
Corporate Governance Report

The Directors of the Company believe that the shareholders' benefits will be maximized from good corporate governance, thus good corporate governance has been executed continuously and high transparency in corporate governance has been promoted. Leveraging on the excellent performance in corporate governance, the Company were awarded "Directors of the Year Award 2006 (Non Hang Seng Index Listed Company Group)" by Hong Kong Institute of Directors in 2006. The Company will continue to strive to improve its corporate governance practices to ensure that the appropriate operation monitoring and management procedures are in place, enforced and regularly reviewed.

In accordance with the Code on Corporate Governance Practice ("Code on Corporate Governance Practice") as set out in Appendix 14 to the Listing Rules, this report is prepared to outline the corporate governance practices 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 listing of the Company on the Main Board of the Stock Exchange in 2005, 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 2006.

Board of Directors

The Board of the Company is made up of members with diversified outstanding talents and experience which comprises two executive directors, three non-executive directors and four independent non-executive directors. As a quality and well-represented Board, each decision made would be more prudent and comprehensive and the functions of monitoring and high level of professional management would be exerted.

The Board of the company acts under the objective of maximizing the Company's operating profits, corporate value and shareholders' returns of the Company. In accordance with the articles of association of the Company, and the rules of procedures for the Board and the special committees, and under the leadership of the chairman of the Company, 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 discharge of duties of the management.

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In 2006, 12 meetings were held by the Board. The attendance details are as follows:

	Attendance	
Executive Director:		
WEI Jiafu	12/12	
CHEN Hongsheng	12/12	
Non-executive Director:		
ZHANG Fusheng	10/12	(his alternate Director attended two times)
WANG Futian*	11/12	(his alternate Director attended one time)
LI Jianhong	8/12	(his alternate Director attended four times)
MA Zehua*	9/12	(his alternate Director attended two times)
MA Guichuan*	9/12	(his alternate Director attended two times)
SUN Yueying	11/12	(her alternate Director attended one time)
LIU Guoyuan*	8/8	

*Note: Liu Guoyuan resigned as a non-executive director on 28 September 2006 and Wang Futian, Ma Zehua and Ma Guichuan resigned as non-executive directors on 22 January 2007.

Independent Non-executive Director:

LI Boxi	11/12	(her alternate Director attended one time)
TSAO Wen King, Frank	11/12	(his alternate Director attended one time)
HAMILTON Alexander Reid	12/12	
CHENG Mo Chi	10/12	(his alternate Director attended two times)

The Company has already established the rules of procedures for the Board, namely the Rules of Procedures for the Board of Directors and the Special Committees of China COSCO Holdings Company Limited.

The company secretaries of the Company are 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 secretaries and the relevant department of the Company closely communicate with the directors of the Company to ensure that all matters 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 CEO of the Company. This has shown a deviation from the Code on Corporate Governance Practices 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.

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

Non-executive Directors

For the year ended 31 December 2006, the Company has been in compliance with the requirements under Rule 3.10 of the Listing Rules, with the number of its independent non-executive directors being kept above the minimum requirement of three, and that they are equipped with the appropriate professional qualifications, or accounting or related financial management expertise.

The independent non-executive Directors have the expertise and remarkable achievements in strategic development, shipping, finance and legal affairs.

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 directors. Further, none of the directors of the Company 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).

Saved as to the above, there is no other connection between the Company and each of its directors which is subject to disclosure requirements under the Listing Rules.

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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 the year 2006, all of the Board's regular meetings were called by giving 14 days' notice in writing together with the agenda. The Company also gives notices and agenda within reasonable time for other Board meetings in compliance with the Articles. Prior to the holding of any Board meeting, the company secretaries and the relevant department took the initiative to consult the Company's directors in respect of any material matter to be included in the agenda.

The records (including minutes) of the Board meetings as important record are all permanently being kept at the premises of the Company, and have been made available for access by the directors of the Company as and when necessary.

Information on the state of affairs of the Company, investors relations and the disclosure of information were submitted to all the directors of the Company on a monthly basis to ensure that all directors are informed of the material matters of the Company in a timely manner.

Directors' Responsibilities for Financial Statements

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 the financial year.

The directors are of the view that in the preparation of the financial statements, appropriate accounting policies and relevant accounting principles have been consistently applied and compiled 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.

Committees under the Board

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

(1) 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 of the Company. It is chaired by Ms. LI Boxi and the other two members are Mr. MA Guichuan and Mr. TSAO Wen King, Frank. Following the resignation of Mr. MA Guichuan as a director of the Company on 22 January 2007, the Board appointed Mr. CHEN Hongsheng to be a member of the Strategic Development Committee on 12 March 2007.

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, as well as on the Company's website.

During the year, the Strategic Development Committee held three meetings and during which the strategic plans of the Company and the issue of A shares were reviewed.

The attendance of the meeting by the members of the Strategic Development Committee in 2006:

Member	Attendance of the meetings
LI Boxi (Chairman)	3/3
MA Guichuan	3/3
TSAO Wen King	3/3

The Strategic Development Committee is provided with assistance in discharging its duties by the Strategic Division and the Executive office 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.

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(2) Risk Management Committee

The Risk Management Committee of the Company, established in April 2005, comprises two independent non-executive directors and one non-executive director of the Company. It is chaired by Mr. LI Jianhong and the other two members are Ms. LI Boxi and Mr. TSAO Wen King, Frank.

The Risk Management Committee provides independent support to the Board to identify the operational risks of the Company, monitor and manage these risks, set a clear 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, as well as on the Company's website.

During the year, the Risk Management Committee held 5 meetings, during which material investments of the Company on areas such as vessels and property and major M&A projects were reviewed.

The attendance of the meeting by the members of the Risk Management Committee in 2006:

Member	Attendance of the meetings	
LI Jianhong (Chairman)	4/5	(his alternate Director attended one time)
LI Boxi	5/5	
TSAO Wen King	5/5	

The Risk Management Committee is provided with assistance in discharging its duties by the Strategic Division, the Finance Division and the Executive office 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.

(3) Audit Committee

The Audit Committee of the Company, established in April 2005, comprises two independent non-executive directors and one non-executive director of the Company. 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 have extensive experience in understanding, analysing and reviewing the financial reports of listed companies. Mr. Hamilton, the chairman, was formerly a partner of Pricewaterhouse Coopers. Neither Mr. CHENG Mo Chi nor Ms. SUN Yueying was a partner of the auditors of the Company.

For the year ended 31 December 2006, the Company has been in compliance with the requirements relating to audit committee under Rule 3.21 of the Listing Rules.

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 the realisation 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 are set out on the Articles of the Company and the Company's website.

The attendance of meetings by the members of the Audit Committee in 2006:

Member	Attendance of the meetings
HAMILTON Alexander Reid <i>(Chairman)</i>	3/3
SUN Yueying	3/3
CHENG Mochi	3/3

During the year, the Audit Committee of the Company held 3 meetings, which was attended by all members and chief financial officer of the Company. 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 a Joint Company Secretary and endorsed by the chairman of the Audit Committee, were sent to the members of the committee after the meeting for record.

On 22 January and 25 March 2007, the Audit Committee convened two meetings and reviewed the status and planning of internal audit. It also audited the 2006 financial reports as well as the appointment of auditors.

The Audit Committee is provided with assistance in discharging its duties by the Finance Division and the Executive office 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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(4) Remuneration Committee

The Remuneration Committee of the Company, established in April 2005, comprises two independent non-executive directors and one non-executive director of the Company. It is chaired by Mr. Cheng Mo Chi, and the other two members are Mr. Ma Zehua and Mr. Alexander Reid Hamilton. Following the resignation of Mr. Ma Zehua as a director of the Company on 22 January 2007, the Board appointed Mr. Xu Lirong to be a member of the Remuneration Committee on 12 March, which will come into effect when he was approved to be an executive director at general meeting.

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 reviewing and approving remuneration which are determined on results and performance of duties 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 prospectus of the Company, as well as on the Company's website.

During the year, the Remuneration Committee held three meetings, 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 Holding Company Limited", the remuneration of the senior management have been linked to the operating performance of the Company.

The Remuneration Committee is provided with assistance in discharging its duties by the Human Resources Division and the Executive office 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.

The attendance of meeting by the members of the Remuneration Committee in 2006:

Member	Attendance of the meetings
CHENG MO Chi (<i>Chairman</i>)	3/3
MA Zehua	3/3
HAMILTON Alexander Reid	3/3

On 28 March 2007, the Remuneration Committee held a meeting to review the remuneration matters of the senior management for 2006.

(5) Nomination Committee

The Nomination Committee of the Company, established in April 2005, comprises two independent non-executive directors and one non-executive director of the Company. It is chaired by Mr. Tsao Wen King, Frank and the other two members are Mr. Wang Futian and Mr. Cheng Mo Chi. Following the resignation of Mr. Wang Futian as a director of the Company on 22 January 2007, the Board appointed Mr. Zhang Liang to be a member of the Nomination Committee on 12 March, which will come into effect when he was approved to be an executive director at general meeting.

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, as well as on the Company's website.

For the nomination procedures and criteria, the Nomination Committee will review the profile of certain candidates. After careful consideration, the Nomination Committee would nominate the right candidates to the Board for further consideration of their appointment.

Factors to be considered by the Nomination Committee include the candidate's experience and qualifications relevant to the Company's business. Members of the Nomination Committee collectively have the required professional knowledge and skills in discharging the Nomination Committee's responsibility in identifying and evaluating new nominees to the Board and the assessment of qualifications of the nominated candidates for directorship.

During the year, the Nomination Committee had not held any meeting. On 10 January 2007, the Nomination Committee held a meeting to review the nomination of directors.

The Nomination Committee is provided with assistance in discharging its duties by the Human Resources Division and the Executive office 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.

(6) Executive Committee

The Executive Committee of the Company was established in December 2005 to make decision in a more effective manner. The terms of reference, scope of responsibilities and rules of procedures, applicable to the committee, inter alia, have been expressly defined by the Board.

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Remuneration of Auditors

The Company appointed PricewaterhouseCoopers and BDO Reanda Certified Public Accountants Co., Ltd. as the Company's international and PRC auditors throughout the year 2006.

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 RMB28,186,000, RMB8,947,000 and RMB10,928,000 respectively.

Internal Control

Pursuant to the requirements of the Listing Rules, the Board reviewed the internal control of the Group during the year, in which primarily under the leadership of the Audit Committee, a gap analysis was conducted to the existing internal control system and the COSO internal control system of a higher level and looked for ways to improve it at the same time. The Board is largely satisfied with internal control procedures of the Company, and considers that, in principle, the Group's existing internal control system conforms with the requirements of internal control framework system. As a whole, the internal control system is basically reasonable and effective. In certain respect, there exists differences from the internal control system of COSO and a detailed improvement plan had been formulated, so as to connect it with the internationally best examples.

The management of the Group put great emphasis on the work for internal control and adopts various measures to monitor the Company's business and to prevent potential risks. Details are as follow:

1. Financial Control

With respect to financial control, the Group strictly complies with the requirements of internal control framework and continues to implement various financial systems such as "Management Code for Funds", "Management Code for Debts", "Requirements for Deployment of Funds of Substantial Amount and the Payment for Approving Procedures" and combines with the situation of the Company and strengthens management. In 2006, "Guarantee Management Code" and "Management Code for Enterprise Financial Risks" were newly established or amended. The establishment and implementation of these systems further enhanced the Company's financial management and improved the Company's financial management level.

The specialized internal audit department and the internal audit personnel monitor the daily financial management in accordance with their duties and conduct analysis pursuant to the differences existed with the internal control framework with COSO and follow up improvement methods and progress.

In 2006, the Company's audit committee held three meetings to communicate and discuss with the personnel from financial management department and internal auditors with respect to the Company's financial management, financial statements and auditing issues.

2. Business Control

The Group's management and each of the departments shares the responsibilities, commit the respective duties seriously and ensure the safe operation of the Company's business in compliance with the articles of association and the Company's relevant regulations.

The Company conduct statistics and analysis to the vessels transportation business each month so as to facilitate the management to take control of the situation, make judgments and decisions. Material matters of the Company are submitted by the management to the Board and general meeting for review and approval according to the required procedures of the Company's articles. Supervisors of the Company performed monitoring, propose advices and recommendations on the discharge of duties of the management and the directors pursuant to the articles.

3. Compliance Control

The Group complies with the relevant laws, regulations in managing and launching external business and enhances its internal management system. Management staffs and each department of the Company sign external contracts, manage the intelligent property rights and litigation in accordance with the "Management Code for Legal Affairs". The Company has personnel specializing in legal affairs who provide advices for the legality and compliance of the Company's material operational decisions. It also works with various departments to launch projects and to promote education for legal system.

The Group has established a responsibility system by grade for information disclosure, so as to ensure the Company's material matters could be reported and delivered on time, and to guarantee the promptness and accuracy of regular reports and interim reports. The Company designated departments for managing connected transactions in accordance with the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" and "Management requirements for Connected Transactions" and conduct statistics and reports for the connected transactions carried out in each companies and each department, so as to ensure the connected translations, its decision making procedure and the disclosure of information comply with the requirements of the Listing Rules.

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4. Risks Management

The Group established various risks management regulations, such as “Provisional Investment Management Code”, “Management Code for Legal Affairs”, “Management Code for Financial Risks Management”, “Requirements for deployment of funds of substantial amount and the payment for approving procedures” “Three Important and One Crucial Monitoring Requirements” so as to enhance the management for investment, guarantee, litigation, the business of financial derivatives, large amount of payment and the appointment and removal of crucial personnel and important projects as well as to standardize operations and reduce risks.

The Group has established the Risks Management Committee which provides analysis and decision-marking supports to the Board. In 2006, the Risks Management Committee held five meetings and reviewed and discussed certain material investments, financing activities and assets disposal of the Company, which create positive effects to the Company’s risks management.

Shareholders’ Rights

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

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, including the announcement of its operational results in a quarterly basis (in addition to the half yearly and annual results). News and information relating to the corporate and business affairs of the Company being uploaded to the Company’s website (www.chinacosco.com) from time to time.

The Board considers the general meeting as an important platform of communications between the Company and its shareholders. Therefore, all the Directors and the Management fully support attending the meetings and actively address queries raised by shareholders and others. In order to facilitate the exercise of rights by the shareholders in the general meeting, important matters are dealt with using special resolutions in general meetings.

Investor Relations

The Investors Relations Department of the Company has been set up to assume the responsibilities for communications among investors and relevant parties. During the year, the Company has been in strict compliance with the relevant rules and regulations on information disclosure. It maintains good two-way communications with different sectors via various communication channels. By way of two-way communications, the Company is able to assist 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.

Press and analysts conferences were held subsequent to the interim and annual results announcements and the executive directors of the Company were made available to answer questions regarding the Group's operational and financial performances. In addition, the Company has participated in a number of roadshows and investors' conferences organized by various investment banks during 2006, so as to enhance the Group's relationship with the investors and their understanding of the Company's operations and developments. Furthermore, an investor relations webpage was available on the website of the Company (www.chinacosco.com) to address the enquiries of the investors.

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.

In 2007, 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.