

# CORPORATE GOVERNANCE REPORT

The Board of Directors (the “Board”) of COSCO Pacific Limited (the “Company”) is committed to achieving high standards of corporate conduct and places great importance on corporate governance processes and systems so as to ensure greater transparency and protection of shareholders’ interests. We consider good corporate governance to be the cornerstone of a well managed organisation.

The Company’s continuous effort to promote excellence and high standards of corporate governance practices and investor relations in 2006 continued to earn market recognition from different stakeholders. In 2006, our board was honoured by the Hong Kong Institute of Directors as a recipient of the “Directors of The Year Awards 2006” for its excellence in the board composition and competencies of directors and in recognition of the Board’s efforts in promoting the importance of good corporate governance practices. In addition, the Company was named one of the “Hong Kong Outstanding Enterprises” by the Economic Digest, selected as one of the “Forbes 2000 leading companies in the world”, one of the “China Shipping Gazette top 10 enterprises” and was nominated as a Finalist in the “Shipping In-House Team of the Year” in the ALB Hong Kong Law Awards organised by Asian Legal Business.

## CORPORATE GOVERNANCE PRACTICES

The Company adopted the code provisions set out in the Code on Corporate Governance Practices (the “Corporate Governance Code”) contained in Appendix 14 of 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 in January 2005. Long before the implementation of the Corporate Governance Code, the Company had taken its own initiative to disclose its corporate governance practices in its annual reports commencing from the year ended 31st December 2002.

We believe that commitment to good corporate governance is essential to the sustainability of the Company’s businesses and performances and are pleased to confirm that the Company has complied with the code provisions of the Corporate Governance Code for the year ended 31st December 2006 except for the following deviation:

### Code provision E.1.2

The code provision E.1.2 of the Corporate Governance Code provides that the Chairman of the Board shall attend the annual general meeting of the Company. Due to unexpected business commitment, Dr. WEI Jiafu, the Chairman of the Board who resides in Beijing, was unable to attend the annual general meeting of the Company held on 18th May 2006 in Hong Kong. This constitutes a deviation from the code provision E.1.2 of the Corporate Governance Code.

Outlined below are the policies, processes and practices adopted by the Company in compliance with the principles and spirit of the Corporate Governance Code.

## BOARD OF DIRECTORS

### BOARD COMPOSITION

The Board is responsible for the leadership and control of the Group (the Company and its subsidiaries) and is collectively responsible for promoting the success of the Group by directing and supervising the Group’s affairs. The Board should ensure compliance with applicable laws and regulations and every board member should act in good faith, exercise due diligence and care and act in the best interests of the Group and its shareholders.

The Board currently consists of 14 members. Among them, 7 are executive directors, 4 are independent non-executive directors and 3 are non-executive directors. The directors, as at the date of this report, are Dr. WEI Jiafu<sup>2</sup> (Chairman), Mr. CHEN Hongsheng<sup>1</sup>, Mr. LI Jianhong<sup>1</sup>, Mr. XU Lirong<sup>2</sup>, Ms. SUN Yueying<sup>1</sup>, Mr. XU Minjie<sup>1</sup> (Vice Chairman and Managing Director), Dr. SUN Jiakang<sup>2</sup>, Mr. WONG Tin Yau, Kelvin<sup>1</sup>, Mr. WANG Zhi<sup>1</sup>, Mr. QIN Fuyan<sup>1</sup>, Dr. LI Kwok Po, David<sup>3</sup>, Mr. LIU Lit Man<sup>3</sup>, Mr. CHOW Kwong Fai, Edward<sup>3</sup> and Mr. Timothy George FRESHWATER<sup>3</sup>.

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

Biographical details of the directors are set out in the “Directors and Senior Management Profiles” section of this annual report and the Company’s website at [www.coscopac.com.hk](http://www.coscopac.com.hk).

## SEPARATION OF CHAIRMAN AND MANAGING DIRECTOR

To ensure independence, accountability and responsibility, the posts of Chairman and Managing Director are separated and each of them plays a distinctive role. As at the date of this report, the Chairman, Dr. WEI Jiafu, who is a non-executive director, is responsible for setting the Group’s strategy and business directions and ensuring that the Board is functioning properly and with good corporate governance practices and procedures, whilst Vice Chairman and the Managing Director, Mr. XU Minjie <sup>Note</sup>, who is an executive director, supported by other board members and the senior management, is responsible for managing the Group’s business, including implementation of major strategies set by the Board, making day-to-day decisions and co-ordinating overall business operations. In addition, he guides and motivates the senior management towards achieving the Group’s objectives.

Note: Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007. Mr. XU Minjie was appointed as an Executive Director, Vice Chairman and Managing Director with effect from 24th January 2007.

## NON-EXECUTIVE DIRECTORS (INCLUDING INDEPENDENT NON-EXECUTIVE DIRECTORS)

The Company has three non-executive directors and four independent non-executive directors who are not involved in the day-to-day conduct of the Group’s businesses. The three non-executive directors are richly experienced in container shipping business and corporate management. These experiences, expertise and skills would facilitate the process of formulating the Company’s strategy. The four independent non-executive directors have substantial experience in areas such as accounting, legal, finance and business. Their mix of skills and business experience is a major contribution to the future development of the Company and the check-and-balance of the Board. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board’s decision-making processes. In addition, they facilitate the Board to

maintain a high standard of financial and other mandatory reporting and provide adequate check and balance to safeguard the interests of shareholders in general and the Company as a whole.

Each of the non-executive directors and independent non-executive directors has entered into an appointment letter with the Company pursuant to which each of them is appointed for service with the Company for a term of three years, subject to the rotational retirement provision of the Bye-laws of the Company. The appointment shall terminate on the earlier of either (i) the date of expiry of the 3-year period, or (ii) the date on which the director ceases to be a director for any reasons pursuant to the Bye-laws of the Company or any other applicable laws.

The Board has received from each independent non-executive director a written annual confirmation of his independence and is satisfied of his independence up to the date of this report in accordance with the Listing Rules.

In 2006, our Nomination Committee has conducted an annual review of the independence of all independent non-executive directors of the Company and confirmed that all the independent non-executive directors satisfied the criteria of independence, as set out in the Listing Rules.

## BOARD MEETINGS

The Board held a total of 4 regular board meetings during the financial year ended 31st December 2006, at quarterly intervals, and the average attendance rate was 86.15%. Additional meetings will be arranged as and when required. Of these, two meetings were held to approve the 2005 final results and 2006 interim results of the Company; the other two meetings were held to consider new investment opportunities and to review the strategic business directions, financial and operating performances of the Group. As the members of the Board are either in Hong Kong or in the People’s Republic of China, all of these meetings were conducted by video conferencing which is permitted under the Company’s Bye-laws. The Financial Controller and the Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial aspects.

## CORPORATE GOVERNANCE REPORT

Before each regular board meeting, the Board is supplied with relevant information by the senior management pertaining to matters to be brought before the Board for decision as well as reports relating to operational and financial performance of the Group, in addition to the minutes of the board meetings and board committee meetings. At least 14 days' notice of a regular board meeting is given to all directors to provide them with an opportunity to attend and all directors are given an opportunity to include matters in the agenda for a regular meeting. Board papers are despatched to the directors at least 3 days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. When directors are unable to attend a meeting, they are advised of the matters to be discussed and given an opportunity to make their views known to the Chairman prior to the meeting. Senior management who are responsible for the preparation of the Board papers are invited to present their papers and to take any questions or address queries that the Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of the Board's decision-making process.

The Chairman or the Vice Chairman of the Company conducts the proceedings of the Board at all board meetings. They ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that equal opportunities are given to the directors to speak and express their views and share their concerns. Minutes of the board meetings record in sufficient detail the matters considered by the Board and the decisions reached, including any concerns raised by the directors. Draft minutes of each board meeting are sent to all the directors for comments within a reasonable time after the date on which the board meeting is held. All directors have access to the Company Secretary who is responsible for ensuring that the board procedures are complied with and advising the Board on compliance matters.

Set out below are the details of all directors' attendance at the regular board meetings during the financial year ended 31st December 2006 which illustrate the attention given by the Board in overseeing the Company's affairs:

### ATTENDANCE OF INDIVIDUAL MEMBERS AT REGULAR BOARD MEETINGS

Name of Directors	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Dr. WEI Jiafu <sup>2</sup> (Chairman)	4/4	100%
Mr. CHEN Hongsheng <sup>1</sup>	4/4	100%
Mr. LI Jianhong <sup>1</sup>	2/4	50%
Mr. XU Lirong <sup>2</sup>	3/4	75%
Ms. SUN Yueying <sup>1</sup>	4/4	100%
Dr. SUN Jiakang <sup>1</sup> (Vice Chairman and Managing Director) <sup>Note</sup>	4/4	100%
Mr. WONG Tin Yau, Kelvin <sup>1</sup>	4/4	100%
Mr. WANG Zhi <sup>1</sup>	4/4	100%
Mr. QIN Fuyan <sup>1</sup>	3/4	75%
Dr. LI Kwok Po, David <sup>3</sup>	2/4	50%
Mr. LIU Lit Man <sup>3</sup>	3/4	75%
Mr. CHOW Kwong Fai, Edward <sup>3</sup>	4/4	100%
Mr. Timothy George FRESHWATER <sup>3</sup>	2/4	50%

<sup>1</sup> Executive Director

<sup>2</sup> Non-executive Director

<sup>3</sup> Independent Non-executive Director

Note: Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007. Mr. XU Minjie has been appointed as an Executive Director, Vice Chairman and Managing Director with effect from 24th January 2007.

## APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

The Company follows a formal, considered and transparent procedure for the appointment of new directors. The Nomination Committee, chaired by an independent non-executive director, comprising a majority of independent non-executive directors, has formulated a nomination policy and is responsible for identifying and nominating suitable candidates for the Board's consideration, recommendation to the shareholders for election at annual general meetings and nominating candidates to fill casual vacancy on the Board.

Details of the selection process of new directors and a summary of work performed by the Nomination Committee during 2006 are set out under the section "Nomination Committee" below.

At each annual general meeting, one-third of the directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every director shall be subject to retirement at least once every three years.

## PROCEDURE TO ENABLE DIRECTORS TO SEEK INDEPENDENT PROFESSIONAL ADVICE

To assist the directors to discharge their duties to the Company, the Board has established written procedures to enable the directors, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any director for such independent professional advice in 2006.

## RESPONSIBILITIES OF DIRECTORS

The Company has in place a clear corporate governance process to ensure that all directors fully appreciate their roles and responsibilities.

The Company Secretary, who is responsible directly to the Board, is responsible for keeping directors updated on all relevant regulatory changes of which she is aware, including organising appropriate continuing development programme for directors. All newly appointed directors will undergo a comprehensive programme which includes management presentations on the Group's businesses and strategic plans and objectives and receive a comprehensive orientation package on appointment which includes policies on disclosure of interest in securities, prohibitions on dealing in the Company's securities and restrictions on disclosure of price sensitive information. They are also updated from time to time on changes in relevant laws and regulations. Directors may request further explanations, briefings or informal discussions on any aspect of the Group's operations or business issues from the management.

The Company has arranged for liability insurance to indemnify its directors for their liabilities arising out of corporate activities. The insurance coverage is reviewed by the Company on an annual basis.

## DIRECTORS/SENIOR MANAGEMENT'S SECURITIES TRANSACTIONS

All directors are obliged to observe the requirements as stipulated in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by its directors in the securities of the Company. In addition, the Board also established written guidelines on no less exacting terms than the Model Code for the senior management of the Company in respect of their dealings in the securities of the Company. A committee comprising the Chairman, Vice Chairman and Managing Director and Deputy Managing Director was set up to deal with such transactions.

Specific confirmation has been obtained from directors and senior management to confirm their compliance with the Model Code and the aforesaid mentioned guidelines respectively for 2006. No incident of non-compliance was noted by the Company in 2006.

### FINANCIAL CONTROLLER

The Financial Controller is responsible for preparing interim and annual financial statements based on generally accepted accounting principles in Hong Kong and ensuring that the financial statements present fairly the results and the financial position of the Group and comply with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and other applicable laws and regulations. In addition, the Financial Controller is responsible for preparing the annual financial budget of the Company for approval by the Board. The Financial Controller is accountable to the Chairman of the Audit Committee and maintains regular communications with the external auditors. The Financial Controller also plays a role in reviewing and making recommendations to the Board regarding the Group's financial risk management and reviewing the effectiveness of the Company's system of internal control.

### COMPANY SECRETARY

The Company Secretary is responsible directly to the Board. All directors have access to the Company Secretary who is responsible for ensuring that board procedures are followed and that applicable laws and regulations are complied with. The Company Secretary is also responsible for providing advice to the Board in relation to the directors' obligations regarding disclosure of interests in securities, disclosure requirements in respect of notifiable transactions, connected transactions and price-sensitive information. The Company Secretary has to advise the Board on disclosure of information in a true, accurate, complete and timely manner in strict compliance with the requirements of the applicable laws, regulations and the Company's Bye-laws.

The Company Secretary is the alternate authorised representative of the Company and the primary channel of communications between the Company and The Stock Exchange of Hong Kong Limited. She assists the Board in implementing and strengthening corporate governance practices with a view to enhancing long term shareholders' value. In addition, the Company Secretary will, on a timely basis, provide the directors with updated information regarding the directors' continuing legal, regulatory and compliance obligations.

### DELEGATION BY THE BOARD

#### MANAGEMENT FUNCTIONS

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The Board is responsible for establishing the strategic direction of the Group, setting objectives and business development plans, monitoring the performance of the senior management and assuming primary responsibility for establishing a good corporate governance culture. The management, under the leadership of the Managing Director (who is also the Vice Chairman), is responsible for implementing these strategies and plans. To ensure effective discharge of the Board's responsibilities, the management submits reports on the Company's operations to the Board on a regular basis. The Board reviews and approves the Company's annual budget and business plans, which serves as an important benchmark in assessing and monitoring the performance of the management. Directors have access to management and are welcome to request for explanations, briefings or discussions on the Company's operations or business issues.

#### BOARD COMMITTEES

To assist the Board in execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by the Board to various board committees, which review and make recommendations to the Board on specific areas. The Board has established a total of seven board committees, details of which are set out below, which consist of directors, members of senior management and management. Each committee has its defined scope of duties and terms of reference and the committee members are empowered to make decisions on matters within the terms of reference of each committee. These committees have the authority to examine particular issues and report back to the Board with their recommendations, where appropriate. The ultimate responsibility for the final decision on all matters, however, lies with the Board.

The terms of reference of the board committees setting out their roles and the authority delegated to them by the Board have been posted on the Company's website: [www.coscopac.com.hk](http://www.coscopac.com.hk). It is the Company's policy to ensure that the committees are provided with sufficient resources to discharge their duties. They have scheduled to meet regularly every year and will report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and the records are well maintained and minutes of meetings are circulated to the Board for information.

#### **(1) Executive Committee**

The Executive Committee consists of all executive directors of the Company who are principally based in Hong Kong. The purpose of establishing this committee is to smoothen the daily operations of the Company. As most of the directors of the Company are fully engaged in their major responsibilities and/or stationed in different cities such as Beijing, Shanghai and Hong Kong, it may, in practice, be practically difficult and inconvenient to convene a full board meeting or arrange all the directors to sign a written resolution on a frequent basis. Hence, the Board delegates powers to the Executive Committee to conduct and supervise the business of the Company and its staff.

During the year ended 31st December 2006, the Executive Committee held a total of 133 meetings. All the matters considered and decided by the Executive Committee at the committee meetings had been recorded in details by minutes. A committee member will present a summary report of the businesses transacted at the committee meetings to the board members at board meetings. All directors of the Company could inspect the minutes of the committee meetings at any time and upon request, the Company Secretary will provide a copy of the minutes of the committee meetings to the directors.

#### **(2) Audit Committee**

The Audit Committee, chaired by an independent non-executive director, consists of four members, all of whom are independent non-executive directors of the Company. All committee members are well-versed in the accounting, legal, banking and/or commercial areas. The committee is authorised by the Board to investigate any activity within its terms of reference. It has unrestricted access to information relating to the Group, to both the internal and external auditors, and to the management and staff. Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

The Audit Committee, in addition to providing advice and recommendations to the Board, also oversees all matters relating to the external auditors. It therefore, plays an important role in monitoring and safeguarding the independence of the external auditors. Both the Financial Controller and the Internal Auditor are directly accountable to the Chairman of the Audit Committee.

Regular meetings of the Audit Committee are held normally four times a year on a quarterly basis, with additional meetings arranged, as and when required. During the year ended 31st December 2006, a total of 5 meetings were held and the average attendance rate was 80%. A special meeting was held during the year at the request of the Chairman of the Audit Committee for the purpose of discussing certain alternative accounting treatment for the put options issued by the Company to the holders of the tradable A-share shareholders of China International Marine Containers (Group) Co., Ltd. ("CIMC Put Options") pursuant to the CIMC Share Reform Proposal in May 2006. After thorough discussion among the audit committee members, the external auditors and the senior management, the accounting treatment for the CIMC Put Options under the current accounting standards was determined.

## CORPORATE GOVERNANCE REPORT

The key matters deliberated on by the Audit Committee in 2006 included the following:-

- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters
- reviewed the draft annual report and interim report and assuring the completeness, accuracy and fairness of the financial statements of the Company
- reviewed the results of external audit and discussion with the external auditors on any significant findings and audit issues
- reviewed the internal audit plan and the internal audit reports
- discussed the implementation of internal control requirements (as to principles, practice, reporting and disclosures) as set out in Appendix 23 of the Listing Rules
- discussed the effectiveness of the systems of internal controls throughout the Group, including financial, operational and compliance controls, and risk management policies and systems established by the management
- discussed a proposal for the conversion of Hong Kong Financial Reporting Standards to International Financial Reporting Standards for the financial reporting of the Company
- discussed certain alternatives of the accounting treatment for the CIMC Put Options issued by the Company
- reviewed all continuing connected transactions of the Company and provided an opinion thereon

### ATTENDANCE OF INDIVIDUAL MEMBERS AT AUDIT COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Mr. CHOW Kwong Fai, Edward <sup>1</sup> (Chairman)	5/5	100%
Dr. LI Kwok Po, David <sup>1</sup>	4/5	80%
Mr. LIU Lit Man <sup>1</sup>	3/5	60%
Mr. Timothy George FRESHWATER <sup>1</sup>	4/5	80%

<sup>1</sup> Independent Non-executive Director

### (3) Remuneration Committee

The Remuneration Committee, led by an independent non-executive director, comprises 5 members, the majority of whom are independent non-executive directors of the Company. It formulates the Group's remuneration policy of directors and senior management, reviews and determines their remuneration packages and makes recommendations to the Board on the directors' fee and annual salary of directors. If necessary, it will engage professional advisers to assist and/or provide professional advice on relevant issues.

The Remuneration Committee considers several factors such as the salaries paid by comparable companies, time commitment, job responsibilities, performance of the individual and performance of the Company

before determining the remuneration packages (which comprise salaries, bonus, benefits in kind, etc.). The Committee will also review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time.

The following is a summary of the work of the Committee during 2006:

- reviewed the remuneration of directors and senior management
- reviewed the remuneration packages of all executive directors and senior management
- made recommendations to the Board of the remuneration of non-executive directors
- discussed long term incentive arrangements

## ATTENDANCE OF INDIVIDUAL MEMBERS AT REMUNERATION COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Mr. CHOW Kwong Fai, Edward <sup>1</sup> (Chairman)	5/5	100%
Dr. LI Kwok Po, David <sup>1</sup>	5/5	100%
Mr. LIU Lit Man <sup>1</sup>	4/5	80%
Dr. SUN Jiakang <sup>2</sup>	5/5	100%
Mr. LI Bing	5/5	100%

<sup>1</sup> Independent Non-executive Director

<sup>2</sup> Executive Director, Vice Chairman of the Board and Managing Director (Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007.)

### *Remuneration policy*

The remuneration policy of the Company for non-executive directors is to ensure that they are sufficiently yet not excessively compensated for their efforts and time dedicated to the Company and that for the employees, including the executive directors and senior management, is to ensure that the remuneration offered is appropriate for the duties and in line with market practice. The remuneration policy is to ensure that the pay levels are competitive and effective in attracting, retaining and motivating employees. No director, or any of his associates, is involved in deciding his own remuneration.

The key components of the Company's remuneration package include basic salary plus other allowances, discretionary cash bonus and mandatory provident fund. Cash bonus is tied to the performance of individual employee. As a long-term incentive plan and with the aim at motivating employees in the continued pursuit of the Company's goal and objectives, the Company has granted share options to subscribe for the shares of the Company to the employees of the Company based on their performance and contribution to the Company under the 1994 Share Option Scheme (terminated on 23rd May 2003) and 2003 Share Option Scheme.

### **(4) Nomination Committee**

The Nomination Committee, led by an independent non-executive director, comprises 3 members, the majority of whom are independent non-executive directors. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors, assessing the independence of independent non-executive directors and making recommendations to the Board on such appointments.

During the financial year ended 31st December 2006, the work performed by the Committee includes the following:-

- reviewed the adequacy of the size and composition of the Board
- made recommendations to the Board on relevant matters relating to the appointment and re-appointment of directors
- made recommendations to the Board on relevant matters relating to the appointment of senior management and committee members
- conducted an annual review of the independence of the independent non-executive directors

## CORPORATE GOVERNANCE REPORT

All new appointment of directors and nomination of directors for re-election at the annual general meeting are first considered by the Nomination Committee. The recommendations of the Nomination Committee will then be put to the Board for decision. New directors appointed by the Board are subject to re-election by shareholders at the next following general meeting or annual general meeting pursuant to the Bye-laws of the Company. In considering the new appointment or nomination of directors for re-election, the Nomination Committee will assess the

candidate or incumbent on criteria such as integrity, independent mindedness, experience, skill and the ability to commit time and effort to carry out his duties and responsibilities effectively etc.

In March 2007, the Nomination Committee nominated and the Board recommended Mr. LI Jianhong, Ms. SUN Yueying, Mr. WONG Tin Yau, Kelvin, Dr. LI Kwok Po, David and Mr. LIU Lit Man to retire at the 2007 annual general meeting and Mr. XU Minjie to retire at the forthcoming general meeting and stand for re-appointment by shareholders of the Company at such meetings.

### ATTENDANCE OF INDIVIDUAL MEMBERS AT NOMINATION COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
Dr. LI Kwok Po, David <sup>1</sup> (Chairman)	8/8	100%
Mr. LIU Lit Man <sup>1</sup>	8/8	100%
Dr. SUN Jiakang <sup>2</sup>	8/8	100%

1 Independent Non-executive Director

2 Executive Director, Vice Chairman of the Board and Managing Director (Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007.)

#### (5) Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee, led by an executive director, comprises 10 members (including executive directors, members of senior management and management). It considers, evaluates, reviews and recommends to the Board

the proposed major investments, acquisitions and disposals, conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction and business developments of the Company.

## ATTENDANCE OF INDIVIDUAL MEMBERS AT INVESTMENT AND STRATEGIC PLANNING COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
<b>Members</b>		
Dr. SUN Jiakang <sup>2</sup> (Chairman)	4/4	100%
Mr. WANG Zhi <sup>1</sup>	3/4	75%
Mr. QIN Fuyan <sup>1</sup>	3/4	75%
Mr. CHAN Hang, Ken	4/4	100%
Ms. YANG Jianjian	3/4	75%
Mr. DING Weiming	2/4	50%
Mr. YING Haifeng	2/4	50%
Mr. LI Wei (appointed on 30th August 2006)	0/2	0%
Mr. HUNG Chun, Johnny (appointed on 28th June 2006)	3/3	100%
Mr. FAN Chih Kang, Ken	4/4	100%
<b>Ex-members</b>		
Mr. WONG Tin Yau, Kelvin <sup>1</sup> (resigned on 30th August 2006)	1/2	50%
Mr. LAU Tai Ming, Eddy (deceased on 28th June 2006)	1/1	100%

1 Executive Director

2 Executive Director, Vice Chairman of the Board and Managing Director (Dr. SUN Jiakang resigned as Vice Chairman and Managing Director and re-designated from Executive Director to Non-executive Director with effect from 24th January 2007.)

### (6) Corporate Governance Committee

The Corporate Governance Committee, led by an executive director, comprises 6 members (including an executive director, members of senior

management and management). It reviews the corporate governance practice and disclosure systems of the Company and introduces relevant principles concerning corporate governance so as to enhance the standard of corporate governance of the Company.

## CORPORATE GOVERNANCE REPORT

### ATTENDANCE OF INDIVIDUAL MEMBERS AT CORPORATE GOVERNANCE COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
<b>Members</b>		
Mr. WONG Tin Yau, Kelvin <sup>1</sup> (Chairman)	4/4	100%
Ms. HUNG Man, Michelle	4/4	100%
Mr. YING Haifeng	4/4	100%
Mr. FAN Chih Kang, Ken	4/4	100%
Mr. LI Wei (appointed on 28th June 2006)	0/3	0%
Ms. LIU Mei Wan, May (appointed on 8th August 2006)	3/3	100%
<b>Ex-members</b>		
Mr. YUAN Qing (resigned on 8th August 2006)	1/1	100%
Mr. LAU Tai Ming, Eddy (deceased on 28th June 2006)	1/1	100%

<sup>1</sup> Executive Director

#### (7) Risk Management Committee

The Risk Management Committee, led by an executive director, comprises 8 members (including an executive director, members of senior management and

management). It provides support to the Board by identifying and minimising the operational risks of the Company, sets the direction for the Group's risk management strategy and strengthens the Group's system of risk management.

### ATTENDANCE OF INDIVIDUAL MEMBERS AT RISK MANAGEMENT COMMITTEE MEETINGS

Name of Members	No. of meetings attended/ held in the financial year 2006	Attendance Rate
<b>Members</b>		
Mr. WANG Zhi <sup>1</sup> (Chairman)	4/4	100%
Ms. HUNG Man, Michelle	4/4	100%
Ms. YANG Jianjian	2/4	50%
Mr. DING Weiming	4/4	100%
Mr. YING Haifeng (appointed on 28th June 2006)	2/2	100%
Mr. LI Wei	3/4	75%
Mr. SHI Jingmin (appointed on 30th August 2006)	1/1	100%
Mr. FAN Chih Kang, Ken	4/4	100%
<b>Ex-members</b>		
Mr. WONG Tin Yau, Kelvin <sup>1</sup> (resigned on 30th August 2006)	3/3	100%
Mr. LAU Tai Ming, Eddy (deceased on 28th June 2006)	2/2	100%

<sup>1</sup> Executive Director

## ACCOUNTABILITY AND AUDIT

### FINANCIAL REPORTING

The following statement, which sets out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on page 105 which acknowledges the reporting responsibilities of the Group's auditors.

#### *Annual Report and Financial Statements*

The directors acknowledge their responsibility for preparing the financial statements for each financial year which give a true and fair view of the results and the state of affairs of the Group.

#### *Accounting Policies*

The directors consider that in preparing the financial statements, the Group uses appropriate accounting policies that are consistently applied, and that all applicable accounting standards are followed.

#### *Accounting Records*

The directors are responsible for ensuring that the Group keeps accounting records which disclose, with reasonable accuracy, the financial position and results of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance, Listing Rules and applicable accounting standards.

#### *Safeguarding Assets*

The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### INTERNAL CONTROL

The Group has in place an internal control system that has been set up within the areas of the Group's control environment, risk areas, control and monitoring activities, and information and communication. The internal control system makes reference to the COSO framework developed by the Committee of Sponsoring Organisations of the Treadway Commission and also the Guide on Internal Control and Risk management issued by the Hong Kong Institute of Certified Public Accountants.

#### *Control Environment*

The maintenance of a high standard of control environment has been and remains a top priority of the Group. Therefore, the Group is dedicated to its enhancement and improvement on a continuous basis.

Recognising the importance of various values, including management's integrity, ethics, operating philosophy and commitment to organisational competence (quality of personnel), the Board has set out a direction for the internal control system in order to ensure achievement of the Group's objectives and identify discrepancies so that corrective actions could be taken in an efficient manner.

The management is primarily responsible for the design, implementation, and maintenance of the Group's internal control system with a view to providing sound and effective controls to safeguard shareholders' investment and the Company's assets. The internal control system covers all major and material controls, including financial, operational and compliance as well as risk management.

The Board is ultimately responsible for the effectiveness of the internal control and risk management system. The Audit Committee assists the Board to review the effectiveness of the internal control and risk management system through annually reviewing the underlying mechanism and functioning of the Group's internal control system and discussing their opinion with the Board as to the system effectiveness.

As the control environment is the foundation for all of the other components of the internal control system, the Group has defined a Group-wide structure of and has set up a procedure manual to regulate business processes and activities.

#### *Risk Assessment*

The Group is principally engaged in activities on container terminal, container leasing and management, logistics, container manufacturing and related businesses. The activities of the Group is exposed to a variety of risks which are categorised as financial risk, operational risk and compliance risk factors as shown below:

## CORPORATE GOVERNANCE REPORT

### Major financial risk factors

In the rapid expansion of its container fleet size and scale of terminal operations, the Group has maintained a certain leverage level to fund the need of the Group's large amount of capital expenditure. Changes in market interest rates can significantly affect the financial performance of the Group.

Following the expansion into the global market, the operating environment of the Group is increasingly complex and geographically diversified while the taxation environment is also an area of concern. As the businesses of the Group are predominantly carried out in China Mainland, the United States, Europe and Hong Kong, the Group is subject to risks which change as the system of taxation change in these regions.

The Group conducts business and operations internationally and is thus exposed to foreign exchange risk arising from various currency exposures. For the container leasing business, the primary currency involved is the US dollar while for the container terminal business, the primary currencies involved are Renminbi and EURO.

### Major operational risk factors

The volume, current purchasing price and per diem rates for the container leasing business fluctuate in response to the changes in the supply and demand for leased containers. These fluctuations affect the performance of the Group.

Another operational risk factor encountered by the Group is credit risk on accounts receivable.

### Major compliance risk factors

As the Group has been investing in China and gradually to overseas, these new investments may be exposed to various foreign legal and regulatory regimes of which involve different levels of transparency and compliance. Where necessary, the Group has sought independent professional advice regarding foreign jurisdictions in order to protect its interest. Regulatory changes designed to heighten transparency and raise the profile of compliance expose the Group to risks of satisfying diverse legal and regulatory requirements in a multitude of jurisdictions.

The Group is continuously expanding its business partnership network for container terminal business and, in particular, the number of container terminal joint venture companies which constitute subsidiaries of the Company under the existing Listing Rules is constantly increasing. This has resulted in an increase in connected transactions with (1) China COSCO Holdings Company Limited, an intermediate holding company of the Company, and COSCO Group; and (2) the Maersk Group, the DP World Group and various Port Authorities, which are respectively regarded as connected persons of the Group under the existing Listing Rules.

By the very nature of the Group business activities, transactions with these connected persons are necessary. However, the identification of connected persons and the updating of the non-exhaustive list of connected persons may prove to be difficult and the volume of such transactions may cause the identification, authorisation, recording and disclosure of such transactions expose the Group to compliance risk.

The Group is increasingly involved in new projects of significant size, which are often required to be disclosed or being made subject to shareholders' approval under the Listing Rules. Timely and strict compliance with the relevant regulatory requirements expose the Group to compliance risk.

To identify and analyse the relevant risks in achieving the Company's objectives, the internal control system is designed to provide reasonable, but not absolute, assurance against material misstatements and to manage rather than completely eliminate the risk of system failure in this regard. In addition to safeguarding the assets of the Company, the systems design also pays regard to the basis for determining control activities (fundamentally include financial, operational and compliance controls) and to ensure a high level of operational efficiency; to ensure the reliability of financial reporting; and to ascertain the compliance of laws, regulations and any other defined procedures.

For the purpose of better risk management, the Company assesses the likelihood and potential impact of each particular risk. It emphasises on changing operational behaviour and regards the internal control system as an early warning mechanism which would trigger the call for quick response. Monitoring and control procedures are derived thereon.

The Group's risk assessment process considers the entire organisation where significant relationships and portfolio of relationships such as fraud, going concern, internal and external reporting, and accounting in accordance with generally accepted accounting principles have been performed. When risks are identified, existing controls are examined to determine if there has been a failure in control, and if so, to determine the reason for such failure.

#### *Control Activities and Monitoring*

A sound system of internal controls requires a defined organisational and policy framework. The framework of the Company's internal control activities includes the following:

- (1) To allow delegation of authority, proper segregation of duties as well as to increase accountability, a clear organisational structure exists which details lines of authority and control responsibilities in each business unit of the Group. Certain specific matters are not delegated and are subject to the Board's decision. These include, among others, the approval of annual and interim results, annual budgets, distribution of dividends, board structure, and the board's composition and succession.
- (2) To assist the Board in execution of its duties, the Board is supported by seven Board Committees, namely, Executive Committee, Audit Committee, Remuneration Committee, Nomination Committee, Investment and Strategic Planning Committee, Corporate Governance Committee and Risk Management Committee. These committees make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the power delegated by the Board.
- (3) Systems and procedures are set up to identify, measure, manage and control risks including but not limited to legal, credit, concentration, operational, environmental, behavioral and systematic risk that may have an impact on the Group.

- (4) A comprehensive management accounting system is in place providing financial and operational performance measurement indications to the management and relevant financial information for reporting and disclosure purposes. Variances against actual performances and targets are prepared, analysed and explained. Appropriate actions are also taken to rectify the identified deficiencies, if necessary. This helps the management of the Group monitor business operations closely and enables the Board to formulate and, if necessary, revise strategic plan timely and prudently.

The Group places great importance on the internal audit functions. The internal auditor's roles include assisting the management and the Audit Committee to ensure the Group maintains an effective system of internal control by reviewing all aspects of the Group's activities with unrestricted right of access and conducting comprehensive audits of all practices and procedures on a regular basis. Additional attention is paid to control activities which are considered being of higher risk, include, amongst others, income, expenditures and other areas of concern being highlighted by management. The internal auditor, as head of the internal audit function, has free access to the Audit Committee and his reports go directly to the Managing Director and the Chairman of the Audit Committee. He attends meetings of the Audit Committee and brings matters identified during the course of internal audit to the Audit Committee. This reporting structure allows the internal auditor to stay independent and effective.

During the year, the internal audit function adopted a risk-based auditing approach that focuses on material internal controls, including financial, operational and compliance controls. Audits were carried out on all significant business units in the Group. All internal audit reports are submitted to the Audit Committee for review and approval. The internal auditor's summary of findings, recommendations and follow reviews of previous audit findings are discussed at the Audit Committee meetings.

## CORPORATE GOVERNANCE REPORT

The yearly internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group to establish audit scopes and frequencies. All internal audit works scheduled for the year of 2006 have been completed. All areas of concern reported by the internal auditor have been monitored by the management until appropriate corrective measures are taken or implemented.

- (5) The Board established the Audit Committee in August 1998. The Audit Committee assists the Board by providing independent review and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits.
- (6) The management, Financial Controller, General Counsel and Company Secretary and internal auditor conduct reviews of the effectiveness of the Company's system of internal control, including financial, operational and compliance controls and risk management function and the Audit Committee reviews the findings and opinion of the internal auditor and management on the effectiveness of the Company's system of internal control twice a year and reports annually to the Board on such reviews.
- (7) In consideration of those identified major risk factors, the Group imposed various internal control risk measures to mitigate the impact of financial risk, operational risk and compliance risk.

### Major financial risk measures:

- To reduce the interest rate risk exposure, the Group uses the diversified debt profiles (including different combination of bank borrowings and notes, different maturity profiles and different combination of fixed and floating interest rates debts) and, where considered necessary, hedging instruments. The effectiveness of the hedging relationship is assessed continuously and annually by reference to the Group's risk management objective and strategy.
- To ensure the tax risk is understood and properly controlled, management reviews and assesses the

global tax impact to the Group annually and conducts an annual Group tax planning exercise after seeking advices from different external consultants.

- The Group controls foreign exchange risk by conducting borrowings as far as possible in currencies that match with the Group's functional currency used for transacting the Group's major cash receipts and underlying assets. Borrowings for the container leasing business were conducted mainly in US dollars, which match well with the US dollar revenue and expenses of the leasing business, in order to minimise any potential foreign exchange risk. For those jointly controlled entities and associates for the container terminal business, all material borrowings were denominated in the respective functional currencies.

### Major operational risk measures:

- Management meetings among department heads and senior managements are held on a monthly basis to analyse and discuss the performance of each business segment and the response to the changes of business environment, market conditions and operational issues. For container leasing business, management holds weekly meetings with their operational managers to discuss the current leasing rate and current market price for containers and to convey the Group's strategies on market changes.
- For container leasing business, the Credit Committee establishes the maximum credit limit for each customer. The system would suspend the provision of services to those customers whose transactions exceed the defined credit limits.
- To ensure the stability and reliability of computer systems, those in relation to container leasing and terminal businesses are operated by trained professional, frequently checked and upgraded when necessary. Backup of all data are prepared timely. For security purpose, disaster recovery plan is developed.

### Major compliance risk measures:

- The General Counsel and Company Secretary of the Company formulates the overall strategies and mechanisms in relation to the Group's legal

compliance. Upon becoming aware of any material development in the legal environment, the Legal Department will communicate such updated information to the Board and disseminate the information within the Group if and when appropriate. The General Counsel coordinates the engagement of Hong Kong and foreign lawyers to provide professional advice on specialised and geographically diverged legal issues.

- A non-exhaustive list of connected persons is prepared and updated on a regular basis. In order to effectively assess and report any potential “connected transactions”, all originating departments are required to obtain and report the shareholding structure of respective new customers and business partners. If a customer is classified as a new “connected person”, both finance department and operation department will closely monitor the transaction amounts on a monthly basis. Management meetings are held regularly and on a quarterly basis to review the nature and amount of all connected transactions. Contract negotiation and conclusion in relation to connected transactions are cautiously authorised by appropriate level of management to ensure adherence to the Group’s pricing policy. Disclosures made to the public are continuously compared against the evolving disclosure requirements to ensure compliance with respective rules and regulations.
- The code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules are adopted by the Company.

#### ***Information and Communications***

- (1) The Company has a policy of open communication which allows strong access to both internally and externally generated information. Pertinent information is identified, captured and communicated in a timely manner.
- (2) To promote corporate governance and provide the shareholders with timely information about the financial performance of the Group, there is a regular dialogue with institutional shareholders and general

presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual reports, interim reports, press releases and also disseminates information relating to the Group and its business electronically through its website at [www.coscopac.com.hk](http://www.coscopac.com.hk). Shareholders are also welcome to raise enquiries at the Annual General Meeting where directors are available for direct communication.

- (3) The Company attaches great priority to fair disclosure as it is considered as a key means to enhance corporate governance standards and provide necessary information to shareholders and other stakeholders for their formation of own judgments as well as provision of feedback. The Company also understands that the integrity of the information provided is essential in building market confidence.
- (4) With respect to procedures and internal controls for handling and dissemination of price-sensitive information, the Company,
  - is well aware of its obligations under the Listing Rules and the overriding principle that information which is considered price-sensitive should be announced promptly after it is the subject of a decision;
  - conducts its affairs with close regard to the “Guide on Disclosure of Price-sensitive Information” issued by The Stock Exchange of Hong Kong Limited;
  - has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential, sensitive or insider information; and has communicated it to all staff; and
  - has established and implemented procedures for responding to external enquiries about the Company’s affairs. Only directors and delegated management of the Company can act as the Company’s spokesperson and respond to enquiries in allocated areas of issues.

## CORPORATE GOVERNANCE REPORT

The Board considered that the system of internal controls in place during the year is effective for the current business scope and operations of the Group. No significant areas of concern which might affect shareholders' interest were identified.

### AUDITOR'S REMUNERATION

For the year ended 31st December 2006, the auditor's remuneration paid or payable in respect of the auditing and other non-audit service provided by the auditor to the Company were as follows:

Nature of service	2006 US\$	2005 US\$
Audit service	615,000	726,000
Audit related service	128,000	323,000
Non-audit services:		
– Tax related services	655,000	262,000
– Circular related services	59,000	–
– Due diligence related services	35,000	–

### INVESTOR RELATIONS

The Company continues to promote and enhance investor relations and communications with its investors. Our dedicated investor relations team supports designated executive director and senior management in maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's development and attend to any queries promptly. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Press and analysts conferences are held at least twice a year subsequent to the interim and final results announcements at which the executive directors are available to answer questions regarding the Group's operational and financial performances.

### COMMUNICATION WITH SHAREHOLDERS

The Company believes regular and timely communication with shareholders as part of the Group's effort to help our shareholders understand our business better. The Company embraces and commits to fair, transparent and timely disclosure policy and practices. All price-sensitive information or data are publicly released, prior to individual sessions held with investors or analysts. There is a regular dialogue with institutional shareholders and general presentations are made when the financial results are announced. To foster effective communications, the Company provides extensive information in its annual report, interim report, press releases and also disseminates information relating to the Group and its business electronically through its website at [www.coscopac.com.hk](http://www.coscopac.com.hk). Shareholders and investors are welcome to raise enquiries through our Investor Relations Department whose contact details are available on the Company's website.

The Company views the Annual General Meeting ("AGM") as an opportune forum for shareholders to meet the Board and senior management. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholders' queries. The Chairmen of the audit, nomination and remuneration committees are normally available at AGMs to take any relevant questions. All shareholders will be given at least 21 days' notice of the AGM and they are encouraged to attend the AGM and other shareholders' meetings. The Company supports the Corporate Governance Code's principle to encourage shareholders' participation. Questioning by the shareholders at such meetings are encouraged and welcomed.

Shareholders holding not less than one-tenth of the issued capital of the Company may deposit a requisition to the Board or the Company Secretary of the Company to convene a special general meeting and state the purpose therefor at the Company's principal place of business in Hong Kong at 49th Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong. To facilitate enforcement of shareholders' rights, substantially separate issues at general meetings are dealt with under separate resolutions.

## SHAREHOLDINGS AND SHAREHOLDERS INFORMATION

### SHARE CAPITAL

(as at 31st December 2006)

Authorised share capital	HK\$300,000,000 divided into 3,000,000,000 shares of a par value of HK\$0.1 each
Issued and fully paid-up capital	HK\$222,868,429.80 comprising 2,228,684,298 shares of HK\$0.1 each

### TYPES OF SHAREHOLDERS

(as at 31st December 2006)

Type of shareholders	No. of shares held	% of the issued share capital
COSCO Pacific Investment Holdings Limited and its subsidiary	1,144,166,411	51.34
Other corporate shareholders	133,968,295	6.01
Individual shareholders	950,549,592	42.65
Total	2,228,684,298	100.00

### LOCATION OF SHAREHOLDERS

(as at 31st December 2006)

Location of shareholders (Note 1)	No. of shareholders	No. of shares held
Hong Kong	509	2,228,622,298 (Note 2)
Macau	1	2,000
United Kingdom	1	56,000
People's Republic of China	1	4,000
Total	512	2,228,684,298

Notes:

- 1 The location of shareholders is prepared according to the address of shareholders registered in the register of members of the Company.
- 2 These shares include 1,263,205,485 shares registered in the name of HKSCC Nominees Limited which may hold these shares on behalf of its clients in or outside Hong Kong.