BUSINESS REVIEW

The Group is engaged in the following three business segments: (i) the provision of oil/liquefied chemicals terminal and related logistics services; (ii) the provision of container terminal and related logistics services; and (iii) the provision of port value-added services.

Analysis of the performance of each business segments in 2006 is as follows (the business data and information such as throughput set out herein are the aggregate of the subsidiaries, jointly controlled entities and associated companies of the Company regardless the percentage of equity interests held by the members of the Group):

Oil/liquefied chemicals terminal and related logistics services

The following table sets out the oil/liquefied chemicals throughput handled by the Group in 2006 and its comparison with 2005:

	Year ended 31 December 2006 ('000 tonnes)	Year ended 31 December 2005 ('000 tonnes)	Increase (+)/ Decrease (–)
Crude Oil	**20,890**	18,259	14.4%
Refined Oil	**10,968**	13,187	-16.8%
Liquefied chemicals	**879**	524	67.8%
Total	**32,737**	31,970	2.4%

In 2006, in terms of oil/liquefied chemicals throughput, the Group handled a total of 32.737 million tonnes, a growth of 2.4% over 2005.

Crude oil throughput was 20.89 million tonnes, an increase of 14.4% over 2005. Refined oil throughput was 10.968 million tonnes, a decrease of 16.8% over 2005. As international crude oil prices remained high for most of 2006, refined oil prices unpegged themselves from international crude oil prices and drove domestic refineries generally into red, thereby affecting the growth of processing volume and the amount of crude oil imported. In addition, the amount of crude oil imported from Russia via Manzhouli has also offset the amount imported by sea. In such unfavourable market environment, the Group strengthened its closer communications with customers, secured accurate information about cargo handling and expanded solicitation efforts for cargo transshipment, with the annual trans-shipment of crude oil throughput increased by 54.5% year-on-year. Affected by the international market, the processing volume for crude oil by refineries in north-eastern China dropped, while the demand for domestic refined oil grew. All these resulted in a decrease in the volume of refined oil demanding for transport via sea. Meanwhile, as PetroChina Company Limited changed the transportation mode of refined oil from north-eastern China, volume of refined oil transported by railway carriage tankers to terminals for trans-shipment via vessels has decreased as a result.

Liquefied chemicals throughput was 879,000 tonnes, an increase of 67.8% over 2005. As the processing capacity of liquefied chemicals in the north-eastern region has been enhanced, demands for liquefied chemicals increased, shipments of raw materials and finished goods for processing of liquefied chemicals grew at a faster pace.

In 2006, revenue from oil/liquefied chemicals terminal and related logistics services amounted to RMB594,795,000, accounting for 38.5% (38.4% for 2005) of the Group's total revenue and an increase of 22.2% or RMB107,863,000 over 2005. This increase was mainly driven by growth in the rental income of crude oil storage tanks and increase in liquefied chemicals throughput.

In 2006, gross profit from oil/liquefied chemicals terminal and related logistics services amounted to RMB352,903,000, accounting for 42.1% (42% for 2005) of the Group's total gross profit and representing a gross margin of 59.3% (55.6% for 2005).

In respect of the oil/liquefied chemicals terminal and related logistics services, the management closely monitored market changes by strengthening communications with customers, and further enhancing management and operational efficiency. Major measures and core projects undertaken were as follows:

– Strengthening solicitation efforts for the cargo handling business – In 2006, crude oil throughput of the Group accounted for 97.1% of ports in Dalian (up 3.7% year-on-year) and 81.7% of ports in the north-eastern China (up 6.6% year-on-year). Total oil/liquefied chemicals throughput accounted for 78% of ports in Dalian (up 3% year-on-year) and 65% of ports in north-eastern China (up 10% year-on-year). In terms of oil/liquefied chemicals throughput, the Company ranked third among the coastal ports of China.

– Benefitted by funds raised, construction of the twelve crude oil storage tanks was in schedule, of which six became operational and were commissioned as bonded crude oil storage tanks in November 2006. Prior to the commissioning of these 6 tanks, the Group negotiated and entered into storage tank leases with Petrochina International Company Limited in advance, to secure long-term occupancy of these oil storage tanks by customers immediately. As scheduled, the other 6 crude oil storage tanks will become operational at the end of 2007.

– As more and more oil storage tanks become operational with uplifts in storage charges for oil products, the oil products storage business has developed remarkably.

– Currently, the aggregate storage capacity of crude oil storage tanks owned by the Group is 2.75 million cubic metres, of which 2.20 million cubic metres are being leased to customers on a long-term basis. The remaining crude oil storage capacity of 0.55 million cubic metres or approximately 0.41 million tonnes for self-use are unable to accommodate the prevailing demand for transshipment. The management reasonably re-organised the operations to ensure that it is in order; as well as pro-actively expanded transshipment business to enlarge its market share. In 2006, crude oil transshipment throughput was 6.29 million tonnes, a year-on-year increase of 54.5%.

BUSINESS REVIEW *(continued)*

– Construction of refined oil/liquefied chemicals terminal, storage tanks and ancillary facilities at Xingang has been completed. In order to provide efficient and quality services to customers in the course of relocating the refined oil and liquefied chemicals terminal business from Siergou port area to Xingang port area, the relocation is being conducted by phases and in steps as planned. The entire relocation is expected to be completed in the middle of 2007.

Container terminal and related logistics services

The following table sets out the container throughput handled by the Group in 2006 and its comparison with 2005:

	Year ended 31 December 2006 ('000 TEU)	Year ended 31 December 2005 ('000 TEU)	Increase (+)/ Decrease (–)
Foreign Trade	**2,818**	2,382	18.3%
Domestic Trade	**328**	216	51.9%
Total	**3,146**	2,598	21.1%

In 2006, total container throughput of the Group was 3.146 million TEUs, an increase of 21.1% over last year. Container throughput for foreign trade was 2.818 million TEUs, an increase of 18.3%; container throughput for domestic trade was 0.328 million TEUs, an increase of 51.9%.

Container throughput for foreign trade represented 90% of total container throughput of the Group and accounted for 93% of total container throughput for foreign trade in north-eastern China, with the Group's market share of foreign trade in north-eastern China being maintained. Development of foreign trade in the hinterland directly affected the performance of the Group's foreign trade container business; the growth of container throughput for foreign trade of the Group is generally in line with the increase of the foreign trade in the hinterland. Incremental increases in foreign trade of north-eastern China during the first half of 2006 were generally low versus 2005. There were significant incremental increases in the second half of 2006, in particular, Liaoning Province which accounted for nearly 70% of total amount of foreign trade in the hinterland of the Group. Affected by development of foreign trade in the hinterland, there is a substantial increase in volume of containers for foreign trade in the second half of the year over the first half of the year.

While maintaining a steady development of container throughput for foreign trade, the Group achieved the rapid growth of container throughput for domestic trade. The Group's market share of domestic trade in north-eastern China increased from 17.6% in 2005 to 19.6% in 2006.

In 2006, revenue from container terminal and related logistics services amounted to RMB690,499,000, accounting for 44.7% (45.3% in 2005) of the Group's total revenue and representing an increase of 20.1% or RMB115,392,000 over 2005, among which, revenue from container terminal services increased by RMB67,460,000, an increase of 21% over 2005, and revenue from container logistics services increased by RMB47,932,000, an increase of 18.8% over 2005.

In 2006, gross profit from container terminal and related logistics services amounted to RMB360,727,000, accounting for 43% (42.3% in 2005) of the Group's total gross profit and representing a gross margin of 52.2% (47.4% in 2005). The increase in gross margin was mainly driven by an increase in rental income of container berths and vessels.

In respect of container terminal and related logistics services businesses, the Group strives to strengthen customer relationship and continues to improve service standards as well as actively procures cooperation with customers and industry peers on port operations and business development. In 2006, the logistics system was effectively consolidated, with further development in multi-modal transportation system for container, sea-to-sea transshipment services network in Bohai Rim region and information network for container transportation. Progresses of major measures and the core projects undertaken by the Group were as follows:

– In 2006, the Group focused on improving multi-modal transportation system and further enhanced its terminal's competitiveness. The Group's volume of sea-to-rail intermodal transportation reached 159,000 TEUs, an increase of 17.3% over 2005.

– For container transshipment business, cooperation with shipping companies was emphasized. In 2006, transshipment containers handled were 246,000 TEUs, an increase of 26.5% over 2005.

– The Group adopted a strategy of increasing volume by adding shipping routes, with three US west coast ocean container mainhaul services being added to optimise shipping routes of the Group in 2006, which will play an important part in attracting transshipment cargo handling business.

– On 31 August 2006, the establishment of bonded port area at Dalian Dayaowan was formally approved by the State Council, which is one of the three bonded port areas so approved. The container terminals and logistics parks of the Group are located within the bonded port area. The bonded port area would drive the development of international trade in the north-eastern region of China, promote Dalian as an international shipping centre, and, in turn, stimulate the business development of the Company.

– In the second half of 2006, No. 13 and No. 14 container berths at Dayaowan were put under trial operation, which made the handling capacity of the Group's container terminals reached 3.85 million TEUs. In addition, in order to satisfy the needs for future development of container business, the Group entered into a memorandum of understanding with China Shipping Terminal Development Co., Ltd., China Shipping Terminal Development (Hong Kong) Company Limited, and Nippon Yusen Kabushiki Kaisha in relation to the establishment of a joint venture for the development and operation of Dayaowan Container Terminal Phase III (as referred to in the 2006 interim report as "The Extended Facilities of Container Terminal Phase II").

– China United International Rail Containers Co., Ltd. Dalian, a joint venture, with China Railway Container Transport Corp. Ltd., will be engaged in the construction and operations of three container logistics centres in Dalian, Harbin and Shenyang. This company will gradually develop them into the hub of the railway container transport services network in north-eastern region of China.

– In order to promote the development of logistics park, Dalian International Logistics Park Development Co., Ltd., a subsidiary of the Company, has established a joint venture with US-based Prologis, one of the largest global developers and service providers on logistics storage facilities, for developing and operating certain portion of land and logistics storage facilities in Dayaowan Bonded Logistics Park with an area of approximately 400,000 sq.m..

– The Group paid attention to the incessant improvement of customer service standards. In 2006, Dalian Container Terminal Co., Ltd. ("DCT") secured "The China Freight Industry Award" for the fifth consecutive year. In the Fifth China Freight Industry Awards, DCT has received "Gold Award for Operation Efficiency", "Silver Award for Integrated Services" and "Bronze Award for Scientific Management".

BUSINESS REVIEW *(continued)*

– In order to enhance the integrated information services capacity of container transportation, the Group has fully consolidated information resources of regional multi-modal transportation. Initially, the e-commerce service system of multi-modal transportation covering north-eastern China and the Bohai Rim Region and centered at Dalian has been established.

Port Value-added Services

The Group is the sole port value-added services provider within Dalian port area. There is a close link between the development of value-added services business and the development of the entire business of Dalian port area. In 2006, due to the sound development of transportation within Dalian port area, various value-added services of the Group have achieved relatively satisfactory results.

Tugging

In 2006, aggregate tugging hours of the Group was 50,168, an increase of 5.35% over 2005. The main driver of the growth of tugging business was the steady growth of throughput of Dalian port, the business expansion of peripheral shipyards and the expansion of markets outside Dalian port.

4 fully reversible tugboats, purchased with proceeds from the H share global offering, were delivered in November and December 2006. The commissioning of new tugboats have enhanced the average efficiency of tugboats, satisfied the production needs of port and achieved better economic results for the Group.

Pilotage

In 2006, number of vessels to which the Group provided pilotage service was 13,230, a decrease of 2% over 2005; net tonnage of pilotage was 118,188,000 tonnes, an increase of 11% over 2005; of which net tonnage of pilotage for foreign trade was 109,514,000 tonnes, an increase of 13.3% and net tonnage of pilotage for domestic trade was 8,674,000 tonnes, a decrease of 12.3% over 2005. Increase in net tonnage and decrease in number of vessels exemplified that the size of vessels calling at Dalian port has been increasing.

Tallying

In 2006, total tallying throughput handled by the Company's two jointly controlled entities, namely, Dalian Ocean Shipping Tally Co., Ltd. and China United Tally Co., Ltd. Dalian, amounted to 24,990,000 tonnes, an increase of 14% over 2005.

In 2006, operating revenue from value-added services amounted to RMB259,828,000, accounting for 16.8% (16.3% in 2005) of the Group's total operating revenue and representing an increase of 25.3% or RMB52,491,000 over 2005.

In 2006, gross profit from value-added services amounted to RMB125,501,000, accounting for 15% (15.7% in 2005) of the Group's total gross profit and representing a gross margin of 48.3% (48.9% in 2005).

Others

Human Resources

Employees are the most valuable assets of the Group. In order to enhance the competitiveness of human resources to fully motivate its employees, and attract and retain outstanding personnel, the Group emphasized friendly ambience as well as clean and comfortable working environment for all employees, and also various effective incentive measures.

As at 31 December 2006, the Group had a total of 1,991 full-time employees. The Group undertakes the review of its employee remuneration policy annually with reference to supply and demand of human resources market, economic situation, the Group's financial performance and staff's annual appraisal results.

Investor Relations

Since its listing on 28 April 2006, the Company pays particular attention to the communications with investors and potential investors, so that investors have a full continual understanding of the Company's operating status and strategies for future development, and also enhancing the investors' understanding and recognition of the Company.

Subsequent to the listing, many investors paid visits to the Company. The visitors had better understanding about the Company through direct communications with our management and site visit. Our management organized 3-day roadshows in Hong Kong after the announcement of 2006 interim results. Furthermore, our management participated in several annual investment seminars organised by BNP, Credit Suisse, Nomura Securities and UBS. Sufficient communications with investors through these activities have increased the transparency of the operations of the Company.

Prospects for 2007

In 2007, China's macro-economic foundation will sustain its steady and buoyant growth. According to the Government Work Reports issued by the Provinces of Heilongjiang, Jilin and Liaoning respectively, the growth targets of GDP for these three provinces in 2007 will be 11%, 12% and 11% respectively and growth targets of total imports and exports for foreign trade will be 20%, 15% and 15% respectively. 2007 will be crucial for promoting construction of the traditional industrial base in north-eastern China as each province will devote its efforts in sustaining healthy and rapid economic growth.

In such economic environment, the Group will fully leverage its strengths of operations management to proactively procure its expansion, in order to achieve satisfactory results for the shareholders. For oil terminal and related logistics business, we will secure our existing customers and attract new customers by enhancing efficiency and quality loading and unloading services. Meanwhile, the Group will put more efforts on strengthening the solicitation for cargo handling, expansion of bonded transshipment market and transshipment business of Venezuelan oil products. For container terminal and related logistics business, the Group will be continuously engaged in current business and by consolidating its resources, optimizing its structure, executing various projects and developing new businesses, in order to enhance its core competitiveness and further construct the system of integrated container logistics services at Dalian port.

In 2007, the Group will focus on the following critical tasks and core investment projects:

Oil terminal and related logistics business

- Another 6 crude oil storage tanks, which are funded by proceeds from the H share global offering, will be put into operation by the end of 2007; the increased number of storage tanks will mitigate the insufficiency of crude oil storage tanks.

- Expanding the international crude oil bonded transshipment business and enhancing the utilization of bonded oil tanks. By providing value-added services, a green channel will be opened up for foreign and domestic oil traders to conduct their international crude oil transit trading.

- Developing cooperation with key customers, foreign and domestic oil products operators and promoting the development of oil terminal and related logistics business.

Container terminal and related logistics business

- The Group will coordinate with relevant departments in fully realizing the functions of bonded port and the advantages of the policies, in order to accelerate the construction of bonded port.

- The Group will cooperate with the railway department in promoting the construction of container logistics centres in the north-eastern region of China. In 2007, the construction of Dalian railway container logistics centre will commence and the Dalian logistics centre is expected to be completed by the end of 2008.

- The business of domestic container terminal at urban area was relocated to Dayaowan area in January 2007. Subsequent to the relocation, the operation of container terminal business of the Group has been centrally managed; it allows sharing of resources, enhances efficiency of operations and provides customers better services.

BUSINESS REVIEW *(continued)*

– The Group intends to establish a joint venture for developing Dayaowan Container Terminal Phase III jointly.

– In order to develop Dayaowan North Harbour Area in due course in the future, the Group will actively participate in the initial feasibility study of Dayaowan North Harbour, and cooperate with Dalian Municipal People's Government and Modern Terminals Limited to conduct the initial planning on the development of Dayaowan North Harbour and the construction of container terminal facilities. The Group will propel the development of Dayaowan North Harbour at the appropriate time.

Port value-added services

– Purchase of 4 tugboats, funded by proceeds from the H share global offering, will be delivered at the end of 2007. Such purchase will further enhance the Group's tugging capacity.

– The Group will further optimise and develop the markets outside the Dalian port area and consider to explore tugging business in the periphery of Dalian, i.e. Zhuanghe, Changxing Island and Taicang port on Yangtze River. Development of the markets outside Dalian port will be achieved by a series of measures, such as, realiging the coverage of tugging business and increase in rents.

– According to the pilotage system restructuring plan promulgated by the Dalian Municipal People's Government, a pilot station, which is wholly-owned by the Dalian Municipal People's Government, has been established by the Dalian Municipal People's Government in February 2007 for pilotage business in Dalian. The Group has been entrusted to manage the daily operations of the pilot station and continue to hold the operation rights in respect of the pilotage business. The Group shall be entitled to receive the remaining portion of the annual pilotage charges collected by the pilot station after deducting the relevant operation expenses and the administrative levy being 3% of the annual pilotage charges for the maintenance and other relevant expenses of the port facilities owned by the Group. The pilotage system restructuring would not result in a material adverse impact to the Company's business and operating results.

Others

– During the first quarter of 2007, the Company acquired the equity interests of certain companies owned by Dalian Port Corporation Limited, which have better development prospects or provide complementary support to the Company, including 40% of Dalian Automobile Terminal Co., Ltd., 50% of Dalian Harbour ECL Logistics Co., Ltd., 50% of Dalian Port Tongli Shipping Agency Co., Ltd. and 20% of Dalian PetroChina International Storage Co., Ltd..