MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Summary

In 2006, China economy motioned relatively steady. GDP and foreign trade value increased by 10.7% and 23.8% respectively. Economies of Heilongjiang Province, Jilin Province and Liaoning Province collectively (the "Three North-eastern China Provinces") sustained their steady, healthy and robust development. The year-on-year GDP growths of the Provinces of Heilongjiang, Jilin and Liaoning were 12.0%, 15.0% and 13.8% respectively with surges in foreign trade value of 34.4%, 21.2% and 18.0% respectively. Average growth rate of foreign trade value in the Three North-eastern China Provinces of 21.1% has gradually narrowed the gap of such growth between the Three North-eastern China Provinces and China as a whole.

Capitalising on this sound macro-economic environment, the Group continued to focus on developing its core business and enhancing its competitive strengths, and achieved a healthy development as a result. Oil/liquefied chemicals terminal throughput increased by 2.4% year-on-year, and container terminal throughout raced up by 21.1% over last year. Satisfactory results were also achieved by the port value-added services business.

Review on overall results

For 2006, the Company's profit attributable to equity holders amounted to RMB631,567,000, an increase of 50.5% over 2005 and basic earnings per share amounted to RMB24 cents, an increase of 14.3% over 2005.

In 2006, the Group's revenue amounted to RMB1,545,122,000, an increase of 21.7% over 2005. The increase was attributable to rises in the rental income of berths and crude oil storage tanks, and increases in container throughput and liquefied chemicals throughput.

In 2006, the Group's cost of services, including depreciation, payrolls, fuel costs and business taxes, amounted to RMB705,990,000, an increase of 13.2% over 2005. Such increase was mainly due to increases in depreciation of berths and storage tanks in tandem with increases in rental income, as well as increases in payrolls and fuel costs in response to business expansion.

In 2006, the Group's gross profit increased by 30% over 2005 to RMB839,132,000. The Group's gross margin increased from 50.9% for 2005 to 54.3% for 2006.

In 2006, the Group's other income amounted to RMB184,225,000, of which RMB108,772,000 was interest income on subscription money from the Company's initial public offering of H shares, and RMB33,819,000 was interest income from bank deposits.

Assets and liabilities

As of 31 December 2006, the Group's total assets amounted to RMB9,730,714,000, total liabilities amounted to RMB4,197,415,000 and net assets were RMB5,533,299,000. Net asset value per share was RMB1.89, an increase of 51.2% over that of 31 December 2005.

Financial resources and liquidity

In 2006, benefited from the stable cash inflow generated from its operating activities, cash proceeds from the issue of new H shares and bank borrowings, the Group maintained a sound financial position and borrowing structure by realigning its cash level subject to cash requirements.

Cash inflow from operation continued to be a major source of funds for the Group in 2006, during which the Group's net cash generated from operating activities amounted to RMB817,940,000.

The Company received net proceeds of RMB2,385,343,000 from its global offering of 840 million H shares on 28 April 2006 and a further issue of 126 million H shares upon the exercise of an over-allotment option on 3 May 2006.

As at 31 December 2006, the Group had cash of RMB1,508,847,000, an increase of RMB1,151,152,000 over 31 December 2005. The Group has unutilized banking facilities amounting to RMB2,600,000,000 with available funds of RMB4,110,000,000. The Group has leveraged on its solid financial strength in developing business continuously, and the expansion in operational scale has secured a strong financial backing.

In 2006, the Group obtained new bank loans of RMB1,399,590,000 and repaid bank loans of RMB2,944,677,000. As at 31 December 2006, the Group had outstanding bank loans of RMB2,596,465,000, of which RMB2,317,231,000 was due after one year and RMB279,234,000 was due within one year. Gearing, as measured by net debts to equity, decreased from 158% as at 31 December 2005 to 20% as at 31 December 2006.

As at 31 December 2006, the Group has net current assets of RMB1,012,264,000, representing an increase of RMB1,106,730,000 over 2005. Current ratio surged from 0.9 times in 2005 to 1.8 times in 2006.

Use of proceeds

Net proceeds of the global offering of 966 million H shares for the Group, after deducting related expenses, amounted to approximately RMB2,385,343,000. As at 31 December 2006, the Group has utilized approximately RMB1,667,473,000 of the net proceeds. The remaining of the net proceeds was RMB717,870,000. The details of the net proceeds utilized was as follows:

- RMB143,980,000 for the construction of four new container berths at Dayaowan
- RMB352,690,000 for the construction of twelve crude oil storage tanks in Xingang
- RMB135,460,000 for the purchase of eight tugboats
- RMB850,000,000 for the repayment of a long-term bank loan
- RMB185,343,000 for general working capital

There has been no change in the proposed use of proceeds from the H share global offering as stated in the Company's prospectus dated 18 April 2006.

Capital expenditure

In 2006, the Group's capital expenditure amounted to RMB1,600,246,000, which were funded primarily by the proceeds of the global offering of H shares, government subsidies, bank borrowings and surplus operating funds.