

Corporate Governance of Chinese Shipping Enterprises

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Part I Background to Enhancement of Corporate Governance

1. Interdependence between the shipping industry & int'l economics & trade
2. Gradual shifting of int'l shipping centre to the East: the "China Factor"
3. Shipping industry in Hong Kong playing a major role
4. Strengthening corporate governance is crucial to competitiveness of Chinese shipping companies

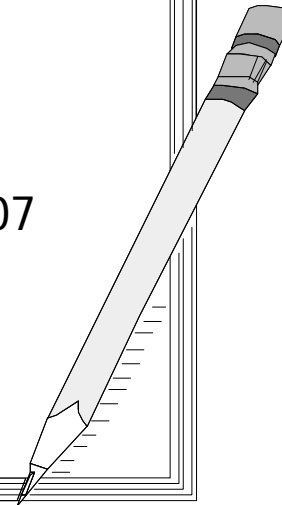
1. Interdependence Between the Shipping Industry and International Economics and Trade – a Crucial Function

- ➔ Shipping industry existed and evolved in tandem with international trade

Total size of international trade

- USD24 trillion in 2006
- forecast over USD27 trillion in 2007
- 85% goods shipped by ocean vessels

(all sources from WTO statistics)

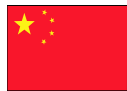


2. International Shipping Centre Shifting to East: “the China Factor”



2. International Shipping Centre Shifting to East: "the China Factor"

"the China Factor" – driving force behind shifting



- import & export USD2.17 trillion in 2007
- the 3rd largest trading nation, poised to become the 2nd 2008
- throughput of China ports 111 million TEU, 1st in the world
- the 3rd crude oil importer with 148 million tons
- the 1st iron ore importer with 383 million tons
- commands the largest cargo volume of int'l shipping

(all sources from China Customs)

3. Shipping industry in Hong Kong Playing a Major Role

Hong Kong continues to be
an international shipping centre

- ➡ according to Central Government's 11th Five Year Plan
- ➡ HKSAR Government maintains and consolidates Hong Kong's position

3. Shipping industry in Hong Kong Playing a Major Role in its Economy

Shipping is one of main pillar industries in HKSAR



- registered tonnage¹ – 36.85 million of ships by March 2008
- managed tonnage – 78 million DWT in 2006
- container throughput— 24 million TEU in 2007
- 840,000 people directly employed by the industry
- Shipping logistic & trade industry contributes 27.4% HKGDP



1: Hong Kong Marine Dept,
others: Hong Kong Census and Statistics Dept

4. Strengthening Corporate Governance is Crucial to Competitiveness of Chinese Shipping Companies

- ➡ the China factor
- ➡ consolidate & Maintain Hong Kong's position as int'l shipping centre

create

a golden development opportunity for Chinese shipping enterprises

Part II Enhancement of COSCO Corporate Governance in Practice

1. Strategic Planning
2. Risk Management
3. Corporate Culture Management

COSCO ranked 488 in the Fortune Global 500 in 2007

COSCO is

- ➡ one of the top three shipping companies listed after Maersk and NYK
- ➡ the highest rate of ROA among the top three



COSCO's Success — enhancement of corporate governance

- ➡ integrate prevailing corporate governance principles
- ➡ formulate a unique COSCO governance model

1. Strategic Planning

Strategic planning
– one of the core functions of the board

– including:



- ➔ the enterprises unified objectives, priorities, implementation procedures and follow-up evaluation criteria



- ➔ remain comparatively continuous and stable
- ➔ be adaptable to the changing environment


1. Strategic Planning

COSCO strategic objectives for 21st Century

- ➔  Long-term strategy:
"Building an ever-growing COSCO"
- ➔  Medium-term strategy:
"To be a system integrator in the international shipping logistic business"

1. Strategic Planning

COSCO strategic objectives for 21st Century

➔  Short-term strategy:

“To transform from a global shipping carrier to a global logistics provider relying on shipping business”

“To transform from a cross-border business operator to a world class global company to achieve sustainable development”

1. Strategic Planning

COSCO identified 3 core business sectors



Shipping



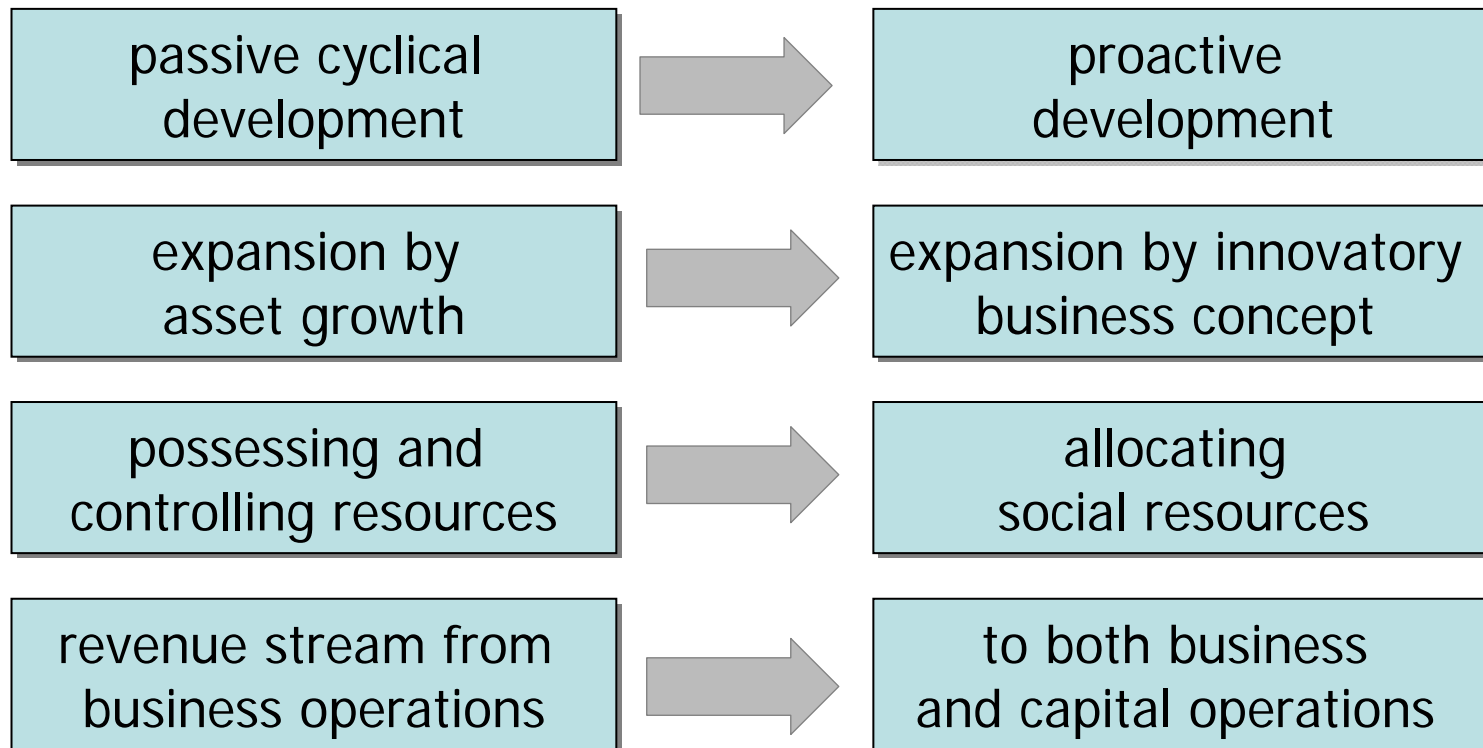
Logistics



Ship building
& repairing

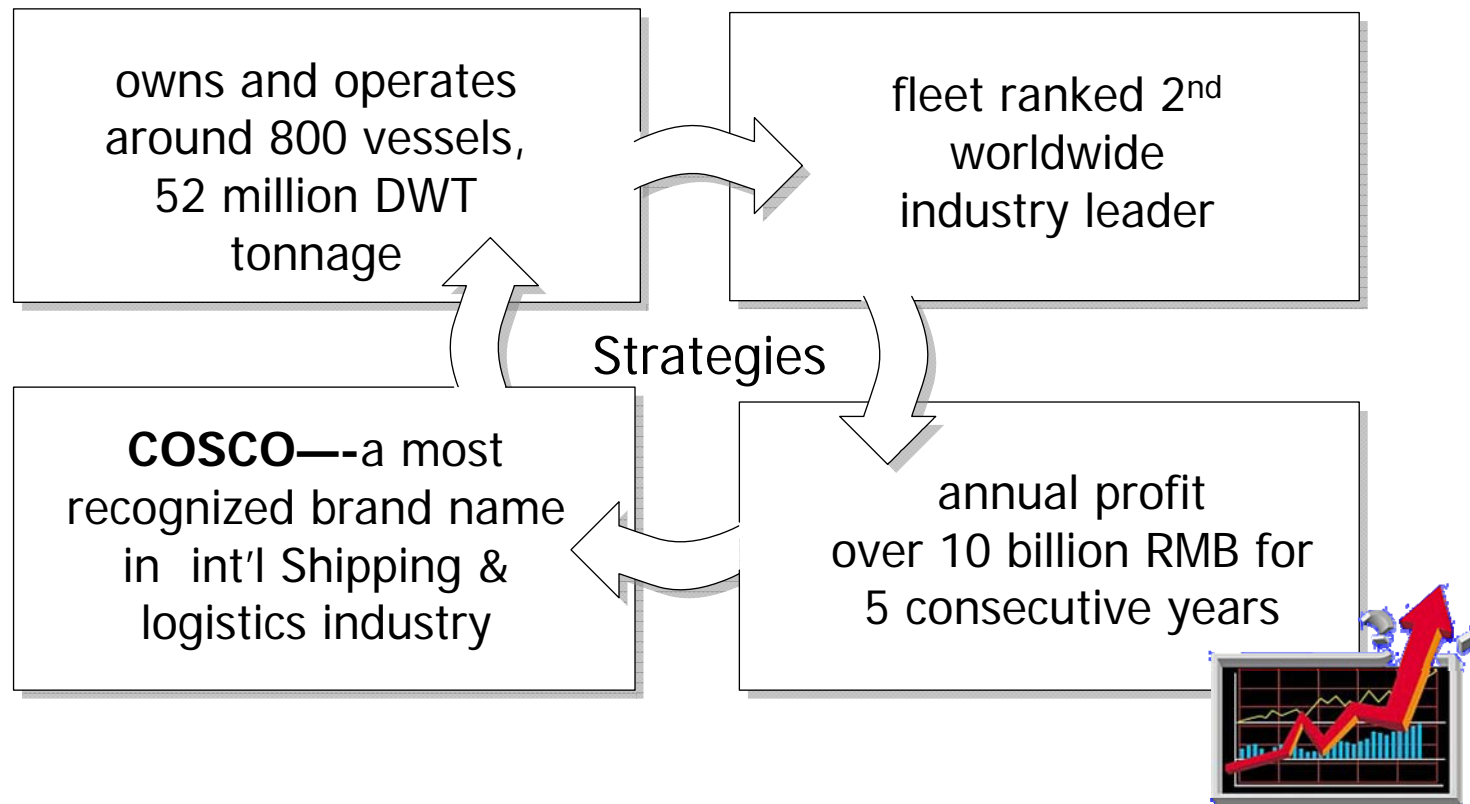
1. Strategic Planning

Policy adjustments to implement the strategies



1. Strategic Planning

COSCO records significant achievements



2. Risk Management

The board of directors must



To establish a risk early warning mechanism is essential

2. Risk Management

COSCO Operations and Management Committee

consists: the top executives, Managing Directors of all regional headquarters



- ➡ held on average twice a year
- ➡ addressed risk management of the fleet, listed companies, finance and legal issues

2. Risk Management

Enterprises generally face 3 main risks

risks	blood producing	blood blocking	bleeding
resulting	core business not making money	inefficient utilization of financial resources	investment loss due to imprudent considerations

2. Risk Management

Enhance the blood-producing function

adjust and optimize the fleet structure

extend value chains to upstream and downstream industries

reduce the impact of the cyclical volatility associated with the market through outsourcing

equal importance to both the business & capital market operations

aiming at 5:4:1 funding source ratio: 50% capital market, 40% bank financing, 10% self accumulation

2. Risk Management

Avoid blood blocking

Counter measures

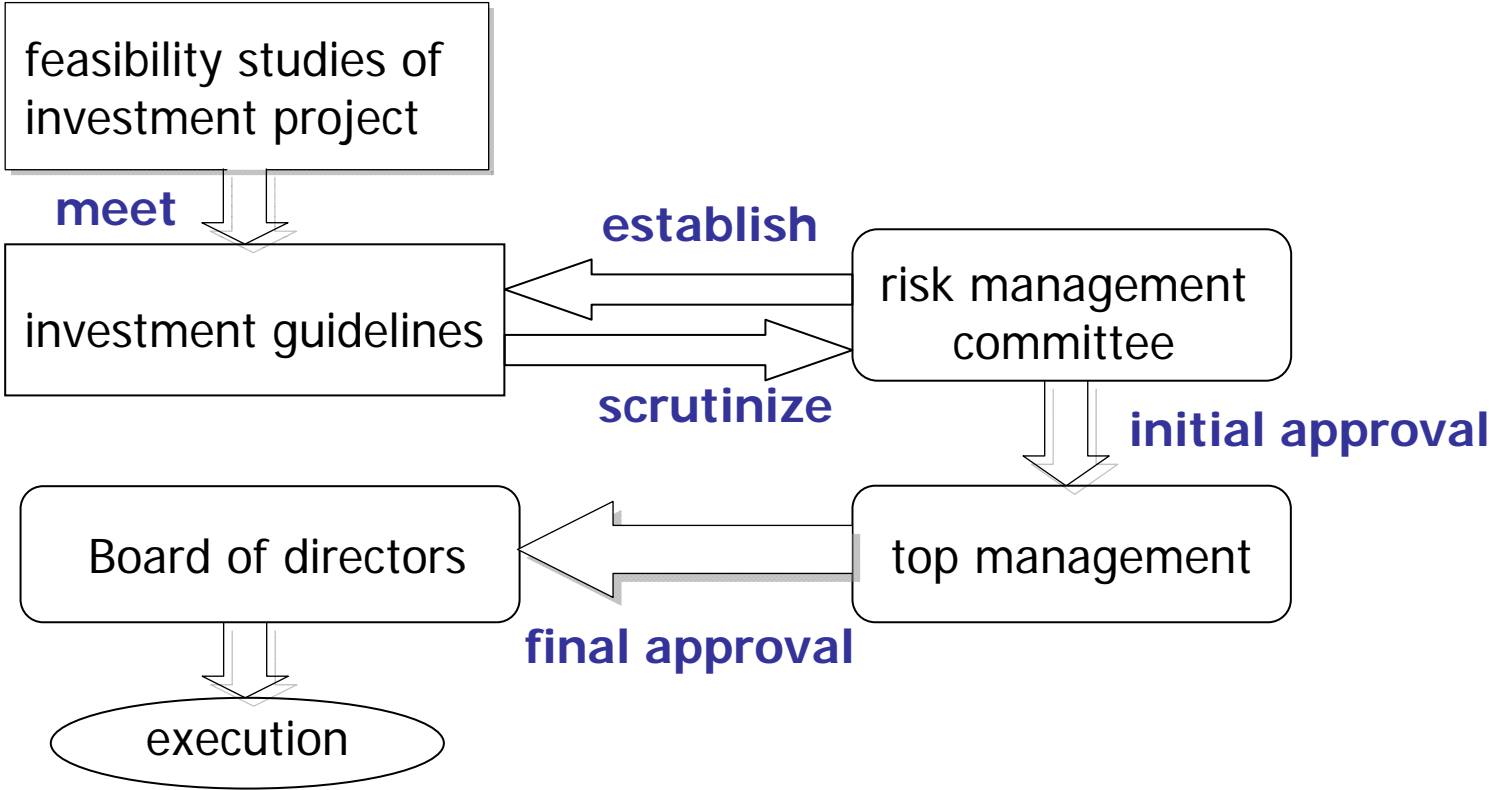
extend a corporate management system centered on the financial management module

Counter measures

- gradually perfected the finance budget management system
- effective utilization of Global cash management & settlement system
- efficiently manage the funding requirements

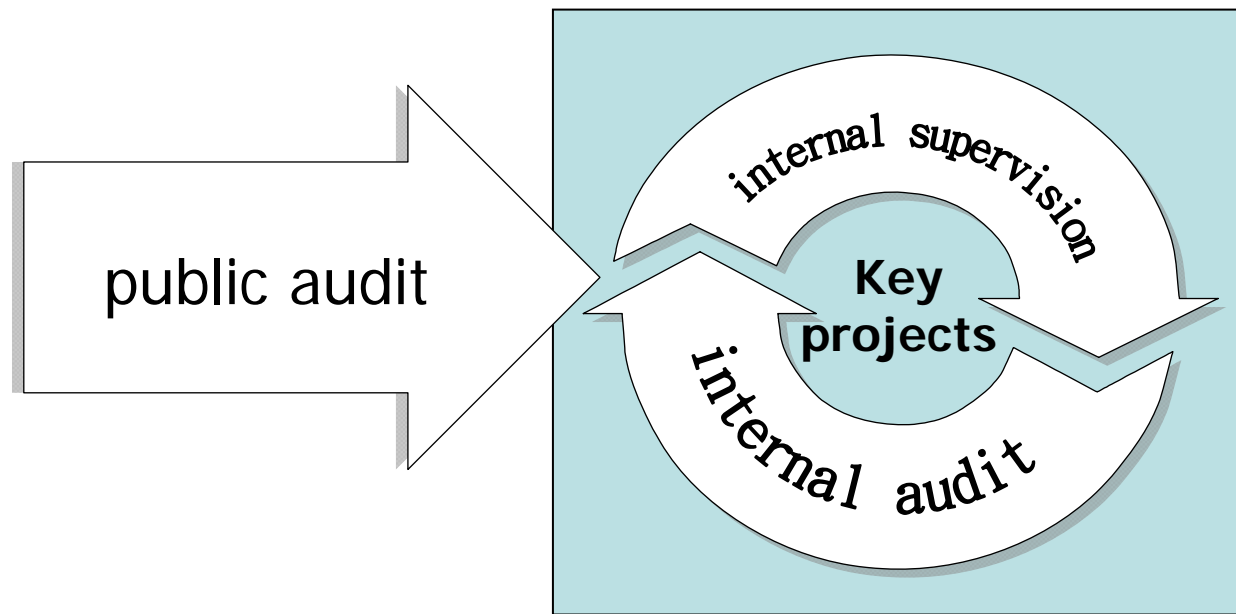
2. Risk Management

Prevent bleeding



2. Risk Management

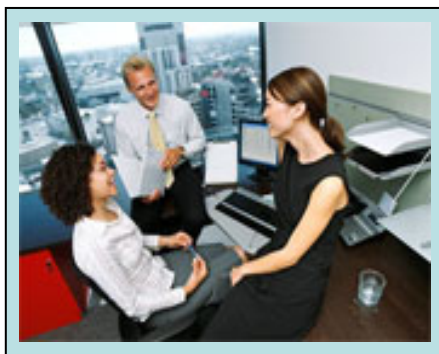
Prevent bleeding



3. Corporate Culture Management

Corporate culture management
– one of most important functions of the Board

Corporate culture



- ➡ includes the corporate norms based on corporate values
- ➡ cultivated over many years of the enterprise's growth
- ➡ hard to imitate

3. Corporate Culture Management

Social responsibility

- ➔ must be included in the corporate culture
- ➔ is integral part of an enterprise's drive for sustainable growth



3. Corporate Culture Management

COSCO Mission Statement

“To gradually develop to become a world leader in international shipping, logistics services, shipbuilding and ship repairing by maintaining trustworthy relationships with our customers, employees and partners, yielding best returns for shareholders, society and environment”

3. Corporate Culture Management

COSCO has strong commitments to:
*the country, society, environment, customers, partners,
shareholders and employees*

COSCO core value

"To provide best services to clients and maximize returns to shareholders"

corporate spirit

"To be practical and creative in striving to serve our country"

3. Corporate Culture Management

COSCO 's Contributions to society and the environment

2001	the first China enterprise to achieve: ISO 9000, ISO 14000, OHSMS 18000
2004	started to implement the Global Compact
2006	"The COSCO Sustainable Development Report 2005" was included the UN Global Compact example report list
2005-2006	COSCO was conferred "the Green Flag Award of Long Beach" for environmental protection



3. Corporate Culture Management

COSCO 's Contributions to charity and public welfare

last decade	sponsored or donated over <i>RMB100 million</i> to support Tibetan construction projects
2005	raised <i>RMB100 million</i> to establish the COSCO Charity Fund <i>"Most Responsible Corporation 2005"</i> in recognition of contribution to aid for the Indian Ocean Tsunami
2008	donated <i>RMB10 million</i> to the Ministry of Civil Affairs of PRC for supporting the victims of the heavy snow disaster

3. Corporate Culture Management

COSCO won high reputation for services

“The Panama Maritime Excellence Award” by
the Panama Government

The best carrier of Far East/ East Canada
service/ European Service

many other awards....



3. Corporate Culture Management

Corporate culture includes the concept of harmony

➡ COSCO 's subsidiaries and branch offices cover more than 100 countries and areas



➡ COSCO has 5,000 oversea employees, only 10% dispatched from home base

COSCO respects local culture and customs, obeys local laws and operates in compliance with local commercial policies

3. Corporate Culture Management

Localization is an important factor in employment

“once a COSCO person, always a COSCO person”

respects the differences of employees (gender, race.....)

provides equal promotion opportunities to all employees

local staff are proud to be COSCO employees



Conclusion



COSCO's success
benefits from the
enhancement of
corporate governance

The corporate governance framework
— driving force for COSCO's sustainable growth

Thanks for



Thank you all

