

## **CATHAY PACIFIC AIRWAYS LIMITED**

### **Code on Corporate Governance Practices**

*(Amended and restated with effect from 1st January 2009)*

#### ***The Board and its responsibilities***

1. The Board is accountable to the shareholders for leading the Group in a responsible and effective manner. Directors are collectively and individually responsible to the shareholders for the manner in which the affairs of the Company are managed and for promoting the success of the Company by directing and supervising its affairs.
2. It 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.
3. The Board is responsible for the Company's systems of internal control and for reviewing its effectiveness.
4. The Board is ultimately responsible for preparing the accounts and for presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects. This responsibility extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as information required to be disclosed pursuant to statutory requirements.
5. Day-to-day management of the Company's businesses is delegated to the Chief Executive ("CEO"). 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.
6. Management have been given clear guidelines and directions as to their powers, in particular with respect to the circumstances where they should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.
7. The functions of the Board and the powers delegated to the CEO are reviewed periodically to ensure that they remain appropriate.

#### ***Board Composition***

8. There are five executive directors and twelve non-executive directors on the Board, four of whom are independent.

9. The independent non-executive directors are expressly identified as such in all corporate communications of the Company. They 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.
10. An updated list of all the directors with their particulars is put on the Company's website.
11. Any director appointed by the Board to fill a casual vacancy is subject to election by shareholders at the first annual general meeting after his appointment.
12. All directors have to retire at the third annual general meeting of the Company following their election by ordinary resolution, but are eligible for re-election.
13. Further appointment of a retiring director is subject to a separate resolution to be approved by shareholders.
14. 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 submitted to the Board for approval.

#### ***Responsibilities of directors***

15. Rule 3.08 of the Listing Rules provides that directors should fulfil fiduciary duties and duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. This means that every director must, in the performance of his duties as a director:
  - (a) act honestly and in good faith in the interests of the company as a whole;
  - (b) act for proper purpose;
  - (c) be answerable to the Company for the application or misapplication of its assets;
  - (d) avoid actual and potential conflicts of interest and duty;
  - (e) disclose fully and fairly his interests in contracts with the Company; and
  - (f) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the Company.
16. On his first appointment, every newly appointed director receives a "Brief Guide for Directors" on his duties and responsibilities to ensure that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and to advise him of internal procedures. Subsequently, on each occasion that revisions to these legal and regulatory requirements are introduced which may have an impact for the Company, the Company Secretary provides all directors with the necessary briefing, where necessary with the assistance of external legal consultants.

17. Every director is required to keep abreast of the conduct, business activities and development of the Company. Directors gain a proper understanding of the operations and businesses of the Company from monthly management reports distributed for discussion at board meetings and for information between meetings.
18. As part of a programme of continuous professional development to develop and refresh their knowledge and skills to help ensure that their contribution to the Board remains informed and relevant, directors are encouraged to attend relevant seminars, the costs of which are reimbursed by the Company.
19. Every director should ensure that he can give sufficient time and attention to the affairs of the Company and should not accept the appointment if he cannot do so.
20. The Company has adopted Codes for Securities Transactions on no less exacting terms than the Model Code set out in Appendix 10 to the Listing Rules, containing rules for directors and senior management of the Company in respect of their dealings in the securities of the Company, and all directors and senior management are required to comply with their obligations under the relevant code.
21. All directors disclose to the Board on their first appointment their interests as director in other companies or organisations and such declarations of interests are updated annually.

#### ***Responsibilities of the Chairman***

22. The Company has appointed a Chairman and a Chief Executive (“CEO”). The roles of the Chairman and the CEO are separate.
23. The primary role of the Chairman is to provide leadership for the Board. He ensures that the Board works effectively and discharges its responsibilities and that all key and appropriate issues are discussed by the Board in a timely manner. The Chairman’s responsibilities comprise the following:
  - (a) ensuring that all directors are properly briefed on issues arising at board meetings;
  - (b) ensuring that directors receive adequate information, which is complete and reliable, in a timely manner;
  - (c) ensuring that good corporate governance practices and procedures are established and overseeing the implementation of those practices;
  - (d) encouraging all directors to make a full and active contribution to the Board’s affairs and taking the lead to ensure that the Board acts in the best interests of the Company;
  - (e) ensuring that appropriate steps are taken to provide effective communication with shareholders and that views of shareholders are communicated to the Board as a whole;
  - (f) facilitating the effective contribution of non-executive directors in particular and ensuring constructive relations between executive and non-executive directors.

### ***Responsibilities of the CEO***

24. The CEO is responsible for the day-to-day management of the Company's business, including:
- (a) providing leadership for management;
  - (b) implementing major strategies and initiatives adopted by the Board;
  - (c) providing such information to the Board as is necessary to enable the Board to monitor the performance of management;
  - (d) putting in place programmes for management development and succession;
  - (e) establishing and maintaining proper internal controls and systems; and
  - (f) discharging such duties as may be delegated by the Board.
25. In respect of any matter put before the Board or any of its committees for approval, the CEO provides such explanation and information in a timely manner to the Board/committee as will enable the Board/committee to make an informed assessment of the financial and other aspects of the proposal.

### ***Responsibilities of non-executive directors***

26. The functions of non-executive directors include but are not limited to the following:
- (a) participating in board meetings to bring an independent judgment to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct;
  - (b) taking the lead where potential conflicts of interests arise;
  - (c) serving on the audit, remuneration and other governance committees, if invited;
  - (d) scrutinising the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance;
  - (e) giving the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation;
  - (f) attending general meetings to develop a balanced understanding of the views of shareholders; and
  - (g) making positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments.
27. An independent non-executive director, being a member of the Board which collectively bears the ultimate responsibility for corporate governance, is as equally responsible as any other member on the Board for the overall interests of the Company and not the particular interests of any specific shareholder, director, or other party.

### ***Board meetings***

28. The Board holds six regular meetings a year on dates advised to directors well in advance, normally with more than 14 days' notice. Reasonable notice is, where possible, given for any additional board meetings.

29. The regular meetings are attended by a majority of directors entitled to be present. When necessary, written resolutions are circulated to directors for approval in between meetings.
30. In addition, the Chairman holds a meeting annually with the non-executive directors (including independent non-executive directors) without the executive directors present.
31. The Chairman is primarily responsible for drawing up and approving the agenda for each board meeting. All directors may ask for matters to be included in the agenda for regular board meetings by request to the Chairman at least ten days before the intended date of a meeting.
32. If a substantial shareholder or a director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate Board committee set up for that purpose pursuant to a resolution passed at a board meeting), but shall be considered at a board meeting attended by independent non-executive directors who, and whose associates, have no material interest in the transaction; the director who has a material interest must abstain from voting on the relevant resolution and shall not be counted in the quorum present at the board meeting. However, under the Company's articles of association, this general voting prohibition does not apply in certain circumstances, including when the director is interested as an officer of the counter-party, or as a shareholder of less than 5%.

#### ***Supply of and access to information***

33. In respect of regular board meetings, and so far as practicable, an agenda and accompanying board papers are sent in full to all directors at least 48 hours before the intended time of a board or committee meeting.
34. All directors receive regular reports on the Company's performance together with board papers for discussion at regular board meetings, or distributed for information in the months when no meetings are held.
35. All directors are entitled to have access to board papers and related materials, prepared in such form and quality as will enable the board to make an informed decision on matters placed before it.
36. In circumstances where a director requires further information to fulfill his duties properly, he has open and independent access to the Chairman or the executive director/officer responsible for the relevant transaction who will respond as promptly and fully as possible.

#### ***Insurance***

37. The Company has arranged for Directors' and Officers' Liability (D&O) cover for all directors and officers of the Company and its employees in a managerial or supervisory capacity.

### ***The Company Secretary***

38. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures, and all applicable rules and regulations, are followed.
39. The Company Secretary or his/her deputy or assistant keeps minutes of board meetings and meetings of board committees to record in sufficient detail the matters considered by the board/committee and decisions reached, including any concerns raised by directors/members or dissenting views. Draft and final versions of such minutes are sent to directors/committee members for their comment and record respectively, in both cases within a reasonable time after the relevant meeting, except that such minutes are not sent to any director/committee member who has previously indicated that he does not wish to receive them.

### ***Independent professional advice***

40. Directors may, upon reasonable request to the Chairman, seek independent professional advice at the Company's expense to assist them to discharge their duties to the Company.

### ***Board Committees***

41. As far as practicable, all committees established by the Board adopt the principles, procedures and arrangements set out in this Code.
42. Where board committees are established to deal with matters, the Board prescribes sufficiently clear terms of reference to enable such committees to discharge their functions properly.
43. The terms of reference would require these committees to report back to the Board on their decisions or recommendations, unless there are legal or regulatory restrictions on their ability to do so (such as a restriction on disclosure due to regulatory requirements).

### ***Remuneration Committee***

44. The Company has established a remuneration committee with specific written terms of reference as those contained in Appendix 14 to the Listing Rules (Code on Corporate Governance Practices). These terms of reference are put on the Company's web-site. A majority of the members are independent non-executive directors.
45. A representative of the Chairman attends each meeting of the remuneration committee to provide information on the Company's remuneration policy and on the proposals relating to the remuneration of executive directors and officers.
46. The remuneration committee is provided with sufficient resources, including the services of independent consultants, to discharge its duties.

47. Details of the remuneration paid to the Company's directors and senior management are disclosed, on an individual and named basis, in the Company's annual reports and accounts.
48. A significant proportion of executive directors' remuneration is linked to corporate and individual performance.

#### ***Audit Committee***

49. The Company has also established an audit committee with specific written terms of reference as those contained in Appendix 14, which include, inter alia, oversight of the Company's financial reporting system and internal control procedures. These terms of reference are put on the Company's website.
50. Full minutes of audit committee meetings are kept by the Company Secretary or his/her deputy. Draft and final versions of these minutes are sent to all members for their comment and record respectively, in both cases, within a reasonable time after the meeting. Copies are also distributed to all directors.
51. The audit committee is provided with sufficient resources, including the services of external legal consultants, to discharge its duties.

#### ***Internal Control and Risk Management***

52. The Board reviews annually the effectiveness of the systems of internal control of the Company and its subsidiaries and reports to shareholders that they have done so in the Corporate Governance Report. The review covers all material controls, including financial, operational and compliance controls and risk management functions.
53. The Board's annual review considers:
  - (a) the changes since the last review in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;
  - (b) the scope and quality of management's ongoing monitoring of risks and of the system of internal control, the work of its internal audit function and the assurance provided by the Finance Director;
  - (c) the extent and frequency of the communication of the results of the monitoring, which enables it to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
  - (d) the incidence of significant control failings or weakness that has been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition;
  - (e) the effectiveness of the Company's processes relating to financial report and statutory and regulatory compliance; and
  - (f) the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

54. The internal audit department reports to the audit committee on its assessment of the effectiveness of the internal control systems in the Company.
55. The Company has established an airline safety review committee, comprising directors and senior management of all operational departments as well as senior management from the ground handling company and the aircraft maintenance company, to review the Company's exposure to operational risks.
56. The Company has also established a board safety review committee, comprising directors and senior management, to review and report to the board on safety issues.
57. An operational risk management manual, which is updated from time to time, provides guidance to managers on principles of risk management.
58. The Company Secretary also submits to the audit committee half-yearly a checklist on the Company's compliance with statutory and regulatory requirements, including the Listing Rules, the Companies Ordinance and the Securities and Futures Ordinance.

#### ***Communication with shareholders***

59. In respect of each substantially separate issue at a general meeting, a separate resolution is proposed by the chairman of that meeting. The Company arranges for the notice to shareholders to be sent in the case of annual general meetings at least 20 clear business days before the meeting and to be sent at least 10 clear business days before the meeting in the case of all other general meetings.
60. The chairman of the Board, of the audit committee and remuneration committee or, in the absence of any of them, his appointed delegate, attend the annual general meeting to answer questions from shareholders. The chairman of any independent board committee appointed to advise on any transaction subject to independent shareholders' approval also attends the general meeting called for this purpose.

#### ***Voting by Poll***

61. All resolutions proposed at general meetings of the Company are voted on by poll. Votes cast are properly counted under the scrutiny of the scrutineer, and recorded. The Company ensures that shareholders are familiar with the detailed procedures for conducting a poll.
62. At the commencement of a general meeting, the chairman of that meeting explains the detailed procedures for conducting a poll and then answers questions from shareholders regarding voting by way of a poll.

Amended and restated January 2009.