhuangdao Coal Market helps to extend our port services, promotes a conducive environment for coal trading and further solidifies our position as a major hub in seaborne coal transportation.

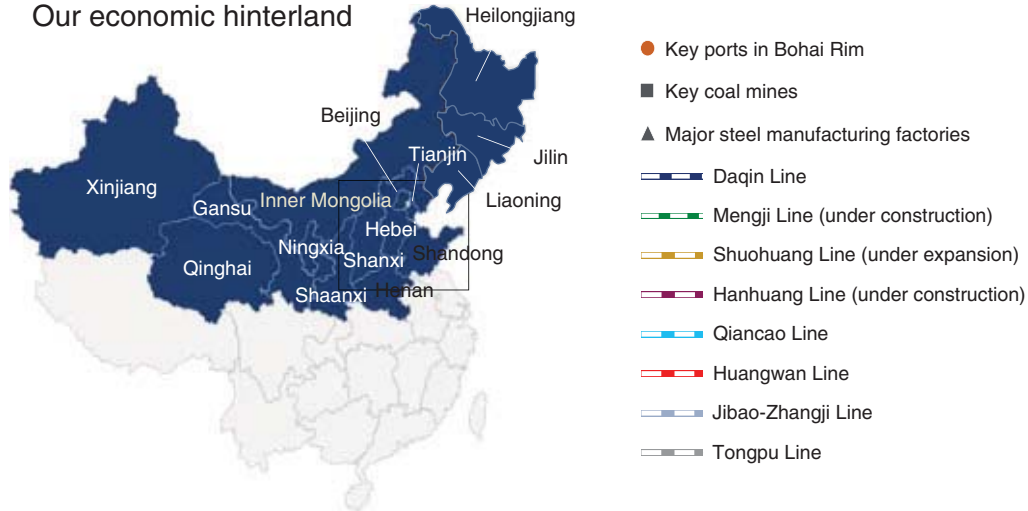
Tariff-Free Warehouse and Export Supervisory Warehouse Services

We obtained the government approval for establishing a tariff-free warehouse and export supervisory warehouse in Qinhuangdao Port in late 2012, which are expected to complete construction by the end of 2013 and then to commence operation upon receipt of government approval. Our Directors believe that our establishment of a platform for the tariff-free and export supervisory warehousing business is an important measure that helps us to meet the demands of market competition, attract customers from our hinterlands and their surrounding areas, promote the development of the regional economy, expand our range of services, promote our competitiveness and drive our future growth. In addition, the platform will provide efficient logistical services to processing trade businesses in Beijing, Tianjin and Hebei Province and other places in the Bohai Rim, and help cargo owners to consolidate cargo storage and lower storage costs, thereby achieving mutual benefits.

OUR FACILITIES

The following indicative map shows the locations of Qinhuangdao Port, Caofeidian Port and Huanghua Port and highlights the regions covered by their hinterlands and service areas as well as the major railway lines connecting the ports and their hinterlands.

Our economic hinterland



BUSINESS

Qinhuangdao Port

Qinhuangdao Port is our principal port of operation. It is an established port with an operating history of over 100 years and is the world's largest coal port by throughput in 2012, according to Drewry.

Geographic Location

Qinhuangdao Port is located in the northeastern region of Hebei Province and on the north shore of the Bohai Sea. It is strategically located at the east end of the Daqin Line connecting Datong in Shanxi Province and Qinhuangdao in Hebei Province. Qinhuangdao Port is a major hub connecting the transportation artery serving China's west-to-east and north-to-south coal transfers and plays a significant strategic role in the national economy.

Qinhuangdao Port serves as the main loading port for coal carried on the Daqin Line, the most important coal-transport railway with the largest carrying capacity in China. In 2012, the Daqin Line carried over 15% of the total rail freight volume of coal in China. The port is connected to National Highway 102 linking Beijing and Harbin of Heilongjiang Province, National Highway 205, linking Shanhaiguan in Hebei Province and Shenzhen in Guangdong Province, Beijing-Harbin Expressway and Qinhuangdao-Chengde Expressway. In addition, the port has crude oil pipeline extension of over 30 kilometers long which is directly connected to the pipelines in Daqing Oilfield, the largest oil field in China. Therefore, the port enjoys high accessibility to its hinterland by different modes of transportation.

Natural Conditions

Qinhuangdao Port has advantageous natural conditions. It has a shoreline at the quay of 12.2 kilometers long, covers a land area of 11.3 square kilometers and water area of 226.9 square kilometers and is divided into eastern and western zones. Qinhuangdao Port is a natural deepwater port, is ice-free and silt-free, and has an open water and flat seabed. As a result of these favorable natural conditions, the port's navigable waterways require almost no maintenance.

Berths and Storage Facilities

We operate 48 berths in Qinhuangdao Port, including 42 berths of 10,000-tonnes and above (including five berths of 100,000-tonnes and above). Among them, there are 21 coal berths, seven oil and liquefied chemical berths, 17 general cargo berths and three container berths. The designed throughput capacity of Qinhuangdao Port is 224.45 million tonnes and 750,000 TEUs per year.

We also provide storage services for the cargo we handle in Qinhuangdao Port. We have specialized coal stacking yards, which have aggregate stacking capacity of 10.27 million tonnes. We also have general bulk stacking yards with aggregate capacity of 2.19 million tonnes. Furthermore, we operate 15 oil tanks, with a total storage capacity of 286,000 cubic meters. In addition, we provide a total storage capacity of 23,000 TEUs for storing containers.

BUSINESS

The table below sets forth in greater details the information on our berths and storage capacity in Qinhuangdao Port.

Berth Type	Operating Entity	Number of Berths	Depth Alongside (meters)	Berth Length (meters)	Designed Throughput Capacity (million tonnes/year except for containers)	Stacking Capacity (million tonnes, except for oil and liquefied chemicals and containers)
Coal	Second Port Branch	5	14.0	1,396	42	
	Sixth Port Branch	3	12.5-17.0	840	32	
	Seventh Port Branch	6	12.5-17.0	1,602	55	10.27
	Ninth Port Branch	4	14.9-17.0	1,187	50	
	Third Port Branch	3	9.0-10.8	552	13.65	
Oil and Liquefied						
Chemical	First Port Branch	7	5.0-14.0	1,459	17	286,000 cubic meters
General Cargo	General Cargo Port Branch	17	5.6-17.0	3,812	14.8	2.19
Container	Xin'gangwan Container Company	3	14.0-15.8	886	750,000 TEU	23,000 TEU

The following table sets forth the utilization rate by berth type in Qinhuangdao Port during the Track Record Period, which is calculated by dividing the aggregate annual throughput of the berths by their designed annual throughput capacity.

Utilization Rate (%) by Type of Berth	For the Year Ended December 31,			For the Six Months Ended June 30, 2013
	2010	2011	2012	
Coal	116.24	131.15	122.79	121.04
Oil and Liquefied Chemical	52.02	56.44	55.64	46.82
General Cargo	127.84	75.54	80.54	95.00
Container	45.33	57.33	45.87	46.13

“Designed annual throughput capacity” for a berth is the theoretical amount of work that the berth is capable of handling in 365 calendar days based on the engineering design of the berth, assuming normal working hours and standard operating efficiency, which is defined at the design and construction phase, according to Drewry. According to Drewry, designed annual throughput capacities of berths are in many cases conservatively computed during the engineering design of port infrastructure in China. Achievable annual throughput is closely tied to the efficiency of port operations such as vessel turnaround time, rate of cargo loading, number and length of work shifts and experience of the workforce. According to Drewry, it is not uncommon for terminals in China with actual throughput to be considerably higher than stated designed annual throughput capacity.

We are able to achieve high utilization in our berths through our efficient port operations, including the seamless cooperation with relevant railway departments, maritime bureaus and maritime pilot departments, an experienced workforce as well as the use of advanced equipment. While the utilization rate of our coal berths in Qinhuangdao Port exceeded their designed annual throughput capacity during the Track Record Period, we did not experience any material operational disruptions or events triggering safety concerns arising from high utilization of our coal berths during the Track Record Period. We do not currently have plans to increase the designed capacity of our coal berths in Qinhuangdao Port.

BUSINESS

Berths Under Renovation

We also have two berths which are currently under renovation at Qinhuangdao Port, details of which are summarized in the tables below:

Berth Type	Operating Entity	Number of Berths	Depth Alongside (meters)	Quay Length (meters)	Designed Throughput Capacity (million tonnes/year)	Stacking Capacity (million tonnes)	Estimated Total Capital Expenditure (million RMB)	Expected Completion Date
Coal	Ninth Port Branch	2	16.1-16.5	570	1.9	—	111	2014

Note: Both berths will share the original stacking yard after the renovation, so no independent stacking capacity shall be applicable

Estimated Total Capital Expenditure	For the Year Ended December 31,			For the Six Months Ended June 30, 2013	The amount incurred up to the Latest Practicable Date	Estimated Capital Expenditure from the Latest Practicable Date to December 31, 2013	Estimated Capital Expenditure in 2014	Source of Funding	Use of Funding
	2010	2011	2012						
111	—	0.24	52.02	12.71	95	4	12	bank loans and cash generated from the Company's operating activities	renovation of Qinhuangdao Port coal berths

(Million RMB)

Western Zone Relocation

As part of city planning, the governments of Hebei Province and Qinhuangdao City are in the process of adopting measures to upgrade the shoreline of Qinhuangdao City. According to the governments of Hebei Province and Qinhuangdao City, one of the structural changes to Qinhuangdao City under the city planning involves the relocation of our port operations in the western zone of Qinhuangdao Port and the subsequent construction of new berths in the eastern zone of Qinhuangdao Port. The relocation is not a standalone project, and is closely connected to the overall city planning and development timeline. Hence, the relocation, which is expected to involve the ceasing of operation of our coal berths in the western zone of Qinhuangdao Port, the removal or destruction of certain facilities and railways in the western zone of Qinhuangdao Port, the construction of various berths in the eastern zone of Qinhuangdao Port and the transfer of our port operations to the eastern zone of Qinhuangdao Port, is scheduled for completion by 2020.

In connection with the relocation plans, three of our coal berths in the western zone have stopped ship loading operations as of the Latest Practicable Date. A provision for impairment of items of property, plant and equipment has been made for the six months ended June 30, 2013. See "Financial Information — Description of Selected Items of Results of Operations — Other Expenses". Besides the cessation of the three coal berths, the rest of the relocation plan is still at a preliminary planning stage. As of the Latest Practicable Date, the plan for the construction or development of new berths in the eastern zone of Qinhuangdao Port has not been finalized. Once the construction plan has been finalized and the relevant governmental authorities have given authorization to construct new berths in the eastern zone of Qinhuangdao Port, the relevant construction permits will be applied for before commencement of any such construction. Other than the cessation of the operation of our coal berths, we have not removed, destroyed or relocated any of our facilities in the western zone of Qinhuangdao Port. Hence, no relocation cost has been incurred as at the Latest Practicable Date and

BUSINESS

no estimation of future relocation cost or related financial impact is available until we receive further directions from the provincial and municipal government authorities. Since the relocation is at a preliminary stage, negotiation on the responsibility of relocation cost has not commenced between the Company and the relevant government authorities.

Only our coal berths in the western zone have ceased operation, and our general cargo berths and container berths are still operating. The operations in other berths in the western zone are expected to relocate only after the completion of the construction of the new port area in the eastern zone. As of the Latest Practicable Date, we had 22 berths in the western zone. However, the total designed annual throughput capacity of all berths (excluding container berths) in the western zone only accounted for 7.9% of our total annual designed throughput capacity. Our operation in Qinhuangdao Port is concentrated in the eastern zone, and our operations in the western zone had a throughput of 17.73 million tonnes for 2012, accounting for only 5.28% of the total throughput for the year. Given that some of the basic infrastructure in the western zone has become obsolete and the physical constraints the western zone faces for further development, we believe that the relocation, which could have a short-term impact on our business, is beneficial to our long-term development.

Caofeidian Port

Leveraging on our operational experience in Qinhuangdao Port, we have expanded into Caofeidian Port, which is an important part of Tangshan Port and was designed to be a deepwater port mainly handling bulk and other general cargo with a focus on ores and coal, according to its port development plan. It has experienced stable growth in recent years. Its annual metal ore throughput grew from 19.9 million tonnes in 2007 to 97.5 million tonnes in 2012 at a CAGR of 37.4%.

Geographic Location

Caofeidian Port is located in Tangshan, in the northeastern part of Hebei Province. Its hinterland covers Beijing, Tianjin, Hebei Province, the northern part of Shanxi Province and the western part of Inner Mongolia, which are home to China's important steel, petrochemical and coal bases.

With respect to land transportation, Caofeidian Port is connected to a number of major railway lines. The port is connected to the Daqin Line through the Qiancao Line and is another important unloading port for cargo carried through the Daqin Line following Qinhuangdao Port. Moreover, Caofeidian Port is adjacent to a few railway lines under construction. The Zhangcao Line, which connects Zhangjiakou in the northwestern part of Hebei Province and Caofeidian, commenced construction in 2010. The Zhangcao Line is the first stage of the Mengji Line, which will ultimately link Caofeidian to Ordos in west Inner Mongolia. The Mengji Line, upon completion in 2014, is expected to be one of the three most important railway lines carrying coal from west to east in China and further strengthen Caofeidian Port's role in China's domestic coal trade. The Shuicao Line connecting the mining area in Qian'an and Caofeidian started preparation for construction in April 2012. Furthermore, Caofeidian Port is also easily accessible by major highways and expressways that offer convenient access to the port's hinterland.

Natural Conditions

Caofeidian Port is also an ice-free and silt-free deepwater port and is an ideal site for the construction of deepwater berths of 300,000 tonne and above. The depth of water reaches 25 meters within 500 meters from the shore. The trough is 36 meters deep. The 30-meter bathymetry contour is approximately six kilometers long from east to west. Additionally, there is a 5-kilometer wide and 27-meter deep natural waterway connected with the Yellow Sea that runs from Caofeidian towards the Bohai Sea.

Berths and Storage Facilities

Caofeidian Shiye Port Company, which is 35% owned by us, currently operates six general bulk berths in Caofeidian Port, including four ore berths of 250,000-tonne and two 50,000-tonne general

BUSINESS

bulk berths, with total designed annual throughput capacity of 65.5 million tonnes and stacking yards with an aggregate designed capacity of 19.69 million tonnes. The throughput of Caofeidian Shiye Port Company was 66.23 million tonnes for 2012.

The table below sets forth in greater details the information on the berths and storage facilities operated by Caofeidian Shiye Port Company, our associate company in Caofeidian Port.

Berth Type	Operating Entity	Number of Berths	Depth Alongside (meters)	Quay Length (meters)	Designed Throughput Capacity (million tonnes /year)	Stacking Capacity (million tonnes)
Ore	Caofeidian Shiye Port Company	2	25	735	30	8
Bulk	Caofeidian Shiye Port Company	2	15.5	525	3.5	1.4
Ore	Caofeidian Shiye Port Company	2	25	766.8	32	10.29

Construction-in-Progress

We have five coal berths under construction in Caofeidian Port, owned and operated by Caofeidian Coal, our 51%-owned subsidiary. These include two 100,000-tonne, two 70,000-tonne and one 50,000-tonne berths as set out in further details in the table below.

The tables below set forth in further details the relevant information on our berths that are under construction in Caofeidian Port:

Berth Type	Operating / Investment Entity	Number of Berths	Depth Alongside (meters)	Berth Length (meters)	Designed Throughput Capacity (million tonnes/year)	Stacking Capacity (million tonnes)	Estimated Total Capital Expenditure (billion RMB)	Expected Completion Date
Coal	Caofeidian Coal	5	15.5	1,435	50	3.74	5.16	2014

Estimated Total Capital Expenditure	For the Year Ended December 31,			For the Six Months Ended June 30, 2013	The amount incurred up to the Latest Practicable Date	Estimated Capital Expenditure from the Latest Practicable Date to December 31, 2013	Estimated Capital Expenditure in 2014	Estimated Capital Expenditure in 2015	Source of funding	Use of Funding
	2010	2011	2012							
5,159	937.28	1,011.30	861.37	125.82	3,020	183	1,600	356	bank loans and cash generated from operating activities	construction of Caofeidian Port coal berths, related equipment and intangible assets

Huanghua Port

We are currently one of the few sizeable port operators in Huanghua Port. Gangzhou Bohai, our 95.93%-owned subsidiary, has invested in the development of, and is operating our current terminals in Huanghua Port, which is expected to be developed into one of the largest integrated port zones in the Bohai Rim. We have obtained approval for test operations for eight berths in Huanghua Port, which commenced the construction in 2009. In addition, we are planning to construct two ore berths in Huanghua Port, through another subsidiary, Gangzhou Mineral. We have obtained the approval for

BUSINESS

investment regarding this project from NDRC and begun the preparation work. These berths are expected to be completed in 2014.

Geographic Location

Huanghua Port is located at the intersection of south Hebei Province and northeast Shandong Province. The port is on the coast of the Bohai Sea, at a distance of 90 kilometers from Cangzhou, 45 kilometers from Huanghua and 60 nautical miles from Tianjin. With its strategic location, the hinterland of the port mainly covers central and south Hebei Province, north Shandong Province and north Henan Province. According to Drewry, Huanghua Port is the preferred port of call for seaborne trade in such regions and one of the most convenient and lowest-cost sea access points in central and south Hebei Province.

Huanghua Port enjoys a developed transportation network that provides convenient access to its hinterland. The Hanhuang Line, which is expected to be completed and commence operation in 2014, will directly link the port to the main steel manufacturing bases in Handan and Xingtai in Hebei Province, as well as to the north-south running Jingguang Line (which links Beijing and Guangdong Province) and the west-east running Hanji Line (which links Handan and Ji'nan in Shandong Province), and is expected to derive iron ore and coal cargo supply from such regions. Moreover, the Shuohuang Line, another major energy transportation railway line in China, links the coal mining bases in Shanxi Province and Shaanxi Province with Huanghua Port. In addition, the Bohai New District, where Huanghua Port is located, is planning to establish a highway transportation network with three north-south running and two east-west running highways covering many regions in the port's hinterland and service areas.

Natural Conditions

According to Huanghua Port's approved master plan, when fully developed, Huanghua Port is expected to cover a land area of 141 square kilometers and to have shorelines up to 37.1 kilometers long.

Berths and Storage Facilities

Cangzhou Bohai, our 95.93%-owned subsidiary, currently operates eight berths in Huanghua Port, including two general bulk berths, two bulk berths and four multipurpose berths, with total designed annual throughput capacity of 18 million tonnes and designed stacking capacity of 0.49 million tonnes and 24,000 TEUs for containers.

The table below sets forth in greater details the information on our berths and storage capacity in Huanghua Port.

<u>Cargo Type</u>	<u>Operating Entity</u>	<u>Number of Berths</u>	<u>Depth Alongside (meters)</u>	<u>Quay Length (meters)</u>	<u>Designed Throughput Capacity (million tonnes/year)</u>	<u>Stacking Capacity (million tonnes, except for containers)</u>
Bulk	Cangzhou Bohai	2	15.3	508.5	5	0.14
General Bulk	Cangzhou Bohai	2	15.3	508.5	3	0.08
Multi-Purpose	Cangzhou Bohai	4	13.6-15.3	1,057	10	Other general cargo: 0.27; Containers: 24,000 TEUs

BUSINESS

Planned Construction

Cangzhou Mineral, our 96.76%-owned subsidiary plans to develop two 200,000 tonne-level ore berths in Huanghua Port with further details as set out in the tables below. Part of the net proceeds from the Global Offering will be used for the development of the ore berths. See also “Future Plans and Use of Proceeds.”

Berth Type	Operating/ Investment Entity	Number of Berths	Depth Alongside (meters)	Berth Length (meters)	Designed Throughput Capacity (million tonnes/ year)	Stacking Capacity (million tonnes)	Estimated Total Capital Expenditure (billion RMB)	Expected Completion Date
Ore	Cangzhou Mineral	2	20	735.78	30	4.94	5.25	2014

Estimated Total Capital Expenditure	For the Year Ended December 31,			For the Six Months Ended June 30,	The amount incurred up to the Latest Practicable Date	Estimated Capital Expenditure from the Latest Practicable Date to December 31, 2013	Estimated Capital Expenditure in 2014	Estimated Capital Expenditure in 2015	Source of funding	Use of Funding
	2010	2011	2012	2013						
5,246	—	—	185.51	742.45	1,041	800	3,003	402	net proceeds received by us from the Global Offering and bank loans	construction of Huanghua Port ore berths, related equipment and intangible assets

CUSTOMERS, SALES AND MARKETING

Our Customers

We enjoy a strong customer base comprising some of China’s major coal, power and steel companies with whom we have long-term relationships. Our main customers are coal and power companies such as Shenhua Group, China Coal Group, Datong Mine, Yitai Group, China Guodian Corporation, Zheneng Fuxing, and Datang Group. Qinhuangdao Port is the major hub connecting the country’s coal production centers in north and west China through the Daqin Line and is the main loading port of the Daqin Line, enjoys favorable geographical and natural conditions and high intermodal accessibility to its hinterland. We have therefore enjoyed many advantages in attracting and retaining major customers.

In addition to fully leveraging our advantages above, we have also taken the following measures to attract and retain customers:

- We have entered into long-term dedicated terminal facilities operation contracts with terms ranging from five to nine years with our major customers, such as China Coal Energy Company Limited, China Shenhua Energy Company Limited, Zheneng Fuxing and China Electric Power Fuel Co., Ltd. Under such contracts, we commit to provide each such customer with dedicated berth and stacking yard space in return for its agreement to supply us a certain minimum volume of cargo per year. Such arrangements allow us to lock in cargo supply from major customers, promote seamless intermodal transits of cargo, and increase cargo turnover and operational efficiency. Under such arrangement, our customers make prepayments of port fees, which include lump sum fees for cargo handling fees, including stevedoring, stacking and warehousing fees, estimated based on the minimum cargo volume as set forth in the applicable agreement.

BUSINESS

- We maintain effective communications with our customers and work closely with them to timely resolve any issues encountered in our operations to achieve our customers' and our mutual satisfaction and benefit.
- We work closely with the relevant offices on the Daqin Line, maritime bureaus and maritime pilot departments to improve communications and information exchange and proactively manage and promote the inflow of cargo for major customers. This also promotes seamless intermodal transits and efficiency in traffic control by scientifically managing ship berthing and departure. We establish an information communication system with customs, inspection and quarantine and boarder inspection bureaus to promote efficiency in ship berthing and customs clearance.
- We also work to improve the satisfaction of our customers by further promoting the efficiency and quality of our services.

One of our business strategies is to expand our customer base and strengthen cooperation with other partners. See “— Business Strategies — Continue to strengthen relationships with our customers and partners to achieve mutual development.”

For the year ended December 31, 2010, 2011 and 2012, our five largest customers, which were China Coal Energy Company Limited, China Shenhua Energy Company Limited, Zheneng Fuxing, China Electric Power Fuel Co., Ltd. and Huaneng International Power Fuel Company Limited, accounted for 54.22%, 49.99% and 47.07%, respectively, of our total revenue for the respective years, and for the six months ended June 30, 2013, our five largest customers, which were China Shenhua Energy Company Limited, China Coal Energy Company Limited, Zheneng Fuxing, Huaneng International Power Fuel Company Limited and Datong Mine, accounted for 44.47% of our total revenue during the six months period. We have maintained a long-term business relationship with our five largest customers during the entire Track Record Period.

In connection with our annual review of long-term contracts with major customers, on November 18, 2013, we entered into an agreement with Huaneng International Power Fuel Company Limited, or Huaneng International, to terminate our dedicated terminal facilities operation contract with Huaneng International expiring December 31, 2017. Instead, we entered into three-month dedicated terminal facilities operation contracts with China Coal Energy Company Limited and Inner Mongolia Yitai Coal Co., Ltd., respectively, which are upstream coal suppliers of Huaneng International, on October 1, 2013. Our revenue derived from Huaneng International accounted for approximately 6.56%, 6.38%, 6.33% and 4.72% of our total revenue for each of the years ended December 31, 2010, 2011 and 2012 and the six months ended June 30, 2013, respectively. Our contract with Huaneng International provided for a minimum annual throughput volume of 16 million tonnes for 2013. At termination, approximately 3.9 million tonnes of such guaranteed minimum throughput had yet to be supplied and each of our contracts with China Coal Energy Company Limited and Inner Mongolia Yitai Coal Co., Ltd. provides for a minimum throughput volume of 1.9 million tonnes for the three months ending December 31, 2013, which collectively replaced substantially all of the minimum throughput volume guaranteed by the terminated contract with Huaneng International under the same terms for the remainder of 2013. As of the date of this prospectus, we had no outstanding amount to be settled with Huaneng International. Ordinarily, our decision on whether to enter into such contracts with the upstream suppliers or with the downstream consumers of cargo depends on a number of factors such as supply volume, efficiency, reliability, creditworthiness and business relationships. In this case, we believe it would further increase our throughput volume and enhance our service efficiency by contracting directly with the upstream coal suppliers, which are expected to provide us with more abundant and stable supplies of cargo in the long run. Moreover, China Coal Energy Company Limited and Inner Mongolia Yitai Coal Co., Ltd. are two of our existing major customers. Additionally, we are in active conversations with customers, including China Coal Energy Company Limited and Inner Mongolia Yitai Coal Co., Ltd., on entering into additional long-term contracts and have received indicative interests from certain customer. Therefore, although our terminated contract with Huaneng International had a remaining term of

BUSINESS

approximately four years and the abovementioned contracts with China Coal Energy Company Limited and Inner Mongolia Yitai Coal Co., Ltd. have terms of three months, we do not expect this change of contractual arrangement to have any material impact on our operations or financial conditions, and we continue to maintain our long-term relationship with Huaneng International.

The following table sets forth certain details of our five largest customers during each of the three years ended December 31, 2012:

<u>The five largest customers during the Track Record Period</u>	<u>Contract Terms</u>	<u>Expiry Date</u>
Customer 1	We shall provide the customer with dedicated stacking yard space for its agreement to supply us a certain minimum volume of cargo per year. To the extent the yearly volume of cargo from a customer exceeds certain higher threshold, we also offer rebates to such customer based on certain schedule. If the volume of cargo from a customer is below the agreed minimum volume of cargo per year, we will still charge the customer based on the agreed minimum volume.	May 31, 2016
Customer 2		April 30, 2015
Customer 3		December 31, 2016
Customer 4		December 31, 2016
Customer 5		September 30, 2013

None of our Directors, Supervisors, their respective associates or any of our Shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers during the entire Track Record Period.

For the year ended December 31, 2010, our single largest customer was China Coal Energy Company Limited, accounting for 16.78% of our total revenue for the year. For the year ended December 31, 2011 and 2012 and the six months ended June 30, 2013, our single largest customer was China Shenhua Energy Company Limited, accounting for 13.93%, 13.35% and 14.94%, respectively of our total revenue for the respective periods.

Marketing

We have established an effective marketing system with a focus on continual service improvement, retention of existing customers and development of new relationships.

Our marketing effort for our coal business is under the direct management of operation department, which we do not outsource to any sales agents or distributors. This serves to control our marketing costs and enhance our marketing efficiency. In addition, we have established offices in Taiyuan, Shanxi Province and Hohhot in Inner Mongolia to better serve our customers in the hinterlands and coordinate cargo flows. Our marketing model for the non-coal businesses involves our subsidiaries and branch companies leading the marketing efforts, which are centrally coordinated by the operation department at the headquarters. We have established stable and long-term relationships with customers through establishing a far-reaching and stable marketing network and actively developing new business opportunities in our hinterlands.

We also host or join industry seminars and business conferences in order to foster closer relations and strengthen our business ties with existing and potential customers. We believe that our proactive and interactive approach in marketing our services is particularly effective, and we plan to continue to use these means to promote our services to existing and potential customers.

Fees and Charges

The fees that we charge for our port operations include lump sum fees for cargo handling, stevedoring service fees, stacking and warehousing fees, harbor dues, port facilities security fees, tugging service fees, mooring and unmooring fees and berthing fees. The lump sum fees are the most important source of our revenue.

BUSINESS

Pursuant to the policies, rules and regulations promulgated by the relevant regulatory authorities in China, fees and charges for port operations fall under three categories, including fees, and charges set (1) by the government, (2) pursuant to government guidelines, and (3) based on market rates.

With respect to fees and charges set, or pursuant to guidelines issued, by the government, we mainly follow the Port Charge Rules (Foreign Trade) of the Ministry of Transport of the People's Republic of China (《中華人民共和國交通部港口收費規則(外貿部分)》), the Port Charge Rules of the People's Republic of China (Domestic Trade) (《中華人民共和國港口收費規則(內貿部分)》) and the Measures for the Collection of Port Fees on Containers Carried by Inland Maritime Transport (《國內水路集裝箱港口收費辦法》). With respect to fees and charges based on market rates, we set them with reference to a matrix of factors including cargo types, whether cargoes are for import or export, operational methods, stacking period, industry benchmarks, among other things. With respect to stacking and warehousing fees, we have adopted a tiered pricing model based on the length of the storage period. Under this model, the longer the storage period is, the higher the fee rate.

We enjoy pricing power in coal and generally require advance payments for our coal handling services. Such payments are recorded as advances from customers and recognized as revenue upon completion of the services. In addition, we also ask customers to prepay ore handling service fees in most of our ore handling businesses. The advance payment model reduces our accounts receivable and thereby improves our liquidity, turnover and operating cash flow management, which in turn benefits our results of operations. With respect to the other types of cargo, we collect payments upon completion of services. Such income is recorded as accounts receivable and recognized upon completion of the services. The different settlement methods do not affect the recognition or calculation of our revenue or costs and therefore are not expected to have any material effect on our profits.

PROCUREMENT OF EQUIPMENT, MATERIALS AND SERVICES

Equipment and Materials

We employ different equipment for different types of cargo handling, which may be categorized based on their functions into those handling coal and those handling other types of cargoes. The materials and consumables we use in our business operations mainly include fuel oil, conveyor belts and equipment parts.

Our primary coal handling equipment include dumpers, conveyor belts, stackers, reclaimers, stacker-reclaimers and shiploaders. Other ancillary equipment employed in our coal handling include tractors and tugboats. We own advanced coal stevedoring system with unloading capability and efficiency that meets international standards. Our primary non-coal cargo handling equipment include container cranes, gantry cranes, bridge cranes, ship unloaders and high tower cranes. Other ancillary equipment for our non-coal cargo handling include forklift trucks, loading and unloading machines and transtainers.

We have implemented a series of rules, procedures and guidelines for the operation, management and maintenance of our equipment. Our equipment engineering department is responsible for setting plans for and conducting annual maintenance on our equipment. It carries out monthly inspections to assess their conditions. In addition, our operational staff is responsible for undertaking regular and as-needed inspections during the ordinary course of operations, reporting any issues discovered to the equipment engineering department, which shall order repairs and services where necessary.

We generally order principal equipment for our services three to twelve months in advance of the expected delivery time and make payments in installments according to the progress of the projects. Our suppliers normally bear all losses arising from any delay in delivery and are responsible for quality

BUSINESS

defects of the equipment they supply. In addition, our equipment purchase contracts typically provide a 12-month warranty for equipment.

During the Track Record Period, we have not experienced any interruption in our operations due to a shortage of equipment or materials or any significant fluctuations in their prices.

The following table sets forth the average age of the Group's material port terminal facilities and machinery (which have useful life of 20-35 years) as of the Latest Practicable Date:

<u>Facility and Machinery</u>	<u>Average Age (years)</u>
Gantry crane	16
Container Crane	6
Conveyor belts	20
Tug boat	19
Reclaimer	16
Dumper	9
Shiploader	17
Stacker	16
High tower crane	10
Stacker-reclaimer	16
Ship unloader	16
Tractor	18
Forklift truck	11
Loading and unloading machine	10

In addition, the Company plans to procure tug boats, and revamp truck unloader sampling equipment with a total estimated expenditure of approximately RMB68.91 million in 2014, which is expected to be funded with cash from our operating activities and bank borrowings.

Services

We procure construction, survey design and supervision services primarily from major transportation construction, engineering survey and design companies. Among such service providers, Qinhuangdao Fangyuan Port Project Survey Co., Ltd. (秦皇島方圓港灣工程監理公司) is a subsidiary of our Controlling Shareholder.

Under the General Services Agreement, we procure a wide range of services from HPG and/or its subsidiaries, which include social services, office and logistics services and production related services, and the Group will provide general port services, port electricity management services, transportation services, software services, labor services, leasing services, resources supply services and other relevant or similar services to HPG and its subsidiaries. For details, please refer to the section headed "Connected Transactions".

For the year ended December 31, 2010, 2011 and 2012 and six months ended June 30, 2013, our purchases made from the five largest suppliers of goods or services for our daily operations (namely our non-capital goods suppliers) accounted for 11.54%, 12.82%, 12.59% and 11.08% of our total cost of sales, respectively; our purchases made from the largest supplier of non-capital goods accounted for 6.74%, 6.94%, 6.38% and 6.29% of our total cost of sales, respectively; our purchases made from the five largest equipment and construction service suppliers (namely our capital goods suppliers) amounted to RMB3,413,363,455, RMB1,376,178,750, RMB2,609,083,114 and RMB980,594,769, respectively; and our purchases made from the largest supplier of capital goods amounted to RMB2,823,375,419, RMB514,279,281, RMB1,204,836,521 and RMB570,660,849, respectively.

BUSINESS

None of our Directors, Supervisors, their respective associates or any of our Shareholders holding more than 5% of our issued share capital had any interest in any of our five largest suppliers of capital and non-capital goods during the entire Track Record Period.

COMPETITION

As inland transportation costs represent a significant portion of the total transportation costs of dry bulk cargoes, the main type of cargo handled by us, customers are highly sensitive to such costs and tend to transit their cargo at the port that is closest in distance to the originating place or destination of the cargo. Therefore, competition for our business tends to mainly arise from the other port operators in the Bohai Rim. The other important factors considered by the customers in making choices among ports that are in close proximity to one another include availability of throughput capacity, service quality, efficiency, ability to berth vessels of required sizes and other natural attributes.

Coal

The major ports that compete for coal cargo in the Bohai Rim are all connected to railway lines that link those ports to the coal resources in Inner Mongolia, Shanxi Province and Shaanxi Province. Major coal ports in the Bohai Rim include Qinhuangdao Port, which is connected to the Daqin Line; Tangshan Port (including Caofeidian Port and Jingtang Port), which is connected to the Qiancao Line, a branch line of the Daqin Line, and will be connected to the Mengji Line, which will soon commence operation; Huanghua Port, which is connected to the Shuohuang Line; and Tianjin Port, which is connected by a branch line of the Shuohuang Line.

Qinhuangdao Port, which we operate, is the world's largest coal port by throughput in 2012, according to Drewry. We are also constructing five coal berths in Caofeidian Port. Our main competitors for coal cargo are operators of coal terminals in Huanghua Port, Tangshan Port and Tianjin Port. We believe that our position as the market leader in coal handling services is not easily challenged given our distinct competitive advantage in scale.

Metal Ores

The main type of metal ore we handle is iron ore. We offer iron ore loading and unloading services through general cargo berths in Qinhuangdao Port, bulk cargo, general bulk and multi-purpose berths in Huanghua Port and ore berths in Caofeidian Port operated by our associate company, Caofeidian Shiye Port Company. We also plan to construct two 200,000-tonne ore berths in Huanghua Port.

Even though there are a number of ore terminals in the Bohai Rim, our main competitors are the neighboring ore terminals operators due to the fact that inland transportation distance and costs are key factors considered by steel producers in choosing the port for transiting imported ore cargo. The main competitors for our ore operations in Qinhuangdao Port and Caofeidian Port are operators of Tianjin Port and Jingtang Port and other operators in Caofeidian Port. The main competitors for our ore operations in Huanghua Port are operators of Qingdao Port, Rizhao Port and Tianjin Port. Caofeidian Shiye Port Company is the largest operator of iron ore terminals in Caofeidian Port by throughput in 2012, according to Drewry. We believe that once our ore berths in Huanghua Port are completed and commence operations, we will be able to further attract ore cargo flow from Cangzhou and central and south Hebei Province and obtain a leading position in the ore service in the Bohai Rim.

Oil and Liquefied Chemicals

The major oil and liquefied chemicals ports in the Bohai Rim are Dalian Port, Qingdao Port and Tianjin Port. We operate the oil and liquefied chemical terminals in Qinhuangdao Port. Our crude oil

BUSINESS

pipelines are directly connected to the pipelines of Daqing Oilfield, the largest oilfield in China and our major customer for oil and liquefied chemical. As oil and liquefied chemicals are transported via pipelines, the opportunity costs for customers to switch to another port are relatively high, and the customer base in this field tends to be relatively stable. We enjoy long and stable relationships with our customers for oil and liquefied chemicals. We plan to further develop integrated port facilities for handling oil and liquefied cargoes and promote our competitiveness in liquid bulk cargo.

Container

The major container ports in the Bohai Rim include Qingdao Port, Tianjin Port, Dalian Port and Yingkou Port. Although containers currently account for a relatively small portion of our cargo handling services, we plan to rapidly grow our container business and to grow our Group into a major container port operator in the Bohai Rim.

For further details about the competition we face, please see also “Industry Overview — Development of China’s Port Throughput by Cargo Type” and “Industry Overview — Barriers to Entry.” For risks relating to the competition we face, please refer to “Risk Factors — Competition from nearby ports and other port operators may have an adverse impact on our business and operations”.

Caofeidian Port

According to Drewry, major port operators in Caofeidian Port currently include our associate company Caofeidian Shiye Port Company, SDIC Caofeidian Port Company and Tangshan Caofeidian Ore Terminal Company Limited (唐山曹妃甸礦石碼頭有限公司). We operate six berths through our associate company Caofeidian Shiye Port Company, which represents 33.3% of the total number of berths operated by the abovementioned three major port operators in Caofeidian Port. We are also constructing five coal berths in Caofeidian Port.

Our associate company Caofeidian Shiye Port Company is the largest operator of iron ore berths in Caofeidian Port according to Drewry. We believe our position in iron ore cargo handling services in Caofeidian Port is not easily challenged given our competitive advantage in scale, as well as our long-term partnership with local iron ore customers. Our planned coal berths in Caofeidian Port will leverage our operational experience in Qinhuangdao Port as well as strong relationships with existing coal customers, railway, maritime bureaus and maritime pilot departments, which we believe will enable us to compete effectively with existing and future coal terminal operators in Caofeidian Port.

Our operations in Caofeidian Port are not expected to adversely impact our operations in Qinhuangdao Port as Qinhuangdao Port has a considerable cost advantage for coal transported along the Daqin Line. Furthermore, we believe the completion of the Mengji Line will have a limited impact on our operations in Qinhuangdao Port as the Mengji Line primarily services coal cargoes from Inner Mongolia while the Daqin Line primarily services coal cargoes from Shanxi Province.

Huanghua Port

According to Drewry, major port operators in Huanghua Port include Cangzhou Bohai and China Shenhua Energy Company Limited. We currently operate eight berths in Huanghua Port, which represents 40.0% of the total number of operational berths in Huanghua Port. We also plan to develop two ore berths in Huanghua Port.

We are an independent port operator in Huanghua Port that mainly handles ore, container and other bulk cargoes while China Shenhua Energy Company Limited is a dedicated port operator in Huanghua Port that mainly handles coal cargoes. Therefore, we do not believe that we are in direct competition with China Shenhua Energy Company Limited.

The hinterland of Huanghua Port includes central-south of Hebei Province, north Shandong Province and north Henan Province, which does not overlap with the hinterland of Qinhuangdao Port

BUSINESS

and hence is not expected to directly compete with Qinhuangdao Port. Furthermore, the completion of the Hanhuang Line is expected to link ore, coal and other cargoes from cities such as Cangzhou, Handan and Xingtai and is not expected to directly compete with Qinhuangdao Port.

TECHNOLOGY, RESEARCH AND DEVELOPMENT

We focus on pioneering best industry practices and developing and adopting new and advanced techniques. We have a Technology Center, which is responsible for promoting technological innovation, which focus primarily on the research and development of port technologies, port service and management models, operational processes and information technology. In addition, the Technology Center is responsible for pre-research, technical assessment and post-research evaluation on important technology projects associated with port technologies, organizing our Group's information technology development plans, planning annual reviews of our information technology projects, developing software for our operational systems, reviewing information systems in the Company's information integration projects and participating in the system design of port operation management, supply chain management and customer relationship management. Moreover, we assist our operational units to renovate the existing equipment and system, and are responsible for the application for and management of patent or software copyright.

We intend to focus our R&D efforts on our major business operations, increase our R&D investment and improve cooperation with research institutions to further expand our operational and management capabilities. In particular, we plan to focus on information platform for integrated port management, industry standards for coal transportation, coal supply chain management, integrated information platform for logistics and trading of coal, coal dust treatment in ports, energy saving and pollution control, online equipment surveillance system, and intelligent stacking yard management systems. Specifically, we are currently in the process of developing more than 20 new R&D projects relating to port services and logistical management.

We have received a large number of R&D awards from government authorities. As of the Latest Practicable Date, we received 14 Second Prizes and 15 Third Prizes in Scientific Technology Awards from the China Port Association, one First Prize, eight Second Prizes and 15 Third Prizes in Scientific Technology Advancement Awards from the Qinhuangdao City Government, and one award for Excellent Inventions and one Second Prize in Scientific Technology Advancement Award from the provincial government of Hebei Province.

However, we did not undertake any material research and development projects during the Track Record Period and we do not plan to do so up to the Latest Practicable Date. According to Drewry, port operators generally do not undertake large scale research and development projects. Our research and development expenditure has historically been used on piecemeal improvements of various segments of our operations, such as improvements in the application of IT systems, optimization of operational workflows, as well as upgrading of facilities and equipments, which cumulatively result in operational efficiency enhancements. Rather than engaging in large scale research and development projects, we achieved technological advances by constantly monitoring and improving critical segments of our daily operations. The Directors believe this practice is in line with the general practice of the port industry.

INTELLECTUAL PROPERTY

Through our R&D initiatives and in the ordinary course of business, we have obtained various intellectual property rights which are valuable to our business. We protect our intellectual property through registering patents and copyrights.

BUSINESS

Patents

As of the Latest Practicable Date, we are holding 24 patents in the PRC, comprising three invention patents and 21 utility patents.

Trademarks

On December 25, 2008, we entered into an agreement with HPG, which granted us the license to use as our company logo the trademark with the registration No. 755062, free of charge, for an initial term of ten years from March 31, 2008, which can be renewed for an indefinite number of times and in each time for ten years at expiry with a one-month prior written notice from the Company to HPG, subject to applicable PRC regulations and compliance requirements. In addition, HPG provided a Hong Kong trademark undertaking on July 11, 2013, which authorized us to use a trademark being registered by HPG in Hong Kong for nil consideration, and incorporated such trademark in the above trademark license agreement upon its successful registration.

Copyrights

As of the Latest Practicable Date, we hold 27 computer software copyrights. We have obtained the relevant computer software copyrights registration certificates for all these copyrights.

We have developed multiple systems that provide detailed guidelines for intellectual property management and protection. In addition, we maintain full ownership rights to any intellectual property relating to our business that is developed by our information technology team. We have also implemented a security system to prevent unauthorized access to our information networks. We generally seek intellectual property protection against third-party misappropriation for any new inventions we develop, including product improvements or technologies, though there can be no assurance that these protections will be effective. We may also be subject to third party claims for infringement of intellectual property rights of others.

SAFETY CONTROL

We place significant emphasis on safety control to minimize the amount and impact of any safety incidents and other accidents in connection with port services that could result in injuries or fatalities, including those caused by mechanical failures, exposure to toxic materials, typhoons, tsunamis and other similar events.

We have adopted a well-established supervisory and management system for safety control through examinations and inspections of daily operations, which combine effective incentive and punitive measures with safety control reporting mechanisms.

We have established a safety production committee, which is in charge of the overall safety supervision and management at our Group level. Our safety production committee is comprised of eight members, which include: Mr. XING Luzhen, Chairman of the Board, Executive Director and the party secretary of our Company, Mr. HE Shanqi, Executive Director, General Manager and deputy party secretary of our Company, Mr. GE Ying, Chairman of the Supervisory Committee, labor union chairman and member of the Party Committee, Mr. TIAN Yunshan, Deputy Party Secretary and secretary of the Discipline Inspection Commission, Mr. WANG Lubiao, Executive Director and Deputy General Manager and member of the Party Committee, Mr. HE Zhenya, Deputy General Manager and member of the Party Committee, Mr. MA Xiping, Executive Director, Deputy General Manager, Secretary to the Board and member of the Party Committee, and Mr. GUO Xikun, Chief Financial Officer and member of the Party Committee. Mr. TIAN has more than 30 years of experience with our Group and more than 20 years of experience in the management function. See also “Directors, Supervisors, Senior Management and Employees” for descriptions of the other committee members’ work experience and qualifications. We also have a Safety Supervision Department (安全監督部) in

BUSINESS

charge of supervising, monitoring and documenting safety controls in our daily operations at our Group level. In addition, in our daily operations, our major operational units implement security control by setting up safety production committees below such units or employing full-time safety production supervision officers.

We have formulated and implemented over 30 manuals and internal policies with regard to safety control procedures and standards. Each of our major operating subsidiaries and branches has their respective safety control management systems. In particular, we have formulated and implemented safety measures on handling cargoes containing dangerous or hazardous materials, including classification of dangerous or hazardous materials, handling procedures, accident investigation procedures, protective and remedial measures, accident reporting procedures, and punitive and rectification measures.

As of June 30, 2013, we had over 200 employees responsible for safety control across different operations in our business. We provide occupational safety trainings to all of our employees on a regularly basis. In particular, we have compulsory trainings for employees who handle dangerous materials or special operation, and each of these employees must pass examinations at three levels of training and daily operational safety training before they are qualified to work on these positions.

During the Track Record Period and up to the Latest Practicable Date, we recorded ten accidents, of which eight were non-fatal accidents involving our employees and two were fatal accidents involving our contracted labor staff. For the years ended December 31, 2010, 2011 and 2012, and the six months ending June 30, 2013, we recorded two, four, four and zero accidents respectively. The eight non-fatal accidents involved nine employees and were all covered by employee injury insurance. The following table sets forth the underlying causes and the remedial and mitigating measures which were based on our review of each accident and a consideration of the possible relevant factors for foresaid accidents:

<u>Date of Accident</u>	<u>Description and Cause of Accident</u>	<u>Remedial/Mitigating Measures</u>
April 13, 2010	One employee sustained eye injuries from the electrical malfunctioning of a low-voltage cabinet.	Measures were implemented on June 21, 2010, including additional safety training and exams as well as in-depth inspection of the electrical equipment in question.
October 18, 2010	One employee slipped and fell from a railroad car.	Measures were implemented on November 24, 2010, including additional safety trainings and increased supervision and monitoring procedures.
January 20, 2011	One employee suffered facial burns due to an electrical short circuit.	Measures were implemented on February 14, 2011, including additional safety control procedures and standards, introduction of additional site safety inspection systems and increased frequency of security checks.
January 27, 2011	A roller fell during the repair of a belt conveyor machine, breaking the wind shield of a passing truck and injuring the truck driver.	Measures were implemented on July 26, 2011, including improved pre-work safety analysis, additional precautionary procedures and stricter implementation of equipment maintenance and repair work safety policies.

BUSINESS

<u>Date of Accident</u>	<u>Description and Cause of Accident</u>	<u>Remedial/Mitigating Measures</u>
February 10, 2011	One employee was injured when he lost control of the vehicle he was driving, which slipped into a roadside ditch.	Measures were implemented on March 10, 2011, including additional traffic safety education to drivers and stricter compliance to car dispatch approval policies.
May 31, 2011	One employee's hand was caught in a moving conveyor belt.	Measures were implemented on June 20, 2011, including additional safety education and training, increased worker specialization for equipment maintenance and better coordination and management of workers.
June 13, 2012	Two employees conducting repair works fell from a ladder.	Measures were implemented on July 24, 2012, including additional safety training and exams as well as stricter equipment operating license requirements for employees.
August 22, 2012	One death was resulted from an accident due to the improper operation by an employee of our associate company, Honggang Services, of which we hold 35% equity interest. The primary cause of the accident was failure to follow operational procedures by the employee of Honggang Services.	Measures were implemented on December 24, 2012, including an overall inspection on all equipments and facilities, improved maintenance of facilities and strict allocation of responsibility to applicable departments or individuals, and strengthening contractors' coordination and safety control responsibilities.
September 12, 2012	One employee fell on the platform of a reclaimer.	Measures were implemented on November 5, 2012, including enhanced operational procedures, improved safety standards and regulations, and increased frequency of security monitoring and checks.
December 1, 2012	An employee of a third party service provider to one of our subsidiaries, Xin'gangwan Container Co., was killed in the process of ship loading and unloading operations. Xin'gangwan Container Co. was determined to bear secondary or indirect responsibilities.	Measures were implemented on January 30, 2013, including a review of the cause of the accident, reinforced safety education, enhanced the safety management on the field, and strictly implemented the responsibilities of all applicable departments.

BUSINESS

The improper operations by an employee of Honggang Service, an associate company, resulted in one death. An employee of a third party supplier of our subsidiary, Xin'gangwan Container Company, died in the process of ship loading and unloading. As of the Latest Practicable Date, no material claim has been brought against us as a result of these accidents. Additionally, we experienced no material interruption to our operations as a result of these accidents, nor have these accidents, individually or in the aggregate, had any impact on our business relationships with customers or on our expansion plans, nor have they had a material effect on our financial condition and results of operations. See also “Risk Factors — Certain types of cargo we handle in our facilities could expose us to safety and operating risks that could adversely affect our business operations and financial positions.” We carefully investigate any accidents that have occurred and are continually enhancing our safety controls based on these investigations.

We took every accident seriously and have implemented enhanced safety measures in addition to our regular safety procedures to prevent repeated occurrences. To address the potential risks we identified from a review of the accidents during the Track Record Period and to prevent future accidents, we conducted intensive training sessions for our employees following each accident to analyze the cause of the accident and discuss preventive measures, as well as inspected our machinery for security risks after each accident. We also improved our safety control management functions by reinforcing the responsibilities contained in the safety manuals and internal policies for supervisors at all operational levels such that each field worker and task is closely monitored, and held individual supervisors responsible for future accidents. We also reinforced equipment operating license requirements for employees under our safety standards through technical and safety examinations for our licensed technicians.

We believe that our business operations are in compliance with applicable PRC laws, regulations and rules with respect to safety control in all material aspects. During the Track Record Period, and save as disclosed in this prospectus up to the Latest Practicable Date, we do not have any penalties associated with any material violation of the existing safety control laws or regulations in the PRC.

QUALITY CONTROL

We believe that high quality services are crucial to gaining trust from existing customers and attracting potential customers. Therefore, we have established departments for quality management and carried out step-by-step quality control with respect to our operations. In order to ensure the smooth operation of quality management, we performed various control measures, such as daily supervision, investigation and evaluation, and reward and punishment systems. We also formulated comprehensive regulations in respect of quality control, mainly including “Ten Commitments of Services Quality” (《服務質量十項承諾》), “Administrative Measures on Complaint of Quality Hotline to General Manager” (《總裁質量投訴電話管理辦法》), “Production Scheduling Procedures” (《生產調度規程》), “Administrative Measures on Bulk Business” (《雜貨業務管理辦法》) and “Regulations of Management of Quality of Coal of Qinhuangdao Port” (《秦皇島港煤炭質量管理規定》).

Benefiting from the stringent quality control of the Company, certain branches of the Company have obtained ISO 9001 Quality Management System Certificates. We are of the opinion that our quality management is in compliance with the relevant laws, regulations and rules of the PRC in all material aspects. During the Track Record Period and up to the Latest Practicable Date, we do not have any material penalties associated with material violation of any existing quality control law or regulation.

ENVIRONMENTAL PROTECTION

We are subject to PRC national and local environmental laws and regulations relating to environmental protection, prevention and control of pollution, and incident reporting. We regard environmental protection as an important corporate responsibility and place great emphasis on environmental protection measures and policies in our daily operations. We have a well-established

BUSINESS

management system with regard to environmental protection, prevention and control of pollution, and incident reporting.

We have compiled over eight operational manuals and internal policies with regard to environmental protection, including protective, preventive and corrective measures on oil pollution, coal dust pollution, radiation pollution and other types of pollution associated with our daily operations.

We own a wide variety of equipment for environmental protection use, which include dust prevention, dust control and dedusting systems with regard to coal dusts, mineral dusts and grain dusts, polluted water handling systems, and humidifying systems and machines which are employed in our daily operations.

To this end, we have established and maintained a special fund for pollution control, construction of environment protection infrastructure and the continual improvement of work environment. In particular, during the Track Record Period, we have implemented certain major environmental protection measures, including installing windproof nets in our coal stacking yard and water sprinkler systems in our ore and coal stacking yard to control coal and ore dust. The total costs we incurred for environmental protection matters in the years ended December 31, 2010, 2011 and 2012, and the six months ended June 30, 2013, were approximately RMB13.99 million, RMB41.79 million, RMB52.55 million and RMB17.51 million, respectively. Moreover, our environmental protection plan for 2013 mainly entails installation of windproof nets in our coal stack yards in both Qinhuangdao Port and Caofeidian Port, revamp of the dusted water recycling and collecting systems, and the sprinkler truck, slag exhausting truck and cleaning truck in Huanghua Port. We plan to increase our environmental protection expenditure to approximately RMB158 million in 2013, which will be funded with cash generated from our operating activities and special grants for environmental protection provided by the Qinhuangdao City government. If we would like to apply for the special grants from Qinhuangdao City government for certain projects, according to the applicable regulations and requirements, the following main conditions and procedures apply to such grants: (1) the project is designed for pollution control (such as dust-proof environmental protection construction) and is included in the capital investment plans of the Company; (2) the implementation plan of the project shall be submitted to the Environmental Protection Bureau of Qinhuangdao City and the preliminary approval regarding selected environmental protection funds shall be received by applicant; (3) all financial documents, accounts and contracts of the proposed project required for approval are complete; (4) after completion, the settlement report of the applicable construction project shall be submitted to Environmental Protection Bureau and shall subsequently pass the assessment conducted by professional agents assigned by the government authority; and (5) the project has further passed the inspection jointly conducted by the Environmental Protection Bureau and Financial Bureau of Qinhuangdao City. For those projects which we have submitted in accordance with the above condition, we believe we have satisfied or shall satisfy all of the conditions and expect to receive special grants from Qinhuangdao Government in the amount of approximately RMB20 million by the end of 2013, subject to the government's final approval.

BUSINESS

The following table sets forth the projects included in the 2013 environmental protection plan:

Intended use	Commence and expected completion timing (year)	Expenditure incurred or to be incurred in 2013						Expenditure to be incurred in for the year ended December 31, 2014 (RMB million)
		Total Expenditure (RMB million)	Expense prior to 2013 (RMB million)	Incurred for the six months ended June 30, 2013 (RMB million)	To be incurred for the six months ending December 31, 2013 (RMB million)	Incurred after the Track Record Period and up to the Latest Practicable Date (RMB million)	2013 Expenditure (RMB million)	
Installation of windproof nets in our coal stack yard in Qinhuangdao Port	2007-2015	378	122	0	40	0.2	40	68
Revamp of our sewage treatment engineering in Qinhuangdao Port	2013-2014	34	n/a	0	1	0	1	25
Revamp of our sewage recycling systems in Qinhuangdao Port ..	2012-2014	32	0.2	0	2	0.01	2	30
Revamp of our water sprinkler systems in coal stack yards for coal dust control in Qinhuangdao Port	2012-2013	26	0.003	0.008	21	4	21	5 ¹
Revamp of the dust control system for our rotary dumpers in Qinhuangdao Port	2013-2014	19	n/a	0	4	0	4	16
Sprinkler truck, dust suppression constructions, the revamp of chlorination equipment, environmental mobile truck and supervision truck for environmental protection in Qinhuangdao Port	2013	6	n/a	0	6	0.7	6	n/a
Subtotal for Qinhuangdao Port		495	122	0.008	74	5	74	144
Environmental impact evaluation projects in Huanghua Port	2012-2014	257	1	0.2	1	0	1	0
Supervision fee during the construction period in Huanghua Port	2013-2014	160	n/a	0	0.8	0	0.8	0.8
The sprinkler truck, slag exhausting truck and cleaning truck in Huanghua Port	2010-2015	50	10	6	7	6	13	14
Pollution discharge fee in Huanghua Port	2011-2015	27	5	3	3	0.4	6	8
Water sprinkler systems in coal stack yards in Huanghua Port ..	2013-2014	25	n/a	0	10	0	10	15
Environmental protection and safety facilities in Huanghua Port	2013-2014	25	n/a	0	6	0	6	19
Compensation to be paid to Huang Bohai District Bureau of Fisheries of the Ministry of Agriculture in relation to the construction in Huanghua Port	2012-2015	11	0	0	3	0	3	3
Sewage handling system, truck washing platform, mist shooting machine, cargo receiving net, windproof net and fine mesh safety vertical net in Huanghua Port	2011-2013	9	1.2	0.5	7	3	8	8 ¹
Sewage handling house in Huanghua Port	2013	5	n/a	0	5	5	5	0
Subtotal for Huanghua Port ..		569	17	10	43	14	53	67.8
Installation of windproof nets in our coal stack yard in Caofeidian Port	2012-2013	52	18	8	23	0	31	3
Subtotal for Caofeidian Port		52	18	8	23	0	31	3
Total		1,116	157	18	140	19	158	214.8

Note: 1. Although the project is expected to be completed in 2013, the settlements will not be completed by 2014.

BUSINESS

Estimated environmental protection expense above may be subject to further revision. Our initial estimate of expenditure for environmental projects for an upcoming year is based on the relevant investment proposal and our estimation of environmental project progress. However, once the work on these projects for a particular year has commenced, our estimation of the relevant expenditure for the year will be adjusted to take into account a number of developments, including the specific payment schedule under the contracts entered into in connection with the projects, the actual project progress and the actual timing of payments. We may therefore need to adjust our initial estimates for the expenditure on environmental project as the project work progresses. Such adjustments usually take place in October each year when we review the project progress and payment schedules in the current year in connection with setting our budget for environmental expenditure for the following year.

Moreover, in order to ensure fire safety in our coal stacking yards, we maintain fire safety distance and have established safety isolation tunnels between stockpiles. We have also installed water sprinkler systems in the coal stacking yards.

The increase in our expected expenditure for environmental protection in 2013, as compared to our environmental protection costs incurred in each of 2010, 2011 and 2012, is mainly attributable to the construction of a closed coal stack yard in Caofeidian Port and installation of windproof nets in our coal stack yards in Qinhuangdao Port and Caofeidian Port. On many occasions, we and the Controlling Shareholder, who operated Qinhuangdao Port before the incorporation of our Company, have received national honorary awards and our efforts were recognized by the government.

Our proposed construction of ore berths in the bulk cargo area of Huanghua Port had potential adverse impact on the local fishery industry. On November 14, 2012, our subsidiary responsible for the construction of the berths entered into an agreement with Huang Bohai District Bureau of Fisheries of the Ministry of Agriculture (農業部黃渤海區漁政局) which provides for a compensation by us of RMB11.44 million in total to the bureau for the potential adverse impact on fishery resources, which shall be paid in installments after the commencement of the construction of the berths. We do not expect to be liable for any additional compensation charges in relation to our proposed construction in Huanghua Port or be liable for any compensation charges in any other construction projects we are currently undertaking, as we have been conducting our construction activities in accordance with applicable rules, regulations and government approved plans in all material respects and to the best of our knowledge, there are no cases pending or threatened against us for environmental damages. However, we cannot guarantee that for future construction projects, there will not be further compensation required in connection with similar economic or environmental impact caused by construction. In order to ensure our continual compliance with the applicable environmental protection laws and regulations in the PRC, we have, among other measures taken, conducted relevant analyses of the potential environmental impact of our new construction projects and conducted relevant environmental protection measures during the Track Record Period. Our S&EP Center is mainly responsible for the preparation of the evaluation of the potential environmental impact of our new construction projects, the liaison with external qualified professional agents who conduct the environmental impact analysis, and communication with the responsible governmental officials to conduct the approval process of the projects in accordance with applicable PRC environmental protection laws. Ten employees in the S&EP Center are responsible for the environmental protection project management, including four senior engineers, two engineers and two assistant engineers. Among them, three hold master degrees and six hold college degrees and most of them have majored in the environmental protection related fields. In addition, they possess on average more than 10 years of experience in environmental protection administration.

Moreover, in connection with our future construction projects, we may be required to pay certain compensation for loss of fishery resources in connection with port terminal building based on the local government's assessment of the magnitude of the economic effect on the local fishery resources. See also "Risk factors — Compliance with environmental laws and regulations may require additional capital expenditure associated with goods handled by us that could result in spills and other environmental damages".

BUSINESS

Our business operations are in compliance with the applicable PRC environmental laws and regulations in all material aspects. As of the Latest Practicable Date, we do not have any material penalties associated with material violation of any existing environmental law or regulation.

INSURANCE

We maintain insurance policies to cover the risk of losses in respect of our operations and facilities. The primary property insurance policies we maintain are property all risk insurance, mechanical breakdown insurance, coastal and inland river vessel insurance and automobile insurance. The primary life and liability insurance policies we purchase are public liability insurance, special equipment third party liability insurance, hoisting liability insurance, electricity supply liability insurance and roadway dangerous cargo carrier liability insurance. As of the Latest Practicable Date, we did not have any unsettled material insurance claims. The Directors believe that our insurance coverage is adequate for our operations and is in line with the industry norm.

EMPLOYEES

As of June 30, 2013, we had a total of 13,262 employees. The following table presents a breakdown of our employees by function as of June 30, 2013:

<u>Personnel</u>	<u>Number of Employees</u>	<u>Percentage of Total</u>
		(%)
Operational management personnel	1,761	13.28
Professional technicians	652	4.92
Production operators	9,571	72.17
Service personnel	1,278	9.63
Total	13,262	100.00

The following table presents a breakdown of our employees by level of education as of June 30, 2013:

<u>Personnel Educational Levels Attained</u>	<u>Number of Employees</u>	<u>Percentage of Total</u>
		(%)
Master or doctorate degree	221	1.67
Bachelor's degree	1,762	13.28
College-level education	3,293	24.83
Others	7,986	60.22
Total	13,262	100.00

In accordance with the relevant requirements of local governments in the PRC where we operate, we make contributions to pension and purchase basic endowment insurance, basic medical insurance, injury insurance, maternity insurance and unemployment insurance for our employees. We also set up our company pension funds and purchase supplementary medical insurance policies for our employees to improve the overall employee benefits, pursuant to applicable PRC employment insurance policies. We also make contributions to the employee housing fund to enhance the cohesion of our employees. For the years ended December 31, 2010, 2011 and 2012, and the six months ended June 30, 2013, we recorded total employee benefit expense of RMB1.38 billion, RMB1.54 billion, RMB1.80 billion and RMB0.92 billion, respectively.

We provide large-scale occupational and professional training on multiple dimensions and through multiple channels to our employees. For the senior management, we organize high-level forums and seminars on a regular basis. For the mid-level management, we send selected members to advanced research and education programs in well-known educational institutes in China. For the junior level management, we have rotational education programs with an emphasis on innovation. For

BUSINESS

technical operators, we provide a mentoring system and enhancement of technical skills through field practices and peer competitions. For new employees, we have designed dedicated orientation programs to provide necessary work trainings. Please also refer to the sub-section headed “— Safety Control” for details on safety control training.

PROPERTIES

Our headquarters are located in Qinhuangdao, Hebei Province, PRC. As of the Latest Practicable Date, we owned the land use rights to 46 parcels of land in the PRC and we owned 526 buildings, all of which are located in the PRC.

Land Use Rights

A land use right in the PRC represents an exclusive right to occupy, use, develop, lease, transfer and mortgage a piece of land in compliance with the statutory purpose and during the statutory term of the land use right.

As of the Latest Practicable Date, we owned the land use rights to 46 parcels of land with a total site area of 6,515,224.79 square meters, which are mainly located in Qinhuangdao and Cangzhou, Hebei Province, China, and we have obtained land use right certificates for all of these parcels of land. Our owned land is typically used for port operation and office premises. For further details of land use rights, please refer to “Appendix VII Statutory and General Information — Further Information about Our Business — Land Use Rights.”

Our PRC legal adviser confirmed that we possess the above land use rights legally and are entitled to occupy and use such lands and transfer, lease, mortgage or dispose of such land use rights by other legal means.

Owned Buildings

As of the Latest Practicable Date, we owned 526 buildings with a total gross floor area of 287,868.32 square meters, which are mainly located in Qinhuangdao and Cangzhou, Hebei Province, China.

Leased Buildings

As of the Latest Practicable Date, we leased 481 buildings with a total gross floor area of 291,916.42 square meters, which are mainly located in Qinhuangdao, Cangzhou, Tangshan, Hebei Province; Hohhot, Inner Mongolia; and Taiyuan, Shanxi Province, China. These leased buildings are mainly used for office, manufacturing and warehousing.

Our landlord, the Controlling Shareholder, has not obtained building ownership certificates for 197 of the buildings that we lease from them, with a total gross floor area of 136,413.59 square meters, accounting for approximately 48.3% of the aggregate gross floor area of the buildings we leased as of the Latest Practicable Date. These properties are used mainly for port operations, warehousing and office administration of our Group. We pay the rental of such leased property, certain operational facilities and equipment at RMB104.9 million per annum, which is determined by adding a reasonable profit over a reasonable cost of the properties, operational facilities and equipment.

As most of our leased properties without property ownership certificates are located in the western zone of Qinhuangdao Port, they are not material to our core coal handling business. In addition, we believe our operations that rely on such leased properties are able to be relocated quickly with minimal expenses, and would not materially affect our business or financial position.

BUSINESS

Thus, our Directors believe that these properties with title defects are not individually or collectively crucial to, and will not have a material impact on, our operations.

We obtained a letter of undertaking on August 7, 2013, from our landlord, the Controlling Shareholder, which undertakes that it is the sole owner of the buildings leased to our Group and there are no encumbrances, claims or disputes as to the titles to these leased buildings. Further, our Controlling Shareholder has undertaken to bear all responsibility and indemnify us from any potential cost with respect to the defective titles. Our PRC Legal Adviser confirmed that such undertaking is legal, valid and enforceable in accordance with the PRC laws.

For details of our property interests, please refer to the property valuation report set out in “Appendix III – Property Valuation” to this prospectus.

SEA AREA USE RIGHTS

As of the Latest Practicable Date, we had eleven sea area use rights with a total gross area of approximately 1,134 square hectares, all of which are located in the PRC. We have obtained sea area use right certificates for all of these sea areas. For further details of sea area use rights, please refer to “Appendix VII Statutory and General Information – Further Information about Our Business – Sea Area Use Rights.”

Our PRC legal adviser is of the opinion that we possess the above sea area use rights legally.

REGULATORY COMPLIANCE AND LEGAL PROCEEDINGS

From time to time we are involved in legal proceedings arising in the ordinary course of our business, as a plaintiff, defendant or third party. Except for the incidents discussed below, during the Track Record Period and up to the Latest Practicable Date, we were not involved in any outstanding material litigation, arbitration or administrative proceedings.

On January 22, 1986, the Qinhuangdao Port Management Bureau of MOT (the predecessor entity of our Controlling Shareholder) and the Planning Committee of Shanxi Province (the “Parties”) entered into an agreement (the “Investment Agreement”) pursuant to which Shanxi Province would invest RMB70 million to RMB80 million in the construction of three berths at the Wu (戊) and Ji (己) terminals in Qinhuangdao Port, including any ancillary projects. The Wu and Ji terminals are located in the western zone of Qinhuangdao Port and contributed insignificant amount of throughput to our total throughput during the Track Record Period and expect to be shut down in connection with the western zone relocation plan. See “— Our Facilities – Qinhuangdao Port – Western Zone Relocation.” In return, Shanxi Province would be granted favorable terms in coal or general cargo handling services during the investment period and after the construction of the three berths. In addition, Shanxi Province would have ownership rights in the three berths in proportion to its investments, and the three berths would be jointly operated by the Parties. After the execution of the Investment Agreement, the Planning Committee and Economic Committee of Shanxi Province established the Port Construction Command office of Shanxi Province in Qinhuangdao (“Shanxi Port Construction Command”), which was responsible for managing Shanxi Province’s investments in the Wu and Ji terminals. From 1986 through 1988, Shanxi Province paid an aggregate amount of RMB40 million for construction of the Wu and Ji terminals. However, the construction work did not commence on time, and the Parties agreed to utilize the invested RMB40 million for the construction of other terminals of the Qinhuangdao Port.

Due to changes in national policies, the improvement of transportation capabilities was not included in the National Railway and Port Transportation Plan. Meanwhile, the approval for the construction of Wu and Ji terminals was not obtained until August 1997. During this period, the national exemption policies on investment in underwater infrastructure changed, which caused a significant increase in the required investment amount by Shanxi Province. This change in policy broke the foundation of the Parties’ cooperation, and Shanxi Province ceased to invest in

BUSINESS

Qinhuangdao Port. The Parties held a number of negotiations to settle the amount of RMB40 million already invested by Shanxi Province, but no agreement has been reached. Currently, we lease the Wu and Ji terminals from HPG, and we are responsible for their daily management and maintenance.

In April 2011, Shanxi Port Construction Command initiated a civil lawsuit (the “Lawsuit with Shanxi Province”) in the Hebei Province High Court against the Controlling Shareholder and the Company, as co-defendants, claiming that the Investment Agreement had terminated and that the Controlling Shareholder and the Company should return to them a total loss of approximately RMB144.9 million, which includes the investment principal, accrued interests and management fees. As of the Latest Practicable Date, the court proceedings are still ongoing and no judgment has been entered into by the Higher People’s Court of Hebei Province.

Our Controlling Shareholder has committed on April 16, 2012 that they will reimburse to us all damages, if and to the extent incurred by us, in connection with Lawsuit with Shanxi Province. Therefore, we have made no provision with respect to potential losses from the Lawsuit with Shanxi Province. Our Controlling Shareholder is a wholly state-owned company under Hebei SASAC. See also “History, Reorganization and Corporate Structure — Background of and Changes Relating to Our Existing Shareholders — HPG”. HPG has a registered and paid up capital of RMB8 billion. According to HPG’s audited financial statements, as of December 31, 2012, the total assets and net assets of HPG were RMB38.30 billion and RMB19.66 billion, respectively, and its net profit realized in 2012 was approximately RMB971 million. We therefore believe that our Controlling Shareholder has the ability to fulfill its undertaking to reimburse us for such damages.

On August 22, 2012, one death resulted from an accident due to the improper operation by an employee of our associate company, Honggang Services, of which we hold 35% equity interest. Qinhuangdao Safety Production Supervision and Management Bureau (秦皇島市安全生產監督管理局) investigated the case and determined that the primary cause of the accident was failure to follow operational procedures by the employee of Honggang Services who caused the accident. Honggang Services and our Company were each determined to bear secondary or indirect responsibilities in the cases, and each was fined RMB150,000, which have been paid in full as of the Latest Practicable Date. On December 1, 2012, an employee of a third party service provider to one of our subsidiaries, Xin’gangwan Container Company, was killed in the process of ship loading and unloading operations. Xin’gangwan Container Company was determined to bear secondary or indirect responsibilities in the cases and was fined RMB150,000, which has been paid in full as of Latest Practicable Date.

Save as mentioned above, to our knowledge, there are no current litigations, arbitrations or administrative proceedings against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations.

In the opinion of our PRC Legal Adviser, during the Track Record Period and up to the Latest Practicable Date, the Company was compliant in all material respects with relevant PRC laws and had obtained all permits and qualifications from the appropriate regulatory authorities that are material for our business operations in the PRC.

INFORMATION IN RELATION TO THE HUANG JIANHUA CASE

Facts

Huang Jianhua (“Huang”) was the former chairman and general manager of HPG, and from March 2008 to December 2009, he was also the chairman of our Company. Upon the restructuring of HPG in 2009, Huang ceased to be the chairman of our Company and also did not hold any position of director, supervisor or senior management of our Company.

On December 4, 2010, Hebei SASAC announced that Huang was subject to serious disciplinary actions due to his breach of laws and regulations. After investigation, it was found that Huang took bribe for providing opportunities for companies and individuals to undertake construction or other businesses and for provision of privilege to entities and individuals in respect of port logistics and

BUSINESS

cargo handling services. On February 13, 2011, Huang was arrested for suspected bribery. On November 3, 2011, according to the judgment of the Intermediate People's Court of Zhangjiakou City, Hebei Province, Huang was convicted of bribery charges for abusing his official position to facilitate others to illegally receive favorable treatment in return for bribes of over RMB20.23 million and US\$110,000. The court sentenced Huang to death, although his execution was suspended for two years, and permanent deprivation of his political rights and personal property. Huang served the punishment in accordance to the judgment (the "Huang Case"). To our best knowledge, the Huang Case has been closed, and there is no further government investigation or any indication that any current or former directors, officers or employees of the Company are still subject to government investigation in connection with the Huang Case. Both the Company and Controlling Shareholder, neither of which was party to the case, have requested but were not granted access to the final judgment in the Huang Case.

No Material Impact on our Company

We were not involved in the acceptance of bribes in the Huang Case. Moreover, our Directors are of the view that the Huang Case did not have any material impact on our Company for the following reasons:

- Since December 2009, Huang was no longer the chairman of our Company, and did not hold any position of director, supervisor or senior management in our Company. Since the beginning of the Huang case, none of our then and current Directors, Supervisors or senior management were subject to any investigations, criminal or administrative punishments, disciplinary actions or disqualification from their official positions. In addition, all of our Directors, Supervisors and senior management have continued to discharge their duties normally;
- The Huang Case involved violation of laws by Huang as an individual. Since the beginning of the Huang Case, our Company has fully cooperated with the relevant government authorities to assist with their investigation against Huang. Our Company has not been served with any notice or legal document requiring us to participate in the legal proceedings of the Huang Case, nor subject to any penalties as a result of the Huang Case; and
- As Huang's illegal acts mainly took place prior to 2009, such illegal acts did not materially affect the financial position of our Company during the Track Record Period, and did not adversely affect our ordinary course of business. To our best knowledge, Huang's misconduct did not have any material monetary or non-monetary effect on us. None of our contracts or projects were revoked or suspended due to any government investigation in relation to the Huang Case, and we have not experienced any quality concerns with respect to any of our projects or operations that could potentially be linked to the Huang Case.

Corporate Governance Measures

We initially implemented a series of internal controls and corporate governance measures in July 2010. In order to prevent Directors and officers from abusing their powers and accepting bribery subsequent to the Huang Case, we further strengthened our internal control system by implementing the following guidelines to reinforce supervision of and control over the exercise of power and strengthen institutional monitoring of construction projects and other business operations that tend to provide bribery opportunities for preferential allocation of resources and offering of business favors:

- Clarify authorization and power delegation for each layer of management from shareholder's meetings, board of directors, chairman of the board to the general manager, to avoid the centralization of the decision power;
- Ensure secured and proper funds usage by strengthening the authorization process, power separation and supervision system;

BUSINESS

- Adopt stringent risk control for external investments by implementing collective decision making process for significant investment decision and strengthening the decision process as to project proposal, evaluation, decision and execution;
- Adopt internal mandate that restricts the Group from engaging non-state owned entities for major projects or services of the Group and that none of our Directors and senior management may take on paid positions outside the Group; and
- Promote transparency in construction project management and other business operations to prevent and detect fraud and acceptance of bribes by Directors and senior management members by implementing the “Three Significant, One Large (三重一大)” policy (the “**Policy**”), which includes:
 - enhancing our construction project management by establishing standardized procedures and a liability allocation system for the decision-making process. Specifically, we allocate responsibilities between personnel with executive role and supervisory roles with respect to all significant projects, significant personnel appointments and removals, significant decision making and procurement of significant amounts. “Significant projects” are projects which are expected to have significant effects on our capital, capital structure, profitability, operational equipments and technologies. They mainly include:
 - (1) asset investment projects which exceed RMB5 million, including construction projects, technology renovation, technology import, equipment procurement, information technology constructions and scientific researches; any single contract of procurement relating to the asset investment project for surveys, design, supervision, scientific researches, information technology and consultancy services which are expected to be more than RMB200,000; and comparison of bidding agency for one bidding project which is expected to be more than RMB50 million;
 - (2) changes of the construction plan which are within the budget, the cost for one construction change is expected to exceed RMB3 million or accumulative amount of the change for one single contract is expected to exceed RMB5 million;
 - (3) additional fixed asset investment projects which were not in the plan and other investment projects with adjusted budget which have exceeded the plan;
 - (4) the procurement projects for bulk commodity such as fittings and raw materials (for those the value of one single contract is or exceeds RMB5 million or annual accumulative amount is or exceeds RMB10 million);
 - (5) the projects which are not executed under the bidding management rules of the Company due to special reasons, but has achieved the scale and standard as regulated by the Company;
 - (6) real estate development projects, including project initiation, development, lease, contracting, transfer, monetization;
 - (7) financing projects, including by way of debt financing, equity financing, option, futures and other financial derivatives based on the development needs under the national laws and regulations;
 - (8) guarantee projects, including provision of guarantee for its wholly owned subsidiaries, controlling subsidiaries and other enterprises, provision of cross guarantee for external enterprises and other guarantees;

BUSINESS

- (9) disposal, development, lease, contracting, transfer and monetization of fixed asset (the original value of a single equipment should be more than RMB5 million);
- (10) execution of contracts involving foreign interest, guarantee contract and equity investment contract, and other contract for asset investment project which is or exceeds RMB5 million;
- (11) international cooperation projects;
- (12) insurance projects for enterprise's assets;
- (13) appointments or changes of external audit institutions; and
- (14) other significant project.

“Use of significant funds” refer to any movement and use of funds the size of which exceeds the authorized amount mandated by the entities making the investment or expenditure for their respective officers. These mainly include:

- (1) Investments and guarantees for external enterprises;
- (2) transfers and uses of large amount of funds within the annual budget, including fixed asset investments, procurement of bulk commodity and services;
- (3) transfers and uses of large amount of funds which exceeds the budget, including the item not listed in the financial budget and unexpected non-recurrent expenditure and fund;
- (4) donations and sponsorship;
- (5) trust of wealth management; and
- (6) any other transfers and uses of large amount of funds.

We also promulgated rules of “Power Supervision System” to ensure the proper interpretation and execution of the Policy and to enhance the monitoring and accountability for the internal control system. Power Supervision System reinforces the monitoring and control of use of power and helps to prevent abuse of power. The system requires us to (i) recognize the power of each level of authority, analyze the risks of power misuse and categorize the risks based on the level of authority and magnitude of the risk, (ii) design precautionary measures to address such risks, and (iii) enhance the monitoring of and accountability for the potential risks;

- establishing better procurement and payment supervision process to strengthen the management of procurement application, approval, contracting, procurement, inspection and acceptance and payment process to eliminate loopholes of procurement. According to the Policy, significant projects involving procurement, investment, financing and provision of security need to undergo feasibility analysis, and where necessary, risk evaluation and legal investigation procedures will be applied. Such projects need to be reviewed and approved by the Board or through the joint conference between the Party and Management (黨政聯席會) on a case-by-case basis;
- enhancing controls in fund raising including the size, structure and funding channels to reduce finance use of significant funds cost and to ensure the effective use of funds. According to the Policy, significant use of funds needs to undergo feasibility analysis,

BUSINESS

and where necessary, risk evaluation and legal investigation procedures will be applied. Such activities need to be reviewed and approved by the Board or through the joint conference between the Party and Management (黨政聯席會) on a case-by-case basis; and

- formulating detailed procedures for related parties' transactions, where consent of independent Directors are required before the related parties' transactions are submitted to the Board for approval. In addition, none of our Directors and senior management may take on paid positions outside the Group to prevent any potential related party transactions and the acceptance of bribes.

Since the implementation of internal controls and corporate governance measures which initially started in July 2010, there has not been any case of any Directors charged with or accused of accepting bribes under similar circumstances. Therefore, we believe such measures have been effective in preventing similar violations by any Directors. Furthermore, no similar criminal cases occurred during the Track Record Period and up to the Latest Practicable Date. After taking into account the implemented rectification measures and the facts that there are no additional cases of any current or former Directors charged with or accused of accepting bribes under similar circumstances during the Track Record Period, the Joint Sponsors form their view that such measures are effective in preventing similar violations by any Directors.