

Corporate Governance

Corporate Governance Practices

CITIC Pacific is committed to maintaining high standards of corporate governance. The board of directors believes that good corporate governance practices are important to maintain and promote investor confidence, protect the interests of shareholders and enhance shareholder value. A number of initiatives and measures have been taken and put in place since the end of 2008, with the aim of strengthening corporate governance and improving internal controls at CITIC Pacific. Over the past eighteen months, CITIC Pacific has established or redefined the roles of a number of committees to oversee its corporate governance. These include an asset and liability management committee, investment committee and executive committee, all of which have made the overall decision-making process at CITIC Pacific more formalised and systemised. A special committee to deal with matters relating to the investigation of CITIC Pacific by the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force was also established in April 2009. A special committee to deal with CITIC Pacific's leveraged foreign exchange contracts has completed its tasks and was dissolved.

Following the appointment of Mr Zhang Jijing as managing director of CITIC Pacific on 18 November 2009, the roles of chairman and chief executive officer were separated and assumed by Mr Chang Zhenming and Mr Zhang Jijing respectively. Aside from this, CITIC Pacific complied throughout 2009 with all of the provisions in the code on corporate governance practices ('the code') contained in Appendix 14 of the Listing Rules.

Directors' Securities Transactions

CITIC Pacific 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 complied with the required standard set out in the model code throughout 2009.

Board of Directors

As of 1 April 2010, the board comprises nine executive and seven non-executive directors, of whom three are independent. (The biographies of the directors, together with information about the relationships among them, are set out in the 2009 Annual Report.) Non-executive directors comprise more than 43% of the board, and independent non-executive directors make up more than 18%. Four non-executive directors are not independent (as defined by the Stock Exchange), as one director is the president of a shareholder owning a stake of more than 1% in CITIC Pacific; one does professional work for CITIC Pacific; one is a director of CITIC Group; and one is a director of a company in which CITIC Group is a substantial shareholder.

Under Article 104(A) of CITIC Pacific'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 of CITIC Pacific, monitors and controls operating and financial performance and sets appropriate policies to manage risk in pursuit of the strategic objectives of CITIC Pacific. Day-to-day management of CITIC Pacific's businesses is delegated to the executive director or officer in charge of each division. The strategic direction and planning of

CITIC Pacific, including investment plans and proposed disposals or divestments as well as the annual operating and capital budgets, are reviewed by the investment committee. The asset and liability management committee reviews, on a monthly basis, the asset and liability balance of CITIC Pacific and monitors risk and sets limits on exposure regarding asset and liability mismatches, counterparties, currencies, interest rates, commitments and commodities. Matters reserved for the board are those affecting CITIC Pacific'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 senior management in order to fulfil their duties. They also have full and timely access to relevant information about CITIC Pacific and are kept abreast of the conduct, business activities and development of CITIC Pacific. Independent professional advice can be sought at CITIC Pacific's expense upon their request.

The board meets regularly to review the financial and operating performance of CITIC Pacific and other business units and to discuss future strategy. Four regular board meetings and one special board meeting

were held in 2009. Individual attendance of each director at the board meetings during 2009 is set out below:

Directors	Attendance / number of board meetings	
	Regular	Special
Executive Directors		
Mr Chang Zhenming – Chairman (appointed as chairman on 8 April 2009)	4/4	1/1
Mr Zhang Jijing – Managing Director (appointed as director on 1 April 2009 and Managing Director on 18 November 2009)	3/3	1/1
Mr Peter Lee Chung Hing (resigned with effect from 1 April 2010)	4/4	1/1
Mr Carl Yung Ming Jie	4/4	0/1
Mr Vernon Francis Moore	4/4	1/1
Mr Li Shilin	0/4	0/1
Mr Liu Jifu	4/4	1/1
Mr Milton Law Ming To	4/4	1/1
Mr Wang Ande	4/4	1/1
Mr Kwok Man Leung	4/4	1/1
Mr Larry Yung Chi Kin (resigned on 8 April 2009)	1/1	1/1
Mr Henry Fan Hung Ling (resigned on 8 April 2009)	1/1	1/1
Independent Non-executive Directors		
Mr Alexander Reid Hamilton	4/4	1/1
Mr Hansen Loh Chung Hon	4/4	1/1
Mr Norman Ho Hau Chong	4/4	1/1
Mr Hamilton Ho Hau Hay (resigned on 1 January 2010)	4/4	0/1
Non-executive Directors		
Mr Willie Chang	4/4	1/1
Mr André Desmarais (two of the regular meetings were attended by his alternate)	4/4	0/1
Mr Ju Weimin (appointed on 1 April 2009)	2/3	1/1
Mr Yin Ke (appointed on 18 November 2009)	1/1	–

Chairman and Chief Executive Officer

Mr Chang Zhenming was appointed as chairman and managing director following the resignation of Messrs Larry Yung Chi Kin and Henry Fan Hung Ling as directors on 8 April 2009. On 18 November 2009, Mr Zhang Jijing was appointed as managing director, and simultaneously Mr Chang Zhenming ceased to be managing director. Mr Zhang Jijing, as the managing director of CITIC Pacific, is the chief executive officer as 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, to ensure that it works effectively in discharging its responsibilities and to report to the board on the strategy of CITIC Pacific. The managing director is responsible for the day-to-day management of CITIC Pacific's business. Their respective roles and responsibilities are set out in writing, which have 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 on CITIC Pacific's website (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 under which they participate in any share option and other plans. The committee considers factors such as salaries paid by comparable companies; time commitment and responsibilities of the directors and senior management; employment conditions elsewhere in CITIC Pacific; and desirability of performance-based remuneration so as to align management incentives with shareholder interests.

Membership and Attendance

Member	Attendance/ number of meetings
Independent Non-executive Directors	
Mr Norman Ho Hau Chong (Chairman)	4/4
Mr Alexander Reid Hamilton	3/4
Non-executive Director	
Mr Willie Chang	4/4

Work Done

The remuneration committee reviewed the applicable remuneration policies and approved the salaries and bonuses of the executive directors and senior management. No executive director took part in any discussion about his own remuneration.

Nomination of Directors

There is no nomination committee of the board. Messrs Zhang Jijing and Ju Weimin were appointed as directors by the board with effect from 1 April 2009. They were re-elected by shareholders at the first annual general meeting after their appointment. Mr Yin Ke was appointed as a director by the board with effect from 18 November 2009 and will be subject to re-election at the forthcoming annual general meeting.

Audit Committee

The board established an audit committee in March 1995. The terms of reference of the audit committee were revised following the revisions to the code, which became effective on 1 January 2009. The audit committee's oversight function in its annual review of the system of internal control now includes consideration of the adequacy of resources, qualifications and experience of staff of CITIC Pacific's accounting and financial reporting functions, including their training programme and training budget. The revised terms of reference can be found on CITIC Pacific's website (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. The audit committee oversees the relationship with the external auditors and reviews and monitors the effectiveness of the internal audit function.

Membership and Attendance

The audit committee members have a wide range of experience in different industries and its chairman has appropriate professional qualifications and experience in accounting matters. The audit committee meets at least four times a year together with the group finance director, group financial controller and the external and internal auditors. Other executive directors do not attend the meeting unless by invitation. During 2009, the audit committee held five meetings.

Member	Attendance/ number of meetings
Independent Non-executive Directors	
Mr Alexander Reid Hamilton (Chairman)	5/5
Mr Hansen Loh Chung Hon	5/5
Non-executive Director	
Mr Willie Chang	5/5

Work Done

The audit committee reviewed the half year and annual financial statements and recommended the board adopt the half year and annual reports for 2009. The committee reviewed and approved the internal audit programme for the year and considered the internal audit findings and management's response. The committee endorsed the adjustment of CITIC Pacific's internal audit role to a more risk-based approach and encouraged the enhancement of the internal audit team through the hiring of additional persons with appropriate industry and information systems auditing expertise. The committee considered the external auditors' audit fees and discussed with the external auditors their independence and the nature and scope of the audit. The committee considered the proposed revisions to its terms of reference to take into account the changes in the code and recommended their adoption by the board. The audit committee reviewed the response of management to recommendations made by PricewaterhouseCoopers ('PwC') arising from their reviews of CITIC Pacific's financial risk management and entity-level corporate controls, as well as to recommendations made by PwC pursuant to a specially commissioned review of internal controls across the group and arising from PwC's annual audit and review of the half year accounts. The committee also reviewed a report on compliance with the code of conduct.

Executive Committee

The board has re-defined the executive committee, which serves as a channel for communicating the direction and priorities of CITIC Pacific and for sharing information about key developments and issues affecting the various businesses of CITIC Pacific. This committee, which was reconstituted in May 2009 under revised terms of reference and with an expanded composition, served as an important means of communicating information with and amongst the senior executives of CITIC Pacific to:

- receive guidance from the chairman and managing director on CITIC Pacific's business direction and priorities;

- receive and consider reports from the group finance director on CITIC Pacific's results and forecasts;
- receive and consider reports from leaders of CITIC Pacific's major businesses on the results, activities and outlook for those businesses; and
- receive and consider reports from head office functional leaders when required.

The executive committee is chaired by the managing director and its membership includes the chairman, a deputy managing director, group finance director, other executive directors and the leaders of the major businesses in the group. Leaders of the key head office functional departments also attend meetings. The executive committee meets every month, and in 2009 following its reconstitution in May met eight times.

Investment Committee

The investment committee was set up in May 2009 to provide advice to the chairman, the managing director and the board on:

- investment plans, feasibility studies and proposed disposals or divestments initiated by the businesses in the group or the committee itself;
- the strategy and planning of CITIC Pacific; and
- the annual operating and capital budgets and business plans of CITIC Pacific and businesses in the group, amendments to approved budgets and unbudgeted capital expenditure.

The committee is chaired by the chairman of the board; the other members are the managing director, the group finance director and one other executive director.

The committee meets on an 'as required' basis. The committee met six times in 2009 following its establishment in May.

Asset and Liability Management Committee

The responsibilities of the asset and liability management committee are to:

- review regularly the asset and liability balance of CITIC Pacific in aggregate and at subsidiary/affiliate level;
- set limits on exposure at group, subsidiary or business unit level in relation to
 - asset and liability mismatches
 - counterparties
 - currencies
 - interest rates
 - commitments and contingent liabilities;
- review and approve financing plans;
- approve the use of new financial products; and
- establish hedging policies.

The committee is chaired by the group finance director. Other members include two executive directors and a non-executive director, the group treasurer, group financial controller, the executive with responsibility for financial risk management and other finance team representatives. The chief financial officers of major business units attend and report at the meetings of the asset and liability management committee from time to time. The committee met eleven times during 2009 to consider the matters within its terms of reference. The committee also reviewed and adopted a Treasury and Risk Management Policy manual which designates the responsibility and structure for managing and monitoring financial risks; sets out CITIC Pacific's policies and processes for managing CITIC Pacific's liquidity, foreign exchange exposure, interest rate risk, commodity risk and counterparty credit risk; lists the instruments and arrangements which may be used to manage these risks; and confirms the financial risk reporting requirements. More details on these policies and processes are included in the section on Treasury Risk Management in this report.

Special Committee to Deal with Matters Relating to Investigations of CITIC Pacific

A special committee to deal with matters relating to the investigations of CITIC Pacific was established in April 2009 to:

- approve communications between CITIC Pacific and any relevant authorities or third parties in relation to the investigations by the Securities and Futures Commission and the Commercial Crime Bureau of the Hong Kong Police Force;
- consider the issue of legal professional privilege and to make decisions on behalf of CITIC Pacific in connection therewith; and
- seek legal and professional advice on behalf of CITIC Pacific as well as approve their fees.

The committee comprises two members, namely, Mr Zhang Jijing and Mr Ju Weimin.

Auditor's Remuneration

PwC has been CITIC Pacific's independent auditor since 1989. The audit engagement partner is changed every seven years to ensure independence; the current audit partner was first appointed for the audit of the 2006 accounts. During the year, PwC's fees for its services were approximately as follows:

Statutory audit fee: HK\$28 million (2008: HK\$15 million)

Fees for other services, including advisory services relating to user requirements for the new financial accounting consolidation system, review of systems of internal control, review of the half year financial statements and tax compliance: HK\$16 million (2008: HK\$10 million)

Other audit firms provided recurring audit services to subsidiaries at a fee of approximately HK\$27 million (2008: HK\$22 million) and provided other services for fees of HK\$12 million (2008: HK\$22 million)

Internal Controls

The board has overall responsibility for maintaining a sound and effective system of internal control.

Internal controls are designed to provide reasonable assurance with respect to the achievement of CITIC Pacific's objectives in the following areas:

- the effectiveness and efficiency of operations, including the achievement of performance and operating targets and the safeguarding of assets;
- the reliability of financial and operating information, including management accounts and statutory and public financial reports; and
- compliance with applicable laws and regulations.

CITIC Pacific has put and continues to place considerable emphasis on enhancing its systems of internal control, including implementation of the recommendations contained in reports on different aspects of internal controls commissioned from PwC. These include a report on entity level corporate controls, a report on financial risk management, a special review of internal controls across the group, and recommendations arising from PwC's audit of the 2008 financial statements and review of the 2009 half year accounts.

The entity level corporate controls report identified the following main areas requiring attention:

Management oversight and internal reporting mechanisms

A number of steps have been taken resulting in a more formal structure for decision making. These steps include

- clarifying the terms of reference of the executive committee and expanding the composition of the executive committee to include leaders of all main businesses and attendance of key functional leaders;

- the establishment of the investment committee as a body to consider corporate strategy, review and adopt budgets and review and approve investments and disposals; and
- the development of the activities of the asset and liability management committee to monitor the financial risks of CITIC Pacific on a regular and structured basis.

The standardisation of control procedures across the group:

A primary initial focus of standardisation has been to enhance control over financial reporting. A formal and detailed accounting package has been deployed across the group, and policies and processes put in place for earlier identification of accounting issues. A major project is under way to accelerate and enhance the reporting process by deploying a financial reporting software system.

Risk management:

CITIC Pacific has taken steps to address key risk factors, notably in respect to financial risk management and the risks associated with making new investments and financial reporting risk and will continue to do so.

The remit and effectiveness of internal audit:

Actions taken to further enhance the effectiveness of internal audit are described in the next section.

Following recommendations arising from PwC's review of financial risk management, CITIC Pacific took steps to enhance controls in a number of areas, including simplification of the underlying exposures; formalising risk management objectives and risk appetite; improving performance management and reporting; better definition of roles and responsibilities; recruitment of individuals with appropriate experience and skill sets; and formalising and improving the governance structure. These matters are more fully

addressed in the section on Treasury Risk Management in this report.

CITIC Pacific has taken steps to implement the recommendations made by PwC arising from its special review of internal controls and its statutory audit and half year review. It recognises the importance of continuing to maintain a constant focus on enhancing its systems of control.

On behalf of the board the audit committee has reviewed the effectiveness of CITIC Pacific's internal control system. On behalf of the board the audit committee has also considered the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programme and budget.

In conducting this review, the following were considered:

- the reviews and reports of PwC and ensuing actions taken by CITIC Pacific;
- a self-assessment by the management of major subsidiaries and business units of their material controls and risk management activities undertaken with reference to the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) internal control framework. The process has been made more rigorous this year, and the documentation supporting the self assessment was subjected to review by group internal audit. The results of the self assessment were consolidated and reviewed by the audit committee. Whilst no material deficiencies were identified, the subsidiaries and businesses have indicated a number of areas of internal control which they intend to enhance;
- letters of representation from executive management confirming that their self assessments remain correct and that their accounts are prepared in accordance with the group's accounting policies;
- the reports of group internal audit undertaken in accordance with the annual internal audit plan approved by the audit committee, which reviews the findings at each committee meeting and reports to the board on such reviews where appropriate; and
- a report from a third-party human resources management consulting firm, which was commissioned to review the adequacy of the resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes and budget in light of the revision to the code. The main conclusions are that
 - the resources in the finance function are adequate for current needs, but the function could be enhanced if CITIC Pacific were to take steps to clarify roles and responsibilities, improve lines of communication and improve its performance management;
 - the qualifications and experience of the staff of the accounting and finance functions are satisfactory overall; and
 - the training activities and budget require enhancement.

CITIC Pacific has accepted this analysis and is developing a training policy and programmes aimed at providing appropriate tailored training in technical, management and communication skills for different grades of staff, with regard to the varied training needs of different businesses and functions. Whilst much of the training will be outsourced to third party service providers, the programme will be administered by designated staff at head office and in each major business unit. An adequate training budget for 2010 has been approved.

Internal Audit

CITIC Pacific regards the group internal audit as a very important part of the board and audit committee's oversight function. A number of steps have been taken during the year to further enhance the effectiveness of internal audit, including

- the audit plan and audit work for the year were developed having greater regard to a risk assessment methodology;
- the scope of reviews has been expanded and includes greater coverage of head office functions;
- the skill sets of group internal audit have been enhanced, with hiring of additional staff with appropriate industry and information systems auditing expertise;
- an internal audit group has been set up within the Perth office to provide enhanced audit services for the iron ore mining business, in addition to the existing teams in Hong Kong and Shanghai;
- the information technology ('IT') audit function has been strengthened to cope with the increasing IT governance needs among different operations and process automation;
- since May 2009, the head of group internal audit has attended the monthly meetings of the executive committee to ensure that he is aware of all significant developments in the group; and
- a formal training and development plan for group internal audit staff has been prepared.

Group internal audit reports to the audit committee, which reviews and approves the annual internal audit plan. Under the internal audit charter, group internal

audit has unrestricted access to information, properties and all levels of management to facilitate the execution of its work. Reports are prepared at the end of each audit visit and summarised for review at each audit committee meeting. A quarterly follow-up review is undertaken by group internal audit to establish the extent of any required remedial action taken by management, and the results of this review are considered by the audit committee. Group internal audit also conducts ad hoc investigations of particular incidents or circumstances when required.

Codes

To ensure the highest standard of integrity in its businesses, the group adopted a code of conduct defining the ethical standards expected of all employees as well as non-discriminatory employment practices. An induction briefing for the code of conduct is held for all employees, and the audit committee receives a report on the operation of the code of conduct and its compliance every year.

CITIC Pacific has followed the guide to good employment practices issued by the Employers' Federation of Hong Kong.

Notifiable Transactions, Connected Transactions, Annual Reports and Half-Year Reports

During 2009, CITIC Pacific issued press announcements in respect of a number of notifiable transactions and connected transactions, which can be viewed on CITIC Pacific's website (http://www.citicpacific.com/eng/inv/announce/announce_index.php).

The annual and half-year reports of CITIC Pacific can also be viewed on the group's website.

Communication with Shareholders

CITIC's annual general meeting ('AGM') is one of the principal channels of communication with its shareholders. Separate resolutions are proposed for each substantially separate issue at the AGM. The group also maintains a website at <http://www.citicpacific.com> where CITIC Pacific's announcements, business developments and operations, financial information, corporate governance practices and other information are posted.

Pursuant to the Listing Rules, voting by poll is mandatory at all general meetings and the poll results will be posted on the websites of the Stock Exchange and CITIC Pacific respectively 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 Stock Exchange, the same information will be made available on CITIC Pacific'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 are answered promptly. In all cases great care is taken to ensure that no price sensitive information was disclosed selectively.

Information about CITIC Pacific can be found on the group's website, which includes descriptions of each business and the annual reports for the last ten years.

Financial Reporting

The directors acknowledge their responsibility for preparing accounts that 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 CITIC Pacific'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 had a significant impact on the accounts except for those disclosed in Note 2 on pages 95 to 96.

The responsibilities of the external auditors with respect to the accounts for the year ended 31 December 2009 are set out in the Independent Auditor's Report on page 199 in the 2009 Annual Report.