

Corporate Governance

Corporate Governance Practices

The Company 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 to ensure they meet stakeholders' expectations, 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.

Throughout the year of 2009, the Company has complied with all code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). The Company has also applied all the principles in the aforesaid Code and the manner in which they are applied is 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 Issuers (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 2009.

Board of Directors

The Board currently comprises three executive and five non-executive directors of whom three are independent as defined under the Listing Rules (the biographies of the directors are set out on pages 40 to 41). Independent non-executive directors are more than one-third and the non-executive directors are more than half of the Board.

There is no nomination committee in the Group for the time being. Candidates to be nominated as directors are experienced, high calibre individuals and the appointment of all the new directors will be put to the full Board or the shareholders in general meeting for approval. Under the Company's Articles of Association, any director appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be subject to re-election by the shareholders. Apart from this, every director, including the non-executive directors, is subject to retirement by rotation at least once every three years. 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. This means that the specific term of appointment of a director cannot exceed three years.

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, finance 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 strategies. Five Board meetings were held in 2009. Individual attendance of each director, except for Mr. Fei Yiping, who was appointed as a non-executive director of the Company with effect from 1 January 2010, at the Board meetings, the Audit Committee meetings and the Remuneration Committee meetings during 2009 is set out below:

Attendance/Number of Meetings in 2009

Director	Board	Audit Committee	Remuneration Committee
Executive Director			
Mr. Shi Cuiming (retired on 19 March 2009)	1/5		
Mr. Xin Yue Jiang	5/5		
Mr. Yuen Kee Tong	5/5		
Dr. David Chan Tin Wai	5/5		
Non-executive Director			
Mr. Kwok Man Leung	5/5		2/2
Ms. Stella Chan Chui Sheung (resigned on 1 January 2010)	5/5		
Independent Non-executive Director			
Mr. Yang Xianzu (Chairman of the Remuneration Committee)	5/5	2/2	2/2
Mr. Liu Li Qing	5/5	2/2	2/2
Mr. Gordon Kwong Che Keung (Chairman of the Audit Committee)	5/5	2/2	2/2

To implement the strategies and plans adopted by the Board effectively, executive directors and senior managers meet on a regular basis to review the performance of the businesses of the Group, co-ordinate overall resources and make financial and operational decisions. In addition, a risk management committee, comprising the executive directors and senior managers, will meet regularly to enhance the risk management and corporate governance of the Group. The Capex Review Board is also set up in which the Chief Executive Officer and the Chief Financial Officer will review the capital investments initiated by different departments, that will materially affect the profitability and cashflow of the Group, to ensure that the proposed investments are in the best interests of the Group, both commercially and strategically.

Chairman and Chief Executive Officer

The Group has appointed a Chairman, Mr. Xin Yue Jiang and a Chief Executive Officer, Mr. Yuen Kee Tong. The roles of the Chairman and the Chief Executive Officer 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 Chief Executive Officer 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.

Remuneration of Directors

The Remuneration Committee, established in March 2007, has clear terms of reference and is accountable to the Board. The terms of reference can be found in the Group's website (www.citic1616.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 senior management, 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 senior management, employment conditions elsewhere in the Group and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

During 2009, the Remuneration Committee reviewed the remuneration policies. In addition, it approved the salary and bonus of the executive directors and senior management and also the granting of options under the Company's Share Option Plan. No executive director has taken part in any discussion about his own remuneration. Its members comprise:

Mr. Yang Xianzu – *Chairman*
Mr. Liu Li Qing
Mr. Gordon Kwong Che Keung
Mr. Kwok Man Leung

Two meetings were held in 2009. A majority of the Committee members including the Chairman are independent non-executive directors.

The fee for each director sitting on the Board is HK\$120,000 per annum. The additional fees for the directors serving in the Audit Committee and the Remuneration Committee are HK\$80,000 per annum and HK\$40,000 per annum respectively.

Details of the Company's remuneration policies are set out in the Human Resources section on pages 28 to 31. Directors' emoluments and retirement benefits are disclosed on pages 81 and 112. Details of the Company's Share Option Plan and the granting of options are disclosed on pages 49 to 52.

Auditor's Remuneration

KPMG has been appointed by the shareholders annually as the Company's external auditors since 2005. During the year, the fees charged to the accounts of the Company and its subsidiaries for KPMG's statutory audit amounted to approximately HK\$2.44 million. In addition, approximately HK\$0.91 million was charged for non-audit services. The non-audit services mainly consist of completion audit for acquisition, taxation services and interim review.

Audit Committee

The Board established an Audit Committee in 2007. The revised terms of reference of the Audit Committee have been adopted by the Board on 9 March 2009 in line with the latest requirements of Appendix 14 of the Listing Rules relating to the annual review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial report function, including their training programmes and budget. The revised terms of reference can be found in the Group's website (www.citic1616.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 including the Chairman are independent non-executive directors. Its members comprise:

Mr. Gordon Kwong Che Keung – *Chairman*
Mr. Yang Xianzu
Mr. Liu Li Qing

The Chairman has appropriate professional qualifications and experience in accounting matters, and the other Committee members possess experience in telecommunications industry. The Committee meets two times each year, together with senior management and auditors, both internal and external.

During 2009, 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 control system and the internal audit plan, findings and management's response; reviewed the Group's adherence to the Code Provisions in the Code on Corporate Governance Practices. The Audit Committee recommended the Board to adopt the interim and annual reports for 2009.

Internal Audit

The Group has continued to engage the Group Internal Audit Department ("Internal Audit Department") of CITIC Pacific Limited ("CITIC Pacific", the listed parent company of the Company) to perform internal audits for the Group. The Internal Audit Department performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business unit or function is determined after an assessment of the risks involved. The Audit Committee endorses the internal audit plan annually. The Internal Audit Department has unrestricted access to all parts of the business, and direct access to any level of management including the Chairman and the Chairman of the Audit Committee as it considers necessary. It submits regular reports for the Audit Committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the Internal Audit Department are monitored by management until appropriate remedial actions have been taken.

Internal Controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised 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 misstatement or loss, and management rather than elimination of risks associated with its business activities.

During the year, the Board has reviewed the effectiveness of the Group’s internal control system covering all material controls and risk management functions, including the adequacy of resources, qualifications and experience of staff of the Group’s accounting and financial reporting function, and their training programmes and budget. The review is conducted annually in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The management assessed the risks and the internal controls with reference to the five components of the COSO (The Committee of Sponsoring Organisation of the Treadway Commission) internal control framework. The result of the review has been summarised and reported to the Audit Committee and the Board.

In addition, the Internal Audit Department conducts regular and independent reviews of the effectiveness of the Group’s internal control system. The Audit Committee reviews the findings and opinion of the Internal Audit Department on the effectiveness of the Group’s internal control system and reports to the Board on such reviews.

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. Briefings on the Code of Conduct are held regularly for our new employees during orientation sessions. A set of Code of Conduct would be distributed to our employees and can be accessed through the Company intranet.

Throughout the year of 2009, the Company has complied with the code provisions in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Notifiable Transaction

During the year of 2009, the Company has issued a press announcement in respect of the discloseable and connected transaction/continuing connected transactions which can be viewed in the Group’s website (www.citic1616.com).

Non-competition Undertaking

CITIC Pacific has executed a deed of non-competition dated 21 March 2007 (“Non-competition Undertaking”) in favour of the Company, details of which are set out in the prospectus of the Company, mainly to the effect that at any time during which the shares of the Company are listed on the Stock Exchange and CITIC Pacific and/or its associates are regarded as a controlling shareholder of the Company under the Listing Rules, (i) CITIC Pacific will not engage and will procure its subsidiaries (excluding the Group) not to engage in the provisions of telecommunications hub-based service (“Restricted Activity”) globally or in any other business that may compete with the Restricted Activity, and (ii) in the event that any opportunity is made available to CITIC Pacific to invest in any independent third party’s business engaging in the Restricted Activity, CITIC Pacific will use its best efforts to procure that such investment opportunity is offered to the Group and the Group shall have a first right of refusal.

CITIC Pacific has reviewed its business and businesses of its subsidiaries (excluding the Group) and advised that their businesses do not compete with the Restricted Activity and that during the year, there was no opportunity made available to CITIC Pacific to invest in any independent third party which was engaged in the Restricted Activity. CITIC Pacific had given a written confirmation to the Company that it had fully complied with the terms of the Non-competition Undertaking. The independent non-executive directors of the Company have reviewed the confirmation and concluded that CITIC Pacific has made the compliance.

Communication with Shareholders

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. Separate resolutions will be proposed for each substantially separate issue at the AGM.

In accordance with the Listing Rules, the vote of shareholders at general meetings will be taken by poll and the poll results will be posted on the websites of the Stock Exchange and the Company on the same day following the shareholders' meeting.

Fair Disclosure and Investor Relations

The Company 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 Stock Exchange, same information will be sent to the press and investment analysts where an e-mail address or fax number is known and will be available to shareholders on the Company's website.

The Company 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 addition, questions received from the general public and individual shareholders are answered promptly. In all cases, great care will be taken to ensure that no price sensitive information is disclosed.

The Group is committed to maintain a high degree of corporate transparency as well as good communication with banks, research analysts and investors. The Group has used various channels including regular meetings, investor conferences, result briefings and the website (www.citic1616.com) to disseminate information on the Group's latest developments to various investors, fund managers and analysts.

Information about the Company can be found in the Group's website including description of the business and the annual and interim reports.

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. The Directors endeavour to ensure a balanced, clear and understandable assessment of the Group's performance, position and prospects in financial reporting. Accordingly, 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 adoption of new or amended accounting standards that became effective during the year has not resulted in substantial changes to the Group's accounting policies and has no significant impact on the results reported for the year ended 31 December 2009.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Report on page 57.