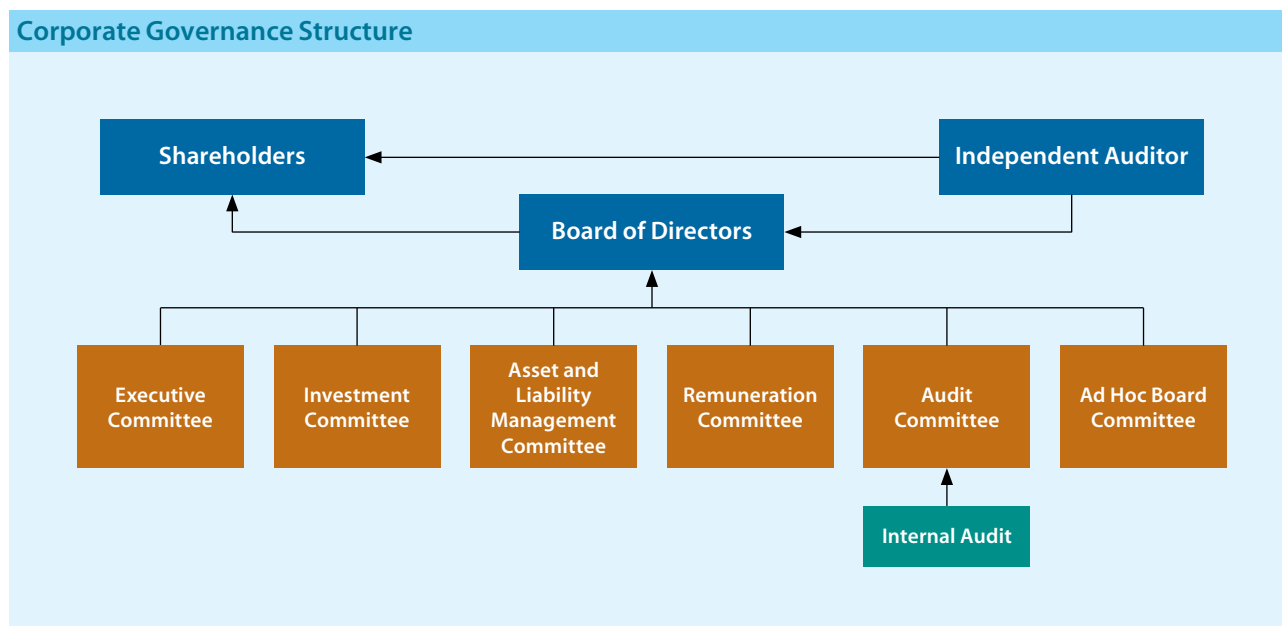


# Corporate Governance

## 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. CITIC Pacific complied throughout 2010 with all of the provisions in the code on corporate governance practices contained in Appendix 14 of the Listing Rules.

Our corporate governance framework can be expressed diagrammatically as follows:



## Board of Directors

Messrs Li Shilin and Wang Ande will retire as executive directors of CITIC Pacific by rotation at the forthcoming annual general meeting to be held on 12 May 2011 ('the 2011 AGM') pursuant to Article 104(A) of the articles of association of CITIC Pacific, and they have notified CITIC Pacific that as they are retiring, they will not seek for re-election. In addition, Mr Willie Chang has tendered his resignation as a non-executive director of CITIC Pacific, Messrs Hansen Loh Chung Hon and Norman Ho Hau Chong have tendered their resignation as independent non-executive directors of CITIC Pacific, all to be effective from the conclusion of the 2011 AGM. As a result of the departure of directors referred to as above, the board has appointed Mr Gregory L. Curl and Mr Francis Siu Wai Keung as independent non-executive directors of CITIC Pacific with effect from the conclusion of the 2011 AGM.

After the above changes, the board will comprise seven executive and six 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 Annual Report 2010.) Non-executive directors comprise more than 46% of the board, and independent non-executive directors make up more than 23%. Three 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 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 the articles of association of CITIC Pacific, 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. It monitors and sets limits on exposure in relation to asset and liability mismatches, counterparties, currencies, interest rates, commitments and contingent liabilities.

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.

CITIC Pacific has received from each independent non-executive director a confirmation of his independence pursuant to the independence guidelines set out in Rule 3.13 of the Listing Rules and considers that all independent non-executive directors are independent.

The board meets regularly to review the financial and operating performance of CITIC Pacific and other business units and to discuss future strategy. Four board meetings were held in 2010. At these board meetings, the board reviewed matters including CITIC Pacific's annual and half-year financial statements, annual budget, proposals for final and interim dividends, annual report and half-year report, connected transactions. At least 14 days' notice of all

regular board meetings is given to all directors and all directors are given the opportunity to include matters for discussion in the agenda. The agenda and board papers for each meeting are sent to all directors at least 3 days in advance of every regular board meeting. All minutes of the board meeting are kept by the company secretary and are available to all directors for inspection.

Individual attendance of each director at the board meetings during 2010 is set out below:

Directors	Attendance/ number of board meetings
<b>Executive Directors</b>	
Mr Chang Zhenming – Chairman	4/4
Mr Zhang Jijing – Managing Director	4/4
Mr Carl Yung Ming Jie	4/4
Mr Vernon Francis Moore	4/4
Mr Li Shilin*	0/4
Mr Liu Jifu	3/4
Mr Milton Law Ming To	4/4
Mr Wang Ande*	3/4
Mr Kwok Man Leung	4/4
Mr Peter Lee Chung Hing (resigned on 1 April 2010)	1/1
<b>Independent Non-executive Directors</b>	
Mr Alexander Reid Hamilton	3/4
Mr Hansen Loh Chung Hon*	4/4
Mr Norman Ho Hau Chong*	3/4
<b>Non-executive Directors</b>	
Mr Willie Chang*	4/4
Mr André Desmarais (three of the meetings were attended by his alternate)	4/4
Mr Ju Weimin	2/4
Mr Yin Ke	4/4

\* (1) Messrs Li Shilin and Wang Ande will retire as executive directors by rotation at the 2011 AGM pursuant to Article 104(A) of the articles of association of CITIC Pacific, and will not seek for re-election.

(2) Mr Willie Chang will resign as a non-executive director, and Messrs Hansen Loh Chung Hon and Norman Ho Hau Chong will resign as independent non-executive directors, all to be effective from the conclusion of the 2011 AGM.

(3) Messrs Gregory L. Curl and Francis Siu Wai Keung have been appointed as independent non-executive directors with effect from the conclusion of the 2011 AGM.

## Chairman and Chief Executive Officer

Mr Chang Zhenming serves as the chairman of CITIC Pacific and Mr Zhang Jijing is the managing director of CITIC Pacific. 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.

## Executive Committee

The executive committee serves as a channel for communicating the direction and priorities of CITIC Pacific and for sharing information with and amongst senior executives about key developments and issues affecting the various businesses of CITIC Pacific. This committee's activities include:

- receiving guidance from the chairman and managing director on CITIC Pacific's business direction and priorities;
- receiving and considering reports from the group finance director on CITIC Pacific's results and forecasts;
- receiving and considering reports from leaders of CITIC Pacific's major businesses on the results, activities and outlook for those businesses; and
- receiving and considering reports from head office functional leaders when required.

The executive committee is chaired by the managing director and its membership includes the chairman, 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 met eleven times in 2010.

## Remuneration Committee

The full terms of reference can be found on CITIC Pacific'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 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

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

\* Following their resignation, Mr Norman Ho Hau Chong will cease to be the chairman of remuneration committee and Mr Willie Chang will cease to be a member of the remuneration committee with effect from the conclusion of the 2011 AGM. The board has appointed Mr Francis Siu Wai Keung as the chairman of remuneration committee and Mr Gregory L. Curl as a member of the remuneration committee with effect from the conclusion of the 2011 AGM.

### 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 Gregory L. Curl and Francis Siu Wai Keung have been appointed as independent non-executive directors by the board with effect from the conclusion of the 2011 AGM. Both Messrs Gregory L. Curl and Francis Siu Wai Keung will be subject to re-election at the next general meeting after the 2011 AGM.

## Audit Committee

The board established an audit committee in March 1995. The full terms of reference can be found on CITIC Pacific'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. 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 2010, the audit committee held four meetings.

Members	Attendance/ number of meetings
<b>Independent Non-executive Directors</b>	
Mr Alexander Reid Hamilton (Chairman)	4/4
Mr Hansen Loh Chung Hon*	4/4
<b>Non-executive Director</b>	
Mr Willie Chang*	4/4

\* Following their resignation, Messrs Hansen Loh Chung Hon and Willie Chang will cease to be members of the audit committee with effect from the conclusion of the 2011 AGM. The board has appointed Messrs Francis Siu Wai Keung and Yin Ke as members of the audit committee with effect from the conclusion of the 2011 AGM.

### Work Done

The audit committee reviewed the half-year and annual financial statements and recommended the board to adopt the half-year and annual reports for 2010. The audit committee reviewed and approved the internal audit plan for the year and considered the internal audit findings and management's response. The audit committee discussed with the external auditors their independence and the nature and scope of the audit of the annual financial statements and the review of the half-year financial statements and the submission of the auditor's report to the committee upon completion of the review and audit as appropriate. The committee also considered reports from the auditors following their review of the half-year financial statements and audit of the annual financial statements. The committee also considered the external auditors' fees. The audit committee considered the whistleblowing policy which was adopted by CITIC Pacific on 1 June 2010. The committee considered the terms of reference for the committee and minor amendments were adopted to allow the committee unrestricted access to their own legal advice if required. The committee also reviewed a report on a special review conducted on a certain operation of CITIC Pacific.

## 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, group finance director and two other executive directors.

The committee meets on an 'as required' basis. In 2010, there were seven discussions of the committee covering various topics.

## 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 in CITIC Pacific. 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 2010 to consider the matters within its terms of reference.

## 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 since 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.

On 18 March 2011, the court handed down judgment ruling that privilege had been lost in respect of six documents. CITIC Pacific is carefully considering the judgment and taking legal advice on its position.

## 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\$25 million (2009: HK\$28 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\$24 million (2009: HK\$16 million)

Other audit firms provided recurring audit services to subsidiaries at a fee of approximately HK\$28 million (2009: HK\$27 million) and provided other services for fees of HK\$10 million (2009: HK\$12 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.

On behalf of the board the audit committee has reviewed the effectiveness of CITIC Pacific's internal control system and 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 these reviews, the following were considered:

- 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. This process has been expanded this year to include self assessments by the principal head office functional departments. The documentation supporting the self assessments 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 and head office functions have indicated some areas of internal control which they intend to enhance;

- letters of representation from executive management of business units 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
- self assessments by business units, group financial control, group finance and group internal audit of the resources, qualifications and experience of staff of the accounting and financial reporting functions and their training programmes. The main conclusions are that:
  - the resources in the finance function are adequate and CITIC Pacific has taken steps to address matters which had been identified as requiring attention including clarification of roles and responsibilities, improvement in lines of communication and enhancement of its performance management;
  - the qualifications and experience of the staff of the accounting and finance functions are satisfactory overall; and
  - the training activities and budgets have been given considerable attention during the year and are satisfactory.



## Internal Audit

CITIC Pacific regards group internal audit as a very important part of the board and audit committee's oversight function, including:

- the audit plan and audit work for the year are developed using a risk assessment methodology;
- the scope of reviews includes coverage of both group businesses and head office functions;
- the skill sets of group internal audit staff include appropriate industry and information systems auditing expertise;
- internal audit teams are established in head office, Shanghai and Perth to provide dedicated audit services to various business units and functions;
- the information technology ('IT') audit function within group internal audit addresses the increasing IT governance needs among different operations and process automation;
- internal audit oversees the whistle-blowing channels established in June 2010; investigations into reported cases are conducted where appropriate;
- the head of group internal audit attends the monthly meetings of the executive committee to ensure that he is aware of all significant developments in the group; and
- a training and development programme for group internal audit staff is prepared and reviewed by the audit committee.

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 after audit visits and summarized 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 reviews or investigations of particular incidents or circumstances when required.

## Codes

To ensure the highest standard of integrity and professionalism in its businesses, CITIC Pacific has adopted a Code of Conduct defining the ethical standards to which all employees are required to adhere. Employees are well informed and aware of the rules and ethical standards set out in the Code of Conduct upon joining CITIC Pacific. The audit committee receives report on the execution of the Code of Conduct and its compliance at least once a year for monitoring purposes.

CITIC Pacific has broadly followed the guide to good employment practices issued by the Employers' Federation of Hong Kong to ensure legal compliant, non-discriminatory and professional employment practices are implemented.

## Directors' Securities Transactions

CITIC Pacific has adopted the model code for securities transactions by directors of listed companies ('model code') contained in Appendix 10 of the Listing Rules. All directors complied with the required standard set out in the model code throughout 2010.

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

During 2010, 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](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 Pacific'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 year 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 2010 are set out in the Report of the Independent Auditor on the Summary Financial Report on page 101.