

Corporate Governance Report

Since the commencement of its listing on the Main Board of the Stock Exchange on 30 June 2005, the Company is committed to maintain high standard of corporate governance in compliance with the requirements of the Code of Best Practice (“Code of Best Practice”) as set out in Appendix 14 to the Listing Rules. To fulfill the responsibilities to its shareholders, the Company will remain committed to improving its corporate governance practices continuously to ensure that the appropriate operation monitoring and management procedures are in place, enforced and regularly reviewed.

In accordance with the Code of Best Practice, this report is prepared to outline and explain the corporate governance mechanisms of the Company. It includes all the mandatory disclosures and most of the recommended disclosures required under Appendix 23 to the Listing Rules.

Directors’ Securities Transactions

Since the commencement of its listing, the Company’s Board of Directors (the “Board”) has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 to the Listing Rules as the code for the dealings in securities transactions by the directors of the Company. Having made specific enquiries with all directors, the Company has received written confirmations from all directors that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2005.

Board of Directors

The Board of the Company comprises of 2 executive Directors, 7 non-executive directors and 4 independent non-executive Directors. The Company believes that, given the different backgrounds and experiences of its members, the Board is capable of making decisions with a high level of care and diligence. On the website of the Company, all the members of the Board are listed by categories (including Chairman, Vice-Chairman, Executive Director, Non-executive Director and Independent Non-executive Director), together with their respective biographies.

The Board acts under the objective of maximizing the Company’s operating profits, business value and shareholders’ returns of the Company. In accordance with the articles of association, and the rules of procedures for the Board and the special committees, and under the leadership of the chairman, the Board formulates and implements the development strategies, business directions, annual budgets, business plans, investment schemes, investment proposals and major acquisitions, as well as monitors the performance of the management of the Company.

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In 2005, 9 meetings were held by the Board. The attendance details are as follows:

Attendance

Executive Directors:

Wei Jiafu	8/9 (the remaining 1 meeting attended by his alternate director)
Chen Hongsheng	9/9

Non-executive Directors:

Zhang Fusheng	9/9
Wang Futian	8/9 (the remaining 1 meeting attended by his alternate director)
Li Jianhong	8/9 (the remaining 1 meeting attended by his alternate director)
Ma Zehua	7/9 (the remaining 2 meeting attended by his alternate director)
Ma Guichuan	8/9 (the remaining 1 meeting attended by his alternate director)
Sun Yueying	8/9 (the remaining 1 meeting attended by her alternate director)
Liu Guoyuan	9/9

Independent Non-executive Directors:

Li Boxi	8/9 (the remaining 1 meeting attended by her alternate director)
Tsao Wen King, Frank	9/9
Hamilton Alexander Reid	9/9
Cheng Mo Chi	9/9

The Company has already established the rules of procedures for the Board. The Rules of Procedures for the Board of Directors and the Special Committees of the China COSCO Holdings Company Limited (the "Rules of Procedures") were considered and approved at the 7th meeting of the first Board of the Company. The rules govern, inter alia, the conduct of meetings, submission and consideration of resolutions, and the recording of minutes.

The Company Secretary is responsible for ensuring that the course of conduct of the Board is in compliance with such rules and for advising the Board in respect of corporate governance and compliance matters. The Company Secretary and the Investor Relations Department shall closely communicate with all the directors to ensure that all matter raised by any director for discussions are included in the agenda of forthcoming board meetings in a timely manner.

Chairman and Chief Executive Officer

Currently, Mr. Wei Jiafu is the Chairman and Chief Executive Officer of the Company. This has shown a deviation from the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules that the roles of the Chairman and Chief Executive Officer should be segregated and should not be exercised by the same individual.

The Chairman assumes the responsibility to lead the Board in discharging its duties; provide guidance and make decisions on the long-term development strategies, corporate development objectives and business philosophies of the Company; convene and preside at the meetings of the Board; organize the course of business of the Board in discharging its duties; and scrutinize the implementation of the resolutions of the Board. On the other hand, the primary role of the Chief Executive Officer is to be responsible for the day-to-day management and operations of the Company and business of the Group.

The Board considers that an abrupt segregation of the roles of the Chairman and Chief Executive Officer will involve a realignment of power and authority under the existing corporate structure, which might affect the ordinary business activities of the Company and might thereby lead to additional costs to the Group. Notwithstanding the above, the Board will review the current structure from time to time and will make any necessary adjustment as appropriate.

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Non-executive Directors

For the year ended 31 December 2005, the Company has been in compliance with the requirements under Rule 3.10 of the Listing Rules, with the number of its non-executive directors being kept above the minimum requirement of three, and the independent non-executive directors are equipped with the appropriate professional qualifications, or accounting or related financial management expertise.

Four members, or nearly 1/3, of the Board of the Company are independent non-executive Directors, who have the expertise and remarkable achievements in strategic development, shipping, finance and legal affairs. The Company believes that its independent non-executive Directors are sufficient in number and competent to offer advice with due weight.

The Company has received a written confirmation from each of its independent non-executive Directors concerning their respective independence as required under Rule 3.13 under the Listing Rules and considers the four Independent Non-executive Directors to be independent of the Group.

The Company has entered into a service contract with each of its directors for a term of three years. Other than such service contracts, neither the Company, nor any of its subsidiaries, has any existing or proposed service contract with any of its independent non-executive Directors. Further, none of the independent non-executive Directors has a service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

There is no other connection between the Company and each of its directors which is subject to disclosure requirement.

Directors' Access to Information

The Company is committed to provide all of its directors with timely access to relevant information to ensure that all of its directors are able to make an informed decision in discharging their duties and responsibilities.

During 2005, all of the regular Board meetings of the Company were called by giving 14 days' notice in writing together with the agenda. As for other Board meetings, the Company has also duly observed the requirement of giving at least 14 days' notice in writing. Prior to any Board meetings, the Company Secretary and Investor Relations Department took the initiative to consult the directors in respect of any material matter to be included in the agenda.

Matters discussed in the Board meetings were recorded and compiled with due care by the Company Secretary. The records (including minutes) of the Board meetings are kept as important files at the premises of the Company, and have been available to the directors of the Company as and when necessary.

Formal and informal communications between the management and directors of the Company were carried out via Board meetings and other activities from time to time.

Quarterly reports on the state of affairs of the Company were submitted to all the directors on a quarterly basis. Since November 2005, such reports have been submitted to all the directors on a monthly basis to ensure all directors are informed of the material matters of the Company in a timely manner.

Directors' Responsibilities for Financial Statements

This section, which sets out the responsibilities of directors for financial statements, shall be read in conjunction, but interpreted in its own context, with the auditor's report contained in this annual report, in which the auditor's responsibility to report is explained.

The directors acknowledge their responsibility for ensuring that the financial statements are properly prepared to reflect a true and fair view of the Company and of the Group for each financial year.

The directors are of the view that in the preparation of the financial statements, appropriate accounting policies and relevant accounting principles and the Group are consistently applied and complied with.

Having made reasonable enquiries, the directors are of the view that the Company has sufficient resources to sustain its operations in the foreseeable future, and that they are not aware of any uncertainty or situation of a material nature which may affect the Company's ability to continue as a going concern. Therefore the directors consider that it is appropriate to prepare the financial statements of the Company on a going concern basis.

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Committees under the Board

There are six committees under the Board and each of these committees has their specific terms of reference. Each of the members of such committees is authorized to make the relevant decisions within the terms of reference of their respective committees.

(1) Remuneration Committee

The Remuneration Committee of the Company, established in April 2005, comprises two independent non-executive Directors and one non-executive Director. It is chaired by Mr. Cheng Mo Chi (Chairman), and the other two members are Mr. Ma Zehua and Mr. Alexander Reid Hamilton.

The Remuneration Committee is mainly responsible for making recommendations to the Board on the remuneration policies and structures for the Directors and Supervisors of the Company. In addition, the Remuneration Committee is also responsible for assessing the performance and determining the salary packages of the management with the reference to the corporate objectives approved by the Board from time to time. The Remuneration Committee convenes meetings whenever necessary and reports to the Board.

The details of the terms of reference of the Remuneration Committee are set out in the listing prospectus of the Company, which can be made available for inspection at any time from the Investor Relations Department of the Company. The Company also intends to post the details of such information on its website (www.chinacosco.com) in due course.

During the year, the Remuneration Committee held one meeting, on 16 December 2005, which was attended by all three members and during which the remuneration matters of the senior management of the Company were discussed. According to the "Management Practices Concerning the Remunerations of the Senior Management of China COSCO" submitted by the Remuneration Committee to the Board, the remuneration of the senior management have been linked to the operating performance of the Company.

The Remuneration Committee is provided with forthcoming assistance in discharging its duties by the Human Resources Department and Investor Relations Department of the Company. Where necessary and subject to the established procedures, the committee members may also seek independent professional advice with costs incurred to be borne by the Company.

(2) Nomination Committee

The Nomination Committee of the Company, established in April 2005, comprises two independent non-executive Directors and one non-executive Directors. It is chaired by Mr. Tsao Wen King, Frank and the other two members are Mr. Wang Futian and Mr. Cheng Mo Chi.

The Nomination Committee is mainly responsible for nominating potential candidates for directorships, reviewing the nomination of directors and making recommendations to the Board on directorship appointments. The details of the terms of reference of the Nomination Committee are set out in the listing prospectus of the Company, which can be made available for inspection at any time from the Investor Relations Department of the Company. The Company also intends to provide the details of such information on its website (www.chinacosco.com) in due course.

Under Article 96 of the Articles of Association of the Company, “the proposed directors on the first Board shall be nominated by the promoters and returned by election in the inaugural meeting of the Company.” The first Board was formed accordingly. In 2005, although the Nomination Committee did not meet formally, its members did exchange views on the performance of the members of the Board. The Nomination Committee will convene meetings whenever necessary and report to the Board.

The Nomination Committee is provided with forthcoming assistance in discharging its duties by the Human Resources Department and Investor Relations Department of the Company. Where necessary and subject to the established procedures, the committee members may also seek independent professional advice and any cost incurred shall be borne by the Company.

(3) Audit Committee

The Audit Committee of the Company, established in April 2005, comprises two independent non-executive Directors and one non-executive Director. It is chaired by Mr. Alexander Reid Hamilton and the other two members are Ms. Sun Yueying and Mr. Cheng Mo Chi. All members of the committee are competent and experienced in understanding, analysing and reviewing the financial reports of listed companies. Mr. Hamilton, the chairman, was formerly a partner of Pricewaterhouse and left the practice about twenty years ago and ceased to have an economic interest therein at least five years ago. Neither Mr. Cheng Mo Chi, nor Ms. Sun Yueying was a partner of the auditors of the Company.

For the year ended 31 December 2005, the Company has been in compliance with the requirements relating to audit committee under Rule 3.21 of the Listing Rules.

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The Audit Committee is mainly responsible for reviewing and monitoring the financial reporting procedures of the Company. It is also responsible for overseeing all matters in respect of, among other things, the appointment, remuneration, removal and resignation of auditors. Besides, it is the duty of the audit committee to review the robustness of the internal control system, including the ongoing review of the effectiveness of various checks and balances in respect of the corporate structure and business processes of the Company, as well as considering the existence of any potential risks and the degree of urgency in controlling them to ensure the smooth business operation and effective implementation of the corporate goals and strategies of the Company. The scope of review covers finance, operation, legal compliance and risk management. Meanwhile, the Audit Committee reviews the internal audit plans of the Company and submits reports and recommendations to the Board from time to time. The details of the terms of reference of the Audit Committee can be made available for inspection at any time from the Investor Relations Department of the Company. The Company also intends to post the details of such information on its website (www.chinacosco.com) in due course.

During the Period, the Audit Committee of the Company had only one meeting, which was attended by all members as well as the president of the Company and Chief Financial Officer, who were invited to offer advice on the relevant matters. During the meeting, the Audit Committee reviewed the management, accounting policies and principles, internal control and financial reports of the Group, including the consolidated interim financial reports prepared by the Company in accordance with the Hong Kong Financial Reporting Standards.

The minutes, prepared by the Company Secretary and endorsed by the chairman of the Audit Committee, was sent to the members of the committee within seven days of the meeting.

The Audit Committee is provided with forthcoming assistance in discharging its duties by the Finance Department and Investor Relations Department of the Company. Where necessary and subject to the established procedures, the committee members may also seek independent professional advice with costs incurred to be borne by the Company.

(4) Strategic Development Committee

The Strategic Development Committee of the Company, established in April 2005, comprises two independent non-executive Directors and one non-executive Director. It is chaired by Ms. Li Boxi and the other two members are Mr. Ma Guichuan and Mr. Tsao Wen King, Frank.

The committee is responsible for considering, evaluating, reviewing and making recommendations to the Board in respect of proposed major investments, acquisitions and disposals. It is also responsible for conducting post-investment evaluation of investment projects and for reviewing and considering the overall strategic direction and business developments of the Company. The details of the terms of reference of the Strategic Development Committee are set out in the listing prospectus of the Company, which can be made available for inspection at any time from the Investor Relations Department of the Company. The Company also intends to post the details of such information on its website in due course.

The Strategic Development Committee is provided with forthcoming assistance in discharging its duties by the Strategic Development Department and Investor Relations Department of the Company. Where necessary and subject to the established procedures, the committee members may also seek independent professional advice and any cost incurred shall be borne by the Company.

(5) Risk Management Committee

The Risk Development Committee of the Company, established in April 2005, comprises two independent non-executive Directors and one non-executive Director. It is chaired by Mr. Li Jianhong and the other two members are Ms. Li Boxi and Mr. Tsao Wen King, Frank.

The Risk Development Committee provides independent support to the Board to identify the operational risks of the Company, monitor and manage these risks, set the direction for the Group's risk management Strategies and strengthen the risk management system of the Group. The details of the terms of reference of the Risk Management Committee are set out in the listing prospectus of the Company, which can be made available for inspection at any time from the Investor Relations Department of the Company. The Company also intends to post the details of such information on its website in due course.

The Risk Management Committee is provided with forthcoming assistance in discharging its duties by the Strategic Development Department, Finance Department and Investor Relations Department of the Company. Where necessary and subject to the established procedures, the committee members may also seek independent professional advice with costs incurred to be borne by the Company.

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(6) Executive Committee

Under the approval granted in the 9th meeting of the first Board, the Executive Committee of the Company was established in December 2005 to facilitate the business management of the Group in a more efficient and effective manner. The terms of reference, scope of responsibilities and rules of procedures, applicable to the committee, inter alia, have been expressly approved by the Board.

The committee is formed by the directors and senior management of the Company. It is chaired by Mr. Wei Jiafu and other members include Mr. Zhang Fusheng, Mr. Chen Hongsheng, Ms. Sun Yueying, Mr. Xu Lirong, Mr. Sun Jiakang, Mr. He Jiale and Mr. Zhang Yongjian. The committee is responsible for reviewing and approving investment projects within the authority delegated by the Board. Notwithstanding the necessary powers given to the Executive Committee by the Board, prior written approval of the Board is required for conducting of the major transactions.

The minutes of each meeting of the committee shall be forwarded to all members of the Board within seven days of the date of the meeting. Resolutions of the Executive Committee are subject to the endorsement at the next Board meeting subsequent to such resolutions were passed.

Remuneration of Auditors

The Company appointed PricewaterhouseCoopers and BDO Reanda Certified Public Accountants Co., Ltd. as the Company's international and PRC auditors on 9 June 2005.

The fees for the audit services, audit-related services and non-audit services provided by the above auditors to the Group for the period amounted to RMB27,277,000, RMB15,094,000 and RMB2,154,000 respectively.

Internal Control

The Board is responsible for the general internal control of the Group. In order to strengthen its internal control, the Company, since it was founded, has established a series of codes and regulations, including the "Provisional Investment Management Code for China COSCO Holdings Company Limited", the "Investment Management Code for China COSCO Holdings Company Limited", the "Borrowing and Guarantee Management Code for China COSCO Holdings Company Limited", the "Code for the Performance Appraisal of the Management of the Member Companies of China COSCO", and the "Regulations Monitoring the Connected Transactions of COSCO Container Lines Company Limited". The Company considers that, through overseeing and examining their implementation, the various codes and regulations can be effectively inferred thereby generating the effect as desired for improving the state of affairs of the various businesses of the Company.

The management and directors of the Company held a series of discussions on the effectiveness of the risk management and internal control systems. Mr. Hamilton, the chairman of the Audit Committee, even made a visit to the headquarters of the Company and to COSCON, a subsidiary of the Company, to discuss with the management and executives of different functions the internal audit and internal controls of the Company.

The Company believes that the constant improvement and effective implementation of its internal control system can facilitate the timely reaction to potential risks threatening the Company for the better protection of the interests of its customers and shareholders.

The Board is largely satisfied with the internal control performance of the Company.

Shareholders' Rights

The Board and the senior management of the Company are well aware of their respective responsibilities to represent the interests of the shareholders as a whole and to do their best to create better value to the shareholders.

Article 52 of the Articles of Association of the Company expressly provides for the rights of the shareholders. Under section 8 of the Articles, the right to attend, to receive notices to, and to vote in general meetings and the rules of procedure for general meetings are specifically set out to safeguard the rights of the shareholders to express their opinions in general meetings.

The Company has made aggressive efforts to set up multiple communication channels so as to keep its shareholders informed in a timely manner of its state of affairs:

- Subsequent to its listing on 30 June 2005, the Company announced its interim results on 15 September 2005. To keep its shareholder updated of its state of affairs, despite the shortness of time, the Company announced its quarterly operational summary for the third quarter of 2005 on 10 November 2005.
- General meetings, as a means of communications between the directors and the management, and the shareholders of the Company, are given a high priority by the Company. Therefore, all the directors and senior management of the Company will try their best to attend every general meeting.
- News and information relevant to the corporate and business affairs of the Company are uploaded onto the website of the Company from time to time.
- Shareholders may also contact the company secretary through the Investor Relations Department (852-2809 8028, 86-10-6649 2295/6649 2292) or by email at investor@chinacosco.com.

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Investor Relations

The Company considers that good investor relations are conducive to the development of a broader access to financing, which will help reflect the intrinsic value of the business in the share price, thereby creating value to the shareholders.

In June 2005, under the leadership of the Chairman, Mr. Wei Jaifu, the senior management of the Company participated in the roadshow world tour for the promotion of the initial public offering of the shares of the Company. During the period, the executives met hundreds of investors and other parties around the world through, among others, one-to-one meetings, press release conferences and luncheon meetings.

The Company's investor relations activities are coordinated by the secretary to the Board, who is a member of the senior management. Besides, the Investors Relations Department of the Company has been set up to assume the responsibilities for information disclosure and communications to external parties. Since listed, the Company has been in strict compliance with the relevant rules and regulations on information disclosure. It has also been striving to disclose the important news and events of the Company to the public and the investment community the soonest practicable and to maintain good two-way communications with different sectors via various communication channels. By way of two-way communications, the Company is able to help the investors and relevant parties to appreciate the intrinsic value of its business, and to understand the key issues of concern of the investors so as to further improve the standards of corporate governance of the Company.

The Company maintains contact and communications with, among others, fund managers, analysts and the business media in a pragmatic and high efficiency manner. During the period under review, the Company successfully organized numerous management interviews, telephone conferences and visits by analysts and investors. The Company also actively participated in a number of investor forums held by investment banks to promote its corporate profile. At the same time, an investor relations webpage was created on the website of the Company (www.chinacosco.com) to address the enquiries of the investors. In the second half of 2005, the Company met 198 investors and relevant parties in different meetings. Among the figure, 64% were fund managers, 21% analysts and 15% the business media.

Abiding by the principles of high transparency, integrity, fairness and openness, the Company will continue to maintain smooth communication channels with different sectors. By doing so, the Company will be able to create better business and shareholders' value.

2006 will be the first complete year of operation of the Company after its listing in Hong Kong. The Company will leverage its wealth of experience to respond to changes in regulatory policies and to take into account the comments of its shareholders so as to keep on improving its corporate governance standards to support the sustainable healthy growth of the Company.