

# Corporate Governance

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## Corporate Governance Practices

CITIC Pacific is committed to ensuring high standards of corporate governance and first class business practices. The Board believes that good corporate governance practices are increasingly important for maintaining and promoting investor confidence. Corporate governance requirements keep changing, therefore the Board reviews its corporate governance practices from time to time to ensure they meet stakeholders' expectation, comply with legal and professional standards and reflect the latest local and international developments. The Board will continue to commit itself to achieving a high quality of corporate governance.

In 2005, we improved our corporate governance practices by amendments of Articles of Association and the Board's approval on certain matters to align with the Code Provisions in the Code on Corporate Governance Practices ('the Code') contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited which came into effect on 1 January 2005. As such, we have modified the Company's Articles of Association, the terms of reference of the Audit Committee and the Remuneration Committee to incorporate certain Code Provisions set out in the Code.

Throughout the year of 2005, CITIC Pacific has complied with all applicable Code Provisions on the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. CITIC Pacific has also applied all the principles in the Code and the manner in which they are applied are explained in the following parts of the Corporate Governance Report.

## Directors' Securities Transactions

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Companies ('the Model Code') contained in Appendix 10 of the Listing Rules. Having made specific enquiry, all directors have fully complied with the required standard set out in the Model Code throughout the year of 2005.

## Board of Directors

The Board currently comprises twelve executive and six non-executive directors of whom four are independent as defined by the Stock Exchange (the biographies of the directors, together with information about the relationship among them, are set out on pages 61 to 63). Independent non-executive directors are nearly one-quarter and the non-executive directors are one-third of the Board.

Under the Company's Articles of Association, every director is subject to retirement by rotation at least once every three year. One-third of the directors must retire from office at each annual general meeting and their re-election is subject to a vote of shareholders.

The Board determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Group's strategic objectives. Day-to-day management of the Group's businesses is delegated to the executive director or officer in charge of each division. The functions and power that are so delegated are reviewed periodically to ensure that they

remain appropriate. Matters reserved for the Board are those affecting the Group's overall strategic policies, finances and shareholders including financial statements, dividend policy, significant changes in accounting policy, material contracts and major investments. All Board members have separate and independent access to the Group's senior management to fulfil their duties. They also have full and timely access to relevant information about the Group and are kept abreast of the conduct, business activities and development of the Group. Independent professional advice can be sought at the Group's expense upon their request.

The Board meets regularly to review the financial and operating performance of the Group and other business units, and approve future strategy. Four Board meetings were held in 2005 and the average attendance rate was 86%. Individual attendance of each director at the Board meetings, the Audit Committee meetings and the Remuneration Committee meeting during 2005 is set out below:

| Director  | Attendance / Number of Meetings |                 |                        |
|---|---------------------------------|-----------------|------------------------|
|   | Board                           | Audit Committee | Remuneration Committee |
| <b>Executive Director</b>   |                                 |                 |                        |
| Mr Larry Yung Chi Kin – Chairman  | 4/4                             |                 |                        |
| Mr Henry Fan Hung Ling – Managing Director  | 4/4                             |                 |                        |
| Mr Peter Lee Chung Hing   | 4/4                             |                 |                        |
| Mr Norman Yuen Kee Tong   | 4/4                             |                 |                        |
| Mr Vernon Francis Moore   | 4/4                             |                 |                        |
| Mr Yao Jinrong  | 4/4                             |                 |                        |
| Mr Chang Zhenming<br>(resigned on 15th June 2005)   | 0/2                             |                 |                        |
| Mr Li Shilin  | 2/4                             |                 |                        |
| Mr Carl Yung Ming Jie   | 4/4                             |                 |                        |
| Mr Liu Jifu   | 3/4                             |                 |                        |
| Mr Leslie Chang Li Hsien<br>(appointed on 1st April 2005)   | 3/3                             |                 |                        |
| <b>Independent Non-executive Director</b>   |                                 |                 |                        |
| Mr Hamilton Ho Hau Hay  | 2/4                             |                 |                        |
| Mr Alexander Reid Hamilton<br>(Chairman of the Audit Committee)                                     | 3/4                             | 4/4             | 1/1                    |
| Mr Hansen Loh Chung Hon   | 4/4                             | 4/4             |                        |
| Mr Norman Ho Hau Chong<br>(Chairman of the Remuneration Committee)                                  | 4/4                             |                 | 1/1                    |
| <b>Non-executive Director</b>   |                                 |                 |                        |
| Mr Willie Chang   | 4/4                             | 4/4             | 1/1                    |
| Mr André Desmarais<br>(One of the meetings were attended by<br>the alternate of Mr André Desmarais) | 3/4                             |                 |                        |

To implement the strategies and plans adopted by the Board effectively, an executive committee of selected executive directors and senior managers meets monthly to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions.

### **Chairman and Chief Executive Officer**

The Group has appointed a Chairman, Mr Larry Yung and a Managing Director, Mr Henry Fan, who is the Chief Executive Officer described in Appendix 14 of the Listing Rules. The roles of the Chairman and the Managing Director are segregated. The primary role of the Chairman is to provide leadership for the Board and to ensure that it works effectively in the discharge of its responsibilities. The Managing Director is responsible for the day-to-day management of the Group's business. Their respective roles and responsibilities are set out in writing which has been approved and adopted by the Board.

### **Non-executive Directors**

There are currently six non-executive directors of whom four are independent. Under Article 104(A) of the Company's Articles of Association, every director, including the non-executive director, shall be subject to retirement by rotation at least once every three years. This means that the specific term of appointment of a director cannot exceed three years.

### **Remuneration of Directors**

The Remuneration Committee, established in August 2003, has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website ([www.citicpacific.com](http://www.citicpacific.com)). The principle role of the committee is to exercise the powers of the Board to determine and review the remuneration packages of individual executive directors and key executives, including salaries, bonuses, benefits in kind and the terms on which they participate in any share option and other plans considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors and key executives, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

During 2005, the Remuneration Committee reviewed the remuneration policies and approved the salary and bonus of the executive directors and certain key executives. No executive director has taken part in any discussion about his own remuneration. Its current members include:

Mr Norman Ho Hau Chong – Chairman  
 Mr Alexander Reid Hamilton  
 Mr Willie Chang

One meeting was held in 2005 with the attendance rate of 100%. All Committee members are non-executive directors and two of them including the Chairman are independent.

The fee for each individual director sitting on the Board is HK\$150,000. The additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK\$100,000 and HK\$50,000 respectively.

Details of CITIC Pacific's remuneration policies are set out in the Human Resources section on page 52. Directors' emoluments and retirement benefits are disclosed on page 101. Details of the CITIC Pacific Share Incentive Plan 2000 and the granting of options are disclosed on pages 69 to 71.

### **Nomination of Directors**

There is no nomination committee in the Group for the time being.

Candidates to be nominated as directors are those experienced, high calibre individuals. During the year, appointment of Mr Leslie Chang as new director is put to the full Board for approval. Thereafter, Mr Leslie Chang as the new director is subject to election by shareholders at the first annual general meeting after his appointment.

### **Auditor's Remuneration**

PricewaterhouseCoopers has been appointed by the shareholders annually as CITIC Pacific's external auditors since 1989. During the year, the fees charged to the accounts of the Company and its subsidiaries for PricewaterhouseCoopers' statutory audit amounted to approximately HK\$8 million (2004: HK\$7 million), in addition approximately HK\$1 million (2004: HK\$5 million) was charged for other services. The non-statutory audit services mainly consist of special audits, tax compliance and the interim review. The cost of audit services of subsidiaries not performed by PricewaterhouseCoopers amounted to approximately HK\$8 million (2004: HK\$7 million).

### **Audit Committee**

The Board established an Audit Committee in 1995. The Audit Committee has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website ([www.citicpacific.com](http://www.citicpacific.com)). It assists the Board in meeting its responsibilities for ensuring an effective system of internal control and compliance, and in meeting its external financial reporting objectives. All Committee members are non-executive directors and two of them including the Chairman are independent. Its current members include:

Mr Alexander Reid Hamilton – Chairman  
Mr Hansen Loh Chung Hon  
Mr Willie Chang

The Committee members possess diversified industry experience and the Chairman has appropriate professional qualifications and experience in accounting matters. The Committee meets four times each year, together with senior management and auditors, both internal and external. The attendance rate of the members for the four meetings held in 2005 was 100%.

During 2005, the Audit Committee considered the external auditors' projected audit fees; discussed with the external auditors their independence and the nature and scope of the audit; reviewed the interim and

annual financial statements, particularly judgmental areas, before submission to the Board; reviewed the internal audit programme, findings and management's response; and reviewed the Group's adherence to various Codes described below. As a result, they recommended the Board to adopt the interim and annual report for 2005.

### Internal Controls

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorized use and disposition, ensure the maintenance of proper accounting records and the truth and fairness of the financial statements, and ensure compliance with relevant legislation and regulations. It provides reasonable, but not absolute, assurance against material mis-statement or loss and the management rather than elimination of risks associated with its business activities.

The Board is responsible for maintaining an adequate system of internal control and for reviewing its effectiveness. Group Internal Audit Department conducts reviews of the effectiveness of the Group's internal control system. The Audit Committee reviews the findings and opinion of Group Internal Audit Department on the effectiveness of the Group's internal control system quarterly and reports to the Board on such reviews.

### Internal Audit

The Group Internal Audit Department supports management by carrying out systematic independent reviews of all business units and subsidiaries in the Group over a period of time. The frequency of review is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit programme annually. The Group Internal Auditor has unrestricted access to all parts of the business, and direct access to any level of management including the Chairman, or the Chairman of the Audit Committee, as he considers necessary. The Group Internal Audit Department submits regular reports for the Audit Committee's review in accordance with the approved internal audit programme. Concerns which have been reported by the Group Internal Audit Department are monitored quarterly by management until appropriate remedial actions have been taken.

### Codes

To ensure the highest standard of integrity in our businesses, the Group adopted a Code of Conduct defining the ethical standards expected of all employees, and the Group's non-discriminatory employment practices. Training courses on the Code are held regularly for all employees and the Audit Committee receives a report on the operation, and the need for revision, of the Code every year.

Throughout the year of 2005, the Group has complied with the Code Provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Group has endorsed the guide to good employment practices issued by the Employers' Federation of Hong Kong to promote good and responsible employment standards.

## Notifiable Transactions

During the period, CITIC Pacific has issued press announcements in respect of a number of 'notifiable transactions' which can be viewed in the Group's website ([www.citicpacific.com](http://www.citicpacific.com)).

## Fair Disclosure and Investor Relations

CITIC Pacific uses its best endeavours to distribute material information about the Group to all interested parties as widely as possible. When announcements are made through the Hong Kong Stock Exchange the same information will be on its way to journalists and investment analysts where an e-mail address or fax number is known and will be available to shareholders on the Company's website shortly thereafter.

CITIC Pacific recognises its responsibility to explain its activities to those with a legitimate interest and to respond to their questions. Investors are regularly received and visited to explain the Group's businesses. In 2005, CITIC Pacific's management met over 200 investors and investment analysts in our office, as well as during conferences and roadshows in the U.S., Europe, China, Japan and Singapore. In addition, questions received from the general public and individual shareholders were answered promptly. In all cases great care has been taken to ensure that no price sensitive information is disclosed.

Information about CITIC Pacific can be found in the Group's website including descriptions of each business and the Annual Reports for the last seven years.

## Financial Reporting

The Directors acknowledge their responsibility for preparing the Company's accounts which give a true and fair view and are in accordance with generally accepted accounting standards published by the Hong Kong Institute of Certified Public Accountants. Appropriate accounting policies are selected and applied consistently; judgments and estimates made are prudent and reasonable. Hong Kong accounting standards have always broadly followed international accounting standards. The Group has changed some of its accounting policies following adoption of new and revised Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and applicable Interpretations which came into effect on 1 January 2005. The new and revised accounting standards which have been adopted by the Group are set out in the Significant Accounting Policies of the Notes to the Accounts on pages 85 to 94. The directors endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 143.