

CORPORATE GOVERNANCE REPORT

The corporate governance framework of COSCO SHIPPING Ports Limited (the “Company”) aims to ensure that the highest standards of corporate conduct are in place within the Company and places great importance on corporate governance processes and systems so as to achieve its corporate objectives, ensure greater transparency and protect shareholders’ interests. The Board of Directors of the Company (the “Board”) enhances the Company’s practices and policies in a timely, transparent, informative and accountable manner. The Board strongly believes that good corporate governance forms the core of a well-managed organisation.

The Company has made continuous efforts to promote high standards of corporate governance and excellence in investor relations practices, earning market recognition from different stakeholders for its high levels of transparency and corporate governance. The Company is included as a constituent of the Hang Seng Corporate Sustainability Benchmark Index. On 14 February 2017, The Hong Kong Institute of Directors published its Report on The HKIoD Corporate Governance Score-card 2016, and the Company was honored as one of the ten companies with the highest CGI scores, demonstrating that its efforts in corporate governance are highly valued by the industry. In addition, in 2016 the Company was awarded “Shipping In-House Team of the Year” by *Asian Legal Business*, a well-recognised professional magazine, and named among the top ten in-house legal teams of the “Most Innovative In-House Legal Team” Ranking by *Financial Times*, a well-recognised business newspaper. Other noted awards received during the year include a “Gold Award for Corporate Governance, Environmental Responsibility and Investor Relations” from *The Asset* magazine, “Best Investor Relations Company” for the fifth consecutive year from *Corporate Governance Asia* magazine, and

the “Outstanding China Enterprise Award” for the fifth consecutive year from *Capital* magazine. In addition, the 2015 Annual Report was awarded an “Excellence Award for H Share & Red Chip Entries” by the Hong Kong Management Association. It was also recognised with a “Chairman’s Letter Silver Award” and “Written Text Honors” in the Marine Transportation category at the 2016 ARC Awards.

Corporate Governance Practices

The Company adopted the code provisions set out in the then Code on Corporate Governance Practices 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. From 2002, long before the implementation of the said code, the Company had already taken the initiative to disclose its corporate governance practices in its annual reports.

The Company’s corporate governance practices are in compliance with the Corporate Governance Code contained in Appendix 14 of the Listing Rules. The Company also refers to the Organisation for Economic Co-operation and Development (OECD) principles for a

set of ethics to maintain high corporate accountability and transparency.

The Company believes that commitment to good corporate governance is essential to the sustainability of the Company’s businesses and performances. The Company is pleased to confirm that for the year ended 31 December 2016, it has fully complied with the code provisions of the Corporate Governance Code.

To reinforce and enhance our commitment to the highest level of corporate governance practices and integrity, the Company adopted the following code provisions in the Corporate Governance Code prior to their coming into effect on 1 April 2012:

Code Provision A.1.8

The code provision A.1.8 of the Corporate Governance Code provides that a listed company should arrange appropriate insurance coverage for directors. The Company has made appropriate arrangements for liability insurance to indemnify its directors for their liabilities arising out of corporate activities. The insurance coverage has been reviewed by the Company on an annual basis.

Code Provisions A.5.1 to A.5.4

The code provisions A.5.1 to A.5.4 of the Corporate Governance Code provides that a listed company should establish a nomination committee with its terms of reference. The Company established its Nomination Committee in 2005, long before the implementation of the relevant code provisions. Details of the composition and terms of reference of the Nomination Committee are set out under the section titled "Nomination Committee" below.

In order to promote transparency, the Company will periodically conduct a review of the extent to which the Company complies with the recommended best practices in the Corporate Governance Code. The following are major recommended best practices in the Corporate Governance Code with which the Company continued/started to comply during the year ended 31 December 2016:

Recommended Best Practice C.1.6

The recommended best practice C.1.6 of the Corporate Governance Code states that a listed company should announce and publish quarterly financial results. The Company had, on 27 April 2016 and 26 October 2016, published announcements of its first and third quarterly results respectively on a voluntary basis. The Company considers the publication of the quarterly results a regular compliance practice.

Recommended Best Practice C.2.6

The recommended best practice C.2.6 of the Corporate Governance Code, which came into effect on 1 January

2016, states that the board of a listed company may disclose in the Corporate Governance Report that it has received a confirmation from management of the effectiveness of the Company's risk management and internal control systems.

The Board has received such confirmation with respect to the effectiveness of the Company's risk management and internal control systems for 2016. Details on the review of the effectiveness of the risk management and internal control systems of the Company are set out under the section titled "Risk Management and Internal Control" below.

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 Functions and Responsibilities of Directors

The Board is responsible for the leadership and control of the Company and its subsidiaries (together "the Group") and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. Every Board member is required to keep abreast of his/her duties and responsibilities in the Company in the conduct, business and development of the Company and should act in good faith, exercise due diligence and act in the best interest of the Group and its shareholders. The Board should ensure that the Company complies with all applicable laws and regulations.

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 risk management, internal control and check-and-balance mechanisms. Matters to be decided by the Board include:

- establishing the strategic direction of the Group
- setting objectives and business development plans
- monitoring the performance of the senior management
- implementing the policies for corporate governance, including but not limited to (i) establishing a shareholder communication policy and reviewing it on a regular basis to ensure its effectiveness; and (ii) establishing risk management and internal control systems and reviewing their effectiveness

The Board reviews and approves the Company's annual budget and business plans, which serve as important benchmarks in assessing and monitoring the performance of the management. Directors have access to the management and are welcome to request explanations, briefings or discussions on the Company's operations or business issues.

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

All newly appointed directors undergo a comprehensive programme which includes management presentations

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on the Group's businesses, strategic plans and objectives. They also receive a comprehensive orientation package upon appointment which includes policies on disclosure of interest in securities, prohibitions on dealing in the Company's securities and restrictions on disclosure of inside information and disclosure obligations of a listed company under the Listing Rules. The programme and package are updated periodically whenever there are changes in relevant laws and regulations.

Board Composition

As at 28 March 2017 (the date on which the Board approved this report), the Board consisted of 15 members. Among them, four are executive directors, six are non-executive directors and five are independent non-executive directors, including Mr. HUANG Xiaowen² (Chairman), Mr. ZHANG Wei (張為)¹ (Vice Chairman & Managing Director), Mr. FANG Meng¹, Mr. DENG Huangjun¹, Mr. FENG Boming², Mr. ZHANG Wei (張煒)², Mr. CHEN Dong², Mr. XU Zunwu², Mr. WANG Haimin², Dr. WONG Tin Yau, Kelvin¹, Dr. FAN HSU Lai Tai, Rita³, Mr. Adrian David LI Man Kiu³, Mr. FAN Ergang³, Mr. LAM Yiu Kin³ and Prof. CHAN Ka Lok³.

¹ Executive Director

² Non-executive Director

³ Independent Non-executive Director

There are no relationships (including financial, business, family or other material/relevant relationship(s)) between Board members and in particular, between the Chairman and the Managing Director. Biographical details of the directors are set out in the section "Directors and Senior

Management Profiles" in this annual report and on the Company's website at <http://ports.coscoshipping.com>. A list containing the names of the directors and their respective roles and functions is also published on the said website.

Procedures to Enable Directors to Seek Independent Professional Advice

To assist the directors in fulfilling their duties to the Company, the Board has established written procedures to enable them, 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 2016.

Separation of Chairman and Managing Director

To ensure independence, accountability and responsibility in Board functions, the posts of Chairman and Managing Director are separated and each plays a distinctive role. The Chairman, Mr. HUANG Xiaowen, who is a non-executive director, is responsible for setting the Group's strategy and business directions, managing the Board and ensuring that the Board is functioning properly with good corporate governance practices and procedures. The Vice Chairman and Managing Director, Mr. ZHANG Wei (張為), 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 senior management to achieve the Group's objectives. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

Non-executive Directors (including Independent Non-executive Directors)

The Company has six non-executive directors and five independent non-executive directors who are not involved in the day-to-day operation and management of the Group's businesses. The six non-executive directors have contributed innovative views to the Board's decision-making process based on their rich experience in terminal operations management, accounting and financing, and corporate management. Their expertise helps to facilitate the process of formulating the Group's strategy. The five independent non-executive directors, representing one-third of the Board, have well-recognised experience in areas such as accounting, law, banking and/or commercial fields. Their insightful advice, diverse skills and extensive business experience are major contributors to the development of the Company, and act as a check-and-balance for the Board. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision-making process. In addition, they ensure the Board maintains a high standard of financial, regulatory and other mandatory reporting and provide an adequate check-and-balance to safeguard the interest of shareholders and the Company as a whole.

Each of the non-executive directors and independent non-executive directors has signed an appointment letter with the Company for a term of around three years. Their terms of appointment are subject to the rotational retirement provision of the Bye-laws of the Company and shall terminate on the earlier of either (i) the date of expiry of the said term of service, 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 applicable laws.

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

The Nomination Committee of the Company 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

Board meetings are scheduled one year in advance to facilitate maximum attendance by directors. The Board held four regular Board meetings during the financial year ended 31 December 2016 at quarterly intervals. The average attendance rate was 91.05%. The meetings were held to approve the 2015 final results, 2016 interim results and 2016 first and third

quarterly results of the Company. As the members of the Board are either in Hong Kong or in mainland China, all of these meetings were conducted by video and/or telephone conference as allowed under the Bye-laws of the Company. The Financial Controller and the General Counsel & Company Secretary also attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial aspects.

Before each regular Board meeting, the Board is provided with adequate 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 performances of the Group, in addition to the minutes of preceding meetings of the Board and Board committees. 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 usually dispatched to the directors at least three days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. Directors unable to attend a meeting are advised of the matters to be discussed and are given an opportunity to make their views known to the Chairman prior to the meeting. Senior management members 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 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 its decision-making process.

The Chairman of the Company conducts the proceedings of the Board at all Board meetings. He ensures that sufficient time is allocated for discussion and consideration of each item on the agenda and equal opportunities are given to the directors to 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 directors for comments within a reasonable time after the Board meeting is held. All directors have access to the General Counsel & Company Secretary, who is responsible for ensuring that the Board procedures and all applicable laws and regulations are complied with and provides advice to the Board on compliance matters.

Set out below are the details of all directors' attendance at the Board meetings and general meetings during the financial year ended 31 December 2016 which illustrate the attention given by the directors in overseeing the Company's affairs and understanding shareholders' views:

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Attendance of individual Board members at Board meetings and general meetings held in 2016

Name of Directors	No. of Board meetings attended/held	Attendance rate of Board meetings (%)	No. of general meetings attended/held	Attendance rate of general meetings (%)
Directors				
Mr. HUANG Xiaowen ² (Note 1) (Chairman) (appointed on 29 March 2016)	1/3	33	3/3	100
Mr. ZHANG Wei (張為) ¹ (Note 2) (Vice Chairman & Managing Director)	4/4	100	4/4	100
Mr. FANG Meng ¹ (appointed on 27 April 2016)	2/2	100	3/3	100
Mr. DENG Huangjun ¹	4/4	100	4/4	100
Mr. FENG Boming ² (appointed on 24 October 2016)	1/1	100	N/A	N/A
Mr. ZHANG Wei (張煒) ² (appointed on 24 October 2016)	1/1	100	N/A	N/A
Mr. CHEN Dong ² (appointed on 24 October 2016)	1/1	100	N/A	N/A
Mr. XU Zunwu ² (appointed on 24 October 2016)	1/1	100	N/A	N/A
Mr. WANG Haimin ²	4/4	100	3/4	75
Dr. WONG Tin Yau, Kelvin ¹	4/4	100	4/4	100
Dr. FAN HSU Lai Tai, Rita ³	4/4	100	4/4	100
Mr. Adrian David LI Man Kiu ³	4/4	100	4/4	100
Mr. FAN Ergang ³	4/4	100	3/4	75
Mr. LAM Yiu Kin ³	4/4	100	4/4	100
Prof. CHAN Ka Lok ³ (appointed on 24 October 2016)	1/1	100	N/A	N/A
Ex-directors				
Mr. WAN Min ² (Note 1) (Chairman) (resigned on 29 March 2016)	1/1	100	1/1	100
Mr. QIU Jinguang ¹ (Note 2) (Vice Chairman & Managing Director) (resigned on 27 April 2016)	2/2	100	1/1	100
Mr. TANG Runjiang ¹ (resigned on 7 July 2016)	0/2	0	0/2	0
Mr. FENG Bo ¹ (resigned on 24 October 2016)	3/3	100	4/4	100
Mr. WANG Wei ² (resigned on 24 October 2016)	3/3	100	2/4	50
Mr. IP Sing Chi ³ (resigned on 24 October 2016)	2/3	67	3/4	75

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

Note 1: Mr. HUANG Xiaowen was appointed as Chairman of the Board in place of Mr. WAN Min on 29 March 2016.

Note 2: Mr. ZHANG Wei (張為) was re-designated from a non-executive director to an executive director and appointed as the Vice Chairman and Managing Director of the Company in place of Mr. QIU Jinguang on 27 April 2016.

During the financial year ended 31 December 2016, a meeting of the Chairman and the non-executive directors (including independent non-executive directors) without the presence of the executive directors was held pursuant to code provision A.2.7 of the Corporate Governance Code.

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, and 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 as additional directors or to fill in casual vacancies on the Board and for making recommendations to the shareholders

regarding any directors proposed for re-election at general meetings.

Details of the selection process of new directors and a summary of work performed by the Nomination Committee in 2016 are set out under the "Nomination Committee" section below.

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

Directors' Commitment

The Company has received confirmation from all directors that they have given sufficient time and attention to the affairs of the Company during the financial year ended 31 December

2016. Directors have also disclosed to the Company the number and nature of offices held in public companies or organisations and other significant commitments, as well as the identity of the said public companies and an indication of time involved in them.

Directors are reminded to participate in continuous professional development to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities under the Listing Rules and other applicable laws and regulations. During the financial year ended 31 December 2016, directors participated in various training programmes and seminars at the Company's expense. Set out below are the details of all directors' participation in continuous professional development during the financial year ended 31 December 2016:

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Directors' Participation in Continuous Professional Development Programmes in 2016

	Reading regulatory updates	Making visits to management of the Company and/or its subsidiaries	Attending directors' training organised by the Company or other listed companies/professional organisations
Directors			
Mr. HUANG Xiaowen ² (Note 1) (appointed on 29 March 2016) (Chairman)	√	√	√
Mr. ZHANG Wei (張為) ¹ (Note 2) (Vice Chairman & Managing Director)	√	√	√
Mr. FANG Meng ¹ (appointed on 27 April 2016)	√	√	√
Mr. DENG Huangjun ¹	√	√	√
Mr. FENG Boming ² (appointed on 24 October 2016)	√	√	√
Mr. ZHANG Wei (張煒) ² (appointed on 24 October 2016)	√	√	√
Mr. CHEN Dong ² (appointed on 24 October 2016)	√	√	√
Mr. XU Zunwu ² (appointed on 24 October 2016)	√	√	√
Mr. WANG Haimin ²	√	√	√
Dr. WONG Tin Yau, Kelvin ¹	√	√	√
Dr. FAN HSU Lai Tai, Rita ³	√	√	√
Mr. Adrian David LI Man Kiu ³	√	√	√
Mr. FAN Ergang ³	√	√	√
Mr. LAM Yiu Kin ³	√	√	√
Prof. CHAN Ka Lok ³ (appointed on 24 October 2016)	√	√	√
Ex-directors			
Mr. WAN Min ² (Note 1) (resigned on 29 March 2016) (Chairman)	√	√	–
Mr. QIU Jinguang ¹ (Note 2) (resigned on 27 April 2016) (Vice Chairman & Managing Director)	√	√	–
Mr. TANG Runjiang ¹ (resigned on 7 July 2016)	√	√	–
Mr. FENG Bo ¹ (resigned on 24 October 2016)	√	√	–
Mr. WANG Wei ² (resigned on 24 October 2016)	√	√	–
Mr. IP Sing Chi ³ (resigned on 24 October 2016)	√	√	–

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

Note 1: Mr. HUANG Xiaowen was appointed as Chairman of the Board in place of Mr. WAN Min on 29 March 2016.

Note 2: Mr. ZHANG Wei (張為) was re-designated from a non-executive director to an executive director and appointed as the Vice Chairman and Managing Director of the Company in place of Mr. QIU Jinguang on 27 April 2016.

Note 3: The Company provided all newly appointed directors with training in directors' duties towards listed companies and reports on business and financial information of the Company.

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 has established written guidelines for the senior management and relevant employees of the Company in respect of their dealings in the securities of the Company on no less exacting terms than the Model Code. A committee comprising the Chairman, the Vice Chairman and Managing Director and a Deputy Managing Director was set up to deal with such transactions.

Specific confirmation has been obtained from directors and senior management regarding their compliance with the Model Code and the aforementioned guidelines in 2016. No incidents of non-compliance were noted by the Company in 2016.

General Counsel & Company Secretary

The General Counsel & Company Secretary, who is directly responsible to the Board, is responsible for keeping directors updated on all relevant regulatory changes of which she is aware, including organising appropriate continuing development programmes for directors.

All directors have access to the General Counsel & Company Secretary who is responsible for ensuring good information flow within the Board and that Board policies and procedures are followed. The General Counsel & Company Secretary is also responsible for providing advice to the Board in relation to directors' obligations as regards disclosure of interest in securities and disclosure requirements in respect of notifiable transactions, connected transactions and inside information. The General Counsel & 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 Listing Rules, applicable laws, regulations and the Bye-laws of the Company.

The General Counsel & Company Secretary is an alternate to one of the authorised representatives of the Company and the primary channel of communication between the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). She assists the Board in implementing and strengthening corporate governance practices with a view to enhancing long-term shareholder value. In addition, the General Counsel & Company Secretary will, on a timely basis, provide the directors with updated information regarding their continuing legal, regulatory and compliance obligations. In relation to connected transactions and disclosure requirements, regular seminars are conducted by the General Counsel & Company Secretary for management and senior executives within the Group to ensure that such transactions are handled in compliance with the Listing

Rules. Detailed analyses are performed on all potential connected transactions to ensure full compliance, as well as for directors' consideration.

The General Counsel & Company Secretary has duly complied with the relevant training requirement under Rule 3.29 of the Listing Rules.

Delegation by the Board

Management Functions

The Board delegates day-to-day responsibilities to the management. The respective functions of the Board and the management have been clearly established and set out in writing. The management, under the leadership of the Managing Director (who is also the Vice Chairman), is responsible for the following duties delegated by the Board:

- implementing the strategies and plans established by the Board
- submitting reports on the Company's operations to the Board on a regular basis to ensure effective discharge of the Board's responsibilities, including any monthly updates as requested pursuant to the Listing Rules

Board Committees

To assist the Board in the execution of its duties and to facilitate effective management, certain functions of the Board have been delegated to various Board committees, which in turn will review and make recommendations to the Board on specific areas. The Board has established a total of seven

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Board committees, details of which are set out below. Each committee consists of directors, members of senior management and management and has a defined scope of duties and terms of reference, and 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 to the Board with their recommendations, where appropriate. The ultimate authority 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 at <http://ports.coscoshipping.com>. The terms of reference will be revised when appropriate. It is the Company's policy to ensure that the committees are provided with sufficient resources to discharge their duties. They have regular, scheduled meetings every year and report to the Board on a regular basis. All business transacted at committee meetings is meticulously recorded and well maintained, and minutes of meetings are circulated to the Board for reference.

1. Executive Committee

The Executive Committee consists of all the executive directors of the Company who are frequently in Hong Kong. The purpose of this committee is to facilitate 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 be practically difficult and inconvenient to convene full Board meetings or arrange for all directors to sign written resolutions 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 31 December 2016, the Executive Committee held a total of 51 meetings. All the matters considered and decided by the Executive Committee at the committee meetings have been recorded in detailed minutes. A committee member presents a summary report on the business transacted at the Executive Committee meetings to the Board at Board meetings. All directors of the Company can inspect the minutes of the committee meetings at any time and upon request, and the General Counsel & 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 with appropriate professional qualifications, consists of three members, all of whom are independent non-executive directors of the Company. All committee members are professionals in their own working fields, including accounting, legal, banking and/or other commercial areas.

The Audit 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 (the "HKICPA") and the code provisions set out in the Corporate Governance Code.

In addition to providing advice and recommendations to the Board, the Audit Committee 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 normally held four times a year on a quarterly basis, with additional meetings arranged as and when required. During the year ended 31 December 2016, four meetings were held and the average attendance rate was 91.67%.

The key matters deliberated on by the Audit Committee in 2016 included:

- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters
- reviewed the draft annual, interim and quarterly results announcements and the draft annual report and interim report of the Company and assured the completeness, accuracy and fairness of the financial statements of the Company
- reviewed the results of the external audit and discussed significant findings and audit issues with the external auditors
- reviewed the internal audit plan and internal audit reports
- reviewed the progress report on risk management and internal control
- reviewed the summary of continuing connected transactions of the Company on a quarterly basis
- discussed the effectiveness of the risk management and internal control systems throughout the Group, including financial, operational and compliance controls
- reviewed the framework for disclosure of inside information of the Group and the whistleblowing policy of the Company
- reviewed the Risk Management and Internal Control Policy

Attendance of individual members at Audit Committee meetings held in 2016

Name of Members	No. of meetings attended/held	Attendance rate (%)
Mr. Adrian David LI Man Kiu ¹ (Chairman)	4/4	100
Dr. FAN HSU Lai Tai, Rita ¹	3/4	75
Mr. LAM Yiu Kin ¹	4/4	100

¹ Independent Non-executive Director

3. Remuneration Committee

The Remuneration Committee, led by its Chairman who is an independent non-executive director, comprises five members, the majority of whom are independent non-executive directors of the Company.

The Company has adopted model (ii) as set out in the code provision B.1.2(c) of the Corporate Governance Code, under which the Remuneration Committee makes recommendations to the Board on the remuneration

packages of individual executive directors and senior management. The Remuneration Committee also makes recommendations to the Board on the policy and structure for all directors' and senior management remuneration. If necessary, the Remuneration Committee can engage professional advisers to assist and/or provide professional advice on relevant issues.

When formulating remuneration packages (which comprise salaries, bonus, benefits in kind, etc.), the

Remuneration Committee considers several factors such as salaries paid by comparable companies, time commitment, job responsibilities, the performance of the individual and the performance of the Company. The Remuneration Committee will also review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives resolved by the Board from time to time.

The following is a summary of the work of the Remuneration Committee in 2016:

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- conducted the annual review and made recommendations to the Board on the remuneration packages of all directors and members of senior management
- reviewed and made recommendations to the Board on the remuneration of the newly appointed Chairman of the Board, executive director, non-executive director and independent non-executive director
- reviewed and made recommendations to the Board on the remuneration of the Managing Director and the Deputy Managing Director

Attendance of individual members at Remuneration Committee meetings held in 2016

Name of Members	No. of meetings attended/held	Attendance rate (%)
Members		
Dr. FAN HSU Lai Tai, Rita ¹ (Chairman)	2/2	100
Mr. Adrian David LI Man Kiu ¹	2/2	100
Prof. CHAN Ka Lok ¹ (appointed on 24 October 2016)	N/A	N/A
Mr. ZHANG Wei (張為) ² (appointed on 27 April 2016)	1/1	100
Mr. LI Yingwei	2/2	100
Ex-members		
Mr. IP Sing Chi ¹ (resigned on 24 October 2016)	2/2	100
Mr. QIU Jinguang ² (resigned on 27 April 2016)	1/1	100

1 Independent Non-executive Director

2 Executive Director, Vice Chairman and Managing Director

In addition to the two physical meetings mentioned above, the Remuneration Committee passed one set of written resolutions during the year to carry out its relevant tasks.

Remuneration policy

The remuneration policy of the Company ensures the competitiveness and effectiveness of the Company's pay levels for attracting, retaining and motivating employees. No

director, or any of his/her associates, is involved in determining his/her own remuneration. The remuneration policy for non-executive directors ensures that they are sufficiently yet not excessively compensated for the effort and time they dedicate to the Company. The policy for employees (including executive directors and senior management) assures that remuneration offered is appropriate for the duties involved and in line with

market practice. The aggregate amount of directors' fees is subject to approval by shareholders at the annual general meeting.

The key components of the Company's remuneration package include basic salary plus other allowances, discretionary cash bonus and mandatory provident fund. The cash bonus is tied to the performance of the individual employee.

4. Nomination Committee

The Nomination Committee, led by its Chairman who is an independent non-executive director, comprises three members, the majority of whom are independent non-executive directors of the Company.

The Nomination Committee 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 appointments and re-elections. In addition, the Nomination Committee is responsible for reviewing the Board Diversity Policy (set out below in summary) to ensure its effectiveness and make recommendations to the Board on requisite amendments.

During 2016, the work performed by the Nomination Committee included the following:

- reviewed the Board Diversity Policy (hereinafter defined)
- made recommendations to the Board on matters relating to the resignation, re-designation, appointment and re-election of directors

- made recommendations to the Board on matters relating to the appointment and change of senior management and Board Committees members
- conducted an annual review of the independence of the independent non-executive directors
- reviewed structure, size and composition of the Board

All new appointments of directors and nominations of retiring directors proposed for re-election at the annual general meeting are first considered by the Nomination Committee and are then recommended by the Nomination Committee to the Board for decision. New directors appointed by the Board are subject to re-election by shareholders at the next following general meeting (in the case of filling a casual vacancy) or annual general meeting (in the case of an addition to the Board) pursuant to the Bye-laws of the Company.

In March 2016, Mr. HUANG Xiaowen was appointed as the Chairman of the Board and a non-executive director of the Company and Mr. ZHANG Wei (張為) was re-designated from a non-executive director to an executive director and appointed as the Vice Chairman of the Board and Managing

Director of the Company. In addition, Mr. FANG Meng, Mr. FENG Boming, Mr. ZHANG Wei (張煒), Mr. CHEN Dong, Mr. XU Zunwu and Prof. CHAN Ka Lok were appointed as directors of the Company in 2016. In considering the change of duties and responsibilities and appointment of directors, the Nomination Committee assessed the relevant directors and candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively etc., and made recommendation to the Board for approval.

In early 2017, the Nomination Committee nominated and the Board recommended that Mr. DENG Huangjun, Dr. WONG Tin Yau, Kelvin, Dr. FAN HSU Lai Tai, Rita and Mr. Adrian David LI Man Kiu, being directors longest in office since their last re-election, retire by rotation at the forthcoming annual general meeting. Mr. XU Zunwu who was appointed as a director by the Board on 24 October 2016, retires at the forthcoming annual general meeting. All the retiring directors, being eligible, will offer themselves for re-election by shareholders of the Company. Mr. FENG Boming, Mr. ZHANG Wei (張煒), Mr. CHEN Dong and Prof. CHAN Ka Lok retired and re-elected at the special general meeting held on 10 March 2017.

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Attendance of individual members at Nomination Committee meetings held in 2016

Name of Members	No. of meetings attended/held	Attendance rate (%)
Members		
Mr. Adrian David Li Man Kiu ¹ (Chairman)	2/2	100
Dr. FAN HSU Lai Tai, Rita ¹	2/2	100
Mr. ZHANG Wei (張為) ² (appointed on 27 April 2016)	1/1	100
Ex-members		
Mr. IP Sing Chi ¹ (resigned on 24 October 2016)	2/2	100
Mr. QIU Jinguang ² (resigned on 27 April 2016)	1/1	100

1 Independent Non-executive Director

2 Executive Director, Vice Chairman and Managing Director

In addition to the two physical meetings mentioned above, the Nomination Committee passed two sets of written resolutions during the year to handle the relevant tasks.

Board Diversity Policy

The Board adopted a board diversity policy (the "Board Diversity Policy") on 27 August 2013, which aimed at setting out principles and approaches designed to achieve the diversity of the Board.

The Company regards the diversity of the Board as one of the crucial elements of the Company's sustainable development and in maintaining its competitive advantages. Candidates for Board appointments will be considered based on each objective criterion and with due regard for the benefits of diversity of the Board. Selection of candidates will be based on a number of perspectives, including but not limited to gender, age, skills,

cultural background, knowledge and professional experience. The final decision will be based on the merit of the candidate and the contribution the candidate will bring to the Board.

The Board's composition under diversified perspectives was summarised as follows:

Board Diversity			
1. Designation	Executive Director (4)	Non-executive Director (6)	Independent Non-executive Director (5)
2. Gender	Male (14)	Female (1)	
3. Ethnicity	Chinese (15)		
4. Age group	40-50 (6)	51-60 (6)	Over 60 (3)
5. Length of service (years)	Over 10 (1)	3-10 (4)	Less than 3 (10)
6. Skills, knowledge and professional experience ^(Note 1)	Terminal operation and management (10)	Accounting and financing (5)	Banking (2)
	Law (2)	Management and commercial (1)	Capital management and investor relations (1)
7. Academic background	University (15)		

Note 1: Directors may possess multiple skills, knowledge and professional experience.

Note 2: The number in brackets refers to the number of directors under the relevant category.

The Nomination Committee has reviewed the Board's composition from diversity perspectives and monitored the implementation of the Board Diversity Policy and considers that the Board Diversity Policy is effective. It is currently not required to set any measurable objectives for implementing the policy.

in this regard so as to enhance the standard of corporate governance of the Company.

In 2016 and early 2017, the Corporate Governance Committee performed the following in relation to the review of the corporate governance framework of the Company:

- reviewed the Company's policies and practices on compliance with legal and regulatory requirements
- reviewed the employee manual of the Company
- reviewed the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report
- reviewed the Company's disclosure systems
- reviewed the Company's corporate sustainable development initiatives

5. Corporate Governance Committee

The Corporate Governance Committee, led by an executive director, comprises seven members (including an executive director, members of senior management and management). It reviews the corporate governance practices and disclosure systems of the Company and introduces relevant principles

- reviewed the Company's policies and practices on corporate governance and made recommendations to the Board
- reviewed the training and continuous professional development of directors and senior management

Attendance of individual members at Corporate Governance Committee meetings held in 2016

Name of Members	No. of meetings attended/held	Attendance rate (%)
Members		
Dr. WONG Tin Yau, Kelvin ¹ (Chairman)	4/4	100
Ms. HUNG Man, Michelle	4/4	100
Mr. HUANG Chen	3/4	75
Mr. LI Huadong	3/4	75
Mr. LI Jie (appointed on 16 August 2016)	3/3	100
Ms. LIU Mei Wan, May	4/4	100
Mr. QIU Jincheng (appointed on 16 August 2016)	2/3	67
Ex-member		
Mr. FAN Chih Kang, Ken (resigned on 16 August 2016)	1/1	100

¹ Executive Director

Note: In order to facilitate the annual review of the corporate governance and sustainable development of the Company, the above meetings were convened between 3 March 2016 and 16 March 2017, i.e. prior to the publication of the 2016 final results announcement.

CORPORATE GOVERNANCE REPORT

6. Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee, led by an executive director, comprises 15 members (including executive

directors, members of senior management and management). It is responsible for the consideration, evaluation and review of and making recommendations to the Board on proposed major investments, acquisitions and

disposals, and conducting post-investment evaluation of investment projects. It also reviews and considers the overall strategic direction and business development of the Company.

Attendance of individual members at Investment and Strategic Planning Committee meetings held in 2016

Name of Members	No. of meetings attended/held	Attendance rate (%)
Members		
Mr. ZHANG Wei (張為) ¹ (Chairman) (appointed on 27 April 2016)	3/3	100
Mr. FANG Meng ² (appointed on 16 August 2016)	2/2	100
Mr. DENG Huangjun ²	5/5	100
Mr. GUAN Shuguang (appointed on 16 August 2016)	2/2	100
Mr. ZHANG Dayu (appointed on 16 August 2016)	2/2	100
Mr. LUI Sai Kit, Eddie	5/5	100
Mr. LI Yingwei	5/5	100
Mr. QIU Jincheng	4/5	80
Mr. HUANG Chen	5/5	100
Mr. LI Jie	5/5	100
Mr. LI Huadong	5/5	100
Mr. SHEN Xuan	5/5	100
Mr. LIN Haibo (appointed on 16 August 2016)	2/2	100
Ms. HUANG Li (appointed on 16 August 2016)	2/2	100
Mr. HUNG Chun, Johnny	5/5	100
Ex-member		
Mr. QIU Jinguang ¹ (Chairman) (resigned on 27 April 2016)	2/2	100

¹ Executive Director, Vice Chairman and Managing Director

² Executive Director

7. Risk Management Committee

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

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

Details of the role and responsibilities of the Risk Management Committee for risk management of the Company are set out under the section titled "Risk Management and Internal Control" below.

Attendance of individual members at Risk Management Committee meetings in 2016

Name of Members	No. of meetings attended/held	Attendance rate (%)
Members		
Mr. ZHANG Wei (張為) ¹ (Chairman) (appointed on 27 April 2016)	0/4	0
Mr. FANG Meng ² (appointed on 16 August 2016)	3/4	75
Mr. DENG Huangjun ²	4/4	100
Mr. CHAN Hang, Ken	3/4	75
Mr. ZHANG Dayu (appointed on 16 August 2016)	4/4	100
Ms. HUNG Man, Michelle	3/4	75
Mr. LI Jie	3/4	75
Mr. LI Huadong	4/4	100
Mr. HUANG Chen	4/4	100
Mr. HUNG Chun, Johnny (appointed on 24 October 2016)	2/2	100
Ex-members		
Mr. QIU Jinguang ¹ (Chairman) (resigned on 27 April 2016)	N/A	N/A
Mr. PEI Feng (resigned on 16 August 2016)	N/A	N/A
Mr. FAN Chih Kang, Ken (resigned on 16 August 2016)	N/A	N/A

1 Executive Director, Vice Chairman and Managing Director

2 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 pages 108 to 113 which acknowledges the reporting responsibilities of the Group's auditor.

Annual Report and Financial Statements

The directors acknowledge their responsibilities for preparing 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 its 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.

Risk Management and Internal Control

The Board is responsible for assessing the establishment and maintenance of effective risk management and internal control systems of the Company in an effort to safeguard the interests of the shareholders. Based on the control environment, risk assessment and corresponding strategies, supervision and improvement, information management and communications of the Company, the risk management and internal control systems, which

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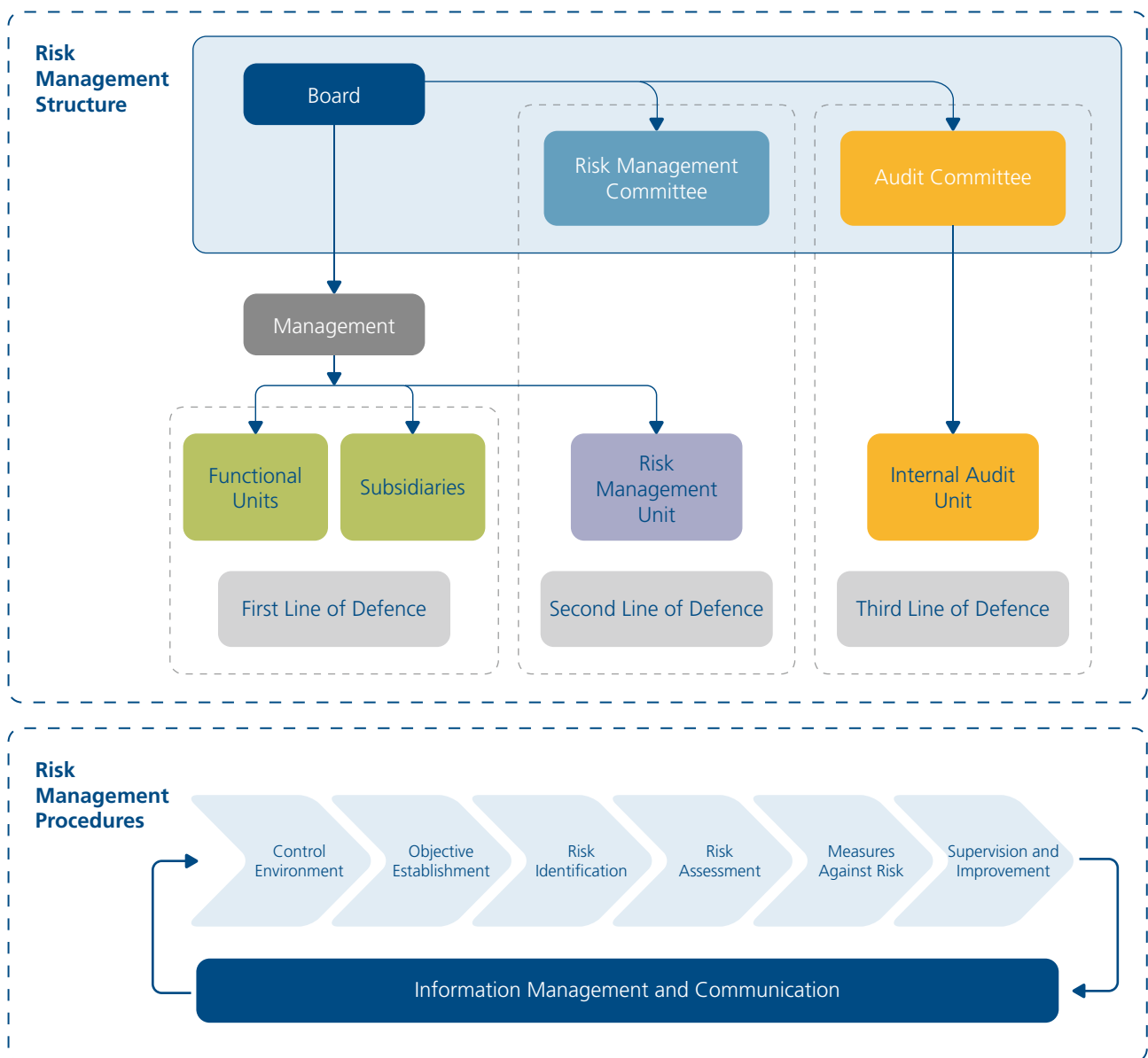
are characterised by “three lines of defence” and are integrated with the operations, have been established. The risk management framework of the risk management and internal control systems makes reference to

the COSO framework established by the Committee of Sponsoring Organisations of the Treadway Commission, the “General Risk Management Guidelines for State-owned Enterprises” issued by the

State-owned Assets Supervision and Administration Commission of the State Council (the “SASAC”), and the guide on “Internal Control and Risk Management” issued by the HKICPA.

Risk Management Framework

Below is the Company’s risk management framework, which comprises the risk management structure and the risk management procedures:



The division of major functions and responsibilities in the risk management structure is as follows:

Board	<ul style="list-style-type: none"> • Review the risk management and internal control systems and its continuous improvement • Review and approve risk-related professional decisions • Review periodic reports on risk assessment • Make decisions to balance the resource allocation to risk management and internal control • Review and ensure the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions
Audit Committee	<ul style="list-style-type: none"> • Review and advise the Board on the effectiveness of the risk management and internal control systems
Risk Management Committee	<ul style="list-style-type: none"> • Monitor the risk management framework, review and approve the risk management policy, and advise the Board on risk-related issues of the Company • Review the effectiveness of the risk assessment and internal control of the Company
Management	<ul style="list-style-type: none"> • Set up and manage the risk management unit of the Company • Implement the decisions and plans of the Board relating to risk • Organise daily risk supervision and improvement • Report to the Board on the risk management plan and results and provide the Board with a confirmation of the effectiveness of the risk management and internal control systems
Risk Management Unit	<ul style="list-style-type: none"> • Develop the Company's risk management plan, and assess the risk management of all functional units and subsidiaries of the Company according to the annual risk management plan and objectives • Organise annual risk assessment, and collaborate with the units concerned in drawing up measures against major risks based on the results of assessment • Organise the self-assessment of risk management and drive the establishment and improvement of a comprehensive risk management system
Functional Units and Subsidiaries	<ul style="list-style-type: none"> • Identify and assess the major risks associated with their respective scope of operations, and determine the corresponding strategies • Design and implement the risk control system based on risks identified and corresponding strategies determined • Cooperate with the internal audit unit in the investigation into and handling of incidents which have caused significant loss or adverse effects due to ineffective risk management and internal control
Internal Audit Unit	<ul style="list-style-type: none"> • Examine the suitability and effectiveness of the risk management and internal control systems and report regularly to the Board through the Audit Committee

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The risk management procedures include the following major tasks:

Objective establishment	<ul style="list-style-type: none"> • Having fully taken account of the impact of various risks, establish strategic, operational, reporting, compliance and relevant objectives based on the risk tolerance levels of Company
Risk identification	<ul style="list-style-type: none"> • All functional units and subsidiaries collect information about internal and external risks on a regular basis and carry out the necessary screening, refining, comparison, classification and consolidation processes • Identify the risks in the Company's major business operations and key business processes in accordance with the risk management framework established
Risk assessment	<ul style="list-style-type: none"> • Define the identified risks and their characteristics, and analyse and describe the likelihood and impact of the risks • Determine the Company's major risks after assessment of the importance of the risks in accordance with the evaluation criteria established
Measures against risks	<ul style="list-style-type: none"> • All functional units and subsidiaries choose risk corresponding strategies based on the results of risk assessment and the causes of the risks • Risk corresponding strategies are developed for all risks or each major risk • Design feasible risk control activities and effectively implement the relevant risk management solutions
Supervision and improvement	<ul style="list-style-type: none"> • All functional units and subsidiaries carry out ongoing day-to-day monitoring and analysis of the major and related risks under their management • The risk management unit prepares the risk management report based on the risk monitoring information and makes cross-department recommendations on significant changes in risks • The risk management unit monitors and assesses the risk control at all functional units and subsidiaries and the relevant effectiveness

Control Environment

Upholding a high standard of control environment has been a top priority of the Company. The Company has been dedicated to its continuous enhancement and improvement. Recognising the importance of the integrity, ethics, operating philosophy and team building capabilities (the overall quality of staff) of the management and other core values, the Board has drawn up guidelines on the internal control system to ensure the Company's objectives are achieved and to identify discrepancies for rectification.

The management is primarily responsible for the design, implementation and maintenance of a sound internal control system with a view to safeguard the interests of shareholders and the assets of the Company. The internal control system covers all major and material controls,

including financial, operational, compliance and risk management controls.

The Board is ultimately responsible for the effectiveness of the internal control and risk management systems of the Company. The Risk Management Committee is delegated to assist the Board in identifying and minimising the operational risks of the Company, determining the direction for the risk management strategies and strengthening the risk management system of the Company. The Risk Management Committee monitored and reviewed the results of internal control and risk management assessment for the year, and reported to the Board on a regular basis. Moreover, the Audit Committee assists the Board in reviewing the effectiveness of the internal control and risk management systems twice a year by scrutinising the underlying mechanism

and functioning of the internal control and risk management systems and sharing its opinions with the Board on the effectiveness of the systems.

To form the bedrock of the internal control system, the Company has defined its business structure and compiled an instruction manual on controls of those business processes and activities. Apart from the establishment of an effective internal control system, the Company attaches great importance to the integrity and qualifications of its accounting and finance personnel, and has imposed relevant requirements in that regard.

Assessment of and Measures against Risks



In accordance with the aforesaid risk management procedures, the Company has conducted assessment of the risks, and taken corresponding internal control measures.

The Company has set up a risk assessment project team, comprising the management and representatives from functional units and subsidiaries. With reference to the “Examples of Enterprise Risk Classification” issued by the SASAC and through interviews with the management and seminars on risk management, the project team established a risk management framework covering five dimensions, namely the strategic, market, finance, legal and operation areas. These cover




a total of 54 risks that are classified into three levels. On this foundation, a risk event database was created following an examination of the changes in the internal and external environments, existing risk-induced loss, business risk control matrices in functional units and subsidiaries, and integration of the practical experience of professional consultancies. In accordance with the theories and methodologies set out in the “Enterprise Risk Management – Integrated Framework” issued




by the Committee of Sponsoring Organisations of the Treadway Commission, the project team examined the top ten risks in the risk event database in detail, and formulated corresponding strategies and specific measures.

During the year, the Company carried out risk assessment, and the major risks facing the Company and its countermeasures are as follows:



Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Strategic risk	<p>Risks relating to investment decisions</p> <p>As the Company continues to increase its investment in terminals businesses, the pre-investment investigation and analysis may be insufficient</p>	<ul style="list-style-type: none"> Established and improved the investment management system, setting out clear principles for external investments Conducted due diligence on target companies to determine accurately the potential value of the assets of target companies Incorporated the risk assessment process into early preparations for investment projects to analyse and assess systematically the risks at various stages of investment projects Prepared economic indicators for investment projects and set consistent assessment criteria for project assessment 	
Strategic risk	<p>Risk relating to strategic planning</p> <p>As the Company is transformed into a pure terminals operator, there may be strategic misjudgement arising from insufficient analysis of the Company and the competitive environment</p>	<ul style="list-style-type: none"> Established the Planning & Research Department to strengthen the information collection and analysis abilities, and drew up strategic plans independently or with assistance from consultancies, in light of the new positioning of the Company Amended the Company’s strategic management and planning rules to specify the analysis, decision-making, review and modification processes in strategic planning 	

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Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Market risk	<p>Risk relating to fluctuation in exchange rates</p> <p>Wide fluctuations in exchange rates may result in continuous depreciation in the settlement currencies or the currencies in which the monetary assets or liabilities are denominated</p>	<ul style="list-style-type: none"> • Developed management rules for operations exposed to financial risks, and set out clear rules for risks associated with exchange rates, interest rates and financial derivatives products • Chose US dollars as the settlement currency whenever possible in acquisitions, mergers and the process of terminal operation • Designated personnel to track changes in exchange rates and lower exchange risk exposure through multiple measures, including timely currency conversion and prepayment of foreign-currency borrowings, and assessed exchange rate risk exposure on a regular basis • Subject to the approval of the Group, adopted derivative instruments such as forward exchange contracts and foreign exchange options to contain fluctuations in exchange rates, thereby controlling the related risks 	
Operational risk	<p>Risk relating to information system planning</p> <p>Ineffective information system planning, where as a result information cannot be shared among systems, and activities cannot be carried out on a co-ordinated basis</p>	<ul style="list-style-type: none"> • Formulated a general plan for the information system of the Company. Incorporated information system planning into the strategic planning of the Company and allocated resources to the development of information systems • Carried out the standardisation of corporate information. The information standards were developed at the corporate headquarters and published in a timely manner to avoid the lack of coordination during the development, which may have caused poor system compatibility and failure to share data 	
Market risk	<p>Competitor risk</p> <p>Facing rivalry with competitors in the same economic area using the same terminals hinterland, resulting in a deteriorating competitive environment</p>	<ul style="list-style-type: none"> • Established a sound system to track and analyse market intelligence on the macro-economy, the shipping market, the container terminals market and major competitors • Identified the corporate resources for which the Company enjoys competitive advantages and its core competitiveness, such as natural geographical advantages, cargo structure and transportation conditions • Formulated diversified market competition strategies based on an integrated analysis of the ports industry, local market competition, its own competitive advantages and core competencies 	

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Market risk	<p>Risk relating to customers' creditworthiness</p> <p>Lack of early warning mechanism and dynamic tracking of customer credit risk, ill-informed sales decisions or lack of timely response</p>	<ul style="list-style-type: none"> • Implemented customer credit risk management rules, and established a credit risk management and organisation system using the model of centralised management and control by level and type • Implemented proper credit risk precautionary measures. The Company's subsidiaries conducted credit rating and facility management in accordance with the credit rating model of the Company, and using the credit information collected through various channels in accordance with the relevant regulations. The Sales & Marketing Department imposed a limit on the total credit facility to be granted by subsidiaries • Conducted proper credit risk monitoring. In addition to strict control by the subsidiaries of the Company in their business operation over the fund and cargo flows in credit transactions, a credit risk early warning mechanism was also established to monitor major credit indicators and issue early warnings as necessary. The procedures would be implemented once the warning level has been reached 	
Strategic risk	<p>Investment termination and exit management</p> <p>Failure to terminate and dispose of investments in a timely manner when there are material changes in new investment projects that affect the feasibility of these projects or when these projects invested in lose their strategic and financial value</p>	<ul style="list-style-type: none"> • Established an investment termination and exit management mechanism, designating a unit responsible for the termination and exit management, and laying down the conditions, criteria and workflows for termination and exit • Commenced the procedures for termination and exit when the conditions for termination and exit had been met in the process of investment analysis, decision-making, implementation and operation, so as to reduce or avoid investment losses • Established an accountability system for investment termination and exit 	
Financial risk	<p>Risk relating to accounts receivable</p> <p>With the global economy recovering only slowly and shipbuilding companies posting poor performance, if the Company excessively uses commercial credit, its total accounts receivable may become out of control and not fully recoverable</p>	<ul style="list-style-type: none"> • Kept a close eye on customers and industry trends. Alerted the relevant departments of risk once abnormal signs were identified, and adopted corresponding measures depending on the degree of their impacts • Imposed a limit on the total accounts receivable and kept total credit risk at an acceptable level through overall management and control • Adopted a number of measures to collect accounts receivable, and implemented a collection responsibility system 	

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Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Compliance risk	<p>Risk relating to statutory information disclosure</p> <p>If the Company fails to comply fully with legal and regulatory requirements, it may be subject to public condemnation, heavy fines and even revocation of its business license by regulatory bodies, and the relevant responsible entities and persons may also have to bear civil or criminal liability</p>	<ul style="list-style-type: none"> The General Counsel & Company Secretary of the Company developed overall strategies and a mechanism to address the legal compliance issues of the Company. Once aware of any significant changes in laws and regulations, the Legal Department would report the situation to the Board and disclose relevant information within the Company as and when appropriate As necessary, the Company sought independent professional opinions on compliance issues from the lawyers in relevant foreign jurisdictions in order to protect its interests 	
Compliance risk	<p>Risk relating to connected transactions</p> <p>Failure to disclose connected transactions in a timely manner or at all or inaccurate or incomplete information disclosure may be subject to the condemnation by the Stock Exchange and even an order to cease the relevant transactions</p>	<ul style="list-style-type: none"> Prepared and regularly updated the list of connected persons The amount of continuing connected transactions was closely monitored each month, and close attention was paid to transactions with customers who were connected persons A management meeting was held on a quarterly basis to review the nature and amount of all connected transactions, and a quarterly summary of continuing connected transactions was submitted to the Audit Committee Negotiations about and the entering into of relevant connected transactions were carefully reviewed and approved by management at an appropriate level to ensure compliance with the pricing policies of the Company. Public disclosure was regularly compared against the changing information disclosure rules to ensure compliance with the relevant rules and regulations 	

The risk management and internal control report for 2016 was approved by the Risk Management Committee and the Audit Committee and submitted to the Board for review, forming the basis for the Board's assessment of the effectiveness of the risk management and internal control systems for the year 2016.

Internal Control System and Mechanism

A sound system of internal controls requires a defined organisational and policy framework.

The features of the Company's internal control mechanism are as follows:

- To allow delegation of authority and proper segregation of duties as well as to increase accountability, a clear organisational structure exists which details lines of authority and controls 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, interim and quarterly results, annual

budgets, distribution of dividends, Board structure, and the Board's composition and succession.

- To assist the Board in the execution of its duties, the Board is supported by seven Board Committees, namely, the Executive Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Investment and Strategic Planning Committee, the Corporate Governance Committee and the 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 scope of the power delegated by the Board.

3. 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. Reports on the variance between actual performance 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 to monitor business operations closely and enables the Board to formulate and, if necessary, revise strategic plans in a timely and prudent manner.
4. The Company places great importance on internal audit functions and has set up the Audit & Supervision Department for the relevant work. The general manager of the Audit & Supervision Department also acts as the internal auditor of the Company. The internal audit's roles include assisting management and the Audit Committee to ensure the Company maintains an effective system of internal control and a high standard of governance by reviewing the Company's major production and operation activities with unrestricted right of access and conducting comprehensive audits of all practices and

procedures on a regular basis. The scope of work of internal audit includes:

- Ascertaining the extent to which the Company's assets are accounted for and safeguarded to avoid any losses
- Reviewing and evaluating the soundness, adequacy and effective application of accounting, financial and other controls in the Company
- Ascertaining the compliance with established policies, procedures and statutory rules and regulations
- Monitoring and evaluating the effectiveness of the risk management system
- Monitoring the operational efficiency, as well as the appropriateness and efficiency with which resources are employed
- Evaluating the reliability and integrity of financial and operating information reporting systems of the Company
- Ensuring that findings and recommendations arising from the internal audit are communicated to the management and monitoring the implementation of corrective measures
- Conducting ad hoc projects and investigative work as required by the management and/or the Audit Committee

Particular attention is also paid to control activities which are considered to be of higher risks, including, amongst others, income, expenditures and other areas of concern as highlighted by the management. The internal auditor has free access to the Audit Committee without the requirement to consult the management, and reports directly to the Vice Chairman and Managing Director of the Company and the Chairman of the Audit Committee. He attends meetings of the Audit Committee quarterly and brings matters identified during the course of the internal audit to the Audit Committee. This reporting structure allows the internal auditor to stay independent and effective.

The internal audit function adopted a risk-based audit approach based on the COSO framework and the requirements laid down by the HKICPA, considering factors recognised as risks and focusing on material internal controls and risk management, including financial, operational and compliance controls. Internal audits were carried out on all significant business units in the Company. All internal audit reports are submitted to the Audit Committee for review and approval. The internal auditor's summary of findings, recommendations and follow-up reviews of previous internal audit findings are discussed at the Audit Committee meetings. The Audit Committee actively monitors the number and importance of findings raised by the internal auditor and also the corrective measures taken by the management. The yearly internal audit plan, which is reviewed and approved by the Audit Committee, is based on the size and prevailing risks of all business units of the Company so as to establish audit scopes and frequencies.

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Supervision and Improvement

The Company monitors and assesses the implementation and effectiveness of its risk management on a regular basis, and conducts timely improvements in view of the changes and existing defects.

In 2016, the risk management unit and consultancy of the Company conducted a comprehensive evaluation of the operation of the internal control system of the Company, and the results indicated that the Company's internal control system had been operating effectively. No significant control failings or weaknesses were identified during the year.

During 2016, the internal audit unit conducted a total of 19 audit tasks. All internal audit reports were reviewed and approved by the Audit Committee. All internal audit work scheduled for the year 2016 was completed. All areas of concern reported by the internal auditor were monitored by management until appropriate corrective measures were taken or implemented.

Handling and Dissemination of Information

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. The Company provides each employee with an employee manual, which states how employees can communicate with the Company in case any problem arises. The Company considers this

as a mechanism to help encourage communications between the Company and employees. Moreover, regular meetings are held to provide an avenue for mutual understanding between the Company and employees. The Company has also made arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control and other matters.

3. The Company attaches great importance to fair disclosure as it is considered a key means by which to enhance corporate governance standards and provide necessary information to shareholders and other stakeholders, to enable them to form their own judgments, as well as providing feedback to the Company. 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 the handling and dissemination of inside information, the Company:

- is well aware of its obligations under the Securities and Futures Ordinance, the Listing Rules and the overriding principle that information which is considered as inside information should be announced promptly when it is the subject of a decision
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission

- informs all directors, senior management and related staff of the latest regulations and requirements according to the letters issued or announcements published by the Securities and Futures Commission and the Stock Exchange
- has developed procedures and mechanisms for the disclosure of inside information and established the Inside Information Evaluation Group to evaluate whether disclosure of the inside information is required
- has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential, sensitive or inside information, and has communicated this to all staff
- 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 spokespersons and respond to enquiries on designated areas

The Board had obtained the management's confirmation of the effectiveness of the Company's risk management and internal control systems, and considered that the risk management and internal control systems established during the year were appropriate and effective for the Company's existing business scope and operations and that no significant factor had been identified which may affect the interests of shareholders. However, such system aims to manage but not eliminate the risk relating to

failure to achieve business objectives, and the Board will only give reasonable but not absolute warranties for no material misstatement or losses.

Auditor's Remuneration

In addition to audit and audit related services, the Company engaged the external auditor for non-audit services, under which the external

auditor is required to comply with the independence requirements under the Code of Ethics for Professional Accountants issued by the HKICPA. The external auditor may provide non-audit services to the Group given that those do not involve any management or decision making functions for and on behalf of the Group; do not perform

any self-assessments; and do not play an advocacy role for the Group.

For the year ended 31 December 2016, the auditor's remuneration paid or payable in respect of the auditing and other non-audit services provided by the auditor to the Company was as follows:

Nature of Service	2016 US\$	2015 US\$
Audit services	628,000	899,000
Audit related services	272,000	221,000
Non-audit services:		
– Circular related services	485,000	239,000
– Financial advisory services	300,000	1,558,000
– Tax related services	380,000	324,000

Investor Relations

The Company continues to promote investor relations and enhance communications with its investors. Our dedicated investor relations team supports designated executive directors and senior management in maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's development and in attending to any queries promptly. An open communications channel is 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 and senior management are available to answer questions regarding the Group's operational and financial performances.

Communication With Shareholders

Shareholders' Communication Policy

The Company believes regular and timely communication with shareholders forms part of the Company's effort to help shareholders understand its business better. It has established a Shareholders' Communication Policy and reviews the policy from time to time to ensure its effectiveness.

The Company has committed to a fair, transparent and timely disclosure policy and practices. All inside information or data is publicly released as and when appropriate, prior to individual sessions held with investors or analysts. There is regular dialogue with institutional shareholders and general presentations

are made when the financial results are announced. To foster effective communication, the Company provides extensive information in its annual reports, interim reports, results announcements and press releases and also disseminates information relating to the Group and its business electronically through its website. Shareholders and investors are welcome to make enquiries through the General Counsel & Company Secretary or the investor relations department, whose contact details are available on the Company's website.

CORPORATE GOVERNANCE REPORT

The Company views its general meetings (“General Meetings”), including the Annual General Meeting and Special General Meetings, as an opportune forum for shareholders to meet the Board and senior management. All directors and senior management make an effort to attend. Representatives of external auditors are also available at the Annual General Meeting to address shareholders’ queries on the financial statements. The Chairmen or members of the Audit Committee, the Nomination Committee and the Remuneration Committee or independent board committee (if any) are normally available at the General Meetings (where applicable) to take any relevant questions. All shareholders will be given at least 20 clear business days’ notice of the Annual General Meeting and ten clear business days’ notice of a Special General Meeting and they are encouraged to attend the General Meetings. The Company follows the code provisions contained in the Corporate Governance Code to encourage shareholders’ participation. Questioning by the shareholders at the General Meetings is encouraged and welcome. The General Counsel & Company Secretary, on behalf of the chairman of the General Meetings, explains the detailed procedures for conducting a poll at the General Meetings. To facilitate enforcement of shareholders’ rights, substantially separate issues at General Meetings are dealt with under separate resolutions.

Procedures for Shareholders to Convene a Special General Meeting

Pursuant to the Bye-laws of the Company and the Companies Act 1981 of Bermuda (the “Companies Act”), registered shareholders holding not less than one-tenth (10%) of the paid-up capital of the Company carrying the right of voting at General Meetings may deposit a requisition to the Board or the General Counsel & Company Secretary to convene a Special General Meeting.

The requisition must state the purposes of the meeting and must be signed by the requisitionists, and deposited at the registered office of the Company at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda or its principal place of business at 49th Floor, COSCO Tower, 183 Queen’s Road Central, Hong Kong. The requisition may consist of several documents in like form each signed by one or more requisitionists.

The Board may proceed to convene a Special General Meeting within 21 days from the date of the deposit of such requisition upon receipt of confirmation from the share registrar on validity of the requisition, and such meeting shall be held within two months after the deposit of such requisition. If the Board fails to convene the Special General Meeting as aforesaid, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a Special General Meeting within three months from the date of the deposit of the requisition.

Procedures for Shareholders to Put Forward Proposals at General Meetings

Pursuant to the Companies Act, any number of registered shareholders holding not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at General Meetings, or not less than 100 registered shareholders, can request the Company in writing to:

- notify shareholders entitled to receive notice of the next General Meeting of any resolution which may officially be moved and is proposed to be moved at that meeting
- circulate to shareholders entitled to have notice of any General Meeting any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the meeting

The requisition must be deposited to the Company not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution or not less than one week before the meeting in the case of any other requisition.

In addition, a shareholder may propose a person other than a retiring director of the Company for election as a director of the Company at the General Meetings. Detailed procedures for shareholders to propose a person for election as a director are available on the Company’s website at <http://ports.coscoshipping.com>.

Shareholdings and shareholders information

Share Capital (as at 31 December 2016)

Authorised share capital	HK\$400,000,000 divided into 4,000,000,000 shares of a par value of HK\$0.1 each
Issued and fully paid-up capital	HK\$301,601,862.8 comprising 3,016,018,628 shares of HK\$0.1 each

Type of Shareholders (as at 31 December 2016)

Type of shareholders	No. of shares held	% of the total number of issued shares
China COSCO (Hong Kong) Limited and its subsidiary	1,409,061,609	46.72
Other corporate shareholders	1,601,084,301	53.09
Individual shareholders	5,872,718	0.19
Total	3,016,018,628	100

Location of Shareholders (as at 31 December 2016)

Location of shareholders ¹	No. of shareholders	No. of shares held
Hong Kong	524	3,016,009,628 ²
The People's Republic of China	1	4,000
United Kingdom	1	5,000
Total	526	3,016,018,628

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 1,885,097,365 shares registered in the name of HKSCC Nominees Limited which may hold these shares on behalf of its clients in or outside Hong Kong.

Other Corporate Information

Memorandum of Association and Bye-laws

There was no change to the Memorandum of Association and Bye-laws of the Company during the year ended 31 December 2016.

Key Corporate Dates

The following are the dates for certain key corporate events:

Event	Date
Payment of 2016 Interim Dividend	26 October 2016
2016 Final Results Announcement	28 March 2017
2017 First Quarter Results Announcement	25 April 2017
Closures of Register of Members	
(a) for attending the 2017 Annual General Meeting	15 May 2017 to 18 May 2017
(b) for receiving the 2016 Final Dividend	24 May 2017 to 29 May 2017
Annual General Meeting	18 May 2017
Payment of 2016 Final Dividend	19 July 2017
2017 Interim Results Announcement	August 2017
2017 Third Quarter Results Announcement	October 2017