REPORT OF THE DIRECTORS

The board of directors (the "Board") hereby present its report and the audited financial statements of the Group ("financial statements") for the year ended 31 December 2006.

Principal activities and geographical analysis of operations

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

The principal activities of its subsidiaries are set out in notes 48 to the financial statements.

Details of the analysis of the Group's operating results by business segments for the year are set out in note 6 to the financial statements.

During the year, there were no material changes in the Group's principal activities.

Results and appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement of the financial statements.

The Board now recommends the payment of a final dividend of RMB6 cents per share for the year, aggregating to approximately RMB175,560,000, to shareholders whose names appear on the registers of members of the Company on 17 May 2007.

Pursuant to the provisions of the Articles of Association (the "Articles") of the Company, the annual profit appropriation plan of the Company is subject to approval of a general meeting for 2006. Accordingly, the aforesaid profit appropriation proposal will be implemented subsequent to approval of the Company's general meeting.

Financial highlights for the past four financial years

Financial highlights of the Group's results and assets and liabilities for the past four financial years are set out in the section headed "Financial highlights for the past four financial years" of this annual report.

Reserves

Details of the movements in the reserves of the Group during the year are set in consolidated statement of changes in equity to the financial statements.

Distributable reserves

As at 31 December 2006, the Company's reserves available for distribution were RMB416,032,000, which was the lower of the two amounts calculated in accordance with the generally accepted accounting principles of the People's Republic of China (the "PRC GAAP") and the International Accounting Standards.

REPORT OF THE DIRECTORS *(continued)*

Bank loans and other borrowings

As at 31 December 2006, the total amount of outstanding bank loans of the Group was RMB2,596,465,000. Details of the relevant loans are set out in note 35 to the financial statements.

Capitalisation of interest

As at 31 December 2006, the total amount of interest capitalised of the Group was RMB57,293,000.

Property, plant and equipment

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 14 to the financial statements.

Investment properties

Details of the properties held for investment purpose of the Group during the year are set out in note 16 to the financial statements.

Charitable donations

During the year, the Company and the Group made charitable donations amounting to HK$1,000,000.

Share capital

The share capital structure of the Company as at 31 December 2006 are set out in the table below

Class of shares	**Number of shares**	**Percentage (%)**
Domestic Shares	1,863,400,000	63.68
H Shares	1,062,600,000	36.32
Total	2,926,000,000	100

Details of the movements in share capital of the Company during the year are set out in note 37 to the financial statements.

In April 2006, the Company issued 966,000,000 H Shares (including an over-allotment of 126,000,000 shares) by way of global offering and Hong Kong public offering at an offer price of HK$2.575 per H Share for the first time. At the same time, the 96,600,000 Domestic Shares held by the promoters of the Company were transferred to The National Social Security Fund Council of the PRC and converted into H Shares. The net proceeds received by the Company from the offering of 966,000,000 H Shares were approximately RMB2,385,343,000.

Pre-emption rights

There are no provisions for pre-emption under the Articles of Association of the Company, nor the laws of the PRC, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Purchase, redemption or sale of shares

During the year, none of the Company and any of its subsidiaries purchased, redeemed or sold any listed securities (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd. (the "Listing Rules")) of the Company.

Directors and supervisors

The directors and supervisors of the Company in office up to the date of this report are:

Executive directors:

Mr. Sun Hong *(Chairman)*	(appointed on 9 November 2005)
Mr. Zhang Fengge	(appointed on 9 November 2005, and re-designated from a Non-executive Director to an Executive Director on 13 April 2007)
Mr. Jiang Luning	(appointed on 9 November 2005)
Ms. Su Chunhua	(appointed on 9 November 2005)

Non-executive directors:

Mr. Lu Jianmin	(appointed on 9 November 2005)

Independent non-executive directors:

Mr. Yang Zan	(appointed on 9 November 2005)
Mr. Zhang Xianzhi	(appointed on 9 November 2005)
Mr. Ng Ming Wah, Charles	(appointed on 9 November 2005)

Supervisors:

Mr. Fu Bin	(appointed on 9 November 2005)
Mr. Zhang Guofeng	(appointed on 9 November 2005)
Mr. Diao Chengbao	(appointed on 9 November 2005)
Ms. Fu Rong	(appointed on 9 November 2005)
Ms. Xu Jinrong	(appointed on 9 November 2005)
Ms. Gui Yuchan	(appointed on 8 February 2006)

Pursuant to the Articles of Association of the Company, the directors and supervisors of the Company are appointed for a term of no more than three years.

The Company has received, from each of the independent non-executive directors, Mr. Yang Zan, Mr. Zhang Xianzhi and Mr. Ng Ming Wah, Charles, an annual confirmation of his independence. The Company considers all of the independent non-executive directors are independent of the Company.

Directors' and supervisors' service contracts

During the reporting period, each of the directors and supervisors of the Company has entered into a service contract with the Company for a term of not more than three years, which can be terminated by either party by giving a prior written notice of three months to the other party.

Save as disclosed above, the Company did not enter into a service contract with any director or supervisor, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

REPORT OF THE DIRECTORS *(continued)*

Directors' and supervisors' interests in contracts

Save for the service contract, no contract of significance to the Group in which the Company or its subsidiaries, its holding company or its subsidiaries was a party and in which a director or a supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Profiles of directors, supervisors and senior management

Profiles of the directors, supervisors and senior management of the Company are set out in the section headed "Profiles of Directors, Supervisors and Senior Management" in this annual report.

Interests and short positions in shares, underlying shares and debentures of the Company

As at 31 December 2006, none of the directors, supervisors, senior management and their associates had any interests and short positions in shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")); or as recorded in the register required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

Directors' and supervisors' rights to acquire shares and debentures

At no time during the year did the Company and its subsidiaries or its holding company and its subsidiaries grant any rights, was a party to any arrangement which would enable the directors and supervisors of the Company to acquire benefits by means of acquisition of shares or debentures of the Company or any other body corporate nor has exercised any such rights.

Directors' interests in competing businesses

As a result of the restructuring at the time of listing of the Company on 28 April 2006, the Company and the controlling shareholder entered into a non-competition agreement whereby the business of the Company and that of the controlling shareholders and its subsidiaries would not compete. None of the directors of the Company had any interest in any business which competes or may compete, whether directly or indirectly with the business of the Company and the Group. At the same time, the Company has received the undertakings and confirmations of the directors that they do not have any interest in any business that may compete with the Company.

Directors' and supervisors' remuneration

The remuneration of directors and supervisors of the Company are determined in accordance with their duties and responsibilities, subject to the approval of general meeting.

Details of the directors' and supervisors' remuneration are set out in note 11 to the financial statements.

At the Board meeting held on 13 April 2007, the Board proposed that the remuneration of Mr. Zhang Fengge as an executive director be RMB400,000 per annum effective on the date that the Board resolution was passed. Save for this remuneration, other remuneration arrangement may be determined by the Board.

The Board also proposed that the director's fees of Mr. Ng Ming Wah, Charles, an independent non-executive director of the Company, be adjusted from HK$160,000 to HK$200,000 per annum; the director's fees of each of Mr. Yang Zan and Mr. Zhang Xianzhi, be adjusted from RMB60,000 to RMB80,000 per annum. Adjustments to the director's fee of the above independent non-executive directors shall become effective as from 1 January 2007.

At the same time, the Board proposed to increase the remunerations of independent supervisors of the Company, Mr. Diao Chengbao and Ms. Fu Rong, from RMB40,000 to RMB60,000 per annum.

Adjustments to the remuneration of the above executive director and the directors' fees of the independent non-executive directors, and the remunerations of independent supervisors will be subject to the shareholders' approval at the annual general meeting

Five highest paid individuals

For the year ended 31 December 2006, information in respect of the five highest paid individuals of the Group is set out in note 11 to the financial statements.

Management contracts

The Company did not enter into any contract in respect of the management and administration of the entire or any significant part of the business of the Company or any such contract subsisting at any time during the year.

Connected transactions

During the year, the Group entered into the following transactions and arrangements with connected persons as defined in the Listing Rules:

Connected transactions exempted from requiring independent shareholders' approval

A. Disposal of assets

On 31 July 2006, Dalian Port Container Co., Ltd. (note 1) ("DPC") and Dalian Port Corporation Limited ("PDA") the controlling shareholder of the Company, entered into the first phase assets transfer agreement, pursuant to which, DPC shall transfer to PDA certain fixed assets, including terminals, warehouses, buildings, roads and lighthouses ("The Assets"), located in the Dagang area of Dalian City in two phases on 31 July 2006 and 31 December 2006 respectively. The total cash consideration of the two phases of the transaction was RMB60,397,000. The second phase of the asset transfer agreement was entered into on 9 January 2007.

The consideration under the asset transfer agreements was determined with reference to the net asset value of the Assets evaluated by an independent PRC qualified valuer.

The Assets were owned by DPC and leased to Dalian Dagang China Shipping Container Terminal Co., Ltd. ("DDCT") for its domestic trade container operations, and the Assets were located on the land the use rights of which belong to PDA.

As DDCT's operations have been relocated to Dayao Bay area of Dalian City, and PDA has undertaken not to carry on domestic trade container operation under a non-competition agreement. Accordingly, the transfer of the Assets shall not have any adverse effect on the Company and the shareholders as a whole.

B. Loan transactions

On 28 November 2006, Asia Pacific Ports Company Limited ("APP", a wholly-owned subsidiary of the Company) and Asia Pacific Carriers Ltd. ("APC", note 2) entered into the loan agreement, pursuant to which APP shall provide an interest-free shareholder's loan of HK$36,000,000 and an interest-bearing shareholder's loan of HK$60,000,000 to APC.

REPORT OF THE DIRECTORS *(continued)*

APC is the Company's indirect non wholly-owned subsidiary which is owned as to 60% by APP and 40% by Pacific Bulk Maritime Holdings Co., Ltd., ("Bulk Holdings"). As the principal business of APC is to invest in and operate two wholly-owned shipping companies which provide trans-shipment services for containers and the interest-free shareholders' loan obtained by APC are for general working capital and the interest-bearing shareholders' loan are to finance the purchase of two container vessels with a capacity of 600 TEUs each from an independent third party. Accordingly, the provision of loans under the loan agreements will facilitate the expansion of the Group's logistics service operation and strengthen its ability to provide logistic services for containers, which are in the interests of the Company and the shareholders as a whole.

The main terms and conditions of the loan agreements are:

- The interest rate of the interest-bearing shareholder's loan is 0.75% per annum over HIBOR for interest periods of 1, 2 or 3 months as selected by the borrower by reference to whichever month has a lower rate and by written notice to the lender;
- The term of the interest-bearing shareholder's loan is 3.5 years from the date of the first drawdown;
- The security of the interest-bearing shareholder's loan is the charge by Bulk Holdings in favour of APP over its 40% equity interests in APC;
- The interest-bearing shareholder's loan is repayable by six-monthly instalments and the last payment date shall be on or before the expiry of the term of the loan facility; and
- The interest free shareholder's loan is repayable on demand by APP to APC.

Non-exempt continuing connected transactions

The following continuing connected transactions have been entered into between the Group and Dalian Port Corporation Limited ("PDA") and/or its relevant associates (collectively referred to as "PDA Group" (note 3)). The following table sets out a summary of the non-exempt continuing connected transactions in 2006 which have been granted by The Stock Exchange of Hong Kong Limited a waiver under Rule 14A.42(3) of the Listing Rules from strict compliance with the otherwise applicable announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

Connected transactions		**Connected Persons**	**Exemption limited** (RMB'000)	**Actual amount for the year of 2006** (RMB'000)
A	Construction management services	Dalian Port Harbour Construction Superintendence and Consulting Company Limited	21,000	17,616
B	Terminal facilities design and construction services	PDA Group	265,000	167,701
C	Maintenance services	PDA Group	860	563
D	Agency services	Dalian Port Tongli Shipping Agency Company Limited	2,300	2,223
E	Comprehensive services	PDA Group	22,500	20,693
F	Property leasing	PDA Group	3,040	2,991
G	Purchase of diesel oil	PDA Group	25,000	23,297
Total			339,700	235,084

The proposed total annual cap for the connected transactions, comprising six types of transactions, entered into between the Group and PDA Group was RMB314,700,000 for the year ended 31 December 2006. The total actual expenditure incurred was RMB211,787,000 for the year ended 31 December 2006 and the total amount of each and all of the transactions did not exceed the caps of the waiver granted by The Stock Exchange of Hong Kong Limited.

A. Construction management services

On 23 March 2006, Dalian Port Harbour Construction Superintendence and Consulting Company Limited (note 4) ("Superintendence Company") and the Company (for itself and on behalf of its subsidiaries) entered into the construction management services agreement, pursuant to which, Superintendence Company will provide the Company and its subsidiaries with construction management and supervision services (including management of project bidding, land requisition and clearance and construction project supervision). The annual cap for 2006 was RMB21,000,000 and the actual expenditure incurred was RMB17,616,000 for the year ended 31 December 2006.

The main terms and conditions of the construction management services agreement are as follows:

- The price at which the relevant services are to be provided by Superintendence Company shall be fair and reasonable;
- The terms and conditions on which such services are to be provided by Superintendence Company should be no less favourable to the Company than those offered by independent third parties;
- The pricing principles for the provision of the relevant services shall be the price determined with reference to the relevant pricing policy prescribed by the relevant governmental authority (State price); and where there is no State price, then according to the price at which the same or comparable types of services are provided from independent third parties in the ordinary course of business; and
- The Construction Management Services Agreement will be for a term of three years commencing from 1 January 2006 and ending on 31 December 2008, unless at any time the Company gives at least 3 months' prior written notice of termination to the other party.

B. Terminal facilities design and construction services

On 23 March 2006, PDA Group (for itself and on behalf of its relevant associates) and the Company (for itself and on behalf of its subsidiaries) entered into the terminal facilities design and construction services agreement, pursuant to which, PDA Group and/or its relevant associates will provide the Company and its subsidiaries with terminal facilities design and construction services (including land filling, dredging, caisson pre-casting and construction of electricity facility and other supporting facilities). The annual cap was RMB265,000,000 and the actual expenditure incurred was RMB167,701,000 for the year ended 31 December 2006.

The main terms and conditions of the terminal facilities design and construction services agreement are as follows:

- The price at which the relevant services are to be provided by PDA and/or its relevant associates shall be fair and reasonable;
- The terms and conditions on which such services are to be provided by PDA and/or its relevant associates should be no less favourable to the Company than those offered by independent third parties;

REPORT OF THE DIRECTORS *(continued)*

- The pricing principles for the provision of the relevant services shall be the price determined with reference to the relevant pricing policy prescribed by the relevant governmental authority (State price); where there is no State price, then according to the price at which the same or comparable types of services are provided from independent third parties in the ordinary course of business (market price); and where the project is subject to public bidding, the pricing principle established during the open bidding; and

- The Terminal Facilities Design and Construction Services Agreement will be for a term of three years commencing from 1 January 2006 and ending on 31 December 2008, unless at any time the Company gives at least three months' prior written notice of termination to the other party.

C. Maintenance services

On 23 March 2006, PDA Group (for itself and on behalf of its relevant associates) and the Company (for itself and on behalf of its subsidiaries) entered into the maintenance services agreement, pursuant to which, PDA and/or its relevant associates will provide the Company and its subsidiaries with port maintenance services (including the maintenance of communication equipment and terminal equipment in Xingang). The annual cap for 2006 was RMB860,000 and the actual expenditure incurred was RMB563,000 for the year ended 31 December 2006.

The main terms and conditions of the maintenance services agreement are as follows:

- The price at which the relevant services are to be provided by PDA and/or its relevant associates shall be fair and reasonable;

- The terms and conditions on which such services are to be provided by PDA and/or its relevant associates should be no less favourable to the Company than those offered by independent third parties;

- The pricing principles for the provision of the relevant services shall be the price determined with reference to the relevant pricing policy prescribed by the relevant governmental authority (State price); and where there is no State price, then according to the price at which the same or comparable types of services are provided from independent third parties in the ordinary course of business (market price); and

- The Maintenance Services Agreement will be for a term of three years commencing from 1 January 2006 and ending on 31 December 2008, unless at any time the Company gives at least three months' prior written notice of termination to the other party.

D. Agency services

On 23 March 2006, the Company (for itself and on behalf of its subsidiaries) and Dalian Port Tongli Shipping Agency Company Limited (note 5) ("Tongli Agency") entered into the agency services agreement, pursuant to which, Tongli Agency will act as the agent for the Company and its subsidiaries to procure oil transportation companies to use the Company's oil terminal facilities. The annual cap was RMB2,300,000 and the actual expenditure incurred was RMB2,223,000 for the year ended 31 December 2006.

The main terms and conditions of the agency services agreement are as follows:

- The price at which the relevant services are to be provided by Tongli Agency shall be fair and reasonable;

- The terms and conditions on which such services are to be provided by Tongli Agency should be no less favourable to the Company than those offered by independent third parties;

- The services shall be provided by Tongli Agency on a commission basis of RMB1.5 per tonne of oil unloaded/loaded at the Company's oil terminal facilities in respect of the vessels of such customers provided by Tongli Agency, which is comparable to fees charged by independent third parties for similar services in the ordinary course of business. Tongli Agency will not charge any commission in respect of the first 500,000 tonnes of oil unloaded/loaded at the Company's oil terminals by customers provided by Tongli Agency each year during the term of the agency services agreement; and

- The Agency Services Agreement will be for a term of three years commencing from 1 January 2006 and ending on 31 December 2008, unless at any time the Company gives at least three months' prior written notice of termination to the other party.

E. Comprehensive services

On 23 March 2006, the Company (for itself and on behalf of its subsidiaries) and PDA (for itself and on behalf of its relevant associates) entered into the comprehensive services agreement, pursuant to which, PDA and/or its relevant associates will provide the Company and its subsidiaries with various comprehensive services, including the provision of utilities and social and ancillary services. The annual cap was RMB22,500,000 and the actual expenditure incurred was RMB20,693,000 for the year ended 31 December 2006.

The main terms and conditions of the comprehensive services agreement are as follows:

- The price at which the relevant services are to be provided by PDA and/or its relevant associates shall be fair and reasonable;

- The terms and conditions on which such services are to be provided by PDA and/or its relevant associates should be no less favourable to the Company than those offered by independent third parties;

- The pricing principles for the provision of the relevant services shall be State price; where there is no State price, then according to relevant market price; and where there is no relevant market price, then according to the contracted price; and

- The Comprehensive Services Agreement will be for a term of three years commencing from 1 January 2006 and ending on 31 December 2008, unless at any time the Company gives at least three months' prior written notice of termination to the other party.

REPORT OF THE DIRECTORS *(continued)*

F. Property Leasing

On 23 March 2006, the Company (for itself and on behalf of its subsidiaries) and PDA (for itself and on behalf of its relevant associates) entered into the property leasing agreement, pursuant to which, PDA and/or its relevant associates will provide the Company and its subsidiaries with land, premises, buildings and warehouse leasing services. The primary purpose of the property leasing agreement is to facilitate the long-term use of certain land, warehouse and office premises by the Company. The annual cap was RMB3,040,000 and the actual expenditure incurred was RMB2,991,000 for the year ended 31 December 2006.

The Properties Leasing Agreement will be for a term of three years commencing from 1 January 2006 and ending on 31 December 2008, unless at any time the Company gives at least three months' prior written notice of termination to PDA. PDA has agreed to provide a right of extension upon the expiry of the term set out in the Properties Leasing Agreement.

Subsequent to its listing on 28 April 2006, the Company entered into the following three continuing connected transactions:

G. Purchase of diesel oil

On 31 July 2006, the Company (for itself and on behalf of its subsidiaries) entered into the purchase of diesel oil agreement for a term of one year from 1 January 2006 to 31 December 2006 in respect of the purchase of diesel oil transaction from PDA Materials Supply Company (note 6). The annual purchase cap for 2006 was RMB25,000,000 and the actual expenditure for the year ended 31 December 2006 was RMB23,297,000.

By continuing the purchase of diesel oil from PDA Materials Supply Company on the terms and conditions set out in the purchase of diesel oil agreement, the Company could leverage on the stronger price bargaining power of PDA Materials Supply Company with the upstream diesel oil suppliers as a result of PDA Materials Supply Company's established relationship and volume purchase with such suppliers. In addition, the Company could enjoy the operational convenience offered by the warehousing and transportation facilities of PDA Materials Supply Company.

The main terms and conditions of the purchase of diesel oil agreement are:

- PDA Materials Supply Company shall supply diesel oil to the Company and/or its subsidiaries as requested from time to time during the term of the agreement;

- The price for each purchase under the agreement shall be the state regulated retail price of diesel oil with a discount according to the market situation; and

- The terms and conditions (including the pricing and payment terms) on which the diesel oil are to be provided by PDA Materials Supply Company should be no less favourable to the Company than those offered by independent third parties to the Company. The Company and/or its subsidiaries retain the rights to choose to purchase diesel oil from an independent third party where the terms (including the pricing and payment terms) offered by such independent third party may be more favourable than those offered by PDA Materials Supply Company.

H. Boiler management services

On 21 December 2006, the Company and Dalian Port Rixing Industrial Company Limited (note 7) ("Rixing Industrial Company") entered into the boiler management agreement, pursuant to which, Rixing Industrial Company shall provide boiler management services to the Company for one year from 1 January 2007 to 31 December 2007 with an annual cap of RMB3,000,000. Rixing Industrial Company has qualified personnel recognised by the government authority and has been providing boiler management services for PDA Group and its certain associates for many years.

The main terms and conditions of the boiler management agreement are:

- The management services include boiler operation services, steam pipes operation service and the related general maintenance services; and

- The terms and conditions (including the pricing and payment terms) on which the management services are to be provided by Rixing Industrial Company is no less favourable to the Company than those available from any independent third party for similar services.

I. Steam and heat supply services

On 21 December 2006, the Company and PDA (for itself and on behalf of its associates) entered into the steam and heat supply agreement, pursuant to which, the Company shall provide steam and heat supply to PDA and/or its relevant associates for one year from 1 January 2007 to 31 December 2007 with an annual cap of RMB6,500,000.

The steam and heat produced by the boilers of the Company currently exceeds the operation needs of the Company. The supply of the surplus steam and heat to PDA and/or its relevant associates will provide additional revenue to the Company.

The main terms and conditions of the steam and heat supply services agreement are:

- The Company shall have the right to terminate the agreement by giving at least 30 days' prior notice;

- The price shall be determined with reference to the relevant pricing policy prescribed by the relevant governmental authority; where there is no such pricing policy, then according to the price at which the same or comparable types of services are provided to independent third parties in the ordinary course of business; and

- The terms and conditions (including the pricing and payment terms) are no less favourable to the Company than terms available to independent third parties.

Notes:

Notes 1 Dalian Port Container Co., Ltd. is a subsidiary of the Company which holds 90.99% of its shares;

Notes 2 Asia Pacific Carriers Ltd., is a subsidiary of the Company which indirectly holds 60% of its shares;

REPORT OF THE DIRECTORS *(continued)*

Notes 3 PDA Group denotes Dalian Port Corporation Limited and its relevant associates (excluding the Group), the controlling shareholder of the Company, is a company with limited liability wholly-owned by Dalian Municipal People's Government. Subsequent to the issue of H Shares by the Company, PDA holds 62.09% of the Company's shares;

Notes 4 Dalian Port Harbour Construction Superintendence and Consulting Company Limited is a subsidiary of PDA which holds 75% of its shares;

Notes 5 Dalian Port Tongli Shipping Agency Company Limited is a subsidiary of PDA which holds 50% of its shares;

Notes 6 PDA Materials Supply Company, a branch company of PDA, is presently undergoing corporate conversion. Subsequent to the conversion, it will not be attached to PDA;

Notes 7 Rixing Industrial Company is an associate of PDA which holds 35% of its shares;

The independent non-executive Directors of the Company have reviewed the above continuing connected transactions and confirmed that those transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreements governing the relevant transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Pursuant to Rule 14A.38 of the Listing Rules, the Directors engaged the auditors of the Company to perform certain agreed-upon procedures in respect of the Group's continuing connected transactions as mentioned in A to G above for the year ended 31 December 2006 and the auditors have reported their factual findings on these procedures to the Board of Directors with a letter confirming that such continuing connected transactions did not exceed the relevant annual caps disclosed in the Prospectus.

The Directors confirm that the Company has compiled with the disclosure requirements with respect to the aforementioned connected transactions in accordance with Chapter 14A of the Listing Rules.

Major customers and suppliers

During the year, the Group's major customers and suppliers accounted for the following percentages of the Group's turnover and purchases:

The largest supplier as a percentage of the Group's purchases	41.16%
The top five suppliers as a percentage of the Group's purchases	85.10%
The largest customer as a percentage of the Group's turnover	15.96%
The top five customers as a percentage of the Group's turnover	32.72%

None of the directors, supervisors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's share capital) had any interest in the top five customers of the Group.

During the year, the top five suppliers of the Group and the interests held by the related parties and the shareholders in the top five suppliers are

Suppliers	Interest Relationship
PDA Materials Supply Company	A branch company of Dalian Port Corporation Limited, the controlling shareholder of the Company
Dalian Port Electric Power Company (大連港電力公司)	A branch company of Dalian Port Corporation Limited, the controlling shareholder of the Company
Dalian Port Corporation Limited	the controlling shareholder of the Company
Dalian Port Rixing Industrial Company Limited	Dalian Port Corporation Limited, the controlling shareholder of the Company, owns its 35% equity interests
Dalian Port Labour Company	A wholly-owned subsidiary of Dalian Port Corporation Limited, the controlling shareholder of the Company

Save as disclosed above, none of the directors, supervisors or their associates of the Company had any interest in the top five suppliers.

Retirement benefit scheme

Details of the Group's retirement benefit scheme are set out in note 10 to the financial statement.

Substantial shareholders' interests

As at 31 December 2006, so far as was known to the Directors of the Company, the following persons (other than the directors or supervisors) had an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO:

Name of Shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	As a % of relevant class of share capital[1]	As a % of total share capital[2]
Dalian Port Corporation Limited	Domestic shares	1,816,815,000 (long position)	Beneficial owner	97.5%	62.09%
Nippon Yusen Kabushiki Kaisha	H shares	114,800,000 (long position)	Interest of controlled corporation	10.80%	3.92%
N.Y.K. Line Group (Hong Kong) Limited	H shares	114,800,000 (long position)	Interest of controlled corporation	10.80%	3.92%
N.Y.K. Line (Hong Kong) Limited	H shares	114,800,000 (long position)	Beneficial owner	10.80%	3.92%
China Shipping (Group) Co., Ltd.	H shares	93,042,000 (long position)	Interest of controlled corporation	8.76%	3.18%

REPORT OF THE DIRECTORS *(continued)*

Name of Shareholder	Class of shares	Number of shares/ underlying shares held	Capacity	As a % of relevant class of share capital[1]	As a % of total share capital[2]
China Shipping (Hong Kong) Holdings Co, Limited	H shares	93,042,000 (long position)	Interest of controlled corporation	8.76%	3.18%
China Shipping Terminal Development (Hong Kong) Holdings Company Limited	H shares	93,042,000 (long position)	Beneficial owner	8.76%	3.18%
The Capital Group Companies, Inc.	H shares	93,992,000 (long position)	Beneficial owner	8.85%	3.21%
The National Social Security Fund Council of the PRC	H shares	96,600,000 (long position)	Beneficial owner	9.09%	3.30%

1. The relevant class of share capital: Domestic shares - 1,863,400,000 shares, H shares - 1,062,600,000 shares.

2. Total share capital: 2,926,000,000 shares.

Save as disclosed above, as at 31 December 2006, so far as was known to the Directors of the Company, no other persons (other than the directors or supervisors) had an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under section 336 of the SFO.

Sufficiency of public float

Based on the information publicly available to the Company and so far as was known to the Directors, not less than 25% of the Company's total issued share capital was held by public as specified in the Listing Rules as at the date of this report.

Corporate governance

Since its listing on the Stock Exchange on 28 April 2006, the Company has strived to maintain a high standard of corporate governance in order to enhance the transparency of the Company's operations and safeguard the interests of all shareholders. Relevant details are set out in the section headed "Corporate governance report" of this annual report.

Auditors

The financial statements have been audited by Deloitte Touche Tohmatsu CPA Ltd and Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as the Company's domestic and international auditors, who will retire at the forthcoming annual general meeting. The Board will propose a resolution to re-appoint them as the auditors of the Company at the forthcoming annual general meeting subject to approval of shareholders.

Other matters

Implementation of the Non-Competition Agreement

On 23 March 2006, the Company and PDA entered into the Non-Competition Agreement, pursuant to which the Company has been granted options and first rights by PDA so that the Company may decide to acquire or hold any direct or indirect interests in businesses owned and carried on or participated by PDA. The independent non-executive directors shall have the right on behalf of the Company to review at least on an annual basis and determine the exercise of any of the aforesaid first rights or options.

During the year, the Company and PDA have strictly followed the provisions of the non-competition agreement and there were no breaches.

Subsequent events

A. Acquisition of equity interests

The Company acquired from Dalian Port Corporation Limited the equity interests in four companies owned by it in order to support and complement the business expansion of the Company. Relevant details are set out in the section headed "Management discussion and analysis" of this annual report.

B. Development of Dayaowan North Harbour

The Company, jointly with Modern Terminals Limited, has entered into a framework agreement on strategic cooperation with Dalian Municipal Port Administration Bureau (on behalf of Dalian municipal people's government) for the proposed development and construction of deep-water container terminals at Dayaowon North Harbour. Relevant details are set out in the announcement of 20 March 2007 issued by the Company.

By Order of the Board

Sun Hong
Chairman

Dalian, PRC
13 April 2007