

## Corporate Governance Practices

The Board is committed to a high standard of corporate governance and has adopted the Code on Corporate Governance Practices (the “Code”) promulgated by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). It has complied throughout the year with all the mandatory code provisions and with all the recommended best practices with the following exceptions:

- Independent Non-Executive Directors representing one-third of the Board (Section A.3.2 of the Code).
- quarterly reporting (Section C.1.4 of the Code) which the Board considers would provide little information of additional value to shareholders while increasing administrative costs and pressure to focus on short-term results rather than long-term value creation.
- establishing a nomination committee (Section A.4.4 of the Code) as the Board considers it is in the best interest of the Company and potential new appointees that they collectively review and approve the appointment of new directors.

## Investor Relations

All communications for shareholders including reports, announcements and the results of polls of shareholders at shareholder meetings are posted on the Company’s website: [www.haeco.com](http://www.haeco.com). Copies of the Annual and Interim Reports are also made available to shareholders in printed or electronic form. Briefings for the investment community are held shortly after the interim and final results announcements.

The Company’s 2010 Annual General Meeting was held on 11th May 2010 and the minutes were posted on the Company’s website. This meeting was open to all shareholders and members of the press. The votes of the Annual General Meeting were taken by poll and the poll results were posted on the websites of the Stock Exchange and the Company.

Key shareholder dates for 2011 are set out on page 91 of this report.

## Board of Directors

The Company is governed by a Board of Directors which is responsible for directing and supervising its affairs. This Board is accountable to shareholders for the development of the Group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

The Board is also responsible for the integrity of financial information and the effectiveness of the Group’s systems of internal control and risk management processes. The Directors acknowledge their responsibility for the preparation of the accounts of the Company, its keeping of fair and accurate accounting records and its compliance with the Hong Kong Companies Ordinance. The Board has, with the assistance of its Audit Committee and the Swire Group Internal Audit, conducted a review of the effectiveness of the Group’s systems of internal control including the adequacy of the resources, qualifications and experience of the staff of the Company’s accounting and financial reporting function, and their training programmes and budget.

The Board comprises the Chairman, three other Executive Directors, and six Non-Executive Directors. The roles of Chairman and Chief Executive Officer are segregated and are not performed by the same person. All Directors are subject to re-election by shareholders every three years. New Directors, being individuals who are suitably qualified and expected to make a positive contribution to the performance of the Board, are identified by existing Directors and proposed to the Board for appointment. A Director appointed by the Board is subject to election by shareholders at the first general meeting after his or her appointment.

The Non-Executive Directors bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board and Committee meetings. The Board considers that three of the six Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Listing Rule 3.13. The Company has received from each of its Independent Non-Executive Directors confirmation of his independence pursuant to Listing Rule 3.13.

The Chairman ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the Group through their initial induction, ongoing participation at Board and Committee meetings, and through meeting key members of management.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at the Company's expense. The availability of professional advice extends to the Audit and Remuneration Committees.

The Company has arranged appropriate insurance cover in respect of legal actions against its Directors and Officers.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting Board papers, are available to all Board members.

The Board has three sub-committees: an Executive Committee, an Audit Committee and a Remuneration Committee. The Audit and Remuneration Committees have terms of reference which accord with the principles set out in the Code and minutes are taken by the Company Secretary. The work of these Committees is reported to the Board.

All Directors disclose to the Board on their first appointment their interests as a 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, the Director declares his or her interest.

### **Directors' Securities Transactions**

The Company has adopted 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 to the Listing Rules. A copy of the Securities Code is sent to each Director of the Company first on his or her appointment and thereafter twice annually, one month before the date of the Board

meetings to approve the Company's half-year results and annual results, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published, and that all his or her dealings must be conducted in accordance with the Securities Code.

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.

As disclosed in the Company's announcement dated 7th June 2010, A.K.Y. Lam, an Independent Non-Executive Director of the Company, advised the Chief Executive Officer of the Company that he placed an order on 4th June 2010 for the acquisition of 4,000 shares of the Company on the Stock Exchange at a price of HK\$84 per share. A.K.Y. Lam resigned as a Director of the Company on 6th June 2010. On specific enquiries made and save as disclosed above, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Model Code and the Securities Code throughout the year. Directors are reminded at least twice annually regarding the required standard set out in the Model Code and the Securities Code.

Directors' interests as at 31st December 2010 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 36.

### Executive Committee

The Executive Committee comprises three Executive Directors, one of whom, A.K.W. Tang, is the Chairman, and five senior executives, two of whom are from the Company's jointly controlled companies and customers. It is responsible to the Board for overseeing the day-to-day operation of the Company.

### Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting, and corporate control. The Committee consists of three Non-Executive Directors, two of whom including the Chairman, L.K.K. Leong, are independent. All the members served for the whole of 2010. At the invitation of the Committee, the Director Finance, Head of Swire Group Internal Audit, and representatives of the external auditors regularly attend its meetings. The Committee also meets regularly with the external auditors without the presence of the Company's management.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are available on the Company's website.

The Audit Committee met three times in 2010 and in March 2011. Each meeting receives written reports from the external and internal auditors covering matters of significance arising from the work conducted since the previous meeting. The work of the Committee included the following matters:

- reviewing HAECO management's assessment of the effectiveness of its system of internal control including financial, operational and compliance controls. This assessment was based on completing control self assessment questionnaires.

- reviewing HAECO management's assessment of the effectiveness of its risk management functions. This involved the compilation of registers of the risks involved in managing the business and actively managing the mitigation of these risks. Registers are kept both for enterprise wide risks which are monitored by Executive Directors and for specific risks which are monitored by departmental managers.
- reviewing the 2009 annual, 2010 interim and annual financial statements.
- after reviewing the independence of the external auditors, PricewaterhouseCoopers, and the policy on their conducting non-audit work, recommending their re-appointment to the Board, for the approval by shareholders. Approving the 2010 audit plan and the auditors' remuneration.
- approving the annual internal audit programme, reviewing progress against the programme and discussing matters arising. The Company's internal audit coverage is provided by a combination of its own internal section and visits by Swire Group Internal Audit.
- reviewing the Company's compliance with regulatory and statutory requirements.

Audit Committee meetings are usually held a few days before Board meetings with the results of the Audit Committee's work being reported to and considered at the Board meeting.

### Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors, two of whom – R.E. Adams and L.K.K. Leong – are Independent Non-Executive Directors. It is chaired by P.A. Johansen. The terms of reference of the Remuneration Committee have been reviewed with reference to the Code and are posted on the Company's website.

Under a Services Agreement between the Company and John Swire & Sons (H.K.) Limited, which has been considered in detail and approved by the Independent Non-Executive Directors of the Company, 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 John Swire & Sons Limited ("Swire") group.

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, provident fund, housing, leave-passage and education allowances and, after three years' service, a bonus related to the profit of the overall Swire group. The payment of bonuses on a group-wide basis enables postings to be made to group companies with different profitability profiles.

Although the remuneration of these executives is not entirely linked to the profits of the Company, it is considered that, given the volatility of aviation related businesses, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company. Furthermore, as a substantial indirect 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 with the principal exception that their bonuses are paid by reference to the results of the Company alone.

The Remuneration Committee has reviewed this policy and the levels of remuneration paid to Executive Directors and Officers of the Company. At its meeting in November, the Committee considered a report prepared for it by Mercer Human Resource Consulting Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Officers was in line with comparators in peer group companies. The Committee approved individual remuneration packages to be paid in respect of 2011.

No Director takes part in any discussion about his or her own remuneration.

The number of meetings held by the Board and Committees during the year and the attendance of Directors who are members of these bodies is set out in the table below.

Directors	Meetings Attended/Held			
	Board	Executive Committee	Audit Committee	Remuneration Committee
<b>Executive Directors</b>				
C.D. Pratt	6/6			
P.K. Chan (note 1)	0/2	1/3		
A.K.W. Tang	6/6	11/11		
M. Hayman	6/6	11/11		
M.M.S. Low (note 2)	4/4	7/7		
F.N.Y. Lung (note 3)	2/2	4/4		
<b>Non-Executive Directors</b>				
C.P. Gibbs	6/6			
D.C.Y. Ho (note 4)	2/2	3/3		
P.A. Johansen	6/6		3/3	2/2
M.B. Swire	6/6			
<b>Independent Non-Executive Directors</b>				
R.E. Adams	5/6		3/3	2/2
L.K.K. Leong	4/6		3/3	2/2
A.K.Y. Lam (note 5)	3/3			
D.C.L. Tong	5/6			

*Notes:*

1. P.K. Chan resigned on 19th March 2010.
2. M.M.S. Low resigned on 4th August 2010.
3. F.N.Y. Lung was appointed on 4th August 2010.
4. D.C.Y. Ho resigned on 1st April 2010.
5. A.K.Y. Lam resigned on 6th June 2010.

### External Auditors

The remuneration of the Group's external auditors is HK\$2.1 million for statutory audit fees as disclosed in note 4 to the accounts and HK\$1.4 million for other assurance and tax advisory services. The auditors' statement regarding their reporting responsibilities is included in their audit report on page 39.