

# Corporate governance report

COSCO Pacific Limited (the “Company”) is committed to maintaining high standards of corporate governance so as to ensure better transparency and protection of shareholders’ interests in general. The Board of Directors (the “Board”) and the senior management of the Company are committed to making sure that effective self-regulatory practices exist to protect the interests of the shareholders. These include a Board comprising high caliber members, Board Committees and effective internal audit and sound systems of internal controls.

The Company’s commitment to high standard in corporate governance practices has achieved recognition from the market. In 2004, the Company was rated as one of the enterprises with the “Best Corporate Governance” among the Hang Seng Index constituent stocks by Standard & Poor’s.

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (“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. This report describes the Company’s corporate governance practices with specific reference to the Corporate Governance Code.

## Board of directors

The Board is duty bound to manage the Group (the Company and its subsidiaries) in a responsible and effective manner and therefore every director has to carry out his/her duties in utmost good faith above and beyond any prevailing applicable laws and regulations and act in the best interests of the Company and its shareholders. The Board currently consists of 22 members. Among them, 18 are executive directors, 3 are independent non-executive directors and 1 is non-executive director.

The posts of Chairman and Managing Director are separate and are not held by the same individual to ensure their independence, accountability and responsibility. The Managing Director, Mr. SUN Jiakang, supported by other board members and the senior management, is responsible for managing the Group’s businesses, implementing major strategies, making day-to-day decision and co-ordinating overall business operations. The Chairman, Mr. WEI Jiafu, is responsible for overseeing the functioning of the Board and formulating overall strategies and policies of the Company.

The non-executive directors, a majority of whom are independent, with a term of three years each, are highly experienced professionals with a broad range of expertise and experience in areas such as accounting, finance and business. They ensure that the Board maintains high standards of financial and other mandatory reporting and provides adequate checks and balance to safeguard the interests of shareholders in general and the Company as a whole.

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 in appropriate circumstances, at the Company’s expenses.

All directors, apart from the Chairman and Managing Director, are subject to retirement by rotation at the Annual General Meeting. To further enhance accountability, a proposal to amend the Company’s Bye-laws to include the Chairman and Managing Director under the rotation arrangement will be put to shareholders for approval at the forthcoming Annual General Meeting.

Both the Board and the management have clearly defined authorities and responsibilities under various internal control and checks-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 responsibility for corporate governance. The management, under the leadership of the Managing Director, 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 yardstick in assessing and monitoring the performance of the management. Directors have access to management and are welcome to request for explanations, briefings or informal discussions on the Company's operations or business issues.

The Board held a total of 4 board meetings, all of which are regular board meetings, during the year. Of these, two meetings were held to approve the 2003 final results and 2004 interim results of the Company; the other two meetings were held to consider new investment opportunities and to review the strategic business directions and financial and operating performances of the Group. As the members of the Board are in both Hong Kong and the People's Republic of China, most of these meetings were conducted via video conferencing which is permitted under the Company's Bye-laws. The Financial Controller and Company Secretary also attended all board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial.

To illustrate the attention given by the Board to the oversight of the Company's affairs, we set out details of the directors' attendance at the board meetings during the year and the first quarter of 2005 in the following tables. All businesses transacted at the board meetings are well-documented and the records are maintained in accordance with applicable laws and regulations.

| Date of board meeting | Total no. of directors | No. of directors present | Attendance rate |
|-----------------------|------------------------|--------------------------|-----------------|
| 7/1/2004              | 25                     | 22                       | 88%             |
| 25/3/2004             | 25                     | 19                       | 76%             |
| 22/7/2004             | 25                     | 19                       | 76%             |
| 8/9/2004              | 25                     | 15                       | 60%             |
| 17/1/2005             | 22                     | 19                       | 86%             |
| 4/3/2005              | 22                     | 20                       | 91%             |

| Directors   | No. of board meetings attended/ held in 2004 | No. of board meetings attended/ held in the first quarter of 2005 |
|---|--|---|
| <b>Executive Directors</b>                        |  |   |
| Mr. WEI Jiafu                                     | 2/4  | 1/2   |
| Mr. LIU Guoyuan                                   | 4/4  | 2/2   |
| Mr. ZHANG Fusheng                                 | 3/4  | 0/2   |
| Mr. WANG Futian                                   | 3/4  | 2/2   |
| Mr. CHEN Hongsheng                                | 2/4  | 2/2   |
| Mr. LI Jianhong                                   | 3/4  | 2/2   |
| Mr. MA Zehua                                      | 1/4  | 2/2   |
| Mr. MA Guichuan                                   | 3/4  | 1/2   |
| Mr. LI Yunpeng                                    | 2/4  | 1/2   |
| Ms. SUN Yueying                                   | 4/4  | 2/2   |
| Mr. ZHOU Liancheng                                | 3/4  | 2/2   |
| Mr. SUN Jiakang                                   | 4/4  | 2/2   |
| Mr. XU Lirong                                     | 3/4  | 2/2   |
| Mr. HE Jiale                                      | 4/4  | 2/2   |
| Mr. WONG Tin Yau, Kelvin                          | 4/4  | 2/2   |
| Mr. MENG Qinghui                                  | 3/4  | 2/2   |
| Mr. LU Chenggang                                  | 4/4  | 2/2   |
| Mr. QIN Fuyan                                     | 4/4  | 2/2   |
| Mr. GAO Weijie<br>(resigned on 13/10/2004)        | 1/4  | N/A   |
| Mr. LIANG Yanfeng<br>(resigned on 13/10/2004)     | 1/4  | N/A   |
| <b>Independent Non-executive Directors</b>        |  |   |
| Dr. LI Kwok Po, David                             | 3/4  | 2/2   |
| Mr. LIU Lit Man                                   | 3/4  | 2/2   |
| Mr. Alexander Reid HAMILTON                       | 3/4  | 2/2   |
| Mr. LEE Yip Wah, Peter<br>(resigned on 30/9/2004) | 4/4  | N/A   |
| <b>Non-executive Director</b>                     |  |   |
| Mr. KWONG Che Keung, Gordon                       | 4/4  | 2/2   |

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 before each regular board meeting. At least 14 days' notice of a regular board meeting is given to all directors to give them the opportunity to attend. 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. Senior management who are responsible for the preparation of the Board papers are usually 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 proceedings of the Board at its meetings are conducted by the Chairman or the Vice Chairman of the Company who ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and also equal opportunities are being given to directors to speak, express their views and share their concerns.

### **Directors/senior management's securities transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies contained in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding directors' securities transactions. To ensure directors' dealing in the securities of the Company are conducted in accordance with the Model Code, a committee comprising the Chairman, the Vice Chairman, the Managing Director and Deputy Managing Director was set up to deal with such transactions.

In addition, the Board also established written guidelines on no less exacting terms than the Model Code for senior management of the Company in respect of their dealings in the securities of the Company.

### **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 maintain regular communications with the external auditors. The Financial Controller also plays a role of reviewing and making recommendations to the Board on the Group's financial risk management.

## Company Secretary

The Company Secretary is responsible directly to the Board. All directors have easy 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 advices to the Board on directors' obligations on disclosure of interests in securities, disclosure requirements 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, being the primary channel of communications between the Company and the Stock Exchange of Hong Kong, also assists the Board to implement and strengthen corporate governance practices with a view to enhancing long term shareholders' value. In addition, on a timely basis, the Company Secretary will provide the directors with information, update and continuing professional development on legal, regulatory and other continuing compliance obligations for being directors of a listed company.

## Board committees

To assist the Board in execution of its duties, the Board is supported by six board committees which consists 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.

### (1) Audit Committee

The Audit Committee, chaired by Mr. Alexander Reid HAMILTON, was established by the Board of the Company in August 1998. Other existing members are Dr. LI Kwok Po, David and Mr. LIU Lit Man. All the committee members are independent non-executive directors of the Company and are well-versed in the accounting and/or commercial areas. The terms of reference of the Committee 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 Committee provides advice and recommendations to the Board and

oversees all matters relating to the external auditors, thus it plays an important role in monitoring and safeguarding the independence of external auditors. Both the Financial Controller and the internal auditor are directly accountable to the Chairman of the Audit Committee.

The Committee met twice during the year. In August 2004, the Committee has resolved to meet four times a year with the senior management and the internal and external auditors to review the accounting principles and practices adopted by the Group and other financial reporting matters, assure the completeness, accuracy and fairness of the financial statements of the Company, discuss the effectiveness of the systems of internal control throughout the Group and most importantly, review all significant business affairs managed by the executive directors in particular on connected transactions.

### (2) Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee comprises 10 members and is chaired by Mr. SUN Jiakang, Managing Director of the Company. It considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals and conducts post-investment evaluation of the investment projects, reviews and considers the overall strategic direction and business developments of the Company.

### (3) Corporate Governance Committee

The Corporate Governance Committee comprises 6 members and is chaired by Mr. WONG Tin Yau, Kelvin, Deputy Managing Director of the Company. It is responsible to the Board to review the corporate governance practice of the Company and the Company's disclosure systems so as to enhance the standard of corporate governance of the Company.

### (4) Risk Management Committee

The Risk Management Committee comprises 8 members and is chaired by Mr. LU Chenggang, Deputy Managing Director of the Company. It provides independent support to the Board to identify the operational risks of the Company and monitor and manage these risks, set direction for the Group's risk management strategy and strengthen the system of risk management of the Group.

### **(5) Nomination Committee**

The Nomination Committee comprises 3 members, a majority of whom are independent non-executive directors, and is chaired by Dr. LI Kwok Po, David, an independent non-executive director of the Company. It is responsible for nominating potential candidates for directorship, reviewing the nomination of directors and making recommendations to the Board on such appointments.

### **(6) Remuneration and Assessment Committee**

The Remuneration and Assessment Committee comprises 5 members, a majority of whom are independent non-executive directors, and is chaired by Mr. LIU Lit Man, an independent non-executive director of the Company. It reviews and determines the policy for the remuneration of directors and senior management.

The above board committees have scheduled to meet regularly every year. The board committees report to the Board on a regular basis. All businesses transacted at the committee meetings are well recorded and the records are well maintained.

### **Internal control and internal audit**

The internal control and accounting systems of the Group are designed to provide reasonable assurance that assets are safeguarded against unauthorised use or disposition, transactions are executed in accordance with management's authorisation and the accounting records are reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

In order to establish a sound system of internal controls in safeguarding shareholders' interests and the Group's assets, the Company established an Internal Audit Department in September 2000, the key tasks of which include:

- review of all aspects of the Group's activities and internal controls with unrestricted right of access;
- conduct comprehensive audits of the practices and procedures, income and expenditure, and internal controls of all business units of the Group on a regular basis;
- conduct special reviews and investigations of areas of concern identified by management.

The head of the Internal Audit Department reports directly to the Managing Director and the Chairman of the Audit Committee and attends all audit committee meetings and brings appropriate matters identified during the course of audits to the Committee's attention. This reporting structure allows the Internal Audit Department to maintain its independence.

The 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 2004 have been completed. All areas of concern reported by the Internal Audit Department have been monitored by the management until appropriate corrective measures are implemented.

## Investor relations

The Company continues to promote and enhance investor relations and communications with its investors. An intensive communications channel has been maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Designated senior management maintain regular dialogue with institutional investors and analysts to keep them abreast of the Company's development.

In 2004, the Company's continuing commitment to enhancing investor relations and communication has gained further recognition from the wider business community. During the year, Mr. LIU Guoyuan and Mr. WONG Tin Yau, Kelvin, the Vice Chairman and Deputy Managing Director of the Company respectively, were both granted the "Best Investor Relations Officer" award by the IR Magazine and the Company was rated as a "Conglomerate Enterprise with the Best Investor Relations in Asia" by Institutional Investor Research Group.

## Communication with shareholders

The Company attaches great priority to communicate with shareholders and investors. 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).

The Company regards the Annual General Meeting ("AGM") as an important event as it provides an important opportunity for direct communications between the Board and the Company's shareholders. All directors and senior management will make an effort to attend. External auditors are also available at the AGM to address shareholders' queries. 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.

## Code of conduct

To enhance the ethical standards of employees, the Company has introduced a new version of employee handbook in 2004, setting out standards of professional and ethical conduct for all employees of the Group. The employees at all levels are expected to conduct themselves in an honest, diligent and responsible manner.

## Conclusion

The Company believes that corporate governance principles and practices must remain relevant in a changing world, thus it continues its ongoing effort to review its corporate governance practices from time to time so as to meet the changing circumstances. It will try its best to maintain, strengthen and improve the standard and quality of the Company's corporate governance.