

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 attaches great importance to corporate governance processes and systems, so as to achieve its corporate objectives, ensure greater transparency and better protect shareholders’ interests. The board of directors of the Company (the “Board”) sustains and enhances the Company’s corporate governance through timely, transparent, effective and accountable approaches and policies. The Board strongly believes that good corporate governance is the core of a well-managed organisation.

In its constant pursuit of excellence, the Company endeavors to improve corporate governance and strengthen investor relations, gaining extensive market recognition from stakeholders for its high level of transparency and good corporate governance. The Company has also been included as a constituent stock of the Hang Seng Corporate Sustainability Benchmark Index. In 2018, the Company was awarded “Gold Award in the H-share Companies and Other Mainland Enterprises Category” in the 2018 Best Corporate Governance Awards by the Hong Kong Institute of Certified Public Accountants, demonstrating that its achievements in corporate governance are highly recognised by the industry. In addition, the Company has won its first title of the “Best Port Operator 2018” by the International Business magazine and the “Most Innovative Port Operator” by the International Finance magazine. The Company’s excellent port operation and well-established global terminal network are recognised by the market. In addition, the Company was awarded “Shipping In-House Team of the Year” for the seventh consecutive year by Asian Legal Business, a well-recognised professional magazine. Other notable awards received during the year include “Gold Award for Environmental, Social Responsibility and Corporate Governance” from the Asset magazine, “Outstanding ESG Award” by the Economic Digest magazine, “Excellence in GRI Report” grand award and “Best ESG Report” grand award under the Mid-Cap category by Alaya Consulting magazine, “Best Investor Relations Company” for the seventh consecutive year and the “Best Investor Relations Professional” award from the Corporate Governance Asia magazine, and “Outstanding China Enterprise Award” for the seventh consecutive year from Capital magazine. In addition, COSCO SHIPPING Ports has also won “Annual Report Design Silver Prize”, “Annual Report Photography Honors Prize”, “Annual Report Bronze Prize” under the Shipping Services category, “Sustainability Report Interior Design Bronze Prize” and “Sustainability Report Infographics Bronze Prize” in 2018 ARC Awards. The Company has won “2017 Annual Report Bronze Prize”, “Corporate Website Honors Prize”, “Corporate Website Bronze Prize” under the Shipping and Logistics category by 2018 Galaxy Awards. The Company also won the “Best Investor Relations 2018” award under the Transportation category from the Global Business Outlook magazine.

CORPORATE GOVERNANCE PRACTICES

The Company adopted the code provisions set out in the then Code on Corporate Governance Practices contained in Appendix 14 to 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 code provisions set out in the Corporate Governance Code (the “Corporate Governance Code”) contained in Appendix 14 to the Listing Rules. The Company also refers to the Organisation for Economic Co-operation and Development (OECD) principles to set out a series of ethical standards to maintain a high level of corporate accountability and transparency.

Corporate Governance Report

The Company believes that good corporate governance is essential to the sustainability of the Company's business and performance. The Company is pleased to confirm that for the year ended 31 December 2018, it has fully complied with the code provisions of the Corporate Governance Code.

To enhance our commitment to the highest level of corporate governance practices and conduct, the Company had 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

Code provision A.1.8 of the Corporate Governance Code provides that a listed company should arrange appropriate insurance coverage for its directors. The Company has maintained 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

Code provisions A.5.1 to A.5.4 of the Corporate Governance Code provide 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 headed "Nomination Committee" below.

In order to promote transparency, the Company will review, from time to time, the recommended best practices in the Corporate Governance Code that the Company may comply with. Set forth below are major recommended best practices in the Corporate Governance Code with which the Company continued to comply during the year ended 31 December 2018:

Recommended Best Practice C.1.6

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 published the announcements of its first and third quarterly results on 26 April 2018 and 29 October 2018, respectively, on a voluntary basis. The Company considers the publication of quarterly results a regular compliance practice.

Recommended Best Practice C.2.6

Recommended best practice C.2.6 of the Corporate Governance Code states that the board of directors of a listed company may disclose in the Corporate Governance Report that it has received a confirmation from the management on the effectiveness of the Company's risk management and internal control systems.

The Board of the Company has received confirmation from its management with respect to the effectiveness of the Company's risk management and internal control systems for 2018. Details of the effectiveness of the risk management and internal control systems of the Company are set out in the section headed "Risk Management and Internal Control" below.

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 business. Every Board member is required to keep abreast of his/her duties and responsibilities in the Company in its operation, business and development and should perform his/her duties 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 their respective 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 corporate governance measures, including but not limited to (i) establishing risk management and internal control systems and reviewing their effectiveness; and (ii) establishing a shareholder communication policy and reviewing it on a regular basis to ensure its 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. The 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 a clear corporate governance process in place to ensure that all directors fully understand their duties and responsibilities.

All newly appointed directors will take part in a comprehensive programme which includes management presentations on the Group's businesses, strategic plans and objectives. They will also receive a comprehensive orientation package upon their appointment, which includes policies on disclosure of interest in securities, prohibitions against dealing in the Company's securities, restrictions on disclosure of inside information, and disclosure obligations of a listed company under the Listing Rules. The programme and package are updated from time to time and according to the changes in relevant laws and regulations.

Board Composition

As at 28 March 2019 (the date on which the Board approved this report), the Board consisted of 14 members. Among them, four are executive directors, five 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. 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

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There are no relationships (including financial, business, family or other material/relevant relationship(s)) between the Board members and in particular, between the Chairman and the Managing Director. Biographical details of the directors are set out in the section headed "Directors and Senior Management Profiles" in this annual report and on the Company's website at <https://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 for Directors to Seek Independent Professional Advice

To assist the directors in fulfilling their duties to the Company, the Board has established written procedures for 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 2018.

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. Mr. HUANG Xiaowen, Chairman and non-executive director, is responsible for setting the Group's strategy and business directions, managing the Board and ensuring that the Board functions properly with good corporate governance practices and procedures. As the Vice Chairman, Managing Director and an executive director, Mr. ZHANG Wei (張為), 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 responsibility 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 five 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 five 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 offer check and balance to 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 procure the Board to maintain 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 (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.

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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 2018 at quarterly intervals. The average attendance rate was 91.43%. The meetings were held to approve the 2017 final results, 2018 interim results and 2018 first and third quarterly results of the Company respectively. 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 permitted under the Bye-laws of the Company. The senior management in charge of the Finance Department 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 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 providing advice to the Board on compliance matters.

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Set out below are the details of all directors' attendance at the Board meetings and general meetings during the financial year ended 31 December 2018 which illustrate the attention given by the directors in overseeing the Company's affairs and understanding shareholders' views:

Attendance Record of Board Members at Board Meetings and General Meetings in 2018

	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 (Chairman)	1/4	25	1/3	33
Mr. ZHANG Wei (張為) ¹ (Vice Chairman & Managing Director)	4/4	100	3/3	100
Mr. FANG Meng ¹	4/4	100	3/3	100
Mr. DENG Huangjun ¹	4/4	100	3/3	100
Mr. FENG Boming ²	4/4	100	2/3	67
Mr. ZHANG Wei (張煒) ²	4/4	100	2/3	67
Mr. CHEN Dong ²	3/4	75	2/3	67
Mr. WANG Haimin ²	4/4	100	3/3	100
Dr. WONG Tin Yau, Kelvin ¹	4/4	100	3/3	100
Dr. FAN HSU Lai Tai, Rita ³	4/4	100	3/3	100
Mr. Adrian David LI Man Kiu ³	4/4	100	3/3	100
Mr. FAN Ergang ³	3/4	75	2/3	67
Mr. LAM Yiu Kin ³	4/4	100	3/3	100
Prof. CHAN Ka Lok ³	4/4	100	3/3	100
Ex-director				
Mr. XU Zunwu ² (resigned on 23 May 2018)	2/2	100	0/1	0

1 Executive director

2 Non-executive director

3 Independent non-executive director

During the year ended 31 December 2018, the Chairman held a meeting with non-executive directors (including independent non-executive directors) without the executive directors present pursuant to code provision A.2.7 of the Corporate Governance Code.

Appointment, Re-Election and Removal of Directors

The Company follows a set of formal, well-considered and transparent procedures 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 set of nomination policies 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 2018 are set out in the "Nomination Committee" section below.

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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 year ended 31 December 2018. Directors have also disclosed to the Company the number and nature of their 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 such offices.

Directors are required 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 year ended 31 December 2018, directors participated in various training programmes and seminars at the Company's expense. The following table sets out the details of all directors' participation in continuous professional development during the year ended 31 December 2018:

Directors' Participation in Continuous Professional Development Programmes in 2018

	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 (Chairman)	✓	✓	✓
Mr. ZHANG Wei (張為) ¹ (Vice Chairman & Managing Director)	✓	✓	✓
Mr. FANG Meng ¹	✓	✓	✓
Mr. DENG Huangjun ¹	✓	✓	✓
Mr. FENG Boming ²	✓	✓	✓
Mr. ZHANG Wei (張煒) ²	✓	✓	✓
Mr. CHEN Dong ²	✓	✓	✓
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	✓	✓	✓
Ex-director			
Mr. XU Zunwu ² (resigned on 23 May 2018)	✓	✓	✓

1 Executive director

2 Non-executive director

3 Independent non-executive director

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Directors'/Senior Management's Securities Transactions

All directors are obliged to observe the requirements stipulated in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to 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 & Managing Director and a Deputy Managing Director was set up to deal with such transactions.

Specific confirmation has been obtained from the directors and senior management of the Company regarding their compliance with the Model Code and the aforementioned guidelines in 2018. No incidents of non-compliance were identified by the Company in 2018.

GENERAL COUNSEL & COMPANY SECRETARY

The General Counsel & Company Secretary, who is directly responsible to the Board, ensures that directors are 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 accurate execution of the Board policies and procedures. The General Counsel & Company Secretary is also responsible for providing advice to the Board in relation to directors' obligations regarding disclosure of interest in securities and regarding disclosure requirements on notifiable transactions, connected transactions and inside information. In respect of information disclosure, the General Counsel & Company Secretary shall advise the Board on making true, accurate, complete and timely disclosures to the public strictly pursuant to 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 also 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, when appropriate, provide directors with the latest information regarding their continuing legal, regulatory and compliance obligations. In relation to connected transactions and disclosure requirements, regular seminars are held 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 responsibilities by the Board, including but not limited to the monthly updates as required by the Listing Rules

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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 shall review and make recommendations to the Board within a specific scope. The Board has established a total of seven Board committees, the details of which are set out below. Each committee consists of directors, members of senior management and management members, and has a defined scope of duties and terms of reference; and committee members have the right 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, subject to the ultimate authority for final decision-making by the Board on all matters.

The terms of reference of the above Board committees setting out their roles and the authority delegated by the Board have been posted on the Company's website at <https://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 committee is established 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 is 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 2018, the Executive Committee held a total of 37 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 sectors, 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, internal and external auditors, the management and the 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 maintaining the independence of the external auditors. The internal auditor is directly accountable to the Chairman of the Audit Committee.

Regular meetings of the Audit Committee are held four times a year on a quarterly basis, with additional meetings arranged as and when required. During the year ended 31 December 2018, a total of five meetings were held and attended by all members of the Audit Committee.

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The key matters deliberated on by the Audit Committee in 2018 include but are not limited to:

- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters
- reviewed the drafts of annual, interim and quarterly results announcements as well as those of annual and interim reports 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 any significant findings and audit issues with the external auditors
- reviewed the internal audit plans and 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 risk management report for the first half of 2018
- reviewed the summary of continuing connected transactions of the Company on a quarterly basis

Attendance Record of Audit Committee Members in 2018

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

¹ Independent non-executive director

3. Remuneration Committee

The Remuneration Committee, led by its Chairman who is also 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 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 remuneration policy and structure for the directors and senior management of the Company. If necessary, the Remuneration Committee engages 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, individual performance and the performance of the Company. The Remuneration Committee will also review and approve the management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board from time to time.

The work of the Remuneration Committee in 2018 is summarised as follows:

- conducted annual review and made recommendations to the Board on the remuneration packages of all directors and members of senior management
- reviewed the reports in relation to the grant of share options under the share option scheme of the Company

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Attendance Record of Remuneration Committee Members in 2018

Names of members	No. of meetings attended/held	Attendance rate (%)
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	2/2	100
Mr. ZHANG Wei (張為) ²	2/2	100
Mr. LI Yingwei	2/2	100

1 Independent non-executive director

2 Executive director, Vice Chairman and Managing Director

Remuneration policy

The remuneration policy of the Company ensures the competitiveness and effectiveness of its 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 their efforts and time dedicated to the Company. The policy for employees (including executive directors and senior management) assures that the 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. Cash bonus is tied to the individual performance of the employee.

4. Nomination Committee

The Nomination Committee, led by its Chairman who is also 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 (as defined and summarised below) to ensure its effectiveness and making recommendations to the Board on requisite amendments.

During 2018, the work performed by the Nomination Committee included the following:

- reviewed the Board Diversity Policy
- 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 Committee members
- conducted an annual review of the independence of the independent non-executive directors
- reviewed the structure, size and composition of the Board

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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 directors during 2018.

In early 2019, the Nomination Committee nominated and the Board recommended that Mr. HUANG Xiaowen, Mr. FENG Boming, Mr. ZHANG Wei (張煒) and Mr. CHEN Dong, 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 Record of Nomination Committee Members in 2018

Names of Members	No. of meetings attended/held	Attendance rate (%)
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	2/2	100

1 Independent non-executive director

2 Executive director, Vice Chairman and Managing Director

Nomination Policy

The Board adopted a policy on the nomination of directors (the "Nomination Policy") on 29 October 2018, which was prepared with reference to the Board Diversity Policy and the existing procedures for nomination of directors of the Nomination Committee. The Nomination Policy sets out the nomination procedures and the criteria for selecting and recommending candidates for directorship.

According to the Nomination Policy, for filling a casual vacancy or appointing new additions to the Board, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election or re-election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation. The secretary of the Nomination Committee shall call a meeting of the Nomination Committee and invite candidates nominated by Board members for consideration by the Committee prior to its meeting. The Nomination Committee may also propose candidates who are not nominated by Board members. Furthermore, shareholders may nominate a person as a director, without the Board's recommendation or the Nomination Committee's nomination, according to the provisions and procedures set out in the paragraph headed "Procedures for Shareholders to Propose a Person for Election as a Director" below.

In evaluating a candidate for directorship, the Nomination Committee will take into account his/her reputation, accomplishment and experience, particularly those concerning the industry where the Company operates its business, diversity in all aspects and independent judgment. For the appointment of independent non-executive directors, independence factors as required under applicable laws, rules or regulations will be considered. Apart from the personal data to be disclosed on relevant websites, the Nomination Committee may request candidates to provide additional information and documents, if necessary, for the reference of the Nomination Committee and the Board.

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Board Diversity Policy

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

The Company regards board diversity as a crucial element to its sustainable development and to maintain its competitive advantages. Candidates for Board appointments will be considered based on each objective criterion and with due regard for the benefits of board diversity. 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 potential contribution that the candidate will bring to the Board.

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

Board Diversity

1. Designation	Executive directors (4)	Non-executive directors (5)	Independent non-executive directors (5)
2. Gender	Male (13)	Female (1)	
3. Ethnicity	Chinese (14)		
4. Age group	40 to 50 (5)	51 to 60 (6)	Over 60 (3)
5. Length of service (years)	Over 10 (2)	3 to 10 (8)	Less than 3 (4)
6. Skills, knowledge and professional experience ^{Note 1}	Terminals operation and management (9)	Accounting and finance (5)	Banking (2)
	Law (2)	Management and commerce (1)	Capital management and investor relations (1)
7. Academic background	University (14)		

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 under 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 members). 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 2018 and early 2019, the Corporate Governance Committee of the Company performed the following work in relation to reviewing the implementation of corporate governance by 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 corporate sustainable development initiatives

Attendance Record of Corporate Governance Committee Members in 2018

Names of members	No. of meetings attended/held	Attendance rate (%)
Dr. WONG Tin Yau, Kelvin ¹ (Chairman)	4/4	100
Ms. HUNG Man, Michelle	4/4	100
Mr. HUANG Chen	4/4	100
Mr. LI Huadong	2/4	50
Ms. ZHOU Lan	3/4	75
Ms. CHAN Kar Yau, Michelle (appointed on 12 March 2018)	4/4	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 24 July 2018 and 15 March 2019, i.e. during the year prior to the publication of the 2018 final results announcement.

Corporate Governance Report

6. Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee, led by an executive director, comprises 14 members, including executive directors, members of senior management and management members. It is responsible for the consideration, evaluation and review of and making recommendations to the Board on proposed major investment plans, acquisitions and disposals, and conducting post-investment evaluation of investment projects. It also reviews and considers the direction of the overall strategy and business development of the Company.

Attendance Record of Investment and Strategic Planning Committee Members in 2018

	No. of meetings attended/held	Attendance rate (%)
Members		
Mr. ZHANG Wei (張為) ¹ (Chairman)	4/4	100
Mr. FANG Meng ²	3/4	75
Mr. DENG Huangjun ²	1/4	25
Mr. GUAN Shuguang	2/4	50
Mr. ZHANG Dayu	3/4	75
Mr. LI Yingwei	1/4	25
Mr. YANG Zhikui (appointed on 12 March 2018)	3/4	75
Mr. HUANG Chen	4/4	100
Ms. ZHOU Lan	4/4	100
Mr. LI Huadong	2/4	50
Ms. CHAN Kar Yau, Michelle (appointed on 12 March 2018)	3/4	75
Ms. HUANG Li	4/4	100
Mr. LI Wei (appointed on 20 December 2018)	1/1	100
Ms. YAO Li (appointed on 20 December 2018)	1/1	100
Ex-members		
Mr. QIU Jincheng (resigned on 12 March 2018)	N/A	N/A
Mr. SHEN Xuan (resigned on 12 March 2018)	N/A	N/A
Mr. HONG Minghui (resigned on 12 March 2018)	N/A	N/A
Mr. LUI Sai Kit, Eddie (resigned on 15 March 2018)	N/A	N/A
Mr. CHENG Bing (appointed on 12 March 2018 and resigned on 20 December 2018)	2/3	67
Mr. WONG Chi Ho (resigned on 20 December 2018)	1/3	33

1 Executive director, Vice Chairman and Managing Director

2 Executive director

Note: Taking into account of the need for a brief review on the implementation of strategies in 2018, the above meetings were convened between 21 May 2018 and 15 March 2019, i.e. during the year prior to the publication of the 2018 final results announcement.

Corporate Governance Report

7. Risk Management Committee of the Company

The Risk Management Committee of the Company, led by an executive director, comprises nine members, including executive directors, members of senior management and management members. It is responsible for identifying and minimising the operational risks of the Company, sets the direction of the Group's risk management strategy, strengthens the Group's risk management system and give opinions to the Board on risk-related matters of the Company.

Details of the role and responsibilities of the Risk Management Committee for risk management of the Company are set out in the paragraph headed "Risk Management and Internal Control" below.

Attendance Record of Risk Management Committee Members in 2018

	No. of meetings attended/held	Attendance rate (%)
Members		
Mr. ZHANG Wei (張為) ¹ (Chairman)	3/4	75
Mr. FANG Meng ²	3/4	75
Mr. DENG Huangjun ²	2/4	50
Mr. ZHANG Dayu	4/4	100
Ms. HUNG Man, Michelle	4/4	100
Mr. HUNG Chun, Johnny	2/4	50
Mr. HUANG Chen	4/4	100
Ms. ZHOU Lan	2/4	50
Mr. LI Huadong	4/4	100
Ex-member		
Mr. CHAN Hang, Ken (resigned on 20 December 2018)	1/4	25

¹ Executive director, Vice Chairman and Managing Director

² Executive director

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

Below sets out the responsibilities of the directors in relation to the financial statements, which should be read in conjunction with, but distinguished from, the Independent Auditor's Report on pages 112 to 116 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 shall give a true and fair view of the results and financial position of the Group.

Accounting Policies

The directors consider that in preparing its financial statements, the Group adopted appropriate accounting policies that are consistently applied, and that all applicable accounting standards are observed.

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, the 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

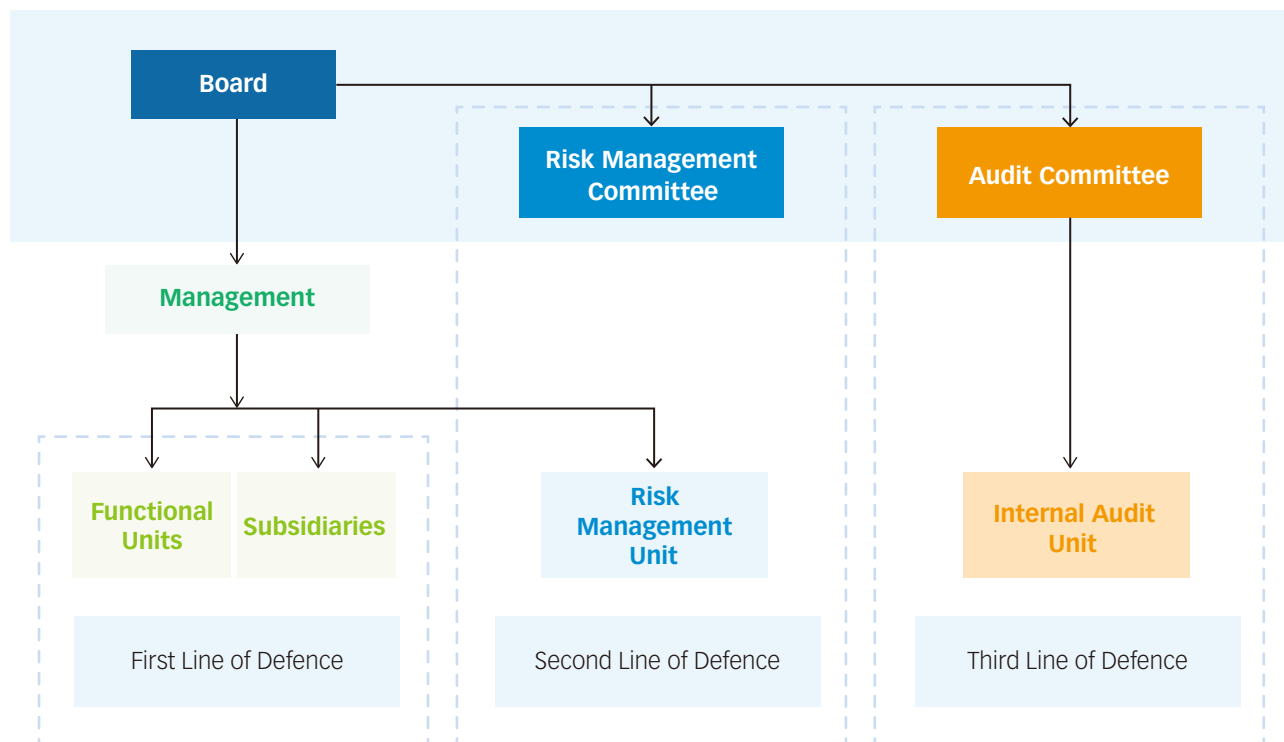
The Board is fully responsible for assessing and determining the continuous effectiveness of the risk management and internal control systems of the Company in an effort to safeguard the interests of its shareholders. Based on its control environment, risk assessment and corresponding strategies, supervision and improvement, the Company has established the risk management and internal control systems which are grounded on "three lines of defence" and are integrated with business activities. 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



Corporate Governance Report

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

The Board	<ul style="list-style-type: none"> • Review the effectiveness of the risk management and internal control systems • Make decisions on and monitor the risk management and internal control systems of the Company • Approve the annual assessment report on risk management and internal control of the Company • Approve the work plans on risk management and internal control of the Company • 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 the effectiveness of the risk management and internal control systems of the Company, ensure that the management has performed their duties of establishing effective systems, and report to the Board on the conclusion of the review
Risk Management Committee	<ul style="list-style-type: none"> • Establish a scientific risk management mechanism, enhance the ability to prevent and control the risks relating to assets and business, improve work efficiency, and ensure a smooth rollout and steady implementation of operational management • Consider and approve the risk management policy, and monitor and provide guidance on the implementation of the policy • Monitor and provide guidance on the identification, prevention and control of risks regarding funds, assets, projects, business and management • Consider and approve the risk control review report regarding material funds, assets, projects, business and matters, and monitor their implementation • Give opinions to the Board on risk-related matters of the Company • A total of four meetings were held for the year to identify material risks and review the risk management during the stage concerned
Management	<ul style="list-style-type: none"> • Implement, maintain and continuously monitor the risk management and internal control systems of the Company • Provide the Board with a confirmation on the effectiveness of the risk management and internal control systems on an annual basis • Make annual work arrangement for the upcoming year with appropriate emphases, based on the assessment reports on risk management and internal control of the Company issued by external agencies

Corporate Governance Report

Risk Management Unit	<ul style="list-style-type: none">• Organise the drafting of basic systems and processes for risk management and internal control, standardise and regulate the risk management and internal control of the Company• Organise the drafting of the routine and annual work plans on risk management and internal control, and organise their implementation• Organise risk assessment by functional units and subsidiaries, and prepare the annual risk assessment report for the Company• Organise the evaluation on the effectiveness of the internal control by functional units and subsidiaries, and prepare the annual evaluation report on internal control• Organise, coordinate, guide and monitor the work on risk management and internal control by functional units and subsidiaries• Complete other tasks in relation to risk management and internal control assigned by the Board
Functional Units and Subsidiaries	<ul style="list-style-type: none">• Amend and implement the regulatory policies and management procedures within their scope of duties, and establish and optimise the risk management and internal control mechanisms• Carry out risk management and internal control functions, including identifying, analysing, evaluating and handling operational and management risks within their scope of duties• Conduct self-evaluation, correction, and rectification of risk management and internal control for areas within their scope of duties• Establish, maintain and monitor on a daily basis the risk alert indicators for areas within their scope of duties, report major risks and take contingency measures in case of a significant risk incident• Assist in completing other routines on 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 supervise in an independent manner the risk management and internal control exercised by functional units and subsidiaries• Prepare the audit plan at the beginning of each year, and enhance supervision over the implementation of various requirements from supervisory level

Corporate Governance Report

The risk management procedures include the following major tasks:

Objective establishment	<ul style="list-style-type: none"> • Establish strategic, operational, reporting, compliance and other relevant objectives based on the risk tolerance levels of the Company, fully taking into account the impact of various risks during objective establishment
Risk identification	<ul style="list-style-type: none"> • All functional units and subsidiaries collect internal and external information relating to risks on a regular basis, and carry out necessary screening, refinement, comparison, classification and combination • 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 assessing their importance in accordance with the evaluation criteria established with the evaluation criteria established
Measures against risks	<ul style="list-style-type: none"> • All functional units and subsidiaries choose corresponding strategies to address risks based on risk assessment results and the causes of the risks • Prepare solutions to managing various risks or each category of material risks, according to the strategies to address risks • Design practical risk control activities and effectively implement corresponding solutions to risk management
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 risk management reports based on risk monitoring information and makes cross-departmental recommendations on significant changes in risks • The risk management unit supervises and assesses the risk control at all functional units and subsidiaries and the effectiveness thereof

Corporate Governance Report

Control Environment

Maintaining a high standard of control environment has been a top priority of the Company. Hence, the Company has been dedicated to continuous enhancement and improvement of its control. The Board recognises the importance of integrity, character, operating philosophy and team building capabilities (the overall quality of staff) and other core values of the management, and has drawn up guidelines on the internal control system to ensure that the Group's objectives are achieved and discrepancies can be detected with effective rectification adopted.

The management is primarily responsible for the design, implementation and maintenance of a sound internal control system for the Company, with a view to safeguarding 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 followed up and reviewed the results of internal control and risk management assessment for the year, with regular reporting and discussion. 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 written reports, and reporting to the Board on the effectiveness of the systems.




As the control environment serves as the foundation for other components in the internal control system, the Company has defined its business structure and compiled an instruction manual to control those business processes and activities. Apart from the establishment of an effective internal control system, the Company attaches great importance to the conduct and qualifications of its accounting, internal audit 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 practical internal control measures accordingly.

During the year, the Company carried out an annual risk assessment in accordance with the requirements of COSCO SHIPPING, the parent company, by applying the weighted average method to the opinions collected through a survey from the senior management, department heads and external risk management experts. The assessment indicates that terminals operation presents prominent risks, particularly in global operation. As such, the Company considers that it is worth paying attention to the risks relating to overseas talent reserve as well as changes in international politics and policy. Meanwhile, subtle changes in market competition will elevate the risk of our rivals. Besides, given the improvement in refined operations management of the Company and the reliance on information systems by global operation, the risks will become even more evident in respect of information system security. As the Company continues with its overseas expansion and investment, the risks concerning investment decision-making remain significant.

Corporate Governance Report

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Operational risk	<p>Risks relating to overseas talent reserve</p> <p>Given the absence of a strategy on overseas talent resource and a lack of talent reserve (especially talents familiar with local language and culture as well as equipped with overseas operations management capability), there will be a shortage of human resources and capabilities in developing overseas operations, which will affect the orderly implementation of overseas operational activities.</p>	<ul style="list-style-type: none"> • Dispatched general managers, financial controllers and office directors with ports operation and managerial experience, and strengthened the capabilities on the operation and management of overseas ports; • Added efforts to develop HR directors familiar with local language and culture, as well as recruited and trained such ports operation and management talents with local cultural background. 	
Market risk	<p>Risks relating to changes in international politics and policy</p> <p>Changes may occur to the factors of domestic and international political environment, which include geopolitics, ethnic group and religion, energy and resource, etc. Such changes result in continuous friction in global trade, which, in turn, may cause trade war in the global sphere, affect the strategic decision-making of the Company and have an adverse effect on its normal operation.</p>	<ul style="list-style-type: none"> • Enhanced the survey on regional political environment, government policy, legal compliance, local society and culture, during project development planning and investment decision-making; • Enhanced the promotion of legal compliance and institutional development in the project region, and boosted the communication with relevant authorities such as the local government; • Recruited talents of port operations and management that are familiar with local policies and culture, which supported the social development and employment policies of the local government. 	
Market risk	<p>Competitor risk</p> <p>Due to new market strategies or tactics of competitors, port operators with the same or common hinterland terminal in the same region may cause the Company to fall behind in competition, or the entry of new competitors deteriorate the competition environment, landing the enterprise in an even worse position in market competition.</p>	<ul style="list-style-type: none"> • Enhanced business coordination of COSCO SHIPPING, actively participated and supported the planning of shipping routes and business development demand of COSCO SHIPPING; • Changed the traditional marketing model of the Company, bolstered the marketing capability for its end customers, to transition from providing traditional service to shipping companies to joining hands with shipping companies to serve the end customers with shipping demand; • Actively raised the number of global shipping hub terminals controlled by the Company, established and developed a global shipping hub network. 	

Corporate Governance Report

Type of Risk	Description of Risk	Major Countermeasures	Risk Trend
Operational risk	<p>Risks relating to information system security</p> <p>A standard and robust mechanism is yet to be established for managing information system security, coupled with inadequate information backup, weak prevention against computer virus and a lack of effective physical environment protection and access control for the information equipment. Such inadequacy may cause information to be leaked, lost or accessed by unauthorised parties or damaged with malicious intents, all of which would result in economic loss to the Company.</p>	<ul style="list-style-type: none"> Employed professional agencies to integrate the information systems of all the business segments of the Company, adopted a unified information system for all the ports and terminals under the Company, and provided regular business training for frontline staff who used the information system to improve their safety awareness of the information system; Strengthened the port connection among the systems of different terminal companies, to ensure the accuracy and completeness of information transmission and realise the sharing of customer and service information. 	
Strategic risk	<p>Risks relating to investment decision-making</p> <p>Investment plans did not fit into the strategies of the Company, with insufficient demonstration in the early stage, coupled with a lack of objective evidence and theoretical support. Instead, subjective judgment and personal experience were relied on excessively, which might led to inaccurate investment decision-making, uninformed expansion or loss of development opportunities.</p>	<ul style="list-style-type: none"> Enhanced the participation of relevant personnel in the early stage of market survey, and improved the knowledge and understanding of the status-quo and basic information on the projects to be invested by the Company; Set up appraisal indicators from project survey to decision-making during relevant investment decision-making, and increased the attention paid by the management and relevant departments to investment decision-making. 	

The risk management and internal control report for 2018 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 2018.

Corporate Governance Report

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, proper determination of duties and better accountability, the Group has a clear organisational structure in place which details the lines of authority and control responsibilities in each business unit. 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, as well as the structure, composition and succession of the Board.
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 in the section headed "Board Committees" in this report.
3. A comprehensive management accounting system is in place that provides financial and operational performance measurement indicators for 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 deficiencies identified, 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 the management and the Audit Committee to ensure that 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 access and conducting comprehensive audits on 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 form of asset 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 regulations
 - Monitoring and evaluating the effectiveness of the risk management system
 - Monitoring the operational efficiency, and the appropriateness of resources utilisation
 - Evaluating the reliability and availability of the information provided by the financial and operating 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 investigation work as required by the management and/or the Audit Committee

Corporate Governance Report

Particular attention is also paid to activities which are considered to present higher risks under monitoring, including income, expenditure and other areas of particular concern to the management. The internal auditor has free access to the Audit Committee without consulting 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 has a risk-based audit approach in place which is based on the COSO framework and the requirements laid down by the HKICPA, with multiple factors taken into account such as the risks recognised. Such audit focuses 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 issues raised by the internal auditor and also the corrective measures taken by the management. The annual internal audit plan will be submitted to the Audit Committee for review and approval, with the scope and frequency of audit based on the size and prevailing risks of all business units of the Company.

Supervision and Improvement

The Company supervises and evaluates 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 2018, 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 weakness on monitoring and control was found during the period.

During 2018, the Internal Audit Unit completed a total of 16 audit assignments. All the internal audit reports were reviewed and approved by the Audit Committee. All internal audit work scheduled for the year 2018 was completed. The Company will follow up all the matters of concern reported by the internal auditor till corrective measures are adopted and implemented properly.

Management and Dissemination of Information

1. The Company has a policy on open communication which allows access to both internally and externally collected information at any time. Pertinent information is identified, captured and communicated as appropriate.
2. The Company provides each employee with an employee manual, which states how employees can communicate with the Company on any problem that arises. The Company considers this as an adequate mechanism to encourage communication between the Company and its employees. The Company has also updated the Policy on Staff Reporting and Whistleblowing, pursuant to which its employees may report any illegal, inappropriate or fraudulent behaviour in financial reporting, internal control and other aspects.
3. The Company attaches great importance to fair disclosure as it is considered a key means to enhance corporate governance and provide necessary information for shareholders and other stakeholders, so that they form their own judgments and give feedback to the Company. The Company also understands that the integrity of the information provided is essential in building market confidence.

Corporate Governance Report

4. With respect to procedures and internal control measures 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 strict prohibition on unauthorised use of confidential, sensitive or inside information, and has communicated this to all staff
 - has established and implemented procedures for responding to the enquiries from external enquiries about the Company’s affairs. Only directors and designated management personnel of the Company may act as the Company’s spokespersons and respond to enquiries on designated areas

The Board has obtained the management’s confirmation on 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 effective and adequate for the Company’s existing business scope and operations and that no significant factor has been identified which might affect the interests of shareholders. However, the systems aim to manage but not eliminate the risks relating to failure to achieve business objectives, and the Board will only give reasonable but not absolute assurance against material misstatement or loss.

INSTITUTIONAL DEVELOPMENT ON LEGAL GOVERNANCE

The Company strictly observes laws and regulations and strives to promote the institutional development on legal governance, to ensure that business operations comply with the law. In 2018, the Company continued to pay attention to the developments in domestic and foreign legislations and law enforcement in relation to port investment, construction and operation, maintain the implementation of compulsory compliance requirements, and sort out its institutional development on legal governance comprehensively. These efforts were designed to further improve the Company in its management capability over legal affairs, enhance the foundation of its work, and perfect its work system. These efforts included the formulation and implementation of the Compliance Management Regulation on International Sanctions, and the modification of such corporate governance regulations as the Management Regulations on Connected Transactions. Meanwhile, management was over strengthened on the entire process such as contract review, with standard contracts for port operations and other aspects formulated and promoted. Activities such as dissemination and training on laws also took place to raise the legal awareness of the entire staff. During the year, no significant incident occurred which violated any laws and regulations.

Corporate Governance Report

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 2018, the remuneration paid or payable in respect of the audit and other non-audit services provided by the auditor to the Company was as follows:

Nature of Service	2018 US\$	2017 US\$
Audit services	850,000	617,000
Audit related services	257,000	275,000
Non-audit services:		
– Circular related services	–	148,000
– Financial advisory services	–	119,000
– Tax related services	92,000	42,000

INVESTOR RELATIONS

The Company continues to promote investor relations and enhance communications with its investors. Our dedicated investor relations department 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. The Company maintained close communications with the media, analysts and fund managers by way of individual meetings, roadshows and conferences. Also, press and analysts conferences are held at least twice a year subsequent to the interim and annual 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 communicate with the Board and senior management. All directors and senior management make an effort to attend the meeting. 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 of the Company may deposit a requisition to the Board or the General Counsel & Company Secretary of the Company 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, and such meeting shall be held 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, registered shareholders holding any amount not less than one-twentieth (5%) of the paid-up capital of the Company carrying the right of voting at General Meetings of the Company, or registered shareholders of not less than 100, 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 <https://ports.coscoshipping.com>.

Corporate Governance Report

SHAREHOLDINGS AND SHAREHOLDERS' INFORMATION

Share Capital (as at 31 December 2018)

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\$311,312,547.9 comprising 3,113,125,479 shares of a par value of HK\$0.1 each

Type of Shareholders (as at 31 December 2018)

Type of shareholders	No. of shares held	% of the total number of issued shares
China COSCO (Hong Kong) Limited and its subsidiary	1,482,053,652	47.61
Other corporate shareholders	1,625,612,947	52.22
Individual shareholders	5,458,880	0.17
Total	3,113,125,479	100

Location of Shareholders (as at 31 December 2018)

Location of shareholders ¹	No. of shareholders	No. of shares held
Hong Kong	511	3,113,116,479 ²
The People's Republic of China	1	4,000
United Kingdom	1	5,000
Total	513	3,113,125,479

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 1,932,727,085 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 2018.

Key Corporate Event Dates

The following are the dates for certain key corporate events:

Event	Date
Payment of 2018 Interim Dividend	26 October 2018
2018 Annual Results Announcement	28 March 2019
2019 First Quarter Results Announcement	25 April 2019
Closures of Register of Members	
(a) for attending the 2019 Annual General Meeting	20 May 2019 to 23 May 2019
(b) for receiving the 2018 Final Dividend	29 May 2019 to 3 June 2019
Annual General Meeting	23 May 2019
Payment of 2018 Final Dividend	19 July 2019
2019 Interim Results Announcement	August 2019
2019 Third Quarter Results Announcement	October 2019