香港國際機場 HONG KONG INTERNATIONAL AIRPORT

BUILDING TOMORROW TODAY

ANNUAL REPORT 2013/14

Hong Kong International Airport ("HKIA") aims to maintain a leadership position in airport management and aviation-related businesses to strengthen Hong Kong as a centre of international and regional aviation by:

+ upholding high standards of safety and security
+ operating efficiently with care for the environment
+ applying prudent commercial principles
+ striving to exceed customer expectations
+ working in partnership with stakeholders
+ valuing human resources
+ fostering a culture of innovation

AIRPORT AUTHORITY HONG KONG (the Airport Authority) is a statutory corporation wholly owned by the Hong Kong SAR Government. The Airport Authority is responsible for the operation and development of HKIA.

CONTENTS

At Hong Kong International Airport ("HKIA"), six core values guide our staff and business partners in their day-to-day work and long-term plans. In a rapidly changing business environment, these principles are both constant and non-negotiable.

CORE VALUES

Safety

The safety of our passengers, employees and business partners is paramount. Through training, accident reporting and analysis, communications and staff recognition programmes, our goal is to achieve a zero-injury rate at HKIA.

Environment

HKIA is committed to achieving high environmental standards. This includes minimising pollution, using energy and other resources efficiently, recycling and reusing wherever possible, and continually improving our environmental performance.

Efficiency

By efficiently serving our customers and business partners, we reinforce Hong Kong's position as an aviation centre. That contributes to Hong Kong's social and economic development and its competitiveness in financial services, trading and logistics, and tourism.

Security

Effective security is an ongoing process that involves the entire airport community. We work closely with the police and other government departments to protect passengers, staff and business partners.

Quality

An airport-wide passion for customer service helps us maintain international standards of quality and customer satisfaction. As a result, HKIA has been named the world's best airport over 55 times.

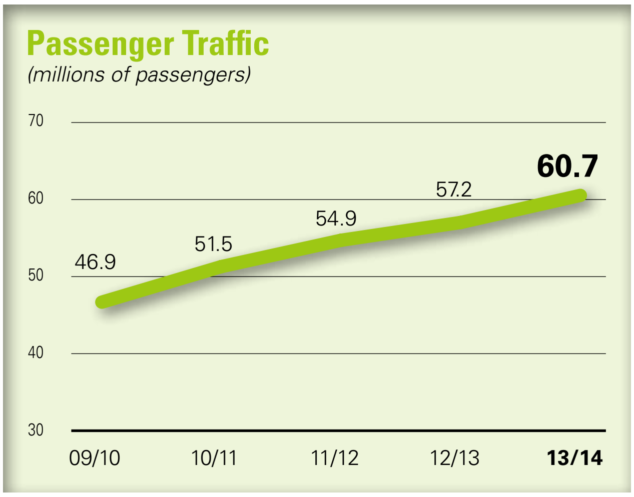
People

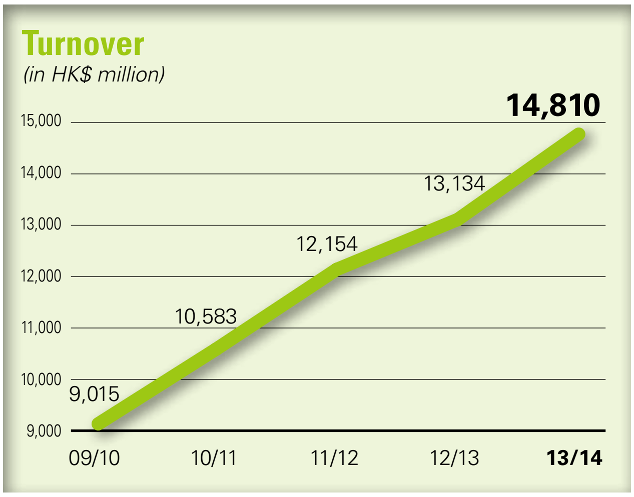
Top-quality people are the key to our high service standards. We use long-term training and development plans to ensure our staff are prepared to meet future challenges.

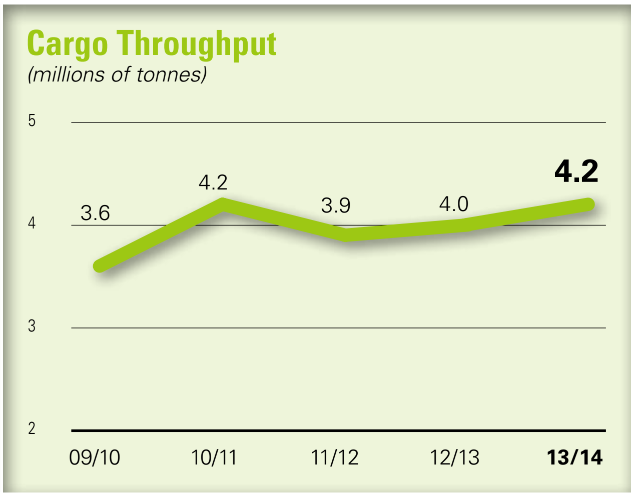
HKIA Facts

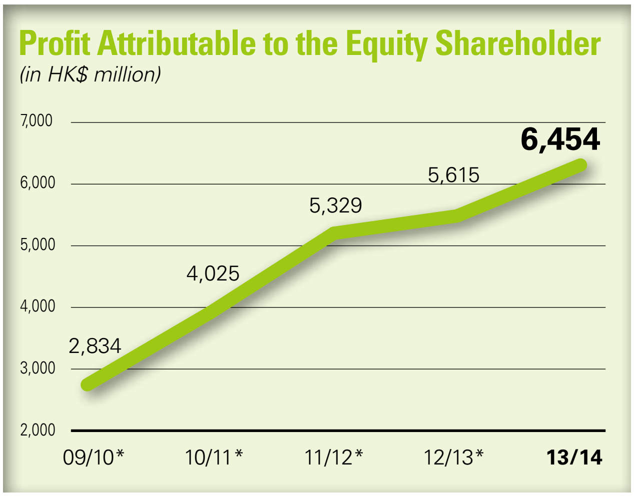
Airport Site Area	1,255 hectares
Total Terminal Area	750,000 square metres
Airlines	Over 100
Destinations	Around 180
Runways	2

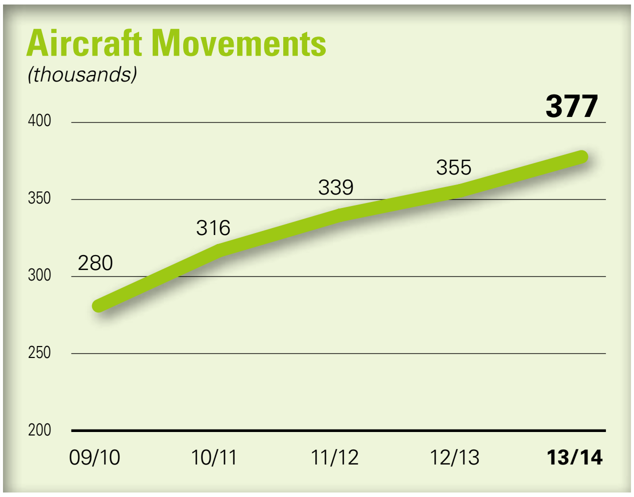
Performance Highlights

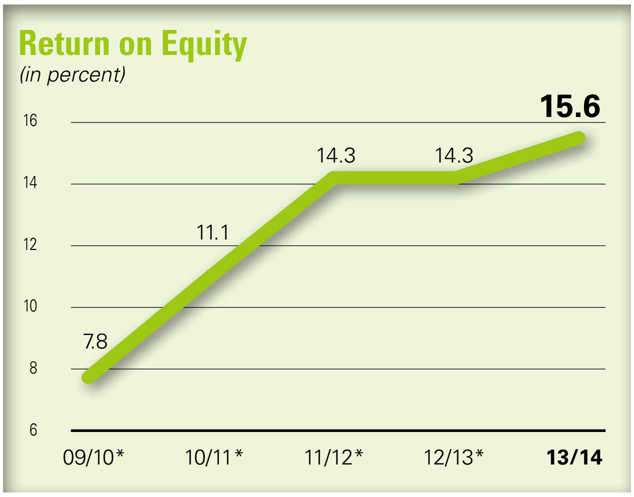












* Restated

CHAIRMAN'S STATEMENT

Dear Stakeholders,

Hong Kong International Airport (HKIA) enjoyed another strong year in fiscal 2013/14, ended 31 March 2014. We set new records for passenger volumes, aircraft movements and cross-boundary passenger trips. Cargo throughput continued to grow, increasing 3.4% from the previous fiscal year. For the fourth consecutive year, HKIA was the world's busiest cargo airport.

This solid performance, which was supported by higher retail revenues and prudent financial management, was reflected in our financial results. Profit attributable to equity shareholder increased 14.9%, to a record HK$6,454 million. Of that amount, HK$5.3 billion will be paid to our shareholder, the Hong Kong SAR Government, as a dividend. Since the airport opened in 1998, Airport Authority Hong Kong (AAHK) will have returned HK$35,680 million to the Hong Kong SAR Government in repaid capital and dividends. In addition, we have invested more than HK$30 billion to maintain the airport's facilities and systems, and expand its handling capacity over the years.

During the year, HKIA reinforced its reputation as one of the world's finest airports. After winning TTG's best airport award 10 times since 2002, we were inducted into TTG's Travel Hall of Fame in 2013. HKIA was also named the best airport in China by *Business Traveller China* for the seventh time.

The Three-runway System

In 2013/14, HKIA continued to play a central role in Hong Kong's economy. The airport provides jobs for more than 65,000 people and supports Hong Kong's four pillar industries: financial services, trading and logistics, tourism, and producer and professional services. Developing the three-runway system (3RS) is essential to AAHK's mission of maintaining the airport's contribution to our city's growth and prosperity, and its long-term competitiveness. In his 2014 policy address, the Chief Executive of the Hong Kong SAR Government, Leung Chun-ying, GBM, GBS, JP, also highlighted the importance and urgency of expanding the airport.

“ Developing the three-runway system (3RS) is essential to AAHK's mission of maintaining the airport's contribution to our city's growth and prosperity, and its long-term competitiveness.”

In April 2014, the 3RS reached an important milestone when we submitted the project's environmental impact assessment report to the Environmental Protection Department (EPD) of the Hong Kong SAR Government. Over 14,000 pages long, the assessment addresses 12 different environmental aspects of the project.

We believe that we have struck a good balance between promoting Hong Kong's long-term economic development and protecting the environment. I encourage stakeholders to stay tuned for the latest development of the 3RS project through our dedicated 3RS website (www.threerunwaysystem.com).

During the year, we continued to develop design details for the 3RS, covering land formation, the expansion of Terminal 2, the construction of a third runway and its associated new passenger concourse and facilities. We also started working on funding options, and will have a clearer picture of these areas in the second half of 2014. We hope to receive an environmental permit for the 3RS project within 2014 so that we can seek Government's approval for the implementation of the project. Our goal is for the 3RS to be fully operational in 2023.

Some people have suggested that we could avoid developing the 3RS by redirecting flights, passengers and cargo to neighbouring airports. This idea has serious flaws. First, having passengers go through immigration processes and travel to another airport to take a flight located some distance from HKIA is both time-consuming and troublesome, rendering Hong Kong a less attractive destination for both business and leisure travellers. Second, under the “One Country, Two Systems” principle, Hong Kong and the Mainland are separate jurisdictions, with different laws, immigration regimes and air services agreements. Airlines operating at HKIA cannot simply shift their flights from Hong Kong to other airports in the Pearl River Delta (PRD). Needless to say, diverting travellers away from Hong Kong would mean moving thousands of jobs and billions of dollars of economic opportunities away from our city.

Even if all these obstacles were overcome — and airports in the PRD completed all their respective expansion plans — there still would not be enough capacity. A report by IATA Consulting estimated that there would be a shortfall of 100 million trips by 2030.

In fact, traffic at HKIA has grown faster than was envisioned in *HKIA Master Plan 2030* and current projections suggest that the airport could reach capacity in several years' time. Travellers may soon begin to feel the effects of these constraints. We need the 3RS to be in place as soon as practicable to maintain HKIA's high service standards as one of the best airports in the world.

Great People

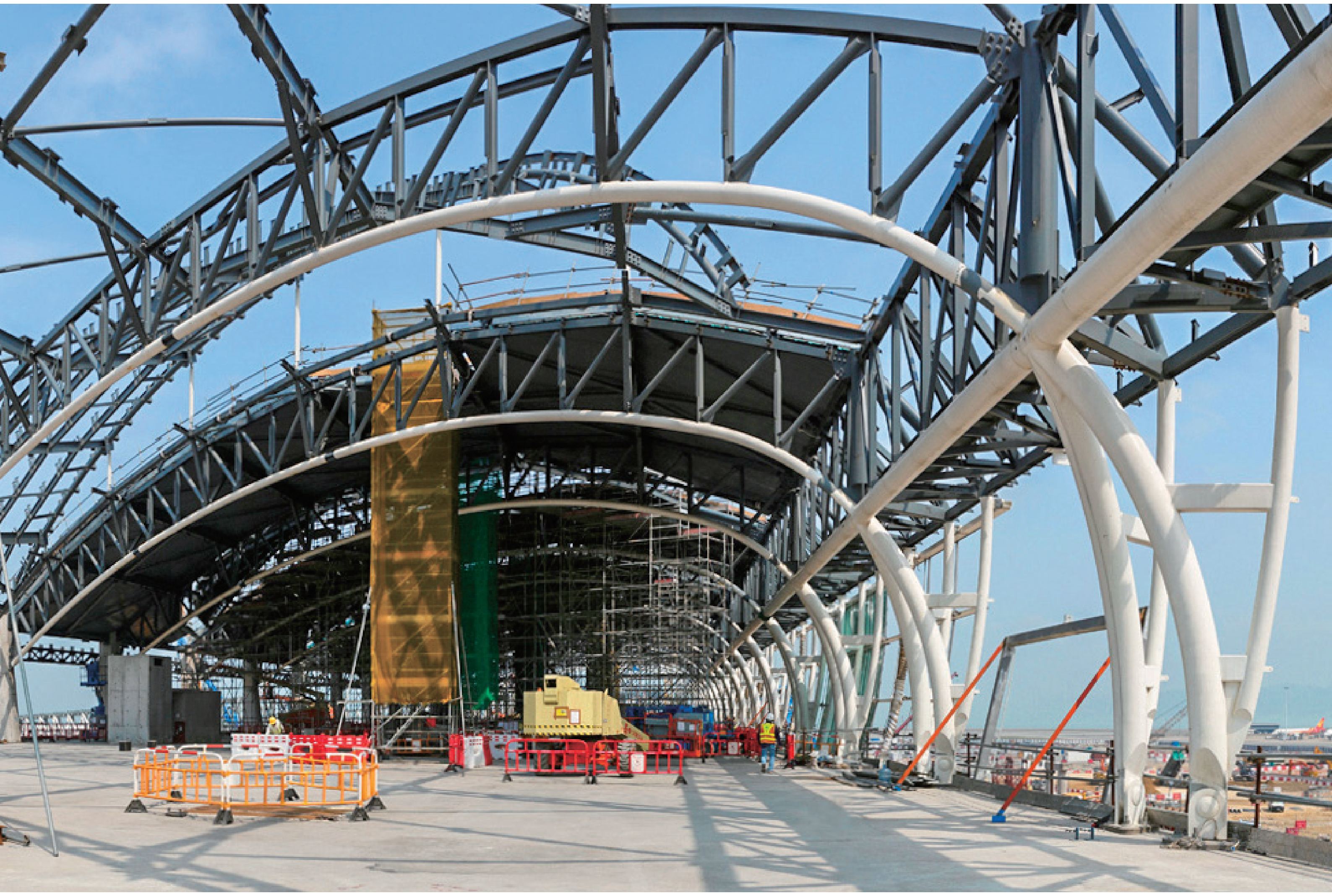
HKIA benefits from the skill and energy of a talented group of people. I would like to take this opportunity to recognise our Chief Executive Officer, Stanley Hui Hon-chung, who will leave us in July 2014. Stanley made many contributions over the past seven years and his leadership in maximising the handling capacity of HKIA under the two-runway system and in developing the 3RS has been invaluable.

I would also like to extend my appreciation to the Transport and Housing Bureau, the Airport Expansion Project Coordination Office and the myriad government bureaux and departments that have contributed to the development of the 3RS over the past year.

Finally, I would like to recognise the hard work of our staff, the vision of our Board and the unfailing support of our business partners. Without them, our success would not be possible.

Dr Marvin Cheung Kin-tung
Chairman
Hong Kong, 19 May 2014

CHIEF EXECUTIVE OFFICER'S STATEMENT



Dear Stakeholders,

Fiscal 2013/14, ended 31 March 2014, was a record-breaking year for Hong Kong International Airport (HKIA).

Passenger volume grew 6.1% from fiscal 2012/13, to 60.7 million, aircraft movements increased 6.3%, to 377,476, and cargo throughput rose 3.4%, to 4.2 million tonnes. Cross-boundary traffic registered steady growth. Around 2.7 million passengers used SkyPier, a gain of 1.7%, while approximately two million people travelled between the Pearl River Delta and HKIA via our limousine and coach services, a 1% increase from the last fiscal year.

Medium-term Developments

Demand for aviation services in Hong Kong continues to soar and HKIA's two-runway system is expected to reach capacity well before the planned commissioning of the three-runway system (3RS) in 2023. To maintain HKIA's high standards of service, we have been developing facilities that will meet medium-term demand.

Those efforts are well under way. Twenty new aircraft parking stands entered service in 2013 and another eight will be added in 2014. Construction of the Midfield Concourse and associated facilities is on schedule. Targeted for completion by the end of 2015, the new concourse will provide 20 parking stands and capacity for an additional 10 million passengers each year.

" In April 2014, we submitted the EIA report, which has thoroughly examined the project's potential environmental impacts, to EPD. The submission marked an important step towards the implementation of the 3RS project and we will continue to communicate with our stakeholders."

Stakeholder Engagement for the 3RS Project

In 2012, we began work on the statutory environmental impact assessment (EIA) for the 3RS project. The EIA study covered 12 different environmental aspects and was conducted with the support of international and local experts. In accordance with the Environment Impact Assessment Ordinance and the Study Brief issued by the Environmental Protection Department (EPD) of the Hong Kong SAR Government for the project, our goal is to avoid, minimise, mitigate and compensate for any potential environmental impacts of the 3RS.

Since the start of the EIA process, we have arranged a host of activities, including some 500 meetings, briefings and visits for a range of stakeholders, such as District Councillors, community leaders, residents, fishermen, professional bodies, green groups and other non-governmental organisations, academics, think tanks, students and the general public. Through these activities, we have kept our stakeholders updated of the EIA process, and gauged their views and concerns arising from the project.

In April 2014, we submitted the EIA report, which has thoroughly examined the project's potential environmental impacts, to EPD. The submission marked an important step towards the implementation of the 3RS project and we will continue to communicate with our stakeholders. We hope that the EIA process can be completed within 2014 following which we will seek Government's approval for taking forward the project.

Lantau Developments

Between 2016 and 2018, the airport island will undergo a dramatic change as the Hong Kong–Zhuhai–Macao Bridge, the Hong Kong Boundary Crossing Facilities and the Tuen Mun–Chek Lap Kok Link enter service. These projects will make the airport more accessible to people in Hong Kong and throughout the Pearl River Delta, and reinforce HKIA's position as a multi-modal transport hub.

To capture the new business opportunities arising from these projects, during the year we began planning the development of the North Commercial District. The district's first phase commercial development will include a hotel with more than 1,000 rooms that will help to alleviate Hong Kong's shortage of hotel rooms and strengthen Lantau's attractiveness as a tourist destination.

A New Chapter Begins

Over nearly four decades in the aviation industry, I have had the privilege of witnessing our airport's evolution from a single, crowded runway tucked among Kowloon City's tenements to a modern facility that is regularly voted the best in the world. I have also watched Hong Kong emerge as one of the globe's most connected cities and pre-eminent financial centres.

I am grateful to have had the opportunity to work with the exceptional people at Airport Authority Hong Kong (AAHK) over the past seven years. When I pass the baton in July 2014, I will do so with confidence that my colleagues will continue to serve the aviation industry and contribute to our city with the highest professional standards. I am equally confident that HKIA's contribution will grow when the 3RS becomes a reality.

Recognition of Support

During the year, an international management consultancy completed a survey of our "Organisational DNA", which they benchmarked against 19 other airports. The consultant's findings confirmed something that I have long believed — that we are a truly exceptional team. The consultants said that AAHK was one of the most resilient among some 11,000 organisations they have surveyed worldwide with the Organisational DNA framework.

Like the staff of AAHK, our business partners work hard every day to make HKIA a success. I am grateful to the 65,000 men and women who comprise the airport community for their passion and commitment.

Finally, I would like to thank the Board for its guidance as we completed the environmental impact assessment for the 3RS and the Hong Kong SAR Government for its steadfast support.

Stanley Hui Hon-chung
Chief Executive Officer
Hong Kong, 19 May 2014

THE BOARD


Dr Marvin Cheung Kin-tung


Mr Stanley Hui Hon-chung


Professor the Hon K C Chan


The Hon Chan Kam-lam


Mr Edward Cheng Wai-sun


Professor the Hon Anthony Cheung Bing-leung


Ms Anita Fung Yuen-mei


The Hon Albert Ho Chun-yan


Ir Dr Raymond Ho Chung-tai


Mr Benjamin Hung Pi-cheng


The Hon Jeffrey Lam Kin-fung


Ms Miriam Lau Kin-yee


Ir Lee Shing-see


Mr Norman Lo Shung-man


Mr Vincent Lo Hong-sui


Ms Caroline Mak Sui-king


Mr Huen Wong

Dr Marvin Cheung Kin-tung
DBA Hon. GBS OBE JP
Chairman

Aged 66. Appointed as Chairman of the Board in June 2008, was re-appointed in June 2011. First appointed as Member of the Board in June 2003 and was re-appointed in June 2005. Chairman of the Council of the Hong Kong University of Science and Technology. Court Member of The Open University of Hong Kong. Member of the Working Group on Transportation under the Economic Development Commission. Non-official Member of the Lantau Development Advisory Committee of the HKSAR Government. Independent Non-Executive Director of Hang Seng Bank Ltd, HKR International Ltd and HSBC Holdings plc.

Mr Stanley Hui Hon-chung JP
Chief Executive Officer*

Aged 63. Appointed as Chief Executive Officer in February 2007. Former Chief Executive Officer of Dragonair and Chief Operating Officer of Air Hong Kong. First Vice Chairman of Hangzhou Xiaoshan International Airport Company Limited. Chairman of Hong Kong - Zhuhai Airport Management Company Limited. Member of the Hong Kong Government's Aviation Development Advisory Committee. Member of the 12th National Committee of Chinese People's Political Consultative Conference. Member of the Fifth Shenzhen Committee of the People's Political Consultative Conference of China. Chairman of the Chinese Cuisine Training Institute Training Board.

Professor the Honourable K C Chan
GBS JP
Secretary for Financial Services and the Treasury*

Aged 57. Became a Board Member in July 2007 upon his appointment as Secretary for Financial Services and the Treasury. Chairman of the Managing Board of Kowloon-Canton Railway Corporation. Member of the Board of Directors of MTR Corporation Limited.

The Honourable Chan Kam-lam
SBS JP

Aged 65. Appointed to the Board in January 2010 and was re-appointed in January 2013. Member of the Legislative Council representing the constituency of Kowloon East. Chairman of the Panel on Transport. Member of the Finance Committee & House Committee, and Member of the Panels on Administration of Justice & Legal

Services, Development, Financial Affairs and Security of the Legislative Council. Member of the 12th National Committee of Chinese People's Political Consultative Conference. Council Member of Hong Kong Polytechnic University. Member of Deposit-taking Companies Advisory Committee.

Mr Edward Cheng Wai-sun SBS JP

Aged 59. Appointed to the Board in June 2011. Deputy Chairman and Chief Executive of Wing Tai Properties Limited and Chairman of Lanson Place Hospitality Management Limited. Chairman of the University Grants Committee. Member of the Commission on Strategic Development of the HKSAR Government. Independent Non-Executive Director of Television Broadcasts Limited, Orient Overseas (International) Limited and Standard Chartered Bank (Hong Kong) Limited.

Professor the Honourable Anthony Cheung Bing-leung GBS JP
Secretary for Transport and Housing*

Aged 61. Became a Board Member in July 2012 upon his appointment as Secretary for Transport and Housing. Former President of the Hong Kong Institute of Education and Chair Professor of Public Administration. Prior to 2008, he was a Professor at the Department of Public and Social Administration of the City University of Hong Kong. Professor Cheung was a member of the Legislative Council from 1995 to 1997.

Ms Anita Fung Yuen-mei BBS

Aged 53. Appointed to the Board in June 2010 and was re-appointed in June 2013. Group General Manager of the HSBC Group. Chief Executive Officer Hong Kong of The Hongkong and Shanghai Banking Corporation Limited. Non-Executive Director of HSBC Bank (China) Company Limited. Non-Executive Director of Bank of Communications Co., Ltd. Vice-Chairman of the Hong Kong Association of Banks. Council Member of the Hong Kong University of Science and Technology. Member of the Banking Advisory Committee and the Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority, Non-official Member of the Hong Kong Housing Authority and Board Member of the Community Chest of Hong Kong.

The Honourable Albert Ho Chun-yan

Aged 63. Appointed to the Board in January 2010 and was re-appointed in January 2013. Practising Solicitor and Notary Public. Member of the Legislative Council . Tuen Mun District Council Member. Member of the ICAC Complaints Committee.

Ir Dr Raymond Ho Chung-tai
SBS MBE S.B.St.J. JP

Aged 75. Appointed to the Board in June 2008 and was re-appointed in June 2011. Chairman of Hong Kong Trade Development Council Infrastructure Development Advisory Committee. Member of the Commission on Strategic Development of the Hong Kong SAR Government. Chairman of Guangdong Daya Bay Nuclear Plant and Lingao Nuclear Plant Safety Consultative Committee. Former Member of the Legislative Council (Engineering Functional Constituency) and the former Provisional Legislative Council since 1996. Former President of the Hong Kong Institution of Engineers.

Mr Benjamin Hung Pi-cheng JP

Aged 49. Appointed to the Board in June 2008 and was re-appointed in June 2011. Regional Chief Executive Officer, Greater China & Hong Kong of Standard Chartered Bank (Hong Kong) Limited. Member of the Financial Services Development Council, the Exchange Fund Advisory Committee and the Council for Sustainable Development. Council Member of the University of Hong Kong. Vice-Chairman of the Hong Kong Association of Banks. Board Member of the Community Chest and the Community Business.

The Honourable Jeffrey Lam Kin-fung GBS JP

Aged 62. Appointed to the Board in June 2011. Managing Director of Forward Winsome Industries Limited. Non-official Member of the Executive Council. Member of the Legislative Council. Chairman of Mega Events Funds Assessment Committee. Member of the Board of the West Kowloon Cultural District Authority. Member of the Fight Crime Committee. Member of the Complaints Committee of Independent Commission Against Corruption. Member of the 12th National Committee of Chinese People's Political Consultative Conference.

Ms Miriam Lau Kin-yee GBS JP

Aged 66. Appointed to the Board in June 2011. Solicitor and Notary Public and China-Appointed Attesting Officer. Deputy to the 12th National People's Congress of the People's Republic of China.

Ir Lee Shing-see GBS OBE JP

Aged 72. Appointed to the Board in June 2011. An Engineer by profession. Fellow of both the Hong Kong Institution of Engineers and the Institution of Civil Engineers (UK). Former Secretary for Works of the HKSAR Government. Chairman of the Construction Industry Council. Director of the Hong Kong Cyberport Management Company Ltd. Member of the Development Committee of the West Kowloon Cultural District Authority and the Committee on Education, Employment and Training of the Commission on Poverty. Convener of the Panel for the Testing & Certification of Construction Material Trade.

Mr Norman Lo Shung-man AE JP
Director-General of Civil Aviation*

Aged 57. Became a Board Member in April 2004 upon his appointment as Director-General of Civil Aviation.

Mr Vincent Lo Hong-sui GBS JP

Aged 65. Appointed to the Board in January 2013. Chairman of the Shui On Group. Member of the 12th National Committee of Chinese People's Political Consultative Conference. Hong Kong's representative to the Asia Pacific Economic Cooperation (APEC) Business Advisory Council. President of Council for the Promotion & Development of Yangtze. Economic Adviser of the Chongqing Municipal Government. Honorary Life President of Business and Professionals Federation of Hong Kong.

Ms Caroline Mak Sui-king

Aged 59. Appointed to the Board in June 2011. Group Director, Health & Beauty, The Dairy Farm Group. Chairman of the Hong Kong Retail Management Association. Chairperson of the Retail Industry Training Advisory Committee of Qualifications Framework. Member of the Steering Committee on Population Policy, the Standing Committee on Disciplined Services Salaries and Conditions of Service, Committee of the Employers' Federation of Hong Kong and the Quality Tourism Services Sub-Committee. Board Member of GS1 Hong Kong. Chairman of Committee on Supply Chain of Powered Formula, Member of Advisory Panel of Retail Manpower Development under Commerce and Economic Development Bureau.

Mr Huen Wong JP

Aged 62. Appointed to the Board in June 2011. Chairman of the Hong Kong International Arbitration Centre. Deputy Chairman of the Board of Review (Inland Revenue Ordinance). Chairman of the Copyright Tribunal. Board Member of Hospital Authority. Former President of the Law Society of Hong Kong (2009 to 2011). Former China Managing Partner of two international law firms (1997 to 2011).

** Member by virtue of being holder of the post*

Secretary to the Board
Mr H Y Shu

Auditors
KPMG

EXECUTIVE DIRECTORS


Mr John Chai Sung-veng


Miss Cissy Chan Ching-sze


Mr Wilson Fung Wing-yip


Mr William Lo Chi-chung


Mr Ng Chi-kee

Mr John Chai Sung-veng
Executive Director,
Projects

Aged 63. An engineering graduate of the University of Hong Kong. Mr Chai was appointed in October 2012. He was the Director of the Civil Engineering and Development Department of the HKSAR Government before his retirement in 2011. He has had over 35 years of professional experience implementing and managing large, complex infrastructure projects.

Miss Cissy Chan Ching-sze
Executive Director,
Commercial

Aged 48. An MBA graduate from the Chinese University of Hong Kong. Ms Chan was appointed in September 2012. Before joining the Airport Authority, Ms Chan was the Director, Retail Portfolio & Marketing at Hysan Development Company Ltd. Prior to that, she gained substantial management and commercial experience in multinational companies while holding senior positions at Reckitt Benckiser (Hong Kong / Taiwan) and Johnson & Johnson Hong Kong.

Mr Wilson Fung Wing-yip
Executive Director,
Corporate Development

Aged 50. Holds a Bachelor Degree in Social Science (First Class Honours). Mr Fung was appointed in August 2010. Before joining the Airport Authority, Mr Fung was the Executive Director of Hong Kong Productivity Council between 2006 and 2010. He has had over 20 years of experience in public administration. He joined the civil service as an Administrative Officer in 1985 and has since served in various Government policy bureaux and departments. His experience stretches from air services to lands and city planning, housing policies, consumer protection and competition policies.

Mr William Lo Chi-chung
Executive Director,
Finance

Aged 54. An MBA graduate from Warwick University in the United Kingdom. Mr Lo was appointed in July 2010. Before joining the Airport Authority, Mr Lo was Group Senior Director (Finance and Administration) of Vitasoy International Holdings Limited and has had more than 25 years of wide-ranging experience in auditing, accounting, finance management and control, corporate finance and investors relation. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants and a director of Hangzhou Xiaoshan International Airport Company Limited.

Mr Ng Chi-kee
Executive Director,
Airport Operations

Aged 59. Holds a Bachelor Degree in Applied Economics from the United Kingdom. Joined the Airport Authority in 1996 and was appointed Executive Director in March 2012. Mr Ng was previously the Deputy Director, Airport Operations of AAHK. With more than 27 years of experience in airport management, he has held a number of managerial and senior management positions in the fields of airfield operations, passenger services, security operation, commercial and property, technical administration and systems management since the Kai Tak Airport days to the present time. He is a Director of Hong Kong - Zhuhai Airport Management Company Limited.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2013/14	2012/13 Restated	±% [1]
Financial Results *(in HK$ million)*			
Turnover	**14,810**	13,134	+12.8%
EBITDA	**9,938**	8,852	+12.3%
Depreciation and amortisation	**2,248**	2,208	+1.8%
Interest and finance costs	**13**	121	-89.3%
Profit attributable to the equity shareholder	**6,454**	5,615	+14.9%
Dividend declared	**5,300**	4,400	+20.5%
Financial Position and Ratios *(in HK$ million)*			
Total assets	**56,876**	53,692	+5.9%
Total borrowings	**4,937**	5,780	-14.6%
Total equity	**42,519**	40,370	+5.3%
Return on equity	**15.6%**	14.3%	
Total debt/capital ratio	**10%**	13%	
Credit Ratings			
Standard & Poor's:			
Long-term local currency	**AAA**	AAA	
Long-term foreign currency	**AAA**	AAA	
Operational Highlights[2]			
Passenger traffic[3] *(millions of passengers)*	**60.7**	57.2	+6.1%
Cargo throughput[4] *(millions of tonnes)*	**4.2**	4.0	+3.4%
Aircraft movements *(thousands)*	**377**	355	+6.3%

1 Subject to rounding differences.

2 "Operational Highlights" is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.

3 "Passenger traffic" includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

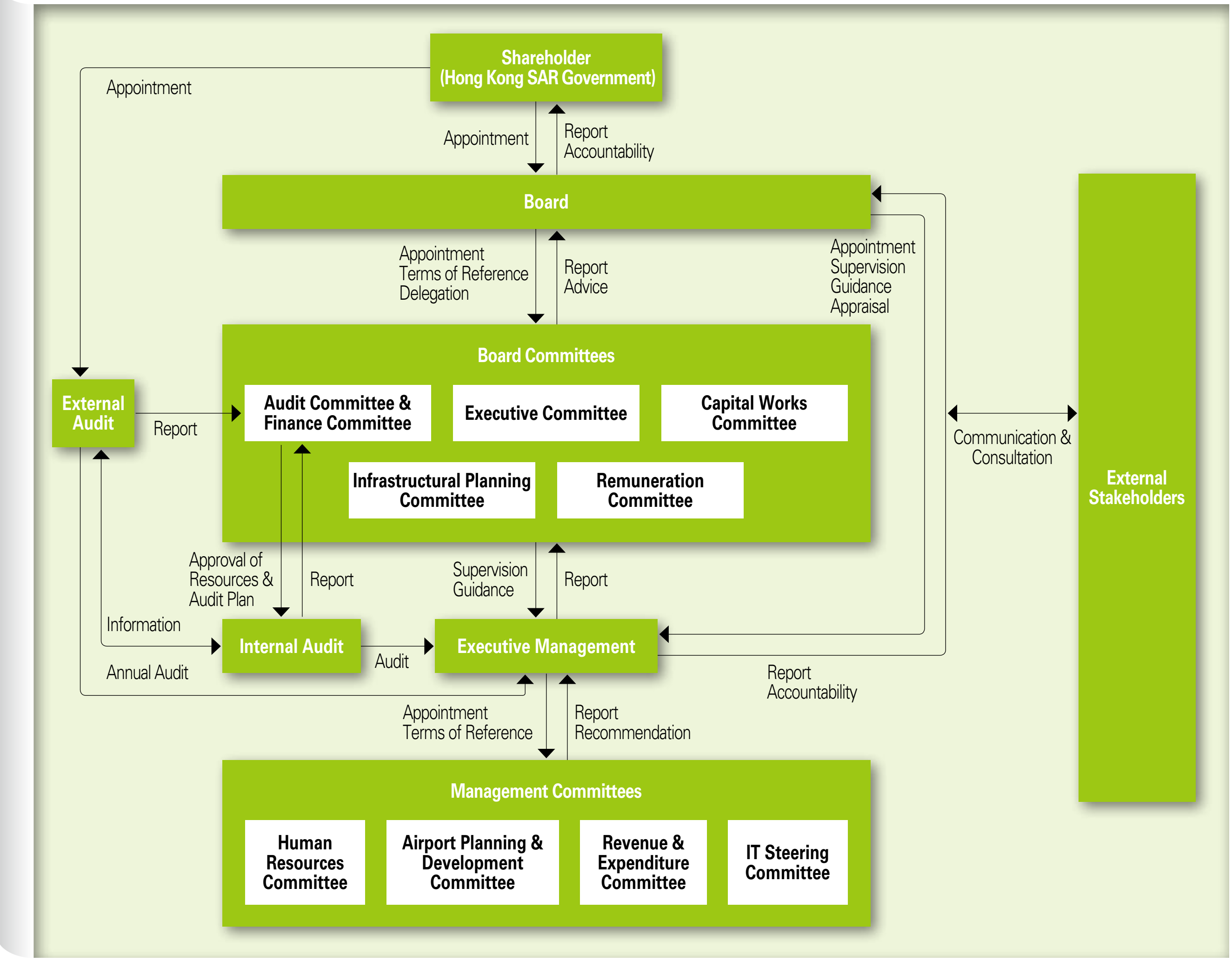
4 "Cargo throughput" includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

CORPORATE GOVERNANCE

Airport Authority Hong Kong ("AAHK") is committed to high standards of corporate governance, on the belief that good corporate governance not only meets the expectation of key stakeholders, but is also 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 overall 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.

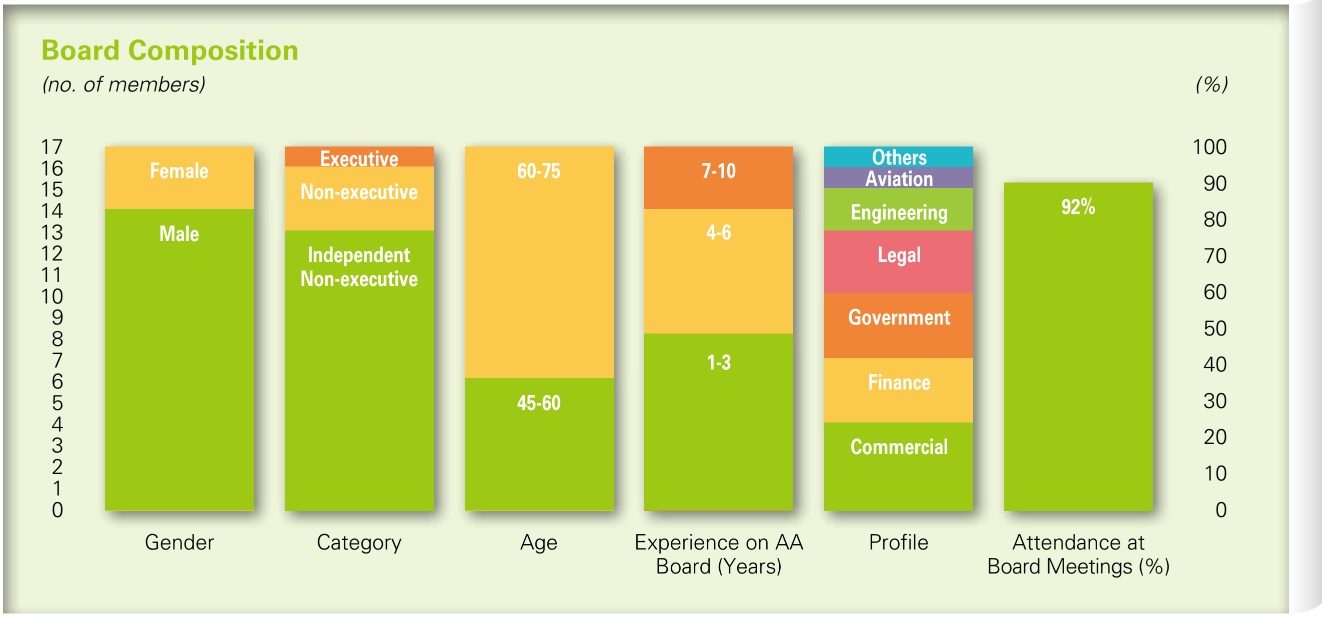
To ensure effective discharge of duties by Board Members, the Board assumes the responsibility of ensuring that each Board Member has spent sufficient time to attend to the affairs of AAHK.

Board Structure

The Airport Authority Ordinance (the "Ordinance") provides that the Board shall comprise a Chairman, a Chief Executive Officer (ex-officio) and between 8 and 15 other Members. The Members who are public officers shall not be more than the Members who are not public officers. This structure effectively ensures that the Board would comprise a majority of independent members and is conducive to maintaining an independent and objective Board decision-making process.

Board Composition

The Board has 17 Members, whose details are set out on pages 12 to 13 and are available on the AAHK website. With the exception of the Chief Executive Officer, all Board Members are non-executive and 13 of whom are considered independent[1]. Currently, 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. Non-executive Members bring an external perspective, constructively challenge and advise on proposals on strategy, and monitor the performance of Management.



Appointment

The appointment of Board Members, including the Chairman, is determined by the Chief Executive of the Hong Kong Special Administrative Region (SAR). With the exception of the Chief Executive Officer who is an ex-officio member, the Chairman and all other Board Members are appointed for a term of three years.

Remuneration

Pursuant to the Ordinance, the remuneration of Board Members, including the Chairman, are determined by the Chief Executive of the Hong Kong SAR. 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 88.

Training

Full, formal and tailored induction programmes are arranged for newly appointed Board Members. The programmes consist of a series of meetings with the Chief Executive Officer, Executive Directors and Management, briefings on airport operations and major developments, and visits to airport facilities to enable new Members to familiarise themselves with the aviation industry and AAHK's objectives, strategies, operations and internal controls.

Recognising that training and development is an ongoing process, Members are invited from time to time to attend training sessions, work-related briefings and visits. In the year under review, Board Members were invited to attend briefings on airport developments, corporate sustainability, landside commercial development and environmental management.

[1] Any member who is not a public officer or an executive of AAHK and is not related to any member of the Board or executive management is considered to be independent.

Apart from keeping Members abreast of the latest developments, Board briefings also provide an ideal platform for Members to engage freely in in-depth discussions and exchanges with the Management under an informal setting. Starting with April 2013, briefings for Board Members are held on a monthly basis.

Personal Liability

Pursuant to Section 45 of the Ordinance, Board Members are exempt 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 ("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.

Key elements of the current modus operandi:

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

Meetings

During the year under review, six Board meetings were held with an average attendance rate of 92%. Attendance records of individual Members are on page 23.

A total of 35 Board papers and three sets of written resolutions were considered and resolved.

Key matters considered/resolved:

- Annual Budget
- Five-year Business Plan and Financial Plan
- Audited financial statements and unaudited interim financial report
- Quarterly management accounts and reports
- Appointment of external auditor
- Annual dividend
- Staff remuneration, pay structure and corporate performance assessment
- Performance assessment and bonus for Senior Management
- Corporate goals and performance measures
- Internal Control and Risk and Business Continuity Management
- Planning for the Three-Runway System
- North Commercial District Development
- Major commercial licences
- AA Organisation Structure Review
- Provision of baggage reconciliation service to airlines and increase of passenger security charge
- Consultancy Study on Institutional Arrangements for the Procurement and Implementation of Future Airport Development
- Intermodal Transfer Terminal at SkyPier

Apart from Board meetings, Chairman had sessions with Members without the presence of the Executive Member and Management to discuss human resources matters.

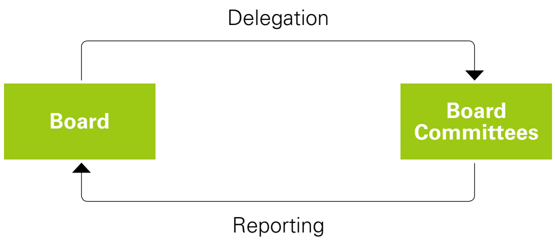
Members are required to declare their interests in business proposals, if any, to be considered by the Board. Members with interests are required to withdraw from the relevant discussions and decision making process as appropriate. In 2013/14, there were two occasions where Members withdrew from meetings in the light of their directorships in companies associated with tenderers of capital works contracts.

To facilitate effective stewardship on complex issues, pre-meeting briefings were held to provide Members with thorough background knowledge and ensure that they were properly briefed before such issues were put to formal meetings.

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 ambits and are required to report to the Board at each Board meeting. Currently there are five Board Committees, each of which with a specific set of terms of reference. A holistic review of the existing Board Committee structure is underway consequent to an independent external consultant's review on the institutional arrangements of AAHK to better prepare the organization for the future.

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



Interface between Board and Board Committees

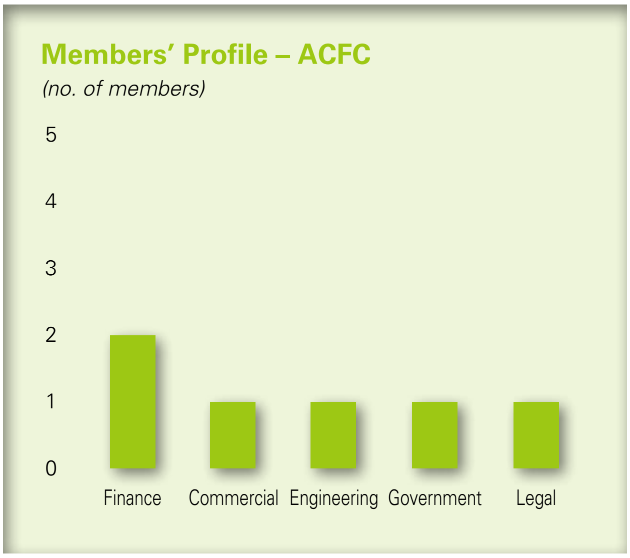
- Agendas of Committee meetings are sent to all Board Members
- All Board Members may attend any Committee meetings as observers
- Board Members are free to access the papers of any Committee meetings through the Secretary of the Board
- Committee reports are submitted to the Board at each Board Meeting
- 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 the light of AAHK's evolving operational, business and development needs. A review was last conducted in 2011 to ensure that there were no material gaps or overlaps between the remit of the Committees. The terms of reference of Board Committees are available on HKIA's website at www.hongkongairport.com.

The composition of Board Committees was last reviewed and approved by the Board in April 2013. Excluding the Chief Executive Officer and public officers, each independent Board Member serves on about 2.2 Board Committees on average.

The following sets out details of Board Committees, their memberships, principal duties and key matters considered or resolved in the year.

Audit Committee and Finance Committee (ACFC)



Membership: Six non-executive members, five of them are independent

Chairman: Mr Benjamin Hung Pi-cheng

Members: Mr Edward Cheng Wai-sun
Ms Anita Fung Yuen-mei
the Hon Albert Ho Chun-yan
Ir Dr Raymond Ho Chung-tai
the Secretary for Financial Services and the Treasury

Meetings and Papers: The ACFC met five times during the year with an average attendance rate of 87%. Attendance records of individual members are set out on page 23. A total of 19 Committee papers was considered or resolved.

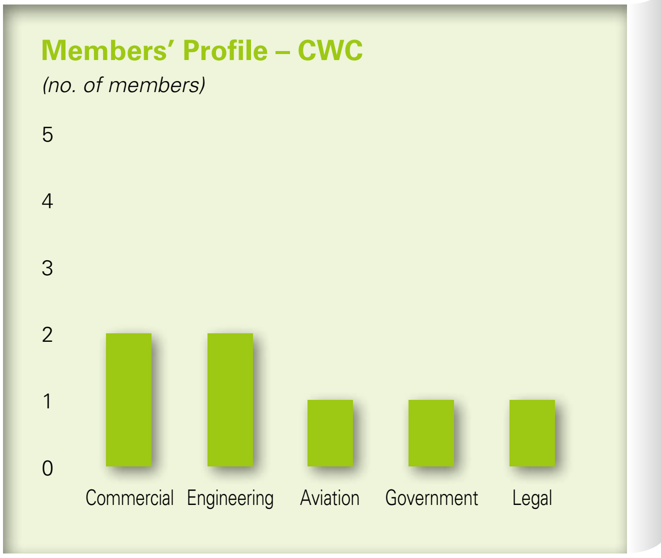
Principal duties:

- Reviews financial statements
- Makes recommendations on the appointment of external auditor, approves its remuneration and terms of engagement and oversees AAHK's relations with the external auditor
- Reviews accounting policies, annual budget, five-year financial plan and charging policies
- Oversees internal controls, financial controls, risk management system, internal audit function and reviews whistle-blowing policy
- Reports on matters in relation to corporate governance practices

Key matters considered/resolved:

- Audited annual financial statements and unaudited interim financial report
- Annual budget and five-year financial plan
- Quarterly operating results
- Dividend policy and dividend payment
- External auditor's Audit Report, objectivity and effectiveness of audit process
- Appointment of external auditor and approval of audit fee and non-audit services
- Annual Corporate Governance, Risk Management and Internal Control Review Reports
- Adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their training and budget
- Annual internal audit programme and quarterly internal audit reports
- Adequacy of resources and effectiveness of the internal audit function
- Implementation of High Level Internal Control Review Recommendations
- Revenue strategy
- Provision of baggage reconciliation service to airlines and increase of passenger security charge
- Consultancy Study on Institutional Arrangements for the Procurement and Implementation of Future Airport Development

Capital Works Committee (CWC)



Membership: Seven members (including a co-opted member) in total, five of them are independent

Chairman: Ir Lee Shing-see

Members: Ir Dr Raymond Ho Chung-tai
the Hon Jeffrey Lam Kin-fung
Mr Vincent Lo Hong-sui
Mr Huen Wong
Mr Stanley Hui Hon-chung

Co-opted Member: Ms Mable Chan

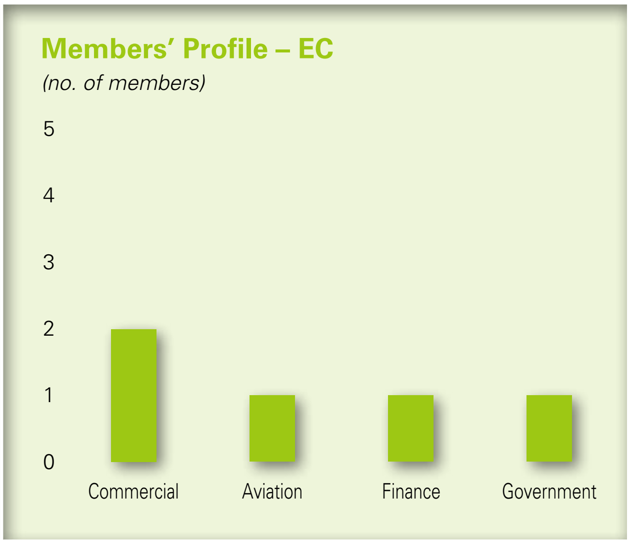
Meetings: The CWC met five times during the year with an average attendance rate of 83%. Attendance records of individual members are set out on page 23. A total of 20 Board Committee papers and one set of written resolutions were considered or resolved.

Principal duties:

- Reviews/approves policy and strategy on procurement of capital works
- Makes recommendations to the Board on annual capital works budget and Five-year Capital Works Plan
- Reviews/approves the award of capital works contracts and contract variations
- Monitors the progress of major capital projects

Key matters considered/resolved:
- Annual capital works budget and Five-year Capital Works Plan
- Three Runway System Project
- Midfield Development
- Provision of airport facilities
- North Commercial District Development
- Airport improvement and maintenance works
- Progress Reports on major capital works and projects
- Procurement strategies and award of works contracts

Executive Committee (EC)



Membership: Five members in total, three of them are independent

Chairman: Dr Marvin Cheung Kin-tung

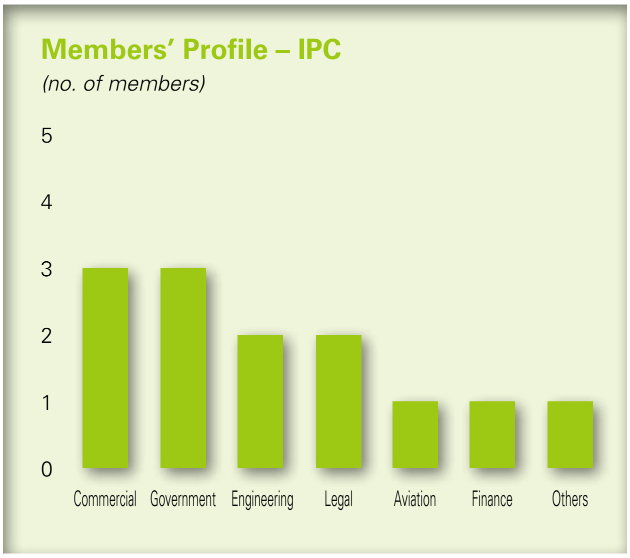
Members: Mr Edward Cheng Wai-sun
Mr Stanley Hui Hon-chung
Mr Vincent Lo Hong-sui
the Secretary for Transport and Housing

Meetings: The EC met seven times during the year with an average attendance rate of 86%. Attendance records of individual members are set out on page 23. A total of 25 Board Committee papers was considered.

Principal duties:
- Exercises the functions and responsibilities of the Board between regular Board meetings
- Serves as a sounding board for the Chairman of the Board in the leadership and oversight of the business and affairs of AAHK
- Helps coordinate the activities among Board Committees
- Oversees the rolling 5-year Business Plan and Financial Plan

Key matters considered/resolved:
- Planning for the Three-Runway System
- Commercial operation
- North Commercial District Development
- Airport franchises and commercial licences
- Airport Service Quality Survey
- Projects in Mainland China
- Monthly or bimonthly management accounts and report
- Reports on AAHK's operations and business activities

Infrastructural Planning Committee (IPC)



Membership: Twelve members in total, eight of them are independent

Chairman: Mr Vincent Lo Hong-sui (Resigned on 4 November 2013)

Members: Dr Marvin Cheung Kin-tung
the Hon Chan Kam-lam
Mr Edward Cheng Wai-sun
Ir Dr Raymond Ho Chung-tai
Mr Stanley Hui Hon-chung
Ms Miriam Lau Kin-yee
Ir Lee Shing-see
Ms Caroline Mak Sui-king
Mr Huen Wong
the Secretary for Financial Services and the Treasury
the Secretary for Transport and Housing
the Director-General of Civil Aviation

Meetings: The IPC met three times during the year with an average attendance rate of 90%. Attendance records of individual members are set out on page 23. A total of four Board Committee papers was considered.

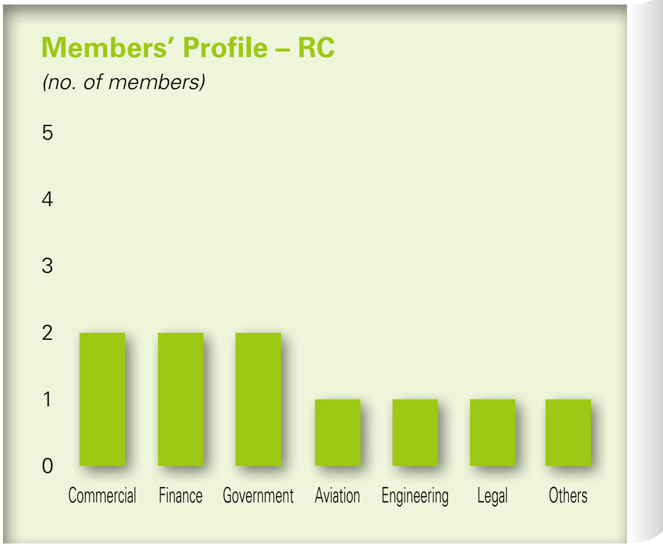
Principal duties:

- Reviews and advises the Board on major infrastructural developments at HKIA and its long term master planning and associated issues

Key matters considered/resolved:

- North Commercial District Development
- Intermodal Transfer Terminal at SkyPier

Remuneration Committee (RC)



Membership: Ten members in total, seven of them are independent

Chairman: Mr Edward Cheng Wai-sun

Members: Dr Marvin Cheung Kin-tung
the Hon Chan Kam-lam
the Hon Albert Ho Chun-yan
Ir Dr Raymond Ho Chung-tai
Mr Stanley Hui Hon-chung
Mr Benjamin Hung Pi-cheng
Ms Caroline Mak Sui-king
the Secretary for Transport and Housing
the Director-General of Civil Aviation

Meetings: The RC met two times during the year with an average attendance rate of 90%. Attendance records of individual members are set out on page 23. A total of five Board Committee papers was considered.

Principal duties:

- Reviews staffing, remuneration and employment policies and strategies
- Advises the Board on staff-related issues, including annual corporate goals and performance measures, grading and pay structure, variable compensation and retirement schemes
- Makes recommendation on appointment of Chief Executive Officer and executive directors and their remuneration

Key matters considered/resolved:

- Annual review of staff remuneration
- Annual corporate performance assessment and award of variable compensation for staff
- Issues relating to the variable compensation scheme
- Performance review of the Chief Executive Officer, Executive Directors and Deputy Directors and their variable compensation
- Corporate goals and performance measurements
- Corporate performance assessment mechanism
- Annual pay review mechanism

Meeting Attendance (1 April 2013 to 31 March 2014)

Members	Board	ACFC	CWC	EC	IPC	RC
Non-executive						
Secretary for Transport and Housing	6/6			7/7	3/3	2/2
Secretary for Financial Services and the Treasury	6/6	5/5			3/3	
Director-General of Civil Aviation	6/6				2/3	2/2
Independent Non-executive						
Dr Marvin Cheung Kin-tung	6/6[1]			5/7[1]	2/3	2/2
The Hon Chan Kam-lam	5/6				3/3	2/2
Mr Edward Cheng Wai-sun	5/6	4/5		6/7	3/3	2/2[1]
Ms Anita Fung Yuen-mei	5/6	3/5				
The Hon Albert Ho Chun-yan	5/6	4/5				2/2
Ir Dr Raymond Ho Chung-tai	6/6	5/5	3/5		3/3	2/2
Mr Benjamin Hung Pi-cheng	5/6	5/5[1]				1/2
The Hon Jeffrey Lam Kin-fung	6/6		5/5			
Ms Miriam Lau Kin-yee	6/6				3/3	
Ir Lee Shing-see	5/6		5/5[1]		3/3	
Mr Vincent Lo Hong-sui	5/6		2/5[3]	5/7	3/3[2]	
Ms Caroline Mak Sui-king	5/6				1/3	1/2
Mr Huen Wong	6/6		4/5		3/3	
Executive						
Mr Stanley Hui Hon-chung (Chief Executive Officer)[4]	6/6		5/5	7/7	3/3	2/2

Notes:

1 Chairman of the Board or Committee throughout the term

2 Ceased to be the Chairman of the Committee on 4 November 2013

3 Appointed to the Committee on 18 April 2013

4 Ceased to be the Chief Executive Officer on 11 July 2014

Balance of Responsibility

In AAHK, the Board is responsible for overseeing the strategic direction and overall performance of AAHK, while the 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
- Senior executives' appointments, compensation and succession planning
- Review of management performance

At AAHK, the posts of Chairman and Chief Executive Officer are separate. The Chairman is generally responsible for managing the Board while the Chief Executive Officer is responsible for managing the business and operations of AAHK.

Executive Management

The executive management team, led by the Chief Executive Officer, is responsible for managing AAHK's day-to-day operations and assisting the Board in formulating and implementing corporate strategies.

AAHK is operating with a management structure that consists of functional departments and divisions. This structure underpins a focus on corporate performance, fosters close departmental cooperation whilst maintaining the accountability of individual departments.

The appointment of the Chief Executive Officer is subject to the approval of the Chief Executive of the Hong Kong SAR, on the recommendation of the RC and the Board.

The compensation of the Chief Executive Officer and the Executive Directors (including Deputy Directors) are reviewed and recommended by the RC and approved by the Board. The remuneration package of the Chief Executive Officer and Executive Directors 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 members or Executive Directors is involved in deciding his own remuneration. Details of the remuneration of the Chief Executive Officer and Executive Directors are set out in the Notes to the Financial Statements on pages 88 to 91.

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 Chief Executive Officer.

Management Committees

Apart from the five Board Committees, there are management committees composed entirely of Management staff to deal with management and operational issues. The key management committees are:

Airport Planning and Development Committee

The Airport Planning and Development Committee, chaired by the Chief Executive Officer with the Executive Directors as members, was re-activated in 2010 to ensure that a more coordinated approach in reviewing land use proposals on the airport island for airport operations, airport support and airport-related developments. This committee is responsible for the review of all land use requests before such requests are taken forward by the responsible departments to the higher authority for approval.

Human Resources Committee

The Human Resources Committee, chaired by the Chief Executive Officer with Executive Directors and General Manager, Human Resources as members, was set up in June 2008. This committee is responsible for the review and formulation of human resources policies and procedures in meeting changing business needs. It also plans for the development of the overall manpower capability of AAHK, including people development and succession planning for senior executive positions.

Information Technology Steering Committee

The Information Technology Steering Committee, chaired by the Chief Executive Officer with Executive Directors and Chief Information Officer as standing members, was established in July 2011 for steering information technology investment and development to ensure alignment with corporate strategies and goals. The key focus areas of the committee are IT governance, strategic alignment, IT investment and value delivery, and IT risk management.

Revenue & Expenditure Committee

The Revenue & Expenditure Committee, chaired by the Chief Executive Officer with all the Executive Directors as standing members, was established in 2008 by the Chief Executive Officer for the purpose of reviewing and approving revenue or expenditure commitments within his approval authority as delegated by the Board. The Chief Executive Officer may co-opt other senior management staff as members if he considers appropriate.

External Stakeholders

Transparency

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

To promote transparency and openness, AAHK voluntarily discloses its compliance with the CG Code, the individual attendance records of Board and committee meetings and the full details of the remuneration of its Board Members and Executive Directors.

Communication

AAHK adopts an open and proactive communication policy. To promote effective communication with stakeholders and the public at large, the HKIA website contains up-to-date and comprehensive information about AAHK, HKIA and its services. AAHK also makes use of online media such as Facebook, Weibo and Twitter for promotion and information dissemination.

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, emails, feedback forms, hotline and more are used to solicit views from passengers, customers and other stakeholders.

In order to foster understanding and seek views on the planned three–runway system (3RS), AAHK has stepped up its efforts in engaging various stakeholders by organising and attending meetings, briefings and visits. Various Technical Briefing Groups and Community Liaison Groups were formed to collect views from industry experts and community leaders. A newsletter, *3RS Bulletin*, and a dedicated website www.threerunwaysystem.com are used to provide updates on the 3RS.

Management conferences are held bi-annually to enhance understanding among the Management team on work to be done during the year or five years ahead to achieve AAHK's goals. These conferences also provide a platform for Senior Management to share their thinking on future corporate direction and focus, based on which departments can formulate cohesive plans for the coming year and beyond. Last year, senior executives led by the CEO hosted two sessions of town hall meeting with AAHK colleagues to provide them with updates on the latest operational initiatives and projects while engaging them in two-way communication.

A newsletter, *HKIA News*, is published to inform AAHK staff, the airport community at large and other pertinent stakeholders of the news and developments about HKIA. The Legislative Council and neighbouring District Councils are also kept updated on major developments at HKIA.

Sustainability

The Board has determined that AAHK has an organization-wide commitment to sustainability. Our vision for sustainability is to strengthen AAHK's 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.

Sustainability at AAHK is supervised by the Executive Committee. The Executive Director of Corporate Development spearheads and oversees the development and implementation of sustainability strategies within the organisation. In 2013/14, a Sustainability Working Group comprising representatives from departments across AAHK was established. Its first task is to strengthen the framework for sustainability reporting.

AAHK's annual sustainability report is prepared with reference to best practice reporting standards, namely the Global Reporting Initiative G3.1 Sustainability Reporting Guidelines & Airport Operators Sector Supplement, and the Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited. This year, our sustainability report will be independently verified by a third-party to enhance its credibility.

Internal Controls

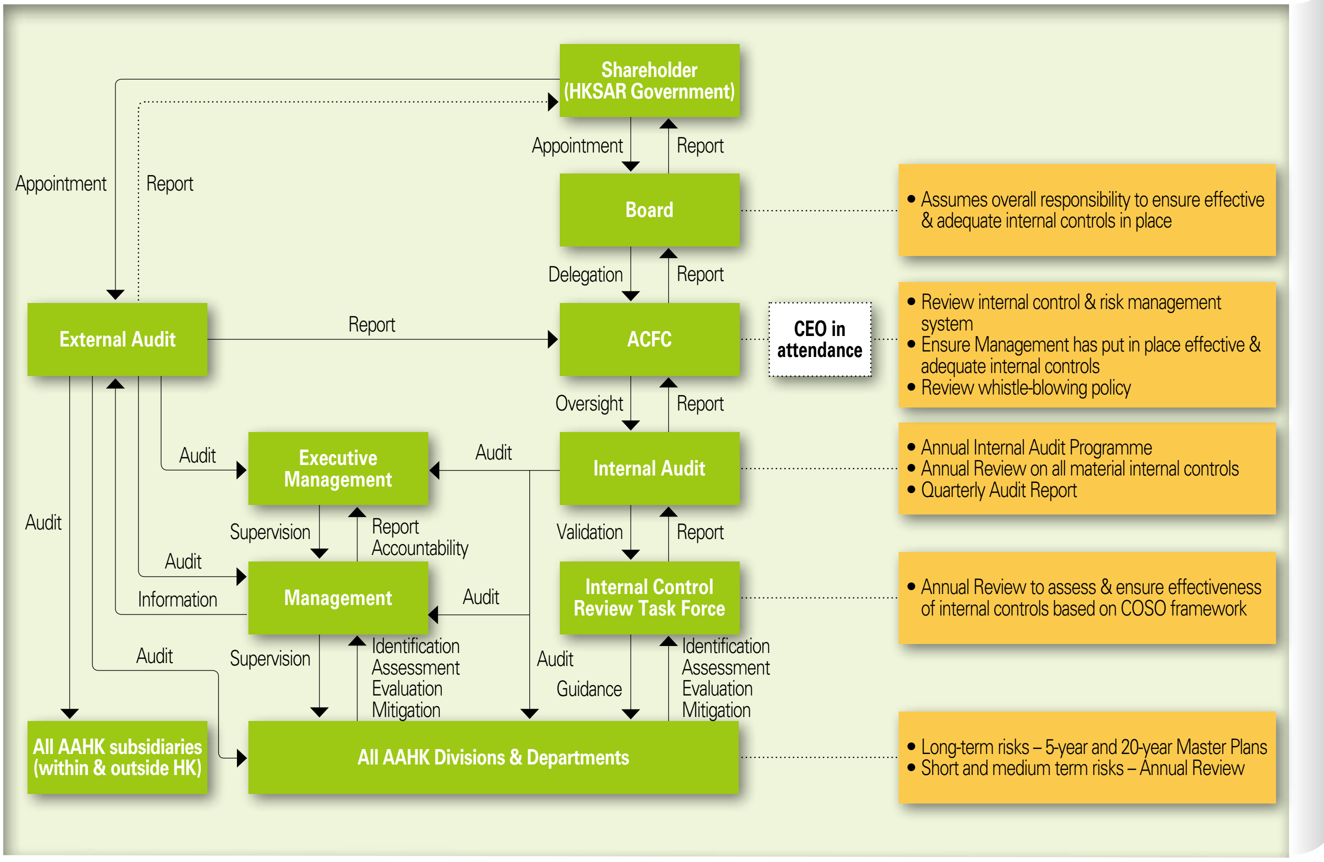
Internal controls forms an integral part of AAHK's management system and are embedded in the operational procedures of functional departments. The underlying principle of AAHK's internal controls is to manage and mitigate, rather than to eliminate risks.

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

- operations are safe and 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 being conducted in a way that is in compliance with the relevant laws and regulations, and prudent commercial principles as stipulated in the Ordinance.

Key features of our internal control framework are described below:

Internal Control Framework



The Board

The Board is overall responsible for ensuring that AAHK has sound and effective internal controls and is assisted by the ACFC in discharging this responsibility.

ACFC

ACFC is responsible for overseeing AAHK's internal controls:

- Reviews annually the internal control and risk management systems which cover all material controls
- Ensures Management has put in place effective internal control system
- Meets with external auditor at least twice a year, at least once a year without the presence of executive management
- Receives external auditor's reports and considers control issues raised
- Receives internal auditor's quarterly reports and provides guidance
- Reviews the whistle-blowing policy
- Oversees the Internal Audit function
- Reviews the adequacy of manpower and training resources of the financial reporting function

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 Hong Kong SAR, 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 which 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 2011/12).

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:

(in HK$ million)	2013/14	2012/13
Audit fee	5	4
Fees for non-audit services	2	3

The non-audit services works conducted by KPMG during 2013/14 were mainly in relation to special review of a subsidiary, tax compliance and 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 before implementation.

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 Chief Executive Officer 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.

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, the executive management, assisted by a cross-departmental Internal Control Review Task Force, conducts annually a comprehensive review on 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. During the interim, a half-yearly update is required from all divisions and departments on changes to control measures in response to changes of risk profiles.

The annual internal control review evaluates all major operations and processes of AAHK based upon 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 those high-risk areas is carried out. Based on the results of these reviews, AAHK departments and major subsidiaries would make representations to executive management as to whether internal controls are working as intended or that enhancements are to be made.

During the year under review, the executive management had reviewed AAHK's internal control system and concluded that it is effective and adequate. A consolidated internal control review report was compiled and submitted to the ACFC for review. The Board then reviewed the effectiveness of AAHK's system of internal control via this consolidated report after its consideration by the ACFC.

Risk Assessment and Management

AAHK's operation encompasses a diverse range of risks. At the corporate level, risks which may hinder AAHK from achieving its long term objectives are analysed within the context of its 20-year Master Plan. Risks relating to AAHK's short and medium term objectives are identified and addressed annually during the preparation of the rolling Five-year Business Plan.

Details of the risk assessment framework and management initiatives are described in the Risk Management Report on pages 34 to 37.

Delegation of Authority

AAHK has a comprehensive system of delegation of authorities under which the authorities of the Board, Board Committees and different levels of the 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 by the Board was conducted in June 2008 and a review on delegation at the management level was also conducted and implemented in the year under review.

Under the current delegations, the Executive Committee has been given the power to exercise the functions of the Board between Board meetings, save for certain statutory restrictions. The Capital Works Committee is delegated the power to make commitments of up to HK$500 million. The Chief Executive Officer is delegated the full power to make commitments of an operational nature and of up to HK$50 million for capital expenditures. To complement these delegations, a reporting mechanism has been instituted to keep the Board informed when certain delegated powers have been exercised.

At the operational level, the Chief Executive Officer has established a Revenue & Expenditure Committee to assist him in exercising his delegated authority. Regular reports are made to the ACFC on authority exercised by the Chief Executive Officer for commitments in excess of HK$20 million.

To facilitate day-to-day operation, the executive management has a structured system of sub-delegation under which staff members of different levels are given appropriate authority to enable them to effectively discharge their duties. The system of sub-delegation is subject to review and approval from time to time by the Chief Executive Officer.

Financial Planning, Control and Reporting

AAHK has a three-tier corporate planning process under which a master plan with a long-term planning horizon of 20 years is compiled every five years. The latest master plan entitled "HKIA Master Plan 2030" was completed in 2011. For medium-term planning, each year AAHK prepares a rolling five-year business plan and financial plan. For short-term planning and control purposes, annual budgets are prepared and submitted to the ACFC and the Board for approval.

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 selected staff to undergo recurrent training on AAHK's financial and internal control policies and procedures on a regular basis.

Results of operations against budget are reported to the ACFC on a quarterly basis and subsequently to the Board. Monthly accounts are submitted to the Executive Committee in those months where no Board meeting is held. Financial control on major capital projects is reported to and monitored by the Capital Works Committee at approximately bimonthly intervals.

The Board is overall responsible for the preparation of financial statements that give a true and fair view of AAHK's affairs and financial results. The Board is assisted by the ACFC in discharging this responsibility. In preparing this year's financial statements, the Board has adopted suitable accounting policies and applied them consistently; made judgements that are prudent and reasonable; and prepared the financial statements on a going concern basis. The audited financial statements are 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, both for the interim and full-year periods, are despatched to the Hong Kong SAR Government and the Legislative Council and published on the HKIA website after approval by the Board.

Accountability

AAHK considers accountability one of the fundamental pillars of corporate governance and has built its corporate structure and management culture based on this notion. Under the current structure, the Board is overall accountable for the performance of AAHK. The executive management is responsible for managing AAHK's day-to-day business and is accountable to the Board for its performance.

In order 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 Interest

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

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 conflicts of interests 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 members with potential conflicts of interests will normally be excluded from the relevant deliberation and decision-making process.

Ethical Culture

Ethics is a core value of AAHK. To foster an ethical culture, AAHK follows both the "structural" and "people" approaches.

The structural approach aims to attain ethical behaviour by institutionalising policies and procedures with which staff members are required to comply. Such policies and procedures, as epitomized by the Code of Conduct, are constant reminders to staff of the minimum ethical standards AAHK expects of them. The Code provides specific guidelines to help staff make ethical decisions in the course of discharging their duties. Compliance with this Code is part of the terms of employment of all staff, who are required to attend an annual web-based course on Code of Conduct to further enhance ethical culture within the AAHK. The Code of Conduct is reviewed and updated regularly to ensure that it is consistent with the current best practices. The last update was completed in January 2013.

Ethical compliance is further strengthened by the presence of a high-level Ethics Panel which is convened as needed to review serious ethical issues. The Ethics Panel may take independent advice and reports to the Chief Executive Officer and/or the ACFC, as appropriate.

The people approach aims to inculcate an ethical mindset among all staff and to enhance their awareness of good ethics through continuing education. In this regard, workshops and sharing sessions conducted by internal and external parties are held from time to time. At these sessions, information on desirable ethical behaviour is promulgated and often supplemented by case studies to help staff gain a better understanding of the underlying principles and how they can be applied in different situations.

To provide staff with a holistic view of the two approaches and promote a better understanding of different levels of ethical responsibility, AAHK has devised an ethics pyramid which encapsulates various ethics-related issues. Staff members are regularly reminded of their obligations under each level of the pyramid.

Quality of Staff

AAHK considers the quality of its staff as a competitive advantage. To ensure that the staff quality is sustainable, AAHK places considerable emphasis on rigorous recruitment and selection, purposeful staff development and succession planning, and a compensation and reward system that aims to motivate and retain staff of high calibre. To better prepare the AAHK for mega developments in the future, an organization structure review was conducted by an independent consultant during the year under review.

AAHK believes that a fair and competitive reward system is a key driver of staff performance and behaviour. To this end, AAHK has implemented a variable compensation scheme since 2002 under which a part of the 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 the changing circumstances and best practices.

Whistle-blowing Policy

AAHK has a formal whistle-blowing policy in place to encourage and guide its staff to raise serious concerns internally in a responsible manner, without any risk of retribution.

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 Hong Kong International Airport 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 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 state of affairs of the group as at 31 March 2014 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and the Ordinance. AAHK's 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 begun voluntarily announcing its interim financial results.

Corporate Governance Practices

Although 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 as set out below:

Deviation from Code Provisions		Reason for Deviation
A.1.8	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.
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	All non-executive Members are appointed for a term of three years. Board Members are not subject to re-election but may be re-appointed by the Chief Executive of the Hong Kong SAR pursuant to Section 3 of the Ordinance.
A.4.2 & A.4.3	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 Hong Kong SAR. Terms of office of Board Members are governed by Section 11 of the Ordinance.
A.5.1 to A.5.5	These code provisions deal with the Nomination Committee.	These provisions are not applicable to the AAHK. Pursuant to Section 3 of the Ordinance, Board Members are appointed by the Chief Executive of Hong Kong SAR.
A.6.4	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.	This provision is not applicable because all of AAHK's shares are held by the Hong Kong SAR Government and are not publicly traded.

Deviation from Code Provisions		Reason for Deviation
A.6.5	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.	AAHK arranges formal induction programmes for newly appointed Board Members to enable them to familiarize themselves with AA's objectives, strategies, operations and internal controls. Board Members are invited to attend training sessions and briefings from time to time. Starting April 2013, briefing or training sessions for Members are held on a monthly basis.
D.3.1	Terms of reference of the Board or committees to include reviewing and monitoring the training and continuous professional development of directors and senior management.	
A.7.1	An agenda and board papers should be sent to all directors at least three days before a meeting.	AAHK has self-imposed a more stringent guideline of issuing papers to Board Members at least three "clear" days (excluding the date of despatch and the date of the meeting) before meeting. But due to occasional urgent business and last minute developments of critical matters, only about 27% of a total of 108 papers met the guideline in the year under review. AAHK would continue to strive to comply with this guideline to the extent practicable.
B.1.2	This code provision relates to the terms of reference of the remuneration committee.	The provision on the power to determine Board Members' remuneration is not applicable because Section 11(4) of the Ordinance provides that the remuneration of Board Members shall be determined by the Chief Executive of the Hong Kong SAR.
E.1.1 to E.1.4 E.2.1	These code provisions deal with the proceedings for annual general meetings.	These provisions are not applicable because AAHK has only one shareholder and is not required to hold annual general meetings.

Deviation from Recommended Best Practices		Reason for Deviation
C.1.6	Publication of quarterly financial results and preparation of quarterly financial reports based on accounting policies consistently applied in half-year and annual accounts.	This practice is not adopted for concerns of committing excessive resources in complying with the form rather than the substance of the practice. Quarterly financial reports are presented to the Board and the ACFC of which representatives of the Government (the sole shareholder) are members.

RISK MANAGEMENT REPORT

The operation of Airport Authority Hong Kong ("AAHK") encompasses a diverse range of risks. At the corporate level, risks which may hinder AAHK from achieving its long term objectives are analysed within the context of its Master Plan (conducted in five-year intervals). Risks relating to AAHK's short and medium term objectives are identified and addressed annually during the preparation of the rolling Five-year Business Plan.

Risk Management Framework

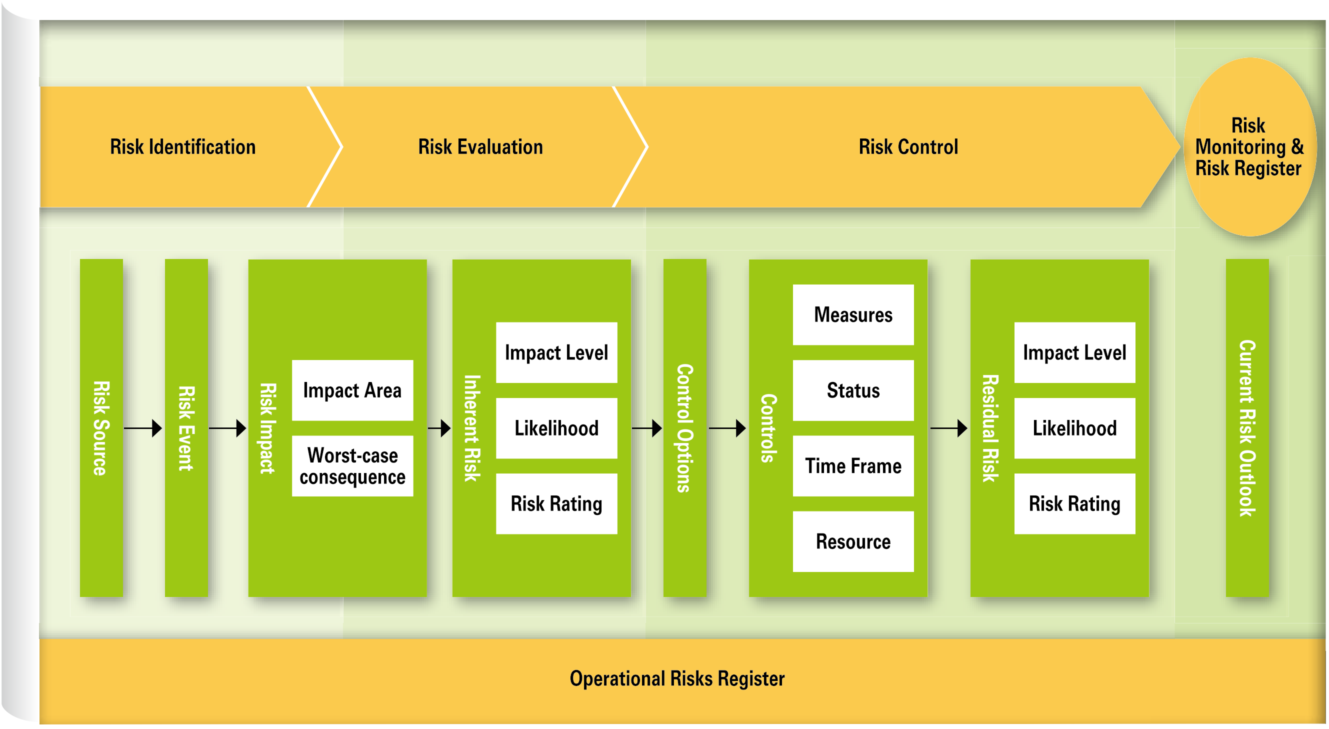
AAHK's internal controls are designed to manage and mitigate risks, rather than eliminate risks. Risk assessment and management is a critical focus for all levels at the AAHK: The Board, the Audit Committee & Finance Committee (ACFC), the Executive Management and the operating and supporting functions.

Operating and Supporting Functions

Our quantitative risk profile is assessed through a bottom-up analytical approach covering all operating and supporting functions.

Given the myriad of 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.

Risk Identification and Business Continuity Management Process



The key elements of AAHK's integrated and multi-layered risk and business continuity management process include the establishment of an Operational Risks Register to track and document identified risks, the development and continuous updating of preventive and responsive procedures, and the testing and drilling of action plans and procedures to ensure their effectiveness.

Executive Management

With a view to staying alert to any emergent risk resulting from economic, market or environmental changes, an ongoing risk assessment approach is adopted by Management for the identification of new exposure areas and implementation of appropriate mitigation measures.

A diversity of approaches is adopted for the collection and analysis of market intelligence and data, which include close interface and communication with business partners, industry bodies, Government counterparts and opinion leaders through liaison groups, committees, international organisations and engagement exercise.

Upon collection of useful information which may impact on AAHK's operations or risk exposures, deliberation of the necessary follow-up or preventive measures will be made at regular intra or inter-departmental meetings.

During the year under review, the Executive Management reviewed AAHK's risk profiles and control system and concluded that the control system is effective and adequate. A consolidated review report was compiled and submitted to the ACFC for review. The Board then reviewed the effectiveness of AAHK's risk management and control system via this consolidated report after its consideration by the ACFC.

Audit Committee and Finance Committee

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 needs to review all risk areas presented in the risk information matrix and identify key risk issues that require its further attention and, if appropriate, the Board's focus.

In the year, the ACFC reviewed the consolidated review report on AAHK's risk profiles and control system and confirmed that no significant risk control issues would need to be escalated to the Board for immediate action.

The Board

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

Annual Review

The annual internal control review evaluates all major operations and processes of AAHK based on the five main components of the COSO framework, namely: control environment, risk assessment, control activities, information and communication, and monitoring.

As part of the annual review, all AAHK departments and major subsidiaries are required to assess the risks associated with their key processes and the effectiveness of the controls in place to mitigate such risks. Independent verification of the effectiveness of controls for those high-risk areas is also carried out. Based on the results of these reviews, AAHK departments and major subsidiaries make representations to Executive Management as to whether internal controls are working as intended or that enhancements are to be made.

Risk Profiles and Controls

Key risks identified in the annual review for 2013/14 and controls put in place are as follows:

Strategic and Operational Risks

Maintaining Hong Kong as a centre of international and regional aviation is a statutory mandate of AAHK. Continuous improvements are made to ensure efficient and safe operations of the HKIA amid ever-increasing traffic demands.

HKIA handled 60.7 million passengers, 4.2 million tonnes of cargo and 377,476 aircraft movements in 2013/14. Based on industry forecasts, air traffic demand was expected to reach 97 million passengers, 8.9 million tonnes of cargo and 602,000 aircraft movements per year by 2030. The HKIA Master Plan 2030 (MP2030) addresses major medium to long term challenges and lays out options and strategies to ensure HKIA is well placed to meet long term capacity issues.

Operational risks identified included potential degradation of service delivery standards, unforeseen disruptions to flow management, maintenance challenges to aging facilities. Continuous investments in facilities upgrade and replacement projects had been initiated. Other appropriate controls such as constant monitoring of service delivery standards, operating procedures and fallback contingency plans had been established to ensure impact on passengers would be minimized. Regular drills were also carried out to test the response capabilities of all concerned parties in case of eventualities.

Environmental Risk

Caring for the environment is an imperative for the long-term sustainable development of HKIA. AAHK has established strategic and operational measures to manage environmental issues and strives to operate and develop the airport in an environmentally responsible manner through minimising the environmental footprint of its operations.

This year, environmental planning was moved from a three-year to a five-year cycle in order to ensure that environmental considerations are embedded into AAHK's corporate planning and master planning cycles from the outset. The scope of the plan is also expanding to cover our work with our airport business partners – a key element in achieving our pledge to make HKIA the world's greenest airport.

AAHK continues to operate in full compliance with environmental legislation and continues to make use of its Green Airport Design Strategy to ensure that future projects support the "greenest airport" objective. Further details of AAHK's environmental initiatives are set out in the AAHK's upcoming sustainability report.

Safety, Security and Health Risks

Airport and aviation safety is fundamental to the operation of HKIA. Safe operation of HKIA is achieved through the concerted efforts of AAHK, airlines, aircraft manufacturers, air traffic control organisations and other key stakeholders. AAHK regularly reviews various standard operating procedures that cover all parts of HKIA's operations on the airfield, on the apron, at gates and in maintenance areas.

In parallel with this, instilling an effective safety culture from the top management down has remained a priority. Reporting of safety hazards and occurrences has been encouraged and monitored at all levels. As in previous years, safety, as measured by the rate of airport staff and passenger injuries at the airport, remains a key performance indicator of AAHK and forms one of the key elements in the annual corporate goals by which the variable compensation awarded to staff (including the Chief Executive Officer and Executive Directors) is determined. To maintain and improve the airport wide safety performance, the following major initiatives have been introduced in the year: Ramp Operations Audit Programme, Quarterly Safety Campaigns, Monthly Safety Awareness Briefings, revamp of training videos and additional safety animation clips.

The construction, maintenance and operation of airport facilities involve risks in the workplace that can be reduced, mitigated and transferred but not eliminated completely. Recognising that minimising occupational health and safety incidents is one of the keys to the sustainability of HKIA, AAHK has formulated a Safety Management System which is regularly reviewed and updated.

Airport security continued to see challenges arising from increasing volumes of passenger traffic and the evolving nature of the threats against civil aviation. The Hold Baggage Screening System has been upgraded with an additional X-ray inspection system that employs the latest Computed Tomographic technology, creating a 3D image for baggage inspection. Enhanced initiatives and effective equipment and facilities have been and will continue to be employed to ensure that highest security standards are maintained.

To address health risk, AAHK has a Stepped Response Plan in place for major public health issues.

Financial Risk

AAHK's activities are exposed to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. Details of AAHK's exposure to financial risks and the policies and practices adopted to manage these risks are described in Note 21 to the Financial Statements on pages 108 to 113.

Information Technology Risk

The effectiveness and security of information technology systems is instrumental to ensure a smooth and safe operation at the HKIA. An IT Governance Framework and IT Risk Management Framework are established to ensure consistent risk assessment and management. Quarterly review is being undertaken to ensure that IT projects align with corporate strategies. IT obsolescence status review and mitigation planning are conducted annually with mitigation progress monitored regularly. Emerging IT security risks are monitored and proactive measures are in place to enhance risk awareness.

Any interruption of the IT services and failure of system contingency may disrupt airport operations. To address this risk, preventive maintenance, detective monitoring and containment measures are implemented to mitigate the risk of operation disruption. In addition, security threats are mitigated through preventive and detective measures and the use of monitoring tools to alert Management on risks and vulnerabilities.

Legal and Regulatory Risk

Violation of law, non-compliance with regulatory requirement, and breach of contract, even though unintentionally, will bring about legal consequences impacting on the AAHK, including damage to reputation, disruption to business or operations, and pecuniary loss associated with enforcement actions and lawsuits. Whilst some of the legal risks are stand-alone, many of them dovetail with operational, financial, reputational, political, tax and regulatory risks. Effective management of legal and regulatory risk will help the Management avoid taking unnecessary and imprudent risks in the business, operation and development of the HKIA.

AAHK has been taking a proactive and forward-looking approach to monitor changes in government policy and legislation. Judgments, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to the AAHK. Policies, procedures and appropriate action steps to address the changes are developed in a timely way to guide the Management to operate legally and within AAHK's acceptable risk level. Ongoing education is provided to the Management to adapt to these changes. Adequate risk mitigation measures are in place and they are constantly reviewed for enhancement. AAHK will continue to monitor and manage legal and regulatory risk vigilantly on a going-forward basis.

Human Resources Risk

Airport expansion has been earmarked as one of the key work focuses in the medium to long term to meet the traffic demand. An insufficient supply of talent to support airport development will adversely affect the growth and hence the hub status of HKIA.

Talents in possession of airport experience and knowledge is particularly important in the light of the impending development projects at the HKIA. A people development and succession planning framework has been drawn up, in addition to internal training programmes, to better prepare for the future manpower requirements at an airport environment.

Reputational Risk

Public sentiment and socio economic dynamics are closely monitored to manage and pre-empt possible reputational risks that may have implications on the corporate image of AAHK. Meanwhile, continuous engagement with key stakeholders is carried out to enhance understanding of and gauge views about HKIA's short-, medium- and long-term developments.

A database to track and monitor public affairs issues has been established and stakeholder engagement plans are in place to ensure effective communication with key stakeholder groups on an ongoing basis.

Way Forward

As HKIA's operations have been growing in size and complexity, the risk management framework is being reviewed from time to time to ensure its effectiveness and robustness, which is essential in fulfilling the objective of maintaining the status of Hong Kong as a centre of international and regional aviation.

Going forward, we will expand our initiatives across our operations and continue to support and share best practices across all departments and with business partners.

EVENT HIGHLIGHTS

2013

APRIL

Hong Kong International Airport's website wins a gold award in the Web Accessibility Recognition Scheme co-organised by the Office of the Government Chief Information Officer and the Equal Opportunities Commission.

1 More than 30 volunteers from Airport Authority Hong Kong (AAHK) and their families participate in "Islands District Healthy City Tree Planting Festival—Green Lantau 2013".

MAY

The Civil Aviation Department's new headquarters opens.

Hong Kong International Airport (HKIA) is named one of the 10 most beautiful airports across the world by 10best.com.

AAHK's commitment to sustainability is recognised with a silver award in the Public Organisations and Utilities category at the Hong Kong Awards for Environmental Excellence.

JUNE

AAHK's profit attributable to equity shareholder for the year ended 31 March 2013 reaches a record HK$5,615 million (restated). AAHK declares a final dividend of HK$4,400 million to its shareholder, the Hong Kong SAR Government.

JULY

2 HKIA celebrates its 15th anniversary with a dance performance by a 300-person flash mob that delights passengers in Terminal 1 and a gala dinner for 400 guests, including Hong Kong's Chief Executive, C Y Leung.

AUGUST

3 To bring stakeholders up to date on the progress of the environmental impact assessment for the planned three-runway system, AAHK hosts a four-day exhibition and two public forum sessions at the Hong Kong Convention and Exhibition Centre.

AAHK publishes its first sustainability report, *Sustaining our Capacity—Our Blueprint for Shared Growth*, covering the year ended 31 March 2013. The report is prepared with reference to globally recognised guidelines.

SEPTEMBER

For the third consecutive year, HKIA receives a Green Enterprise Award from *Capital Entrepreneur* magazine.

HKIA is ranked among the top 10 airports worldwide in Smart Travel Asia's Best in Travel Poll 2013.

4 In conjunction with the Federation of All Sectors of Tsuen Wan Community, AAHK organises a job fair in Tsuen Wan that attracts over 3,000 applicants. The fair focuses on entry-level and non-technical vacancies suited to young people.

OCTOBER

The Cathay Pacific Cargo Terminal, which commenced operation in February 2013, becomes fully operational. The new terminal increases HKIA's annual cargo capacity by 50%, to 7.4 million tonnes.

5 In partnership with 57 food and beverage and lounge operators, HKIA launches "Go Green Monday @ HKIA". The programme promotes environmentally friendly, vegetarian dining options at the airport.

NOVEMBER

6 HKIA is inducted into the Travel Hall of Fame at the TTG Travel Awards after winning TTG's best airport award 10 consecutive times since 2002. AAHK holds a carnival-themed party to thank airport staff for their hard work and dedication.

For the seventh time in eight years, HKIA is named the best airport in China by *Business Traveller China* magazine.

DECEMBER

AAHK announces that the first phase development of the North Commercial District on the airport island will include a hotel of more than 1,000 rooms.

7 Some 1,600 people, including 40 AAHK staff, participate in the 2013 HKIA Feet of Fire 10km Run co-organised by The Hong Kong Federation of Trade Unions Youth Affairs Committee and The Staffs and Workers Union of Hong Kong Civil Airlines. It is the fourth year that AAHK sponsors the event.

8 HKIA gets into the holiday spirit with a 15-metre Christmas tree in the Meeters and Greeters Hall of Terminal 1. The tree is decorated with over a million sparkling Swarovski crystals.

2014

JANUARY

9 Forty AAHK staff and their families are among more than 500 volunteers who paint a mural highlighting local attractions on a wall near the Tung Chung Ferry Pier. HKIA sponsors the event as part of its commitment to the well-being of neighbouring communities.

10 Working with trade unions and the Occupational Safety and Health Council, AAHK gathers a thousand airport staff in the SkyCity Car Park for a group stretch. The exercise is one of dozens of events held each year to promote occupational safety at the airport.

11 In conjunction with The Salvation Army Hong Kong and Macao Command, AAHK organises a gift donation campaign to send festive wishes to the needy in Hong Kong. The program collects over 20,000 gifts from the airport community and passengers.

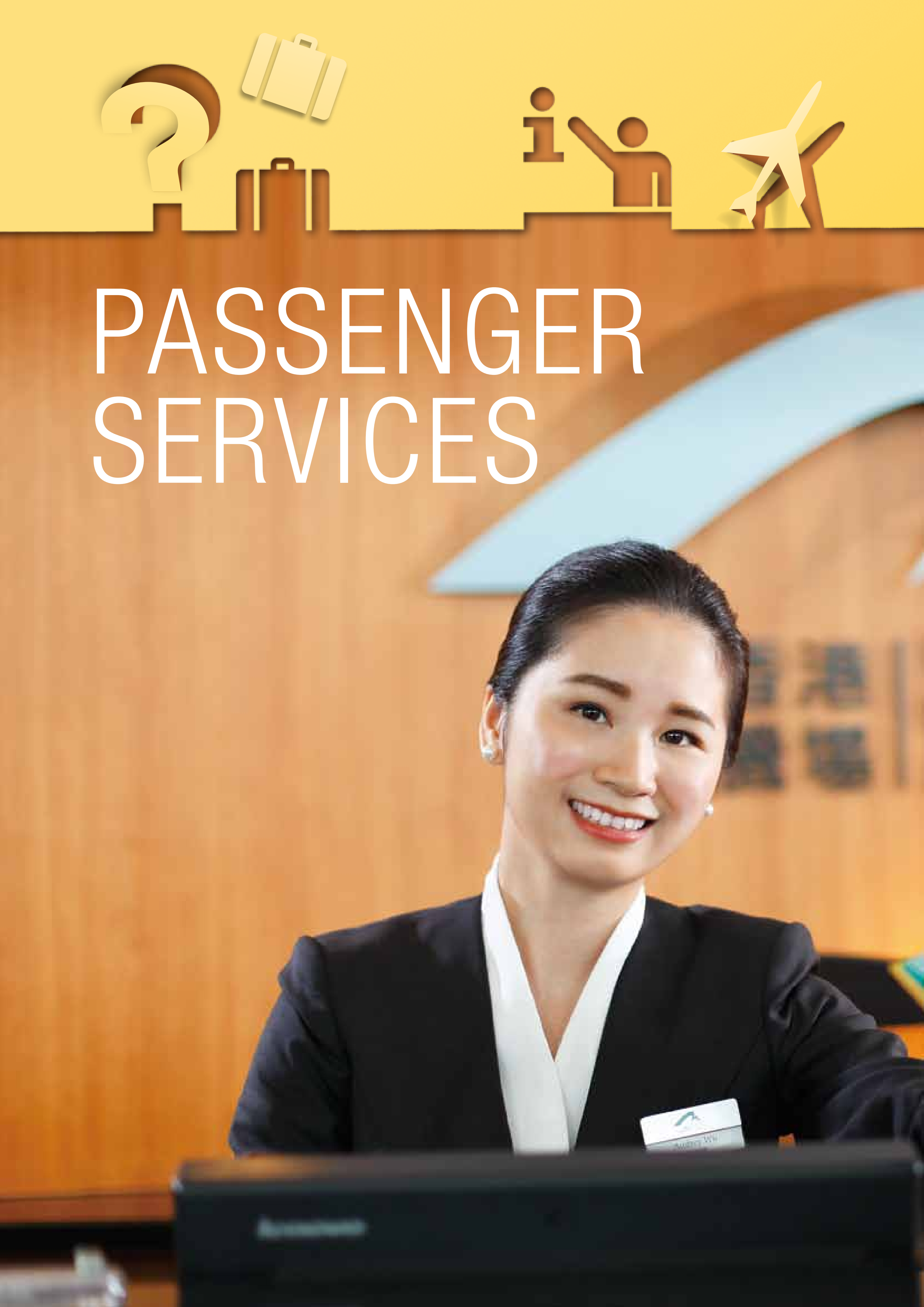
FEBRUARY

AAHK participates in the Aviation Day career expo organised by the Hong Kong Trade Development Council.

MARCH

HKIA is recognised as the world's best airport for dining and for baggage delivery. The ratings are based on a poll of travellers from over 160 countries conducted by Skytrax.

PASSENGER SERVICES




HONG KONG
INTERNATIONAL
AIRPORT

PASSENGER SERVICES

Hong Kong International Airport's modern, efficient facilities are matched with an airport-wide passion for customer service. We maintain that focus with initiatives like the Customer Service Excellence Programme, which has been in place since 2002. This year, the programme recognised more than 100 Hong Kong International Airport (HKIA) staff for delivering exceptional service.

A Human Touch

To enhance passenger experience, HKIA uses a range of technologies, such as free WiFi and tablet computers. But we balance this technology with a friendly, human touch. For example, this year we launched a "Smiles at the Airport" campaign and increased the number of customer service staff delivering face-to-face service.

Passengers also enjoyed a year-long calendar of special events. A 300-strong flash mob staged a dance performance to celebrate our 15th anniversary. We marked the holiday season with carols and a giant snow globe. Lion dances, floral displays and peach blossoms helped us welcome the Year of the Horse. We also held an international painting competition for children and exhibitions showcasing Hong Kong's historic buildings and the natural beauty of Lantau.

These efforts were recognised in October 2013 when HKIA was inducted into the Travel Hall of Fame at the TTG Travel Awards. A leading publisher of travel trade magazines, TTG has conferred its best airport award on HKIA 10 times since 2002. The same month, we received the "Supreme Service Award" from the publishers of *Capital CEO* and *Capital Entrepreneur*. And, for the third consecutive year, HKIA staff were honoured with the Ombudsman's Award for customer service excellence.

Regular exhibitions showcase Hong Kong's heritage and enrich the passenger experience.

Harnessing Technology

To increase operational efficiency and reduce travellers' waiting time, in the first half of 2014 we will start trials of a mobile check-in service that lets an agent with a handheld computer check passengers in and print boarding passes.

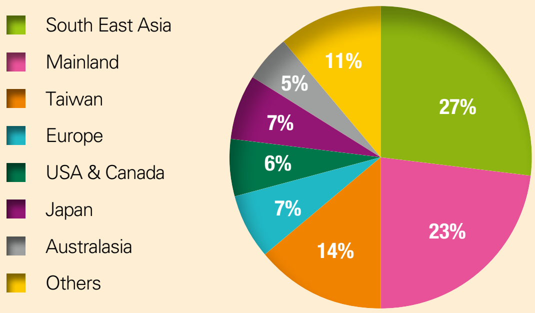
In 2013/14, we continued to improve the free WiFi service that covers all passenger areas of the airport. The system's bandwidth is now 400 megabits per second — a fourfold increase from 2011 — and we strengthened its ability to handle demand during peak travel periods. We are now adding more wireless access points in high-traffic areas, such as boarding gates, to further enhance this popular service.

Last year, we launched "HKG My Flight", a free mobile app that provides real-time flight status updates, schedule information and an airport map. Available in English and Chinese, the app has been downloaded more than 44,000 times. In February 2014, we added a new feature to the app that alerts users to changes in their flight schedule.

We also formed a cross-departmental task force to plan an upgrade of the flight information display system, which was installed when the airport opened in 1998. The new system will accommodate more complex airport operations.

Passenger by Market

(year ended 31 March 2014)



Adding Passenger Convenience

In December 2013, we worked with Cathay Pacific Airways to begin a six-month trial of a self bag drop system. We installed four stations in Terminal 1, where passengers who had checked in online or using a self-service kiosk could print a baggage tag, affix it to their luggage and drop their bags on a conveyor belt. Passenger response to the trial, which cuts processing time from 2–3 minutes to an average of 69 seconds, has been overwhelmingly positive with nearly three-quarters of respondents saying they preferred the new system to traditional bag-checking methods. HKIA was the first international airport in Asia to install this system.

With HKIA's steadily growing passenger numbers, demand for washrooms has increased. Through a survey conducted in 2012, we determined that 12 of the women's washrooms needed to be enlarged. By March 2014, the number of cubicles in six washrooms had increased by more than 50%. Work on the remaining facilities will begin in 2014/15.

A Barrier-free Airport

Over the past 16 years, we have upgraded the airport to make it more convenient for all travellers. For example, HKIA has wheelchair-accessible payphones and customer service counters, and all public areas are served by lifts and ramps.

For visually challenged passengers, HKIA has tactile guide paths and audio signals that mark the beginning and end of escalators and travelators.

Passengers welcome the trial of a self bag drop system that dramatically shortens processing time.

We also operate a dedicated security screening channel for passengers with special needs.

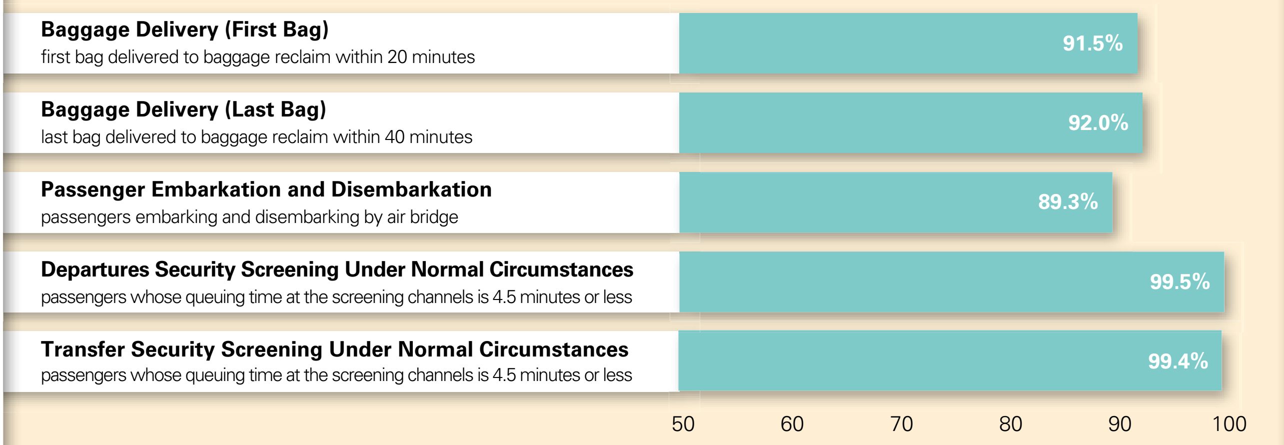
This year, 45 washrooms for disabled travellers were upgraded. Manually operated taps, soap dispensers and toilet flush mechanisms were replaced with automatic, sensor-based models. By August 2014, automatic sliding doors will be installed in 30 of the disabled washrooms.

A Fresh Retail Experience

HKIA's retail outlets offer everything from daily necessities to international fashions. During the year, the first of two mega shops opened in the East Hall. The second two-storey outlet is expected to debut in mid-2014.

Service Performance in 2013/14

(percent)



Fiscal 2013/14 was an exceptional year for HKIA's food and beverage outlets. With continuous efforts to widen our catering selection and bring in innovative concepts, we were named the World's Best Airport for Dining in the annual Skytrax survey for the sixth time. Seven new brands were introduced in the two terminals. Meanwhile, the operators of four restaurants at HKIA were honoured in the new Michelin dining guide.

To further enhance the shopping experience during the festive season, a 15-metre Christmas tree embellished with over a million Swarovski crystals was put up at the Meeters and Greeters Hall. The tree was the tallest ever displayed at HKIA. The Swarovski Christmas Campagin was named the Best Concourse Advertising Campaign in the 2014 "Moodies" Airport Digital, Mobile and Social Media Awards.

To ensure the shopping experience at HKIA remains fresh and appealing, this year we have refined the zoning concept in East Hall, and a tender for 33 luxury boutiques including 10 new brands was awarded to enhance the shopping experience.

Joint partnership with China UnionPay on cash coupon redemption at designated spending amount in holiday seasons has successfully uplifted sales. This formed part and parcel of a delightful passenger experience together with incentives from business partners such as free gift wrapping and costumed characters during festive periods, as well as year-round free wine tasting and personalised skin care service.

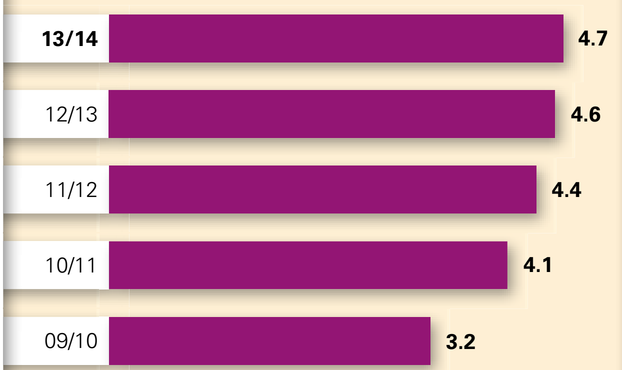
Connecting with the Mainland

The airport saw record levels of cross-boundary traffic in 2013/14. SkyPier, which links HKIA with eight ferry piers in the Pearl River Delta and Macao, served 2.7 million passengers in 2013/14, up 1.7% from 2012/13. Passenger volumes at SkyPier recorded a compound annual growth rate of 9.5% over the past five years. Travellers on 82 airlines use SkyPier, which offers 87 ferry sailings each day.

This year, two million passengers travelled by land between HKIA and Mainland destinations, a 1% increase from 2012/13. Eleven operators serve this market. Six companies offer cross-boundary limousine services, making an average of 560 trips each day. Four operators provide coach and shuttle services. There are 550 scheduled coach trips to 110 Mainland cities and towns each day, as well as a shuttle that runs every 10 to 60 minutes between HKIA and three boundary crossings. The remaining operator provides coach

Passengers Using HKIA's Cross-boundary Land and Sea Transport

(millions of passengers)



and limousine services between HKIA and Shenzhen Bao'an International Airport.

In February 2014, we conducted a trial of upstream check-in service at the Venetian Macao. The trial programme, which extended HKIA's connectivity beyond Macao's ferry pier, included a baggage tag through service at the hotel.

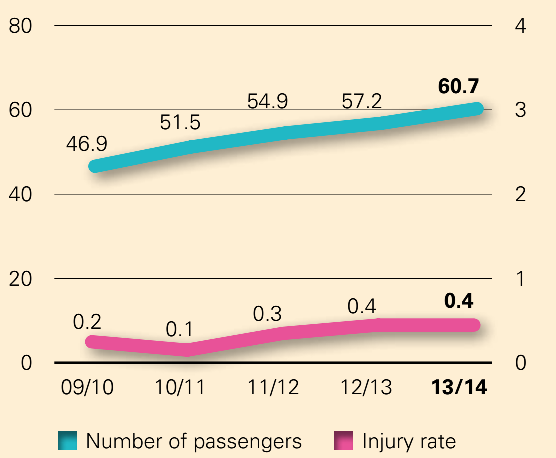
Safety and Security

The safety and security of passengers, staff and business partners is our first priority. During the year, we joined a pilot programme organised by the Labour Department and the Occupational Safety and Health Council to introduce cooling vests for ramp operators. The vests, which include fans and cooling packs, protect workers from heatstroke. We also introduced a safety audit scheme for ramp operations. Results of the programme, which validates safety practices relating to aircraft turnaround activities, are shared with the ramp operators, so improvements can be made where necessary.

Every year, HKIA holds safety training events for the airport community. In 2013/14, our programmes addressed driving, fire safety, slip and trip prevention, occupational deafness, back injuries and other topics. During the year, we also produced new safety training videos. From 2014/15, employees and contractors will be required to watch the videos before they are allowed into the airport's restricted areas.

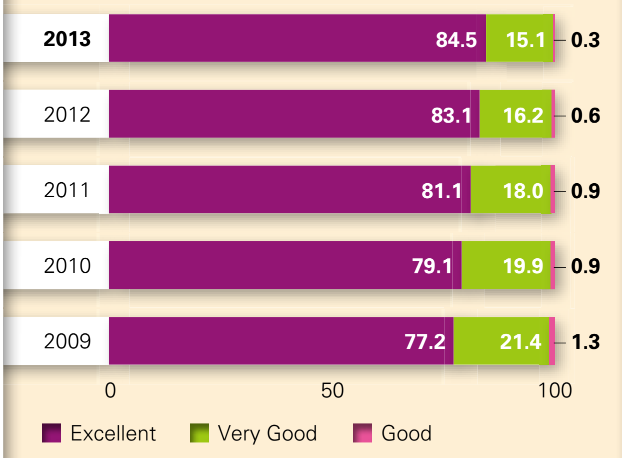
Passenger Traffic and Injury Rate

(millions of passengers) (Injuries per million passengers)



Airport Service Quality (ASQ) Survey Overall Satisfaction Score*

(percent)



* *Responses below "Good" are not shown because they are statistically insignificant.*

Source: ASQ Official Report of 2013

In 2013/14, we held more than 100 targeted drills and training exercises. For the first time, this year our annual crash simulation tested the airport's ability to manage a radioactive leak.

In September 2013, Airport Authority Hong Kong received the "Safety Performance Award — Other Industries" at the Occupational Safety and Health Council's 12th award ceremony. Two months later, three of our safety promotion initiatives — *the Airport Safety Bulletin*, the Airport Safety Ambassador Programme and the Airport Safety Recognition Scheme — were recognised with the council's Safe Community Service Award.

This year's annual crash exercise tested the airport's ability to handle a radioactive leak.

CARGO AND AVIATION SERVICES

CARGO AND AVIATION SERVICES

The air cargo that passes through Hong Kong International Airport (HKIA) each year represents a large proportion of our city's trade. In calendar 2013, air cargo constituted less than 2% of Hong Kong's total freight volume by weight, but accounted for nearly 40% of its total value.

In 2013/14, air cargo throughput at HKIA increased 3.4%, to 4.2 million tonnes. This compares favourably with the global trend, which saw international air freight volumes increase 1.4% during 2013, according to the International Air Transport Association. In 2013, for the fourth consecutive year, HKIA was the world's busiest cargo airport.

In March 2014, we received an "Air Cargo Excellence" award from *Air Cargo World* in the category of airports in Asia handling over one million tonnes of cargo annually.

New Cargo Terminal

The Cathay Pacific Cargo Terminal became fully operational at the end of 2013. Capable of handling 2.6 million tonnes of cargo per year, the new terminal increases HKIA's annual cargo capacity by 50%, to 7.4 million tonnes.

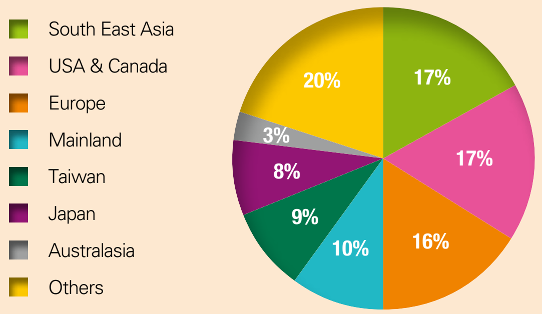
We are now reviewing the airport's freight forwarding and logistics needs in order to recommend the best commercial development options for the South Cargo Precinct.

Aircraft Catering

During the year, Airport Authority Hong Kong (AAHK) extended the agreements for the aircraft caterers serving HKIA. Expansion plans were made to increase the overall capacity to meet long-term demand.

Cargo Throughput by Market

(year ended 31 March 2014)



Aviation Fuel

During the year, a tender for the introduction of an additional operator for into-plane fuelling services was awarded to CNAF Hong Kong Refuelling Ltd, increasing HKIA's overall fuelling capacity by more than 40%.

Work continued on a HK$350 million project to extend HKIA's fuel hydrants. A link to the West Apron is scheduled for completion by mid-2014, while an extension to the Midfield will be finished by the end of 2015.

Precious Metals Depository

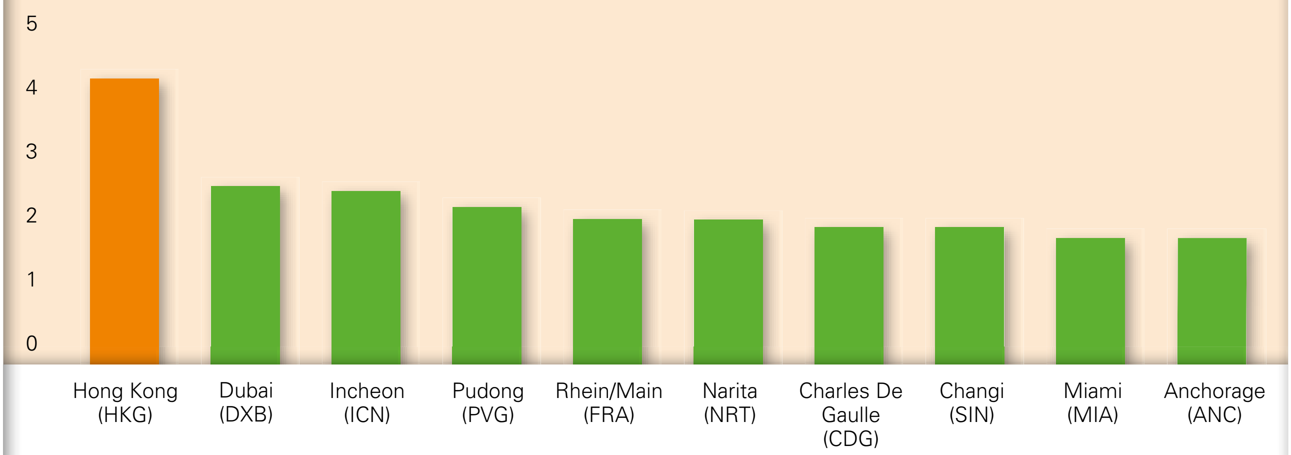
Opened in 2009, HKIA Precious Metals Depository Ltd provides secure storage, custodial and physical settlement services to enhance Hong Kong's position as a major trading and logistics hub for precious metals in the region. The depository's business continued to grow in 2013/14, with a broader client base and higher utilisation rate.

New Airlines and Destinations

As of 31 March 2014, over 100 airlines served around 180 destinations from HKIA. During the year, Guadalajara, Mexico, and Irkutsk, Russia, joined our network and four new carriers — Aurora Airlines, City Airways, Eastar Jet and Scoot — began serving Hong Kong.

Ten Busiest Airports in 2013 – International Freight Throughput*

(millions of tonnes)



**International freight throughput includes imports, exports and transshipment (counted twice) freight carried between the designated airport and an airport in another country.*

Source: Preliminary figures from Airports Council International in April 2014

AIRFIELD AND SYSTEMS

AIRFIELD AND SYSTEMS

With continued growth in passenger numbers, cargo throughput and aircraft movements, the existing two-runway system at Hong Kong International Airport (HKIA) may reach its capacity in the next few years. To ensure smooth operations until the planned three-runway system is commissioned, we are completing several medium-term expansion projects and optimising the use of our existing resources.

New and Enhanced Facilities

The Midfield Concourse, which will handle 10 million passengers annually through its 20 parking stands, is on schedule for completion by the end of 2015.

As part of the apron expansion development, during the year Taxiway N was straightened and widened to accommodate the Airbus A380.

Parking Stands

Twenty new aircraft parking stands entered service in 2013 and eight additional stands will commence operation in 2014. More stands are being planned to meet future needs.

In February 2013, HKIA introduced a new stand reservation system. General aviation and business jets must now apply for a parking slot before commencing operations to or from HKIA. The new system lets us make optimum use of available stands while ensuring that commercial flight operations continue to run smoothly.

Information Technology

This year, we extended the airport's information technology infrastructure — including the airport network, wireless local area network (LAN) and telephone system — from Terminal 1 to nine new stands on the West Apron. This infrastructure, as well as the flight information display system, check-in and boarding systems and free WiFi, will be installed in the Midfield Concourse in 2014/15.

New aircraft parking stands strengthen HKIA's reputation for efficiency.

Next year, we will also begin trials of a new system that uses WiFi, radio frequency identification (RFID) and geolocation technology to track and manage ground service equipment and other assets on the apron.

Vehicle Upgrades

To reduce kerbside emissions, we have been replacing our diesel- and petrol-powered vehicles with electric models since 2009. To date, we have purchased 37 electric saloon cars and four electric vans. Three more vans will enter service in 2014.

We support our electric fleet with one of Hong Kong's largest charging networks. By the end of 2014, 158 charging points for electric vehicles and 56 charging points for electric ground service equipment will be operational at HKIA.

Where suitable electric vehicles are not available, we are replacing existing diesel-powered vehicles with low-emission diesel models. In 2013/14, we purchased 10 single-cab and 20 dual-cab apron buses, all of which meet the Euro V emission standard. The single-cab buses are now in service, while the dual-cab units will be delivered by the middle of 2014.

A programme to replace pre-Euro IV vehicles with models that meet or exceed the Euro V standard will be completed by 2017/18.

Operating 24 hours a day, the Integrated Airport Centre is at the heart of the airport's daily operational management.

Smart Maintenance

While the safety of our passengers, staff and business partners remains our first priority, we must balance the cost and effort of maintaining ageing assets with the benefits of using new technologies that offer greater efficiency and durability. We are also mindful of the capacity crunch that is expected before 2023, when the planned three-runway system is scheduled to enter service.

In response, we have introduced a "smart maintenance" policy. For example, we reduced maintenance and operating costs by replacing conventional lighting in the terminal buildings with long-life, light-emitting diode (LED) lights. We also integrated the air-conditioner chiller systems in several buildings to maximise efficiency, minimise energy consumption and maintain passenger comfort.

MAINLAND PROJECTS


虹桥机场

MAINLAND PROJECTS

Airport Authority Hong Kong (AAHK) is active on the Mainland through our partnerships with Mainland airports.

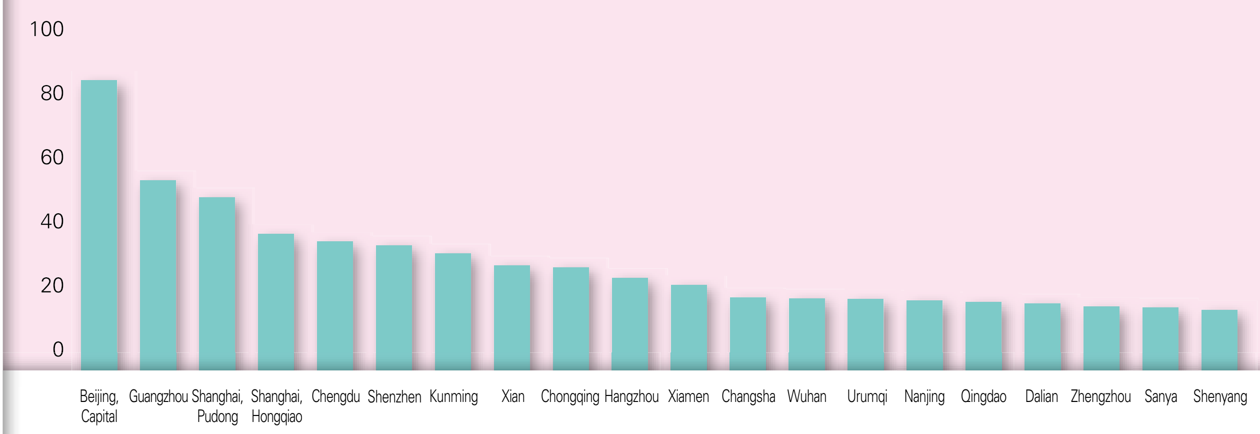
Shanghai Hongqiao International Airport

Since 2009, a joint venture between AAHK and Shanghai Airport (Group) Co. Ltd has managed the terminal operations and retail businesses at Shanghai Hongqiao International Airport.

In 2013, passenger throughput and aircraft movements at Hongqiao airport set new records, increasing 5.3% from 2012, to 35.6 million passengers, and 3.8%, to 240,000 movements. In December 2013, all of the stores in the airport's Luxury Brand Boulevard opened, adding to passengers' shopping options. In February 2014, Skytrax recognised Terminal 2 as the first five-star terminal in China.

Top 20 Airports on the Mainland in 2013 – Passenger Throughput

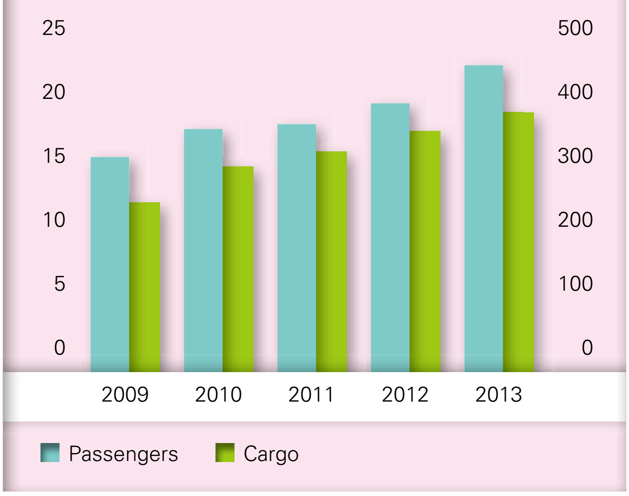
(millions of passengers)



Source: Civil Aviation Administration of China (CAAC)

Throughput at Hangzhou Xiaoshan International Airport

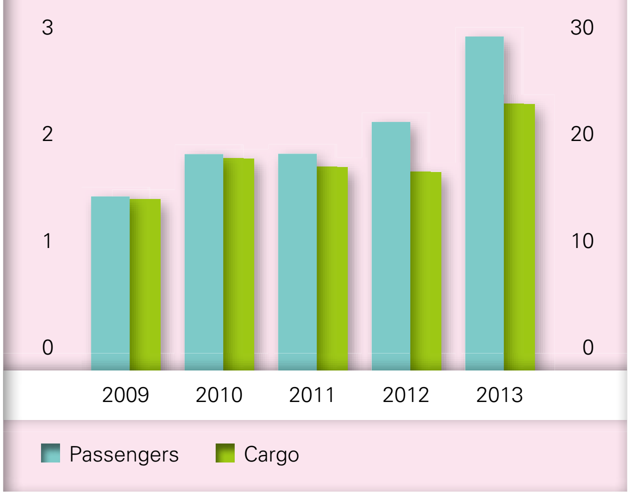
(millions of passengers) *(cargo in thousands of tonnes)*



Source: Civil Aviation Administration of China (CAAC)

Throughput at Zhuhai Airport

(millions of passengers) *(cargo in thousands of tonnes)*



Source: Civil Aviation Administration of China (CAAC)

Hangzhou Xiaoshan International Airport

AAHK acquired a 35% interest in Hangzhou Xiaoshan International Airport (HXIA) in 2006. In 2013, passenger throughput at HXIA grew 15.7% from the previous year, to 22.1 million, aircraft movements increased 14.6%, to 190,600, and cargo volume increased 8.8%, to 368,000 tonnes.

In 2013, Hangzhou airport's network grew to 108 cities — 78 domestic and 30 international — while the number of airlines serving HXIA reached 50. In December 2013, Hangzhou's first home-based carrier, Zhejiang Loong Airlines, commenced operations and Qatar Airways began service between Doha and Hangzhou.

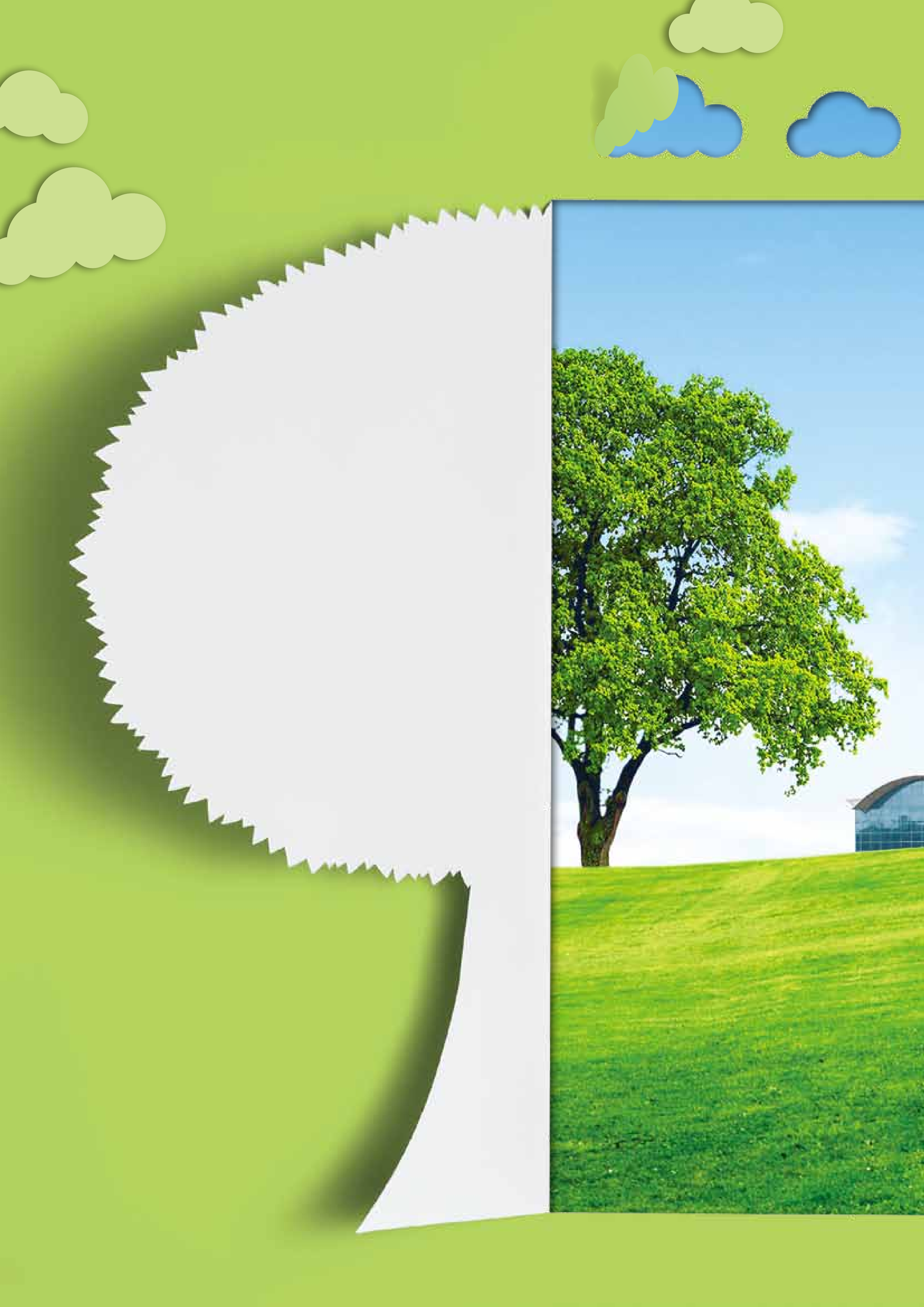
During the year, runway capacity at HXIA increased to 36 aircraft movements per hour, up from 31 in 2012. A new cargo hub for S.F. Express as well as ancillary apron facilities are scheduled for completion by the end 2014.

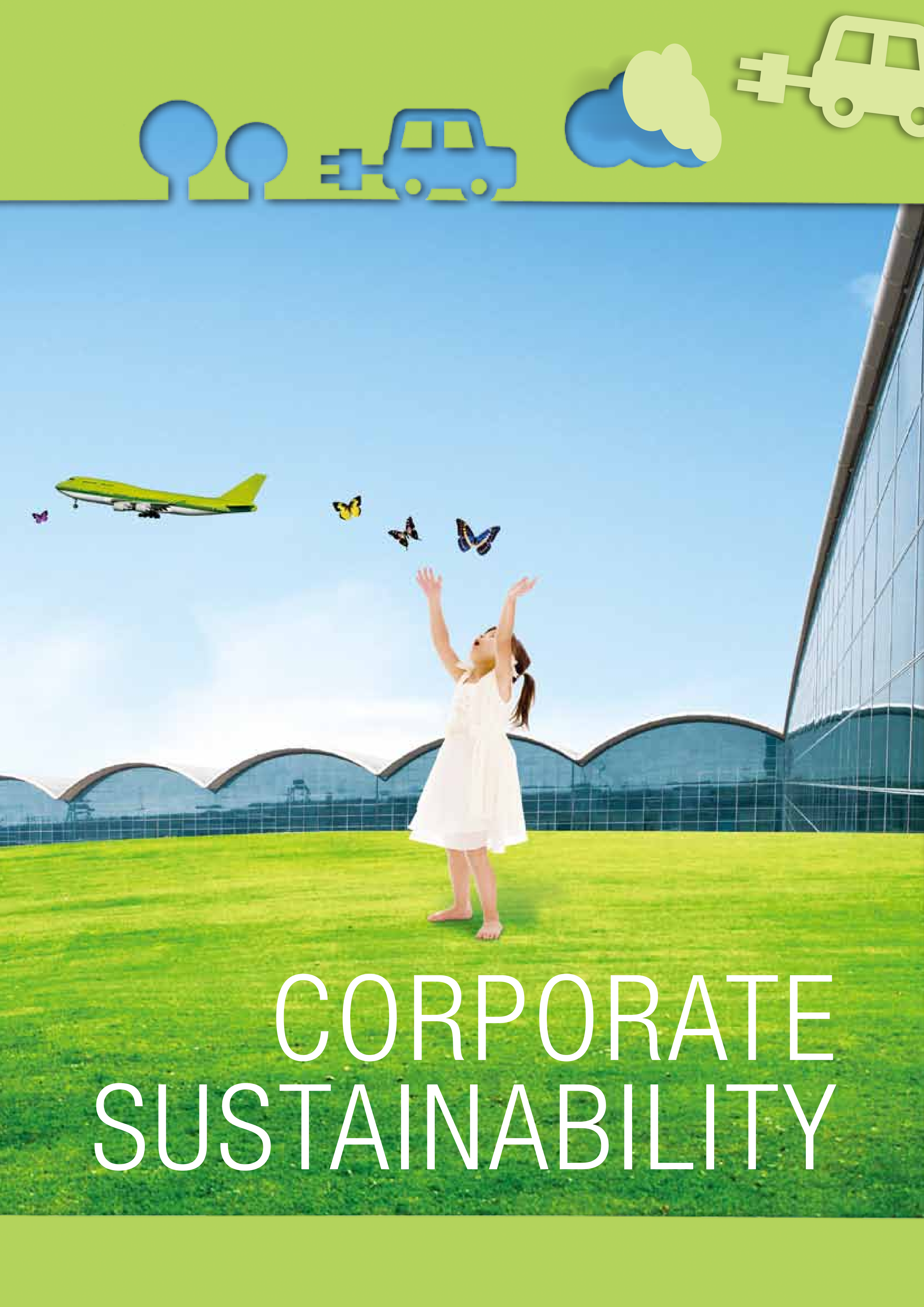
Zhuhai Airport

Since 2006, Zhuhai Airport has been managed by a joint venture in which AAHK has a 55% interest. Zhuhai Airport posted a robust performance in 2013. Passenger throughput grew 38% and aircraft movements rose 39%, to a record 2.9 million passengers and 26,000 movements. The number of domestic destinations served by scheduled flights increased 44%, to 39.

Cargo throughput increased 39%, to 23,000 tonnes. The increase was due to chartered international cargo flights in November and December 2013.

A new cargo hub for S.F. Express at Hangzhou Xiaoshan International Airport is scheduled to open by the end of 2014.




CORPORATE
SUSTAINABILITY

CORPORATE SUSTAINABILITY

At Airport Authority Hong Kong (AAHK), our goal is to support economic growth that benefits all members of society, while minimising the environmental and social impacts of our current operations and future development.

The Sustainability Roadmap

In August 2013, AAHK published its first sustainability report. Covering the year ended 31 March 2013, the report reviewed our performance and initiatives in three areas that reflect our role as an airport operator: safety and security, economic prosperity through growth, and quality of life, which includes both environmental and social issues.

Entitled *Sustaining Our Capacity — Our Blueprint for Shared Growth*, the report was prepared with reference to the G3.1 Sustainability Reporting Guidelines (G3.1) formulated by the Global Reporting Initiative and the Environmental, Social and Governance Reporting Guide (ESG) issued by The Stock Exchange of Hong Kong Limited.

In March 2014, we established a Sustainability Working Group comprising departmental representatives from across AAHK to help develop our second sustainability report and formalise a management framework that will support the development of our sustainability agenda.

While the new report will continue to make reference to the G3.1 and ESG guidelines, the level and quality of disclosures will be strengthened and the report will be externally verified to enhance its credibility.

Our staff volunteers support a wide range of green activities such as The International Coastal Cleanup.

Sustainability Awards

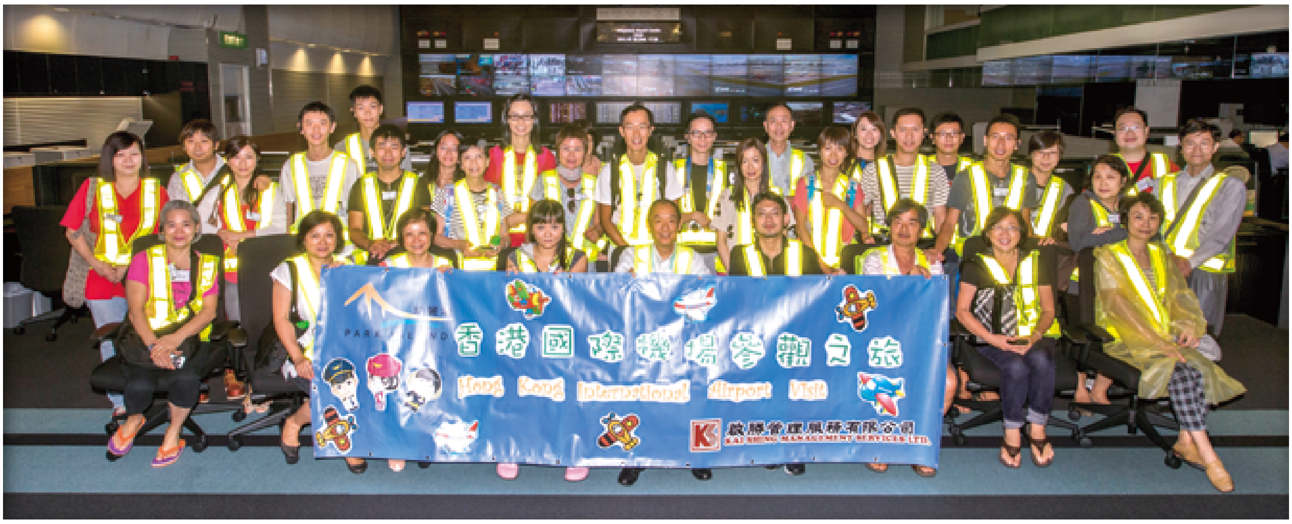
In May 2013, our commitment to environmental sustainability was recognised at the Hong Kong Awards for Environmental Excellence (HKAEE), where we received a silver award in the Public Organisations and Utilities category. It was the fourth time that our environmental performance was recognised at the HKAEE.

Caring for Local Communities

During the year, we worked with our staff volunteers and a wide range of non-governmental organisations to care for those in need.

Our community outreach activities include improvements to a waterfront promenade in Tung Chung.

Annual dinners for the elderly strengthen ties between HKIA and neighbouring communities.



Meetings and airport tours keep nearby residents abreast of developments at the airport.

In September 2013, our staff volunteers and their families partnered with the Hong Kong Neighbourhood Advice-Action Council Tung Chung Integrated Services Centre to learn how to make miniature mooncakes. The delicacies, which are traditionally served during the Mid-Autumn Festival, were shared with elderly people living near HKIA.

In January 2014, we collaborated with The Salvation Army to organise a gift donation campaign at Hong Kong International Airport (HKIA). Using donation boxes in the Arrivals Hall of Terminal 1, we collected over 20,000 items, including toys, food, winter clothing and stationery. The gifts were distributed to needy families by The Salvation Army's Hong Kong and Macao Command before the Lunar New Year.

We support the Food Angel programme, which collects unused food and distributes it to the needy.

Improving Transport for Airport Staff

During the year, we started a programme to improve public transport services for people working at the airport. We arrange regular meetings, which include representatives of the Transport Department, transport operators and the human resources departments of major companies operating at HKIA, where we review staff transportation needs and collect feedback from the airport community. We also facilitate service enhancements by conducting regular surveys, monitoring transport services to and from the airport, and sharing our data with operators and the Transport Department.

With this programme in place, in 2013/14 bus companies introduced same-day return discounts and bus-to-bus interchange discounts, enhanced the frequency of routes serving neighbourhoods where staff members live, and added rain shelters and improved lighting at key bus stops. We also created a website that highlights transport and retail discounts that are available to members of the airport community.

LOOKING FORWARD

LOOKING FORWARD

When it opens at the end of 2015, the Midfield Concourse will increase the airport's capacity by 10 million passengers per year.

This year, Airport Authority Hong Kong (AAHK) focused on the preparatory work for the planned three-runway system (3RS), including the statutory environmental impact assessment (EIA), associated design details and financial arrangements. Targeted to be commissioned in 2023, the 3RS is a major undertaking, one that will touch the lives of Hong Kong people in many ways.

Statutory Approvals

In April 2014, we completed the EIA report for the 3RS project and formally submitted it to the Environmental Protection Department of the Hong Kong SAR Government. The submission is an important milestone in the statutory approval process. We hope to receive an environmental permit for the project by the end of 2014. Upon the completion of the EIA process and the other planning work, we will seek the Government's approval for the implementation of the 3RS project. Several other statutory steps — including gazettals under the Town Planning Ordinance and the Foreshore and Seabed (Reclamations) Ordinance — must also be completed before construction of the 3RS can begin.

Designing the 3RS

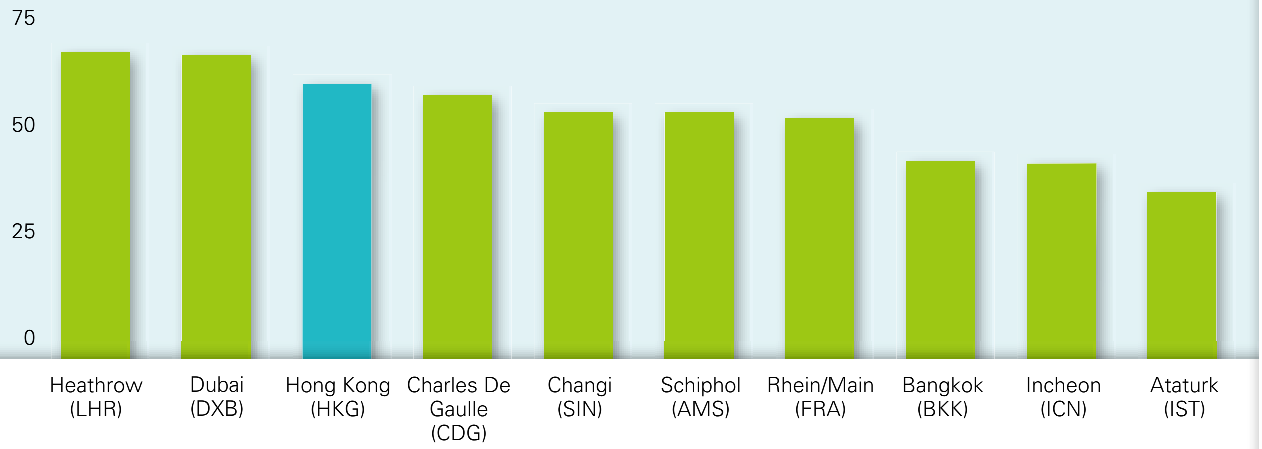
While the EIA statutory approval process is under way, we continue work on design details for the Third Runway Concourse (TRC) and the expansion of Terminal 2 (T2). The TRC will have a gross floor area of around 470,000 square metres. It will have an annual capacity of 30 million passengers in the first phase of development. The TRC will include over 100 aircraft parking stands and be built to the BEAM Plus Gold standard set by the Hong Kong Green Building Council.

In 2013/14, we continued planning land formation and reclamation works as well as the integration of existing airport facilities into the 3RS. This includes upgrading T2 into a full-service facility that will handle arrivals, transfers and departures. When the upgrade is complete, T2 will have an enlarged Check-in Hall as well as a new Meeters and Greeters Hall, Baggage Reclaim Hall and ground transportation facilities.

The 3RS also includes an extension of the existing automated people mover system. Connecting T2 with the TRC, the new line will convey passengers through an efficient system.

Ten Busiest Airports in 2013 – International Passenger Throughput*

(millions of passengers)



** International passenger throughput includes originating, terminating and transfer (counted twice) passengers travelling between the designated airport and an airport in another country. Transit passengers are not included.*

Source: Preliminary figures from Airports Council International in April 2014

A high-speed baggage system will connect T2 and the TRC. The baggage handling facilities, located on the apron level near the aircraft parking stands, will provide better tracking and can handle oversized bags with ease.

Stakeholder Engagement

AAHK extensively engages its stakeholders. Between April 2013 and May 2014, we organised and took part in more than 300 briefings, seminars, forums and airport visits for different stakeholders including resident groups, fishermen, schools and universities, District Councils, industry and professional bodies, think tanks, academia, business partners, green groups, media and the public. Throughout the process of planning, designing and building this project, we will continue to engage our stakeholders, and address their views as much as practicable.

In addition, we hold regular meetings with four technical briefing groups, which include experts in the fields of noise, air quality, marine ecology and fisheries, and Chinese White Dolphins. Five community liaison groups were formed in neighbouring districts of the airport: Islands, Kwai Tsing, Shatin, Tsuen Wan and Tuen Mun. The liaison groups provide a venue for us to communicate with civic leaders about issues affecting their constituents.

Built to the BEAM Plus Gold standard, the Third Runway Concourse is scheduled to enter service in 2023.

In 2013/14, we arranged briefings on the 3RS project and airport visits for various stakeholder groups including Chairmen/Vice-Chairmen of the District Councils, Area Committees of residential districts along the flight path, members of building owners' committees, heads of mutual aid committees and residents of neighbouring communities.

During the same period, 1,100 members of 18 professional bodies — including groups representing architects, civil engineers and urban planners — were briefed on the latest developments at HKIA, as were fishermen from Hong Kong ports. Since April 2010, we have made presentations and arranged tours for more than 13,000 secondary and university students.

We also organise events for the general public. In August 2013, we held a four-day exhibition that highlighted the 12 aspects included in the EIA for the 3RS. This included two public forums, where more than 750 members of the public as well as community leaders and representatives of green groups, unions and the aviation industry participated and shared their views about the 3RS project and its potential environmental impacts on noise, air quality, marine ecology and fisheries, Chinese White Dolphins and health.

Since the start of the EIA process, we have also held media workshops to keep stakeholders and the public informed about the 3RS and the EIA. We also maintain a dedicated website, www.threerunwaysystem.com, and publish newsletters about the 3RS.

North Commercial District

Between 2016 and 2018, the Hong Kong–Zhuhai–Macao Bridge, the Hong Kong Boundary Crossing Facilities and the Tuen Mun–Chek Lap Kok Link will enter service, making the airport island more accessible to people in Hong Kong and throughout the Pearl River Delta. This new infrastructure, coupled with the continued expansion of HKIA, will create a range of business opportunities on the airport island.

We are capitalising on these opportunities with the development of the North Commercial District (NCD), a site of over 10 hectares adjacent to T2. In 2013/14, we announced the development of a new hotel with more than 1,000 rooms as the area's first phase of commercial development. The new facility will contribute to Lantau's appeal as a tourist destination and help alleviate Hong Kong's shortage of hotel rooms. In parallel, AAHK is actively pursuing relevant planning work related to the Master Layout Plan for the entire NCD development, including a detailed study on development strategy and arrangements for the NCD.

FINANCIAL REVIEW

Financial Summary

(in HK$ million)	**2013/14**	2012/13 Restated	±%[1]
Turnover	**14,810**	13,134	+12.8%
Operating expenses before depreciation and amortisation	**4,872**	4,282	+13.8%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**9,938**	8,852	+12.3%
Depreciation and amortisation	**2,248**	2,208	+1.8%
Interest and finance costs	**13**	121	-89.3%
Share of results of joint ventures	**77**	211	-63.5%
Profit before taxation	**7,754**	6,734	+15.1%
Income tax	**1,306**	1,111	+17.6%
Profit for the year	**6,448**	5,623	+14.7%
Profit attributable to the equity shareholder	**6,454**	5,615	+14.9%
Dividend declared	**5,300**	4,400	+20.5%
Key Financial Ratios			
Return on equity	**15.6%**	14.3%	
Total debt/capital ratio	**10%**	13%	
Key Traffic Summary[2]			
Passenger traffic[3] *(millions of passengers)*	**60.7**	57.2	+6.1%
Cargo throughput[4] *(millions of tonnes)*	**4.2**	4.0	+3.4%
Aircraft movements *(thousands)*	**377**	355	+6.3%

1 Subject to rounding differences.
2 "Key Traffic Summary" is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.
3 "Passenger traffic" includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.
4 "Cargo throughput" includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

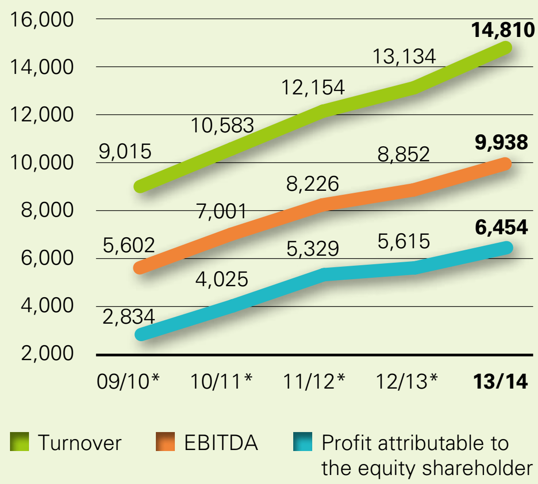
Overview

Airport Authority Hong Kong (AAHK) reported solid growth in all three traffic categories and a record financial performance in fiscal 2013/14, ended 31 March 2014.

During the fiscal year, Hong Kong International Airport (HKIA) welcomed 60.7 million passengers and handled 377,476 aircraft movements, representing annual increases of 6.1% and 6.3%, respectively. Cargo throughput rose 3.4%, to 4.2 million tonnes.

Strong traffic growth, together with higher retail concessions revenue and effective cost controls, helped AAHK and its subsidiaries (the Group) deliver a solid financial performance in 2013/14. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK$9,938 million and profit attributable to the equity shareholder of HK$6,454 million, representing an

Financial Results
(in HK$ million)

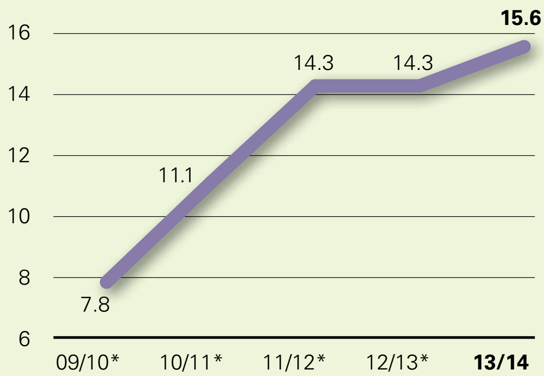


* Restated

improvement of 12.3% and 14.9%, respectively, from the previous fiscal year. The Group's return on equity increased to 15.6%. The Board declared a dividend of HK$5,300 million for the fiscal year.

Return on Equity

(in percentage)



** Restated*

Turnover

Turnover grew 12.8%, to HK$14,810 million, largely as a result of increased passenger traffic and aircraft movements as well as strong retail performance. Airport and security charges, revenues from airside support services franchises, retail licences and advertising, and other terminal commercial revenue, collectively comprised 95.9% of turnover.

Airport and security charges, representing 32.5% of turnover, rose 5.4%, to HK$4,810 million, primarily due to increases in passenger traffic and aircraft movements. This category's contribution to turnover decreased slightly as a result of the growth in revenues from retail licences and advertising.

AAHK continues to support airlines adding new destinations to the network served by HKIA. The New Destination Incentive Arrangement, which offers temporary rebates on landing charges associated with new destinations, has been extended until the end of 2014. The total reduction in airport charges given to airlines under this arrangement amounted to approximately HK$19 million (2012/13: HK$27 million).

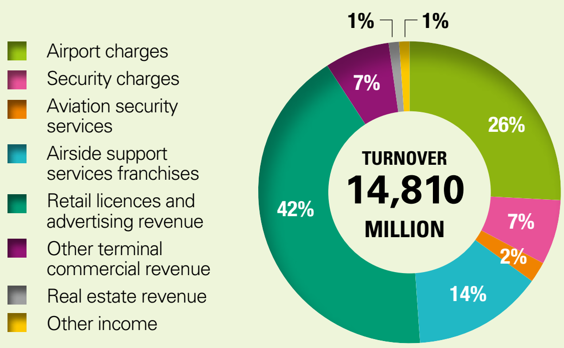
Revenues from airside support services franchises grew 6.2%, to HK$2,137 million. This increase was mainly attributable to increased passenger traffic and aircraft movements during the fiscal year.

Retail licences and advertising revenue, representing 41.6% of turnover, rose 23.2%, to HK$6,155 million. This increase was a result of the full-year effect of new anchor licences awarded in the last fiscal year; better sales performance in the luxury brands and specialty and commercial catering categories; the opening of a mega shop; higher advertising revenue from new clients and categories; and joint promotional initiatives with major brands and China UnionPay. This category contributed more than half of the growth in turnover for the year.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 7.8%, to HK$1,103 million, largely due to a property index adjustment in rental rates during the fiscal year.

Turnover by Source

(for the year ended 31 March 2014)



Operating Expenses

The Group continues to exercise stringent financial discipline to control its operating expenses while expanding its operations and maintaining the highest standards of safety, security, sustainability and service. Total operating expenses before depreciation and amortisation increased 13.8%, to HK$4,872 million, mainly due to inflationary pressures, strong traffic growth and additional three-runway system consultancy and other related expenses incurred during the fiscal year.

The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, three-runway system consultancy and other related expenses, and depreciation and amortisation, which accounted for approximately 90% of total operating expenses. Almost half of the Group's total operating expenses relate to depreciation and amortisation, government services and government rent and rates. These are costs over which the Group has limited control.

Staff costs and related expenses increased 15.1%, to HK$1,628 million, mainly due to adjustments to ensure the market competitiveness of employees' remuneration and an increase in staff numbers, particularly aviation security personnel, to cope with traffic growth.

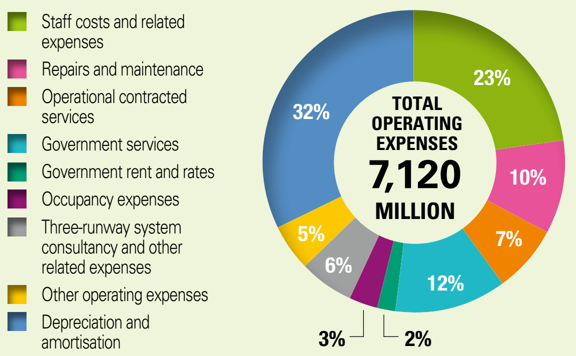
Repairs and maintenance rose 10.3%, to HK$677 million, largely due to additional work carried out on the airfield and terminals to ensure safe and reliable operation amidst increased traffic. Inflationary pressures on labour and material costs also contributed to the increase.

Operational contracted services represents costs for operations outsourced to third-party contractors. This category grew 8.1%, to HK$480 million, largely due to traffic growth and higher costs as a result of contracts renewed during the fiscal year.

Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. Increased aircraft movements led to higher air traffic control fees, and government services expense grew 2.8%, to HK$850 million.

Operating Expenses by Category

(for the year ended 31 March 2014)

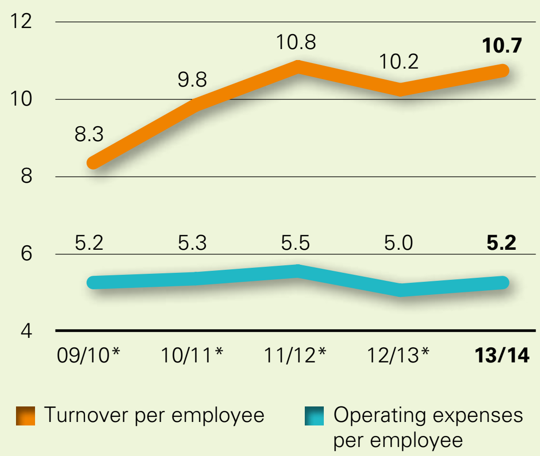


Three-runway system consultancy and other related expenses includes amounts incurred for the statutory environmental impact assessment, preparation of the associated design details for new facilities and the study of funding options. These expenses were mostly incurred after the Hong Kong SAR Government gave AAHK in-principle approval to adopt, for planning purposes, the three-runway system as the future development direction for HKIA. At HK$456 million, these expenses were much higher in 2013/14, reflecting an increased level of development activity.

Depreciation and amortisation increased 1.8%, to HK$2,248 million, due to the completion of expansion and improvement projects for facilities and systems during the fiscal year.

Turnover/Operating Expenses per Employee

(in HK$ million)



Notes : 1. Excludes employees of subsidiaries.
2. Operating expenses includes depreciation and amortisation, but excludes interest and finance costs.

** Restated*

Mainland Airports

During the year, the Mainland airports in which AAHK has an investment continued to benefit from China's economic expansion and experienced strong growth in passenger traffic.

In calendar 2013, passenger traffic and cargo throughput at Hangzhou Xiaoshan International Airport (HXIA) grew 15.7% and 8.8%, respectively, to 22.1 million and 368,000 tonnes. Despite the strong traffic growth, AAHK's share of profits decreased 64.0%, to HK$76 million, which was largely due to the increase in depreciation expenses for the new passenger terminal, which opened in 2012.

In the same calendar year, passenger traffic at Zhuhai Airport grew 38%, to a record 2.9 million, while cargo throughput increased 39%, to 23,000 tonnes. Despite the strong traffic growth, AAHK shared a loss of HK$4 million in fiscal 2013/14 due to the establishment of a new defined benefit retirement plan during the year.

Financial Position

The Group's financial position remains strong and well capitalised. The Group's total equity as at 31 March 2014 reached HK$42,519 million, an increase of 5.3% over the previous year, mainly due to the net profit achieved in 2013/14.

Fixed assets amounted to HK$47,274 million, which accounted for 83.1% of total assets. The Group incurred capital expenditures of HK$5,012 million during 2013/14, mainly related to the Midfield development, apron expansion and the enlargement and improvement of other facilities and systems.

Intangible assets of HK$215 million represented the unamortised cost of the right to operate and manage Zhuhai Airport for a period of 20 years, starting in 2006.

Interests in joint ventures of HK$3,985 million represented the Group's effective interest in the net assets of HXIA and Shanghai Hong Kong Airport Management Co., Ltd., plus associated goodwill.

Trade and other receivables decreased 9.7%, to HK$1,657 million, primarily due to settlement by licensees.

Total trade and other payables increased 57.3%, to HK$4,298 million, mainly attributable to the increase in contract costs payable related to the Midfield development and apron expansion.

Dividend

A dividend of HK$5,300 million (2012/13: HK$4,400 million), payable to the Hong Kong SAR Government, was declared by the Board subsequent to the fiscal year-end. It was AAHK's 11th dividend payment — representing approximately 80% of AAHK's distributable profit for the year — and reflects management's confidence in HKIA's growth potential.

Cash Flow

Net cash generated from operating activities increased from HK$7,575 million in 2012/13 to HK$9,933 million this year, mainly due to the increase in profit for the year.

Financing

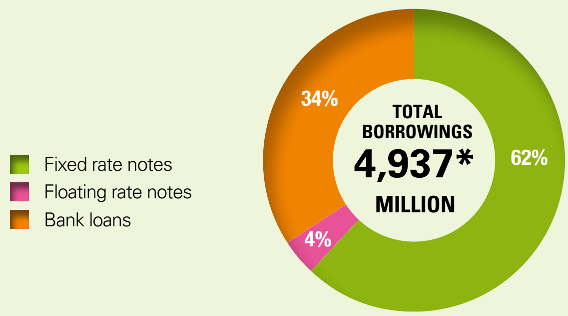
AAHK's total borrowings as at 31 March 2014 amounted to HK$4,937 million (2012/13: HK$5,780 million). Total borrowings comprised unsecured bank loans and notes.

In July 2010, AAHK established a US$1.0 billion medium-term note programme, which allows AAHK to access capital markets when needed. During the fiscal year, through private placements AAHK issued a total of HK$800 million in Hong Kong dollar-denominated notes with tenors ranging from 2 to 30 years. Proceeds from these issues were used to refinance maturing debt and meet working capital requirements.

AAHK continues to be one of the highest-rated corporations in Hong Kong. Standard & Poor's assigns an AAA rating to AAHK's long-term local and foreign currency debt, the same rating assigned to the Hong Kong SAR Government's debt.

Loan Facilities and Programmes

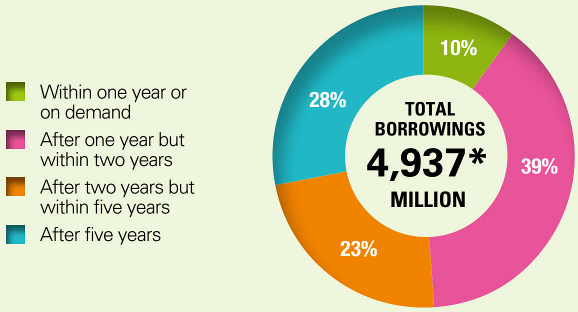
(as at 31 March 2014)



** After unamortised finance costs of HK$23 million.*

Loan Maturity Profile

(as at 31 March 2014)



* *After unamortised finance costs of HK$23 million.*

Financial Risk Management

AAHK manages its financial risks with a variety of instruments and techniques, including natural hedges achieved by spreading its loan portfolio over different rollover and maturity dates. Financial instruments, such as interest rate swaps and forward contracts, are also used to hedge AAHK's risks. In accordance with approved policy, we have adopted measures to fix the interest rate of a portion of total borrowings in order to minimise the impact of interest rate fluctuations on earnings.

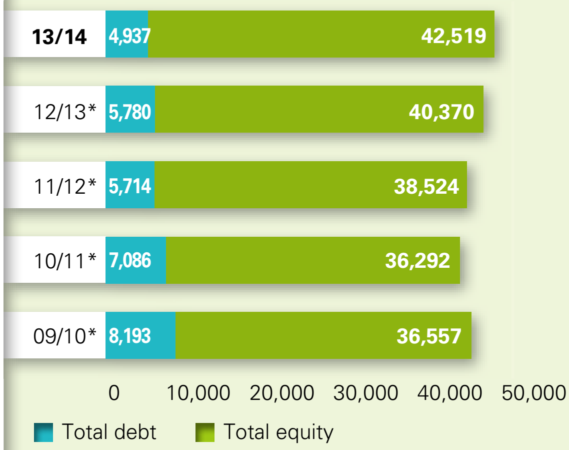
Following the 2003 acquisition of the aviation fuel supply system, which generates revenues in United States dollars, AAHK hedged its currency exposure with the appropriate amount of United States dollar borrowings, thereby neutralising the risk of exchange rate fluctuations on the revenue stream. In addition, AAHK has executed forward contracts to fix the exchange rate for the conversion of Hong Kong dollars into United States dollars to control the risk of exchange rate fluctuations on a portion of the United States dollar borrowings. AAHK has effectively reduced this exposure since the inception of these forward contracts. With the full repayment of the United States dollar borrowings during the fiscal year, all of the forward contracts have been settled.

Since the latter part of 2006, AAHK has also been exposed to Chinese renminbi movements as a result of its investment in Mainland airports. This exposure has resulted in significant cumulative exchange gains on the statement of financial position owing to the strengthening of renminbi.

Apart from the above, AAHK is also exposed to United States dollar and Chinese renminbi movements from cash and bank balances and trade and other receivables denominated in these currencies. AAHK has however minimal foreign currency exposure because revenues and costs at HKIA are largely denominated in Hong Kong dollars.

Capital Structure

(in HK$ million)



* *Restated*

Outlook

We expect traffic demand to increase moderately, driven by global economic recovery and robust regional growth, especially on the Mainland. As a result of higher levels of traffic, some facilities at HKIA, such as aircraft parking stands and other terminal facilities, are approaching capacity.

To meet immediate needs, twenty new parking stands have entered service and another eight stands will become operational by the end of 2014. In the medium term, the Midfield development and apron expansion will relieve pressure on HKIA's parking stands. The Midfield development, which comprises a five-level concourse with 20 stands, is expected to come on stream by the end of 2015. We will also undertake other enhancement initiatives and smaller projects to optimise the use of existing space and facilitate the smooth movement of passengers, cargo and aircraft.

With preliminary design work nearly complete, the three-runway system is the centrepiece of our long-term development activities. Our near-term focus for this project is to obtain an environmental permit in 2014, finalise the financial arrangements and secure all necessary approvals so construction can commence on schedule.

In the meantime, to maintain and strengthen our reputation for operational and service excellence, we will continue our safety, customer service and business continuity planning initiatives. This includes resurfacing taxiways and runways, enhancing the fixed ground power and pre-conditioned air systems and replacing air bridges.

In the short term, we expect profits to grow at a slower pace due to capacity constraints in the two-runway system. Nevertheless, we will continue to increase commercial revenues by optimising HKIA's retail space, refining the retail mix, building new facilities and supporting our business partners as they expand their operations. With the aim of fully capturing the commercial opportunities presented by the Hong Kong–Zhuhai–Macao Bridge, we will proceed with the development of a new hotel in the North Commercial District as the area's first phase of commercial development. A master layout plan for the entire district is expected to be complete in 2014. We will also continue to apply prudent financial discipline to contain the growth of operating expenses and improve productivity, while maintaining the highest standards of safety, security, sustainability and service.

To strengthen HKIA's position as a regional and international aviation centre, we will continue to liaise with the relevant authorities to ensure HKIA enjoys smooth, seamless connections with the Hong Kong–Zhuhai–Macao Bridge and the Hong Kong Boundary Crossing Facilities. We will also enhance HKIA's accessibility by improving land and sea connectivity with the Pearl River Delta and expanding our upstream check-in initiatives.

With timely development, financial discipline and innovation, HKIA will continue to add value for its stakeholders and generate economic benefits for Hong Kong and the entire Pearl River Delta.

TABLE OF CONTENTS

REPORT OF THE MEMBERS OF THE BOARD

Financial year ended 31 March 2014

The Members of the Board have pleasure in submitting the annual report of the Airport Authority ("AA") together with the audited consolidated financial statements for the year ended 31 March 2014.

Principal Activities

Pursuant to the Airport Authority Ordinance (Cap. 483) ("the Ordinance") and the objective of maintaining Hong Kong's status as a centre of international and regional aviation, the AA is responsible for the provision, operation, development and maintenance of the Hong Kong International Airport ("HKIA") situated at Chek Lap Kok, Lantau, Hong Kong and the provision of facilities, amenities and services at, as regards or in relation to the HKIA. The AA may also engage in airport-related activities in trade, commerce or industry at or from any places in the Airport Island, and the airport-related activities as permitted by the Airport Authority (Permitted Airport-related Activities) Order (Cap. 483E). The AA is required under the Ordinance to conduct its business according to prudent commercial principles.

The principal activities and other particulars of the AA's subsidiaries are set out in note 12 to the financial statements.

Financial Statements

The profit of the group for the year ended 31 March 2014 and the state of the group's affairs as at that date are set out in the financial statements on pages 78 to 130.

Dividend

The Ordinance provides that the AA may pay dividends on its shares and that the Financial Secretary may, after taking into account the financial position of the AA and its subsidiaries, direct the AA to pay dividends out of the distributable profits of the AA. A final dividend of HK$4,400 million or HK$14,356.56 per share was declared and paid for the year 2012/13. The Board now recommends the payment of a final dividend of HK$5,300 million or HK$17,293.13 per share for the year ended 31 March 2014.

Transfer to Reserves

The group's profit attributable to equity shareholder of HK$6,454 million (2012/13: HK$5,615 million (restated)) has been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

Fixed Assets

Movements in fixed assets during the year are set out in note 10 to the financial statements.

Capitalised Interest

Interest amounting to HK$112 million (2012/13: HK$58 million) was capitalised by the group during the year as set out in note 6 to the financial statements.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the group as at 31 March 2014 are set out in note 17 to the financial statements.

Financial Summary

A summary of the financial results and the assets and liabilities of the group for the last five financial years is set out on page 131 of the annual report.

Share Capital

Under the terms of the Ordinance, the AA may only issue shares to the Government of the Hong Kong Special Administrative Region of the People's Republic of China ("the Hong Kong SAR Government") on behalf of which all shares are held by the Financial Secretary Incorporated. No shares were issued or cancelled during the year ended 31 March 2014.

Donations

Donations made during the year amounted to HK$3,418,000 (2012/13: HK$2,287,000) which were funded partly from the sales of "lost & found" items at the airport.

Major Customers and Suppliers

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	22%	
Top five customers	51%	
The largest supplier		34%
Top five suppliers		51%

The largest supplier is the Hong Kong SAR Government which is the sole shareholder of the AA.

Purchases are exclusive of supplies of capital nature.

Going Concern

The financial statements on pages 78 to 130 have been prepared on a going concern basis. The Board has approved the AA's budget for 2014/15 and the business plan and financial plan for 2014/15 to 2018/19 and is satisfied that the AA has sufficient resources to continue as a going concern for the foreseeable future.

Retirement Schemes

Details with regard to the AA's retirement schemes are set out in note 19 to the financial statements. The administration of the retirement schemes and the AA's contributions thereto are reviewed periodically with reference to reports of the investment manager of the schemes and independent actuaries.

Corporate Governance

Principal corporate governance practices adopted by the AA are set out in the Corporate Governance Report on pages 16 to 33 of the annual report.

Employees

As of 31 March 2014, the AA, excluding its subsidiaries, had a staff force of 1,379 (31 March 2013: 1,290). The AA has developed human resources policies to ensure that the pay levels of its employees are competitive and that employees are rewarded according to their performance within the framework of the AA's salary and performance awards system. To further strengthen the underlying principle of pay-for-performance, a Variable Compensation Scheme was introduced in April 2002. Regular review was conducted from time to time to ensure AA's pay position and remuneration package including the variable pay stay competitive against market.

Members of the Board and Executive Directors

Members of the Board and Executive Directors at the date of this report are set out on pages 12 to 14 of the annual report.

Ms Anita Fung Yuen-mei has been reappointed as a member for a term of three years from 23 May 2013 to 22 May 2016.

Mr Stanley Hui Hon-chung on 25 October 2013 informed of his resignation as the Chief Executive Officer with effect from 11 July 2014.

Interest of Members of the Board and Executive Directors in Contracts

Except as set out in note 24 to the financial statements, no contracts of significance to which the AA or any of its subsidiaries was a party and in which a Member of the Board or an Executive Director had a material interest subsisted at the end of the year or at any time during the year. At no time during the year was the AA or any of its subsidiaries a party to any arrangements to enable any Member of the Board or Executive Director to acquire benefits by means of acquisition of shares of the AA or of any body corporate.

Related Party Transactions

Details of material related party transactions entered into or were ongoing during the year are set out in note 24 to the financial statements.

Members' Responsibilities for the Financial Statements

The Members of the Board are responsible for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the results and cash flows for the period. In preparing the financial statements for the year ended 31 March 2014, the Members of the Board have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the financial statements on a going-concern basis. The Members are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group.

Auditors

In accordance with Section 32 of the Ordinance, the Chief Executive of the HKSAR approved the appointment of KPMG as auditors and they remain in office.

By order of the Board

H Y Shu
Secretary to the Board

Hong Kong, 19 May 2014

INDEPENDENT AUDITOR'S REPORT

To the Airport Authority
(Incorporated in Hong Kong under the Airport Authority Ordinance)

We have audited the consolidated financial statements of the Airport Authority ("the Authority") and its subsidiaries (together "the group") set out on pages 78 to 130, which comprise the consolidated statement of financial position as at 31 March 2014, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board members' responsibility for the consolidated financial statements

The Board members of the Authority are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Airport Authority Ordinance and for such internal control as the Board members determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 32 of the Airport Authority Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board members, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the group as at 31 March 2014 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Airport Authority Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

19 May 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

$ million	**Note**	**2014**	2013 Restated
Airport charges		**3,820**	3,628
Security charges		**990**	937
Aviation security services		**241**	195
Airside support services franchises		**2,137**	2,012
Retail licences and advertising revenue		**6,155**	4,995
Other terminal commercial revenue		**1,103**	1,023
Real estate revenue		**239**	227
Other income		**125**	117
Turnover		**14,810**	13,134
Staff costs and related expenses	4	**(1,628)**	(1,415)
Repairs and maintenance		**(677)**	(614)
Operational contracted services		**(480)**	(444)
Government services		**(850)**	(827)
Government rent and rates		**(150)**	(179)
Occupancy expenses		**(237)**	(227)
Three-runway system consultancy and other related expenses	5	**(456)**	(209)
Other operating expenses		**(394)**	(367)
Operating expenses before depreciation and amortisation		**(4,872)**	(4,282)
Operating profit before depreciation and amortisation		**9,938**	8,852
Depreciation and amortisation		**(2,248)**	(2,208)
Operating profit before interest and finance costs	3	**7,690**	6,644
Interest and finance costs:			
Finance costs	6	**(56)**	(161)
Interest income		**43**	40
		(13)	(121)
Share of results of joint ventures	13	**77**	211
Profit before taxation		**7,754**	6,734
Income tax	7(a)	**(1,306)**	(1,111)
Profit for the year		**6,448**	5,623
Attributable to:			
Equity shareholder of the Authority		**6,454**	5,615
Non-controlling interests		**(6)**	8
Profit for the year		**6,448**	5,623

The notes on pages 84 to 130 form part of these financial statements. Details of the dividend payable to the equity shareholder of the Authority attributable to the profit for the year are set out in note 20(b).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

$ million	**2014**	2013 Restated
Profit for the year	**6,448**	5,623
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
– the Authority	**92**	63
Less: deferred tax	**(15)**	(10)
	77	53
– a subsidiary in the People's Republic of China ("the PRC")	**4**	–
– a joint venture in the PRC	**21**	7
	102	60
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of:		
– a subsidiary in the PRC	**–**	5
– joint ventures in the PRC	**(4)**	57
	(4)	62
Cash flow hedge: net movement in hedging reserve	**3**	1
	(1)	63
Other comprehensive income for the year	**101**	123
Total comprehensive income for the year	**6,549**	5,746
Attributable to:		
Equity shareholder of the Authority	**6,553**	5,736
Non-controlling interests	**(4)**	10
Total comprehensive income for the year	**6,549**	5,746

The notes on pages 84 to 130 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2014 (Expressed in Hong Kong dollars)

$ million	**Note**	**31 March 2014**	31 March 2013 Restated	1 April 2012 Restated
Non-current assets				
Fixed assets				
– investment property	10	**152**	166	215
– interest in leasehold land	10	**7,685**	7,915	8,174
– other property, plant and equipment	10	**39,437**	36,424	35,192
		47,274	44,505	43,581
Intangible asset	11	**215**	233	246
Interests in joint ventures	13	**3,985**	4,134	3,817
Derivative financial assets	21(e)	**8**	18	68
		51,482	48,890	47,712
Current assets				
Stores and spares		**55**	61	64
Trade and other receivables	14	**1,657**	1,835	1,771
Derivative financial assets	21(e)	**5**	54	37
Tax recoverable	7(c)	**-**	60	-
Cash and bank balances	15	**3,677**	2,792	1,780
		5,394	4,802	3,652
Current liabilities				
Trade and other payables	16	**(3,857)**	(2,353)	(1,890)
Interest-bearing borrowings	17	**(500)**	(3,089)	(452)
Current taxation	7(c)	**(263)**	(1)	(200)
Deferred income	18	**(155)**	(144)	(136)
Derivative financial liabilities	21(e)	**(1)**	(3)	(1)
		(4,776)	(5,590)	(2,679)
Net current assets/(liabilities)		**618**	(788)	973
Total assets less current liabilities		**52,100**	48,102	48,685
Non-current liabilities				
Trade and other payables	16	**(441)**	(379)	(288)
Interest-bearing borrowings	17	**(4,437)**	(2,691)	(5,262)
Deferred income	18	**(860)**	(1,019)	(1,163)
Derivative financial liabilities	21(e)	**(50)**	(15)	(5)
Net defined benefit retirement obligations	19	**(97)**	(133)	(172)
Deferred tax liabilities	7(d)	**(3,696)**	(3,495)	(3,271)
		(9,581)	(7,732)	(10,161)
Net assets		**42,519**	40,370	38,524
Capital and reserves	20			
Share capital		**30,648**	30,648	30,648
Reserves		**11,642**	9,489	7,653
Total equity attributable to the equity shareholder of the Authority		**42,290**	40,137	38,301
Non-controlling interests		**229**	233	223
Total equity		**42,519**	40,370	38,524

Approved and authorised for issue on behalf of the Members of the Board on 19 May 2014.

Mr Vincent Lo Hong-sui
Member of the Board

Mr Stanley Hui Hon-chung
Chief Executive Officer

Mr William Lo Chi-chung
Executive Director, Finance

The notes on pages 84 to 130 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

		Attributable to the equity shareholder of the Authority							
$ million	Note	Share capital	Exchange reserve	Capital reserve	Hedging reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 April 2012		30,648	624	543	(5)	6,730	38,540	223	38,763
Impact of change in accounting policy		–	(4)	–	–	(235)	(239)	–	(239)
At 1 April 2012 (restated)		30,648	620	543	(5)	6,495	38,301	223	38,524
Changes in equity for the year:									
Profit for the year (restated)		–	–	–	–	5,615	5,615	8	5,623
Other comprehensive income (restated)		–	60	–	1	60	121	2	123
Total comprehensive income (restated)		–	60	–	1	5,675	5,736	10	5,746
Dividend approved in respect of the previous year	20(b)	–	–	–	–	(3,900)	(3,900)	–	(3,900)
Transfer from retained profits to capital reserve	20(d)(ii)	–	–	93	–	(93)	–	–	–
At 31 March 2013 and 1 April 2013 (restated)		**30,648**	**680**	**636**	**(4)**	**8,177**	**40,137**	**233**	**40,370**
Changes in equity for the year:									
Profit for the year		**–**	**–**	**–**	**–**	**6,454**	**6,454**	**(6)**	**6,448**
Other comprehensive income		**–**	**(4)**	**–**	**3**	**100**	**99**	**2**	**101**
Total comprehensive income		**–**	**(4)**	**–**	**3**	**6,554**	**6,553**	**(4)**	**6,549**
Dividend approved in respect of the previous year	20(b)	**–**	**–**	**–**	**–**	**(4,400)**	**(4,400)**	**–**	**(4,400)**
Transfer from retained profits to capital reserve	20(d)(ii)	**–**	**–**	**101**	**–**	**(101)**	**–**	**–**	**–**
At 31 March 2014		**30,648**	**676**	**737**	**(1)**	**10,230**	**42,290**	**229**	**42,519**

The notes on pages 84 to 130 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2014 (Expressed in Hong Kong dollars)

$ million	**Note**	**2014**	2013 Restated
Operating activities			
Profit before taxation		**7,754**	6,734
Adjustments for:			
Depreciation		**2,001**	1,960
Amortisation of interest in leasehold land		**230**	231
Amortisation of intangible asset		**17**	17
Interest on notes and bank loans		**64**	183
Other borrowing costs and interest expense		**28**	23
Interest income		**(43)**	(40)
Fair value loss/(gain) on derivative financial instruments:			
– cash flow hedges		**3**	1
– fair value hedges		**35**	(6)
Net gain on underlying hedged interest-bearing borrowings in fair value hedges		**(71)**	(39)
Share of results of joint ventures		**(77)**	(211)
Reversal of impairment losses on trade and other receivables		**(3)**	(19)
Net loss on disposal of fixed assets		**10**	40
Net foreign exchange gain		**(3)**	(1)
Amortisation of deferred income		**(148)**	(136)
Expenses recognised in respect of defined benefit retirement plans		**83**	52
Operating profit before changes in working capital		**9,880**	8,789
Decrease in stores and spares		**6**	3
Decrease/(increase) in trade and other receivables		**179**	(45)
Increase/(decrease) in trade and other payables		**666**	(16)
Cash generated from operations		**10,731**	8,731
Hong Kong Profits Tax paid		**(785)**	(1,156)
PRC Corporate Income Tax paid:			
– dividend received from a joint venture		**(12)**	–
– others		**(1)**	–
Net cash generated from operating activities		**9,933**	7,575
Investing activities			
Net placement of term deposits		**(25)**	(35)
Interest received		**43**	40
Dividend received from a joint venture		**243**	–
Payments for the purchase of other property, plant and equipment		**(3,978)**	(2,543)
Receipts from disposal of fixed assets		**2**	2
Payment of annual franchise fee for a PRC subsidiary		**(4)**	(4)
Payment to acquire interest in a joint venture		**–**	(42)
Net cash used in investing activities		**(3,719)**	(2,582)

$ million	**Note**	**2014**	2013 Restated
Financing activities			
Interest paid on notes and bank loans		**(182)**	(244)
Other borrowing costs and interest expense paid		**(31)**	(20)
Net drawdown of bank loans		**1,500**	–
Receipts from issue of notes		**800**	550
Repayment of United States ("US") dollar Eurobond		**(2,714)**	–
Repayment of notes		**(350)**	(450)
Net interest income received on interest rate swaps		**23**	47
Dividend paid		**(4,400)**	(3,900)
Net cash used in financing activities		**(5,354)**	(4,017)
Net increase in cash and cash equivalents		**860**	976
Cash and cash equivalents at beginning of year		**2,732**	1,755
Effect of foreign exchange rate changes		**–**	1
Cash and cash equivalents at end of year	15	**3,592**	2,732

The notes on pages 84 to 130 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. Principal activities of the Authority

The Airport Authority ("the Authority") is a statutory corporation wholly owned by the Hong Kong SAR Government ("the Government"). It was formally established on 1 December 1995 when the Airport Authority Ordinance ("the Ordinance") was brought into effect as a continuation of the Provisional Airport Authority which had been set up in 1990.

The Authority's statutory purpose is to provide, operate, develop and maintain Hong Kong's airport at Chek Lap Kok, in order to maintain Hong Kong's status as a centre of international and regional aviation. Pursuant to these purposes, the Authority may also engage in airport-related activities in trade, commerce or industry at Chek Lap Kok and is permitted to engage in or carry out airport-related activities at any place in or outside Hong Kong. The Authority is required under the Ordinance to conduct its business according to prudent commercial principles.

The Authority's principal subsidiaries and their principal activities are set out in note 12.

The Authority and its subsidiaries are collectively referred to as the group.

2. Statement of compliance and basis of preparation of the financial statements

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Airport Authority Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with the exception of disclosure of Earnings Per Share which is not relevant to the Authority as the Authority's shares are not publicly traded. A summary of the significant accounting policies adopted by the group is set out in note 28.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the Authority. Note 28(a) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 29).

(b) Basis of preparation of the financial statements

The consolidated financial statements comprise the financial statements of the group as well as the group's interests in joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial instruments which are adjusted for or stated at their fair values as explained in the accounting policies set out in notes 28(e), (f) and (m). Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. Statement of compliance and basis of preparation of the financial statements (continued)

(b) Basis of preparation of the financial statements (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 26.

3. Operating profit before interest and finance costs

Operating profit before interest and finance costs of the group is arrived at after charging/(crediting):

$ million	**2014**	2013
Auditors' remuneration:		
– audit services	**5**	4
– tax services	**–**	1
– other services	**2**	2
Stores and spares expensed	**86**	78
Net loss on disposal of fixed assets	**10**	40
Reversal of impairment losses on trade and other receivables (note 14(b))	**(3)**	(19)
Depreciation: (note 10(d))		
– assets held for use under operating leases	**137**	141
– other assets	**1,864**	1,819
Amortisation:		
– interest in leasehold land (note 10(d))		
– leased out under operating leases	**14**	14
– others	**216**	217
– intangible asset (note 11)	**17**	17
Operating lease charges: minimum lease payments		
– hire of plant and machinery	**2**	1
– hire of other assets (including property rentals)	**10**	8
Rentals from investment property less direct outgoings of $13 million (2013: $13 million)	**(25)**	(27)

4. Staff costs and related expenses

$ million	**2014**	2013 Restated
Contributions to defined contribution retirement plans	**66**	57
Expenses recognised in respect of defined benefit retirement plans (note 19)	**83**	52
Total retirement costs	**149**	109
Salaries, wages and other benefits	**1,479**	1,306
	1,628	1,415

5. Three-runway system consultancy and other related expenses

Three-runway system consultancy and other related expenses include amounts incurred for the statutory Environmental Impact Assessment and the preparation of the associated design details of the facilities, after the Government's in-principle approval for the Authority to adopt, for planning purposes, the three-runway option as the future development direction for Hong Kong International Airport.

6. Finance costs

$ million	**2014**	2013
Interest on bank loans	**11**	7
Interest on notes	**165**	234
Other borrowing costs	**15**	13
Other interest expense	**13**	10
Total interest expense	**204**	264
Less: borrowing costs capitalised into assets under construction	**(112)**	(58)
	92	206
Net foreign exchange gain	**(3)**	(1)
Fair value loss/(gain) on derivative financial instruments		
– cash flow hedges	**3**	1
– fair value hedges [1]	**35**	(6)
Net gain on underlying hedged interest-bearing borrowings in fair value hedges	**(71)**	(39)
	56	161

[1] Includes net interest income of $29 million (2013: $49 million) in respect of interest rate swaps under fair value hedging arrangements.

The borrowing costs have been capitalised at the average cost of funds to the group calculated on a monthly basis. The average interest rate used for capitalisation for the year was 2.77% (2013: 3.30%) per annum.

7. Taxation

(a) Taxation in the consolidated statement of profit or loss represents:

$ million	**2014**	2013 Restated
Current tax – Hong Kong Profits Tax		
– provision for the year	**1,123**	896
– (over)/under-provision in respect of prior years	**(16)**	1
Current tax – PRC Corporate Income Tax		
– provision on dividend received from a joint venture for the year	**12**	–
– other provision for the year	**1**	1
– over-provision in respect of prior years	**–**	(1)
Deferred tax (note 7(d))		
– origination and reversal of temporary differences	**186**	214
	1,306	1,111

7. Taxation (continued)

(a) Taxation in the consolidated statement of profit or loss represents: (continued)

The provision for Hong Kong Profits Tax for the year is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

The provision for PRC Corporate Income Tax in respect of withholding tax on dividends received and receivable from a joint venture for the year is calculated at 5% (2013: 5%) of the dividend received from and the estimated undistributed profits of a joint venture for the year, while the other provision for PRC Corporate Income Tax is calculated at 25% (2013: 25%) of the estimated assessable profits for the year.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

$ million	**2014**	2013 Restated
Profit before taxation	**7,754**	6,734
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**1,279**	1,112
Tax effect of non-deductible expenses	**36**	38
Tax effect of non-taxable income	**(18)**	(38)
Over-provision in respect of prior years	**(16)**	–
The effect of tax losses and other temporary differences not recognised	**–**	(1)
Deferred tax movement of over-provision in respect of prior years	**25**	–
Actual tax expense	**1,306**	1,111

(c) Tax recoverable and current taxation in the consolidated statement of financial position represents:

$ million	**2014**	2013
Provision for the year (note 7(a))		
– Hong Kong Profits Tax	**1,123**	896
– PRC Corporate Income Tax	**13**	1
Provisional Hong Kong Profits Tax paid	**(872)**	(958)
PRC Corporate Income Tax paid		
– dividend received from a joint venture	**(12)**	–
– others	**(1)**	–
Balance of profits tax provision relating to prior years	**12**	2
Current taxation/tax recoverable	**263**	(59)

7. Taxation (continued)

(d) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities of the group recognised in the consolidated statement of financial position and the movements during the year are as follows:

$ million **Deferred tax arising from:**	**Depreciation allowances in excess of the related depreciation and other expenses**	**Cash flow hedges**	**Deferred income, defined benefit retirement plan liability and provisions**	**Undistributed profits of a PRC joint venture**	**Total**
At 1 April 2012 (restated)	3,466	(1)	(215)	21	3,271
Charged to profit or loss (restated)	192	–	16	6	214
Credited to other comprehensive income (restated)	–	–	10	–	10
At 31 March 2013 (restated)	3,658	(1)	(189)	27	3,495
At 1 April 2013	**3,658**	**(1)**	**(189)**	**27**	**3,495**
Charged/(credited) to profit or loss	**178**	**–**	**21**	**(13)**	**186**
Credited to other comprehensive income	**–**	**–**	**15**	**–**	**15**
At 31 March 2014	**3,836**	**(1)**	**(153)**	**14**	**3,696**

(e) Deferred tax assets not recognised:

The group has not recognised deferred tax assets in respect of subsidiaries' cumulative tax losses and other temporary differences of $69 million (2013: $91 million) and $10 million (2013: $11 million) respectively as it is not probable that sufficient future taxable profits against which the cumulative tax losses and other temporary differences can be utilised will be available. The estimated tax losses of RMB9 million ($11 million) (2013: RMB27 million ($34 million)) for the subsidiary in the PRC will expire within five years under the current PRC legislation. The remaining portion of the tax losses mainly relating to subsidiaries in Hong Kong do not expire under the current tax legislation.

8. Remuneration of the Members of the Board and Executive Directors and individuals with the highest emoluments

(a) Remuneration of the Members of the Board and Executive Directors

Members of the Board, the Chief Executive Officer and Executive Directors are considered to be key management personnel of the Authority. There are three components of remuneration paid to the Chief Executive Officer and Executive Directors.

Basic compensation
Basic compensation consists of base salary, housing and other allowances and benefits in kind.

Performance-related compensation
This represents discretionary payments depending on individual performance and the performance of the group.

Retirement benefits
Retirement benefits relate to the group's contribution to retirement funds or gratuities in lieu of retirement plan contributions accrued.

8. Remuneration of the Members of the Board and Executive Directors and individuals with the highest emoluments (continued)

(a) Remuneration of the Members of the Board and Executive Directors (continued)

The emoluments of the Members of the Board and Executive Directors of the Authority are as follows:

2014 *$'000*	Board Member's fee	Basic compensation	Performance-related compensation	Retirement benefits	Total
Members of the Board					
Non-executive Members					
Marvin Cheung Kin-tung	220	–	–	–	220
Chan Kam-lam	110	–	–	–	110
Edward Cheng Wai-sun	110	–	–	–	110
Anita Fung Yuen-mei	110	–	–	–	110
Albert Ho Chun-yan	110	–	–	–	110
Raymond Ho Chung-tai	110	–	–	–	110
Benjamin Hung Pi-cheng	110	–	–	–	110
Jeffrey Lam Kin-fung	110	–	–	–	110
Miriam Lau Kin-yee	110	–	–	–	110
Lee Shing-see	110	–	–	–	110
Vincent Lo Hong-sui	110	–	–	–	110
Caroline Mak Sui-king	110	–	–	–	110
Huen Wong	110	–	–	–	110
Director-General of Civil Aviation[1]	110	–	–	–	110
Secretary for Financial Services and the Treasury[1]	110	–	–	–	110
Secretary for Transport and Housing[1]	110	–	–	–	110
Executive Member					
Stanley Hui Hon-chung (Chief Executive Officer)	–	4,321	1,841	15	6,177
Executive Directors					
John Chai Sung-veng	–	3,320	1,425	423	5,168
Cissy Chan Ching-sze	–	3,320	1,358	340	5,018
Wilson Fung Wing-yip	–	2,995	1,225	299	4,519
William Lo Chi-chung	–	2,986	1,067	299	4,352
Ng Chi-kee	–	3,003	1,289	303	4,595
	1,870	19,945	8,205	1,679	31,699

1 Members who are public officers. Fees payable to the Members who are public officers are received by the Government rather than by the individuals concerned.

8. Remuneration of the Members of the Board and Executive Directors and individuals with the highest emoluments (continued)

(a) Remuneration of the Members of the Board and Executive Directors (continued)

2013 *$'000*	Board Member's fee	Basic compensation	Performance-related compensation	Retirement benefits	Total
Members of the Board					
Non-executive Members					
Marvin Cheung Kin-tung	220	–	–	–	220
Chan Kam-lam	110	–	–	–	110
Edward Cheng Wai-sun	110	–	–	–	110
Anita Fung Yuen-mei	110	–	–	–	110
Albert Ho Chun-yan	110	–	–	–	110
Raymond Ho Chung-tai	110	–	–	–	110
Benjamin Hung Pi-cheng	110	–	–	–	110
Jeffrey Lam Kin-fung	110	–	–	–	110
Miriam Lau Kin-yee	110	–	–	–	110
Lee Shing-see	110	–	–	–	110
Vincent Lo Hong-sui (appointed in January 2013)	27	–	–	–	27
Caroline Mak Sui-king	110	–	–	–	110
Huen Wong	110	–	–	–	110
Director-General of Civil Aviation[1]	110	–	–	–	110
Secretary for Financial Services and the Treasury[1]	110	–	–	–	110
Secretary for Transport and Housing[1]	110	–	–	–	110
Allan Wong Chi-yun (retired in January 2013)	83	–	–	–	83
Executive Member					
Stanley Hui Hon-chung (Chief Executive Officer)[2]	–	4,055	1,834	502	6,391
Executive Directors					
John Chai Sung-veng (appointed in October 2012)	–	1,420	600	181	2,201
Cissy Chan Ching-sze (appointed in September 2012)	–	1,874	792	191	2,857
Wilson Fung Wing-yip	–	2,900	1,243	287	4,430
William Lo Chi-chung	–	2,900	1,088	287	4,275
Ng Chi-kee	–	2,907	1,246	346	4,499
	1,870	16,056	6,803	1,794	26,523

1 Members who are public officers. Fees payable to the Members who are public officers are received by the Government rather than by the individuals concerned.

2 Retirement benefits include a gratuity accrual of $87,900 to which Mr Stanley Hui Hon-chung is not entitled due to his resignation tendered in October 2013.

8. Remuneration of the Members of the Board and Executive Directors and individuals with the highest emoluments (continued)

(b) Individuals with the highest emoluments

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2013: four comprise the Chief Executive Officer and three Executive Directors) whose emoluments are disclosed under note 8(a).

The aggregate of the emoluments in respect of the other one individual for the year ended 31 March 2013 is as follows:

$'000	2013
Basic compensation	2,384
Performance-related compensation[1]	900
Retirement benefits	268
	3,552

[1] The performance-related compensation relates to 2011/12 which was paid during 2012/13.

9. Segmental information

Services from which reportable segments derive their revenue

Information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on the group as a whole, as all of the group's activities are considered to be primarily dependent on the airport traffic and are highly integrated and interdependent on each other. Resources are allocated based on what is beneficial for the group in enhancing the airport experience as a whole rather than any specific department. Performance assessment is based on the results of the group as a whole with operating parameters set out for each department. Consequently, management considers there to be only one operating segment under the requirements of HKFRS 8, *"Operating segments"*, and believes that this presentation provides more relevant information.

Reconciliation of segmental information to the information presented in the financial statements has not been presented, as the reconciling items net of consolidation adjustments are considered to be immaterial to the group.

Information provided to management in respect of the group's revenues, expenses, assets and liabilities is materially similar to that reported in these financial statements.

Revenue from major services

The group's revenue from its major services is set out in the consolidated statement of profit or loss.

Geographical information

No geographical information is shown as the turnover and operating profit of the group is substantially derived from activities in Hong Kong, other than its interests in joint ventures in the PRC, details of which are disclosed under note 13 to the financial statements.

Information about major customers

The group's customer base is diversified and includes only two customers (2013: one customer) with whom transactions have exceeded 10% of the group's revenue.

Included in the turnover of $14,810 million for the year (2013: $13,134 million) are aggregate revenues of approximately $6,276 million which arose from these two customers (2013: $2,986 million which arose from one customer). This includes only revenue arising from those entities which are known to the group to be under common control of these customers.

10. Fixed assets

(a)

	Other property, plant and equipment									
$ million	Airfields	Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Construction in progress	Sub-total	Investment property	Interest in leasehold land	Total
Cost										
At 1 April 2012	7,992	23,457	13,990	8,643	1,626	1,449	57,157	265	11,360	68,782
Exchange adjustments	–	–	–	1	–	–	1	–	–	1
Additions	–	4	13	112	60	2,967	3,156	–	–	3,156
Reclassifications	97	256	(47)	488	(22)	(730)	42	(42)	–	–
Disposals	(72)	(39)	(13)	(399)	(52)	–	(575)	–	(39)	(614)
At 31 March 2013	8,017	23,678	13,943	8,845	1,612	3,686	59,781	223	11,321	71,325
At 1 April 2013	8,017	23,678	13,943	8,845	1,612	3,686	59,781	223	11,321	71,325
Additions	36	22	5	97	73	4,779	5,012	–	–	5,012
Reclassifications	944	445	–	(96)	(13)	(1,273)	7	(7)	–	–
Disposals	(113)	(48)	(1)	(132)	(21)	–	(315)	–	–	(315)
At 31 March 2014	8,884	24,097	13,947	8,714	1,651	7,192	64,485	216	11,321	76,022
Accumulated depreciation, amortisation and impairment										
At 1 April 2012	2,759	7,998	4,686	5,184	1,338	–	21,965	50	3,186	25,201
Charge for the year	301	769	410	421	52	–	1,953	7	231	2,191
Written back on disposals	(71)	(32)	(11)	(395)	(52)	–	(561)	–	(11)	(572)
At 31 March 2013	2,989	8,735	5,085	5,210	1,338	–	23,357	57	3,406	26,820
At 1 April 2013	2,989	8,735	5,085	5,210	1,338	–	23,357	57	3,406	26,820
Charge for the year	287	795	414	407	91	–	1,994	7	230	2,231
Written back on disposals	(113)	(40)	(1)	(128)	(21)	–	(303)	–	–	(303)
At 31 March 2014	3,163	9,490	5,498	5,489	1,408	–	25,048	64	3,636	28,748
Net book value										
At 31 March 2014	5,721	14,607	8,449	3,225	243	7,192	39,437	152	7,685	47,274
At 31 March 2013	5,028	14,943	8,858	3,635	274	3,686	36,424	166	7,915	44,505

(b) Under the Private Treaty Land Grant issued by the Government for the period from 1 December 1995 to 30 June 2047 ("the Land Grant"), the Government has granted to the Authority up to the year 2047 the legal rights to the entire airport site at Chek Lap Kok together with the rights necessary to develop such site for the purposes of its business. The net land formation cost of $11,321 million (2013: $11,321 million) and the land premium of $2,000 have been classified as interest in leasehold land under fixed assets.

10. Fixed assets (continued)

(c) Fair value measurement of investment property

The group engaged an independent firm of surveyors, Knight Frank Petty Limited ("the valuer"), who have among their staff Fellow members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, to value its investment property for disclosure purposes. The valuer has considered the assignment restrictions on the investment property in the valuation. The fair value of the group's investment property as at 31 March 2014 calculated by reference to net rental income allowing for reversionary income potential amounted to $720 million (2013: $744 million), which falls under Level 3 of the fair value hierarchy (note 21(e)).

The fair value of the group's investment property is determined by the income capitalisation method. Under the income capitalisation method, the existing rental income from all lettable space of the investment property is capitalised for their respective unexpired terms of contractual tenancies. Upon reversion, i.e. the expiry of an existing tenancy, each office space item is assumed to be let at the market rent at the reporting date, which in turn is capitalised at the market yield as expected by investors for this type of property and due consideration has been made of the market expectation of the renewal of Government leases upon expiry. Vacant units, if any, are assumed to be let at their respective market rents at the reporting date. The summation of the capitalised value of the term income and the capitalised value of the reversion income as appropriately deferred provide the market value of the investment property.

(d) The group has granted sub-leases of its interest in leasehold land for airport related development and the provision of airside support services under franchise agreements for periods ranging from 5 to 49 years. Under the franchise agreements, the franchisees are granted sub-leases of interest in leasehold land for the periods of the respective franchises. The group also leases out part of the terminal complexes and related assets under operating leases for periods generally ranging from two to five years. All terms are renegotiated on renewal.

Where the sub-leases are for substantially the full period of the Land Grant, they are considered to be in the nature of finance leases and accordingly the carrying value of the related interest in leasehold land is derecognised.

Payments receivable under the above mentioned operating leases and franchise arrangements are either adjusted periodically to reflect prevailing market indices or contain contingent rentals based on passenger flow and turnover of tenants and franchisees.

The total future minimum payments (excluding contingent rentals) under non-cancellable operating leases and franchise agreements receivable by the group are as follows:

$ million	**2014**	2013
Within one year	**1,730**	1,845
After one but within five years	**4,113**	3,909
After five years	**6,678**	5,895
	12,521	11,649

During the year, $8,765 million (2013: $7,486 million) was recognised as income in profit or loss in respect of the operating leases and franchise agreements, which included contingent rentals of $6,862 million (2013: $5,691 million).

10. Fixed assets (continued)

(d) (continued)

The cost less accumulated amortisation of the interest in leasehold land for airport related development and the provision of airside support services under franchise agreements sub-leased to third parties under non-cancellable sub-lease agreements for the group as at 31 March 2014 was $468 million (2013: $486 million) with annual amortisation amounting to $14 million (2013: $14 million).

The cost less accumulated depreciation of the other property, plant and equipment leased to third parties under non-cancellable operating leases for the group as at 31 March 2014 was $2,503 million (2013: $2,663 million) with annual depreciation amounting to $137 million (2013: $141 million).

(e) A review of the useful life of fixed assets is undertaken by the Authority periodically. During the year, the estimated useful lives of certain fixed assets were revised with effect from 1 April 2013, resulting in a net increase in the group's annual depreciation charge of $4 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of $6 million.

(f) The group is currently in the process of assessing claims from contractors relating to several construction projects, for which detailed documentation is not yet fully available to the Authority. The group has made provision, where appropriate, for what may be required for the settlement of these claims.

11. Intangible asset

$ million	**2014**	2013
Cost		
At 1 April	**345**	339
Exchange adjustments	**(1)**	6
At 31 March	**344**	345
Accumulated amortisation		
At 1 April	**112**	93
Exchange adjustments	**–**	2
Charge for the year	**17**	17
At 31 March	**129**	112
Net book value		
At 31 March	**215**	233

Intangible asset represents the right to operate and manage Zhuhai Airport and is being amortised over 20 years on a straight line basis.

12. Investments in subsidiaries

	The Authority	
$ million	**2014**	2013
Unlisted shares, at cost	**5**	5

12. Investments in subsidiaries (continued)

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and operation	Particulars of issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Authority	Proportion of ownership interest: Held by a subsidiary	Principal activity
Aviation Security Company Limited ("AVSECO")	Hong Kong	$10,000,000	51%	51%	–	Provision of aviation security services
HKIA Precious Metals Depository Limited	Hong Kong	$2	100%	100%	–	Provision of storage space and related services
SkyLink Passenger Services Company Limited	Hong Kong	$100,000	51%	51%	–	Provision of passenger check-in services at various ports in the Pearl River Delta
HKIA (China) Limited	Hong Kong	$2	100%	100%	–	Investment holding company
Hong Kong – Zhuhai Airport Management Co., Ltd. ("HKZAM")*	PRC	RMB 360 million	55%	–	55%	Airport management and provision of transportation and ground services relating to aviation

* A sino-foreign equity joint venture

The following table lists out the information relating to HKZAM, the only subsidiary of the group which has material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

$ million	2014	2013
NCI percentage	45%	45%
Current assets	222	181
Non-current assets	281	290
Current liabilities	(60)	(48)
Non-current liabilities	(57)	(31)
Net assets	386	392
Carrying amount of NCI	174	176
Revenue	201	157
(Loss)/profit for the year	(8)	10
Total comprehensive (loss)/income for the year	(4)	15
(Loss)/profit for the year allocated to NCI	(4)	5
Total comprehensive (loss)/income for the year allocated to NCI	(2)	7

13. Interests in joint ventures

$ million	2014	2013 Restated
Share of net assets	3,746	3,894
Goodwill	239	240
	3,985	4,134

Details of the group's interest in the joint ventures, which are accounted for using the equity method in the consolidated financial statements, are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Authority	Principal activity
Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIA")	Incorporated	PRC	RMB 5,686 million	35%	35%	Management, operation and development of Hangzhou Xiaoshan International Airport and provision of related services
Shanghai Hong Kong Airport Management Co., Ltd. ("SHKAM")	Incorporated	PRC	RMB 100 million	49%	49%	Management and operation of the terminals at Hongqiao International Airport, Shanghai ("HIA")

The above entities have 31 December as their financial year end date, which is not coterminous with that of the group. The Authority has determined that it is more practicable to incorporate its share of the results and net assets based on the statutory financial year ending 31 December as adjusted to comply with the Authority's accounting policies.

(a) HXIA

HXIA is an unlisted sino-foreign equity joint venture with a period of operation of 30 years, whose quoted market price is not available.

Summarised financial information of HXIA, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

$ million	2014	2013
Gross amounts of HXIA		
Non-current assets	17,386	17,317
Current assets	2,420	2,494
Non-current liabilities	(4,968)	(4,657)
Current liabilities	(4,308)	(4,197)
Net assets/equity	10,530	10,957

13. Interests in joint ventures (continued)

(a) HXIA (continued)

$ million	2014	2013
Income	2,498	2,009
Government subsidies	297	263
Expenses	(2,547)	(1,567)
Profit before taxation	248	705
Income tax	(31)	(103)
Profit after taxation	217	602
Other comprehensive income	61	21
Total comprehensive income	278	623
Dividend received from HXIA	243	–

$ million	2014	2013
Reconciled to the group's interest in HXIA		
Gross amounts of HXIA's net assets	10,530	10,957
Group's effective interest	35%	35%
Group's share of HXIA's net assets	3,686	3,835
Goodwill	239	240
Carrying amount in the consolidated financial statements	3,925	4,075

The movements in retained profits during the year are as follows:

$ million	2014	2013 Restated
Share of profit after taxation	76	211
Share of other comprehensive income	21	7
Less: transfer to capital reserve	(104)	(92)
Share of (loss)/profit and other comprehensive income to be retained	(7)	126
Share of retained profits brought forward from previous years (restated)	890	764
Special dividend received	(243)	–
Share of retained profits carried forward to next year	640	890

The movements in capital reserve during the year are as follows:

$ million	2014	2013
At 1 April	586	494
Transfer from retained profits	104	92
At 31 March	690	586

13. Interests in joint ventures (continued)

(a) HXIA (continued)

The outstanding commitments of HXIA in respect of capital expenditure not provided for in the financial statements are as follows:

$ million	**2014**	2013
Contracted for	**213**	245
Authorised but not contracted for	**2,335**	2,166
	2,548	2,411

The capital commitments of the joint venture are to be financed independently by the joint venture through its internal resources or borrowings. No commitment has been made by the group to contribute by way of equity, loans or guarantees thereof for this purpose.

(b) SHKAM

SHKAM, an unlisted sino-foreign equity joint venture, manages and operates the terminals at HIA, under a management contract signed for 20 years in return for a management fee to be paid by Shanghai Airport (Group) Co. Ltd. Hongqiao International Airport Company, whose quoted market price is not available.

Summarised financial information of SHKAM, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

$ million	**2014**	2013
Gross amounts of SHKAM		
Current assets	**132**	130
Current liabilities	**(10)**	(10)
Net assets/equity	**122**	120

$ million	**2014**	2013
Income	**14**	11
Expenses	**(12)**	(11)
Net profit and other comprehensive income	**2**	–

$ million	**2014**	2013
Reconciled to the group's interest in SHKAM		
Gross amounts of SHKAM's net assets	**122**	120
Group's effective interest	**49%**	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	**60**	59

14. Trade and other receivables

$ million	2014	2013
Trade debtors	1,630	1,820
Less: allowance for doubtful debts (note 14(b))	(28)	(31)
	1,602	1,789
Other debtors	15	14
	1,617	1,803
Prepayments	29	23
Deposits and debentures	11	9
	1,657	1,835

As at 31 March 2014, all of the trade and other receivables are expected to be recovered or recognised as an expense within one year except for $135 million (2013: $188 million), which is expected to be recovered after more than one year.

(a) The ageing analysis of trade debtors based on overdue days and net of allowance for doubtful debts, included above is as follows:

$ million	2014	2013
Amounts not yet due	1,482	1,563
Less than one month past due	91	183
One to three months past due	22	35
More than three months past due	7	8
	1,602	1,789

Trade debtors are generally due within 14 to 30 days from the date of billing. The group's credit policy is set out in note 21(a).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the group considers that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (note 28(l)).

The movements in the allowance for doubtful debts during the year are as follows:

$ million	2014	2013
At 1 April	31	51
Impairment loss reversed	(3)	(19)
Uncollectible amounts written off	–	(1)
At 31 March	28	31

As at 31 March 2014, the group's trade debtors of $9 million (2013: $7 million) were individually determined to be impaired. The individually impaired trade debtors related to customers that were in financial difficulties or have unsatisfactory payment history and management consequently recognised specific allowances for doubtful debts of $7 million (2013: $5 million) for the group. The group does not hold any collateral (2013: $nil) over individually impaired trade debtors of $2 million (2013: $2 million) for which no provision has been made.

14. Trade and other receivables (continued)

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

$ million	**2014**	2013
Neither past due nor impaired	**1,482**	1,562
Less than one month past due	**55**	159
One to three months past due	**3**	2
More than three months past due	**2**	2
	60	163
	1,542	1,725

Trade debtors that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The group holds cash deposits and bank guarantees of $5 million (2013: $5 million) as collateral over certain past due but not impaired trade debtors totalling $60 million (2013: $163 million).

15. Cash and bank balances

$ million	**2014**	2013
Deposits with banks within three months of maturity when placed	**3,026**	2,537
Cash at bank and in hand	**566**	195
Cash and cash equivalents	**3,592**	2,732
Deposits with banks with over three months of maturity when placed	**85**	60
	3,677	2,792

As at 31 March 2014, effective annual interest rate ranges for deposits with banks which were within and over three months of maturity when placed are 0.10% to 2.86% (2013: 0.15% to 2.85%) and 1.30% to 3.05% (2013: 0.91% to 3.05%) respectively.

As at 31 March 2014, cash and bank balances include cash and bank balances of $148 million (2013: $134 million) held by a subsidiary that are subject to currency exchange restrictions in the PRC.

16. Trade and other payables

$ million	2014	2013
Creditors and accrued charges	3,015	2,043
Deposits received	976	517
Contract retentions	307	172
	4,298	2,732
Classified in the consolidated statement of financial position as:		
Current liabilities	3,857	2,353
Non-current liabilities	441	379
	4,298	2,732

As at 31 March 2014, all of the trade and other payables are expected to be settled or recognised as income within one year except for $441 million (2013: $379 million), which are expected to be settled after more than one year and mainly relate to licence deposits received from retail licencees and contract retentions.

The ageing analysis of creditors and accrued charges included above by due dates is as follows:

$ million	2014	2013
Due within 30 days or on demand	887	426
Due after 30 days but within 60 days	982	549
Due after 60 days but within 90 days	54	360
Due after 90 days	1,092	708
	3,015	2,043

17. Interest-bearing borrowings

$ million	2014	2013
Notes payable		
US dollar Eurobond due 2013 (a)	–	2,738
HK dollar fixed rate notes due 2014 to 2043 (b)	3,060	2,660
HK dollar floating rate notes due 2016 (b)	200	200
	3,260	5,598
Bank loans (c) to (d)	1,700	200
	4,960	5,798
Less: unamortised finance costs	(23)	(18)
	4,937	5,780

(a) During the year, the Authority repaid the Eurobond of US$350 million in full.

(b) The Authority established the US$1 billion Medium Term Note programme in 2010 ("MTN programme"). Prior to that, the Authority's Hong Kong dollar notes were issued through private placement.

During the year, the Authority issued under the MTN programme a total of $800 million fixed rate notes with maturity between 2 and 30 years and annual coupon rates ranging between 0.9% and 4.2%.

The Authority repaid $350 million notes in full with annual coupon rates ranging from 3.98% to 4.42% and tenor of 5 to 7 years.

17. Interest-bearing borrowings (continued)

(b) (continued)

As at 31 March 2014, the Authority's outstanding fixed rate notes have annual coupon rates ranging from 0.9% to 5.1% (2013: 1.75% to 5.1%) and floating rate notes carry annual coupon rates based on Hong Kong Inter-bank Offered Rate ("HIBOR"). Both fixed and floating rate notes are unsecured and repayable in full upon maturity.

(c) In June 2010, the Authority signed a five-year unsecured Hong Kong dollar revolving credit facility of $5,000 million. Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2014, $1,700 million (2013: $200 million) of the revolving credit facility was drawn down.

(d) The Authority has uncommitted money market line facilities of $2,688 million (2013: $2,688 million). Interest is payable on amounts drawn down at a rate related to HIBOR. There was no outstanding balance as at 31 March 2013 and 2014.

(e) As at 31 March 2014, the unsecured interest-bearing borrowings were repayable as follows:

	2014			2013
$ million	Notes payable	Bank loans	Total	Total
Within one year or on demand	500	–	500	3,089
After one year but within two years	200	1,694	1,894	498
After two years but within five years	1,149	–	1,149	941
After five years	1,394	–	1,394	1,252
	2,743	1,694	4,437	2,691
	3,243	1,694	4,937	5,780

(f) None of the interest-bearing borrowings is subject to any financial covenants imposed by the lenders. Interest-bearing borrowings are carried at amortised cost. The carrying amount of those hedged for fair value risks are adjusted for the change in fair value attributable to the risk being hedged. Further details of the group's management of liquidity risk are set out in note 21(b).

18. Deferred income

Deferred income mainly represents consideration received for the sale of a portion of the income from the aviation fuel system for a period up to 2018 and amounts received in respect of sub-leases of interest in leasehold land of the airport site. They are accounted for in accordance with the accounting policies detailed in notes 28(s)(v) and 28(s)(vi) respectively.

The amount expected to be recognised as income more than one year after the end of the reporting period is included in non-current liabilities.

19. Employee retirement benefits

(a) Defined benefit retirement plans

The Authority makes contributions to a defined benefit retirement plan ("the Hong Kong plan") registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO"), which covers 33% (2013: 37%) of the Authority's employees. The plan is administered by independent trustees with its assets held separately from those of the Authority. The trustees are required by the Trust Deed to act in the best interests of the plan participants and are responsible for setting the investment policies of the plan. Under the plan, an employee is entitled to a lump sum payment upon termination of membership, which is calculated with reference to the final scheme salary and the eligible number of years of service that the employee had.

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

The plan is funded by contributions from the Authority in accordance with an independent actuary's recommendation based on periodic actuarial valuations (at least every three years).

Based on an independent actuarial valuation of the plan, as at 31 March 2014 prepared by qualified staff of Mercer (Hong Kong) Limited (2013: HSBC Life (International) Limited) using the "projected unit credit" actuarial method and a set of actuarial assumptions, the Authority's obligation under the plan is 90% (2013: 82%) covered by the plan assets held by the trustees. The signing actuaries are either Fellow members of the Society of Actuaries of the United States of America or an equivalent in another actuarial body.

During the year, HKZAM established a defined benefit retirement plan ("the HKZAM plan") for its eligible employees, which is unfunded and which covers 92% (2013: nil) of HKZAM's employees. Under the plan, a retired employee is entitled to a monthly fixed payment over a period upon retirement. An independent actuarial valuation of this plan according to Revised HKAS 19, *"Employee benefits"*, as at 31 March 2014 was also prepared by qualified staff of Mercer (Hong Kong) Limited using the projected unit credit method.

The plans expose the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Information about the retirement plans is disclosed below:

(i) The amounts recognised in the consolidated statement of financial position are as follows:

$ million	**2014**	2013 Restated
The Hong Kong plan		
Present value of wholly funded obligations	**693**	758
Fair value of plan assets	**(624)**	(625)
	69	133
The HKZAM plan		
Present value of unfunded obligations	**28**	–
Net defined benefit retirement obligations	**97**	133

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay $25 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2015.

(ii) Plan assets consist of the following:

$ million	**2014**	2013
Equity securities	**392**	386
Corporate bonds	**212**	215
Cash	**20**	24
	624	625

All of the equity securities and bonds have quoted prices in active markets.

An asset-liability modelling review is performed periodically to analyse the strategic investment policies of the Hong Kong plan. Based on the latest study, the strategic asset allocation of the Hong Kong plan is 60% in equities and 40% in bonds and cash.

The HKZAM plan is unfunded and without any plan assets.

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

(iii) The movements in the present value of the defined benefit obligations are as follows:

$ million	2014	2013 Restated
The Hong Kong plan		
At 1 April	758	728
Remeasurements:	(75)	(13)
– Actuarial gains arising from changes in demographic assumptions	–	(18)
– Actuarial (gains)/losses arising from changes in financial assumptions	(75)	14
– Experience gains	–	(9)
Benefits paid by the plans	(46)	(16)
Current service cost	48	51
Interest cost	8	8
At 31 March	693	758
The HKZAM plan	28	–
At 31 March	721	758

The weighted average durations of the defined benefit obligations for the Hong Kong plan and the HKZAM are from 9 years (2013: 9.9 years) and 13.4 years (2013: nil) respectively.

(iv) The movements in plan assets are as follows:

$ million	2014	2013 Restated
At 1 April	625	556
Group's contributions paid to the plans	23	28
Benefits paid by the plans	(46)	(16)
Actual return on plan assets	22	57
– Interest income	7	7
– Return on plan assets, excluding interest income	17	50
– Administrative expenses paid from plan assets	(2)	–
At 31 March	624	625

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

$ million	2014	2013 Restated
The Hong Kong plan		
Current service cost	48	51
Administrative expenses paid from plan assets	2	–
Net interest on net defined benefit liability	1	1
	51	52
The HKZAM plan	32	–
Total amounts recognised in profit or loss	83	52
The Hong Kong plan		
Remeasurements:		
– Actuarial gains arising from changes in demographic assumptions	–	(18)
– Actuarial (gains)/losses arising from changes in financial assumptions	(75)	14
– Experience gains	–	(9)
Return on plan assets, excluding interest income	(17)	(50)
	(92)	(63)
The HKZAM plan	(4)	–
Total amounts recognised in other comprehensive income	(96)	(63)
Total defined benefit credits	(13)	(11)

The current service cost and the net interest on net defined benefit liability are recognised in the following line items in the consolidated statement of profit or loss.

$ million	2014	2013 Restated
Staff costs and related expenses	83	52

(vi) Significant actuarial assumptions and sensitivity analysis are as follows:

	2014	2013
The Hong Kong plan		
Discount rate	2.3%	1.1%
Future long term salary increases	3.5%	3.5%
The HKZAM plan		
Discount rate	5.0%	N/A

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

(vi) Significant actuarial assumptions and sensitivity analysis are as follows: (continued)

The below analysis shows how the defined benefit obligations as at 31 March 2014 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

$ million	**Increase by 0.5%**	**Decrease by 0.5%**
The Hong Kong plan		
Discount rate	**(28)**	**30**
Future long term salary increases	**32**	**31**
The HKZAM plan		
Discount rate	**(2)**	**2**

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plans

(i) The group also operates Mandatory Provident Fund Schemes ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance") for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Ordinance, the employer and its employees are each required to make minimum statutory contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $25,000 ($20,000 prior to June 2012). However, under the MPF schemes, contributions by the group range from 5% to 15% of employees' relevant income and have been charged to profit or loss. While statutory contributions to the plan vest immediately; voluntary contributions to the plan vest over a period of two to ten years.

(ii) As stipulated by the regulations of the PRC, the subsidiary in the PRC participates in a basic defined contribution pension plan administered by the Municipal Government under which it is governed. The group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees.

20. Capital, reserves and dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity on page 81.

(b) Dividends

$ million	**2014**	2013
Final dividend payable to the equity shareholder of the Authority in respect of the previous financial year, approved and paid during the year of $14,356.56 per ordinary share (2013: $12,725.14 per ordinary share)	**4,400**	3,900
Final dividend proposed by the Authority after the end of the reporting period of $17,293.13 per ordinary share (2013: $14,356.56 per ordinary share)	**5,300**	4,400

20. Capital, reserves and dividends (continued)

(b) Dividends (continued)

The final dividend declared after the end of the reporting periods has not been recognised as a liability at the end of the reporting periods.

(c) Share capital

	The Authority	
$ million	**2014**	2013
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of $100,000 each (2013: 306,480 shares)	**30,648**	30,648

(d) Nature and purpose of reserves

(i) **Exchange reserve**

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 28(t).

(ii) **Capital reserve**

The capital reserve primarily comprises the share of results of a joint venture in the PRC which are not distributable as required by the relevant PRC government regulations and the retained profits of AVSECO which according to its memorandum of association and the shareholders' agreement cannot be distributed.

(iii) **Hedging reserve**

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow dealt with in accordance with the accounting policy adopted for cash flow hedges set out in note 28(f).

(iv) **Distributability of reserves**

As at 31 March 2014, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was $9,636 million (2013: $7,338 million (restated)). After the end of the reporting period, the Board proposed a final dividend of $17,293.13 per ordinary share (2013: $14,356.56 per ordinary share). The final dividend amounted to $5,300 million (2013: $4,400 million). This dividend has not been recognised as a liability at the end of the reporting period.

(v) **Capital management**

The primary objectives of the group when managing capital are to safeguard the group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The group manages its capital structure by taking into consideration its future capital requirements, capital efficiency and projected cash flow. To adjust its capital structure, the group may raise or reduce its outstanding debt. The group is also empowered by the Ordinance to either increase or reduce its share capital under the direction of the Financial Secretary and the Legislative Council. The Ordinance provides that these directions be made following consultation with the Authority.

20. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(v) **Capital management** (continued)

The group monitors its capital structure on the basis of a total debt/capital ratio. The total debt/capital ratios of the group at the end of the reporting periods are as follows:

$ million	Note	2014	2013 Restated
Total debt[1]	17	4,937	5,780
Total equity		42,519	40,370
Total capital[2]		47,456	46,150
Total debt/capital ratio		10%	13%

1 Total debt represents interest-bearing borrowings.

2 Total capital represents total debt plus total equity.

Neither the Authority nor any of its subsidiaries are subject to externally imposed capital requirements.

21. Financial risk management and fair values of financial instruments

The group's activities expose it to a variety of financial risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. The group conducts its financial risk management activities in accordance with the policies and practices recommended by the Audit Committee and Finance Committee of the Authority. The group's exposure to these risks and the financial risk management policies and practices used by the group to manage these risks are described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables, over-the-counter derivative financial instruments entered into for hedging purposes and cash and bank balances. Management has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, there are procedures in place to closely monitor the payment performance. Individual credit evaluations are performed on customers requiring credit over a certain amount or customers with long overdue history, which focus on their payment history, ability to pay, as well as information specific to the customers and the economic environment in which they operate. Trade receivables are generally due within 14 to 30 days from the date of billing. In respect of the group's rental and franchise income from operating leases and franchise arrangements respectively, sufficient deposits are held to cover potential exposure to credit risk.

Cash and bank balances are placed with financial institutions with sound credit ratings to minimise credit exposure. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the group has signed netting agreements. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, the group has a certain concentration of credit risk as 6% (2013: 17%) and 15% (2013: 36%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

21. Financial risk management and fair values of financial instruments (continued)

(a) Credit risk (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the consolidated statement of financial position after deducting any impairment allowance. The group does not provide any guarantees which would expose the group to credit risk.

Further quantitative disclosures in respect of the group's exposure to credit risk arising from trade and other receivables are set out in note 14.

(b) Liquidity risk

All cash management of the group, including the short term investment of cash surpluses and raising of loans and other borrowings to cover expected cash demands, are managed centrally by the Authority except AVSECO and HKZAM which handle their own cash management. The Authority's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate credit facilities from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the end of the reporting periods of the group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the group can be required to pay:

		Contractual undiscounted cash flow				
$ million	Carrying amount at 31 March	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
2014						
Interest-bearing borrowings	4,937	5,691	602	1,989	1,338	1,762
Trade and other payables	4,298	4,336	3,845	25	370	96
Interest rate swaps (net settled)	38	(72)	(9)	(11)	(28)	(24)
	9,273	9,955	4,438	2,003	1,680	1,834
2013						
Interest-bearing borrowings	5,780	6,342	3,230	575	1,135	1,402
Trade and other payables	2,732	2,771	2,356	155	206	54
Interest rate swaps (net settled)	(23)	(100)	(29)	(9)	(29)	(33)
	8,489	9,013	5,557	721	1,312	1,423
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments						
– outflow		1,909	1,909	–	–	–
– inflow		(1,943)	(1,943)	–	–	–
		(34)	(34)	–	–	–

As shown above, interest-bearing borrowings (including interest) of the group amounting to $602 million are due to be repaid in the upcoming 12 months after 31 March 2014 (2013: $3,230 million). The short term liquidity risk inherent in this contractual maturity will be addressed by internal sources of funds and new external borrowings.

21. Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk

The group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group adopts a policy of ensuring that between 40% and 60% of its borrowings are effectively on a fixed rate basis, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. The group's interest rate profile as monitored by management is set out in (ii) below.

(i) **Hedging**

Interest rate swaps, denominated in Hong Kong dollars, have been entered into to achieve an appropriate mix of fixed and floating interest rate exposure within the group's policy.

The group classifies interest rate swaps into either fair value or cash flow hedges and states them at their fair values in accordance with the policy set out in note 28(f).

Details of the notional amounts, maturity period and fair values of swaps entered into by the group at the end of the reporting periods are set out in note 21(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

(ii) **Interest rate profile**

The following table details the interest rate profile of the group's debt borrowings at the end of the reporting periods, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments and fair value hedging instruments ((i) above).

$ million	**2014**	2013
Fixed rate borrowings		
Bank loans*	**199**	189
Fixed rate notes	**1,787**	3,140
	1,986	3,329
Variable rate borrowings		
Bank loans	**1,495**	–
Fixed rate notes**	**1,257**	2,252
Floating rate notes	**199**	199
	2,951	2,451
Total borrowings	**4,937**	5,780
Fixed rate borrowings as a percentage of total borrowings	**40%**	58%

* Swapped to fixed rate
** Swapped to floating rate

(iii) **Sensitivity analysis**

As at 31 March 2014, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after taxation and retained profits by approximately $12 million (2013: $8 million). Other components of consolidated equity would have increased/decreased by approximately $1 million (2013: $2 million) in response to the general increase/decrease in interest rates. The effect of interest-bearing bank deposits is expected to be not significant and is not taken into account in the analysis.

21. Financial risk management and fair values of financial instruments (continued)

(c) Interest rate risk (continued)

(iii) **Sensitivity analysis** (continued)

The sensitivity analysis above indicates the instantaneous change in the group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen assuming that the change in interest rates had occurred at the end of the reporting periods and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the end of the reporting periods. In respect of the exposure to cash flow interest rate risk arising from floating interest rate non-derivative instruments held by the group at the end of the reporting period, the impact on the group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as for prior years.

(d) Foreign currency risk

It is the Authority's policy to require all major operational contracts to be in Hong Kong dollars. The few exceptions to this have involved small value contracts or contracts that were hedged.

As at 31 March 2014, the group is exposed to US dollar currency risk in respect of cash and bank balances of US$75 million (2013: US$118 million) and trade and other receivables of US$8 million (2013: US$7 million).

As Hong Kong dollar is pegged to US dollar at a range between 7.75 to 7.85, management considers that the foreign currency risk associated with the US dollar exposure is not material to the group. Accordingly, no sensitivity analysis is considered necessary.

As at 31 March 2014, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB102 million (2013: RMB0.4 million). If Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables held constant, the Group's profit after taxation and retained earnings would have been $5 million lower/higher.

The group has not hedged the foreign currency risk in respect of its investments in the PRC incorporated entities.

(e) Fair value measurement

(i) **Financial assets and liabilities measured at fair value**

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *"Fair value measurement"*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: fair value measured using significant unobservable inputs

21. Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Fair value hierarchy (continued)

The fair value disclosure of investment property carried at cost follows the above hierarchy (note 10(c)).

As at 31 March 2013 and 2014, the group's derivative financial instruments are carried at fair value. These instruments fall under Level 2 of the fair value hierarchy described above.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: $nil). The group's policy is to recognise transfers between levels of fair value hierarchy at the end of the reporting period in which they occur.

Fair values and notional amounts of derivative financial instruments outstanding at the end of the reporting periods are summarised as follows:

Recurring fair value measurement using significant other observable inputs (Level 2)

	2014			2013		
$ million	**Notional amount**	**Financial assets**	**Financial liabilities**	Notional amount	Financial assets	Financial liabilities
Cash flow hedges						
Forward foreign exchange contracts	**Nil**	**–**	**–**	US$250	32	(1)
Interest rate swaps	**$200**	**–**	**(1)**	$200	–	(4)
Fair value hedges						
Interest rate swaps	**Nil**	**–**	**–**	US$100	15	–
Interest rate swaps	**$1,300**	**13**	**(50)**	$1,450	25	(13)
Total		**13**	**(51)**		72	(18)
Less: portion to be recovered/(settled) within one year						
Cash flow hedges						
Forward foreign exchange contracts	**Nil**	**–**	**–**	US$250	32	(1)
Interest rate swaps	**$200**	**–**	**(1)**	$200	–	(2)
Fair value hedges						
Interest rate swaps	**Nil**	**–**	**–**	US$100	15	–
Interest rate swaps	**$1,300**	**5**	**–**	$1,450	7	–
		5	**(1)**		54	(3)
Portion to be recovered/(settled) after one year		**8**	**(50)**		18	(15)

Derivative financial instruments qualifying as cash flow hedges as at 31 March 2014 have a maturity of one year (2013: 0.5 to 2 years) from the end of the reporting period.

Derivative financial instruments qualifying as fair value hedges as at 31 March 2014 have a maturity of less than one year to 8.5 years (2013: 0.3 to 9.5 years) from the end of the reporting period.

21. Financial risk management and fair values of financial instruments (continued)

(e) Fair value measurement (continued)

(i) Financial assets and liabilities measured at fair value (continued)

Valuation techniques and inputs used in Level 2 fair value measurements
The fair value of interest rate swaps is the estimated amount that the Authority would receive or pay to terminate the swap at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the swap counterparties. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the end of the reporting period.

(ii) Fair values of financial assets and liabilities carried at other than fair value

As at 31 March 2014, the carrying value and fair value of fixed rate notes of notional amount of $3,100 million (2013: $5,367 million), amounted to $3,044 million and $3,134 million (2013: $5,392 million and $5,651 million) respectively, which fall under Level 2 of the fair value hierarchy described above.

Discounted cash flow techniques are used in deriving the fair value of the fixed rate notes. The discount rates used are market related rates at the end of the reporting period.

All other financial assets and liabilities are carried at amounts not materially different from their fair values at the end of the reporting periods.

22. Outstanding commitments

$ million	**2014**	2013
Commitments outstanding not provided for in the financial statements are as follows:		
Capital expenditure		
Contracted for	**4,299**	7,729
Authorised but not contracted for	**2,976**	3,505
	7,275	11,234

The outstanding commitments of the group's joint venture, HXIA, which are not included in the above, are disclosed in note 13(a).

23. Contingent liabilities

The Inland Revenue Department ("IRD") has queried in prior years the validity of tax allowances in an amount of $2,593 million claimed by the Authority in respect of certain fixed assets. The corresponding tax impact would be approximately $450 million computed at applicable tax rates. The Authority has been engaged in correspondence with the IRD and is closely monitoring the recent developments of the claim and related cases. The Authority has revisited the rationale and grounds for its claim and remains confident that its claim is valid and supportable. Accordingly, no provision for additional taxation has been made in respect of this contingent liability as at 31 March 2013 and 2014.

24. Material related party transactions

The Authority is wholly owned by the Government. Transactions between the group and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the Government and the group, are considered to be related party transactions pursuant to HKAS 24 (revised 2009), *"Related party disclosures"* and are identified separately in these financial statements.

24. Material related party transactions (continued)

Members of the Board and the Executive Directors, and parties related to them, are also considered to be related parties of the Authority. Material transactions with these parties, if any, are separately disclosed. Remuneration paid to Members of the Board and the Executive Directors is disclosed in note 8.

During the year, the Authority has had the following material related party transactions:

(a) The Authority has entered into agreements with the Government under which the Government provides maintenance services in respect of mechanical installations, pumping system, waste water treatment plant, airfield ground lighting and first line maintenance for baggage handling system at the airport. The amounts incurred for these services for the year amounted to $144 million (2013: $137 million). As at 31 March 2014, the amounts due to the Government with respect to the above services amounted to $87 million (2013: $75 million).

(b) The Authority has also entered into service agreements with the Government under which the Government is to provide aviation meteorological and air traffic control services and aircraft rescue and fire fighting services at the airport. The amounts incurred for the year amounted to $850 million (2013: $827 million) and the amounts due to the Government as at 31 March 2014 with respect to the above services amounted to $0.3 million (2013: $0.3 million).

(c) The Authority and HKIA Staff Services Limited ("HKIASS"), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 24(b)) at nil consideration.

(d) Pursuant to a shareholders' agreement dated 21 August 2003, the Authority and the Government have formed a company, IEC Holdings Limited, in which the Authority holds an 11.8% (2013: 11.8%) equity interest, to participate and co-operate with a third party consortium in the development, funding and operation of the AsiaWorld-Expo exhibition centre. As consideration for the shares in IEC Holdings Limited, the Authority has granted a sub-lease of land on which the AsiaWorld-Expo exhibition centre has been built, to IEC Holdings Limited to 2047.

(e) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC"), in which the Government is the majority shareholder, under which MTRC provides maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2, and SkyPier. The amount incurred by the Authority for these services for the year amounted to $61 million (2013: $47 million). As at 31 March 2014, the amounts due to MTRC with respect to the maintenance services amounted to $28 million (2013: $15 million).

(f) The Authority has provided property management services, fitting-out works and other services at the airport to various Government departments, agencies and Government controlled entities. The aggregate amounts received for the year amounted to $22 million (2013: $20 million). As at 31 March 2014, the aggregate amounts due from these departments, agencies or entities amounted to $0.3 million (2013: $0.3 million).

(g) The Authority has leased certain areas at the airport to Hongkong International Theme Parks Ltd ("HKITP"), in which the Government is the majority shareholder. The aggregate amounts received for the year amounted to $32 million (2013: $31 million). As at 31 March 2014, there was no outstanding amount due from HKITP (2013: $nil).

(h) AVSECO, a subsidiary of the Authority, has provided security-related services to various Government departments, agencies and Government controlled entities other than the Authority. The aggregate amounts received for the year amounted to $48 million (2013: $35 million). As at 31 March 2014, the aggregate amounts due from these departments, agencies or entities amounted to $4 million (2013: $4 million).

24. Material related party transactions (continued)

(i) In July 2012, a portion of the Authority's interest in leasehold land (42,027 square metres with a net book value of $28 million) reverted to the Government for the construction of Hong Kong-Zhuhai-Macao Bridge ("HZMB") related facilities, pursuant to the Lands Department's order under section 13(1) of the Roads (Works, Use and Compensation) Ordinance (Chapter 370). Compensation claims relating to the HZMB related facilities were submitted to Government on 28 May and 22 July 2013 for consideration.

(j) The Authority has awarded certain construction work contracts through tendering to a contractor in which a member of the Board holds an indirect equity interest. The amounts incurred by the Authority for these works provided for the year amounted to $50 million (2013: $2 million). As at 31 March 2014, the amounts due to the contractor with respect to these works amounted to $23 million (2013: $nil).

25. Immediate and ultimate controlling party

As at 31 March 2014, the immediate parent and ultimate controlling party of the group is the Hong Kong SAR Government.

26. Accounting judgements and estimates

(a) Critical accounting judgements in applying the group's accounting policies

In applying the group's accounting policies, management has made the following accounting judgements:

(i) **Interest in leasehold land**

On 1 December 1995, the Authority was granted the rights to the airport site at Chek Lap Kok for a nominal land premium of $2,000. The Authority was responsible for all of the costs for the formation of the airport site, with respect to which $11,571 million was initially incurred. The land formed is considered to have all the characteristics of land in Hong Kong and will revert to the lessor at the end of the Land Grant. Such cost is considered to have been incurred to obtain the benefits of a leasehold land held under an operating lease. Accordingly, the land premium and the land formation costs have been classified as interest in leasehold land under fixed assets. Upon the granting of finance leases of portions of the land concerned, the cost of leasehold land excluded from the statement of financial position is based on an apportionment of the overall land cost.

(ii) **Sub-lease of leasehold land**

The Authority sub-leases part of its interest in leasehold land to various Government departments, agencies or Government controlled entities at 'nil' rental for substantially the full period of the Land Grant, to provide services for the sole benefit of the airport and its users. As it is considered that as these sub-leases are for the sole benefit of the Authority for enhancing services at the airport, they are in substance held for the full and exclusive benefit of the Authority and accordingly such sub-leases continue to be treated as interest in leasehold land under fixed assets in the financial statements of the Authority and are not derecognised.

(iii) **Interests in joint ventures**

HXIA receives Civil Aviation Development Fund subsidies, airport construction fee subsidies and certain other subsidies (collectively known as "ACF") for airport development purposes from the PRC government which are required to be treated as a capital contribution in HXIA's PRC statutory financial statements. The group has equity accounted for such items according to its shareholding percentage in the consolidated statement of profit or loss on the basis that all shareholders of HXIA can enjoy the economic benefits arising from the ACF received. This accounting treatment is consistent with those for publicly listed airports in the PRC. As the ACF may only be used for restricted purposes and are not distributable, the group transfers such amounts from retained profits to the capital reserve. As at 31 March 2014, the group's share of net assets of HXIA includes $731 million (2013: $627 million) in respect of such non-distributable ACF.

26. Accounting judgements and estimates (continued)

(b) Major sources of estimation uncertainty

Notes 19 and 21(e) contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and the fair value of financial instruments respectively. Other major areas of estimation uncertainty are as follows:

(i) **Estimated useful lives and depreciation of property, plant and equipment**
In assessing the estimated useful lives of property, plant and equipment, management takes into account factors such as the expected usage of the asset by the group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the group.

Management reviews the useful lives of property, plant and equipment annually and if expectations are significantly different from previous estimates of useful lives, the useful lives and, therefore, the depreciation rate for the future periods is adjusted accordingly.

(ii) **Project provisions**
The group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions which are estimated based on a best assessment of the group's liabilities under each contract by professionally qualified personnel may differ from the actual claims settlement.

(iii) **Income tax**
Certain treatments adopted by the Authority in its tax returns for past years are yet to be finalised with the IRD. In assessing the Authority's income tax and deferred taxation in the current year's financial statements, the Authority has followed the tax treatments it has adopted in those tax returns, which may be different from the final outcome in due course.

27. Non-adjusting events after the reporting period

After the end of the reporting period, the Board declared a final dividend for the year ended 31 March 2014, the details of which are disclosed in note 20(b).

28. Summary of significant accounting policies

(a) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the group. Of these, the following developments are relevant to the financial statements:

- Amendments to HKAS 1, *"Presentation of financial statements – Presentation of items of other comprehensive income"*
- HKFRS 10, *"Consolidated financial statements"*
- HKFRS 11, *"Joint arrangements"*
- HKFRS 12, *"Disclosure of interests in other entities"*
- HKFRS 13, *"Fair value measurement"*
- Revised HKAS 19, *"Employee benefits"*

28. Summary of significant accounting policies (continued)

(a) Changes in accounting policies (continued)

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of other new or amended HKFRSs are discussed below:

Amendments to HKAS 1, *"Presentation of financial statements – Presentation of items of other comprehensive income"*

The amendments require entities to present separately the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met from those that would never be reclassified to profit or loss. The presentation of other comprehensive income in the consolidated statement of profit or loss and other comprehensive income in these financial statements has been modified accordingly. In addition, the group has chosen to use the new titles "statement of profit or loss" and "statement of profit or loss and other comprehensive income" as introduced by the amendments in these financial statements.

HKFRS 10, *"Consolidated financial statements"*

HKFRS 10 replaces the requirements in HKAS 27, *"Consolidated and separate financial statements"* relating to the preparation of consolidated financial statements and HK-SIC 12 *"Consolidation – Special purpose entities"*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of HKFRS 10, the group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the group in respect of its involvement with other entities as at 1 April 2013.

HKFRS 11, *"Joint arrangements"*

HKFRS 11, which replaces HKAS 31, *"Interests in joint ventures"*, divides joint arrangements into joint operations and joint ventures. Entities are required to determine the type of an arrangement by considering the structure, legal form, contractual terms and other facts and circumstances relevant to their rights and obligations under the arrangement. Joint arrangements which are classified as joint operations under HKFRS 11 are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. All other joint arrangements are classified as joint ventures under HKFRS 11 and are required to be accounted for using the equity method in the consolidated financial statements. Proportionate consolidation is no longer allowed as an accounting policy choice.

As a result of the adoption of HKFRS 11, the group has changed its accounting policy with respect to its interests in joint arrangements and re-evaluated its involvement in its joint arrangements. The group has reclassified its investments in jointly controlled entities to interests in joint ventures. The investments continue to be accounted for using the equity method and therefore this reclassification does not have any material impact on the financial position and the financial results of the group.

HKFRS 12, *"Disclosure of interests in other entities"*

HKFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the group, the group has provided those disclosures in note 12 and 13.

28. Summary of significant accounting policies (continued)

(a) Changes in accounting policies (continued)

HKFRS 13, *"Fair value measurement"*

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the group, the group has provided those disclosures in note 10 and 21. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the group's assets and liabilities.

Revised HKAS 19, *"Employee benefits"*

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit retirement plans. Among them, revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit retirement plans could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changed the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of revised HKAS 19, the group has changed its accounting policy with respect to defined benefit retirement plans, for which the corridor method was previously applied. This change in accounting policy has been applied retrospectively by restating the balances as at 1 April 2012 and 31 March 2013, with consequential adjustments to comparatives for the year ended 31 March 2013 as follows:

$ million	As previously reported	Effect of adopting revised HKAS 19	As restated
Consolidated statement of profit or loss for the year ended 31 March 2013:			
Staff costs and related expenses	(1,403)	(12)	(1,415)
Share of results of joint ventures	210	1	211
Income tax	(1,113)	2	(1,111)
Profit for the year	5,632	(9)	5,623
Consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2013:			
Remeasurement of net defined benefit retirement obligations	–	60	60
Other comprehensive income for the year	63	60	123
Total comprehensive income for the year	5,695	51	5,746
Consolidated statement of financial position as at 31 March 2013:			
Interests in joint ventures	4,145	(11)	4,134
Net defined benefit retirement plan assets/(obligations)	54	(187)	(133)
Deferred tax liabilities	(3,505)	10	(3,495)
Net assets/total equity	40,558	(188)	40,370
Exchange reserve	(684)	4	(680)
Retained profits	(8,361)	184	(8,177)

28. Summary of significant accounting policies (continued)

(a) Changes in accounting policies (continued)

Revised HKAS 19, *"Employee benefits"* (continued)

$ million	As previously reported	Effect of adopting revised HKAS 19	As restated
Consolidated statement of financial position as at 1 April 2012:			
Interests in joint ventures	3,836	(19)	3,817
Net defined benefit retirement plan assets/ (obligations)	66	(238)	(172)
Deferred tax liabilities	(3,289)	18	(3,271)
Net assets/total equity	38,763	(239)	38,524
Exchange reserve	(624)	4	(620)
Retained profits	(6,730)	235	(6,495)

The group's net defined benefit retirement obligations as at 31 March 2014 were higher by $111 million than they would have been if the policy had not been changed.

(b) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the group has power, only substantive rights (held by the group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Authority and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholder of the Authority. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholder of the Authority. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 28(m) or (n) depending on the nature of the liability.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

28. Summary of significant accounting policies (continued)

(b) Subsidiaries and non-controlling interests (continued)

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (note 28(c)).

(c) Joint ventures

A joint venture is an arrangement whereby the group or the Authority and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the group's share of the investee's net assets and any impairment losses relating to the investment (notes 28(d) and (j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the joint venture.

Unrealised profits and losses resulting from transactions between the group and its joint ventures are eliminated to the extent of the group's interests in the joint ventures, except where the unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that joint venture, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former joint venture at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(d) Goodwill

Goodwill represents the excess of the cost of an investment in a joint venture over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities as at the acquisition date.

In respect of an investment in a joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in the joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 28(j)).

Any excess of the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of an investment in a joint venture is recognised immediately in profit or loss.

28. Summary of significant accounting policies (continued)

(d) Goodwill (continued)

On disposal of a joint venture, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting (note 28(f)).

(f) Accounting for derivative financial instruments and hedging activities

The group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges) or (2) hedges of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction (cash flow hedges).

(i) **Fair value hedges**
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) **Cash flow hedges**
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised directly in other comprehensive income and accumulated separately in equity in the hedging reserve. Amounts accumulated in equity are reclassified from equity to profit or loss in the periods when the hedged transaction affects profit or loss. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or no longer meets the criteria for hedge accounting; or the group revokes designation of the hedge relationship but if the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(iii) **Derivatives that do not qualify for hedge accounting**
Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

(g) Fixed assets

(i) The Authority was responsible for all of the costs of the formation of the airport site. The land formation cost and the land premium have been classified as interest in leasehold land under fixed assets. Interest in leasehold land is stated in the statement of financial position at cost less accumulated amortisation and impairment losses (note 28(j)).

(ii) **Investment property**
Investment property includes leasehold land and its related improvements and/or buildings held to earn rental income. This includes land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment property is stated in the statement of financial position at cost net of accumulated depreciation and impairment losses (note 28(j)). Investment property is depreciated over its estimated useful life or the unexpired term of the lease, whichever is shorter. Rental income from investment property is accounted for as described in note 28(s).

28. Summary of significant accounting policies (continued)

(g) Fixed assets (continued)

(iii) Other property, plant and equipment is stated in the statement of financial position at cost less accumulated depreciation and impairment losses (note 28(j)).

(iv) Repairs and maintenance expenditure in respect of fixed assets is charged to profit or loss as and when incurred.

(v) Gains or losses arising from the retirement or disposal of an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(vi) **Construction in progress**
Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 28(m)) capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to fixed assets when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the policy detailed in note 28(h).

(vii) **Leased assets**
Leases of assets under which the group assumes substantially all the risks and rewards of ownership are classified as being held under finance leases and treated as if the group owned the assets outright. Leases of assets under which the group has not been transferred substantially all the risks and rewards of ownership are classified as operating leases.

Where the group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

When the group leases out assets under operating leases, the assets are included in the statement of financial position according to their nature and are depreciated in accordance with the group's depreciation policies set out in note 28(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 28(s) below.

When the group leases out its interest in leasehold land up to substantially the full period of the underlying Land Grant and the related risks and rewards are substantially transferred to the lessees, such leases are accounted for as finance leases. The interest in leasehold land is derecognised and the differences between the carrying amount of the interest in leasehold land and net proceeds received for such arrangements are recognised in profit or loss from the commencement dates of such finance leases.

28. Summary of significant accounting policies (continued)

(h) Depreciation

Depreciation is calculated to write off the cost of items of fixed assets less their estimated residual value, if any, using the straight-line method over their estimated useful lives.

The estimated useful lives are:

Interest in leasehold land	Unexpired term of lease
Airfields:	
Runway base courses, taxiways and road non-asphalt layers, aprons and tunnels	10 years to unexpired term of lease
Runway wearing courses, taxiways and road asphalt layers, lighting and other airfield facilities	5 to 25 years
Terminal complexes and ground transportation centre:	
Building structure and road non-asphalt layers	Unexpired term of lease
Road asphalt layers, building services and fit-outs	5 to 25 years
Access, utilities, other buildings and support facilities:	
Road and bridge non-asphalt layers	20 years to unexpired term of lease
Road and bridge asphalt layers, other building and support facilities	5 years to unexpired term of lease
Utility supply equipment	5 to 25 years
Systems, installations, plant and equipment	3 years to unexpired term of lease
Furniture, fixtures and equipment	3 to 15 years
Investment property:	
Building structure	Unexpired term of lease
Building services and fit-outs	5 to 25 years
Furniture, fixtures and equipment	5 to 15 years

Where parts of an item of fixed assets have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated in the statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 28(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The group's intangible asset, which is a franchise with a finite useful life, is amortised from the date it became available for use over the franchise period of 20 years. The period and method of amortisation are reviewed annually.

(j) Impairment of assets

(i) Internal and external sources of information are reviewed at each end of the reporting period to identify indications that the following assets may be impaired, or an impairment loss previously recognised no longer exists or may have decreased:

- interest in leasehold land;
- investment property;
- other property, plant and equipment;
- intangible assets; and
- interests in joint ventures.

28. Summary of significant accounting policies (continued)

(j) Impairment of assets (continued)

(i) (continued)

If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(ii) **Interim financial reporting and impairment**

At the end of the interim period, the group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year. Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period.

(k) Stores and spares

Stores and spares are carried at the lower of cost and net realisable value. Stores and spares are stated at cost and comprise all costs of purchase and costs incurred in bringing the stores and spares to their present location and condition and is computed on a weighted average cost basis, less provision for obsolescence. The amount of any write-down of stores and spares to their net realisable value and provision for obsolescence are recognised as an expense in the period the write-down or provision occurs. Any obsolete and damaged stores and spares are written off to profit or loss.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material.

Impairment losses for trade debtors included within trade and other receivables are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account.

28. Summary of significant accounting policies (continued)

(m) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the unhedged portion of interest-bearing borrowings is stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest rate method. Subsequent to initial recognition, the carrying amount of the portion of interest-bearing borrowings, which is the subject of a fair value hedge, is remeasured and the change in fair value attributable to the risk being hedged is recognised in profit or loss to offset the effect of the gain or loss on the related hedging instrument.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

(n) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) Employee benefits

(i) **Short term employee benefits and contributions to defined contribution retirement plans**
Salaries, performance annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Authority and its subsidiaries in Hong Kong are required to make contributions to Mandatory Provident Funds under the Hong Kong Mandatory Provident Fund Schemes Ordinance. Such contributions are recognised as an expense in profit or loss as incurred.

The employees of the subsidiary in the PRC participate in a defined contribution retirement plan managed by the local governmental authorities whereby the subsidiary is required to contribute to the plan at fixed rates of the employees’ salary costs.

28. Summary of significant accounting policies (continued)

(p) Employee benefits (continued)

(ii) **Defined benefit retirement plan obligations**

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations. If there is no sufficiently deep market in such bonds, the market yield of government bonds is used.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

(q) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

28. Summary of significant accounting policies (continued)

(q) Income tax (continued)

(iii) (continued)

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which that asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

Deferred tax assets and liabilities are not discounted.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Authority or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Authority or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

28. Summary of significant accounting policies (continued)

(r) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Airport charges, representing landing charges, parking charges and terminal building charges, are recognised when the airport facilities are utilised.

(ii) Security charges in respect of aviation security services to passengers are recognised when the airport facilities are utilised.

(iii) Aviation security services revenue from the provision of security services to airlines, franchisees and licensees is recognised when the services are rendered.

(iv) Franchise revenue from awarded airside support services, retail revenue from awarded retail licences, advertising revenue from awarded advertising license, other terminal commercial revenue from leasing of check-in counters and airline lounges and office rental and other service revenue and recoveries, are recognised on an accruals basis in accordance with the related agreements.

(v) The consideration received in respect of the sale of a portion of the income from the aviation fuel system is accounted for as income over the period to which the future income relates and on the basis of the estimated future quantum of income for each period after allowing for the implicit financing cost therein. The amount received not recognised as income is included in the statement of financial position as deferred income.

(vi) Real estate revenue arising from sub-leases of interest in leasehold land and office buildings is recognised in profit or loss on a straight-line basis over the periods of the operating leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned. Amounts received in advance in respect of sub-leases of interest in leasehold land granted are accounted for as deferred income and are recognised in profit or loss on a straight-line basis over the periods of the respective sub-leases.

(vii) Income arising from finance leases of interest in leasehold land is recognised at the inception of such leases, when substantially all the risks and rewards incidental to ownership are transferred to the lessees.

28. Summary of significant accounting policies (continued)

(s) Revenue recognition (continued)

(viii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(ix) Interest income is recognised as it accrues using the effective interest rate method.

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair value and are denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(u) Related parties

(i) A person, or a close member of that person's family, is related to the group if that person:

a) has control or joint control over the group;

b) has significant influence over the group; or

c) is a member of the key management personnel of the group or the group's parent.

(ii) An entity is related to the group if any of the following conditions applies:

a) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

c) Both entities are joint ventures of the same third party.

d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

e) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

f) The entity is controlled or jointly controlled by a person identified in note (u)(i).

g) A person identified in note (u)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

28. Summary of significant accounting policies (continued)

(v) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

29. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and a new standard which are not yet effective for the year ended 31 March 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the group.

	Effective for annual periods beginning on or after
Amendments to HKAS 32, *"Financial instruments: Presentation – Offsetting financial assets and financial liabilities"*	1 January 2014
Amendments to HKAS 39, *"Novation of derivatives and continuation of hedge accounting"*	1 January 2014
HKFRS 9, *"Financial instruments"*	Unspecified

The group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

30. Comparative figures

As a result of the application of Revised HKAS 19, *"Employee benefits"*, certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2013/14. Further details of these developments are disclosed in note 28(a).

FIVE-YEAR FINANCIAL & OPERATIONAL SUMMARY

(in HK$ million)	09/10 Restated[4]	10/11 Restated[4]	11/12 Restated[4]	12/13 Restated[4]	**13/14**
Consolidated statement of profit or loss					
Turnover	9,015	10,583	12,154	13,134	**14,810**
Operating expenses before depreciation and amortisation	(3,413)	(3,582)	(3,928)	(4,282)	**(4,872)**
EBITDA	5,602	7,001	8,226	8,852	**9,938**
Depreciation and amortisation	(2,191)	(2,207)	(2,221)	(2,208)	**(2,248)**
Interest and finance costs	(178)	(195)	(174)	(121)	**(13)**
Share of results of joint ventures	178	239	522	211	**77**
Profit before taxation	3,411	4,838	6,353	6,734	**7,754**
Income tax	(580)	(810)	(1,020)	(1,111)	**(1,306)**
Profit for the year	2,831	4,028	5,333	5,623	**6,448**
Attributable to:					
Equity shareholder of the Authority	2,834	4,025	5,329	5,615	**6,454**
Non-controlling interests	(3)	3	4	8	**(6)**
Consolidated statement of financial position					
Non-current assets	49,348	48,165	47,712	48,890	**51,482**
Current assets	1,939	2,185	3,652	4,802	**5,394**
Current liabilities	(4,138)	(2,666)	(2,679)	(5,590)	**(4,776)**
Net current (liabilities)/assets	(2,199)	(481)	973	(788)	**618**
Total assets less current liabilities	47,149	47,684	48,685	48,102	**52,100**
Non-current liabilities	(10,592)	(11,392)	(10,161)	(7,732)	**(9,581)**
Net assets	36,557	36,292	38,524	40,370	**42,519**
Share capital	30,648	30,648	30,648	30,648	**30,648**
Reserves	5,707	5,432	7,653	9,489	**11,642**
Non-controlling interests	202	212	223	233	**229**
Total equity	36,557	36,292	38,524	40,370	**42,519**
Key financial and operational statistics					
Dividend declared *(HK$ million)*	2,300	3,100	3,900	4,400	**5,300**
Special dividend declared *(HK$ million)*	2,200	–	–	–	**–**
Return on equity	7.8%	11.1%	14.3%	14.3%	**15.6%**
Total debt/capital ratio	18%	16%	13%	13%	**10%**
Passenger traffic[1, 2] *(millions of passengers)*	46.9	51.5	54.9	57.2	**60.7**
Cargo throughput[1, 3] *(millions of tonnes)*	3.6	4.2	3.9	4.0	**4.2**
Aircraft movements[1] *(thousands)*	280	316	339	355	**377**

1 "Operational Statistics" is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.

2 "Passenger traffic" includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

3 "Cargo throughput" includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

4 In order to comply with Revised HKAS 19, *"Employee benefits",* in 2013/14 the group changed its accounting policy with respect to defined benefit retirement plans. This change in accounting policy has been applied retrospectively. As a result, profit and net assets for the years 2009/10 to 2012/13 have been restated.

Airlines Operating at HKIA as at March 2014

Aeroflot Russian Airlines
AeroLogic*
Air Astana
Air Busan
Air Canada
Air China
Air France
Air Hong Kong*
Air India
Air Mauritius
Air New Zealand
Air Niugini
Air Seychelles
AirAsia
AirBridgeCargo*
ANA
Asiana Airlines
Atlas Air*
Aurora Airlines
Bangkok Airways
Biman Bangladesh
British Airways
Cargolux*
Cargolux Italia*
Cathay Pacific
Cebu Pacific Air
China Airlines
China Cargo Airlines*
China Eastern
China Southern
City Airways
Delta Air Lines
Dragonair
Eastar Jet
EL AL Israel
Emirates
Ethiopian Airlines
Etihad Airways*
EVA Air
Federal Express*
Fiji Airways
Finnair
Garuda Indonesia
Globus
Hong Kong Airlines
Hong Kong Express
Hunnu Air
Japan Airlines
Jeju Air
Jet Airways
Jetstar Asia Airways
Jin Air
Juneyao Airlines
Kalitta Air*
Kenya Airways
KLM
Korean Air
Lufthansa
Lufthansa Cargo*
Malaysia Airlines
Mandarin Airlines
Martinair Cargo*
Mega Maldives
MIAT Mongolian Airlines
Nepal Airlines
Nippon Cargo Airlines*
Nordic Global Airlines*
Orient Thai
Pakistan Int'l Airlines
Peach Aviation
Philippine Airlines
Polar Air Cargo*
Qantas Airways
Qatar Airways
Royal Brunei
Royal Jordanian
S7 Airlines
Saudi Arabian Airlines*
Scoot
SF Airlines*
Shanghai Airlines
Shenzhen Airlines
Sichuan Airlines
Silk Way West Airlines*
Singapore Airlines
Singapore Airlines Cargo*
South African Airways
Southern Air*
Spring Airlines
SriLankan
Swiss Air Lines
Thai AirAsia
Thai Airways
Tigerair
TNT Airways*
Transaero Airlines
Transmile Air Services*
Turkish Airlines
United Airlines
UPS*
Vietnam Airlines
Virgin Atlantic
Xiamen Airlines
Yangtze River Express*

** Freighter services only*

Scheduled Destinations Served from HKIA as at March 2014

North Asia
Beijing
Busan
Changchun
Changsha
Cheju
Chengdu
Chongqing
Dalian
Fukuoka
Fuzhou
Guangzhou
Guilin
Guiyang
Haikou
Hangzhou
Harbin
Hefei
Jieyang
Jinan
Jinjiang
Kaohsiung
Khabarovsk
Kunming
Lijiang
Meixian
Nagoya
Nanchang
Nanjing
Nanning
Ningbo
Okinawa
Osaka/Kansai
Qingdao
Sanya
Sapporo
Seoul/Incheon
Shanghai/Hongqiao
Shanghai/Pudong
Shenyang
Shijiazhuang
Taipei
Taiyuan
Tianjin
Tokyo/Haneda
Tokyo/Narita
Ulan Bator
Vladivostok
Wenzhou
Wuhan
Wuxi
Wuyishan
Xiamen
Xian
Xuzhou
Yancheng
Yantai
Yichang
Zhanjiang
Zhengzhou

South East Asia
B S Begawan
Bangkok/Don Muang
Bangkok/Suvarnabhumi
Cebu
Chiang Mai
Clark
Da Nang
Denpasar
Hanoi
Ho Chi Minh
Iloilo
Jakarta
Koh Samui
Kota Kinabalu
Kuala Lumpur
Kuala Lumpur/Subang*
Kuching
Manila
Penang
Phnom Penh
Phuket
Siem Reap
Singapore
Surabaya
Yangon

Middle East/Central Asia/ South Asia
Abu Dhabi
Almaty
Amman
Bahrain
Baku*
Bangalore
Chennai
Chittagong*
Colombo
Damman*
Delhi
Dhaka
Doha
Dubai
Dubai/Al Maktoum*
Hyderabad
Irkutsk
Islamabad
Jeddah
Karachi
Kathmandu
Kolkata
Krasnoyarsk*
Kuwait*
Lahore
Mahe
Male
Mumbai
Muscat*
Novosibirsk
Riyadh
Sharjah*
Tashkent*
Tel Aviv

Europe
Amsterdam
Barcelona*
Budapest*
Cologne*
Frankfurt
Helsinki
Istanbul
Leipzig*
Liege*
London/Heathrow
London/Stansted*
Luxembourg*
Manchester*
Milan/Bergamo*
Milan/Malpensa
Moscow/Domodedovo
Moscow/Sheremetyevo
Munich
Paris
Rome
Vienna*
Zaragoza*
Zurich

Australasia/ Pacific Islands
Adelaide
Auckland
Brisbane
Cairns
Guam
Melbourne
Nadi
Perth
Port Moresby
Sydney

Africa
Addis Ababa
Johannesburg
Mauritius
Nairobi

North America
Anchorage*
Atlanta*
Chicago/O'Hare
Cincinnati*
Columbus*
Dallas*
Honolulu*
Houston*
Huntsville*
Los Angeles
Louisville*
Memphis*
Miami*
New York/John Kennedy
Newark
Oakland*
Ontario*
Philadelphia*
San Francisco
Seattle
Toronto
Vancouver

Central and South America
Ciudad del Este*
Guadalajara*

** Freighter services only*

AIRPORT AUTHORITY HONG KONG

HKIA Tower
1 Sky Plaza Road
Hong Kong International Airport
Lantau, Hong Kong

Telephone: (852) 2188 7111
Facsimile: (852) 2824 0717
Website: www.hongkongairport.com

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC™ C023053