

Corporate Governance

We have established a sound corporate governance framework, with reference to international best practices and the listing rules of the Stock Exchange, following the guiding principle that we are accountable to all shareholders and are committed to maximising shareholder value and enhancing information transparency. With the Board playing a pivotal role, the framework leverages on the supervisory functions of the Independent Non-Executive Directors and combines the collective decision making of the Board, to create the most appropriate form of corporate governance.

Board of Directors and the Management

The Board is responsible for formulating the Company's overall strategies and targets with a view to enhancing shareholder value and to monitoring and providing guidance to our Management. Out of the fifteen members on the Board, three of them are Independent Non-Executive Directors whose primary functions are to provide independent monitoring and to ensure the protection of minority shareholder interests. The remaining members including one Non-Executive Director and eleven Executive Directors.

The duties of the Board include establishing the strategic direction of the Group, setting objectives and monitoring the performance of the senior management. The positions and roles of the Chairman and the Vice-Chairman are separate from that of the Managing Director. The Chairman and the Vice-Chairman are responsible for formulating the overall strategies and policies of the Company. The Managing Director, supported by other board members and the senior management, is authorised by the Board to manage the day-to-day business operations of the Company in accordance with the Company's internal control policies and procedures.

Both the Board and the management of the Company have clearly defined authorities and responsibilities under various internal controls and check and balance mechanisms. Under the instructions of the Board, the management of the Company has implemented appropriate measures and internal control procedures to ensure that the Company operates within all applicable legal and regulatory requirements with prudence and integrity.

The Non-Executive Director and the Independent Non-Executive Directors, all of whom are independent of the management of the Company, are highly experienced professionals with diverse backgrounds. They ensure that the Board maintains high standards of financial and other mandatory reporting, in addition to providing adequate checks and balances to safeguard the interests of shareholders and the Company as a whole.

According to the bye-laws of the Company, all directors of the Company have to retire from office but shall be eligible for re-election at the annual general meeting.

Full Board meetings take place no less than twice a year to review the financial and operating performance of the Group. The Financial Controller and Company Secretary also attend all board meetings to advise on statutory compliance, accounting and financial matters. All businesses transacted at the meetings were documented and maintained in accordance with applicable laws and regulations.

The Audit Committee

Pursuant to the resolution passed on 16th April 2004, the Audit Committee consists of three Independent Non-Executive Directors and one Non-Executive Director, the chairman is an Independent Non-Executive Director. The members of the Audit Committee are: Mr. Chan Cheong Foon, Andrew (Chairman), Mr. Alexander Reid Hamilton, Mr. Tsui Yiu Wa, Alec and Mr. Kwong Che Keung, Gordon.

In addition to assisting the Board in fulfilling its overall responsibilities, the functions of the Audit Committee also include reviewing important accounting policies and supervising the Company's financial reporting process; monitoring the performance of Internal Audit Manager and the external auditors; reviewing and examining the effectiveness of the Company's financial reporting procedures and internal controls; ensuring compliance with applicable statutory accounting and reporting requirements, legal and regulatory requirements, and internal rules and procedures approved by the Board.

Internal Audit Manager reports directly to the Audit Committee. Two Audit Committee meetings were held in 2003 with an attendance rate of 100%. All businesses transacted at these meetings were documented and maintained in accordance with applicable laws and regulations.

After each audit committee meeting, the Audit Committee Chairman will present a written report to the Board which highlights any significant issues discussed in the meeting for the Board's information and consideration.

Connected Transactions

The Company committed to ensuring compliance with regulatory requirements under the Listing Rules and applicable laws and regulations in handling connected transactions. Accordingly, we implemented various internal control mechanisms to capture and monitor connected transactions, including the nature of the transaction, categories of connected persons, and approval authorities and procedures, to ensure that the connected transactions of the Company are approved by Independent Non-Executive Directors, conducted on normal commercial terms or on terms that are fair and reasonable and properly disclosed and (if necessary) approved by independent

shareholders in accordance with the Listing Rules. Details of the connected transactions during the year are set out from pages 53 to 56 of the Directors' Report and in note 31 to the financial statements.

Disclosure and Dissemination of Information

Ordinary shares of the Company (Stock Code: 0517) are listed on the Stock Exchange. We disclosed details of our major activities, price sensitive information and connected transactions in accordance with the requirements of applicable laws and the Listing Rules.

We make use of various channels to ensure the effective disclosure of information and financial transparency relating to the Company. Communication is carried out through:

- The Company's annual and interim reports, which have been enhanced to present a comprehensive, balanced and understandable assessment of the Group's position and prospects;
- Press briefings for the Group's annual results and other matters, as appropriate;
- Press releases on the Group's major developments;
- Disclosures to the Stock Exchange and other relevant regulatory bodies;
- The Company's website at <http://www.coscointl.com> and the website of COSCO Hong Kong at <http://www.cosco.com.hk> where shareholders can access information of the Group. The website provides corporate announcements, press releases, annual reports and corporate information of the Group; and
- A specific team which has been established to deal with investors and media related issues and matters.

Internal Audit

We have implemented appropriate policies and procedures for all our major operations. Internal Audit Manager is responsible for monitoring compliance with these policies and procedures. The primary objective of Internal Audit Manager is to assist the Board and the management of the Company in risk management and in monitoring compliance with applicable regulatory requirements and guidelines with a view to enhancing the effectiveness of our internal control mechanisms. During the year, all audit missions set out in the 2003 Internal Audit Plan were

accomplished. The recommendations made by Internal Audit Manager in connection with these audit missions were widely accepted and rectification measures have been put in place. Internal Audit Manager also actively participate in the review and enhancement of our internal policies and procedures on a continuing basis.

Management Meetings

The management of the Company including all department heads meet together on a weekly basis to review, discuss and make decisions on financial and operational matters. These meetings, chaired by the Managing Director, enhance and strengthen departmental communications and co-operation within the Company.

Incentive Scheme and Corporate Culture

The Company maintains an employee handbook providing guidance to employees on matters such as employee dealings, ethical standards, the code of business conduct and code of conduct for employees. The handbook applies to all employees of the Group who must ensure strict compliance with the policies therein.

Through the establishment of a performance charter for our senior executives, appropriate appraisal mechanisms, and the share option scheme, we have been able to align the interests of the management of the Company and entire staff with the growth and performance of the Company. We have done this with a view to providing appropriate incentives to our management and staff. We pay particular attention to the establishment of an optimal corporate culture. With the full support of the Board and the management of the Company, we have identified, designed and implemented a corporate culture that is considered appropriate for the special circumstances of our Company, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Company.