Airport Authority Hong Kong (AAHK) is committed to high standards of corporate governance as good corporate governance not only meets the expectations of key stakeholders, but is essential to attaining long-term sustainable growth. We strive to achieve this commitment by institutionalising a clear and comprehensive governance framework and fostering an ethical and responsible culture at all levels of the organisation.

Key features of our corporate governance framework are described below:

**CORPORATE GOVERNANCE STRUCTURE**

**THE BOARD**

The Board has responsibility for the leadership, control and performance of AAHK. Each Board Member has a duty to act in good faith and in the best interests of AAHK.

To ensure the effective discharge of duties by Board Members, the Board assumes responsibility for ensuring each Board Member has spent sufficient time attending to the affairs of AAHK.

**Board Structure**

The Airport Authority Ordinance (Cap. 483) (the Ordinance) provides that the Board shall comprise a Chairman, a Chief Executive Officer (CEO) (ex officio) and between 8 and 15 other Members. The number of Members who are public officers shall not exceed that who are not public officers. This structure effectively ensures the Board comprises a majority of independent members and is conducive to maintaining an independent and objective decision-making process.
CORPORATE GOVERNANCE

Board Composition
As of 3 June 2019, the Board has 17 Members, whose biographies are set out on pages 12 to 14 and are available on the AAHK website (www.hongkongairport.com). With the exception of the CEO, all Board Members are non-executive and 13 Members are considered independent1, representing 77% of the total. The three public officers serving on the Board are the Secretary for Financial Services and the Treasury, the Secretary for Transport and Housing, and the Director-General of Civil Aviation.

Board Diversity
Non-executive Members make up 95% of the Board and come from diverse backgrounds, including the aviation, engineering, public administration, finance, legal and commercial sectors. They bring an external perspective with an independent point of view, constructively challenge and advise on proposals on strategy, and monitor the performance of Management.

1 Any Member who is not a public officer or an executive of AAHK and is not related to any Board Member or executive management is considered to be independent.
Appointment
The appointment of Board Members, including the Chairman, is determined by the Chief Executive of the Hong Kong Special Administrative Region (HKSAR). With the exception of the CEO, who is an ex officio member, the Chairman and all other Board Members are normally appointed for a term of up to three years.

Remuneration
Pursuant to the Ordinance, the remuneration of Board Members, including the Chairman, is determined by the Chief Executive of the HKSAR. No Board Member is involved in deciding his or her own remuneration.

The remuneration of Board Members for the year under review is disclosed on page 109.

Training
On appointment, each new Board Member (including public officers) participates in a tailored induction programme. The programme consists of a series of meetings with the CEO, Executive Directors and Management; briefings on airport operations, aviation security and major developments; and visits to airport facilities. The induction programme enables new Members to familiarise themselves with the aviation industry and AAHK’s objectives, strategies, operations and internal controls.

Recognising that training and development are ongoing processes, during the year Board Members visited the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macao Bridge, and attended airport visits, including visits to the three-runway system (3RS) and other construction work sites.
Personal Liability
Pursuant to Section 45 of the Ordinance, Board Members are exempted from personal liability in respect of anything done, or omitted to be done, by them in good faith in relation to the performance or purported performance of any function under the Ordinance.

BOARD PROCESSES
Board processes were designed to align to the extent applicable to AAHK with the Corporate Governance Code and Corporate Governance Report (the CG Code) issued by the Stock Exchange of Hong Kong Limited and are clearly defined in the modus operandi of the Board.

The modus operandi of the Board is reviewed from time to time to keep abreast of regulatory changes and best corporate governance practices. The current modus operandi was reviewed and adopted by the Board on 12 June 2017.

Key Elements of the Current Modus Operandi

- The Board shall have at least four regular meetings each year
- Meeting agendas are approved by the Chairman and Members may propose matters to be included in the agendas
- The Board receives reports from the Chairmen of Board Committees at each meeting
- Meeting minutes are sent to Members for comment and record within a reasonable time
- An annual schedule for Board meetings is made available in the prior year
- Agendas and papers are sent to Members at least three clear days before a meeting (excluding the date of despatch and the date of meeting)
- Members are obliged to safeguard confidential information and observe procedures for declaration of interests

Summary of Work Done in 2018/19

- Held six meetings with an average attendance rate of 82%
- Considered 36 papers
- Significant matters considered / resolved:
  - Corporate
    - Corporate goals and performance measures
    - Board Committees’ membership
    - Aviation Academy development
    - Internal control review and risk and business continuity management
    - Annual and 5-year business plans
  - Financial
    - Annual budget and 5-year financial plan
    - Audited financial statements and unaudited interim financial report
    - Quarterly management accounts and reports
    - Appointment of the external auditor
    - Annual dividend
    - Execution of 3RS financing plan
  - Projects
    - Major contracts under the 3RS project
    - Projects relating to airport expansion and enhancement
  - Commercial and Business Strategies
    - Major commercial licences
    - Acquisition of AsiaWorld-Expo
    - Tender award of SKYCITY development
    - Tender award of premium logistics centre
  - Human Resources
    - Staff remuneration, pay structure and benefits review
    - Corporate performance assessment
    - Reappointment of senior management
  - Operations
    - Transformation of passenger terminal building
    - Capacity enhancement
MEETINGS

Attendance records of individual Members at the six Board meetings are detailed on page 27.

Members are required to declare their interests in business proposals, if any, to be considered by the Board. Members with interests are required to withdraw from the relevant discussions and decision-making process as appropriate. For the financial year ended 31 March 2019, there were five occasions when Members withdrew from meetings due to their directorships in companies associated with tenderers for AAHK contracts.

BOARD COMMITTEES

Pursuant to the Ordinance, Board Committees may be established to consider matters on specialised areas. Such Committees may decide on matters within their ambit and are required to report to the Board at each Board meeting. Currently there are five Board Committees, each with specific terms of reference.

The modus operandi of Board Committees closely follows that of the Board.

Board Committees

Interface between Board and Board Committees

• The Chairman and Members of the Board Committees shall be nominated by the Chairman of the Board and approved by the Board
• Committee reports are submitted to the Board at each Board meeting
• Full minutes of Committee meetings are sent to Board members for information

The terms of reference of Board Committees are reviewed from time to time in light of AAHK’s evolving operational, business and development needs. A review was last conducted in 2017 to ensure that there were no material gaps or overlaps between the remits of the Committees. The terms of reference of Board Committees are available on AAHK’s website at www.hongkongairport.com.

The composition of Board Committees was last reviewed and approved by the Board in June 2018. Each Board Member serves on an average of 2.1 Board Committees.

The following sets out details of Board Committees, their membership, principal duties and a summary of work done in the financial year ended 31 March 2019.
Audit Committee and Finance Committee (ACFC)

Members
The Committee has seven non-executive Members, six of whom are independent:

Independent Non-executive
- Ms Anita Fung Yuen-mei (Chairman)
- The Hon Steven Ho Chun-yin
- Mr Franklin Lam Fan-keung
- The Hon Jeffrey Lam Kin-fung
- Mr Carlson Tong
- Mr Adrian Wong Koon-man

Non-executive
- Secretary for Financial Services and the Treasury

Principal Duties
1. Reviews financial statements
2. Makes recommendations on the appointment of the external auditor, approves its remuneration and terms of engagement and oversees AAHK’s relations with the external auditor
3. Reviews accounting policies, annual budget and five-year financial plan
4. Oversees internal and financial controls, risk management system and internal audit function, and reviews whistle-blowing policy
5. Reports on matters relating to corporate governance practices
6. Makes recommendation on AAHK’s investment objectives, guidelines and strategies and oversees investments

Summary of Work Done in 2018/19
- Held four meetings with an average attendance rate of 89%
- Considered 16 papers
- Significant matters considered or resolved:
  - Audited annual financial statements and unaudited interim financial report
  - Annual budget and five-year financial plan
  - Quarterly operating results
  - Dividend policy
  - Appointment of the external auditor and approval of audit fee and non-audit services

- Review of external auditor’s report and the effectiveness of the audit process
- Annual corporate governance, risk management and internal control review reports
- Adequacy of resources, qualifications and experience of staff of the accounting, internal audit and financial reporting functions
- Annual internal audit programme, quarterly internal audit reports and effectiveness of the internal audit function
- Execution of 2018/19 financing plan for the 3RS
3RS & Works Committee (3RSWC)

**Members**

The Committee has eight members, five of whom are independent:

**Independent Non-executive**
- Ir Lee Shing-see (Chairman)
- Ms Linda Chan Ching-fan
- The Hon Steven Ho Chun-yin
- Ir Billy Wong Wing-hoo
- The Hon Frankie Yick Chi-ming

**Executive**
- Mr Fred Lam

**Non-executive**
- Secretary for Transport and Housing
- Director-General of Civil Aviation

**Principal Duties**

Overssees the 3RS and other capital works projects from planning and project implementation to successful completion, on-time and within budget:

1. Advises and makes recommendations to the Board on key works-related matters for the 3RS and other capital works projects
2. Reviews and approves procurement strategy and evaluation criteria for the 3RS and works contracts and consultancy agreements
3. Reviews and approves or makes recommendations to the Board on the award of contract variations to 3RS and other works contracts and consultancy agreements
4. Advises on interfacing issues between the 3RS and nearby developments
5. Monitors the progress and ensures smooth implementation of the 3RS and major capital projects
6. Makes recommendations to the Board on the annual budget and five-year plan for all capital works

**Summary of Work Done in 2018/19**

- Held six meetings with an average attendance rate of 90%
- Considered 32 papers
- Significant matters considered or resolved:
  - Annual capital works budget and five-year capital works plan
  - 3RS reclamation progress
  - Procurement strategy and award of 3RS construction support services agreements
  - Transformation of passenger terminal building
  - Enhancement of airport facilities
  - Airport improvement and maintenance works
  - Procurement strategies and award of works contracts
  - Progress of the 3RS and major capital works and projects
CORPORATE GOVERNANCE

Business Development Committee (BDC)

Members
The Committee has seven members, four of whom are independent:

Independent Non-executive
- Dr the Hon Allan Zeman (Chairman)
- Ms Linda Chan Ching-fan
- Mr Peter To
- The Hon Frankie Yick Chi-ming

Executive
- Mr Fred Lam

Non-executive
- Secretary for Transport and Housing
- Director-General of Civil Aviation

Principal Duties
Considers, approves and makes recommendations to the Board on:
1. Business strategies relating to the development of HKIA
2. Airport commercial and business development plans and proposals other than the 3RS and North Commercial District (NCD) developments
3. Major commercial or operational commitments, including review of airport charges and other pricing and charging policies
4. Sustainability, public relations and communication strategies

Summary of Work Done in 2018/19
- Held four meetings with an average attendance rate of 78%
- Considered 11 papers
- Significant matters considered or resolved:
  - Airport retail and licensing strategy and tender awards
  - Tender award for the premium logistics centre
  - Provision of airport facilities
  - Procurement strategies and award of operation and service contracts
  - Passenger Security Charge
  - Transformation of passenger terminal building
**Principal Duties**

1. Oversees the master planning of the NCD development
2. Advises and makes recommendations to the Board on development strategies for the NCD site and monitors the progress of the NCD development
3. Approves and makes recommendations to the Board on major terms and conditions of commercial tenders for the NCD development
4. Advises on interfacing issues between the NCD and other developments as well as connectivity issues
5. Oversees and advises on marketing programmes relating to the NCD development

**Members**

The Committee has seven members, four of whom are independent:

**Independent Non-executive**
- Mr Peter To (Chairman)
- Mr Franklin Lam Fan-keung
- Ir Lee Shing-see
- Dr the Hon Allan Zeman

**Executive**
- Mr Fred Lam

**Non-executive**
- Secretary for Financial Services and the Treasury
- Secretary for Transport and Housing

**Summary of Work Done in 2018/19**
- Held one meeting with an attendance rate of 86%
- Received one presentation

**Significant matters considered or resolved:**
- SKYCITY Phase 1 retail, dining and entertainment facilities design
- SKYCITY project development progress
Human Resources & Remuneration Committee (HRRC)

Members
The Committee has six members, four of whom are independent:

Independent Members
- The Hon Jeffrey Lam Kin-fung (Chairman)
- Ms Anita Fung Yuen-mei
- Mr Carlson Tong
- Mr Adrian Wong Koon-man

Executive
- Mr Fred Lam

Non-executive
- Secretary for Transport and Housing

Principal Duties
1. Reviews staffing, remuneration and employment policies and strategies
2. Advises the Board on staff-related issues, including annual corporate goals and performance measures, salary structure, variable compensation and retirement schemes
3. Makes recommendations on the appointment of Executive Directors
4. Makes recommendations on the remuneration of the CEO and Executive Directors
5. Oversees senior management succession planning

Summary of Work Done in 2018/19
- Held two meetings with an average attendance rate of 83%
- Considered 4 papers
- Significant matters considered / resolved:
  - Annual review of staff remuneration
- Annual corporate goals and performance measurements
- Annual corporate performance assessment and award of variable compensation for staff
- Pay structure and benefits review
- Re-appointment of senior management
# Meeting Attendance (1 April 2018 to 31 March 2019)

<table>
<thead>
<tr>
<th>Board Members</th>
<th>Board</th>
<th>ACFC</th>
<th>3RSWC</th>
<th>BDC</th>
<th>NCDC</th>
<th>HRRC</th>
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<td><strong>Non-executive</strong></td>
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<tr>
<td>Secretary for Transport and Housing</td>
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<td>5/6</td>
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<tr>
<td>Secretary for Financial Services and the Treasury</td>
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<tr>
<td>Director-General of Civil Aviation</td>
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<td>5/6</td>
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<tr>
<td><strong>Independent Non-executive</strong></td>
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<td>The Hon Jack So Chak-kwong (Chairman of the Board)</td>
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<td>Ms Linda Chan Ching-fan</td>
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<td>5/5</td>
<td>3/3</td>
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<td>Mr Andrew Fung Hau-chung</td>
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<tr>
<td>Ms Anita Fung Yuen-mei</td>
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<td>The Hon Steven Ho Chun-yin</td>
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<td>Mr Franklin Lam Fan-keung</td>
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<td>The Hon Jeffrey Lam Kin-fung</td>
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<td>Ir Lee Shing-see</td>
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<td>Mr Peter To</td>
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<td>Mr Carlson Tong</td>
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<td>Mr Adrian Wong Koon-man</td>
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<td>Ir Billy Wong Wing-hoo</td>
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<td>The Hon Frankie Yick Chi-ming</td>
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<tr>
<td>Dr the Hon Allan Zeman</td>
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<tr>
<td><strong>Executive</strong></td>
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<tr>
<td>Mr Fred Lam (CEO)</td>
<td>6/6</td>
<td>6/6</td>
<td>4/4</td>
<td>1/1</td>
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<tr>
<td><strong>Total number of meetings held during the year</strong></td>
<td>6</td>
<td>4</td>
<td>6</td>
<td>4</td>
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<td>2</td>
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**Notes:**
- Chairman of the Committee throughout the term
- Appointed to the Board and Committees on 1 and 21 June 2018 respectively
- Retired as Board and Committee Member on 31 May 2018
- Representatives of the external auditor participated in two Board meetings and two ACFC meetings during the year

ACFC: Audit Committee and Finance Committee       NCDC: North Commercial District (NCD) Committee
BDC: Business Development Committee                3RSWC: 3RS & Works Committee
HRRC: Human Resources & Remuneration Committee
CORPORATE GOVERNANCE

Balance of Responsibility
The Board is responsible for overseeing the strategic direction and overall performance of AAHK, while executive management is responsible for managing the operations and implementing the strategies set by the Board.

Matters reserved for the Board’s decisions include:
- Major corporate strategies and policies
- Substantial investments and major capital projects
- Major airport franchises
- Material acquisitions and disposals
- Formation and disposal of subsidiaries
- Corporate business and financial plans and budgets
- Appointment, compensation and succession planning for senior executives
- Review of management performance

CHAIRMAN AND CEO
At AAHK, the positions of non-executive Chairman and CEO are held by different people and their roles are segregated and distinct. Their major responsibilities include:

Chairman (INED)
- Leads the Board in setting policies, strategies and overall direction
- Monitors Board effectiveness
- Fosters constructive relationships among Board Members

CEO
- Formulates strategic operating plans in line with the objectives established by the Board
- Assumes executive responsibility for day-to-day operational performance
- Leads the management team to implement the policies and strategies adopted by the Board
EXECUTIVE MANAGEMENT

The executive management team, led by the CEO, is responsible for managing AAHK’s day-to-day affairs and assisting the Board in formulating and implementing corporate strategies.

AAHK’s Management structure consists of functional divisions and departments. This structure underpins a focus on corporate performance and fosters close departmental co-operation whilst maintaining the accountability of individual departments. The organisation structure of AAHK as at 31 March 2019 is as follows:

The compensation of the CEO and the EDs (Executive Directors) is reviewed and recommended by the HRRC and approved by the Board. The remuneration package of the CEO and EDs consists of basic compensation, performance-related compensation and retirement benefits. A significant portion of the performance-related compensation is determined by reference to objective indicators, including AAHK’s financial performance, safety and service quality, customer satisfaction and business developments.

No senior management or ED is involved in deciding their own remuneration. Details of the remuneration of the CEO and EDs are set out in the Notes to the Financial Statements on pages 109 to 112.

The Company Secretary, who is a qualified member of The Hong Kong Institute of Chartered Secretaries, is responsible for Board-related matters and reports directly to the CEO. During the reporting period, the Company Secretary undertook over 15 hours of professional training.
KEY ADVISORY COMMITTEES AND MANAGEMENT COMMITTEES

Apart from the five Board Committees, there are advisory committees, management committees and co-ordination meetings to deal with specific issues. The set-up of committees and meetings are reviewed from time to time to ensure they are aligned with AAHK’s changing business and operational needs. The current key committees and management coordination meetings are listed below:

**Management Committees**

<table>
<thead>
<tr>
<th>Committee</th>
<th>Members</th>
<th>Role and Functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>HKIA Technovation and Data Management Board</td>
<td>• CEO (Chairman)</td>
<td>• Steers the strategic direction of technology and innovation for HKIA’s development</td>
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<tr>
<td></td>
<td>• Relevant EDs</td>
<td>• Determines HKIA’s development focus and priorities and advises on the allocation of resources</td>
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<td></td>
<td>• Other senior staff</td>
<td>• Reviews the institutional arrangements for effective implementation of technovation programmes</td>
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<td>• Oversees and drives AAHK’s data strategy and development, including data governance, data analytics and data management, to meet its operational and business development needs</td>
</tr>
<tr>
<td>3RS Management Co-ordination Meetings</td>
<td>• CEO (Chairman)</td>
<td>• A regular platform for the CEO to receive updates and for Management to obtain advice on matters relating to the 3RS project</td>
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<td></td>
<td>• EDs</td>
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<td></td>
<td>• Other senior staff</td>
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<tr>
<td>Human Resources Committee</td>
<td>• CEO (Chairman)</td>
<td>• Reviews and formulates people development strategies to meet future business needs</td>
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<td></td>
<td>• EDs</td>
<td>• Plans for the development of AAHK’s overall human resources capabilities, including people development, talent management and succession planning for senior executive positions</td>
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<td>• Champions AAHK’s corporate culture</td>
</tr>
<tr>
<td>Airport Land Development Committee</td>
<td>• CEO (Chairman)</td>
<td>• Ensures holistic use and development of airport land, provides strategic advice and direction for land use planning and development, and determines corporate priorities in case of competing land use or development proposals, with the objective of developing HKIA into an Airport City</td>
</tr>
<tr>
<td></td>
<td>• Relevant EDs</td>
<td>• Oversees and reviews AAHK’s corporate strategies and policies on HKIA’s land use and development</td>
</tr>
</tbody>
</table>
## Advisory Committees

<table>
<thead>
<tr>
<th>Committee</th>
<th>Members</th>
<th>Role and Functions</th>
</tr>
</thead>
</table>
| **Airport Technology Advisory Council** | • CEO (Chairman)  
• AAHK Management  
• External members from industry, universities and research and development centres | • Provides technological input for business challenges faced by HKIA  
• Advises on new technology and innovation, and facilitates the use and development of local technologies at HKIA |
| **Steering Committee for Marine Ecology Enhancement Fund and Fisheries Enhancement Fund** | • CEO (Chairman)  
• External members from academia and the accounting, water, engineering and environmental sectors | • Provides guidance on the operation of the Marine Ecology Enhancement Fund and Fisheries Enhancement Fund  
• Considers the allocation of resources to meet the funds’ objectives |
| **Hong Kong International Aviation Academy (HKIAA) Steering Committee** | • CEO (Chairman)  
• No more than 12 core members including:  
  – AAHK Management  
  – External members from government, academia and the airport community | • Provides guidance to Management on achieving HKIAA’s objective of nurturing aviation talent for Hong Kong  
• Makes recommendations on the positioning and development of HKIAA  
• Helps make HKIAA a sustainable operation |
EXTERNAL STAKEHOLDERS

Transparency
AAHK considers transparency fundamental to good corporate governance and has taken an open approach to disclosing information. Information relating to AAHK’s performance and operations, save for certain information relating to aviation security and matters of commercial sensitivity, is released on a regular basis and made available on AAHK’s website. AAHK’s annual and interim financial reports are also published on the website.

To promote transparency and openness, AAHK voluntarily discloses in compliance with the CG Code issued by the Stock Exchange of Hong Kong Limited, the individual attendance records of Board and Committee meetings and the remuneration of its Board Members and EDs. In 2018/19, 37 inquiries were accepted and processed through AAHK’s system for access to information.

Communication
AAHK adopts an open and proactive communication policy. To promote effective communication with stakeholders and the public, the HKIA website contains up-to-date and comprehensive information about AAHK, HKIA and its services. AAHK uses social media, such as Facebook, Instagram, YouTube, WeChat and a blog, as well as the mobile app “HKG My Flight” to disseminate information. In addition, AAHK organises exhibitions to inform the public about HKIA’s development.

AAHK keeps the public abreast of HKIA’s new service offerings, growth and development through the mass media by organising press conferences, workshops and briefings, giving interviews, responding to enquiries and issuing press releases and statements. Meetings, forums and airport visits are held to foster two-way communication with business partners, the aviation industry and other stakeholders.

AAHK values customer feedback. A wide array of channels such as websites, quantitative and qualitative opinion surveys, email, feedback forms, telephone hotlines and more, are used to obtain views from passengers, customers and other stakeholders.

To enhance understanding of the 3RS project during its construction, AAHK established a programme for engaging stakeholders, which includes meetings, briefings and visits. The Professional Liaison Group and five Community Liaison Groups meet from time to time for project updates and to collect feedback from experts and community leaders. A dedicated website (www.threerunwaysystem.com) provides updates on the 3RS.
Conferences and briefings are held regularly with Management and staff about work being done and plans to achieve AAHK’s goals. These meetings also provide opportunities for senior management to update staff on new projects and share their thoughts on future corporate direction and focus. Key corporate objectives, strategies, results and information about major events are shared at town hall meetings that allow face-to-face communication with AAHK’s staff. Chaired by the CEO, the weekly management meeting serves as an important information sharing platform for senior management to keep abreast of the latest developments and current corporate issues. Minutes of the management meetings are sent to all staff and made available on the AAHK’s intranet.

SUSTAINABILITY

AAHK’s sustainability vision is to strengthen its ability to operate and grow profitably in a changing and challenging economic, ecological, technological and social environment while developing a robust culture of sustainability throughout the organisation. The Sustainability Department is responsible for developing and implementing AAHK’s sustainability strategy, management and reporting systems. The Sustainability Working Group, which comprises representatives from departments across AAHK, supports the development of AAHK’s sustainability reporting and framework.

AAHK’s Sustainability Report 2017/18, published during the reporting year, was prepared in accordance with the internationally-recognised Global Reporting Initiative’s GRI Standards: Core option and GRI G4 Airport Operators Sector Disclosures. The report was independently verified by the Hong Kong Quality Assurance Agency.

In 2018/19, AAHK received a number of awards recognising its efforts in improving HKIA’s sustainability performance and achieve its pledge to become the world’s “greenest airport”. The awards include:

- Platinum award (Over 35 million passengers per annum) in ACI Asia-Pacific Green Airports Recognition 2018 organised by ACI Asia-Pacific
- A “10th Anniversary Special Awards” at the Hong Kong Awards for Environmental Excellence organised by Environmental Campaign Committee
- The “Environment Award” at the World Travel and Tourism Council’s 2018 Tourism for Tomorrow Awards
- A “Special Mention” in the public sector/not-for-profit category of the 2018 Sustainability and Social Responsibility Reporting Awards organised by the Hong Kong Institute of Certified Public Accountants
CORPORATE GOVERNANCE

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The operation of AAHK encompasses a diverse range of risks. Particulars of AAHK’s approach to risk management are described below:

- The annual corporate planning exercise requires all departments to identify key challenges before formulating strategic priorities or projects in their annual business plan and rolling 5-year business plan. The status of projects is reviewed by senior management throughout the period.

- Executive management undertakes an annual review of the internal controls for key business, operational, financial and compliance risks facing each department and major subsidiaries. Additional details are described in the Review on Internal Controls section of this report.

- The Safety, Security and Business Continuity Department assesses operational risks to ensure HKIA’s preparedness and minimise the effects of potential disruptions to flows of passengers, baggage, aircraft, cargo and information. Business continuity plans are developed and tested to manage potential disruptions.

- The 3RS project has developed a risk assessment and management system tailored to its requirements that reports through the 3RS & Works Committee to the Board.

As HKIA’s operations grow in size and complexity, the risk management framework is reviewed from time to time to ensure its effectiveness and robustness, which is essential in maintaining Hong Kong’s status as an international aviation hub.

In 2018, an external consultant was engaged to review the current enterprise risk management practices and framework adopted across the organisation. The adequacy and effectiveness of the existing risk management framework was found to be satisfactory. AAHK’s risk management approach was also found to be consistent with the provisions of the CG Code issued by the Stock Exchange of Hong Kong Limited.

In light of emerging and leading practices adopted globally for enterprise risk management, further improvements to AAHK’s risk management system will be considered and implemented as deemed appropriate by Management.

Internal Controls

Internal controls form an integral part of AAHK’s management system and are embedded in the operational procedures of functional departments. The underlying principle of AAHK’s internal controls is to manage and mitigate, rather than to eliminate risks.

AAHK’s internal controls are designed to give reasonable assurance that:

- Operations are safe, secure and free from serious interruptions
- Assets are prudently safeguarded
- Maximum value for money is obtained from its expenditures
- Business activities are conducted in a fair and responsible manner
- Financial reporting is accurate, transparent, timely and complete
- The business and operations of AAHK are conducted in compliance with relevant laws and regulations, and prudent commercial principles as stipulated in the Ordinance
Risk management and internal controls are a critical focus for all levels at AAHK: the Board, the ACFC, executive management and operating and supporting functions. Our quantitative risk profile is assessed through a bottom-up analytical approach covering all operating and supporting functions.
CORPORATE GOVERNANCE

The Board

The Board is responsible for ensuring that AAHK has effective risk management and control systems and is assisted by the ACFC in discharging this responsibility.

Audit Committee and Finance Committee (ACFC)

The ACFC is responsible for reviewing AAHK’s risk management system and ensuring that effective controls are in place. It receives reports from both the external and internal auditors and considers any control issues arising from these reports.

The ACFC reviews all risk areas presented in the risk information matrix and identifies key risk issues that require its further attention and, if appropriate, the Board’s focus.

Executive Management

To recognise emerging risks from economic, market or environmental changes, management uses ongoing risk assessments to identify new exposure areas and implement appropriate mitigation measures.

Different approaches are used to collect and analyse market intelligence and data, including close communication with business partners, industry bodies, government and opinion leaders through liaison groups, committees, international organisations and engagement exercises.

When information that may affect AAHK’s operations or risk exposure is received, follow-up or preventive measures are deliberated at regular intra- or inter-departmental meetings.

Operating and Supporting Functions

Given the myriad potential risks that may affect the operations of the airport, all operating departments are required to implement a thorough risk identification process to review the risk and business continuity management processes pertaining to operational areas that are critical to sustaining the continuous operation of the airport. The key elements of AAHK’s risk identification process include the establishment of an Operational Risks Register to track and document identified risks, the development and continual updating of preventive and responsive procedures, and the testing and drilling of action plans and procedures to ensure their effectiveness.
External Audit
The main purpose of the external audit is to provide independent assurance to the Board and shareholder that the annual financial statements of AAHK are fairly stated. The appointment of AAHK’s external auditor is subject to the approval of the Chief Executive of the HKSAR, on the recommendation of the ACFC and the Board.

The external auditor for the year under review was KPMG. To ensure the independence and objectivity of the external auditor, AAHK has policies that restrict the non-audit services to be provided by the external auditor and require the lead engagement partner responsible for AAHK to be rotated every seven years. The last rotation took place in 2018/19.

The following is a breakdown of the fees paid by AAHK and its subsidiaries to the external auditor in the past two years for audit and non-audit services:

<table>
<thead>
<tr>
<th>(in HK$ million)</th>
<th>2018/19</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit fee</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Fees for non-audit services</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

The non-audit work conducted by KPMG during 2018/19 was mainly in relation to tax compliance and other advisory services.

Internal Audit
The internal audit is primarily responsible for reviewing the adequacy and effectiveness of internal control procedures and monitoring compliance with them. The annual internal audit programme is drawn up using a risk-based approach and is approved by the ACFC.

According to AAHK’s Internal Audit Charter, which was approved by the ACFC, internal auditors have unrestricted access to information and complete freedom to draw independent conclusions in their audits. The Chief Internal Auditor reports to the CEO on an administrative basis and has direct access to the ACFC and its Chairman, thereby ensuring that independence is maintained.

The quarterly internal audit reports submitted by the Chief Internal Auditor include information on audit issues observed and relevant improvement proposals, as well as results from special reviews or investigations undertaken.

In light of the significance of the 3RS project, internal audit has commenced in 2018/19 the adoption of an on-going review of the project’s major monitoring and control parameters, with pertinent observations included in the regular reporting to ACFC. This proactive approach aims to provide timely and continual advice to Third Runway team on issues warranting management attention and that in turn should help in rendering better assurance on project governance.

Reviews on Internal Controls
Assessing risks and reviewing the effectiveness of internal controls is a continuing process at AAHK.

In addition to the internal and external audits and other review and assurance processes, executive management, assisted by a cross-departmental Internal Control Review Task Force, conducts an annual comprehensive review of AAHK’s internal controls in accordance with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework recommended by the Hong Kong Institute of Certified Public Accountants. A semi-annual update is required from all divisions and departments on changes to control measures in response to changes to their risk profiles.
CORPORATE GOVERNANCE

The annual internal control review evaluates all AAHK’s major operations and processes based on the five main components of the COSO framework: control environment, risk assessment, control activities, information and communication, and monitoring. All AAHK departments and major subsidiaries are required to assess the risks associated with their key work processes and the effectiveness of the controls in place to mitigate such risks. Independent verification of the effectiveness of controls for high-risk areas is carried out. Based on the results of these reviews, AAHK departments and major subsidiaries make representations to executive management as to whether the internal controls are working as intended or enhancements need to be made.

During the year under review, executive management reviewed AAHK’s internal control system and concluded that it was effective and adequate. A consolidated internal control report was compiled and submitted to the ACFC. The ACFC reviewed the consolidated report on AAHK’s risk profiles and control systems and confirmed that no significant risk control issues needed to be escalated to the Board for immediate action. The Board then reviewed the effectiveness of AAHK’s risk management and internal control systems via this consolidated report after its consideration by the ACFC, and considered the risk management and internal control systems to be effective and adequate.

Details of the principal risk profiles and controls are described in the Risk Management Report on pages 44 to 47.

DELEGATION OF AUTHORITY

AAHK has a comprehensive system of delegation of authority under which the authority of the Board, Board Committees and different levels of executive management are clearly delineated. Such delegation of authority is reviewed from time to time to ensure that it meets AAHK’s evolving business and operational needs. The last review was conducted in 2017.

Under the current delegations, the 3RSWC, NCDC and BDC are delegated the power to make commitments of up to HK$1,000 million for works contracts and commercial tenders and HK$100 million for consultancy agreements. The CEO is delegated the power to approve expenditures and commercial contracts up to HK$200 million and consultancy agreements up to HK$50 million.

The CEO is also delegated the full authority to approve commitments that are administrative in nature. Such commitments include public utilities and government expenditures.

To complement these delegations, a reporting mechanism keeps the Board informed when certain delegated powers are exercised. Regular reports are also made to the ACFC on authority exercised by the CEO for commitments in excess of HK$50 million.

FINANCIAL PLANNING, CONTROL AND REPORTING

AAHK has a robust and continuous planning process to ensure the organisation can respond to changes in a dynamic business environment in a swift and timely fashion. AAHK prepares a rolling five-year business plan and financial plan, and an annual business plan and budget for approval by the Board. Timely updates about major developments at AAHK are provided to stakeholders and the public as part of an ongoing communications programme, to enhance understanding and facilitate communications with key stakeholders.
ACCOUNTABILITY

AAHK considers accountability one of the fundamental pillars of corporate governance and has built its corporate structure and management culture on this concept. Under the current structure, the Board is accountable for the performance of AAHK. Executive management is responsible for AAHK’s day-to-day business and is accountable to the Board for its performance.

To strengthen the accountability mindset at all levels of the organisation, AAHK has adopted a cost and contribution centres operating model. As relevant and appropriate, operating parameters are set for individual departments for which they are accountable.

DISCLOSURE OF INTERESTS

AAHK has clear and comprehensive procedures for disclosure of interests, which are an important safeguard against potential conflicts of interest.

Under current procedures, Board Members and senior management are required to make a general declaration upon their appointment and thereafter on an annual basis, and to report any change to their declaration as and when it occurs or as soon as they become aware that conflicting interests may arise.

Board Members are also required to declare their direct or indirect interests, if any, in business proposals or transactions to be considered by the Board or Board Committees. Board Members with material conflicts of interest are excluded from the relevant deliberation and decision-making process. A register of declarations made by Board Members is maintained by the Corporate Secretariat and is available for public inspection.

Written procedures are in place to require staff to disclose their interests under specific circumstances, for instance, acting as a member of a tender assessment panel. Staff with potential conflicts of interest will be excluded from the relevant deliberation and decision-making process.

Within AAHK’s financial control system, there are defined procedures for the appraisal, review and approval of different levels of capital and operating expenditures. Stringent control and approval procedures are in place to govern expenditures beyond approved budgets. A process has been implemented to require relevant staff to undergo recurrent training on AAHK’s financial and internal control policies and procedures.

Results of operations against budget are reported to the ACFC on a quarterly basis and subsequently to the Board. Financial control on major capital projects is reported to and monitored by the 3RSWC at approximately bimonthly intervals. Reporting procedures are in place to ensure a potential delay or cost overrun will be reported to the appropriate level at the earliest possible stage.

Assisted by the ACFC, the Board is responsible for the preparation of financial statements that give a true and fair view of AAHK’s financial position and performance. In preparing the annual financial statements, the Board adopts suitable accounting policies and applies them consistently; makes judgements that are prudent and reasonable; and prepares the financial statements on a going concern basis. The audited financial statements are usually submitted to the ACFC for review within two months from the end of the financial year and then to the Board for approval. Financial statements are despatched to the Government of the HKSAR and the Legislative Council and published on the HKIA website after approval by the Board.
ETHICAL CULTURE

AAHK requires all staff to maintain the highest level of ethics and integrity in conducting the affairs of AAHK. To this end, the AAHK Code of Conduct (the Code) provides guidelines to help staff make ethical decisions in the course of discharging their duties, sets out their legal and ethical obligations to AAHK and its stakeholders, and advises them against inappropriate behaviour.

The Code stipulates the standard of behaviour expected of all staff including the requirement to comply with applicable laws and regulations, AAHK’s policies on handling conflicts of interest, avoiding solicitation and acceptance of advantages, safeguarding AAHK’s property, information and records, etc. The Code was reviewed in August 2016 by making reference to the latest version of the “Sample Code of Conduct for Employees of Public Bodies” issued by the Independent Commission Against Corruption (ICAC).

All staff are expected to know and comply with the Code. To this end, every new employee is required to participate in online training on the Code in their first month of employment. Staff are also required to complete an annual refresher course and pass a test.

To inculcate an ethical mindset among staff and to enhance their awareness of desirable ethical behaviours, different organisations, such as the ICAC and Equal Opportunities Commission, are invited to hold workshops and sharing sessions with case studies throughout the year.
Compliance training is conducted to instill an ethical culture in new staff:

<table>
<thead>
<tr>
<th>Category</th>
<th>Training/topic</th>
<th>Timeline</th>
</tr>
</thead>
</table>
| General Mindset and Behaviours | Orientation for new hires  
• Importance and framework of corporate governance  
• Highlights of Code of Conduct | Within three months          |
|                               | Code of Conduct                                                               | Within one month Annual refresher |
|                               | Staff Information Security Handbook                                           | Within one month Annual refresher |
|                               | Employee Safety Handbook                                                      | Within one month       |
|                               | Brief Introduction to AAHK’s Environmental Management System                  | Within one month       |
| Legal Compliance (Mandatory)  | Briefing on Equal Opportunities  
– Seminar on Data Privacy  
– ICAC Briefing: General awareness  
– ICAC Briefing: Misconduct in public office | Within one month       |
| Procedures and Practices (By nomination) | Internal Audit Workshop  
– Finance Policies Workshop  
– IT Policies Workshop  
– Procurement Policies Workshop  
– Overseas Business Travel Workshop | Within six months       |

QUALITY OF STAFF

AAHK believes effective corporate governance hinges not only on the control systems in place but also the people involved in formulating, overseeing and implementing them. We therefore place considerable emphasis on rigorous recruitment and selection, purposeful staff development and succession planning, and a compensation and reward system that aims to maintain a team of quality and highly motivated staff. To drive staff performance and behaviour, AAHK has implemented a variable compensation scheme since 2002 under which a part of staff remuneration is directly linked to corporate and individual performance, and is payable only when agreed corporate and individual goals and targets are met. The scheme is subject to regular reviews and fine-tuning to keep abreast of changing circumstances and best practices.

WHISTLE-BLOWING POLICY

To further strengthen corporate governance, a whistle-blowing policy is in place to encourage and guide staff members to raise serious concerns about impropriety including malpractice, unethical behaviour and violations of the Code directly to the Chief Internal Auditor for investigation, if appropriate, without any risk of retribution. Ethics-related matters are referred to the Ethics Panel for review. Comprising members of senior management, the panel makes recommendations to the CEO after due consideration of the matter.

COMPLIANCE

Pursuant to the Ordinance, AAHK was set up to maintain Hong Kong as a centre of international and regional aviation, and to provide, operate, develop and maintain HKIA for civil aviation.

Section 6(1) of the Ordinance provides, inter alia, that AAHK shall conduct its business according to prudent commercial principles. Having regard to this statutory mandate, AAHK endeavours to follow, to the extent applicable to AAHK, the compliance standards of major commercial organisations in Hong Kong.
FINANCIAL REPORTING

AAHK’s consolidated financial statements fully comply with the financial reporting requirements set out in Section 32 of the Ordinance. Our auditor confirms that the consolidated financial statements give a true and fair view of the consolidated financial position of AAHK and its subsidiaries (the “Group”) as at 31 March 2019 and of the Group’s consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong financial reporting standards and the Ordinance. AAHK’s consolidated financial statements are prepared in compliance to the extent applicable with the relevant disclosure provisions in the listing rules issued by the Stock Exchange of Hong Kong Limited. AAHK has been voluntarily announcing its interim financial results since 2006/07.

Corporate Governance Code and Corporate Governance Report

In December 2018, Hong Kong Stock Exchanges and Clearing Limited published amendments to the listing rules covering independent non-executive directors, board diversity and greater dividend policy transparency, to implement the proposals of the “Consultation Conclusions Paper on Review of the Corporate Governance and Related Listing Rules” published on 27 July 2018. In view of this, AAHK has conducted an analysis on its board diversity, as set out on pages 18 and 19. While AAHK is not required to comply with the CG Code, we have applied its principles and voluntarily complied with the code provisions and the recommended best practices therein except for those set out below:

<table>
<thead>
<tr>
<th>Code Provision</th>
<th>Reason for Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.1.8</td>
<td>Appropriate insurance cover for directors against legal action. This provision is not applicable to AAHK. Pursuant to Section 45 of the Ordinance, Board Members are exempted from personal liability in respect of anything done, or omitted to be done, by them in good faith.</td>
</tr>
<tr>
<td>A.4.1</td>
<td>Non-executive directors should be appointed for a specific term, subject to re-election. All non-executive Members are normally appointed for a fixed term of three years. Board Members are not subject to re-election but may be re-appointed by the Chief Executive of the HKSAR pursuant to Section 3 of the Ordinance.</td>
</tr>
<tr>
<td>A.4.2 &amp; A.4.3</td>
<td>These code provisions deal with the appointment of directors to fill a casual vacancy, appointment of independent non-executive directors and rotation of directors. These provisions are not applicable to AAHK. Pursuant to Section 3 of the Ordinance, Board Members are appointed by the Chief Executive of the HKSAR. Terms of office of Board Members are governed by Section 11 of the Ordinance.</td>
</tr>
<tr>
<td>A.5.1 to A.5.5</td>
<td>These code provisions deal with the nomination committee. These provisions are not applicable to AAHK. Pursuant to Section 3 of the Ordinance, Board Members are appointed by the Chief Executive of the HKSAR.</td>
</tr>
<tr>
<td>A.6.4</td>
<td>Directors must comply with obligations under the Model Code for Securities Transactions and the board should establish guidelines for employees dealing in the securities of the company. These provisions are not applicable because all of AAHK’s shares are held by the Government of the HKSAR and are not publicly traded.</td>
</tr>
<tr>
<td>C.2.4 (e)</td>
<td>This code provision relates to the disclosure of procedures and internal controls for handling and dissemination inside information.</td>
</tr>
<tr>
<td>Code Provision</td>
<td>Reason for Deviation</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>A.6.5</td>
<td>Arranging and funding suitable training for all directors to participate in continuous professional development. Directors to provide a record of the training they received to the issuer.</td>
</tr>
<tr>
<td>D.3.1</td>
<td>Terms of reference of the board or committees to include reviewing and monitoring the training and continuous professional development of directors and senior management.</td>
</tr>
<tr>
<td>A.7.1</td>
<td>An agenda and board papers should be sent to all directors at least three days before a meeting.</td>
</tr>
<tr>
<td>B.1.2</td>
<td>This code provision relates to the terms of reference of the remuneration committee.</td>
</tr>
<tr>
<td>E.1.1 to E.1.4 E.2.1</td>
<td>These code provisions deal with the proceedings for annual general meetings.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recommended Best Practice</th>
<th>Reason for Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>B.1.8</td>
<td>Disclose details of any remuneration payable to members of senior management, on an individual and named basis, in the annual reports.</td>
</tr>
<tr>
<td>C.1.6</td>
<td>Publication of quarterly financial results and preparation of quarterly financial reports based on accounting policies consistently applied in half-year and annual accounts.</td>
</tr>
</tbody>
</table>