

# 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. In 2017, the Company was awarded “Gold Award in the H-share Companies and Other Mainland Enterprises Category” in the 2017 Best Corporate Governance Awards by the Hong Kong Institute of Certified Public Accountants, demonstrating that its efforts in corporate governance are highly valued by the industry. In addition, the Company was awarded “Shipping In-House Team of the Year” by *Asian Legal Business*, a well-recognised professional magazine. Other noted awards received during the year include a “Gold Award for Environmental, Social Responsibility and Corporate Governance” from *The Asset* magazine, the “Excellence in Investor Relations Award” from *IR Magazine*, the “Best Investor Relations Company” for the sixth consecutive year from *Corporate Governance Asia* magazine, and the “Outstanding China Enterprise Award” for the sixth consecutive year from *Capital* magazine. In addition, the 2016 Annual Report was recognised with a “Traditional Annual Report Bronze Award” and the “Cover Design Honors” under the Marine Transportation category in the 2017 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 2017, 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 to comply during the year ended 31 December 2017:

#### **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 25 April 2017 and 26 October 2017, 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 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 2017. 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.

# Corporate Governance Report

## 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 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 26 March 2018 (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 Xiaowen<sup>2</sup> (Chairman), Mr. ZHANG Wei (張為)<sup>1</sup> (Vice Chairman & Managing Director), Mr. FANG Meng<sup>1</sup>, Mr. DENG Huangjun<sup>1</sup>, Mr. FENG Boming<sup>2</sup>, Mr. ZHANG Wei (張煒)<sup>2</sup>, Mr. CHEN Dong<sup>2</sup>, Mr. XU Zunwu<sup>2</sup>, Mr. WANG Haimin<sup>2</sup>, Dr. WONG Tin Yau, Kelvin<sup>1</sup>, Dr. FAN HSU Lai Tai, Rita<sup>3</sup>, Mr. Adrian David LI Man Kiu<sup>3</sup>, Mr. FAN Ergang<sup>3</sup>, Mr. LAM Yiu Kin<sup>3</sup> and Prof. CHAN Ka Lok<sup>3</sup>.

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 2017.

### 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.

## Corporate Governance Report

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 2017 at quarterly intervals. One additional Board meeting was also held as required. The average attendance rate was 90.67%. The meetings were held to approve the 2016 final results, 2017 interim results and 2017 first and third quarterly results of the Company, and one to consider a major transaction 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 2017 which illustrate the attention given by the directors in overseeing the Company's affairs and understanding shareholders' views:

Attendance of individual Board members at Board meetings and general meetings held in 2017

Names of Directors	No. of Board meetings attended/held	Attendance rate of Board meetings (%)	No. of general meetings attended/held	Attendance rate of general meetings (%)
Mr. HUANG Xiaowen <sup>2</sup> (Chairman)	4/5	80	2/3	67
Mr. ZHANG Wei (張為) <sup>1</sup> (Vice Chairman & Managing Director)	4/5	80	3/3	100
Mr. FANG Meng <sup>1</sup>	5/5	100	3/3	100
Mr. DENG Huangjun <sup>1</sup>	5/5	100	3/3	100
Mr. FENG Boming <sup>2</sup>	3/5	60	2/3	67
Mr. ZHANG Wei (張煒) <sup>2</sup>	3/5	60	2/3	67
Mr. CHEN Dong <sup>2</sup>	4/5	80	3/3	100
Mr. XU Zunwu <sup>2</sup>	5/5	100	3/3	100
Mr. WANG Haimin <sup>2</sup>	5/5	100	3/3	100
Dr. WONG Tin Yau, Kelvin <sup>1</sup>	5/5	100	3/3	100
Dr. FAN HSU Lai Tai, Rita <sup>3</sup>	5/5	100	3/3	100
Mr. Adrian David LI Man Kiu <sup>3</sup>	5/5	100	3/3	100
Mr. FAN Ergang <sup>3</sup>	5/5	100	2/3	67
Mr. LAM Yiu Kin <sup>3</sup>	5/5	100	3/3	100
Prof. CHAN Ka Lok <sup>3</sup>	5/5	100	3/3	100

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

## Corporate Governance Report

During the financial year ended 31 December 2017, 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 2017 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 2017. 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 2017, 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 2017:

### Directors' Participation in Continuous Professional Development Programmes in 2017

Names of Directors	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
Mr. HUANG Xiaowen <sup>2</sup> (Chairman)	✓	✓	✓
Mr. ZHANG Wei (張為) <sup>1</sup> (Vice Chairman & Managing Director)	✓	✓	✓
Mr. FANG Meng <sup>1</sup>	✓	✓	✓
Mr. DENG Huangjun <sup>1</sup>	✓	✓	✓
Mr. FENG Boming <sup>2</sup>	✓	✓	✓
Mr. ZHANG Wei (張煒) <sup>2</sup>	✓	✓	✓
Mr. CHEN Dong <sup>2</sup>	✓	✓	✓
Mr. XU Zunwu <sup>2</sup>	✓	✓	✓
Mr. WANG Haimin <sup>2</sup>	✓	✓	✓
Dr. WONG Tin Yau, Kelvin <sup>1</sup>	✓	✓	✓
Dr. FAN HSU Lai Tai, Rita <sup>3</sup>	✓	✓	✓
Mr. Adrian David LI Man Kiu <sup>3</sup>	✓	✓	✓
Mr. FAN Ergang <sup>3</sup>	✓	✓	✓
Mr. LAM Yiu Kin <sup>3</sup>	✓	✓	✓
Prof. CHAN Ka Lok <sup>3</sup>	✓	✓	✓

1 Executive Director  
 2 Non-executive Director  
 3 Independent Non-executive Director



# Corporate Governance Report

## 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 2017. No incidents of non-compliance were noted by the Company in 2017.

## 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 By-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 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 2017, the Executive Committee held a total of 36 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.

# Corporate Governance Report

## 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 2017, five meetings were held and attended by all members of the Audit Committee.

The key matters deliberated on by the Audit Committee in 2017 including but not limited to:

- 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 Risk Management and Internal Control Policy of the Company; discussed the effectiveness of the risk management and internal control systems throughout the Group, including financial, operational and compliance controls, and reviewed the half-yearly progress report on risk management and internal control
- reviewed the summary of continuing connected transactions of the Company on a quarterly basis
- reviewed the framework for disclosure of inside information of the Group and the whistleblowing policy of the Company
- reviewed the Disclosure of Inside Information Policy of the Company

### Attendance of individual members at Audit Committee meetings held in 2017

Names of Members	No. of meetings attended/held	Attendance rate (%)
Mr. Adrian David LI Man Kiu <sup>1</sup> (Chairman)	5/5	100
Dr. FAN HSU Lai Tai, Rita <sup>1</sup>	5/5	100
Mr. LAM Yiu Kin <sup>1</sup>	5/5	100

<sup>1</sup> 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 2017:

- 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 individual Executive Directors

#### Attendance of individual members at Remuneration Committee meetings held in 2017

Names of Members	No. of meetings attended/held	Attendance rate (%)
Dr. FAN HSU Lai Tai, Rita <sup>1</sup> (Chairman)	2/2	100
Mr. Adrian David LI Man Kiu <sup>1</sup>	2/2	100
Prof. CHAN Ka Lok <sup>1</sup>	2/2	100
Mr. ZHANG Wei (張為) <sup>2</sup>	1/2	50
Mr. LI Yingwei	2/2	100

<sup>1</sup> Independent Non-executive Director

<sup>2</sup> Executive Director, Vice Chairman and Managing Director

# Corporate Governance Report

## *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 and directors. 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 2017, 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 re-election of directors
- made recommendations to the Board on matters relating to the appointment and change of Board Committees members
- conducted an annual review of the independence of the independent non-executive directors
- reviewed structure, size and composition of the Board

According to the terms of reference of the Nomination Committee, all new appointments of directors and nominations of retiring directors proposed for re-election at the annual general meeting should first be considered by the Nomination Committee and then recommended by the Nomination Committee to the Board for decision. There was no appointment of new director during 2017.

In early 2018, the Nomination Committee nominated and the Board recommended that Mr. ZHANG Wei (張為), Mr. FANG Meng, Mr. WANG Haimin, Mr. FAN Ergang and Mr. LAM Yiu Kin, being directors longest in office since their last re-election, retire by rotation at the forthcoming annual general meeting. All the retiring directors, being eligible, will offer themselves for re-election by shareholders of the Company.

### Attendance of individual members at Nomination Committee meetings held in 2017

Names of Members	No. of meetings attended/held	Attendance rate (%)
Mr. Adrian David LI Man Kiu <sup>1</sup> (Chairman)	2/2	100
Dr. FAN HSU Lai Tai, Rita <sup>1</sup>	2/2	100
Mr. ZHANG Wei (張為) <sup>2</sup>	1/2	50

<sup>1</sup> Independent Non-executive Director

<sup>2</sup> Executive Director, Vice Chairman and Managing Director

#### 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 (5)	51 - 60 (7)	Over 60 (3)
5. Length of service (years)	Over 10 (1)	3 - 10 (4)	Less than 3 (10)
6. Skills, knowledge and professional experience <sup>(Note 1)</sup>	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 said policy.

## Corporate Governance Report

### 5. Corporate Governance Committee

The Corporate Governance Committee, led by an executive director, comprises six 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 in this regard so as to enhance the standard of corporate governance of the Company.

In 2017 and early 2018, 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 corporate governance and made recommendations to the Board
- reviewed the training and continuous professional development of directors and senior management
- 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

#### Attendance of individual members at Corporate Governance Committee meetings held in 2017

Names of Members	No. of meetings attended/held	Attendance rate (%)
<b>Members</b>		
Dr. WONG Tin Yau, Kelvin <sup>1</sup> (Chairman)	4/4	100
Ms. HUNG Man, Michelle	4/4	100
Mr. HUANG Chen	4/4	100
Mr. LI Huadong	4/4	100
Ms. ZHOU Lan (appointed on 20 October 2017)	3/3	100
Ms. CHAN Kar Yau, Michelle (appointed on 12 March 2018)	1/1	100
<b>Ex-members</b>		
Ms. LIU Mei Wan, May (resigned on 20 October 2017)	1/1	100
Mr. LI Jie (resigned on 20 October 2017)	1/1	100
Mr. SHEN Xuan (appointed on 20 October 2017 and resigned on 12 March 2018)	0/2	0
Mr. QIU Jincheng (resigned on 12 March 2018)	1/3	33

<sup>1</sup> 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 17 March 2017 and 13 March 2018, i.e. during the year prior to the publication of the 2017 final results announcement.

## 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 2017

Names of Members	No. of meetings attended/held	Attendance rate (%)
<b>Members</b>		
Mr. ZHANG Wei (張為) <sup>1</sup> (Chairman)	4/4	100
Mr. FANG Meng <sup>2</sup>	4/4	100
Mr. DENG Huangjun <sup>2</sup>	4/4	100
Mr. GUAN Shuguang	4/4	100
Mr. ZHANG Dayu	4/4	100
Mr. LUI Sai Kit, Eddie	4/4	100
Mr. LI Yingwei	4/4	100
Mr. QIU Jincheng	4/4	100
Mr. HUANG Chen	4/4	100
Ms. ZHOU Lan (appointed on 20 October 2017)	1/1	100
Mr. LI Huadong	4/4	100
Mr. SHEN Xuan	3/4	75
Mr. HONG Minghui (appointed on 20 October 2017)	1/1	100
Mr. WONG Chi Ho (appointed on 20 October 2017)	1/1	100
Ms. HUANG Li	4/4	100
<b>Ex-members</b>		
Mr. LI Jie (resigned on 20 October 2017)	1/3	33
Mr. LIN Haibo (resigned on 20 October 2017)	1/3	33
Mr. HUNG Chun, Johnny (resigned on 20 October 2017)	3/3	100

<sup>1</sup> Executive Director, Vice Chairman and Managing Director

<sup>2</sup> Executive Director



# Corporate Governance Report

## 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 2017

Names of Members	No. of meetings attended/held	Attendance rate (%)
<b>Members</b>		
Mr. ZHANG Wei (張為) <sup>1</sup> (Chairman)	1/4	25
Mr. FANG Meng <sup>2</sup>	3/4	75
Mr. DENG Huangjun <sup>2</sup>	3/4	75
Mr. CHAN Hang, Ken	3/4	75
Mr. ZHANG Dayu	1/4	25
Ms. HUNG Man, Michelle	4/4	100
Mr. HUANG Chen	4/4	100
Ms. ZHOU Lan (appointed on 20 October 2017)	1/2	50
Mr. LI Huadong	3/4	75
Mr. HUNG Chun, Johnny	2/4	50
<b>Ex-member</b>		
Mr. LI Jie (resigned on 20 October 2017)	1/2	50

<sup>1</sup> Executive Director, Vice Chairman and Managing Director

<sup>2</sup> 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 125 to 130 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

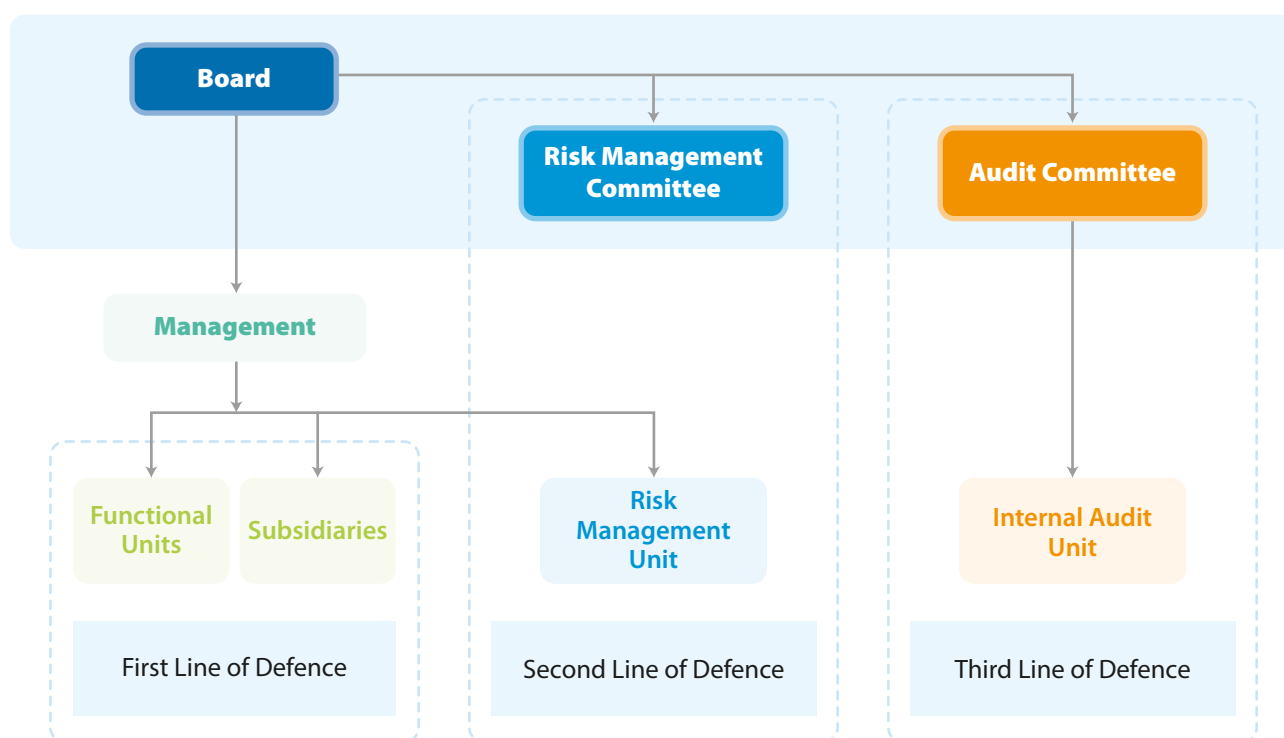
The Board is fully responsible for assessing the continuous effectiveness of the risk management and internal control systems of the Company in an effort to safeguard the interests of the shareholders. Based on the control environment, risk assessment and corresponding strategies, supervision and improvement of the Company, the risk management and internal control systems, which 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 of the United States of America, 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"), the "Basic Norms of Internal Control for Enterprises" and complementary guidelines issued by the Ministry of Finance and four other ministries and commissions of the People's Republic of China, and the guide on "Internal Control and Risk Management" issued by the HKICPA.

# Corporate Governance Report

## Risk Management Framework

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

### Risk Management Structure ▶



### Risk Management Procedures ▶

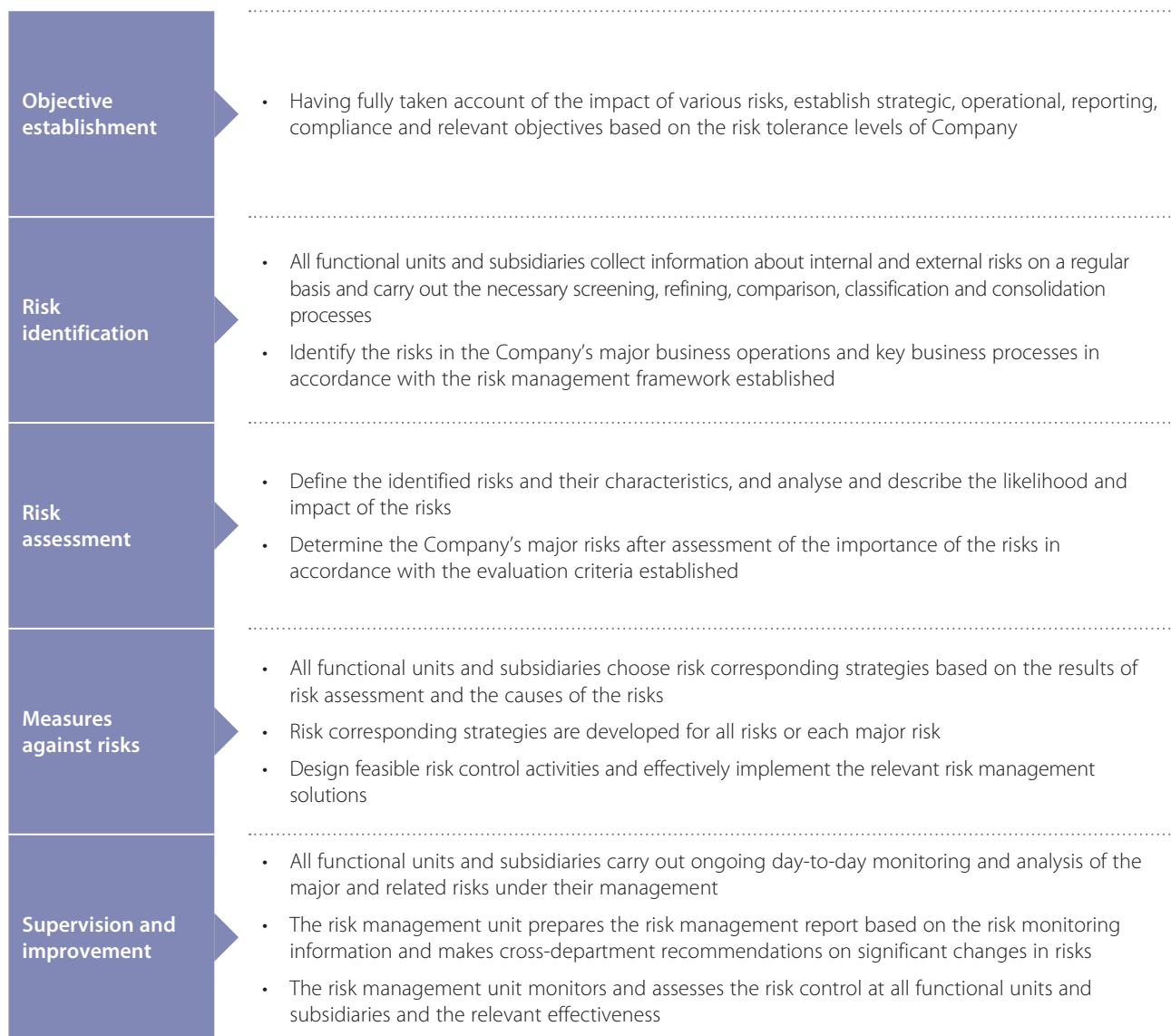


The division of major functions and responsibilities in the risk management structure is as follows:

<b>Board</b>	<ul style="list-style-type: none"> <li>• Review the effectiveness of the risk management and internal control systems</li> <li>• Make decisions on and monitor the risk management and internal control systems of the Company</li> <li>• Approve the annual assessment report on risk management and internal control of the Company</li> <li>• Approve the work plans on risk management and internal control of the Company</li> <li>• 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</li> </ul>
<b>Audit Committee</b>	<ul style="list-style-type: none"> <li>• Review the effectiveness of the risk management and internal control systems of the Company, ensure that the management have already carried out their duties of establishing effective systems, and report to the Board on the conclusion of the review</li> </ul>
<b>Risk Management Committee</b>	<ul style="list-style-type: none"> <li>• Establish a scientific risk management mechanism, enhance the prevention and control of risks relating to assets and business, improve work efficiency, and ensure a smooth rollout and steady implementation of the operational management</li> <li>• Consider and approve the risk management policy, and monitor and provide guidance on the implementation of the policy</li> <li>• Monitor and provide guidance on the identification, prevention and control of risks regarding funds, assets, projects, business and management</li> <li>• Review and approve the risk control review report regarding material funds, assets, projects, businesses and matters, and monitor their implementation</li> <li>• Give opinion to the Board on risk-related matters</li> </ul>
<b>Management</b>	<ul style="list-style-type: none"> <li>• Implement, maintain and continuously monitor the risk management and internal control systems of the Company</li> <li>• Provide the Board with a confirmation of the effectiveness of the risk management and internal control systems on an annual basis</li> </ul>
<b>Risk management unit</b>	<ul style="list-style-type: none"> <li>• Organise the drafting of the policy and the workflow of the risk management and internal control, standardise and regulate the risk management and internal control of the Company</li> <li>• Organise the drafting of the routine and annual work plans on risk management and internal control, and organise their implementation</li> <li>• Organise risk assessments by functional units and subsidiaries, and prepare the annual risk assessment report</li> <li>• Organise the evaluation on the effectiveness of the internal control by functional units and subsidiaries, and prepare the annual evaluation report on internal control</li> <li>• Organise, coordinate, guide and monitor the work on risk management and internal control by functional units and subsidiaries</li> <li>• Complete other tasks in relation to risk management and internal control assigned by the Board</li> </ul>
<b>Functional units and Subsidiaries</b>	<ul style="list-style-type: none"> <li>• Amend and implement the internal policies and management procedures within their scope of duties, and to establish and optimise the risk management and internal control mechanisms</li> <li>• Carry out risk management and internal control functions, including identifying, analysing, evaluating and handling operational risks and management risks within their scope of duties</li> <li>• Conduct self-evaluation, correction, and rectification of risk management and internal control for areas within their scope of duties</li> <li>• Establish, maintain and monitor on a daily basis the risk alert indicators for areas within their scope of duties, and to report major risks and take contingency measures in case of emergency</li> <li>• Supervise and monitor the risk management and internal control on the relevant businesses of the functional units and subsidiaries for areas within their scope of duties</li> <li>• Assist in the completion of other routines on risk management and internal control</li> </ul>
<b>Internal audit unit</b>	<ul style="list-style-type: none"> <li>• Examine the suitability and effectiveness of the risk management and internal control systems and supervise in an independent manner the risk management and internal control exercised by the functional units and subsidiaries</li> </ul>

# Corporate Governance Report

The risk management procedures include the following major tasks:



## 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 Group'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.

During the year, the Company carried out an annual risk assessment in accordance with the requirements of COSCO SHIPPING by applying the weighted average method to the opinions collected through a survey from the senior management, department heads and external risk management experts. Taking into account of the external market conditions and the internal business development prospects of the Company as set out in the "13th Five-Year Development Plan" of the Company, the annual risk assessment has identified the key risks facing the Company and the corresponding countermeasures as shown below:


# Corporate Governance Report



Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Strategic risk	<p><b>Risks relating to investment decisions</b></p> <p>As the Company continues to increase its investment in terminals businesses, the analysis at an early stage may be insufficient, which might result in over-expansion or missed opportunities</p>	<ul style="list-style-type: none"> <li>Improved the investment management system, setting out clear principles for external investments and economic indicators</li> <li>Improved the procedures and standards for the financial due diligence, legal due diligence and commercial due diligence to be conducted on target companies in order to determine accurately the potential value of the assets and any contingent matters of target companies</li> <li>Incorporated the risk assessment process into the early preparation of investment projects, implemented the “three synchronous operations” (i.e. kick off risk assessments at project commencement; appoint persons in charge of the project and risk assessment; and submit simultaneously the feasibility report and the risk assessment report) for risk assessments on major investments and major projects, and formulated corresponding strategies</li> <li>Improved economic indicators for investment projects and set consistent assessment criteria for project assessment, so as to support investment decisions</li> </ul>	
Strategic risk	<p><b>Risk relating to the implementation and integration upon merger and restructuring</b></p> <p>An integration process upon merger which is slow or fails to achieve synergy effect in business strategy, or fails to integrate effectively in terms of personnel, system or culture might lead to the failure and termination of merger</p>	<ul style="list-style-type: none"> <li>Strategic integration: established the synergistic effects of strategic integration, including resource sharing and coordination, management synergy, business synergy and financial synergy</li> <li>Organisational integration: established a unified organisational system, including the standardisation across departmental functions</li> <li>Operational integration: established a clear and unified management system and standard to reduce management conflicts caused by system incongruence with an aim to enhance operational efficiency; unified human resources management, established and improved expatriate system, and strengthened inter-regional talent exchanges</li> <li>Corporate cultural integration: publicised the corporate culture, promoted regional business and cultural exchanges, enhanced the sense of recognition of all controlling terminals to the company culture</li> </ul>	

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
<p><b>Strategic risk</b></p>	<p><b>Post-investment evaluation of risk</b>                      An absence of post-project evaluation or an inadequate and incomplete post-project evaluation may impair the referential value of the project experience, which would impede the continuous improvement of decision-making</p>	<ul style="list-style-type: none"> <li>Established and improved the organisational system of post-investment evaluation, maintained the indicator system and method of post-investment evaluation, organised the implementation of post-investment evaluation, and made relevant management recommendations for the problems found in the post-project evaluation</li> <li>Set post-project evaluation indicators for each project; evaluated the implementation process and results of the investment projects completed, and carried out a systematic analysis on the achievements of the investment plans and goals to summarise experience and lessons; directed investment activities of overseas terminals through an on-going capability analysis so as to improve efficiency and avoid risks</li> <li>Established the overall post-project evaluation indicators, including the evaluation of the investment scale, investment structure, investment benefits and investment risk, etc.</li> <li>Clearly specified the department responsible for post-investment evaluation, and established the monitoring system for post-investment of projects, under which regular monitoring and review were carried out on the overall effect of investment projects completed. Such monitoring and review was led by the Audit &amp; Supervision Department and facilitated by the Corporate Operation Management Department, the China Ports Management Department and the Finance Department</li> </ul>	







# Corporate Governance Report

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Operational risk	<p><b>Risk relating to human resources planning</b></p> <p>With the strategic development and expansion of the business operation of the Company, the lack of international talent during the course of its global deployment may result in the talent planning failing to meet the Company's need for a strategic and sustainable development, which may in turn affect the achievement of the strategic goals</p>	<ul style="list-style-type: none"> <li>• Role: specified the standardised organisational structure, roles, duties, qualifications, etc. for our controlling terminals, including specifying the headcount required, changes in duties and the number of vacancy at the time of staff planning; specified the hierarchy, titles, number of staff and the expected date of reporting for duty in the recruitment plan</li> <li>• Recruitment plan: formulated an overseas recruitment strategy in the recruitment plan, specifying the overseas recruitment method, internal reallocation policy, welfare and benefits, promotion path and career development path</li> <li>• Education and training programmes: determined the needs, contents, methods and assessments for the education and training of management staff working at the terminals</li> <li>• Human resources management policy adjustment plan: specified the reasons, procedures and scope of adjustment on human resources policy during the planning period</li> <li>• Budget for investment on human resources: set out the budget for the above-mentioned plans</li> <li>• Established an international platform to attract talents: set the development and recruitment of global talents as a priority, and provided talents with an open platform with more international elements, while offering more comprehensive and advanced career paths for international talents</li> </ul>	

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
<p><b>Operational risk</b></p>	<p><b>Risk relating to the implementation of information system</b>                      Given the broad-based application of the information system, an unreasonable implementation may cause unpredictable and uncontrollable risks to the Company, reduce the operation efficiency of the Company's information system and impair its ability to manage various business matters</p>	<ul style="list-style-type: none"> <li>Formulated a general plan for the information system of the Company, enhanced the position of information system planning, incorporated information system planning into the Company's strategic planning with an annual review and revision, and allocated resources to complete the construction of the information system</li> <li>Specified the management hierarchy between the headquarters and the subsidiary units, and their respective terms of reference, and specified and codified such requirements with corporate documents</li> <li>Completed the standardisation of the structure of the information system. The headquarters shall design the scientific standards for the information system based on the Company's needs for the construction of the information system and publish in a timely manner to reduce ungoverned decision-making during the course of construction, so as to prevent poor compatibility or failure in data sharing</li> <li>Improved the monitoring of the implementation of the information system of the Company, and tracked and solved any problem identified during the course of implementation</li> </ul>	
<p><b>Strategic risk</b></p>	<p><b>Strategic planning risk</b>                      The company has transformed into a pure terminals operator, and any strategic misjudgment may arise from insufficient analysis of the Company and a competition environment</p>	<ul style="list-style-type: none"> <li>Set up the Planning and Research Department to strengthen the information collection and analysis abilities, and drew up strategic plans independently or with assistance from consultants, in light of the positioning of the Company</li> <li>Amended the Company's strategic management and planning rules to specify the analysis and decision-making processes in strategic planning</li> </ul>	

## Corporate Governance Report

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Market risk	<p><b>Risk relating to fluctuation in exchange rates</b></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"> <li>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</li> <li>Chose US dollars as the settlement currency whenever possible in acquisitions, mergers and the process of terminal operation</li> <li>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</li> <li>Adopted derivative instruments such as forward exchange contracts and foreign exchange options to contain fluctuations in exchange rates, thereby controlling the related risks</li> </ul>	
Market risk	<p><b>Competitor risk</b></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"> <li>Established a sound system to track and analyse market intelligence on the macro-economy, the shipping market, the container terminals market and major competitors</li> <li>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</li> <li>Formulated diversified market competition strategies based on an integrated analysis of the ports industry, local market competition, its own competitive advantages and core competencies</li> </ul>	

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
<p><b>Market risk</b></p>	<p><b>Risk relating to customers' creditworthiness</b> 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"> <li>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</li> <li>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 &amp; Marketing Department imposed a limit on the total credit facility to be granted by subsidiaries</li> <li>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</li> </ul>	
<p><b>Financial risk</b></p>	<p><b>Risk relating to accounts receivable</b> 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"> <li>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</li> <li>Imposed a limit on the total accounts receivable and kept total credit risk at an acceptable level through overall management and control</li> <li>Adopted a number of measures to collect accounts receivable, and implemented a collection responsibility system</li> </ul>	

## Corporate Governance Report

The risk management and internal control report for 2017 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 2017.

### 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:

1. For the benefits of 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.
2. 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. Details of the Board Committees are set out under the section entitled "Board Committees" in this report.
3. A comprehensive management accounting system is in place providing financial and operational performance measurement indications to the management and relevant financial figures 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 annual internal audit plan, which will be submitted to the Audit Committee for discussion, is based on the size and prevailing risks of all business units of the Company so as to establish audit scopes and frequencies.

### 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.

At the same time, after the review and approval by the management meeting of the Company, the Audit Committee and the Board, the Company adopted the "COSCO SHIPPING Ports Limited: Risk Management and Internal Control Regulatory Procedures" in September 2017, so as to improve the long-term mechanism on risk management continuously.

In 2017, the Risk Management Unit initiated an integrated evaluation on the operation of internal control of the Company. The results of internal control evaluation showed that the internal control system of the Company was effective. No material errors or weaknesses on monitoring and control was found during the period.

During 2017, the internal audit unit conducted a total of 18 audit tasks. All internal audit reports were reviewed and approved by the Audit Committee. All internal audit work scheduled for the year 2017 was completed. All areas of concern reported by the internal auditor were monitored by management until appropriate corrective measures were taken or implemented.

# Corporate Governance Report

## 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 2017, 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	2017 US\$	2016 US\$
Audit services	617,000	628,000
Audit related services	275,000	272,000
Non-audit services:		
– Circular related services	148,000	485,000
– Financial advisory services	119,000	300,000
– Tax related services	42,000	380,000

## 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 2017)

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\$305,711,272 comprising 3,057,112,720 shares of HK\$0.1 each

### Type of Shareholders (as at 31 December 2017)

Type of shareholders	No. of shares held	% of the total number of issued shares
China COSCO (Hong Kong) Limited and its subsidiary	1,433,989,072	46.91
Other corporate shareholders	1,617,472,095	52.91
Individual shareholders	5,651,553	0.18
<b>Total</b>	<b>3,057,112,720</b>	<b>100</b>

### Location of Shareholders (as at 31 December 2017)

Location of shareholders <sup>1</sup>	No. of shareholders	No. of shares held
Hong Kong	527	3,057,103,720 <sup>2</sup>
The People's Republic of China	1	4,000
United Kingdom	1	5,000
<b>Total</b>	<b>529</b>	<b>3,057,112,720</b>

<sup>1</sup> The location of shareholders is prepared according to the address of shareholders registered in the register of members of the Company.

<sup>2</sup> These shares include 1,902,949,467 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 2017.

### Key Corporate Dates

The following are the dates for certain key corporate events:

Event	Date
Payment of 2017 Interim Dividend	27 October 2017
2017 Final Results Announcement	26 March 2018
2018 First Quarter Results Announcement	26 April 2018
Closures of Register of Members	
(a) for attending the 2018 Annual General Meeting	14 May 2018 to 17 May 2018
(b) for receiving the 2017 Final Dividend	24 May 2018 to 29 May 2018
Annual General Meeting	17 May 2018
Payment of 2017 Final Dividend	18 July 2018
2018 Interim Results Announcement	August 2018
2018 Third Quarter Results Announcement	October 2018