

## CORPORATE GOVERNANCE REPORT

**The corporate governance framework of 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 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. In 2019, the Company was awarded with the following external recognitions:

- "Compliance Legal Team of the Year 2019" by In-House Community, a community of in-house legal and compliance professionals
- "Winner – Compliance Team" and ranked as one of the "Highly recommended – Aviation, Shipping & Logistics Teams" by Chinese Business Law Journal
- "Titanium Award in Environmental, Social and Governance" from The Asset magazine
- "Best in ESG Awards-Middle Market Capitalization", "Best in Reporting Awards-Middle Market Capitalization" and "ESG Report of the Year Awards – Middle Market Capitalization" from BDO ESG Awards 2019
- "2019 InnoESG Prize" from InnoESG
- "Best Mid-Cap ESG Report Commendation", "Excellence in Environmental Disclosure Commendation", "Excellence in Social Disclosure Commendation" and "Innovative Frontrunner Award Commendation" under the Mid-Cap category from Alaya Consulting
- "Best Port Operator 2019" from Business Tabloid Magazine, "Most Innovative Port Operator Hong Kong 2019" and "Best Investor Relations Company Hong Kong 2019" from Finance Derivative
- "Annual Report-Silver Prize", "Annual Report Photography-Bronze Prize" and "Annual Report Interior Design-Bronze Prize" under shipping category from 2019 ARC Awards the Company was awarded the "Best Port Operator" under shipping sector from International Business Magazine for the second consecutive year and "Best Investor Relations Company (Shipping Sector)" for the first time
- the "Best Investor Relations Company" for eighth consecutive year and was first awarded "Asia's Best CEO (Investor Relations)" by Corporate Governance Asia magazine
- awarded the "Shipping History of the Great Nation" during Global Trade and International Logistic Summit 2019
- "Outstanding China Enterprise Award" by Capital magazine for eighth consecutive year
- the "Best Container Operator of the Year" and "Best Investor Relations Ports Company" under transportation sector for second consecutive year from Global Business Outlook
- "Most Innovative Port Operator" by International Finance for the second consecutive year
- "Corporate Website Gold Prize" by 2019 Galaxy Awards

## Corporate Governance Report

### 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.

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 2019, it has fully complied with the code provisions of the Corporate Governance Code, except the following deviation for a short period of time: Mr. ZHANG Wei (張為) was re-designated from the Vice Chairman of the Board to the Chairman of the Board on 25 April 2019. As he continued to be the Managing Director of the Company (i.e. Chief Executive of the Company), there was deviation from the requirement under code provision A.2.1 (the roles of chairman and chief executive should be separated and should not be performed by the same individual). Mr. ZHANG Wei (張為) resigned as Chairman of the Board and Managing Director of the Company on 13 September 2019 due to work commitments, and thereafter, the roles of Chairman and Managing Director have been performed by different individuals: Mr. FENG Boming has been the Chairman of the Board of the Company and Mr. ZHANG Dayu has been the Managing Director of the Company. Despite the short period of deviation mentioned above, as the management reported all major decisions of the Company to and obtained the approval of the Board Committees and the Board, and the Company had an effective internal control system, the Company was able to ensure adequate check-and-balance for such arrangements.

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 in order to protect its directors against potential 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 2019:

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### 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 25 April 2019 and 29 October 2019, 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 2019. 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.

## 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.

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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 26 March 2020 (the date on which the Board approved this report), the Board consisted of ten members. Among them, four are executive directors, two are non-executive directors and four are independent non-executive directors, including Mr. FENG Boming<sup>1</sup> (Chairman), Mr. ZHANG Dayu<sup>1</sup> (Managing Director), Mr. DENG Huangjun<sup>1</sup>, Mr. ZHANG Wei (張煒)<sup>2</sup>, Mr. CHEN Dong<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. 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 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 2019.

### SEPARATION OF CHAIRMAN AND MANAGING DIRECTOR

To ensure independence, accountability and responsibility in Board functions, save as the short period of deviation as mentioned in the section headed "Corporate Governance Practices" above, the posts of Chairman and Managing Director are separated and each plays a distinctive role. Mr. FENG Boming, Chairman of the Company, is responsible for setting the Group's strategy and business directions, managing the Board and ensuring that the Board functions efficiently with good corporate governance practices and procedures, as well as handles key issues timely. Mr. ZHANG Dayu, Managing Director of the Company, supported by other Board members and the senior management, is responsible for implementing major strategies set by the Board and managing the Group's day-to-day business. The division of responsibility between the Chairman and the Managing Director is clearly established and set out in writing.

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### **NON-EXECUTIVE DIRECTORS (INCLUDING INDEPENDENT NON-EXECUTIVE DIRECTORS)**

The Company has two non-executive directors and four independent non-executive directors who are not involved in the day-to-day operation and management of the Group's businesses. The two 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 four independent non-executive directors, representing more than 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.

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 2019 at quarterly intervals. Two additional meetings were also held as required. The average attendance rate was 81.53%. The regular meetings were held to approve the 2018 final results, 2019 interim results and 2019 first and third quarterly results of the Company, and the additional meetings were held to approve a proposed transaction and the change of Chairman, Managing Director and directors of the Company, respectively. Independent non-executive directors of the Company had attended the Board meetings for considering and approving the connected transaction and continuing connected transaction. As the members of the Board are either in Hong Kong or in Mainland China, all of the Board meetings were conducted, if required, 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.

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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.

Set out below are the details of all directors' attendance at the Board meetings and general meetings during the financial year ended 31 December 2019 which illustrate the attention given by the directors in overseeing the Company's affairs and understanding shareholders' views:

## Corporate Governance Report

## Attendance Record of Board Members at Board Meetings and General Meetings in 2019

|   | No. of Board meetings attended/held | Attendance rate of Board meetings (%) | No. of general meetings attended/held | Attendance rate of general meetings (%) |
|---|-------------------------------------|---------------------------------------|---------------------------------------|---|
| <b>Directors</b>  |                                     |                                       |                                       |   |
| Mr. FENG Boming <sup>1</sup> (Chairman) <sup>(note 1)</sup>   | 4/6                                 | 67                                    | 2/3                                   | 67                                      |
| Mr. ZHANG Dayu <sup>1</sup> (Managing Director)<br>(appointed on 13 September 2019)                                   | 1/1                                 | 100                                   | 2/2                                   | 100                                     |
| Mr. DENG Huangjun <sup>1</sup>  | 6/6                                 | 100                                   | 3/3                                   | 100                                     |
| Mr. ZHANG Wei (張煒) <sup>2</sup>   | 4/6                                 | 67                                    | 0/3                                   | 0                                       |
| Mr. CHEN Dong <sup>2</sup>  | 3/6                                 | 50                                    | 3/3                                   | 100                                     |
| Dr. WONG Tin Yau, Kelvin <sup>1</sup>   | 5/6                                 | 83                                    | 3/3                                   | 100                                     |
| Dr. FAN HSU Lai Tai, Rita <sup>3</sup>  | 6/6                                 | 100                                   | 3/3                                   | 100                                     |
| Mr. Adrian David Li Man Kiu <sup>3</sup>  | 6/6                                 | 100                                   | 3/3                                   | 100                                     |
| Mr. LAM Yiu Kin <sup>3</sup>  | 6/6                                 | 100                                   | 3/3                                   | 100                                     |
| Prof. CHAN Ka Lok <sup>3</sup>  | 5/6                                 | 83                                    | 3/3                                   | 100                                     |
| <b>Ex-directors</b>   |                                     |                                       |                                       |   |
| Mr. HUANG Xiaowen <sup>2</sup> (Chairman)<br>(resigned on 25 April 2019)  | 0/2                                 | 0                                     | N/A                                   | N/A                                     |
| Mr. ZHANG Wei (張為) <sup>1</sup> (Chairman & Managing Director) <sup>(note 2)</sup><br>(resigned on 13 September 2019) | 4/5                                 | 80                                    | 1/1                                   | 100                                     |
| Mr. FANG Meng <sup>1</sup> (resigned on 25 April 2019)  | 2/2                                 | 100                                   | N/A                                   | N/A                                     |
| Mr. WANG Haimin <sup>2</sup> (resigned on 13 March 2020)  | 4/6                                 | 67                                    | 3/3                                   | 100                                     |
| Mr. FAN Ergang <sup>3</sup> (resigned on 20 March 2020)   | 6/6                                 | 100                                   | 3/3                                   | 100                                     |

- 1 Executive director
- 2 Non-executive director
- 3 Independent non-executive director

## Notes:

1. Mr. FENG Boming was re-designated from a non-executive director to an executive director and was appointed as the Chairman of the Board on 13 September 2019.
2. Mr. ZHANG Wei (張為) was re-designated from the Vice Chairman of the Board to the Chairman of the Board on 25 April 2019.

During the year ended 31 December 2019, the Chairman held a meeting with the independent non-executive directors without the other directors present pursuant to code provision A.2.7 of the Corporate Governance Code.

## Corporate Governance Report

### **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 2019 are set out in 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 AND PARTICIPATION IN CONTINUOUS PROFESSIONAL DEVELOPMENT PROGRAMMES**

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 2019. 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. The following table sets out the details of all directors' participation in continuous professional development programmes during the year ended 31 December 2019:



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## Directors' Participation in Continuous Professional Development Programmes in 2019

|   | 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 |
|---|----------------------------|--|---|
| <b>Directors</b>  |                            |  |   |
| Mr. FENG Boming <sup>1</sup> (Chairman) <sup>(note 1)</sup>   | ✓                          | ✓  | ✓   |
| Mr. ZHANG Dayu <sup>1</sup> (Managing Director)<br>(appointed on 13 September 20119)                                  | ✓                          | ✓  | ✓   |
| Mr. DENG Huangjun <sup>1</sup>  | ✓                          | ✓  | ✓   |
| Mr. ZHANG Wei (張煒) <sup>2</sup>   | ✓                          | ✓  |   |
| Mr. CHEN Dong <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. LAM Yiu Kin <sup>3</sup>  | ✓                          | ✓  | ✓   |
| Prof. CHAN Ka Lok <sup>3</sup>  | ✓                          | ✓  | ✓   |
| <b>Ex-directors</b>   |                            |  |   |
| Mr. HUANG Xiaowen <sup>2</sup> (Chairman)<br>(resigned on 25 April 2019)  | ✓                          | ✓  |   |
| Mr. ZHANG Wei (張為) <sup>1</sup> (Chairman & Managing Director) <sup>(note 2)</sup><br>(resigned on 13 September 2019) | ✓                          | ✓  | ✓   |
| Mr. FANG Meng <sup>1</sup> (resigned on 25 April 2019)  | ✓                          | ✓  | ✓   |
| Mr. WANG Haimin <sup>2</sup> (resigned on 13 March 2020)  | ✓                          | ✓  | ✓   |
| Mr. FAN Ergang <sup>3</sup> (resigned on 20 March 2020)   | ✓                          | ✓  | ✓   |

1 Executive director

2 Non-executive director

3 Independent non-executive director

Notes:

- Mr. FENG Boming was re-designated from a non-executive director to an executive director and was appointed as the Chairman of the Board on 13 September 2019.
- Mr. ZHANG Wei (張為) was re-designated from the Vice Chairman of the Board to the Chairman of the Board on 25 April 2019.
- The Company provided the newly appointed director with training in directors' duties towards listed companies and reports on business and financial information of the Company.

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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 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 2019. No incidents of non-compliance were identified by the Company in 2019.

### **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.

## Corporate Governance Report

### 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 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

#### 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 the mainland China 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 2019, the Executive Committee held a total of 48 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.

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## 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 2019, a total of five meetings were held and attended by all members of the Audit Committee.

The key matters deliberated on by the Audit Committee in 2019 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
- reviewed the report on legal work done
- reviewed the summary of continuing connected transactions of the Company on a quarterly basis

### Attendance Record of Audit Committee Members in 2019

| <b>Names of members</b>                             | <b>No. of meetings attended/held</b> | <b>Attendance rate (%)</b> |
|---|--------------------------------------|----------------------------|
| 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

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### 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 2019:

- conducted annual review and made recommendations to the Board on the remuneration packages of all directors and members of senior management
- reviewed and made recommendation to the Board on the remuneration of newly appointed or re-designated directors
- reviewed and approved the arrangements for certain share options granted and unvested

#### Attendance Record of Remuneration Committee Members in 2019

| Name of Members   | No. of meetings<br>attended/held | Attendance rate<br>(%) |
|---|----------------------------------|------------------------|
| <b>Members</b>  |                                  |                        |
| 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. FENG Boming <sup>2</sup> (appointed on 13 September 2019)   | 1/1                              | 100                    |
| Mr. LI Yingwei  | 1/2                              | 50                     |
| <b>Ex-member</b>  |                                  |                        |
| Mr. ZHANG Wei (張為) <sup>3</sup> (resigned on 13 September 2019) | 0/1                              | 0                      |

1 Independent non-executive director

2 Executive director, Chairman of the Board

3 Executive director, Chairman of the Board 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 their efforts and time dedicated 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 2019, 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-designation, appointment and re-election of directors
- made recommendations to the Board on matters relating to the 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. New directors appointed by the Board are subject to re-election by shareholders at the next following general meeting (in the case of filling a casual vacancy) or annual general meeting (in the case of an addition to the Board) pursuant to the Bye-laws of the Company.

## Corporate Governance Report

In April 2019, Mr. HUANG Xiaowen resigned as a non-executive director and the Chairman of the Board, Mr. ZHANG Wei (張為), an Executive Director, Vice Chairman of the Board and Managing Director of the Company, was re-designated from the Vice Chairman of the Board to the Chairman of the Board, and Mr. FANG Meng resigned as an Executive Director and a Deputy Managing Director of the Company. In September 2019, Mr. ZHANG Wei (張為) resigned as an Executive Director, Chairman of the Board and Managing Director of the Company, Mr. FENG Boming, a non-executive Director of the Company, was re-designated as an Executive Director of the Company and appointed as the Chairman of the Board, and Mr. ZHANG Dayu, a Deputy Managing Director, was appointed as an Executive Director and the Managing Director of the Company. In considering the change of duties and responsibilities and appointment of directors, the Nomination Committee followed the procedures and process set out in the Nomination Policy (hereinafter defined) for nomination of directorship and assessed the relevant directors and candidates on criteria such as integrity, independent mindedness, experience, skill and ability to commit time and effort to carry out their duties and responsibilities effectively, etc., and made recommendation to the Board for approval.

In early 2020, the Nomination Committee nominated and the Board recommended that Mr. DENG Huangjun, Dr. WONG Tin Yau, Kelvin, Dr. FAN HSU Lai Tai, Rita and Mr. Adrian David LI Man Kiu, being directors longest in office since their last re-election and have been in office for three years, 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. Mr. ZHANG Dayu who was appointed by the Board in September 2019, had retired and re-elected at the special general meeting of the Company held on 8 October 2019.

### Attendance Record of Nomination Committee Members in 2019

| Name of Members   | No. of meetings attended/held | Attendance rate (%) |
|---|-------------------------------|---------------------|
| <b>Members</b>  |                               |                     |
| 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. FENG Boming <sup>2</sup> (appointed on 13 September 2019)   | 1/1                           | 100                 |
| <b>Ex-member</b>  |                               |                     |
| Mr. ZHANG Wei (張為) <sup>3</sup> (resigned on 13 September 2019) | 0/1                           | 0                   |

1 Independent non-executive director

2 Executive director, Chairman of the Board

3 Executive director, Chairman of the Board 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 (hereinafter defined) and the existing procedures for nomination of directors of the Nomination Committee, aimed at setting out the nomination procedures and the process and criteria to select and recommend candidates for directorship.

According to the Nomination Policy, for filling a casual vacancy or appointing addition 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 nominations of candidates from Board members for consideration by the Committee prior to its meeting. The Nomination

## Corporate Governance Report

Committee may also put forward candidates who are not nominated by Board members. Furthermore, shareholder(s) 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 under the section titled "Procedures for Shareholders to Propose a Person for Election as a Director" below.

The Nomination Committee will make reference to factors including reputation for integrity, accomplishment and experience, in particular, in the industry of the Company's business, diversity in all aspects, independent mindedness, etc. For the appointment of independent non-executive directors, independence factors as required under the applicable laws, rules or regulations will be considered. Apart from the personal data to be disclosed on the relevant websites, Nomination Committee may request candidates to provide additional information and documents, if considered necessary, for the reference of the Nomination Committee and the Board.

### **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 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**

|   |  |   |  |
|---|--|---|--|
| <b>1. Designation</b>   | Executive Director (4)                           | Non-executive Director (2)                                    | Independent Non-executive Director (4)                       |
| <b>2. Gender</b>  | Male (9)   | Female (1)  |  |
| <b>3. Ethnicity</b>   | Chinese (10)                                     |   |  |
| <b>4. Age group</b>   | 40–50 (4)  | 51–60 (4)   | Over 60 (2)  |
| <b>5. Length of service (years)</b>                                       | Over 10 (2)                                      | 3–10 (7)  | Less than 3 (1)  |
| <b>6. Skills, knowledge and professional experience</b> <sup>Note 1</sup> | Terminal operation and management (6)<br>Law (1) | Accounting and financing (5)<br>Management and commercial (1) | Banking (1)<br>Capital management and investor relations (1) |
| <b>7. Academic background</b>   | University (10)                                  |   |  |

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 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 2019 and early 2020, 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 2019

|  | No. of meetings<br>attended/held | Attendance rate<br>(%) |
|--|----------------------------------|------------------------|
| <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   | 2/4                              | 50                     |
| Ms. ZHOU Lan   | 4/4                              | 100                    |
| Mr. NG Wai Kei (appointed on 13 September 2019)            | 4/4                              | 100                    |
| <b>Ex-member</b>   |                                  |                        |
| Ms. CHAN Kar Yau, Michelle (resigned on 13 September 2019) | N/A                              | N/A                    |

<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 23 October 2019 and 13 March 2020, i.e. during the year prior to the publication of the 2019 final results announcement.

## Corporate Governance Report

**6. Investment and Strategic Planning Committee**

The Investment and Strategic Planning Committee, led by an executive director, comprises 11 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 2019**

|  | No. of meetings<br>attended/held | Attendance rate<br>(%) |
|--|----------------------------------|------------------------|
| <b>Members</b>   |                                  |                        |
| Mr. FENG Boming <sup>1</sup> (Chairman) (appointed on 13 September 2019) | 2/2                              | 100                    |
| Mr. ZHANG Dayu <sup>2</sup>  | 2/2                              | 100                    |
| Mr. DENG Huangjun <sup>3</sup>   | 2/2                              | 100                    |
| Mr. LI Yingwei   | 0/2                              | 0                      |
| Mr. HUANG Chen   | 2/2                              | 100                    |
| Ms. ZHOU Lan   | 2/2                              | 100                    |
| Mr. LI Huadong   | 2/2                              | 100                    |
| Ms. HUANG Li   | 2/2                              | 100                    |
| Mr. LI Wei   | 2/2                              | 100                    |
| Ms. YAO Li   | 2/2                              | 100                    |
| Mr. CHEN Dong (appointed on 13 September 2019)                           | 2/2                              | 100                    |
| <b>Ex-members</b>  |                                  |                        |
| Mr. ZHANG Wei (張為) <sup>4</sup> (resigned on 13 September 2019)          | N/A                              | N/A                    |
| Mr. FANG Meng <sup>3</sup> (resigned on 25 April 2019)                   | N/A                              | N/A                    |
| Mr. GUAN Shuguang (resigned on 25 April 2019)                            | N/A                              | N/A                    |
| Mr. YANG Zhikui (resigned on 13 September 2019)                          | N/A                              | N/A                    |
| Ms. CHAN Kar Yau, Michelle (resigned on 13 September 2019)               | N/A                              | N/A                    |

1 Executive director, Chairman of the Board

2 Executive director, Managing Director

3 Executive director

4 Executive director, Chairman of the Board and Managing Director

## Corporate Governance Report

**7. Risk Management Committee**

The Risk Management Committee of the Company, led by an executive director, comprises eight 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 2019**

|   | <b>No. of meetings<br/>attended/held</b> | <b>Attendance rate<br/>(%)</b> |
|---|--|--------------------------------|
| <b>Members</b>  |  |                                |
| Mr. ZHANG Dayu <sup>1</sup> (Chairman)                          | 3/4                                      | 75                             |
| Mr. DENG Huangjun <sup>2</sup>                                  | 4/4                                      | 100                            |
| Ms. HUNG Man, Michelle  | 4/4                                      | 100                            |
| Mr. HUANG Chen  | 4/4                                      | 100                            |
| Ms. ZHOU Lan  | 3/4                                      | 75                             |
| Mr. LI Huadong  | 3/4                                      | 75                             |
| Mr. CHEN Dong (appointed on 13 September 2019)                  | 2/2                                      | 100                            |
| Mr. ZHU Hanliang (appointed on 18 March 2019)                   | 3/3                                      | 100                            |
| <b>Ex-members</b>   |  |                                |
| Mr. ZHANG Wei (張為) <sup>3</sup> (resigned on 13 September 2019) | 0/2                                      | 0                              |
| Mr. FANG Meng <sup>2</sup> (resigned on 25 April 2019)          | 1/1                                      | 100                            |
| Mr. HUNG Chun, Johnny (resigned on 18 March 2019)               | 1/1                                      | 100                            |

1 Executive director, Managing Director

2 Executive director

3 Executive director, Chairman of the Board and Managing 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 123 to 128 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.

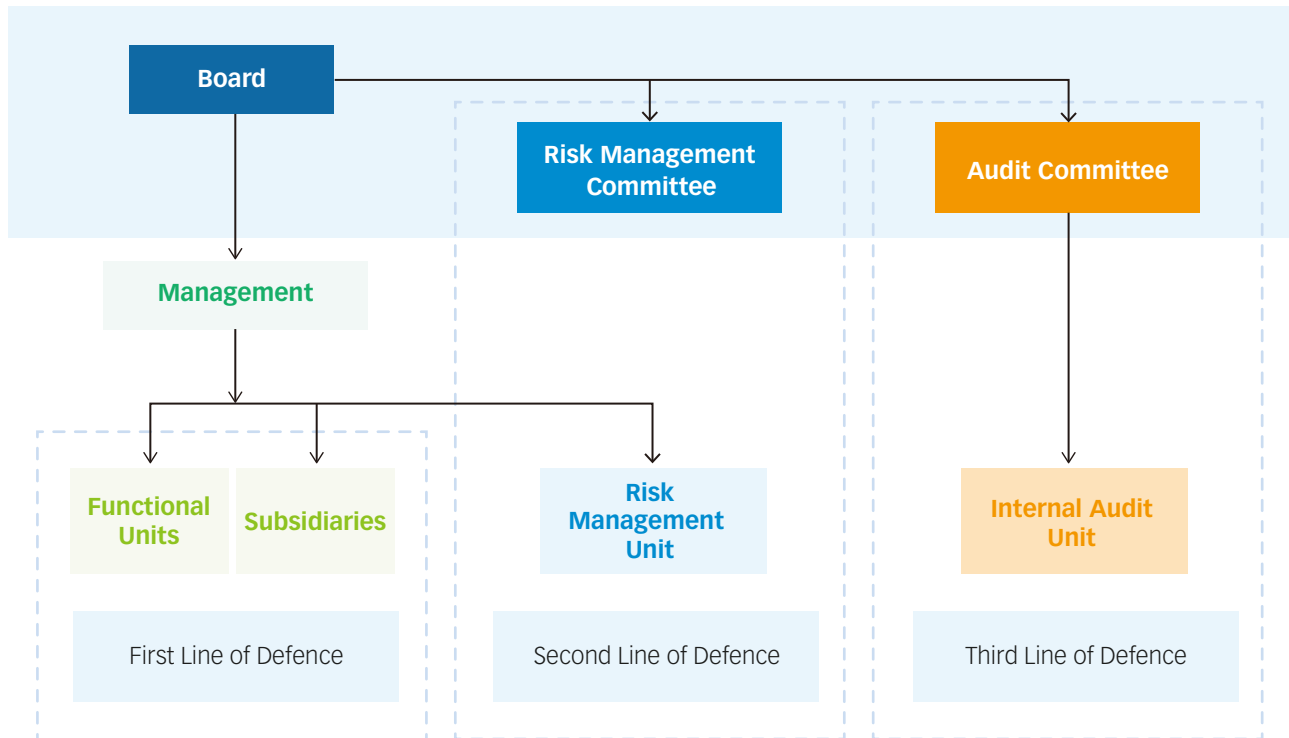
### RISK MANAGEMENT AND INTERNAL CONTROL

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:

|                                  |  |
|----------------------------------|--|
| <b>The 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 has performed 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 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</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>• Consider and approve the risk control review report regarding material funds, assets, projects, business and matters, and monitor their implementation</li> <li>• Give opinions to the Board on risk-related matters of the Company</li> <li>• A total of four meetings were held for the year to identify material risks and review the risk management during the stage concerned</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 on the effectiveness of the risk management and internal control systems on an annual basis</li> <li>• 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</li> </ul>  |
| <b>Risk Management Unit</b>      | <ul style="list-style-type: none"> <li>• 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</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 assessment by functional units and subsidiaries, and prepare the annual risk assessment report for the Company</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>                             |

## Corporate Governance Report

**Functional Units and Subsidiaries**

- 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
- Guide and supervise the risk management and internal control exercised on business carried out by functional units and subsidiaries within their scope of duties
- Assist in completing other routines on risk management and internal control

**Internal Audit Unit**

- 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:

|   |   |
|---|---|
| <p><b>Objective establishment</b></p>     | <ul style="list-style-type: none"> <li>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</li> </ul>   |
| <p><b>Risk identification</b></p>         | <ul style="list-style-type: none"> <li>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</li> <li>Identify the risks in the Company's major business operations and key business processes in accordance with the risk management framework established</li> </ul>  |
| <p><b>Risk assessment</b></p>             | <ul style="list-style-type: none"> <li>Define the identified risks and their characteristics, and analyse and describe the likelihood and impact of the risks</li> <li>Determine the Company's major risks after assessing their importance in accordance with the evaluation criteria established</li> </ul>   |
| <p><b>Measures against risks</b></p>      | <ul style="list-style-type: none"> <li>All functional units and subsidiaries choose corresponding strategies to address risks based on risk assessment results and the causes of the risks</li> <li>Prepare solutions to managing various risks or each category of material risks, according to the strategies to address risks</li> <li>Design practical risk control activities and effectively implement corresponding solutions to risk management</li> </ul>  |
| <p><b>Supervision and improvement</b></p> | <ul style="list-style-type: none"> <li>All functional units and subsidiaries carry out ongoing day-to-day monitoring and analysis of the major and related risks under their management</li> <li>The risk management unit prepares risk management reports based on risk monitoring information and makes cross-departmental recommendations on significant changes in risks</li> <li>The risk management unit supervises and assesses the risk control at all functional units and subsidiaries and the effectiveness thereof</li> </ul> |



## 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, as a committee under the board, 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 continued to follow the requirements of COSCO SHIPPING, the parent company of the Company, by actively preparing for the preliminary work on risk assessment. It also invited external professional institution to collect and analyse information from all aspects including macroeconomics, politics, industry, and within the Company and invited senior management of the Company, department heads and key personnel of the business to carry out risk investigations on this basis. At last, through tabulate statistics, analysis, and ranking of the risk investigations, the top five risks of the Company were eventually identified, namely the risks relating to fluctuations in economy, risks relating to changes in international trade landscape, risks relating to political landscapes, risk relating to accounts receivables, and risks relating to investment decisions, and formulated corresponding countermeasures accordingly. As the Company's business continues to expand and develop, these risks are expected to be long-standing and require continuous attention and response. The Novel Coronavirus Pneumonia epidemic, which began in late 2019, was initially found in a single region only but has spread rapidly across the world in merely few months. As at the date of this report, the Novel Coronavirus Pneumonia epidemic has become a global issue and severely hit the macro economy, micro entities and various industries. In view of this, the Company regards "public health emergencies risk" as the sixth largest risk which the Company is facing and has formulated countermeasures accordingly.


Corporate Governance Report

| Type of Risk                                 | Description of Risk  | Major Countermeasures  | Risk Trend  |
|--|--|--|---|
| <p><b>Public health emergencies risk</b></p> | <p><b>Social risk</b></p> <p>Public health emergencies are risks caused by major infectious diseases, group diseases of unknown causes and other events that seriously affect public health. Since it is sudden, uncontrollable and widespread in nature, the Company is unable to study and evaluate our exposure to the risk in advance, which may lower the response efficiency of related risks and affect the normal operation of the Company.</p> <p>The outbreak of novel coronavirus pneumonia occurred at the beginning of the new year in 2020. From the perspective of its impact on the transport port area, though the outbreak of the disease is in Wuhan, an inland city, it is located in the inland center of China's comprehensive transport corridor and is an important hub along the Middle Stream of the Yangtze River that connects to the sea freight, thus more stringent control measures may be applied to the coastal hub ports in Zhoushan of Ningbo, Shenzhen, Guangzhou, etc., and the substantial ports along inland rivers in Wuhan, Yichang, Yueyang, etc., result in a greater impact. As the epidemic is spreading worldwide, CSP Spain Group, Piraeus Terminal and CSP Zeebrugge Terminal, which are all located in Europe where it is hardest hit by the epidemic overseas, the Company's operation will be further threatened if corresponding risk control measures are not adopted timely.</p> <p>At present, various terminals of the Company in China have resumed work gradually. However, due to the sudden decrease of external demand, the delay of resumption of upstream and downstream enterprises, and the obstruction of the collection and distribution system,</p> | <ul style="list-style-type: none"> <li>Enhance efforts in inspection and monitoring during work resumption stage. Firstly, we will strengthen the monitor on industry operation, establish communication and coordination mechanism with superior administrative departments, timely update the epidemic situation and relevant policies, assess the degree of impact and potential operation risks in real time according to the epidemic development trend, and timely respond. Secondly, the health condition of the employees that return to work will be monitored in real time, and the health inspection status will be reported every day, while emergency supplies will be sufficiently equipped. As the risk of the epidemic from overseas increases, the Company will proactively reserve protective testing supplies and emergency supplies such as masks, disinfectants, protective gloves and thermometers, to ensure the personal safety of employees when they return to work. Thirdly, we will strengthen the management of ships and boarding operators, especially ships and personnel on shipping routes in severe epidemic areas abroad, strengthen inspection and disinfection, reduce the possibility of direct human contact, to prevent the transmission and spread of epidemic from overseas to port enterprises through water transport.</li> <li>Recharge and accumulate, make up weakness and enhance capability. Although profit of the Company for the first quarter was significantly affected by the epidemic, it is expected to see a wave of exponential recovery in the second half of the year driven by the potential rigid domestic demand, as the epidemic gradually slows. On one hand, the Company will use</li> </ul> |  |


## Corporate Governance Report

| Type of Risk | Description of Risk   | Major Countermeasures   | Risk Trend |
|--------------|---|---|------------|
|              | <p>the Company is recording a low ship loading rate and significantly decrease in business volume, while the room for price adjustment is limited, leading to substantial decrease in revenue. At the same time, the change of its fixed expenses such as rental costs and labor costs is relatively flat and hence, the pressure on the Company's operation and profitability has increased sharply. In addition, as the Company is in the downstream of the industrial chain, its port container business is the first to bear the brunt due to the dual impact of the sluggish upstream processing and manufacturing industry, the change of its own shipping routes and the increased restrictions of the port of call. Therefore, the Company should take prevention and control measures proactively to accelerate the resumption of domestic ports and reduce the impact on overseas ports due to the widespread of the epidemic across the globe.</p> | <p>this period to strengthen internal operation and maintenance management by comparing with the front-end development of the same industry, making up for the weaknesses and enhancing capabilities towards the model of lean management and operation. On the other hand, based on our latest knowledge of the peripheral industry, we will focus on relevant works, such as equipment maintenance, personnel skills training, yard site renovation, upgrading hardware facilities and professional skills of employees, so as to adapt to the higher standards under the impact of industrial chain diversification after the epidemic. At the same time, we will raise the supply capacity of the terminal and work resumption plan for peak production, so as to guarantee every aspects of the operation ahead of exponential growth from the subsequent capacity recovery and production to prevent the shortage of supply.</p> <ul style="list-style-type: none"> <li>• Increase our marketing efforts and expand business scope. On one hand, the Company will actively expand the terminal extended logistic business in China and strengthen the synergy between the upstream and downstream of the industrial chain, forming the joint marketing of key nodes on the supply chain and striving to realise the transformation from a single terminal business to a integrated business of the supply chain; on the other hand, overseas terminals should fully use their own advantages to strengthen marketing and widen the channels to increase revenue, so as to balance the negative impact of domestic terminal business. While increasing revenue, it should strengthen the efforts on epidemic prevention and control by formulating emergency plans on the epidemic for overseas terminals, as so to take precaution against the adverse impact on overseas terminal operation due to the widespread of the epidemic across the globe.</li> </ul> |            |

Corporate Governance Report

| Type of Risk          | Description of Risk  | Major Countermeasures  | Risk Trend  |
|-----------------------|--|--|---|
| <b>Strategic risk</b> | <p><b>Risks relating to fluctuations in economy</b></p> <p>Not only are macroeconomic conditions affected by macroeconomic cycle, but also the geopolitics among countries would affect the overall conditions of macroeconomy. Industry and market economic environment were mainly affected by the factors including supply-demand relationship in the industry and competitive environment in the industry. For the Company, the significant synergy with the parent company has created clear advantages for the Company to develop in the same industry. Therefore, as compared with the uncertainties in the economic environmental factors of the industry and market, the related risks arise from the macroeconomic conditions are more sensitive to the Company. Ports mainly serve the corresponding economic hinterland and have a cycle similar to the macroeconomic conditions. In the second quarter of 2019, the year-on-year growth rate of cargo transportation in major ports in the world was 0.8%, which was much lower than the strong growth rate of 7.2% last year. The growth rate of container transportation volume was only 3.0% year-on-year, a decrease of 1.4 percentage points from the same period last year. The lack of momentum for economic recovery and the continuous weakness in domestic and foreign demand will affect the further development of the port industry.</p> | <ul style="list-style-type: none"> <li>• Continuous attention will be paid to the overall economic conditions and the national policies. Information and policies that are closely related to the Company have been constantly collected in all aspects, and the results of the development trends predicted through systematic analysis will be reported to the management or relevant departments, so as to formulate a response plan in advance and proactively take precautions to mitigate the impact of macroeconomic conditions to the Company.</li> <li>• Strengthen the Company's resistance to the macroeconomic environment. Prevent risks from the front end of the business by avoiding the increase of the Company's general risk that is beyond its control as a result of sudden changes in policies and inappropriate investment; improve the efficiency and effectiveness of terminal operations by continuing to strengthen the synergy within the Group and leveraging on its own business and resource advantages, so as to control the level of operating costs continuously to ensure the Company maintains steady growth and stable development; strengthen cooperation with the upstream and downstream of the supply chain and seek opportunities to extend investment to both ends of the industrial chain to enhance its own competitiveness, diversify risks, and add profit growth drivers.</li> </ul> |  |


## Corporate Governance Report

| Type of Risk       | Description of Risk   | Major Countermeasures   | Risk Trend  |
|--------------------|---|---|---|
| <b>Market risk</b> | <p><b>Risks relating to changes in international trade landscape</b></p> <p>Recently, the Sino-US trade war has undoubtedly become a global issue and focus. Under highly globalised economic system, the unilateral trade protectionism of the United States and the trade tensions it caused have led to some shuffle in the international trade environment. The increase in tariffs has directly cooled the export enthusiasm of the cargo companies on the list, which give downside expectations to the global shipping market. Although the Company possesses certain resource advantages in the portfolio and layout of domestic terminals currently, excess capacity or over-centralised layout of some terminals would be unfavourable to resource utilisation and efficient operation in this trade landscape.</p> | <ul style="list-style-type: none"> <li>While expanding the scale of development, building a global terminal network, and enhancing its strength, the Company will focus on exploring further potential in service, management, efficiency and the entire industrial chain, so as to adapt to higher international standards and stand firm in the changing international trade landscape. Secondly, facing the changes of growth rate of trade caused by the changing environment, the generation of new demand and the opening of routes will also impose new requirements to shipping services, and the Company has to seize opportunities to find new development points. In terms of international routes, the Company will closely follow the development trend from the national initiative of “the Belt and Road”. It will accelerate the layout in emerging markets and strategic locations, explore the global hub ports, and strengthen the operational and strategic collaboration with the container fleet of the parent company, so as to fully promote the global terminal layout. In addition, with the gradual deepening of domestic regional port integration, the Company will continue to integrate domestic port and terminal resources by way of integration and disposal of equity, etc., so as to optimise resource layout rationally and fully utilise port resources, with an aim to improve the operating efficiency of the terminals.</li> </ul> |  |

Corporate Governance Report

| Type of Risk          | Description of Risk  | Major Countermeasures  | Risk Trend  |
|-----------------------|--|--|---|
| <b>Strategic risk</b> | <p><b>Risks relating to political landscapes</b></p> <p>In general, due to the contests and increasing conflicts among major countries and regions, the overall risks relating to geopolitics may increase. The political and economic protectionism, especially in the United States, is challenging the existing international order, which poses threats to the multilateral trading system under the global order and intensifies the strategic competition among major countries. As a result, the uncertainties in the global economy policies characterised by increased tariff increased and the related negative impact start to surface, disrupting the stable development of global value chain and supply chain. To the Company as a whole, the political and policy risks at strategic level are mainly reflected in the following aspects: firstly, the changes in international sanctions situation in the backgrounds of China-U.S. trade friction and Iran sanctions has affected the choices of the partners of the Company's business and ways of cooperation, and day-to-day compliance management to a certain extent; secondly, the changes of attitude of countries along "the Belt and Road" towards foreign investment and shipping policies have affected the strategic development of the projects and shipping routes of the Company directly and indirectly; thirdly, the security review policy for overseas investment are becoming more stringent where various regulatory measures related to restrictions on foreign investment were promulgated by overseas countries in recent years, and the continuous tightening of overseas regulatory environment will add uncertainties to the Company's overseas investment, which resulted in certain risks relating to compliance and security review. In addition, the tariffs policy and anti-monopoly policy under trade protectionism and the uncertainties in volume of free trade and volume of shipping business from relevant countries and regions affected by Brexit and EU elections have increased.</p> | <ul style="list-style-type: none"> <li>In view of the increasing competition among major countries and the extension of trade protectionism, apparently both risks and opportunities exist. The Company shall continue to keep an eye on and collect information about the latest changes in political landscape, shipping and investment policies of various countries and the potential risks and opportunities related thereto, and put more efforts in the relevant analysis and studies to give full play to the development advantages under the national initiative of "the Belt and Road". It shall combine the development strategy of the Company and the demand of markets, and place emphasis on the control of compliance risk, so as to plan and optimise the layout of industry, supply chain and investment continuously to effectively prevent the risks relating to geopolitics.</li> <li>Regarding frequent events of international sanction in the shipping sector in recent years, the Company shall further enhance the daily management regarding sanction and compliance, improve the compliance management procedures on international sanctions and the ability to prevent and control risks. It shall establish a contingency mechanism and raise the awareness for compliance management of its staff and training for compliance abilities. While the Company carries out active alert and management, it shall keep abreast of the internal and external sanction acts and significant law enforcement in the Group, so as to draw reference and take precautions promptly.</li> </ul> |  |

## Corporate Governance Report

| Type of Risk            | Description of Risk   | Major Countermeasures  | Risk Trend  |
|-------------------------|---|--|---|
| <b>Operational risk</b> | <p><b>Risk relating to accounts receivables</b></p> <p>Under the influence of factors such as the continuous decline of the global economy, international environmental protection policies, and fluctuations in freight prices, the operating costs of shipping companies will further rise, affecting their operating results. Shipping companies are generally suffering from the disadvantage of eroding profits due to low freight rates, and the growth rate of global trade volume has declined year by year, thus some shipping companies have obviously experienced excess transportation capacity and oversupply of fleet, which has further intensified the price competition among shipping companies. As a result of low-sulphur fuel policy of the IMO, the shipping fuel costs is expected to increase significantly, showing that the issue of cost control for shipping companies is imminent. Based on above, the operating conditions, profitability and operating results of the customers have drawn more attention from the Company than in previous years. In 2019, certain existing clients of the Company have already experienced similar operating problems. If there is decline in operating results, overexpansion or even impacts on continuing operations, those clients will cause potential risks to the due collection of receivables by the Company.</p> | <ul style="list-style-type: none"> <li>In view of the possible insufficient payment capacity of various shipping companies which exposes the Company to risk relating to receivables, the Company, on one hand, shall further tighten the entry barriers of the customers; on the other hand, it shall keep track of customer credit status. The qualification research on new customers shall be further refined and deepened, while the credit ratings for existing customers shall be objective and fair based on the research. Moreover, it shall strengthen the active tracking of customers' operating results and credit status in the daily credit management, so as to lower the risk of overdue receivables and bad debt ratio by further strengthening the management of the receivables from early and mid stage.</li> <li>Further enhance the analysis and collection system for our receivables. In response to collection issue of the amount due from Antong during the year, the Company has established a special task force on top of the daily management of receivables to analyse and stipulate corresponding strategies and track the receivables due from customers timely. At a later stage, the Company shall further enhance the ageing analysis and past-due status analysis of receivables, as well as the ability in handling emergency for special events, in a bid to further strengthen the management for receivables in the mid and later stage.</li> </ul> |  |

Corporate Governance Report

| Type of Risk          | Description of Risk   | Major Countermeasures   | Risk Trend |
|-----------------------|---|---|------------|
| <b>Strategic risk</b> | <p><b>Risks relating to investment decisions</b></p> <p>Risks affecting the investment decision of the Company arise from multiple factors. In terms of external factors, uncertainties lie in the investment policies, shipping policies, and shipping environment, taxation policies, geopolitics, as well as local religions and culture of the region to be developed, therefore overseas investment proposals are more sensitive to the effect of such factors. In terms of internal factors, the adaptivity between the investment projects to be developed and the strategic targets of the Company, the constructive layout regarding the Company's global terminal network of ports, the risk preference of projects, investment return, the balances and gaming between the long-term objectives and the short-term interests of the Company are all closely related to the investment decision of the projects. Where the potential risks relating to investment decision are not fully identified or inaccurately assessed, or the preparation for addressing the risk is insufficient, it may result in making wrong investment decision that deviate from the strategic targets or lower investment efficiency.</p> | <ul style="list-style-type: none"> <li>Continuously optimise the portfolio of terminal investments. Facing the actual situation in which various internal and external factors affecting each other, and taking into account the long-term strategic development, the Company will be active and prudent when selecting both domestic and international investment project, and will constantly consider factors such as strategic targets, regional layouts, changes in industrial policies and return on investment while adopting strategic expansion and contraction, so as to continuously optimise the layout of terminal resources.</li> <li>Reinforce the control on the entire process of investment projects to continuously enhance the standard of investment and operational management, including but not limited to: rigorous and scientific argument in the preliminary study on the decision-making such as site selection, plan demonstration and feasibility analysis of investment project; risk assessment and follow-up management during the all stages of process; full cooperation on resources, human resource and capital among parties involved in the implementation of investment proposals; close connection between investment and financing work; efficient management at the investment and operational stage; and objective evaluation of post-project analysis and effective application of the analysis result, so as to realise closed-loop management and continuous improvement from investment to operational management.</li> </ul> |            |

The risk management and internal control report for 2019 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 2019.



## 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 Chairman of the Board and/or the Managing Director 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.

According to Corporate Internal Control Basic Regulations and its ancillary guidelines, and other internal control regulatory requirements (the "Corporate Internal Control Regulatory System"), and taking into account the internal control system and assessment rules of COSCO SHIPPING, the parent company of the Company, and the Company, on the basis of day-to-day and special internal control supervision, external experts were invited to assess the effectiveness of internal control of the Company as at 31 December 2019 (the base date of the internal control assessment report). In accordance with the accreditation standard on internal control weaknesses, neither material weakness nor important weakness on the internal control of the Company was found during the reporting period.

### **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 2019, 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.

The audit projects for 2019 covered 18 terminals, including 9 terminal companies in which the Group has controlling stakes. The audit carried out in terminal companies in which the Group has controlling stakes focused on major risks during operations, and the establishment and implementation of internal control, risk prevention and control mechanism were also audited, including the situation of accounts receivable management and customer credit rating, for which, given there were several market disruption incidents in 2019, those terminals that have customers that take up a relatively large part of the customer base were reminded to be aware of the changes in market situation and pay close attention to collection of funds. In addition, from a compliance perspective, checks in relation to the implementation of establishing the policy for the three-important and one-significant decision-making matters and performance benefits by terminal companies in which the Group has controlling stakes were also conducted to see if they comply with the requirements of the Company.

## Corporate Governance Report

In addition, audit and supervision tasks also enhanced overseas audit efforts through multiple modes such as joint-audit with other shareholders and internal control audits. In 2019, four overseas terminals namely CSP Zeebrugge Terminal, CSP Abu Dhabi Terminal, Piraeus Terminal and Kumport Terminal were subject to audits, among which the audit for Kumport Terminal was conducted during March with other shareholders jointly to find out the risks during the production and operation of the terminal. In October, the internal control audit for CSP Abu Dhabi Terminal was conducted. This was the first audit for CSP Abu Dhabi Terminal after it completed its construction and commenced operations. The focus of the audit was to understand the status of establishment of internal policies, management and governance structure, etc. This laid a foundation for the terminal to establish a complete internal control system, standardise operational management and prevent risk.

During 2019, the Internal Audit Unit completed a total of 19 audit assignments. All the internal audit reports were reviewed and approved by the Audit Committee. All internal audit work scheduled for the year 2019 was completed. The Company will follow up with all the matters of concern reported by the internal auditor till corrective measures have been 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.
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

## Corporate Governance Report

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 continuously strengthen legal governance to ensure that business operations comply with the laws and regulations. In 2019, the Company established a management group and a working group to coordinate and promote the legal governance, while the Audit Committee was designated to be in charge of legal governance function and the Risk Management Committee was designated to be in charge of risk management, internal control and compliance management functions. The Company also implemented the below measures in 2019 to strengthen legal governance: (1) enhanced major contract management and litigation management, conducted investigation on legal risks and formulated corresponding preventive and control measures; (2) amended several legal related internal regulations and improved overall legal risks prevention and management system; (3) strengthened the prevention and control regarding legal risks for investment and financing projects; and (4) followed up the status of key legal development and actively provided compliance and risk management trainings to raise the legal awareness of all staff. During the year, no significant incident occurred which violated any laws and regulations.

## 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 2019, 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           | 2019<br>US\$     | 2018<br>US\$ |
|-----------------------------|------------------|--------------|
| Audit services              | <b>1,002,000</b> | 850,000      |
| Audit related services      | <b>275,000</b>   | 257,000      |
| Non-audit services:         |                  |              |
| – Circular related services | <b>246,000</b>   | –            |
| – Tax related services      | <b>176,000</b>   | 92,000       |

## Corporate Governance Report

### 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.

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.

## Corporate Governance Report

### **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 2019)**

|                                  |  |
|----------------------------------|--|
| 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\$316,195,883 comprising 3,161,958,830 shares of a par value of HK\$0.1 each   |

**Type of Shareholders (as at 31 December 2019)**

| Type of shareholders                               | No. of shares held   | % of the total number of issued shares |
|--|----------------------|--|
| China COSCO (Hong Kong) Limited and its subsidiary | 1,544,171,935        | 48.84                                  |
| Other corporate shareholders                       | 1,612,434,932        | 50.99                                  |
| Individual shareholders                            | 5,351,963            | 0.17                                   |
| <b>Total</b>                                       | <b>3,161,958,830</b> | <b>100</b>                             |

**Location of Shareholders (as at 31 December 2019)**

| Location of shareholders <sup>1</sup> | No. of shareholders | No. of shares held         |
|---------------------------------------|---------------------|----------------------------|
| Hong Kong                             | 518                 | 3,161,949,830 <sup>2</sup> |
| The People's Republic of China        | 1                   | 4,000                      |
| United Kingdom                        | 1                   | 5,000                      |
| <b>Total</b>                          | <b>520</b>          | <b>3,161,958,830</b>       |

- 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 1,956,745,132 shares registered in the name of HKSCC Nominees Limited which may hold these shares on behalf of its clients in or outside Hong Kong.

## Corporate Governance Report

**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 2019.

**KEY CORPORATE EVENT DATES**

The following are the dates for certain key corporate events:

| <b>Event</b>                                      | <b>Date</b>                |
|---|----------------------------|
| Payment of 2019 Interim Dividend                  | 25 October 2019            |
| 2019 Annual Results Announcement                  | 26 March 2020              |
| 2020 First Quarter Results Announcement           | 27 April 2020              |
| Closures of Register of Members                   |                            |
| (a) for attending the 2020 Annual General Meeting | 18 May 2020 to 21 May 2020 |
| (b) for receiving the 2019 Final Dividend         | 27 May 2020 to 1 June 2020 |
| Annual General Meeting                            | 21 May 2020                |
| Payment of 2019 Final Dividend                    | 17 July 2020               |
| 2020 Interim Results Announcement                 | August 2020                |
| 2020 Third Quarter Results Announcement           | October 2020               |