

# CORPORATE GOVERNANCE REPORT



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

The Company has made continuous efforts to promote high standards of corporate governance and excellence in investor relations practices. In 2012, the Company continued to earn market recognition from different stakeholders for its high levels of transparency and corporate governance. The Company is included as a constituent of the Hang Seng Corporate Sustainability Benchmark Index, effective from 10th September 2012. In 2012, the Company was awarded “Shipping In-House Team of the Year” by *Asian Legal Business*, a renowned magazine for the legal profession and other recognition awards, including “The Asset Corporate Award 2012, Gold Award, Transport sector” by *The Asset* magazine, “Corporate Governance

Asia Recognition Award” for the sixth consecutive year and “Best Investor Relations Company” in “Asian Excellence Recognition Awards” for the second consecutive year by *Corporate Governance Asia* magazine, “Most Reliable Global Shipping Group of the Year” by the business magazine *Mediavision Group*, “Outstanding China Enterprise Award” by *Capital* magazine and “Hong Kong Outstanding Enterprise” for the eighth consecutive year by *Economist Digest* magazine. Meanwhile, the 2011 annual report of the Company was recognised with a “Gold Award for Written Text” and an “Honors for Overall Annual Report” in the shipping services category in the 2012 ARC Awards. Besides, Piraeus Terminal received the “Piraeus International Centre Award” in “Greek Shipping Awards 2012” organised by *Lloyd’s List*, a renowned magazine addressing the shipping industry.

## Corporate Governance Practices

The Company adopted the code provisions set out in the then Code on Corporate Governance Practices (the “Former Corporate Governance Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) as its own code on corporate governance practices in January 2005. From 2002, long before the implementation of the Former Corporate Governance Code, the Company had taken the initiative to disclose its corporate governance practices in its annual reports.

On 1st April 2012, the Former Corporate Governance Code was amended and renamed as the Corporate Governance Code and Corporate Governance Report (the “Corporate Governance Code”). In March 2012, the Board approved the adoption of the Corporate Governance Code with immediate effect.

The Company’s corporate governance practices are in compliance with the Former Corporate Governance Code as well as the Corporate Governance Code. The Company also refers to the Organisation for Economic Co-operation and Development (OECD) principles for a set of ethics in maintaining high corporate accountability and transparency.

The Company believes that commitment to good corporate governance is essential to the sustainability of the Company’s businesses and performances. The Company is pleased to confirm that for the year ended 31st December 2012, it has complied with the code provisions of the Former Corporate Governance Code for the period from 1st January 2012 to 31st March 2012 and the Corporate Governance Code for the period from 1st April 2012 to 31st December 2012, except for a deviation from the code provision A.6.7 of the Corporate Governance Code which provides that independent non-executive directors and other non-executive directors, as equal board members as other directors, should attend general meetings of the company. Due to business

commitment, Mr. WAN Min, a non-executive director of the Company, was unable to attend the annual general meeting and the special general meeting of the Company held on 17th May 2012 and 29th November 2012 respectively.

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

### Code provision A.1.8

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

### Code provisions A.5.1 to A.5.5

The code provisions A.5.1 to A.5.5 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 titled “Nomination Committee” below.

In order to promote transparency, the Company would conduct a review, from time to time, of the extent to which the Company would comply with the recommended best practices in the Corporate Governance Code. The following is a major recommended best practice in the Corporate Governance Code with which the Company continued to comply during the year ended 31st December 2012:

### Recommended best practice C.1.6

The recommended best practice C.1.6 of the Corporate Governance Code states that a listed company should announce and publish quarterly financial results. The Company had, on 25th April 2012 and 25th October 2012, published announcements of its first and third quarterly results respectively on a voluntary basis. The Company considers the publication of the quarterly results a regular compliance practice.

Outlined below are the policies, processes and practices adopted by the Company in compliance with the principles and spirit of the Corporate Governance Code.

## Board of Directors

### Board functions and responsibilities of Directors

The Board is responsible for the leadership and control of the Company and its subsidiaries (together "the Group") and is collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. Every Board member is required to keep abreast of

his/her duties and responsibilities in the Company in the conduct, business and development of the Company and should act in good faith, exercise due diligence and act in the best interests of the Group and its shareholders. The Board should ensure that the Company complies with all applicable laws and regulations.

The Board delegates day-to-day operations of the Group to the management. Both the Board and the management have clearly defined authorities and responsibilities under various internal control and check-and-balance mechanisms. The types of decisions to be taken by the Board include:

- establishing the strategic direction of the Group
- setting objectives and business development plans
- monitoring the performance of the senior management
- implementing the corporate governance policy, including but not limited to establishing a shareholders' 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. Directors have access to the management and are welcome to request explanations, briefings or discussions

on the Company's operations or business issues.

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

All newly appointed directors undergo a comprehensive programme which includes management presentations on the Group's businesses and strategic plans and objectives and receive a comprehensive orientation package on appointment which includes policies on disclosure of interest in securities, prohibitions on dealing in the Company's securities and restrictions on disclosure of inside information and disclosure obligations of a listed company under the Listing Rules. The programme and package are updated whenever there are changes in relevant laws and regulations from time to time and on a regular basis.

### Board composition

As at 26th March 2013 (the date on which the Board approved this report), the Board consisted of fifteen members. Among them, six are executive directors, four are non-executive directors and five are independent non-executive directors, including Mr. LI Yunpeng<sup>2</sup> (Chairman), Dr. WANG Xingru<sup>1</sup> (Vice Chairman and Managing Director), Mr. WAN Min<sup>2</sup>, Mr. FENG Jinhua<sup>1</sup>, Mr. FENG Bo<sup>1</sup>, Mr. WANG Haimin<sup>2</sup>, Mr. WANG Wei<sup>2</sup>, Mr. TANG Runjiang<sup>1</sup>, Dr. WONG Tin Yau, Kelvin<sup>1</sup>, Mr. YIN Weiyu<sup>1</sup>, Mr. CHOW Kwong Fai, Edward<sup>3</sup>,

Mr. Timothy George FRESHWATER<sup>3</sup>,  
Dr. FAN HSU Lai Tai, Rita<sup>3</sup>,  
Mr. Adrian David LI Man Kiu<sup>3</sup> and  
Mr. IP Sing Chi<sup>3</sup>.

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

There are no relationships (including financial, business, family or other material/relevant relationship(s)) between Board members and in particular, between the Chairman and the Managing Director. Biographical details of the directors are set out in the section "Directors and Senior Management Profiles" in this annual report and the Company's website at [www.coscopac.com.hk](http://www.coscopac.com.hk). In addition, a list containing the names of the directors and their respective roles and functions is also published on the said website.

### Procedures to enable Directors to seek independent professional advice

To assist the directors to discharge their duties to the Company, the Board has established written procedures to enable them, upon reasonable request, to seek independent professional advice, at the Company's expense, in appropriate circumstances. No request was made by any director for such independent professional advice in 2012.

### Separation of Chairman and Managing Director

To ensure the Board functions with independence, accountability and responsibility, the posts of Chairman

and Managing Director are separated and each plays a distinctive role. The Chairman, Mr. LI Yunpeng, who is a non-executive director, is responsible for setting the Group's strategy and business directions, managing the Board and ensuring that the Board is functioning properly with good corporate governance practices and procedures. The Vice Chairman and Managing Director, Dr. WANG Xingru, who is an executive director, supported by other Board members and the senior management, is responsible for managing the Group's business, including implementation of major strategies set by the Board, making day-to-day decisions and co-ordinating overall business operations. In addition, he guides and motivates senior management to achieve the Group's objectives. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

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

The Company has four non-executive directors and five independent non-executive directors who are not involved in the day-to-day operation and management of the Group's businesses. The four non-executive directors have contributed innovative views to the Board's decision-making process based on their rich experience in the container shipping business and corporate management. Their expertise helps to facilitate the process of formulating the Group's strategy. The five independent non-executive directors, representing one-third of the Board, have well

recognised experience in areas such as accounting, law, banking, terminal operation and management and/or commercial fields. Their insightful advice, mix of skills and extensive business experience are major contributors to the future development of the Company and act as a check-and-balance for the Board. They ensure that matters are fully debated and that no individual or group of individuals dominates the Board's decision-making process. In addition, they ensure the Board maintains a high standard of financial, regulatory and other mandatory reporting and provide an adequate check-and-balance to safeguard the interests of shareholders in general 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 pursuant to which each of them is appointed for service with the Company for a term of around three years. Their terms of appointment shall be subject to the rotational retirement provision of the Bye-laws of the Company and shall terminate on the earlier of either (i) the date of expiry of the said term of service, or (ii) the date on which the director ceases to be a director for any reasons pursuant to the Bye-laws of the Company or any applicable laws.

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

The Nomination Committee of the Company has conducted an annual review of the independence of all independent non-executive directors of the Company and confirmed that all the independent non-executive directors satisfied the criteria of independence as set out in the Listing Rules.

Mr. Adrian David LI Man Kiu, an independent non-executive director of the Company, is the son of Dr. LI Kwok Po, David, a former independent non-executive director of the Company. Accordingly, Mr. Adrian David LI Man Kiu is connected with a director of the Company within two years immediately prior to the date of his proposed appointment as an independent non-executive director under Rule 3.13(6) of the Listing Rules. Save as disclosed above, Mr. Adrian David LI Man Kiu meets all the other independence factors set out in Rule 3.13. Taking into account that Dr. LI Kwok Po, David was an independent non-executive director of the Company, the Board considered Mr. Adrian David LI Man Kiu independent.

### Board meetings

The Board held four regular Board meetings during the financial year ended 31st December 2012 at quarterly intervals. Two additional Board meetings were also held as required. The average attendance rate was 86.55%. Amongst these six meetings, four were held to approve the 2011 final results, 2012 interim results and 2012 first and third quarterly results of the Company,

one to consider new investment opportunities and review the strategy and business direction, as well as the financial and operational performance of the Group, and one to approve the change of Chairman of the Board and change of directors of the Company. As the members of the Board are either in Hong Kong or in mainland China, all of these meetings were conducted by video and/or telephone conference as allowed under the By-laws of the Company. The Financial Controller and the General Counsel & Company Secretary also attended the Board meetings to report matters arising from corporate governance, risk management, statutory compliance, accounting and financial aspects.

Before each regular Board meeting, the Board is provided with adequate information by the senior management pertaining to matters to be brought before the Board for decisions 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 dispatched to the directors at least three days before the meeting to ensure that they have sufficient time to review the papers and be adequately prepared for the meeting. Directors unable to attend a meeting are advised of the matters to be discussed and are given an opportunity to make their views known to the Chairman prior

to the meeting. Senior management members who are responsible for the preparation of the Board papers are invited to present their papers and to take any questions or address queries that Board members may have on the papers. This enables the Board to have pertinent data and insight for a comprehensive and informed evaluation as part of its decision-making process.

The Chairman or the Vice Chairman of the Company conducts the proceedings at all Board meetings. They ensure that sufficient time is allocated for discussion and consideration of each item on the agenda and that 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 for advising 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 31st December 2012 which illustrate the attention given by the directors in overseeing the Company's affairs and understanding shareholders' views:

## Attendance of Individual Members at Board Meetings and General Meetings

Name of Directors	No. of Board meetings attended/ held in the financial year 2012	Attendance rate of Board meetings (%)	No. of general meetings attended/ held in the financial year 2012	Attendance rate of general meetings (%)
<b>Directors</b>				
Mr. LI Yunpeng <sup>2</sup> (Chairman) (appointed on 24th February 2012)	5/5	100	2/2	100
Dr. WANG Xingru <sup>1</sup> (Vice Chairman and Managing Director)	6/6	100	2/2	100
Mr. WAN Min <sup>2</sup>	4/6	66.67	0/2	0
Mr. HE Jiale <sup>1</sup> <small>Note</small>	5/6	83.33	2/2	100
Mr. FENG Jinhua <sup>1</sup>	6/6	100	2/2	100
Mr. FENG Bo <sup>1</sup> (appointed on 24th February 2012)	5/5	100	2/2	100
Mr. WANG Haimin <sup>2</sup>	3/6	50	2/2	100
Mr. WANG Wei <sup>2</sup> (appointed on 24th February 2012)	5/5	100	2/2	100
Dr. WONG Tin Yau, Kelvin <sup>1</sup>	6/6	100	2/2	100
Mr. YIN Weiyu <sup>1</sup>	6/6	100	2/2	100
Mr. CHOW Kwong Fai, Edward <sup>3</sup>	6/6	100	2/2	100
Mr. Timothy George FRESHWATER <sup>3</sup>	5/6	83.33	2/2	100
Dr. FAN HSU Lai Tai, Rita <sup>3</sup>	6/6	100	2/2	100
Mr. Adrian David LI Man Kiu <sup>3</sup> (elected on 17th May 2012)	2/2	100	1/1	100
Mr. IP Sing Chi <sup>3</sup> (appointed on 7th November 2012)	0/0	N/A	1/1	100
<b>Ex-directors</b>				
Mr. XU Lirong <sup>2</sup> (resigned on 24th February 2012)	0/2	0	0/0	N/A
Mr. WANG Zenghua <sup>1</sup> (resigned on 24th February 2012)	0/2	0	0/0	N/A
Mr. GAO Ping <sup>2</sup> (resigned on 24th February 2012)	1/2	50	0/0	N/A
Dr. LI Kwok Po, David <sup>3</sup> (retired on 17th May 2012)	4/4	100	1/1	100

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

Note: Mr. HE Jiale resigned and Mr. TANG Runjiang was appointed as an executive director of the Company on 21st March 2013.

During the financial year ended 31st December 2012, a meeting of the Chairman and the non-executive directors (including independent non-executive directors) without presence of the executive directors was held pursuant to code provision A.2.7 of the Corporate Governance Code.

### Appointment, re-election and removal of Directors

The Company follows a formal, considered and transparent procedure

for the appointment of new directors. The Nomination Committee, chaired by an independent non-executive director, comprising a majority of independent non-executive directors, has formulated a nomination policy and is responsible for identifying and nominating suitable candidates for the Board's consideration as additional directors or to fill in casual vacancies on the Board and 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 2012 are set out under the "Nomination Committee" section below.

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

## Directors' commitment

The Company has received confirmation from all directors that they have given sufficient time and attention to the affairs of the Company during the financial year ended 31st December 2012. Directors have also disclosed to the Company the number and nature of offices held in public companies or organisations

and other significant commitments, as well as the identity of said public companies and an indication of time involvement in them.

Directors are reminded to participate in continuous professional development to ensure that they have a proper understanding of the Company's operations and business and are fully aware of their responsibilities

under the Listing Rules and other applicable laws and regulations. During the financial year ended 31st December 2012, directors participated in various training programmes and seminars at the Company's expense. Set out below are the details of all directors' participation in continuous professional development programmes during the financial year ended 31st December 2012:

## Directors' Participation in Continuous Professional Development Programmes in 2012

Name of Directors	Reading regulatory updates	Making visits to management of the Company and its subsidiaries and/or on-site visits	Attending directors' training organised by the Company or other listed companies/professional organisations
Mr. LI Yunpeng <sup>2</sup> (Chairman) (appointed on 24th February 2012)	√	√	√
Dr. WANG Xingru <sup>1</sup> (Vice Chairman and Managing Director)	√	√	√
Mr. WAN Min <sup>2</sup>	√	√	√
Mr. HE Jiale <sup>1</sup> <sup>Note 1</sup>	√	√	√
Mr. FENG Jinhua <sup>1</sup>	√	√	√
Mr. FENG Bo <sup>1</sup> (appointed on 24th February 2012)	√	√	√
Mr. WANG Haimin <sup>2</sup>	√	√	√
Mr. WANG Wei <sup>2</sup> (appointed on 24th February 2012)	√	√	√
Dr. WONG Tin Yau, Kelvin <sup>1</sup>	√	√	√
Mr. YIN Weiyu <sup>1</sup>	√	√	√
Mr. CHOW Kwong Fai, Edward <sup>3</sup>	√	√	√
Mr. Timothy George FRESHWATER <sup>3</sup>	√	√	√
Dr. FAN HSU Lai Tai, Rita <sup>3</sup>	√	√	√
Mr. Adrian David LI Man Kiu <sup>3</sup> (elected on 17th May 2012)	√	√	√
Mr. IP Sing Chi <sup>3</sup> (appointed on 7th November 2012)	√	√	√

1 Executive Director

2 Non-executive Director

3 Independent Non-executive Director

Note 1: Mr. HE Jiale resigned and Mr. TANG Runjiang was appointed as an executive director of the Company on 21st March 2013.

Note 2: Training regarding directors' duties of listed companies and presentations on the Company's businesses and financial information were provided to all the new directors appointed in 2012.

## Directors/Senior Management's securities transactions

All directors are obliged to observe the requirements as stipulated in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") as the Company has adopted the Model Code as the Company's code of conduct and rules governing dealings by its directors in the securities of the Company. In addition, the Board also established written guidelines for the senior management and relevant employees of the Company in respect of their dealings in the securities of the Company on no less exacting terms than the Model Code. A committee comprising the Chairman, the Vice Chairman and Managing Director and a Deputy Managing Director was set up to deal with such transactions.

Specific confirmation has been obtained from directors and senior management regarding their compliance with the Model Code and the aforementioned guidelines in 2012. No incidents of non-compliance were noted by the Company in 2012.

## General Counsel & Company Secretary

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

All directors have access to the General Counsel & Company Secretary

who is responsible for ensuring good information flow within the Board and that Board policy and procedures are followed. The General Counsel & Company Secretary is also responsible for providing advice to the Board in relation to directors' obligations as regards disclosure of interests in securities and disclosure requirements in respect of notifiable transactions, connected transactions and inside information. The General Counsel & Company Secretary has to advise the Board on disclosure of information in a true, accurate, complete and timely manner in strict compliance with the requirements of the Listing Rules, applicable laws, regulations and the Bye-laws of the Company.

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

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

## Delegation by the Board Management functions

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

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

## Board committees

To assist the Board in the execution of its duties and to facilitate effective management, certain functions of the Board have been delegated by it to various Board committees, which review and make recommendations to the Board on specific areas. The Board has established a total of seven Board committees, details of which are set out below. Each committee consists of directors, members of senior management and management and has a defined scope of duties and terms of reference, and committee members are empowered to make decisions on matters within the terms of reference of each committee.

These committees have the authority to examine particular issues and report to the Board with their recommendations, where appropriate. The ultimate authority for the final decision on all matters, however, lies with the Board.

The terms of reference of the Board committees, setting out their roles and the authority delegated to them by the Board, have been posted on the Company's website at [www.coscopac.com.hk](http://www.coscopac.com.hk). 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 businesses transacted at committee meetings are meticulously recorded and the records are well maintained and minutes of meetings are circulated to the Board for information.

### 1. Executive Committee

The Executive Committee consists of all the executive directors of the Company who are from time to time in Hong Kong. The purpose of this committee is to facilitate the daily operations of the Company.

As most of the directors of the Company are fully engaged in their major responsibilities and/or stationed in different cities such as Beijing, Shanghai and Hong Kong, it may be practically difficult and inconvenient to convene full Board meetings or arrange for all directors to sign written resolutions on a frequent basis. Hence, the Board delegates powers to the Executive Committee to conduct and supervise the business of the Company and its staff.

During the year ended 31st December 2012, the Executive Committee held a total of 31 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 businesses 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, the General Counsel & Company Secretary will provide a copy of the minutes of the committee meetings to the directors.

### 2. Audit Committee

The Audit Committee, chaired by an independent non-executive director with appropriate professional qualifications, consists of four members, all of whom are independent non-executive directors of the Company. All committee members are professionals in their own working fields, including the accounting, legal, banking and/or commercial areas.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It has unrestricted access to information relating to the Group, to both the internal and external auditors, and to the management and staff. Its terms of reference are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the

Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

In addition to providing advice and recommendations to the Board, the Audit Committee also oversees all matters relating to the external auditors. It therefore plays an important role in monitoring and safeguarding the independence of the external auditors. Both the Financial Controller and the Internal Auditor are directly accountable to the Chairman of the Audit Committee.

Regular meetings of the Audit Committee are held, normally four times a year on a quarterly basis, with additional meetings arranged, as and when required. During the year ended 31st December 2012, four meetings were held and the average attendance rate was 90%.

The key matters deliberated on by the Audit Committee in 2012 included:

- reviewed the accounting principles and practices adopted by the Group and other financial reporting matters
- reviewed the draft annual, interim and quarterly results announcements and the draft annual report and interim report of the Company and assuring the completeness, accuracy and fairness of the financial statements of the Company
- reviewed the results of the external audit and discussed significant findings and audit issues with the external auditors

- reviewed the internal audit plan and internal audit reports
- reviewed the summary of continuing connected transactions of the Company on a quarterly basis
- discussed the effectiveness of the systems of internal controls throughout the Group, including financial, operational and compliance controls, and risk management policies and systems established by the management
- reviewed arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters

## Attendance of Individual Members at Audit Committee Meetings

Name of Members	No. of meetings attended/held in the financial year 2012	Attendance rate (%)
<b>Members</b>		
Mr. CHOW Kwong Fai, Edward <sup>1</sup> (Chairman)	4/4	100
Mr. Timothy George FRESHWATER <sup>1</sup>	4/4	100
Dr. FAN HSU Lai Tai, Rita <sup>1</sup>	4/4	100
Mr. Adrian David LI Man Kiu <sup>1</sup> (appointed on 17th May 2012)	2/2	100
<b>Ex-member</b>		
Dr. LI Kwok Po, David <sup>1</sup> (retired on 17th May 2012)	1/2	50

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

### 3. Remuneration Committee

The Remuneration Committee, led by its Chairman, who is an independent non-executive director, comprises five members, the majority of who 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 also reviews and approves 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 2012:

- reviewed and made recommendations to the Board on the remuneration packages of individual executive directors and senior management
- reviewed and made recommendations to the Board on the remuneration of new Chairman of the Board, executive directors, non-executive directors, and independent non-executive directors

## Attendance of Individual Members at Remuneration Committee Meetings

Name of Members	No. of meetings attended/held in the financial year 2012	Attendance rate (%)
<b>Members</b>		
Dr. FAN HSU Lai Tai, Rita <sup>1</sup> (Chairman)	5/5	100
Mr. CHOW Kwong Fai, Edward <sup>1</sup>	5/5	100
Mr. Adrian David LI Man Kiu <sup>1</sup> (appointed on 17th May 2012)	1/1	100
Dr. WANG Xingru <sup>2</sup>	5/5	100
Mr. ZHU Lizhi	5/5	100
<b>Ex-member</b>		
Dr. LI Kwok Po, David <sup>1</sup> (retired on 17th May 2012)	4/4	100

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

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

### Remuneration policy

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

employee. As a long-term incentive plan and with the aim of motivating employees in the continual pursuit of the Company's goals and objectives, the Company has granted share options to employees (including directors of the Company and its subsidiaries) of the Group under the share option schemes of the Company, based on their performance and contribution.

### 4. Nomination Committee

The Nomination Committee, led by its Chairman who is an independent non-executive director, comprises four 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 and resignation of directors, assessing the independence of independent non-executive directors and making recommendations to the Board on appointments and re-elections.

During 2012, the work performed by the Nomination Committee included the following:

- made recommendations to the Board on matters relating to the resignation, appointment and re-election of directors
- made recommendations to the Board on matters relating to the appointment and change of senior management and Board committee members
- conducted an annual review of the independence of the independent non-executive directors

All new appointments of directors and nomination of directors proposed for re-election at the annual general meeting are first considered by the Nomination Committee and are then recommended by the Nomination Committee to the Board for decision. New directors appointed by the Board are subject to re-election by shareholders at the next following general meeting

(in the case of filling a casual vacancy) or annual general meeting (in the case of an addition to the Board) pursuant to the Bye-laws of the Company.

In early 2013, the Nomination Committee nominated and the Board recommended that Mr. FENG Jinhua, Mr. WANG Haimin, Dr. WONG Tin Yau, Kelvin and Mr. CHOW Kwong Fai, Edward, being directors longest in office since their last re-election,

retire by rotation and Mr. IP Sing Chi and Mr. TANG Runjiang who were appointed as directors by the Board with effect from 7th November 2012 and 21st March 2013 respectively, retire at the forthcoming annual general meeting. All the retiring directors, being eligible, will offer themselves for re-election by shareholders of the Company.

During 2012 and in March 2013, Mr. LI Yunpeng, Mr. FENG Bo,

Mr. WANG Wei, Mr. TANG Runjiang and Mr. IP Sing Chi were appointed as directors of the Company. In considering the new appointments of directors, the Nomination Committee assessed the 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 recommendations to the Board for approval.

## Attendance of Individual Members at Nomination Committee Meetings

Name of Members	No. of meetings attended/held in the financial year 2012	Attendance rate (%)
<b>Members</b>		
Mr. Adrian David LI Man Kiu <sup>1</sup> (Chairman) (appointed on 17th May 2012)	2/2	100
Mr. CHOW Kwong Fai, Edward <sup>1</sup>	5/5	100
Dr. FAN HSU Lai Tai, Rita <sup>1</sup>	5/5	100
Dr. WANG Xingru <sup>2</sup>	5/5	100
<b>Ex-member</b>		
Dr. LI Kwok Po, David <sup>1</sup> (retired on 17th May 2012)	3/3	100

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

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

## 5. Corporate Governance Committee

The Corporate Governance Committee, led by an executive director, comprises six members (including an executive director, members of senior management and management). It reviews the corporate governance practices and disclosure systems of the Company and introduces relevant principles in this regard so as to enhance the standard of corporate governance of the Company.

In early 2013, the Corporate Governance Committee performed the following in relation to a review of the corporate governance framework of the Company:

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

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

## Attendance of Individual Members at Corporate Governance Committee Meetings

Name of Members	No. of meetings attended/held in the financial year 2012	Attendance rate (%)
<b>Members</b>		
Dr. WONG Tin Yau, Kelvin <sup>1</sup> (Chairman)	4/4	100
Ms. HUNG Man, Michelle	4/4	100
Mr. DING Weiming	4/4	100
Mr. HUANG Chen (appointed on 13th June 2012)	3/3	100
Mr. FAN Chih Kang, Ken	4/4	100
Ms. LIU Mei Wan, May	4/4	100
<b>Ex-member</b>		
Mr. ZHANG Jie (resigned on 13th June 2012)	0/1	0

<sup>1</sup> Executive Director

## 6. Investment and Strategic Planning Committee

The Investment and Strategic Planning Committee, led by an executive director, comprises ten members (including executive directors, members of senior management and management). It considers, evaluates, reviews and recommends to the Board the proposed major investments, acquisitions and disposals, conducts post-investment evaluation of investment projects, reviews and considers the overall strategic direction and business development of the Company.

## Attendance of Individual Members at Investment and Strategic Planning Committee Meetings

Name of Members	No. of meetings attended/held in the financial year 2012	Attendance rate (%)
<b>Members</b>		
Dr. WANG Xingru <sup>1</sup> (Chairman)	4/4	100
Mr. YIN Weiyu <sup>2</sup>	4/4	100
Mr. CHAN Hang, Ken	4/4	100
Mr. QIU Jinguang	4/4	100
Mr. DING Weiming	4/4	100
Mr. HUANG Chen (appointed on 13th June 2012)	3/3	100
Mr. XU Jian	2/4	50
Mr. ZHANG Wei	4/4	100
Mr. HUNG Chun, Johnny	4/4	100
Mr. FAN Chih Kang, Ken	4/4	100
<b>Ex-member</b>		
Mr. ZHANG Jie (resigned on 13th June 2012)	1/1	100

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

<sup>2</sup> Executive Director

## 7. Risk Management Committee

The Risk Management Committee, led by an executive director, comprises eight members (including an executive director, members of senior management and management). It provides support to the Board by identifying and minimising the operational risks of the Company, sets the direction for the Group's risk management strategy and strengthens the Group's system of risk management.

### Attendance of Individual Members at Risk Management Committee Meetings

Name of Members	No. of meetings attended/held in the financial year 2012	Attendance rate (%)
<b>Members</b>		
Mr. YIN Weiyu <sup>1</sup> (Chairman)	4/4	100
Mr. QIU Jinguang	3/4	75
Ms. HUNG Man, Michelle	4/4	100
Mr. DING Weiming	2/4	50
Mr. HUANG Chen (appointed on 13th June 2012)	3/3	100
Mr. LI Jie (appointed on 6th February 2012)	3/4	75
Mr. XU Jian	0/4	0
Mr. FAN Chih Kang, Ken	4/4	100
<b>Ex-members</b>		
Mr. SHI Jingmin (resigned on 6th February 2012)	0/0	N/A
Mr. ZHANG Jie (resigned on 13th June 2012)	0/1	0

<sup>1</sup> Executive Director

## Accountability and Audit

### Financial reporting

The following statement, which sets out the responsibilities of the directors in relation to the financial statements, should be read in conjunction with, but distinguished from, the Independent Auditor's Report on page 119 which acknowledges the reporting responsibilities of the Group's auditor.

### Annual Report and Financial Statements

The directors acknowledge their responsibilities for preparing the financial statements for each financial year which give a true and fair view of the results and the state of affairs of the Group.

### Accounting Policies

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

### Accounting Records

The directors are responsible for ensuring that the Group keeps accounting records which disclose, with reasonable accuracy, the financial position and results of the Group and which enable the preparation of financial statements in accordance with the Hong Kong Companies Ordinance, Listing Rules and applicable accounting standards.

### Safeguarding Assets

The directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

### Internal control

The Group has in place an internal control system that has been set up within the areas of the Group's control environment, risk areas, control and monitoring activities, and information and communication. The internal control system makes reference to the COSO framework developed by the Committee of Sponsoring Organizations of the Treadway Commission and also the Guide on Internal Control and Risk Management issued by the Hong Kong Institute of Certified Public Accountants.

### Control Environment

The maintenance of a high standard of control environment has been and remains a top priority of the Group. Therefore, the Group is dedicated to its enhancement and improvement on a continuous basis.

Recognising the importance of various values, including management's integrity, ethics, operating philosophy and commitment to organisational competence (quality of personnel), the Board has set out a direction for the internal control system in order to achieve the Group's objectives and identify discrepancies so that corrective actions can be taken in an efficient manner.

The management of the Group is primarily responsible for the design, implementation, and maintenance of the Group's internal control system with a view to providing sound and effective controls to safeguard shareholders' investment and the Company's assets. The internal control system covers all major and material controls, including financial, operational and compliance as well as risk management controls.

The Board is ultimately responsible for the effectiveness of the internal control and risk management system. The Board has delegated to the Risk Management Committee the task of assisting the Board to identify and minimise the operational risks of the Company, to set the direction for the Group's risk management strategy and to strengthen the Group's risk management system. The Risk Management Committee monitored, reviewed and discussed the results of

internal control and risk management assessment for the year on a regular basis. Moreover, the Audit Committee assists the Board to review the effectiveness of the internal control and risk management system twice a year by reviewing the underlying mechanism and functioning of the Group's internal control system and sharing its opinion with the Board as to the system's effectiveness. In 2012, the Audit Committee has reviewed the risk register and internal control and risk management assessment questionnaire submitted by the Risk Management Committee, annual report, interim report, results announcements and internal audit plans and reports. During the year 2012, the directors have conducted reviews of the effectiveness of the system of internal control of the Group, covering all material controls, including financial, operational and compliance controls and risk management functions.

As the control environment is the foundation for all of the other components of the internal control system, the Group has defined a Group-wide structure and has set up a procedure manual to regulate business processes and activities. Besides establishing an effective internal control system, the Group also values and requires the integrity of the account and finance personnel, as well as their qualification. The Board and the Audit Committee of the Company have conducted an annual review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting and financial reporting function of the Company.

### Risk Assessment

The Group is principally engaged in the businesses of managing and operating terminals, container leasing, management and sale, and container manufacturing and related businesses. The activities of the Group are exposed to a variety of risks which are categorised as financial risk, operational risk and compliance risk factors as shown below:

#### *Major financial risk factors*

Owing to the uncertainties in the global economy, the Group maintained a prudent financial policy. In order to cope with the budgeted development and operational needs of our container leasing and terminal businesses, the Group has striven to maintain a certain leverage in order to fund the Group's capital expenditures in accordance with budgeted business plans and market demand. Changes in market interest rates can significantly affect the financial performance of the Group.

The Group's objectives in managing capital are to safeguard the Group's ability to operate efficiently in order to create values and returns for shareholders and to maintain an optimal capital structure to reduce cost of capital.

Following the Group's expansion in the global market, our operating environment is increasingly complex and geographically diversified while the taxation environment is also an area of concern. As the business of the Group is predominantly carried out in mainland China, the United States, Europe and Hong Kong, the Group is subject to risks which change as the systems of taxation change in these regions.

The Group conducts business and operations internationally and is thus exposed to foreign exchange risk arising from various currency exposures. For the container leasing business, the primary currency involved is the US dollar while for the terminal business, the primary currencies involved are the Renminbi and the Euro.

#### **Major operational risk factors**

The volume, current purchasing price and per diem rates for the container leasing business fluctuate in response to changes in the supply and demand for leased containers. These fluctuations affect the performance of the Group.

The future recoverable amounts for the containers will be affected by economic downturns and market fluctuations. Such unfavorable market factors increase the asset impairment risk related to containers.

In the event of an economic downturn, the accounts receivable position may deteriorate, resulting in another operational risk factor encountered by the Group, namely credit risk on accounts receivable and recoverability risks.

The terminal business and container leasing business involve both manual and machine operations, which may be accompanied by risks involving workplace safety, including physical harm, damage to reputation, legal liabilities and business interruption.

#### **Major compliance risk factors**

The Group has been investing in mainland China and overseas. These new investments may be exposed to various foreign legal and regulatory

regimes which involve different levels of transparency and compliance. Where necessary, the Group has requested independent professional advice on compliance matters from legal firms of the relevant foreign jurisdictions in order to further protect its interests. Regulatory changes are normally designed to promote transparency and raise the profile of compliance. Therefore, having substantially to satisfy diverse legal and regulatory requirements in a multitude of jurisdictions inevitably exposes the Group to compliance risk.

The Group is continuously expanding its business partnership network for the terminal business. Therefore, the number of terminal joint venture companies which constitute subsidiaries of the Company under the Listing Rules is constantly increasing. This has resulted in an increase in connected transactions with (1) China COSCO, an intermediate holding company of the Company, (2) COSCO, (3) the Maersk Group and (4) various port authorities, which are respectively regarded as connected persons of the Group under the Listing Rules.

By the very nature of the Group's business activities, transactions with these connected persons are inevitable. However, since the Company cannot fully ascertain the corporate structure of all companies (especially those companies outside the Group), the identification of connected persons and the updating of an exhaustive list of connected persons is extremely difficult, and the volume of such transactions may expose the Group to compliance risk in relation to the identification, authorisation, recording and disclosure of such transactions.

The Group is increasingly involved in new projects of significant size, which often constitute discloseable transactions or are subject to approval by shareholders under the Listing Rules. The need for timely and strict compliance with the relevant regulatory requirements exposes the Group to compliance risk.

To identify and analyse the relevant risks in achieving the Company's objectives, the internal control system is designed to provide reasonable, but not absolute, assurance against material mis-statements and to manage rather than completely eliminate the risk of system failure in this regard. In addition to safeguarding the assets of the Company, the system design also pays regard to the basis for determining control activities (fundamentally including financial, operational and compliance controls) and to ensure a high level of operational efficiency; to ensure the reliability of financial reporting and to ascertain the compliance of laws, regulations and any other defined procedures.

For the purpose of better risk management, the Company assesses the likelihood and potential impact of each particular risk. It emphasises changing operational behaviour and regards the internal control system as an early warning mechanism designed to trigger a quick response. Monitoring and control procedures are derived therefrom.

The Group's risk assessment procedures involve consideration of the entire organisation. Attention is paid to all kinds of major relationships and their correlations, including situations of fraud, going concern

and internal and external reporting, and whether accounting tasks were performed in accordance with generally accepted accounting principles, among others. When risks are identified, existing controls are examined to determine if there has been a failure in control, and if so, to determine the reason for such failure.

### Control Activities and Monitoring

A sound system of internal controls requires a defined organisational and policy framework. The framework of the Company's internal control activities includes the following:

1. To allow delegation of authority and proper segregation of duties as well as to increase accountability, a clear organisational structure exists which details lines of authority and controls responsibilities in each business unit of the Group. Certain specific matters are not delegated and are subject to the Board's decision. These include, among others, the approval of annual, interim and quarterly results, annual budgets, distribution of dividends, Board structure, and the Board's composition and succession.
2. To assist the Board in execution of its duties, the Board is supported by seven Board Committees, namely, the Executive Committee, the Audit Committee, the Remuneration Committee, the Nomination Committee, the Investment and Strategic Planning Committee, the Corporate Governance Committee and the Risk Management Committee. These committees make recommendations to the Board on relevant matters within their terms of reference, or make decisions under appropriate circumstances within the scope of the power delegated by the Board.
3. Systems and procedures, approved by the management, are set up to identify, measure, manage and control risks that include but are not limited to legal, credit, concentration, operational, environmental, behavioral and systematic risk that may have an impact on the Group.
4. A comprehensive management accounting system is in place providing financial and operational performance measurement indications to the management and relevant financial information for reporting and disclosure purposes. Reports on the variance between actual performance and targets are prepared, analysed and explained. Appropriate actions are also taken to rectify the identified deficiencies, if necessary. This helps the management of the Group to monitor business operations closely and enables the Board to formulate and, if necessary, revise strategic plans in a timely and prudent manner.
5. The Group places great importance on internal audit functions. The internal audit's roles include assisting management and the Audit Committee to ensure the Group maintains an effective system of internal control and a high standard of governance by reviewing all aspects of the Group's activities with unrestricted right of access and conducting comprehensive audits of all practices and procedures on a regular basis. The scope of the work of internal audit includes:
  - Ascertaining the extent to which the Group's assets are accounted for and safeguarded to avoid any losses;
  - Reviewing and evaluating the soundness, adequacy and effective application of accounting, financial and other controls in the Group;
  - Ascertaining the compliance with established policies, procedures and statutory rules and regulations;
  - Monitoring and evaluating the effectiveness of the risk management system;
  - Monitoring the operational efficiency, as well as the appropriateness and efficiency with which resources are employed;
  - Evaluating the reliability and integrity of financial and operating information reporting systems;
  - Ensuring that findings and recommendations arising from the internal audit are communicated to the management and monitoring the implementation of the corrective measures; and
  - Conducting ad hoc projects and investigative work as required by the management and/or the Audit Committee.

Additional attention is paid to control activities which are considered to be of higher risk, including, amongst others, income, expenditures and other areas of concern as highlighted by the management. The Internal Auditor, as head of the internal audit function, has free access to the Audit Committee without the requirement to consult the management and his reports go directly to the Vice Chairman and 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.

As in previous years, the internal audit function adopted a risk-based auditing approach based on the COSO framework and the requirements laid down by the Hong Kong Institute of Certified Public Accountants, considering such factors as recognised risks and focuses on material internal controls and risk management, including financial, operational and compliance controls during the financial year ended 31st December 2012. Internal audits were carried out on all significant business units in the Group, a total of 22 audit assignments were conducted for the above period. All internal audit reports are submitted to the Audit Committee for review and approval. The Internal Auditor's summary of findings, recommendations and follow-up reviews of previous

internal audit findings are discussed at the Audit Committee meetings. The Audit Committee actively monitors the number and importance of findings raised by the Internal Auditor and also the corrective measures taken by the management.

The yearly internal audit plan, which is reviewed and approved by the Audit Committee, is based on the sizes and prevailing risks of all business units of the Group so as to establish audit scopes and frequencies. All internal audit work scheduled for the year 2012 has been completed. All areas of concern reported by the Internal Auditor were monitored by management until appropriate corrective measures were taken or implemented.

6. The Board established the Audit Committee in August 1998. The Audit Committee assists the Board by providing independent reviews and supervision of financial reporting, and satisfying themselves as to the effectiveness of the Group's internal controls and the adequacy of the external and internal audits.
7. The Financial Controller, General Counsel & Company Secretary, other senior management and the Internal Auditor conduct reviews of the effectiveness of the Company's internal control system, including financial, operational and compliance controls and risk management function, and the Audit Committee reviews the findings and opinion of the Internal Auditor and the management on the effectiveness of the Company's

internal control system twice a year and reports annually to the Board on such reviews.

8. The management manages and monitors exposures to identify major risk factors involving financial risk, operational risk and compliance risk, to ensure appropriate measures are implemented in a timely and effective manner. The Group's overall risk management programme focuses on unpredictability arising from the financial markets, the industry and regulatory bodies and imposes various internal control risk measures to minimise the adverse impact on the Group's financial performance.

### Major Financial Risk Measures

- To reduce interest rate risk exposure, the Group uses diversified debt profiles (including different combinations of bank borrowings and notes, different maturity profiles and different combinations of fixed and floating interest rates debt) based upon market conditions and the Group's internal requirements, and uses hedging instruments only when there is an operational need. The effectiveness of the hedging relationship is assessed continuously and regularly with reference to the Group's risk management objective and strategy.
- To maintain a certain leverage level for funding requirements in respect of daily operation, investments and capital expenditure, the Group adopts prudent liquidity risk management practices which

implies maintaining sufficient cash and bank balances, having available funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

- Consistent with other companies in the industry, the Group monitors its capital on the basis of the gearing ratio. The Group may adjust the amount of dividend paid out, return capital to shareholders, issue new shares or capital or sell assets to reduce debts in order to maintain or adjust the capital structure when the need arises.
- To ensure tax risk is understood and properly controlled, the management reviews and assesses the global tax impact on the Group annually and conducts periodic Group tax planning exercises after seeking advice from different external consultants.
- The Group currently does not have a written foreign currency hedging policy. However, the Group monitors and controls foreign exchange risk by conducting borrowings in currencies that match as far as possible the functional currency used for transacting the Group's major cash receipts and underlying assets. Borrowings for the container leasing business are conducted mainly in US dollars, which match well the US dollar revenue and expenses of the leasing business, in order to minimise any potential foreign exchange risk. For

those jointly controlled entities and associates of the terminal business, all material borrowings are denominated in the respective functional currencies. The management will consider hedging significant foreign currency exposure should the need arise.

- Since the Group is concerned with safeguarding cash and capital, it mainly co-operates with banks of high reputation and seldom engages in high risk businesses. The Group places tight control measures over the management of accounts, addresses the operational need to create, operate or close a bank account and ensures that every detail of the approval and procedures are strictly followed. Moreover, subsidiaries prepare and report relevant information for management discussion on a weekly, monthly and quarterly basis. Furthermore, self inspection and evaluation is conducted half yearly to mitigate non-compliance and enhance effectiveness. A centralised capital management platform has been established in mainland China to enhance the timely monitoring of capital use by local subsidiaries.

### Major Operational Risk Measures

- Management meetings among department heads and senior management are held on a monthly basis to analyse and discuss the performance of each business segment and their response to changes in the business environment, market conditions and operational issues. For the container leasing

business, management holds weekly meetings with operational managers to discuss the current leasing rate and current market price for containers and to convey the Group's strategy on market changes and to minimise adverse impacts on the Group's financial performance as a consequence of price fluctuations.

- The value of containers is reviewed and evaluated periodically with reference to the Group's accounting policy and impairment provision for containers is made if the carrying value of the containers exceeds the recoverable amount. The weekly departmental meetings among the management and departmental managers facilitate a better understanding of the latest market trends and of possible changes so as to assist in reviewing the impact on the Group of impairment losses. Such risk management measures are useful in making appropriate preparations to reduce the risk of future asset impairment.
- For available-for-sale financial assets, the management monitors and reports on price performance and re-affirms the strategic objective of these strategic investments to the Board.
- The Group limits its exposure to credit risk by performing credit reviews and monitoring the financial strength of its major customers. Despite not requiring collateral on trade receivables, the Group has insured the recoverability for a majority of its third party trade receivables

balance to mitigate exposure to credit risk. Moreover, the Group's workflow and procedures have been improved to strengthen the management of credit risk.

- For the container leasing business, the credit committee of each operating unit establishes the maximum credit limit for each customer based on their credit quality, taking into account their financial position, past settlement history and other factors. Utilisation of credit limits is regularly monitored. The system suspends the provision of services to those customers whose transactions exceed the defined credit limits.
- To ensure the stability and reliability of computer systems, systems which are related to the container leasing and terminal businesses are operated by trained professionals, frequently checked and upgraded when necessary. All data is backed up in a timely manner. For security purposes, a disaster recovery plan is in place.
- The Group has experienced rapid growth in recent years, which has led our business to develop in different locations in mainland China and overseas countries that have varying local safety standards. Regardless of the locations and nature of the businesses, the Group makes a continuous effort to achieve the highest safety standards within its organisations. Managers and staff therefore make safety a top priority and promote the Group's safety standards in all locations.

### Major Compliance Risk Measures

- The General Counsel & Company Secretary formulates the overall strategies and mechanisms in relation to the Group's legal compliance. Upon becoming aware of any material development in the legal environment, the legal department will report such updated information to the Board and disseminate the information within the Group as appropriate. The General Counsel & Company Secretary coordinates the engagement of Hong Kong and overseas lawyers to provide professional advice on specialised and geographically diverse legal issues.
- A non-exhaustive list of connected persons (since the Company cannot obtain the corporate structure of all companies (especially those companies outside the Group), the list may not cover all the connected persons of the Company) is in place and updated on a regular basis. In order to assess and report effectively on any potential connected transactions, responsible departments are required to obtain, report and update the shareholding structure of new customers and existing business partners. The Company will closely monitor transaction amounts on a monthly basis. Furthermore, regular management meetings are held on a quarterly basis to review the nature and amount of all connected transactions. A summary of continuing connected transactions is submitted to the Audit Committee on a quarterly

basis. Contract negotiations and conclusions in relation to connected transactions are cautiously authorised by the appropriate level of management to ensure adherence to the Group's pricing policy. Public disclosures are continuously compared against evolving disclosure requirements to ensure compliance with respective rules and regulations.

- The code provisions set out in the Corporate Governance Code have been adopted by the Company.

### Handling and Dissemination of Information

1. The Company has a policy of open communication which allows strong access to both internally and externally generated information. Pertinent information is identified, captured and communicated in a timely manner.
2. The Company provides employee manuals to each employee which indicate how employees can communicate with the Company in case any problem arises. The Company considers this as a mechanism to help encourage communications between the Company and employees. Moreover, regular meetings are held to provide an avenue for mutual understanding between the Company and employees. The Company has also made arrangements for employees of the Company to raise concerns about possible improprieties in financial reporting, internal control and other matters.

## CORPORATE GOVERNANCE REPORT

3. The Company attaches great priority to fair disclosure as it is considered as a key means to enhance corporate governance standards and provide necessary information to shareholders and other stakeholders to enable them to form their own judgments as well as providing feedback to the Company. The Company also understands that the integrity of the information provided is essential in building market confidence.
4. With respect to procedures and internal controls for 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 mechanism for disclosure of inside information and established the Inside Information Evaluation Group to evaluate whether disclosure of inside information is required;
  - has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential, sensitive or inside information, and has communicated this to all staff; and
  - has established and implemented procedures for responding to external enquiries about the Company's affairs. Only directors and delegated management of the Company can act as the Company's spokespersons and respond to enquiries on designated areas.

The Board considers that the system of internal controls in place during the year was effective for the current business scope and operations of the Group. No significant areas of concern which might affect shareholders' interests were identified.

### Auditor's Remuneration

For the year ended 31st December 2012, the auditor's remuneration paid or payable in respect of the auditing and other non-audit services provided by the auditor to the Company were as follows:

Nature of Services	2012 US\$	2011 US\$
Audit services	841,000	817,000
Audit related services	231,000	217,000
Non-audit services:		
– Tax related services	403,000	152,000
– Financial advisory services	130,000	–

## Investor Relations

The Company continues to promote investor relations and enhance communications with its investors. Our dedicated investor relations team supports designated executive directors and senior management in maintaining regular dialogue with institutional investors and analysts to keep them abreast of the Company's development and attend to any queries promptly. An open communications channel is maintained with the media, analysts and fund managers through one-on-one meetings, roadshows and conferences. Press and analysts conferences are held at least twice a year subsequent to the interim and final results announcements at which the executive directors 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 our shareholders understand our 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 are 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 our investor relations department whose contact details are available on the Company's website.

The Company views the general meetings ("General Meetings") including Annual General Meeting and Special General Meeting as an opportune forum for shareholders to meet the Board and senior management. All directors and senior management make an effort to attend. 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 business days' notice of the Annual General Meeting and 10 business days' notice of a Special General Meeting and they are encouraged to attend the General Meetings. The Company follows the code provisions contained in the Corporate Governance Code to encourage shareholders' participation. Questioning by the shareholders at the General Meetings is encouraged and welcome. The General Counsel & Company Secretary, on behalf of the chairman of the General Meetings, explains the detailed procedures for conducting a poll at the General Meetings. To facilitate enforcement of shareholders' rights, substantially separate issues at General Meetings are dealt with under separate resolutions.

### Procedures for Shareholders to convene a Special General Meeting

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

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

The Board should proceed to convene a Special General Meeting within twenty-one (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 (2) 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 should be held within three (3) months from the date of the deposit of the requisition.

### Procedures for Shareholders to put forward proposals at General Meetings

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

- give to shareholders entitled to receive notice of the next General Meeting notice of any resolution which may properly be moved and is intended 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 case of a requisition requiring notice of a resolution or not less than one week before the meeting in 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 published on the Company's website at [www.coscopac.com.hk](http://www.coscopac.com.hk).

## Shareholdings and Shareholders Information

### Share Capital (as at 31st December 2012)

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\$278,605,200.2 comprising 2,786,052,002 shares of HK\$0.1 each

### Types of Shareholders (as at 31st December 2012)

Type of shareholders	No. of shares held	% of the issued share capital
COSCO Pacific Investment Holdings Limited and its subsidiary	1,203,731,136	43.21
Other corporate shareholders	1,574,900,595	56.53
Individual shareholders	7,420,271	0.26
<b>Total</b>	<b>2,786,052,002</b>	<b>100.00</b>

## Location of Shareholders (as at 31st December 2012)

Location of shareholders <sup>1</sup>	No. of shareholders	No. of shares held
Hong Kong	540	2,786,046,002 <sup>2</sup>
Macau	1	2,000
The People's Republic of China	1	4,000
<b>Total</b>	<b>542</b>	<b>2,786,052,002</b>

Notes:

- 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 1,783,923,438 shares registered in the name of HKSCC Nominees Limited which may hold these shares on behalf of its clients in or outside Hong Kong.

## Other Corporate Information

### Memorandum of Association and Bye-laws

There was no change to the Memorandum of Association and Bye-laws of the Company during the year ended 31st December 2012.

### Key corporate dates

The following are the dates for certain key corporate events:

Event	Date
Payment of 2012 Interim Dividend	24th October 2012
2012 Final Results Announcement	26th March 2013
2013 First Quarter Results Announcement	25th April 2013
Closures of Register of Members (a) for attending the 2013 Annual General Meeting (b) for receiving the 2012 Final Dividend	21st May 2013 to 23rd May 2013 29th May 2013 to 31st May 2013
Annual General Meeting	23rd May 2013
Payment of 2012 Final Dividend	18th July 2013
2013 Interim Results Announcement	August 2013
2013 Third Quarter Results Announcement	October 2013