

# Corporate Governance

*(This section was adopted at the board meeting of the Company held on 25 March 2009 for approving 2008 final results. Information in this section does not reflect the changes to the board composition which took effect on 8 April 2009.)*

## Corporate Governance Practices

CITIC Pacific is committed to ensuring high standards of corporate governance. The Board believes that good corporate governance practices are important for maintaining and promoting investor confidence. During the year, the Company faced the issues associated with the leveraged foreign exchange contracts entered into by the Group. Following this incident, the Board took actions to improve the financial risk management function and examine other corporate controls of the Group. The Board will continue to review its corporate governance practices to meet the latest local and international standards.

Throughout the year of 2008, CITIC Pacific has complied with all Code Provisions in the Code of 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.

## Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies ('the Model Code') contained in Appendix 10 of the Listing Rules. All Directors have fully complied with the required standard set out in the Model Code throughout the year of 2008.

## Board of Directors

After the appointment of Messrs Zhang Jijing and Ju Weimin as directors of the Company, the Board comprises ten executive and nine non-executive directors of whom four are independent (the

biographies of the directors, together with information about the relationships among them, are set out in the 2008 Annual Report). Non-executive directors are more than 47% of the Board and independent non-executive directors are 21%. The reasons why five non-executive directors are not independent (as defined by the Stock Exchange) are that one is the President of a shareholder having an interest of over 1% stake in the Company, one does professional work for the Company and the other three are directors of CITIC Group.

Under Article 104(A) of the Company's Articles of Association, every director, including the non-executive directors, shall be subject to retirement by rotation at least once every 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. 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 in order 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 regular board meetings were held in 2008. Because of the issues associated with the leveraged foreign exchange contracts entered into by the Group, 5 special board meetings were held during the year. Individual attendance of each director at the Board meetings during 2008 is set out below:

Directors	Attendance / Number of Board Meetings	
	Regular	Special
<b>Executive Directors</b>		
Mr Larry Yung Chi Kin – Chairman	4/4	5/5
Mr Henry Fan Hung Ling – Managing Director	4/4	5/5
Mr Peter Lee Chung Hing	4/4	5/5
Mr Carl Yung Ming Jie	4/4	5/5
Mr Vernon Francis Moore	4/4	5/5
Mr Li Shilin	1/4	0/5
Mr Liu Jifu	4/4	3/5
Mr Milton Law Ming To	4/4	5/5
Mr Wang Ande	4/4	5/5
Mr Kwok Man Leung (appointed on 1 April 2008)	3/3	5/5
Mr Leslie Chang Li Hsien (resigned on 20 October 2008)	3/3	2/2
Mr Chau Chi Yin (resigned on 20 October 2008)	3/3	2/2
<b>Independent Non-executive Directors</b>		
Mr Hamilton Ho Hau Hay	4/4	5/5
Mr Alexander Reid Hamilton	3/4	4/5
Mr Hansen Loh Chung Hon	4/4	5/5
Mr Norman Ho Hau Chong	4/4	4/5
<b>Non-executive Directors</b>		
Mr Willie Chang	4/4	5/5
Mr André Desmarais (Two of the regular meetings and three of the special meetings were attended by his alternate)	4/4	5/5
Mr Chang Zhenming	1/4	1/5

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.

There is also a finance committee of selected executive directors to review and establish or renew financial and credit facilities and undertake financial and credit transactions that rank, where they constitute obligations, *pari passu* with the Company's other unsecured obligations.

### 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 discharging 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.

## Remuneration Committee

The Remuneration Committee was established by the Board in August 2003. The full terms of reference can be found in the Group's website ([http://www.citicpacific.com/eng/about/governance\\_remun.html](http://www.citicpacific.com/eng/about/governance_remun.html)).

### Responsibility

The principal role of the Remuneration 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.

### Membership and Attendance

Members	Attendance / Number of Meetings
<b>Independent Non-executive Directors</b>	
Mr Norman Ho Hau Chong (Chairman)	2/2
Mr Alexander Reid Hamilton	2/2
<b>Non-executive Director</b>	
Mr Willie Chang	2/2

### Work Done

The Remuneration Committee reviewed the remuneration policies applicable to and approved the salaries and bonuses of the executive directors and senior management. No executive director has taken part in any discussion about his own remuneration.

## Nomination of Directors

There is no nomination committee of the Board.

During 2008, Mr Kwok Man Leung was appointed as a director by the Board. He was re-elected by shareholders at the first annual general meeting after his appointment. Messrs Zhang Jijing and Ju Weimin were appointed as non-executive directors by the Board with effect from 1 April 2009.

## Audit Committee

The Board established an Audit Committee in 1995. The Audit Committee's terms of reference can be found in the Group's website ([http://www.citicpacific.com/eng/about/governance\\_audit.html](http://www.citicpacific.com/eng/about/governance_audit.html)).

### Responsibility

The Audit Committee assists the Board in meeting its responsibilities for ensuring an adequate system of internal control and compliance, and in meeting its external financial reporting obligations.

### Membership and Attendance

The Audit Committee members possess diversified industry experience and the Chairman has appropriate professional qualifications and experience in accounting matters. The Audit Committee meets regularly four times each year, together with the Group Finance Director, and auditors, both internal and external. Other executive directors do not attend the meeting unless by invitation. Because of the issues associated with the leveraged foreign exchange contracts entered into by the Group, the Audit Committee held five special meetings.

Members	Attendance / Number of Meetings	
	Regular	Special
<b>Independent Non-executive Directors</b>		
Mr Alexander Reid Hamilton (Chairman)	4/4	5/5
Mr Hansen Loh Chung Hon	4/4	5/5
<b>Non-executive Director</b>		
Mr Willie Chang	4/4	5/5

### Work Done

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 the Code Provisions in the Code. The Audit Committee recommended the Board adopt the interim and annual reports for 2008. The Audit Committee undertook an internal investigation of the entering into of the leveraged foreign exchange contracts and reported its findings to the Board. The Audit Committee also commissioned PricewaterhouseCoopers ('PwC') to undertake reviews of the Company's financial risk management and of its entity-level corporate controls and to make recommendations to improve the Group's internal controls.

Pursuant to the revised Code Provisions which became effective on 1 January 2009, the Audit Committee's oversight function in its annual review of the system of internal control will include consideration of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, including their training programmes and budget. The terms of reference of the Audit Committee are under review and will be revised appropriately.

## **Asset and Liability Management Committee**

In October 2008, the Board established an Asset and Liability Management Committee accountable to the Board to review monthly the financial position of the Company and to be responsible for establishing its financial risk management policy. Its members consist of the Group Finance Director who chairs the Committee and the executives from various departments of the Company. Three formal meetings have been held. The Committee is in its formative stage but has established policies for approved transaction types and counterparty risk and has set up a framework for monitoring interest rate risk, foreign exchange risk and commodity price risk and exposures.

The terms of reference of the Asset and Liability Management Committee are as follows:

- a) reviewing regularly the asset and liability balance of the Company in aggregate, and at subsidiary / affiliate level;
- b) setting limits on exposure at group, subsidiary or business unit level in relation to:
  - i) assets and liability mismatches;
  - ii) counter-parties;
  - iii) currencies;
  - iv) interest rates;
  - v) commitments and contingent liabilities;
- c) reviewing and approving financing plans;
- d) approving the use of new financial products; and
- e) establishing hedging policies.

## **Committee to deal with the Group's Leveraged Foreign Exchange Contracts**

The Board established a Committee to deal with the Group's Leveraged Foreign Exchange Contracts in November 2008. The Committee is empowered to receive recommendations from internal and external parties as to how to improve the Group's internal management and risk controls, monitor the Group's ongoing and future leveraged foreign exchange contracts and negotiate terms of the novation contracts with the relevant counterparties. Mr Chang Zhenming, a Non-executive Director of the Company and the Vice Chairman and President of CITIC Group is the chairman of the Committee. Other members include the Group Finance Director, an Executive Director and two Non-executive Directors of the Company.

## **Auditor's Remuneration**

PwC has been CITIC Pacific's independent auditor since 1989. The audit engagement partner is changed every several years to ensure independence and the current audit partner was first appointed for the 2006 accounts. During the year, the fees estimated for PwC's statutory audit amounted to approximately HK\$15 million (2007: HK\$10 million). In addition, approximately HK\$10 million (2007: HK\$2 million) was charged for other services, which included mainly special audits, review of treasury internal control, review of internal controls in relation to financial reporting, agreed upon procedures and other reporting in respect of announcements and circulars in relation to the leveraged foreign exchange

contracts and issuance of convertible bond in 2008 (approximately HK\$3 million), review of the half year financial statements and tax compliance. The cost of recurring audit services to subsidiaries performed by other auditors amounted to approximately HK\$22 million (2007: HK\$16 million) and the fees for other services were approximately HK\$22 million (2007: HK\$31 million).

## Internal Controls

The Board has overall responsibility for maintaining a sound and effective system of internal control. Internal control is designed to provide reasonable, but not absolute, assurance of the effectiveness and efficiency of operations, safeguarding of assets, maintenance of proper accounting records, reliability of financial information, and compliance with laws and regulations, which is a process to manage rather than eliminate the risk of failure to achieve the business objectives of the Group.

Following the substantial foreign exchange exposures incurred during the year, the Board took action to improve the financial risk management function and examine other corporate controls of the Group. A major on-going objective is restructuring and strengthening the resources of the finance and financial control teams, including recruitment of seasoned professionals with a view to identifying, reporting and managing the Group's treasury activities, foreign exchange, interest rates and other financial risks on a continual and structured basis. Major initiatives taken encompassed the following:

1. Established the Asset and Liability Management Committee to directly oversee financial risk management and related internal control areas, and a separate Committee to specifically address issues in relation to the leveraged foreign exchange contracts;
2. Appointed PwC to undertake reviews of the Group's financial risk management and entity-level corporate controls to which the head of Group Internal Audit was assigned to participate and assist;
3. Engaged a highly experienced financial consultant to supervise various projects on internal control improvements, including implementation of the recommendations made by PwC;
4. Appointed a board member with extensive experience to be the Group Finance Director;
5. Launched a programme (which is continuing) to formalize and enhance the Group's corporate controls, policy and procedures, including treasury and financial risk management policies as part of the internal control improvement project.

Apart from the above special reviews carried out during the year, the Board has also reviewed the effectiveness of the Group's internal control system in accordance with the requirement of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules. Such annual review of internal control system was conducted by considering the work performed by the executive management as well as Group Internal Audit, details of which are set out in the following paragraphs.

The executive management of major subsidiaries and operational business units are required to conduct a self-assessment of their material controls and risk management functions by reference to the COSO (The Committee of Sponsoring Organisations of the Treadway Commission) internal control framework, with results of the self-assessments consolidated and reported to the Audit Committee and the Board on an annual basis. During the year, no material exceptions were required to be brought to the Board's attention as a result of these self-assessments. These businesses have also provided a letter of representation to the Board that their accounts are prepared in accordance with the Group's accounting policies, and their earlier internal control self-assessment remains correct. The process of these self-assessments will be further enhanced and Group Internal Audit will perform regular validations of management's assessments.

Group Internal Audit conducts independent internal control evaluations of selected business units and functions according to its annual work plan. The Audit Committee reviews major findings reported by Group Internal Audit at the Audit Committee meetings and reports to the Board on such reviews where appropriate.

## Internal Audit

Reporting to the Audit Committee, Group Internal Audit assists in the Board's oversight function by carrying out independent internal audits designed to provide assurance as to the effectiveness of internal controls of the Group's operations, including its risk management activities. Focusing on major business units at the subsidiary level, the annual internal audit plan for the year was formulated and prioritized using a risk assessment methodology. The Audit Committee reviews and endorses the internal audit plan annually,

pursuant to which individual internal audit assignments are carried out. Under the Internal Audit Charter, Group Internal Audit has unrestricted access to information, properties and all levels of management to facilitate the execution of the internal audit work. Group Internal Audit issues detailed reports following completion of each audit visit that requires management's corrective action, and submits summary reports for the Audit Committee's review and discussion at the Audit Committee meetings. Group Internal Audit also initiates a quarterly follow-up review to determine the extent of the completion of the recommended actions taken by management. Major outstanding issues are discussed at the Audit Committee meetings until they have been satisfactorily resolved.

In response to the development of the Group's operations and the recent recommendations made by PwC, the Group Internal Audit function is undergoing a transformation process whereby an enhanced scope of risk-based internal audit services will be provided to the Audit Committee and the Board.

## 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. Induction briefing of the Code of Conduct is held for all employees and the Audit Committee receives a report on the operation and compliance of the Code of Conduct every year.

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

## **Notifiable Transactions, Connected Transactions, Annual Reports and Interim Reports**

During 2008, CITIC Pacific has issued press announcements and circulars in respect of a number of notifiable transactions and connected transactions which can be viewed on the Group's website ([http://www.citicpacific.com/eng/inv/announce/announce\\_index.php](http://www.citicpacific.com/eng/inv/announce/announce_index.php)).

The annual and interim reports of the Company can also be viewed on the Group's website.

## **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 Company's performance. Separate resolutions were proposed for each substantially separate issue at the AGM.

The Company's Articles of Association allow voting by poll on resolutions at shareholders' meetings and contain the procedures for the poll voting. Details of demanding poll voting and the poll procedures have been included in all circulars in relation to shareholders' meetings and explained during the proceedings of shareholders' meetings. Poll voting was conducted at all shareholders' meetings during 2008 and the poll results have been posted on the websites of the Stock Exchange and the Company on the same day of the shareholders' meeting.

## **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 available on the Company's website.

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 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 selectively.

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

## **Financial Reporting**

The Directors acknowledge their responsibility for preparing accounts which give a true and fair view of the Group's affairs and of its results and cash flows for the period in accordance with Hong Kong Financial Reporting Standards. 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 and judgments and estimates made are prudent and reasonable. 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 2008, the details of which are disclosed on page 84.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditor's Statement on the Summary Financial Report on page 91.