

CORPORATE GOVERNANCE REPORT

Introduction

Dalian Port (PDA) Company Limited (the "Company") understands the significance of corporate governance, and recognises that maintaining a high standard of corporate governance is in the fundamental interests of the Company and its shareholders. The Company strives to improve its corporate governance practices since its establishment, and adopted the code provisions (the "Code Provisions") set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as its own code on corporate governance practices immediately following its listing on The Hong Kong Exchange of Hong Kong Limited (the "Stock Exchange") on 28 April 2006. In addition, the Company has also adopted a series of measures to maintain a high standard of corporate governance.

The delineation on the corporate governance practices of the Company from 1 January 2006 to 31 December 2006 ("reporting period") as set out in this report are based on the Corporate Governance Code.

A. No deviation from the Code Provisions

The board of directors (the "Board") monitors and reviews the existing corporate governance practices continually on a regular basis with the aim of fostering a sound standard of corporate governance. As far as the Corporate Governance Code is concerned, the Company has complied in all respects with the Corporate Governance Code, without any deviation from the Code Provisions.

B. The Board

Resting on the principle of "in the best interests of the Company and its shareholders", the Board of the Company assumes the responsibility of leading and controlling of the Company and be responsible for promoting the sustainable development of the Company by directing and supervising the Company's affairs.

1. Board composition

As at the date of this report, the Board of the Company consists of four executive directors, one non-executive director and three independent non-executive directors, who were elected at the inaugural meeting of the Company on 9 November, 2005. The Directors currently in office as at the date of this report are as follows:

Executive directors

- Mr. Sun Hong (Chairman)
- Mr. Zhang Fengge (Note 1)
- Mr. Jiang Luning (General Manager)
- Ms. Su Chunhua (Chief Accountant)

Note 1: On 13 April 2007, Mr Zhang Fengge has been re-designated from a non-executive director to an executive director.

Non-executive directors

- Mr. Lu Jianmin

Independent non-executive directors

- Mr. Yang Zan
- Mr. Zhang Xianzhi
- Mr. Ng Ming Wah, Charles

During the reporting period, each director has entered into a service agreement with the Company for a term of no more than three years.

Biographies of the directors are set out in the section headed “Profiles of Directors, Supervisors, Senior Management” of this annual report. The executive and non-executive directors of the Company have rich expertise, extensive experiences and skills in management, business, finance and other related areas of port entities, which benefit the adoption of the Company’s strategy. The three independent non-executive directors of the Company are highly experienced professionals with extensive expertise in professional areas, such as accounting, finance, corporate management and logistics.

All independent non-executive directors have confirmed their independence during the reporting period to the Company as required under Rule 3.13 of the Listing Rules. The Company considered such directors to be independent during the reporting period.

The Company believes that the board composition and the balance between the executive and non-executive directors and the independent non-executive directors are reasonable and adequate to provide checks and balances that safeguard the interests of shareholders and the Company as a whole. Furthermore, the Directors are well aware of their collective and individual responsibilities to the shareholders, and have sufficient abilities and adequate energy to perform their duties.

During the reporting period, save for their relationship with the Company, there was no financial, business, family or other material/relevant relationships among the members of the Board.

2. *Operation of the Board*

Pursuant to the Articles of Association of the Company, the Board is required to hold at least 4 regular board meetings each year, to be convened by the chairman. In order to give the directors every opportunity to attend board meetings, a notice of at least 14 days shall be given to all directors for a regular board meeting. For an extraordinary board meeting, a notice of at least 5 days shall be given to all directors stating the time, place and means by which the extraordinary board meeting will be conducted.

The quorum for a Board meeting is that at least over half of directors are present. The directors may attend the board meeting in person, or appoint other directors in writing as his proxy to attend the Board meeting. The company secretary shall be responsible for preparing and keeping the minutes of Board meetings and ensure that such minutes are available for inspection by any director.

CORPORATE GOVERNANCE REPORT *(continued)*

During the reporting period, the Board held a total of five board meetings. The attendance rates of the directors at Board meetings during the reporting period were as follows:

Member of the Board	Attendance/ Total number of meetings	Attendance rate
Mr. Sun Hong (<i>Chairman</i>)	5/5	100%
Mr. Jiang Luning	5/5	100%
Ms. Su Chunhua	5/5	100%
Mr. Lu Jianmin	5/5	100%
Mr. Zhang Fengge	5/5	100%
Mr. Yang Zan	5/5	100%
Mr. Zhang Xianzhi	5/5	100%
Mr. Ng Ming Wah, Charles	5/5	100%

3. *Powers exercised by the Board and the management*

The powers and responsibilities of the Board and the management have been clearly defined in the Articles of Association of the Company, which aims to provide adequate check-and-balance mechanism for internal control and good corporate governance.

The directors are responsible for the preparation of the accounts for each financial period which give a true and fair view of the state of affairs of the Company and of the results and cash flows for that period. In preparing the accounts for the year ended 31 December 2006, the directors have selected appropriate accounting policies and applied them consistently; made judgments and estimates that are prudent and reasonable; and have prepared the accounts on a going concern basis.

The Board is responsible for deciding on the Company's business and investment plans, drawing up the Company's basic management system and deciding on the establishment of the internal management structure, determining other material business and administrative matters and monitoring the performance of the senior management.

The management, under the leadership of the general manager (who is also an executive director), is responsible for implementing the resolutions approved by the Board and administering the Company's day-to-day operation and management.

To ensure the efficient operation of the Company, the management is required to submit regular reports on the Company's operations to the Board. The Board shall review and approve such reports, which are used in assessing and monitoring the performance of the management. Management are from time to time brought into formal and informal deliberations with the Board in relation to the relevant issues on operations and business of the Company, and provide sufficient information at the appropriate time so that the Board is able to make an informed decision.

4. *Chairman and general manager*

The posts of Chairman and general manager of the Company are segregated and held by different persons to ensure their respective independence of responsibility and accountability and the balance of power and authority between them. The Chairman, Mr. Sun Hong, plays a critical role in setting the development strategy of the Company, and is responsible for ensuring that the Board is functioning properly and with well-formulated corporate governance practices and procedures, whilst Mr. Jiang Luning, the general manager, is responsible for the day-to-day management of the Company's operations, including organising implementation of strategies set by the Board, making day-to-day decisions and coordinating overall business operations.

5. *Nomination, appointment and removal of directors*

The Company has formulated a formal and transparent procedure for the appointment of new directors to the Board. Nominations and appointments of new directors shall be first considered by the Nomination and Remuneration Committee whose recommendations will then be put to the Board for consideration. All newly nominated directors are subject to election at general meetings.

Removal of members of the Board and their remuneration and methods of payment are subject to approval of general meetings.

6. *Board Committees*

The Board has established an audit committee and a nomination and remuneration committee in accordance with the requirements of the Listing Rules.

Audit Committee

During the reporting period the audit committee consists of one non-executive director and two independent non-executive directors, namely, Mr. Zhang Fengge, Mr. Zhang Xianzhi and Mr. Ng Ming Wah, Charles. Mr. Zhang Xianzhi serves as the Chairman.

The primary duties of the audit committee include making recommendations to the Board on the appointments and removals of external auditors, coordinating with external auditors, leading internal audits, reviewing the Company's financial information and monitoring the Company's reporting processes and internal control systems.

CORPORATE GOVERNANCE REPORT *(continued)*

During the reporting period, the audit committee held four meetings, with an overall average attendance rate of 100%. The members of the audit committee discussed the improvement of internal control procedures, connected transactions and other matters falling within the duties of the audit committee. The attendance of individual member of the audit committee at the meetings is set out below:

Member of the Audit Committee	Attendance/ Total number of meetings	Attendance rate
Mr. Zhang Xianzhi (<i>Chairman of the committee</i>)	4/4	100%
Mr. Ng Ming Wah, Charles	4/4	100%
Mr. Zhang Fengge (<i>Note 2</i>)	4/4	100%

Note 2: Since his re-designation on 13 April 2007 (see Note 1), Mr Zhang Fengge was no longer a member of the audit committee, and Mr Lu Jianmin, a non-executive director, has been appointed as a member of the audit committee to take his place.

Nomination and remuneration committee

During the reporting period the nomination and remuneration committee consists of two independent non-executive directors and one non-executive director, namely, Mr Yang Zan, Mr Ng Ming Wah, Charles and Mr Lu Jianmin. Mr. Yang Zan serves as the Chairman.

The primary duties of the nomination and remuneration committee are to study and formulate the criteria and procedures of selection and appraisal, the remuneration and benefits policy and compensations of directors and senior management of the Company, and to make recommendations to the Board on human resources structure, planning, remuneration system and human resources system.

During the reporting period, the nomination and remuneration committee held two meetings, with an overall average attendance rate of 100%. The relevant matters falling within the duties of the committee were considered at the meetings. The attendance of individual member of the nomination and remuneration committee at the meetings is set out below:

Member of the Nomination and Remuneration Committee	Attendance/ Total number of meetings	Attendance rate
Mr Yang Zan (<i>Chairman of the committee</i>)	2/2	100%
Mr Ng Ming Wah, Charles	2/2	100%
Mr Lu Jianmin (<i>Note 3</i>)	2/2	100%

Note 3: Mr Lu Jianmin resigned as a member of the nomination and remuneration committee on 13 April 2007, Mr Sun Hong has been appointed as a member of the nomination and remuneration committee to take his place.

In order to enhance the professionalism and efficiency of the Board's decision-making on the material projects for business development and to meet the Company's needs for development, the Board has also set up the strategy development committee and the financial management committee.

The primary duties of the strategy development committee are to review and formulate the strategic directions and development plans of the Company, to study material market developments and operation strategies, to review major investments, financing options, capital operation and asset restructuring.

During the reporting period, the strategy development committee held one meeting, with an overall average attendance rate of 100%.

Member of the strategy development Committee	Attendance/ Total number of meetings	Attendance rate
Mr Sun Hong (<i>Chairman of the committee</i>)	1/1	100%
Mr Yang Zan	1/1	100%
Mr Jiang Luning	1/1	100%

The primary duties of the financial management committee are to review the Company's financial and accounting system and internal control system, to check the financial regulations, annual budget and final account proposals as well as profit distribution plan of the Company, and to investigate financial risk-preventive measures, financing, investment and other capital operations of the Company.

During the reporting period, the financial management committee held one meeting, with an overall average attendance rate of 100%.

Member of the Financial Management Committee	Attendance/ Total number of meetings	Attendance rate
Mr Zhang Fengge (<i>Chairman of the committee</i>)	1/1	100%
Mr Zhang Xianzhi	1/1	100%
Ms Su Chunhua	1/1	100%

7. *Directors' securities transactions*

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules (the "Model Code") as the Company's code of conduct and rules governing dealings by its directors in the securities of the Company. In response to the enquiry on all directors of the Company, the directors confirmed that they have complied with the required standards set out in the Model Code during the reporting period.

C. Auditors

Deloitte Touche Tohmatsu CPA Ltd., and Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong have been appointed as the Company's domestic and international auditors, respectively, by the Board.

During the reporting period, the fees payable to the auditors for audit service and non-audit service (related to global offering inclusive) are approximately HKD3,190,000 and HKD5,549,500, respectively.

CORPORATE GOVERNANCE REPORT *(continued)*

D. Senior management's interests in shares

During the reporting period, none of the senior management had any interests in the shares of the Company.

E. Internal controls

The Company has set up an appropriate internal control system to deal with connected transactions, internal audit, disclosures and other relevant matters. The Board has reviewed the effectiveness of the internal control system, and considers that the system is effective, and will continue to enhance the internal control systems to promote the governance of the Company.

1. *Internal audit*

The Board has established an audit committee as part of the internal control system of the Company. Details of the audit committee are set out in Part B. 6 of this report.

The Company has set up an internal audit function by appointing qualified personnel as the internal auditor to strengthen the internal control of the Company. The role of the internal auditor is to assist the audit committee in ensuring that the Company maintains a sound internal control system by reviewing all aspects of the Company's activities and internal controls, conducting audits of the practices and procedures of the Company and its subsidiaries on a regular basis. The internal auditor has conducted an internal audit of the Company and its subsidiaries for the reporting period.

2. *Other internal control procedures*

The Company has formulated and approved the "Connected Transaction Management Rules" and approved the relevant internal control procedures to ensure the compliance with the connected transaction requirements under the Listing Rules.

Moreover, the Company has also formulated the "Information Disclosure Management Rules" governing the responsibilities and internal control procedures relating to the disclosures of significant matters and price sensitive information, and ensuring the disclosures of the Company are in compliance with the Listing Rules.

The Company has adopted a governance mechanism which is more stringent and prudent than Corporate Governance Code. The Board has also set up a financial management committee in order to further prevent the financial management risks of the Company and complement the internal controls of the Company to a more effective level.

In order to prevent any operation risks as a result of any misconduct and corrupt practice in the ordinary course of business effectively and allow the Board to obtain material information about the Company timely, the Company has also set up an internal control reporting system with a correspondent report channel to ensure a smooth communication between the Company and the directors.

F. Management functions

The powers and responsibilities of the Board and the management have been clearly defined under the articles of association of the Company. Such clear division of the duties of the Board and the management has ensured the standardised and effective operation of the Company. Please refer to Part B. 3 of this report for more details.

G. Shareholder's rights

The shareholders of the Company enjoy such rights as obtaining information and documents of the Company in accordance with the provisions of the Articles of Association. The primary responsibilities of the secretary to the Board, who is appointed by the Board, include: to warrant that the Company has complete organisational documents and records and to ensure that persons who have the right to obtain the Company's relevant records and documents can promptly obtain such records and documents.

Shareholders of the Company are encouraged to contact the secretary to the Board whenever they have such demands.

When the Company convenes an annual general meeting, shareholders holding 5% or more of the total voting shares of the Company shall have the right to propose new motions in writing, and the Company shall place on the agenda matters fallen within the terms of reference of the general meeting in the motion.

The Articles of Association of the Company states all rights of shareholders of the Company, including those rights which have been mentioned above. The Company has complied with all provisions of the relevant laws, regulations and the listing rules in ensuring that the rights of the shareholders are fully exercised.

H. General meetings

The general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with the Articles of Association of the Company and applicable laws and regulations. General meetings comprise annual general meetings and extraordinary general meetings and shall be normally convened by the Board.

During the reporting period, two general meetings were held. The first extraordinary general meeting, which was held on 8 February 2006, considered and approved the following resolutions:

- a. Election of an additional supervisor being a staff representative of the Company.
- b. Amendment to the articles of association according to the requirements of the PRC Company Law, which became effective on 1 January 2006, and the CSRC.

The second extraordinary general meeting, which was held on 1 December 2006, considered and approved the following resolutions:

- a. The conversion of the Company into a sino-foreign joint stock limited company and the related amendments to the Articles of Association.
- b. Grant of a general mandate to issue shares to the Board.

The Company has set up unhindered communications channels to safeguard the communication between the shareholders and the Company:

Joint Company Secretaries: Ms. Ma Jinru (86-411-82837683)
 Mr. Lee Kin Yu, Arthur (86-411-82798908)

Fax: 86-411-82798108

Company website: www.dlport.cn