

Cathay Pacific Airways is committed to maintaining a high standard of corporate governance and devotes considerable effort to identifying and formalising best practices of corporate governance. The Company has complied throughout the year with the Code of Best Practice as set out in the Listing Rules.

The Stock Exchange has promulgated a new Code on Corporate Governance Practices ("Code") which came into effect in January 2005. The Company has put in place corporate governance practices to meet all the provisions and most of the recommended best practices in the Code.

### **THE BOARD OF DIRECTORS**

The Board is chaired by David Turnbull ("the Chairman"), who took over this role from James Hughes-Hallett on 1st January 2005. There are four executive Directors and 13 non-executive Directors, four of whom are independent. Names and other details of the Directors are given on pages 20 and 21 of this report. All Directors are able to take independent professional advice in furtherance of their duties if necessary. The independent non-executive Directors are high calibre executives with diversified industry expertise and serve the important function of providing adequate checks and balances for safeguarding the interests of shareholders and the Company as a whole.

To ensure a balance of power and authority, the role of the Chairman is separate from that of the Chief Executive ("CE"). The current CE is Philip Chen who took over from David Turnbull in January 2005. The Board regularly reviews its structure, size and composition to ensure its expertise and independence are maintained. It also identifies and nominates qualified individuals, who are expected to have such expertise to make a positive contribution to the performance of the Board, to be additional Directors or fill Board vacancies as and when they

arise. A Director appointed by the Board to fill a casual vacancy is subject to election of shareholders at the first general meeting after his appointment and all Directors have to retire at the third annual general meeting following their election by ordinary resolution, but are eligible for re-election.

All Directors disclose to the Board on their first appointment their interests as director or otherwise in other companies or organisations and such declarations of interests are updated annually. When the Board considers any proposal or transaction in which a Director has a conflict of interest, he declares his interest and is required to abstain from voting.

The Board is accountable to the shareholders for leading the Company in a responsible and effective manner. It determines the overall strategies, monitors and controls operating and financial performance and sets appropriate policies to manage risks in pursuit of the Company's strategic objectives. It is also responsible for presenting a balanced, clear and understandable assessment of the financial and other information contained in the Company's accounts, announcements and other disclosures required under the Listing Rules or other statutory requirements. Day to day management of the Company's business is delegated to the CE. Matters reserved for the Board are those affecting the Company's overall strategic policies, finances and shareholders. These include: financial statements, dividend policy, significant changes in accounting policy, the annual operating budgets, material contracts, major financing arrangements, major investments, risk management strategy and treasury policies. The functions of the Board and the powers delegated to the CE are reviewed periodically to ensure that they remain appropriate. The Board meets six times a year. The average attendance rate of the Directors for the year was 86%. The Board has established the following

committees: the Board Safety Review Committee, the Executive Committee, the Finance Committee, the Remuneration Committee and the Audit Committee, the latter two with the participation of independent non-executive Directors.

#### **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has laid down a code of conduct ("the Securities Code") regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") contained in Appendix 10 of the Listing Rules. A copy of the Securities Code is sent to each Director of the Company first on his appointment and thereafter twice annually, one month before the date of the board meeting to approve the Company's half-year result and annual result, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published.

Under the Securities Code, Directors of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

All the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2004 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on page 25. In addition, of the executive officers, only Ronald Mathison holds 7,000 shares in the Company.

#### **BOARD SAFETY REVIEW COMMITTEE**

The Board Safety Review Committee reviews and reports to the Board on safety and environmental issues. It meets three times a year and comprises three executive Directors, the CE, Tony Tyler and Derek Cridland, two non-executive Directors, Vernon Moore and Jack So, two executive officers, Nick Rhodes and Quince Chong and the General Manager Flying, Captain Andrew Maddox. It is chaired by the immediate past Director Flight Operations, Ken Barley.

#### **EXECUTIVE COMMITTEE**

The Executive Committee is chaired by the CE and comprises two executive Directors, Tony Tyler and Robert Atkinson, two non-executive Directors, Henry Fan and Vernon Moore and one executive officer, Augustus Tang. It meets monthly and is responsible to the Board for overseeing and setting the strategic direction of the Company.

#### **MANAGEMENT COMMITTEE**

The Management Committee meets once a month and comprises all four executive Directors and seven executive officers. The members are Tony Tyler, Robert Atkinson, Derek Cridland, James Barrington, William Chau, Quince Chong, Ronald Mathison, Edward Nicol, Nick Rhodes and Augustus Tang. It is chaired by the CE and is responsible to the Board for overseeing the day to day operation of the Company.

#### **FINANCE COMMITTEE**

The Finance Committee meets monthly to review the financial position of the Company and is responsible for establishing the financial risk management policy. It is chaired by the CE and comprises two executive Directors, Tony Tyler and Robert Atkinson, one non-executive Director, Martin Cubbon, one executive officer, Augustus

Tang, the General Manager Corporate Finance, Keith Fung, and an independent representative from the financial community. Reports on its decisions and recommendations are presented at Board meetings.

#### **REMUNERATION COMMITTEE**

The Remuneration Committee comprises two independent non-executive Directors, Peter Lee and Tung Chee Chen, and is chaired by the Company's immediate past Chairman, James Hughes-Hallett who is also a non-executive Director. The Committee held one meeting in 2004 with 100% attendance.

Under the Services Agreement between the Company and JSSHK, which has been considered in detail and approved by the Directors of the Board who are not connected with the Swire group, staff at various levels, including executive Directors, are seconded to the Company. Those staff report to and take instructions from the Board of the Company but remain employees of the Swire.

In order to be able to attract and retain international staff of suitable calibre, the Swire group provides a competitive remuneration package. This comprises salary, housing, provident fund, leave passage and education allowances and, after three years' service, a bonus related to the profit of the overall Swire group. The provision of housing affords ease of relocation either within Hong Kong or elsewhere in accordance with the needs of the business and as part of the training process whereby managers gain practical experience in various businesses within the Swire group, and payment of bonuses on a group-wide basis enables postings to be made to group companies with very different profitability profiles. Whilst bonuses are calculated by reference to the profits of the Swire group overall, a significant part of such profits are usually derived from the Company.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of the aviation business, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company. Furthermore, as a substantial shareholder of the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

A number of Directors and senior staff with specialist skills are employed directly by the Company on similar terms.

This policy and the levels of remuneration paid to executive Directors of the Company were reviewed by the Remuneration Committee. At its meeting in December, the Remuneration Committee considered a report prepared for it by independent consultants, Mercer Human Resource Consulting Limited, which confirmed that the remuneration of the Company's executive Directors was in line with comparators in peer group companies. The Committee approved individual Directors' remuneration packages to be paid in respect of 2005.

No Director takes part in any discussion about his own remuneration. Fees of non-executive Directors, which are determined by the Board in consideration of the complexity of the business and the responsibility involved, are as follows (per annum):

Director's fee	HK\$160,000
Fee for serving on Audit Committee	HK\$150,000
Fee for serving on Remuneration Committee	HK\$50,000

#### **AUDIT COMMITTEE**

The Audit Committee is responsible to the Board and consists of four non-executive Directors, three of whom are independent. The members are Vernon Moore, Peter Lee and Jack So. It is chaired by an independent non-executive Director, Raymond Or.

The Committee held three meetings during 2004 with 92% attendance. At these meetings, it reviewed the completeness, accuracy and fairness of the Company's reports and accounts and provided assurance to the Board that these comply with accounting standards, stock exchange and legal requirements. The Committee also reviewed the adequacy and effectiveness of the internal control and risk management systems. It reviewed the work done by the internal and external auditors, the relevant fees and terms, results of audits performed by the external auditors and appropriate actions required on significant control weaknesses. The external auditors, the Finance Director and the Internal Audit Manager also attended these meetings.

#### **EXPENDITURE CONTROL COMMITTEE**

The Expenditure Control Committee meets monthly to evaluate and approve capital expenditure. It is chaired by one executive Director, Tony Tyler and comprises the Finance Director, Robert Atkinson and one executive officer, Augustus Tang.

#### **INTERNAL CONTROL AND INTERNAL AUDIT**

The internal control system has been designed to safeguard corporate assets, maintaining proper accounting records and ensure transactions are executed in accordance with management's authorisation. The system comprises a well-established organisational structure and comprehensive policies and standards.

The Internal Audit Department provides an independent review of the adequacy and effectiveness of the internal control system. The audit plan, which is prepared based on risk assessment methodology, is discussed and agreed every year with the Audit Committee. In addition to its agreed annual schedule of work, the Department conducts other special reviews as required. The Internal Audit Manager has direct access to the Audit Committee. Audit reports are sent to the Chief Operating Officer, the Finance Director, external auditors and the relevant management of the auditee department. A summary of major audit findings is reported quarterly to the Board and reviewed by the Audit Committee. As a key criteria of assessing the effectiveness of the internal control system, the Board and the Committee actively monitor the number and seriousness of findings raised by the Internal Audit Department and also the corrective actions taken by relevant departments.

Detailed control guidelines have been set and made available to all employees of the Company regarding handling and dissemination of corporate data which is price sensitive.

Systems and procedures are in place to identify, control and report on major risks, including business, safety, legal, financial, environmental and reputational risks. Exposures to these risks are monitored by the Board with the assistance of various committees and senior management.

The Board is responsible for the system of internal control and for reviewing its effectiveness. For the year under review, the Board considered that the Company's internal control system is adequate and effective and the Company has complied with the provisions on internal control of the Code on Corporate Governance Practices of the Listing Rules.

#### **EXTERNAL AUDITORS**

The external auditors are primarily responsible for auditing and reporting on the annual financial statements. In 2004 the total remuneration paid to the external auditors was HK\$8 million, being HK\$6 million for audit and HK\$2 million for tax advice.

#### **AIRLINE SAFETY REVIEW COMMITTEE**

The Airline Safety Review Committee meets monthly to review the Company's exposure to operational risk. It reviews the work of the Cabin Safety Review Committee, the Operational Ramp Safety Committee and the Engineering Mandatory Occurrence Report Meeting. It is chaired by the Head of Corporate Safety and comprises Directors and senior management of all operational departments as well as senior management from the ground handling company, Hong Kong Airport Services Limited, and the aircraft maintenance company, HAECO.

#### **ARTICLES OF ASSOCIATION**

At the Annual General Meeting held on 12th May 2004, the shareholders had passed a special resolution to amend the Company's Articles of Association for the following main purposes:

- (i) to reflect the amendments to the Listing Rules in early 2002 which permit a listed company to issue corporate communications to its members and other securities holders in either the English language only, the Chinese language only or both the English language and the Chinese language in accordance with the wishes of its members and other securities holders provided that the listed company has made adequate arrangements to ascertain the wishes of its members and other securities holders;

- (ii) to reflect the amendments to Appendix 3 to the Listing Rules which came into effect on 31st March 2004 (which Appendix stipulates certain provisions as being required to be included in the articles of association of listed companies); and

- (iii) to enable Directors to hold meetings by telephone or any communication equipment or electronic means and to incorporate minor drafting improvements.

#### **INVESTOR RELATIONS**

The Company continues to enhance relationships and communication with its investors. Extensive information about the Company's performance and activities is provided in the Annual Report and the Interim Report which are sent to shareholders. Regular dialogue with institutional investors and analysts is in place to keep them abreast of the Company's development. Inquiries from investors are dealt with in an informative and timely manner. All shareholders are encouraged to attend the Annual General Meeting to discuss matters relating to the Company. Any inquiries from shareholders can be addressed to the Corporate Communication Department whose contact details are given on page 72.

In order to promote effective communication, the Company maintains its website at [www.cathaypacific.com](http://www.cathaypacific.com) on which financial and other information relating to the Company and its business are disclosed.

Shareholders may request an extraordinary general meeting to be convened in accordance with Section 113 of the Companies Ordinance.