



香港國際機場 | HONG KONG
INTERNATIONAL
AIRPORT

Our Shared Future

Annual Report 2014/15





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

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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.

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.

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.



CORE VALUES



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 for 60 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.



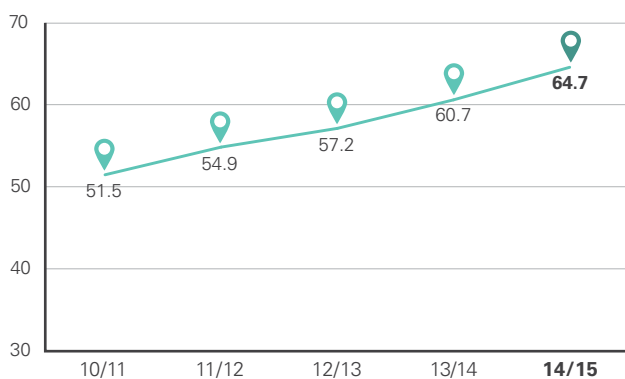
HKIA Facts

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

Performance Highlights

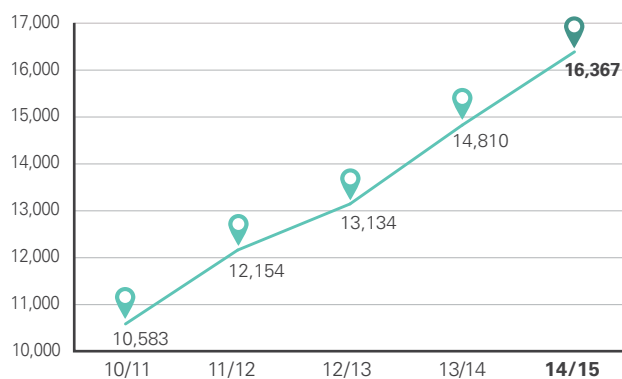
PASSENGER TRAFFIC

(millions of passengers)



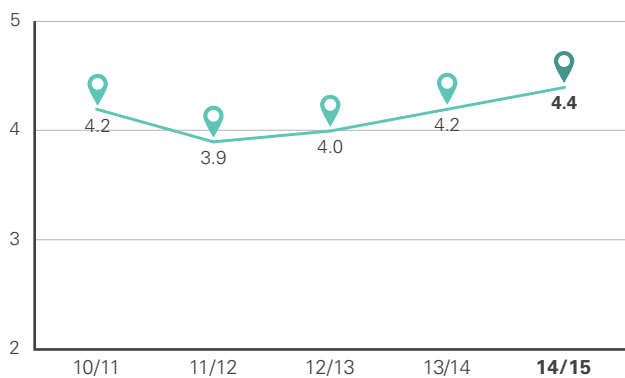
TURNOVER

(in HK\$ million)



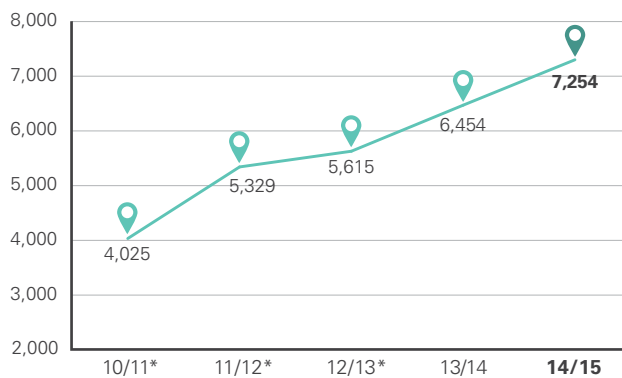
CARGO THROUGHPUT

(millions of tonnes)



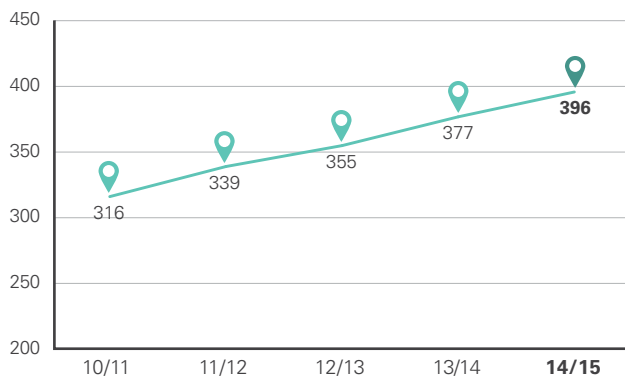
PROFIT ATTRIBUTABLE TO THE EQUITY SHAREHOLDER

(in HK\$ million)



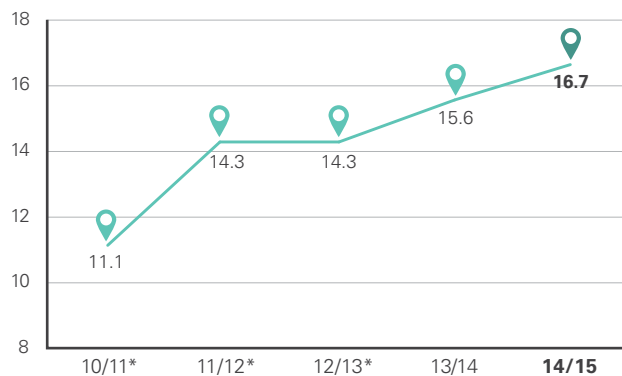
AIRCRAFT MOVEMENTS

(thousands)



RETURN ON EQUITY

(in percent)



* Restated



Chairman's Statement

Dear Stakeholders,

Hong Kong International Airport (HKIA) enjoyed another strong year in fiscal 2014/15, ended 31 March 2015. In addition to setting new records for cargo throughput and flight movements, for the first time in the airport's history, we served more than 64 million passengers.

Strong traffic numbers, higher retail revenue and prudent management contributed to a strong financial performance in 2014/15. Profit attributable to equity shareholder grew 12.4%, to HK\$7,254 million.

Our performance was recognised with many awards during the year, covering everything from outstanding customer service and environmentally friendly operations to promoting workplace safety and introducing new technologies.



Capacity Constraints

My connection with HKIA began in 1990 when I joined the Board of the Provisional Airport Authority. From overseeing HKIA's construction to witnessing this year's record-breaking performance, it has been gratifying to watch the healthy development of the airport and the continued growth in demand for aviation services. In fact, demand has been so strong that the existing two-runway system at HKIA will reach full capacity in only one or two years.

HKIA is not unique in this regard. Throughout the Asia-Pacific region, airports are aggressively expanding their facilities and infrastructure to meet growing demand. HKIA must increase its capacity or risk jeopardising Hong Kong's overall competitiveness and the city's status as a global and regional aviation hub. Capacity constraints could



To build the three-runway system, we must overcome many technical and logistical challenges. But I am confident that we have the skills, expertise and resources to bring this project to fruition, meet the growing traffic demand and ensure Hong Kong's role as a leading international and regional aviation hub.

also threaten the airport's ability to support Hong Kong's four pillar industries — financial services, trading and logistics, tourism, and producer and professional services — which represent more than half of our gross domestic product.

AAHK is working hard to overcome these constraints by expanding HKIA into a three-runway system (3RS), and I am delighted to report that the project passed several important milestones during the year. In November 2014, the 3RS project received an Environmental Permit from the Director of Environmental Protection. Then, in March 2015, the Executive Council (ExCo) of the HKSAR Government affirmed the need for the 3RS. In line with the ExCo's decision, we will actively explore ways to facilitate the early implementation of the 3RS.

The 3RS is much more than just building a new runway. The project comprises the third runway, taxiways and apron; the third runway concourse with 57 parking positions; modification of the existing Terminal 2; a new Automated People Mover; and the installation of a high-speed Baggage Handling System. It will allow the airport to handle the forecast traffic demand by 2030: 102 million passengers, 8.9 million tonnes of cargo and 607,000 flight movements annually.

To build the 3RS, we must overcome many technical and logistical challenges. But I am confident that we have the skills, expertise and resources to bring this project to fruition, meet the growing traffic demand and ensure Hong Kong's role as a leading international and regional aviation hub.

North Commercial District

The Hong Kong–Zhuhai–Macao Bridge project and related local projects in Hong Kong will help to make Lantau a tourist centre and a crossroads for people travelling between Hong Kong, Macao and Guangdong.

The traffic generated by these infrastructure projects presents an exciting opportunity for HKIA. During the year, we finalised the master plan for the North Commercial District (NCD), a site of over 10 hectares adjacent to

Terminal 2. With a gross floor area of around 200,000 square metres, the NCD's first phase retail development will be an integrated shopping resort featuring dining, entertainment and family oriented attractions for both tourists and residents of Hong Kong.

Looking Forward

We made excellent progress in our expansion projects during the year. I am grateful for the suggestions and guidance that we received from the Transport and Housing Bureau, the Airport Expansion Project Coordination Office, the AAHK Board Members and our business partners and stakeholders.

I would also like to take this opportunity to recognise the late Dr Marvin Cheung Kin-tung, who joined the Board in 2003 and served as Chairman from June 2008 until May 2014. An esteemed leader, Dr Cheung was instrumental in setting the direction for HKIA's expansion into a three-runway system.

In October 2014, Fred Lam Tin-fuk became AAHK's Chief Executive Officer. We are fortunate that Fred has joined us as the airport enters a period of vigorous growth. I have been impressed with Fred's can-do spirit and his commitment to HKIA's development.

HKIA is fortunate to have a strong management team and capable, motivated workforce. When my term ends in May 2015, I am confident that HKIA will continue to contribute to Hong Kong's economy and maintain the city's competitiveness as a global and regional aviation hub.



Vincent Lo Hong-sui

Chairman

Hong Kong, 26 May 2015



Chief Executive Officer's Statement

Dear Stakeholders,

Before joining Airport Authority Hong Kong (AAHK) in October 2014, I spent nearly three decades promoting our city and encouraging people to do business here. As I travelled around the world, I developed a keen appreciation for Hong Kong International Airport (HKIA) and the ease with which it allowed me to connect with destinations near and far.

Today, I am honoured to be part of HKIA's management team. As a Hong Kong native, I am proud of our airport's world-class reputation. I believe that HKIA is more than a transportation hub. It is a critical piece of infrastructure and a catalyst for the city's economic growth. I am committed to building on HKIA's strengths, so that our airport can continue to contribute to Hong Kong's prosperity.



A Year of Accomplishments

HKIA enjoyed a record-breaking year in fiscal 2014/15, ended 31 March 2015. Passenger volume rose 6.6% from 2013/14, to 64.7 million. Flight movements increased 4.9%, to 396,000, and cargo throughput grew 5.5%, to 4.4 million tonnes.

Cross-boundary traffic also set new records. The number of people using SkyPier, which connects HKIA with eight ferry piers in Macao and the Pearl River Delta (PRD), grew 5.3% to 2.8 million. Over two million passengers travelled between the airport and the PRD by limousine, shuttle and coach services, up 1.5% from 2013/14.

This year's strong growth highlights a challenge. HKIA now operates at over 90% of capacity and will soon reach saturation. There is a pressing need for HKIA to expand into a three-runway system which is a long-term solution to these capacity constraints.

“HKIA is more than a transportation hub. It is a critical piece of infrastructure and a catalyst for the city's economic growth. I am committed to building on HKIA's strengths, so that our airport can continue to contribute to Hong Kong's prosperity.

Building the 3RS

Fiscal 2014/15 was a remarkable year. After spending more than two years conducting a vigorous environmental impact assessment (EIA), the Environmental Permit was granted to the project, followed by the affirmation of the need for having the 3RS given by the Executive Council of the HKSAR Government in March 2015. From May 2012 to March 2015, we held more than 800 engagement activities — including briefings, seminars, forums and airport visits — to explain the general and technical aspects of the 3RS EIA and highlight the latest project developments. These efforts reached thousands of stakeholders and members of the public.

The 3RS is critical to Hong Kong's future. It will bring new business opportunities, create hundreds of thousands of jobs, spur economic development and consolidate HKIA's status as an international aviation hub. Working with our stakeholders and the broader community, we aim to meet our twin goals of starting construction in 2016 and having the project completed in eight years.

Medium-Term Development

During the year, we continued to enhance the airport's facilities. The expanded west apron, with 28 aircraft parking stands, is now fully operational. The Midfield Development will add 10 million passengers to HKIA's annual capacity upon its completion by end of 2015. In total, the enlarged apron and Midfield Development will provide 48 additional aircraft parking stands.

Refining Our Services

In addition to new and improved facilities, we continue to enhance our services. For example, by enhancing the upstream check-in service, we are expanding our catchment area and meeting growing demand for aviation services in the PRD. HKIA is also preparing to tap the commercial opportunities that will accompany the commissioning of the Hong Kong–Zhuhai–Macao Bridge.

Modern travellers are increasingly sophisticated, independent and tech-savvy. In response, we are introducing a host of new services at HKIA — such as personalised flight information displays and hundreds of new charging points for mobile phones and other devices — that make the airport as efficient and hassle-free as possible.

In 2014, HKIA was again recognised as the world's busiest cargo airport. Efficient, reliable air cargo services underpin Hong Kong's role as a global business hub, and we are working to ensure that HKIA capitalises on rising demand for air transshipments and e-commerce.

Embracing Tomorrow's Challenges

I would like to thank my predecessor, Stanley Hui Hon-chung, for his many contributions during the seven years in HKIA. Thank you, too, to the staff of AAHK and the 65,000 people who comprise the airport community. Your teamwork and commitment are the foundation of HKIA's success and fill me with optimism for the future.

In the years ahead, we must overcome capacity constraints while we design and build the 3RS and maintain our high service standards. Despite these challenges, I am confident that HKIA will continue to give our city a long-term competitive edge and be a source of pride for the people of Hong Kong.



Fred Lam Tin-fuk

Chief Executive Officer

Hong Kong, 26 May 2015

The Board



Mr Vincent Lo Hong-sui



Mr Fred Lam Tin-fuk



Professor the Hon K C Chan



The Hon Chan Kam-lam



Mr Benjamin Hung Pi-cheng



Mr Franklin Lam Fan-keung



The Hon Jeffrey Lam Kin-fung



Ir Lee Shing-see

Mr Vincent Lo Hong-sui ^{GBS JP} Chairman

Aged 66. Appointed as Chairman of the Board in June 2014. Appointed as Member of the Board in January 2013. Chairman of the Shui On Group. Member of The 12th National Committee of Chinese People's Political Consultative Conference. 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. Member of Lantau Development Advisory Committee of HKSARG.

Mr Fred Lam Tin-fuk ^{JP} Chief Executive Officer*

Aged 56. Appointed as Chief Executive Officer in October 2014. Former Executive Director of the Hong Kong Trade Development Council (HKTDC). Member of Aviation Development Advisory Committee, Financial Services Development Council and Hong Kong Logistics Development Council. In 2007, Mr Lam was named "Director of the Year" by the Hong Kong Institute of Directors under the category of statutory and non-profit-distributing organisations. In 2011, he was given the Peace through Commerce Medal from the United States Government in recognition of his leadership role in boosting US exports to, and through, Hong Kong.

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

Aged 58. 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 Board of Mandatory Provident Fund Schemes Authority, the Board of Hong Kong Mortgage Corporation Limited and the Board of West Kowloon Cultural District Authority. Ex officio member of the Financial Services Development Council. Director of Hongkong International Theme Parks Limited.

The Honourable Chan Kam-lam ^{SBS JP}

Aged 66. 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. Member of the Finance Committee & House Committee. Member of the Panels on Administration of Justice & Legal Services, Constitutional Affairs, Development, Economic Development, Financial Affairs, Security and Transport 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 60. Appointed to the Board in June 2011 and was re-appointed in June 2014. 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 HKSARG. Independent Non-Executive Director of 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 62. Became a Board Member in July 2012 upon his appointment as Secretary for Transport and Housing. As the Secretary for Transport and Housing, Professor Cheung is the Chairman of the Hong Kong Housing Authority, Hong Kong Maritime Industry Council, Hong Kong Port Development Council, Hong Kong Logistics Development Council and Aviation Development Advisory Committee. He is also board member of MTR Corporation Limited; Kowloon-Canton Railway Corporation and Hong Kong Mortgage Corporation, as well as member of the Council for Sustainable Development and Economic Development Commission.

Ms Anita Fung Yuen-mei ^{BBS}

Aged 54. Appointed to the Board in June 2010 and was re-appointed in June 2013. Former Group General Manager of the HSBC Group and Former Chief Executive Officer Hong Kong of The Hongkong and Shanghai Banking Corporation Limited. 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. Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited.



Mr Edward Cheng Wai-sun



Professor the Hon Anthony Cheung Bing-leung



Ms Anita Fung Yuen-mei



The Hon Albert Ho Chun-yan



Mr Norman Lo Shung-man



Ir Lo Yiu-ching



Mr Peter To



The Hon Frankie Yick Chi-ming

The Honourable Albert Ho Chun-yan

Aged 64. 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.

Mr Benjamin Hung Pi-cheng JP

Aged 50. Appointed to the Board in June 2008 and was re-appointed in June 2011 and June 2014. Regional Chief Executive Officer, Greater China 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.

Mr Franklin Lam Fan-keung BBS

Aged 53. Appointed to the Board in June 2014. Founder of HKGolden50, an independent non-profit public policy research group. Prior to this, Mr Lam held senior regional leadership positions with a global investment bank. He served as a Part-time Member of the Central Policy Unit and a Member of the Executive Council.

The Honourable Jeffrey Lam Kin-fung GBS JP

Aged 63. Appointed to the Board in June 2011 and was re-appointed in June 2014. 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.

Ir Lee Shing-see GBS OBE JP

Aged 73. Appointed to the Board in June 2011 and was re-appointed in June 2014. 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. Vice Chairman of CreateSmart Initiative Vetting Committee. 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 58. Became a Board Member in April 2004 upon his appointment as Director-General of Civil Aviation.

Ir Lo Yiu-ching GBS JP

Aged 68. Appointed to the Board in June 2014. A professional engineer. Fellow of the Institution of Civil Engineers, Fellow of the Institution of Structural Engineers and Fellow of the Hong Kong

Institution of Engineers. Distinguished Adjunct Professor in the Department of Civil Engineering, University of Hong Kong. Former Permanent Secretary for the Environment, Transport and Works of the HKSAR Government. Former Senior Consultant in the Hospital Authority on capital planning.

Mr Peter To

Aged 67. Appointed to the Board in June 2014. Currently an Independent Non-Executive Director of Dorsett Hospitality International Ltd. Former Director of the Urban Renewal Authority (1.5.2007 - 30.4.2013).

The Honourable Frankie Yick Chi-ming

Aged 60. Appointed to the Board in June 2014. Mr Yick joined Wharf group in 1994, now overseeing inter alia, the Wharf group's public transport and terminals portfolio. Mr Yick is a member of the Legislative Council of Hong Kong representing the Transport Functional Constituency. He is also a non-executive director of Harbour Centre Development Limited (stock code: 51) and The "Star" Ferry Company, Limited as well as a director of Modern Terminals Limited and Hong Kong Air Cargo Terminals Limited. Mr Yick is a chartered engineer.

* Member by virtue of being holder of the post

Secretary to the Board

Mr H Y Shu

Auditors
KPMG

Executive Directors



► From left to right: Mr John Chai Sung-veg, Ms Cissy Chan Ching-sze, Mr William Lo Chi-chung, Ms Florence Chung Wai-ye, Mr Ng Chi-kee, Mr Wilson Fung Wing-yip

Mr John Chai Sung-veg **Executive Director, Projects**

Aged 64. An engineering graduate of the University of Hong Kong. Mr Chai was appointed in October 2012. He worked in a consulting firm for 5 years before joining Government in 1978, and 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.

Ms Cissy Chan Ching-sze **Executive Director, Commercial**

Aged 49. 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.

Ms Florence Chung Wai-ye **Executive Director,**

Human Resources & Administration
Aged 51. Holder of a Master of Science degree from the Chaminade University of Honolulu and a Bachelor of Social Science degree from the Chinese University of Hong Kong. Ms Chung was appointed in October 2014. Before joining the Airport

Authority, Ms Chung was the General Manager of Group Human Resources at HKR International Limited. Ms Chung has over 25 years of experience in general and human resources management and had held senior positions in sizeable commercial companies and public utilities in Hong Kong including Hutchison Port Holdings and CLP Group. Areas of expertise include organisational development as well as leadership, talent and change management.

Mr Wilson Fung Wing-yip **Executive Director,**

Corporate Development
Aged 51. 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 55. 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 26 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 60. 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 28 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

	2014/15	2013/14	± % ¹
Financial results <i>(in HK\$ million)</i>			
Turnover	16,367	14,810	+10.5%
EBITDA	11,314	9,938	+13.8%
Depreciation and amortisation	2,420	2,248	+7.7%
Net interest and finance (income)/costs	(33)	13	-353.8%
Profit attributable to the equity shareholder	7,254	6,454	+12.4%
Dividend declared	–	5,300	-100.0%
Financial position and ratios <i>(in HK\$ million)</i>			
Total assets	58,061	56,876	+2.1%
Total borrowings	3,382	4,937	-31.5%
Total equity	44,437	42,519	+4.5%
Return on equity	16.7%	15.6%	
Total debt/capital ratio	7%	10%	
Credit ratings			
Standard & Poor's:			
Long-term local currency	AAA	AAA	
Long-term foreign currency	AAA	AAA	
Operational highlights²			
Passenger traffic ³ <i>(millions of passengers)</i>	64.7	60.7	+6.6%
Cargo throughput ⁴ <i>(millions of tonnes)</i>	4.4	4.2	+5.5%
Aircraft movements <i>(thousands)</i>	396	377	+4.9%

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.

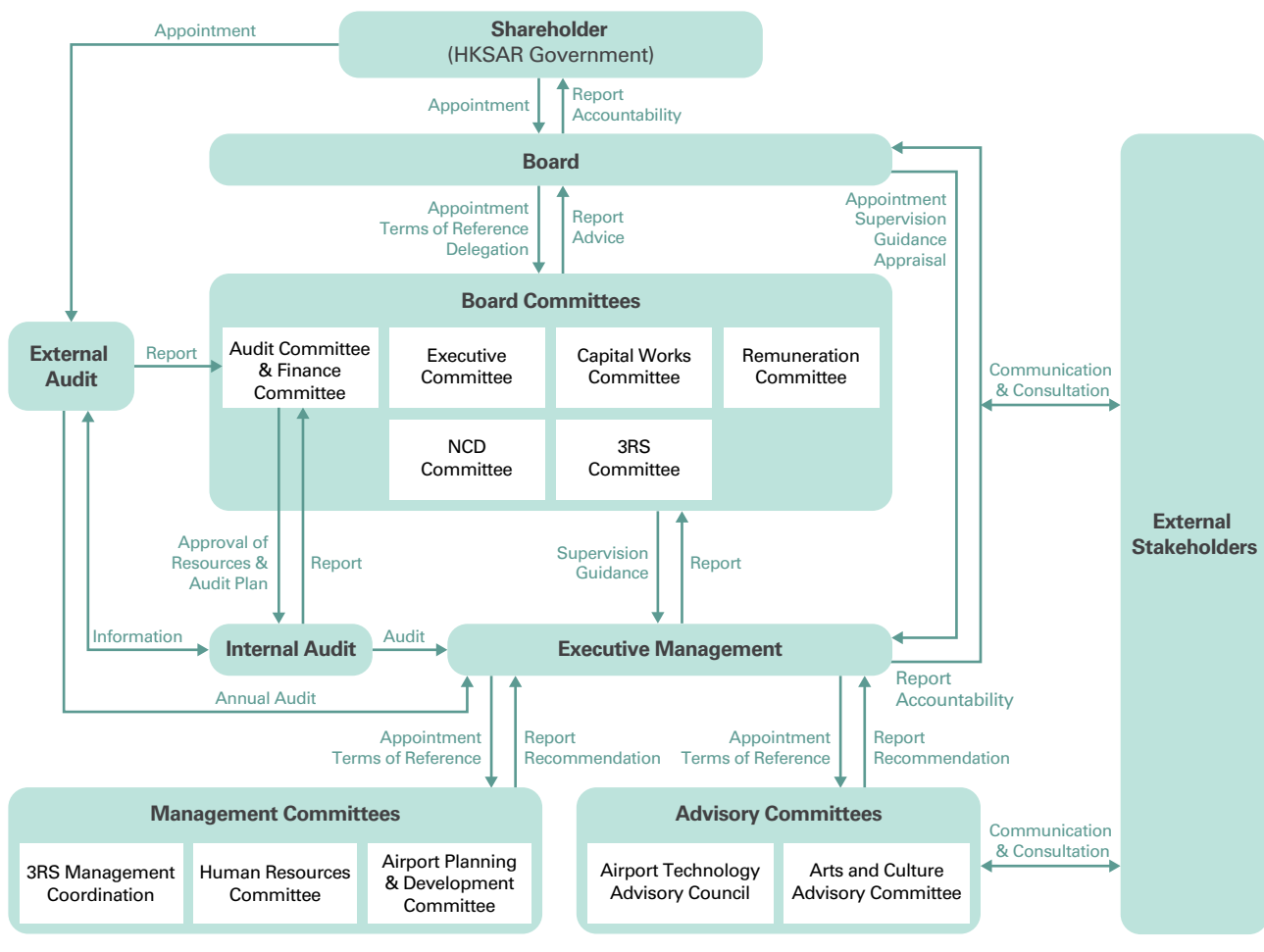
⁴ Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

Corporate Governance

Airport Authority Hong Kong (AAHK) is committed to high standards of corporate governance, in the belief that good corporate governance not only meets the expectations 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 the 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.

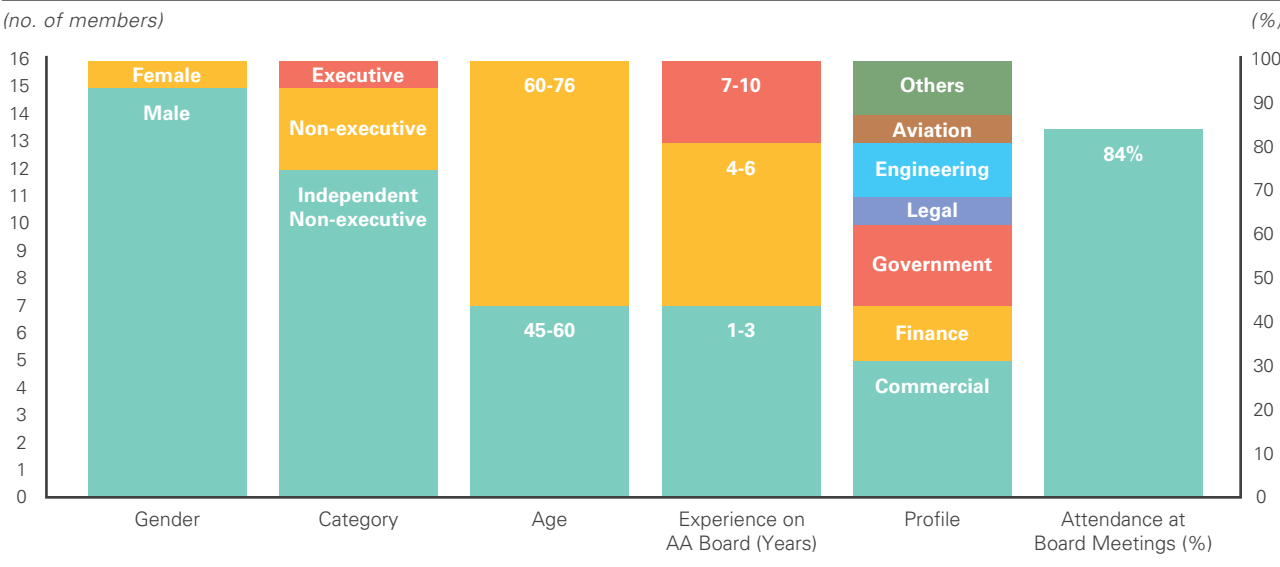
Board Structure

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 comprises a majority of independent members and is conducive to maintaining an independent and objective Board decision-making process.

Board Composition

The Board has 16 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 12 of whom are considered independent¹. 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.

BOARD COMPOSITION



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, all other Board Members are appointed for a term of three years. The current Chairman was appointed on 1 June 2014 for a one-year term.

Remuneration

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

The remuneration of Board Members for the year under review is disclosed on page 92.

Training

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, Board Members were invited for airport visits and to attend briefings on airport service quality, airport developments and retail planning in the year under review.

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.

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 (the CG Code) issued by the Stock Exchange of Hong Kong Limited and are clearly defined in the modus operandi of the Board.

The modus operandi of the Board is reviewed from time to time to keep abreast of regulatory changes and best corporate governance practices. The current modus operandi was adopted by the Board on 8 September 2014.

Key elements of the current modus operandi:

- The Board shall have four regular meetings each year
- An 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
- Agendas and papers are sent to Members at least three clear days before a meeting (excluding the date of despatch and the date of meeting)
- The 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 procedures for declaration of interests

Meetings

During the year under review, eight Board meetings were held with an average attendance rate of 84%. Attendance records of individual Members are on page 24.

A total of 55 Board papers and 7 sets of written resolutions were considered or resolved.

Key matters considered or resolved:

- Annual budget and annual business plan
- 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
- Appointment, 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 (3RS)
- North Commercial District (NCD) development
- AA organisation and Board Committee Structures
- Delegated authorities of Chief Executive Officer
- Modus operandi of the Board
- Appointment of co-opted members to the 3RS and NCD committees
- Terminal 1 capacity enhancement works
- Flight training centre development at Hong Kong International Airport (HKIA)

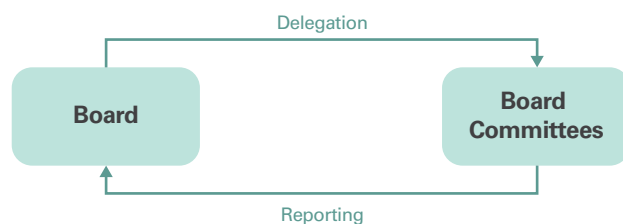
Members are required to declare their interests in business proposals, if any, to be considered by the Board. Members with interests are required to withdraw from the relevant discussions and decision-making process as appropriate. In 2014/15, there were five occasions where Members withdrew from meetings in light of their directorships in companies associated with tenderers for capital works and/or maintenance contracts and the NCD hotel development.

Board Committees

Pursuant to the Ordinance, Board Committees may be established to consider matters on specialised areas. Such Committees may decide on matters within their ambit and are required to report to the Board at each Board meeting. A holistic review of the existing Board Committee Structure was completed in July 2014. As a result of the review, the Infrastructural Planning Committee was dissolved and two dedicated committees, namely, the 3RS Committee and NCD Committee, were

established to deal with all aspects of the three-runway system and the North Commercial District projects. Currently there are six Board Committees, each with specific terms of reference.

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 all Committee meetings as observers
- Board Members are free to access the papers of all 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

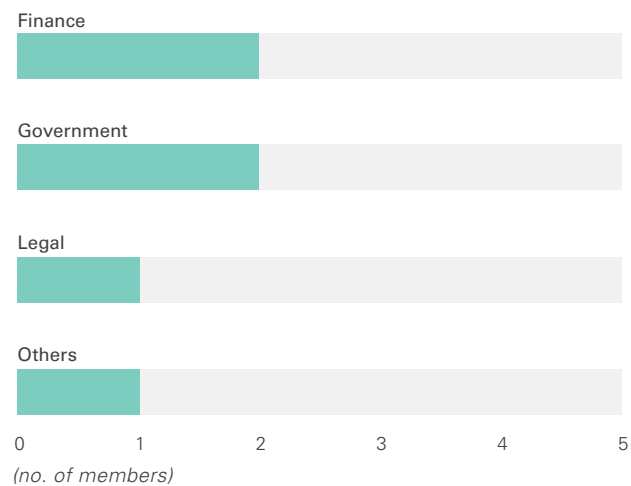
The terms of reference of Board Committees are reviewed from time to time in the light of AAHK's evolving operational, business and development needs. A review was last conducted in 2014 to ensure that there were no material gaps or overlaps between the remits of the Committees. The terms of reference of Board Committees are available on HKIA's website at www.hongkongairport.com.

The composition of Board Committees was last reviewed and approved by the Board in July 2014. Excluding the Chief Executive Officer and public officers, each independent Board Member serves on average of about 2.5 Board Committees.

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

Audit Committee and Finance Committee (ACFC)

MEMBERS' PROFILE – ACFC



Membership: Six non-executive members, four of whom are independent

Chairman: Mr Benjamin Hung Pi-cheng

Members: Ms Anita Fung Yuen-mei
the Hon Albert Ho Chun-yan
Mr Franklin Lam Fan-keung
the Secretary for Financial Services
and the Treasury
the Director-General of Civil Aviation

Meetings and Papers: The ACFC met six times during the year with an average attendance rate of 78%. Attendance records of individual members are set out on page 24. A total of 17 Committee papers were considered or resolved.

Principal duties:

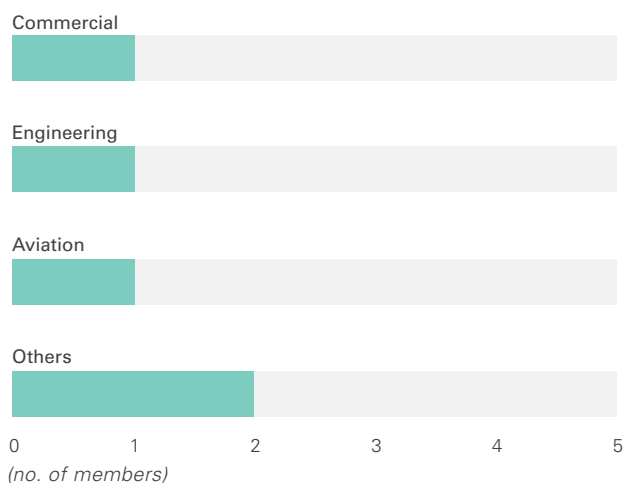
- Reviews financial statements
- Makes recommendations on the appointment of external auditor, approves its remuneration and terms of engagement and oversees AAHK's relations with the external auditor
- Reviews accounting policies, annual budget, five-year financial plan and charging policies
- Oversees 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 or 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
- Financial arrangement study
- Discontinuation of the New Destination Incentive Arrangement

Capital Works Committee (CWC)

MEMBERS’ PROFILE – CWC



Membership: Five members in total, four of whom are independent

- Chairman: Ir Lee Shing-see
 Members: the Hon Chan Kam-lam
 Mr Franklin Lam Fan-keung
 the Hon Frankie Yick Chi-ming
 Mr Fred Lam Tin-fuk

Meetings: The CWC met six times during the year with an average attendance rate of 72%. Attendance records of individual members are set out on page 24. A total of 24 Committee papers were considered or resolved.

Principal duties:

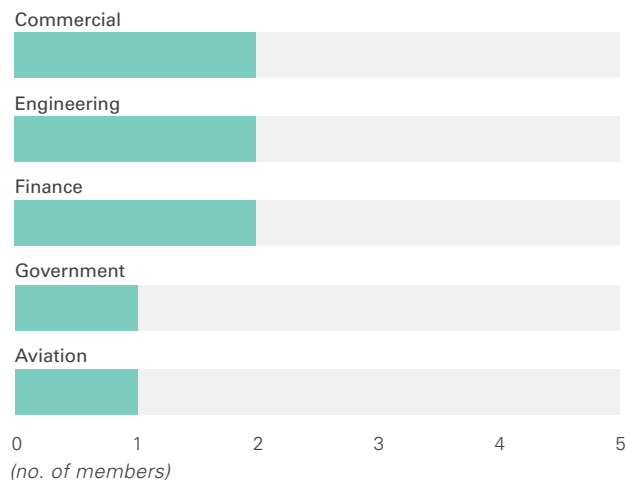
- To oversee works-related matters other than those pertaining to the 3RS project and NCD development, including:
- Reviews and approves policy, procurement strategy/ procedures and evaluation criteria for capital works, systems and equipment and asset contracts and consultancy agreements
 - Reviews and approves or makes recommendations to the Board on projects scope, project control budget, award of contracts/agreements and any additional amount that exceeds the approved project control budget in accordance with its delegated authority
 - Monitors the progress of major capital projects
 - Makes recommendations to the Board on the annual budget and Five-year plan for capital works, systems, equipment and asset

Key matters considered or resolved:

- Annual capital works budget and five-year capital works plan
- Midfield Development
- Provision of airport facilities
- Airport improvement and maintenance works
- Progress Reports on major capital works and projects
- Procurement strategies and award of works contracts

Executive Committee (EC)

MEMBERS' PROFILE – EC



Membership: Eight members in total, six of whom are independent

Chairman: Mr Vincent Lo Hong-sui

Members: Ms Anita Fung Yuen-mei
Mr Benjamin Hung Pi-cheng
Ir Lee Shing-see
Ir Lo Yiu-ching
Mr Peter To
Mr Fred Lam Tin-fuk
the Secretary for Transport and Housing

Meetings: The EC met six times during the year with an average attendance rate of 90%. Attendance records of individual members are set out on page 24. A total of 29 Committee papers were considered.

Principal duties:

- Exercises the functions and powers of the Board between regular Board meetings
- Considers business development and commercial strategies
- Provides strategic guidance to Management

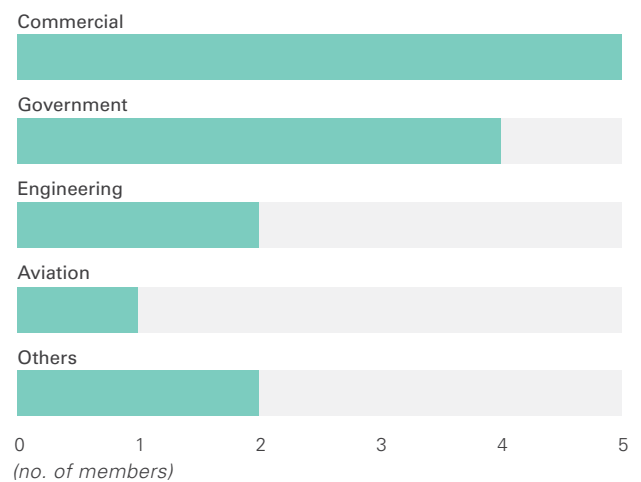
- Serves as a sounding board for the Chairman of the Board in the leadership and oversight of the business and affairs of AAHK
- Ensures co-ordination of the activities among Board Committees
- Oversees Senior Management succession planning

Key matters considered/resolved:

- Planning for the 3RS
- Commercial operation
- NCD Development (before establishment of the NCD Committee)
- Midfield Development
- Master Plan 2035
- Retail Portfolio: 3 year business plan
- Green Airport benchmarking study
- Airport franchises and commercial licences
- Financial and retail performance
- Reports on AAHK's operations and business activities
- Proposed action plan for sustainability report 2014/15

NCD Committee (NCDC)

MEMBERS' PROFILE – NCDC



Membership: Fourteen members (including three co-opted members) in total, nine of whom are independent

- Chairman: Mr Peter To
- Members: Mr Edward Cheng Wai-sun
Mr Franklin Lam Fan-keung
Mr Jeffrey Lam Kin-fung
Ir Lee Shing-see
Ir Lo Yiu-ching
Mr Frankie Yick Chi-ming
Mr Fred Lam Tin-fuk
the Secretary for Financial Services and the Treasury
the Secretary for Transport and Housing
the Director-General of Civil Aviation
- Co-opted Members: Mrs Sharon Yip
Mr Andrew Leung Chi-kwan
Mr Edward Leung Hoi-kwok

Meetings: The NCD met four times during the year with an average attendance rate of 70%. Attendance records of individual members are set out on page 24. A total of five Committee papers were considered.

Principal duties:

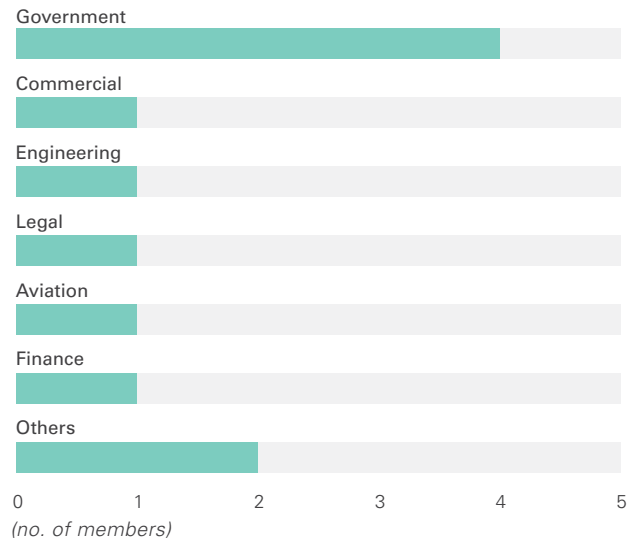
- Oversees the master planning of the NCD development
- Advises and makes recommendations to the Board on development strategies for the NCD site and monitors the progress of the NCD development
- Approves and makes recommendations to the Board on procurement/tendering strategies and the award of works contracts, consultancy agreements and commercial tenders for the NCD development in accordance with its delegated authority
- Advises on interfacing issues between the NCD and other developments as well as connectivity issues

Key matters considered or resolved:

- Master layout plan and first phase of the retail development
- Design workshop
- Business model for first phase of retail development
- NCD hotel development

3RS Committee (3RSC)

MEMBERS' PROFILE – 3RSC



Membership: Eleven members in total (including three co-opted members), six of whom are independent

- Chairman: Ir Lo Yiu-ching
- Members: Mr Albert Ho Chun-yan
Mr Franklin Lam Fan-keung
Mr Peter To
Mr Fred Lam Tin-fuk
the Secretary for Financial Services and the Treasury
the Secretary for Transport and Housing
the Director-General of Civil Aviation
- Co-opted Members: Mr Dominic Lam Kwong-ki
Mr Philip Tsai Wing-chung
Mr Andy Yau

Meetings: The 3RSC met five times during the year with an average attendance rate of 85%. Attendance records of individual members are set out on page 24. A total of fourteen Committee papers were considered.

Principal duties:

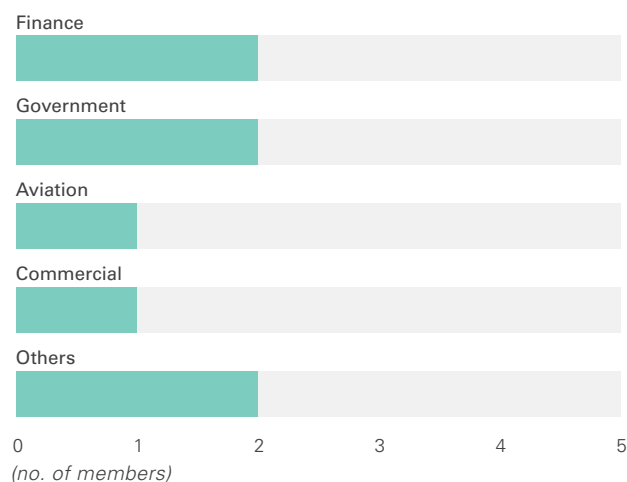
- Oversees the 3RS project from planning and project implementation to successful completion of the project on time and within budget
- Advises and makes recommendations to the Board on all key policy matters relating to the 3RS project
- Reviews and approves the procurement strategy, award of 3RS works contracts/consultancy agreements and deals with contract variations that exceed the approved project control budget
- Monitors the progress/implementation of mitigation directions and measures as undertaken in the 3RS environmental impact assessment report and advises on AAHK’s execution plan
- Advises on interfacing issues between 3RS and other developments within the vicinity
- Oversees and advises on 3RS-related engagement and public relations strategies and plans

Key matters considered or resolved:

- Early tender actions on advanced works
- Marine ecology and fisheries enhancement strategy
- Project key design details and cost estimates
- Marine Ecology Enhancement Fund and Fisheries Enhancement Fund
- Project programme implications of judicial review on the Environmental Permit
- Project progress reports and project status reports
- Procurement strategies and award of works contracts

Remuneration Committee (RC)

MEMBERS’ PROFILE – RC



Membership: Eight members in total, five of whom are independent

- Chairman: Ms Anita Fung Yuen-mei
- Members: the Hon Chan Kam-lam
Mr Benjamin Hung Pi-cheng
Mr Franklin Lam Fan-keung
the Hon Jeffrey Lam Kin-fung
Mr Fred Lam Tin-fuk
the Secretary for Transport and Housing
the Director-General of Civil Aviation

Meetings: The RC met three times during the year with an average attendance rate of 97%. Attendance records of individual members are set out on page 24. A total of seven Committee papers were 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 or 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 senior executives
- Corporate goals and performance measurements
- Corporate performance assessment mechanism
- Annual pay review mechanism
- Acting appointment and related allowance
- AAHK’s organisation structure

Meeting Attendance (1 April 2014 to 31 March 2015)

The Members	Board	ACFC	CWC	EC	RC	3RS ¹	NCD ¹
Non-executive							
Secretary for Transport and Housing	8/8			6/6	3/3	4/5	3/4
Secretary for Financial Services and the Treasury	7/8	6/6				4/5	3/4
Director-General of Civil Aviation	6/8	3/5 ¹¹			3/3	4/5	3/4
Independent Non-executive							
Mr Vincent Lo Hong-sui ³	8/8		0/1 ¹³	6/6 ⁹			
The Hon Chan Kam-lam	6/8		2/5 ¹¹		2/3		
Mr Edward Cheng Wai-sun	6/8	0/1 ¹³		1/1 ¹³	1/1 ¹⁰		3/4
Ms Anita Fung Yuen-mei	4/8	4/6		4/5 ¹¹	2/2 ⁹		
The Hon Albert Ho Chun-yan	8/8	6/6			1/1 ¹³	4/5	
Mr Benjamin Hung Pi-cheng	5/8	6/6 ⁸		4/5 ¹¹	3/3		
Mr Franklin Lam Fan-keung ⁷	7/7	5/5 ¹¹	5/5 ¹¹		2/2 ¹¹	5/5	3/4
The Hon Jeffrey Lam Kin-fung	6/8		1/1 ¹³		2/2 ¹¹		2/4
Ir Lo Yiu-ching ⁷	7/7			4/5 ¹¹		5/5 ⁹	3/4
Ir Lee Shing-see	7/8		6/6 ⁸	5/5 ¹¹			4/4
Mr Peter To ⁷	7/7			3/5 ¹¹		3/5	3/4 ⁹
The Hon Frankie Yick Chi-ming ⁷	6/7		4/5 ¹¹				2/4
Dr Marvin Cheung Kin-tung ²	1/1			1/1	1/1		
Ir Dr Raymond Ho Chung-tai ¹²	1/1	1/1	1/1		1/1		
Ms Miriam Lau Kin-yee ¹²	1/1						
Ms Caroline Mak Sui-king ¹²	0/1				1/1		
Mr Huen Wong ¹²	1/1		0/1				
Executive							
Mr Fred Lam Tin-fuk (Chief Executive Officer) ⁶	5/5		3/3	3/3	1/1	3/3	2/2
Mr Stanley Hui Hon-chung (Chief Executive Officer) ⁴	2/2		1/1	1/1	1/1		
Mr Ng Chi-kee (Acting Chief Executive Officer) ⁵	1/1		2/2	2/2		2/2	2/2

Notes:

¹ 3RS Committee & NCD Committee were set up on 18 July 2014

² Ceased to be Chairman of the Board on 1 June 2014

³ Appointed Chairman of the Board on 1 June 2014

⁴ Resigned as Chief Executive Officer on 11 July 2014

⁵ Acting Chief Executive Officer from 11 July to 30 September 2014

⁶ Appointed Chief Executive Officer on 1 October 2014

⁷ Appointed to the Board on 1 June 2014

⁸ Chairman of the Committee throughout the term

⁹ Appointed Chairman of the Committee on 18 July 2014

¹⁰ Ceased to be Chairman of the Committee on 18 July 2014

¹¹ Appointed to the Committee on 18 July 2014

¹² Ceased to be Board or Committee Member on 1 June 2014

¹³ Ceased to be Committee Member on 18 July 2014

Balance of Responsibility

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 operates with a management structure that consists of functional departments and divisions. This structure underpins a focus on corporate performance and fosters close departmental co-operation 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 HKSAR, on the recommendation of the RC and the Board.

The compensation of the Chief Executive Officer and the Executive Directors is 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 are involved in deciding their 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 92 to 95.

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. During the reporting period, the Company Secretary undertook over 15 hours of professional training.

Management Committees and Advisory Committees

Apart from the six Board Committees, at management level there are dedicated committees, advisory committees and co-ordination meetings composed primarily of Management staff to deal with management and operational issues. The set-up of such committees and meetings is reviewed from time to time to align with the changing business and operational needs of AAHK. The current key committees and management coordination meetings 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 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 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.

Airport Technology Advisory Council

The Airport Technology Advisory Council, chaired by the Chief Executive Officer with internal management from AAHK and external members from the industry, universities and research and development centres, aims to provide technological inputs to innovative ideas and business challenges faced by HKIA, advise on visionary and futuristic technology and innovation for HKIA and facilitate the participation and development of local technologies at HKIA.

Arts and Culture Advisory Committee

In March 2015, the Board approved the establishment of the Arts and Culture Advisory Committee, which provides steer to Management in the development of HKIA as a platform for promoting arts and culture and advises AAHK in the creation of partnerships with the local arts and culture sectors. Chaired by an AAHK Board Member, the Committee comprises the Chief Executive Officer, two other AAHK senior staff and not more than eight external members.

3RS Management Coordination Meetings

The Chief Executive Officer chairs 3RS management co-ordination meetings with relevant Executive Directors and Senior Management staff as members. The meetings serve as a regular platform for the Chief Executive Officer to receive progress updates; and for Management to obtain advice on matters relating to the 3RS project.

External Stakeholders

Transparency

AAHK considers transparency fundamental to good corporate governance and has taken an open approach to disclosing information. Updated information relating to its performance and operations, save for certain information relating to aviation security and matters of commercial sensitivity, is released on a regular basis and made available on 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 issued by the Stock Exchange of Hong Kong Limited, the individual attendance records of Board and committee meetings and the remuneration of its Board Members and 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 promotions 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, telephone hotlines 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, 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. AAHK also organised roving exhibitions to inform the public about the 3RS project and provides a dedicated Facebook page to communicate with the public.

Conferences and briefings are held regularly with the Management team and staff members on work to be done to achieve AAHK's goals. They also serve as a platform for Senior Management to provide update on new projects such as the 3RS and share their thinking on future corporate direction and focus.

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

Sustainability

AAHK's sustainability vision is to strengthen its ability to operate and grow profitably in a changing and challenging economic, ecological, technological and social environment while developing a robust culture of sustainability throughout the organisation.

Supervised by the Executive Committee (EC) of the Board, the Executive Director of Corporate Development (EDCD) has overall responsibility for AAHK's sustainability. Under the Corporate Development Division, the Sustainability Team within the Environment Department is responsible for developing and rolling out AAHK's sustainability strategy, management and reporting systems. The EDCC chairs the Sustainability Working Group, which was established with representatives from departments across AAHK to first strengthen the framework for sustainability reporting.

AAHK's Sustainability Report 2013/14 was published in November 2014. It was independently verified by the Hong Kong Quality Assurance Agency and checked by the report service operated by the Global Reporting Initiative (GRI) which concluded that it fulfilled the requirements of GRI Application Level A+. In 2014/15, the EC approved the preparation of AAHK's Sustainability Report 2014/15 in accordance with the new GRI G4 Guidelines to further enhance the credibility and relevance of its sustainability reporting and the robustness of its sustainability practices. Key improvement measures include conducting external stakeholder engagements to determine the priority of sustainability issues to be disclosed, carrying out a supply chain management study and strengthening the governance of sustainability at AAHK.

Internal Controls

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

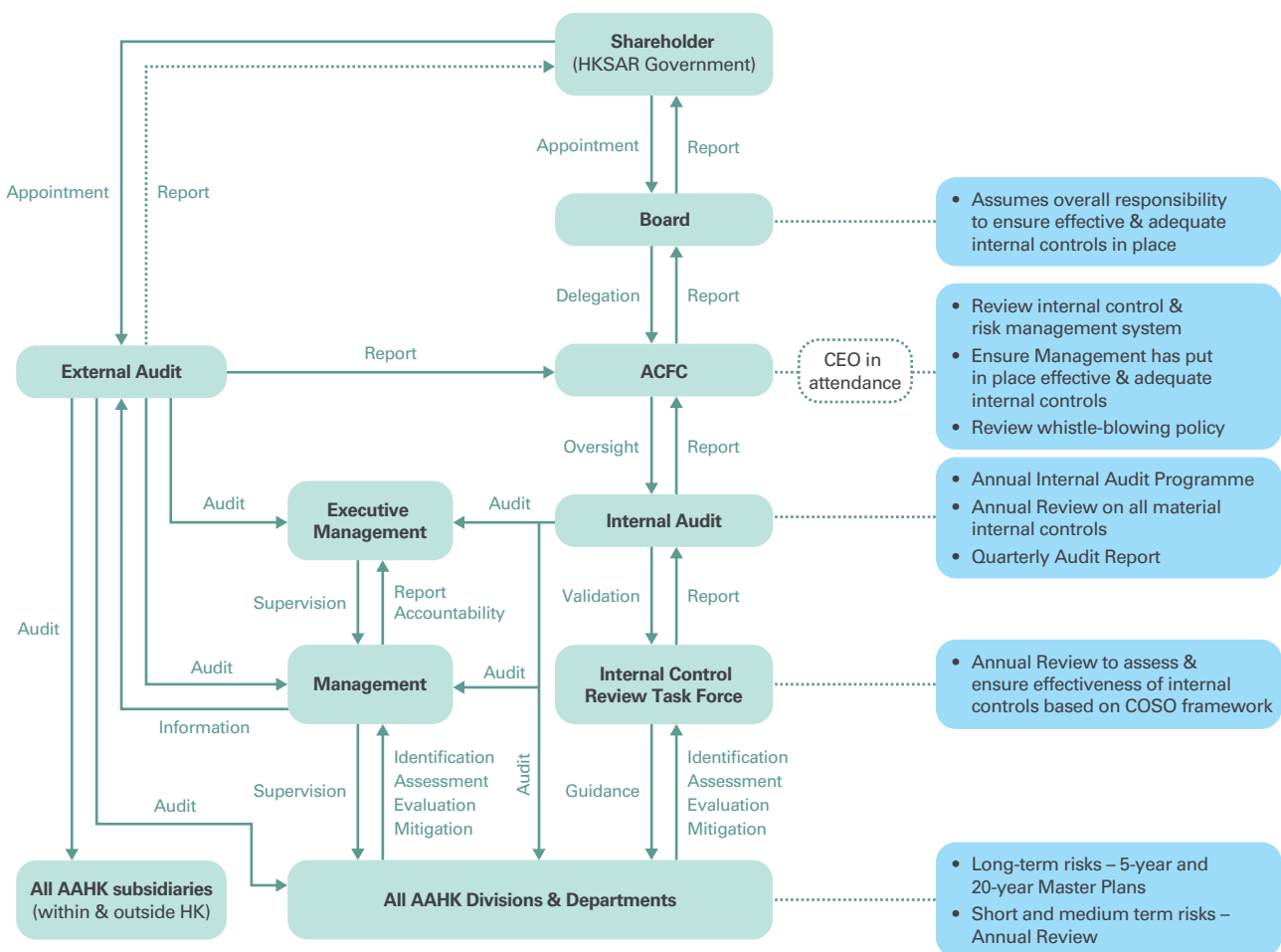
AAHK's internal controls are designed to give reasonable assurance that:

- Operations are safe 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 an effective internal control system
- Meets with external auditor at least twice a year. At least one meeting is without the presence of Executive Management
- Receives external auditor's reports and considers control issues raised
- Receives internal auditor's quarterly reports and considers control issues raised
- Reviews the whistle-blowing policy
- Oversees the Internal Audit function
- Reviews the adequacy of personnel 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 HKSAR, on the recommendation of the ACFC and the Board.

The external auditor for the year under review was KPMG. To ensure the independence and objectivity of the external auditor, AAHK has policies that restrict the non-audit services to be provided by the external auditor and require

the lead engagement partner responsible for AAHK to be rotated every seven years (the last rotation took place in 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:

<i>(in HK\$ million)</i>	2014/15	2013/14
Audit fee	5	5
Fees for non-audit services	1	2

The non-audit work conducted by KPMG during 2014/15 was mainly in relation to 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 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 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 operations encompass 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 annual business plan and rolling five-year business plan.

Details of the risk assessment framework and management initiatives are described in the Risk Management Report on pages 36 to 39.

Delegation of Authority

AAHK has a comprehensive system of delegation of authority under which the authority of the Board, Board Committees and different levels of 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 2014.

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 and matters reserved for the Board. The 3RS Committee, NCD Committee and Capital Works Committee are delegated the power to make commitments of up to HK\$500 million for works contracts/commercial tenders (only applicable to NCD Committee) and HK\$100 million for consultancy agreements. The Chief Executive Officer is delegated the power to approve capital expenditure, consultancy and non-recurrent revenue commitments up to HK\$50 million, general expenditure commitments up to HK\$100 million and recurrent revenue commitments up to HK\$200 million. To complement these delegations, a reporting mechanism has been instituted to keep the Board informed when certain delegated powers have been exercised. Regular reports are also 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 operations, 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. The last review was conducted in August 2014.

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, an annual budget and an annual business plan are prepared for approval by the Board.

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. Financial performance is reported to the Executive Committee in months when 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 HKSAR 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 interest.

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

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

Written procedures are in place to require staff to disclose their interests under specific circumstances, for instance, acting as a member of a tender assessment panel. Staff members with potential conflicts of interest 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 clear 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 pass an annual web-based course on the Code of Conduct to further enhance ethical culture within AAHK. The Code of Conduct is reviewed and updated regularly to ensure that it is consistent with the current best practices.

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 were held throughout the year. 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 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. A comprehensive review of AAHK's remuneration was completed in 2015.

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 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 HKIA for civil aviation.

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

Since setting up the system for access to information, 47 cases were followed up by 31 March 2015, out of which eight cases were not requesting for information. During 31 months from the earliest request for information, only four requests for information were refused (or partly refused) under the Code on Access to Information, out of which two replies from AAHK had suggested and named other relevant sources (outside AAHK) that can provide the information.

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 2015 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 Code and Corporate Governance Report

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 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 HKSAR 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 HKSAR. Terms of office of Board Members are governed by Section 11 of the Ordinance.
A.5.1 to A.5.6	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 the HKSAR.
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 HKSAR Government and are not publicly traded.
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 suitable training and induction programmes for newly appointed Board Members to enable them to familiarise themselves with AA's objectives, strategies, operations and internal controls. Board Members are invited to attend training sessions and briefings from time to time.
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.	

Deviation from Code Provisions		Reason for Deviation
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 47% of a total of 152 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 HKSAR.
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
B.1.8	Disclose details of any remuneration payable to members of senior management, on an individual and named basis, in the annual reports.	AAHK decided to adopt the approach of disclosing remuneration of non-director senior executives by band from the financial year 2014/15 onwards.
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 to comply 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 sole shareholder, the HKSAR Government, 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 (compiled in five-year intervals). Risks relating to AAHK’s short- and medium-term objectives are identified and addressed annually during the preparation of the new annual business plan and the rolling five-year business plan.

Risk Management Framework

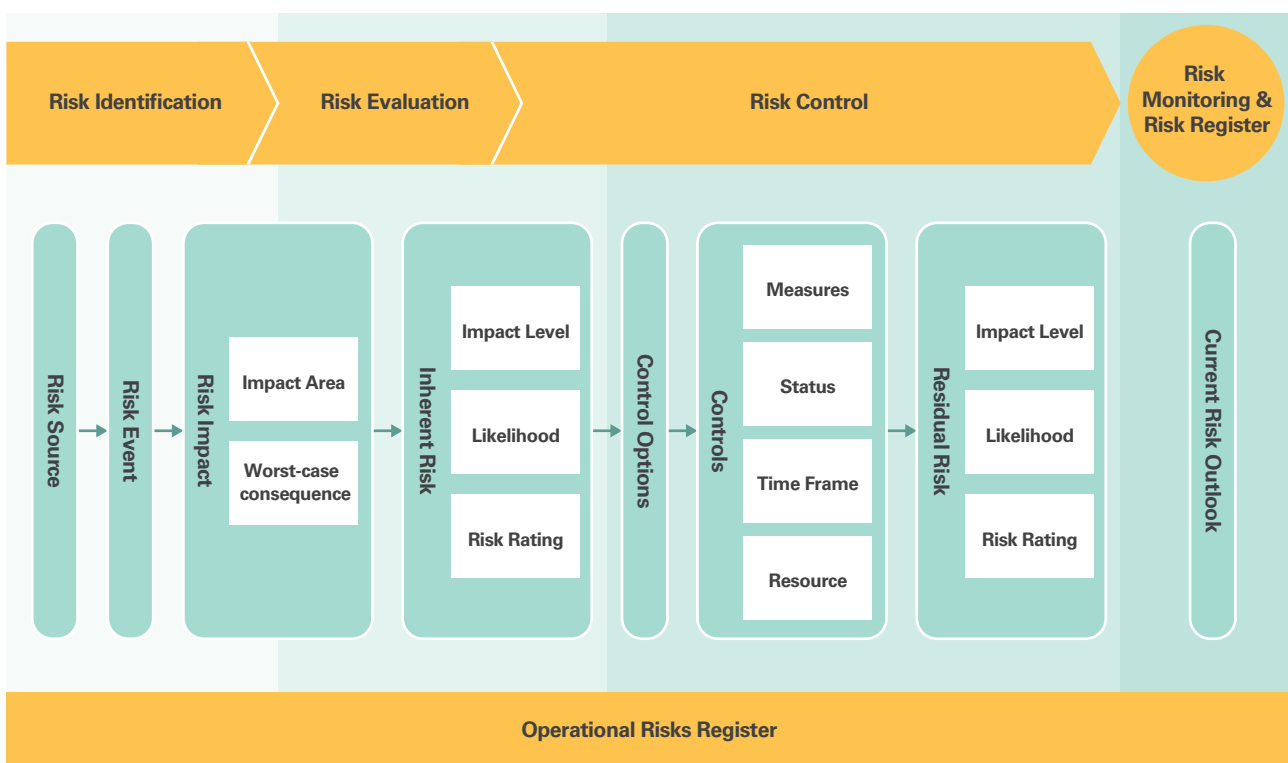
AAHK’s internal controls are designed to manage and mitigate risks, rather than eliminate risks. Risk assessment and management is a critical focus for all levels at AAHK: The Board, the Audit Committee & Finance Committee (ACFC), the executive management and the operating and supporting functions.

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 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 exercises.

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, 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 2014/15, 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 enhancements are to be made.

Risk Profiles and Controls

Key risks identified in the annual review for 2014/15 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 the efficient and safe operation of HKIA amid ever-increasing traffic demands.

HKIA handled 64.7 million passengers, 4.4 million tonnes of cargo and 396,000 aircraft movements in 2014/15. Based on the latest IATA Consulting forecast, demand is expected to reach 102 million passengers, 8.9 million tonnes of cargo and 607,000 flight movements per year by 2030. The Executive Council affirmed the need for the three-runway system (3RS), which will enable HKIA to meet the long-term air traffic demand by 2030 and beyond.

Operational risks identified included potential degradation of service delivery standards, unforeseen disruptions to flow management, maintenance challenges to ageing 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 contingency plans have 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.

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 by minimising the environmental footprint of its operations.

This year, the five-year environmental plan continues to act as the key tool for the implementation of AAHK's environmental initiatives. The concept of risk management has been further incorporated into the plan; any footprint reduction measure should be supported by a sound business case that is based on a combination of cost and/or risk reduction. The plan identifies three categories of risk — regulatory, reputational and operational — the reduction of any of which should serve to strengthen the development and operation of HKIA.

AAHK continues to operate in full compliance with environmental legislation and continues to ensure that future projects including the 3RS incorporate environmental considerations in the early planning stage. Further details of AAHK's environmental initiatives are set out in 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 were introduced in 2014/15: the enhanced ramp operations audit programme, the ramp safety surveillance programme, the live operation risk assessment register, the enhanced passenger safety programme and new safety handbooks.

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 that is regularly reviewed and updated.

Airport security remains vigilant in the face of the evolving threats against civil aviation and amidst increasing passenger traffic. Long range CCTV cameras are being installed to enhance security surveillance capability for the protection of the airport restricted area. The hold baggage screening system, which incorporates the latest computed tomography technology, has been extended to the remote transfer facility and the Midfield Concourse, which is to open later in 2015. Security measures through deployment of technology and/or reinforcement of manpower will always be enhanced where necessary to ensure that security risks are addressed and mitigated.

To address health risks, AAHK has a stepped response plan in place for major public health issues. The plan corresponds to the HKSAR Government's response plan for infectious disease control. Appropriate health alert measures and arrival temperature screening are implemented at HKIA to protect staff, travellers as well as the Hong Kong community. Major health exercises and training programmes are also in place to promote airport health control preparedness.

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 112 to 118.

Information Technology Risk

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

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

Legal and Regulatory Risk

Violation of law, non-compliance with regulatory requirements, and breach of contract, even though unintentional, will bring about legal consequences impacting 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 management avoid taking unnecessary and imprudent risks in the business, operation and development of HKIA.

AAHK takes a proactive and forward-looking approach to monitoring changes in government policy and legislation. Judgements, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to AAHK. Policies, procedures and appropriate action steps to address these changes are developed in a timely way to guide management to operate legally and within AAHK's acceptable risk level. Ongoing education is provided to 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 to meet growing demand has been earmarked as one of the key work focuses in the medium to long term. An insufficient supply of talent to support airport development will adversely affect the growth and hence the hub status of HKIA.

Personnel with airport experience and knowledge are particularly important in the light of the impending development projects at HKIA. A people development and succession planning framework has been drawn up, in addition to internal training programmes, to better prepare for HKIA's future personnel requirements.

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

2014

April

Airport Authority Hong Kong's "My Flight" mobile app and the Hong Kong International Airport (HKIA) Website win Gold and Silver Awards, respectively, in the Web Accessibility Recognition Scheme.

1 For the fourth consecutive year, volunteers from Airport Authority Hong Kong (AAHK) participate in the "Tree Planting Challenge" organised by Friends of the Earth (HK).

AAHK holds its third CEO Forum, where senior executives from the airport community learn about the latest developments in the three-runway system (3RS). Business members also gather for a joint seminar titled "Expanding HKIA into a Three-Runway System: Business Opportunities and Prospects".

May

2 AAHK's environmental efforts are recognised with a Silver Award in the Public Organisation and Utilities category at the Hong Kong Awards for Environmental Excellence.

AAHK joins with the Hong Kong Sheng Kung Hui Tung Chung Integrated Services to celebrate the Tuen Ng Festival by making vegetable dumplings with the elderly in Tung Chung.

June

3 A roving exhibition entitled "HKIA: History and Prospects" showcases the early days of aviation in Hong Kong and HKIA's development.

4 AAHK hosts briefings and public forums for key stakeholders and members of the public to explain the environmental impact assessment for the three-runway system.

July

Readers of *Travel + Leisure* magazine vote HKIA one of the top international airports in the 2014 World's Best Awards Poll.

HKIA completes a trial programme of a self-service baggage drop system that cuts processing time to an average of 69 seconds. HKIA is the first international airport in Asia to install such system.

August

For the fourth time, HKIA is recognised as the "World's Best Airport" in the Best Travel Poll conducted by online travel magazine *Smart Travel Asia*.

September

5 AAHK launches two books entitled "天空下的傳奇 — 從啟德到赤鱘角" that share untold stories behind HKIA's development.

AAHK receives a Safety Performance Award and a Silver Award for Safety Culture at the 13th Hong Kong Occupational Safety and Health Awards hosted by the Occupational Safety and Health Council.





2015

October

HKIA is named "Asia Pacific Airport of the Year" in the Industry Choice section at the *Payload Asia Awards*.

To promote energy conservation, AAHK and CLP Power jointly organise the "Saving Energy, Going Green" interactive exhibition in HKIA's Meeters and Greeters Hall.

November

The three-runway system receives an Environmental Permit.

A topping-out ceremony for the Midfield Concourse is held, marking an important milestone of the Midfield Development project.

For the eighth time in nine years, HKIA is named the Best Airport in China by *Business Traveller China* magazine.

December

HKIA celebrates Christmas with an array of decorations and events, including an exhibition that brings characters by renowned local artist Bigsoil to life in Terminal 1.

HKIA sets three new records in calendar 2014. The airport serves 63.4 million passengers, handles 4.38 million tonnes of cargo and records 390,955 flight movements.

For the fifth year, AAHK sponsors the "HKIA Feet of Fire 10km Run", which is co-organised by The Hong Kong Federation of Trade Unions Youth Affairs Committee and The Staffs and Workers Union of Hong Kong Civil Airlines.

January

More than 60,000 items are collected through the "HKIA Gift Donation 2015 Campaign". For the first time, AAHK collaborates with the Link Management Ltd to set up collection points at 10 of their shopping centres.

February

AAHK signs an agreement to sub-lease 0.6 hectares of land on the airport island for the construction of an aviation training centre for Hong Kong Airlines.

AAHK launches the "HKIA Blog" to allow airport staff in various positions to share their work experience and stories.

March

The Executive Council of the HKSAR Government affirms the need for the three-runway system.

In a public voting, HKIA is selected as one of the city's best buildings in the "My 10 Most Liked Hong Kong Architecture of the Century" campaign organised by the Hong Kong Architecture Centre.

Passenger Services

Building new capacity and continuously enhancing our services helps HKIA meet passenger needs today and tomorrow.





Passenger Services



Enhancing the Travel Experience

Passengers arriving and departing through HKIA must clear immigration, so we work closely with the Immigration Department to reduce processing time and minimise delays. During the year, 100% of departing Hong Kong residents and 99.8% of departing visitors queued for less than 15 minutes at immigration. For arriving residents and visitors, the figures were 100% and 99.6%, respectively. These numbers beat our target of processing 98% of residents and 95% of visitors for both arrivals and departures within 15 minutes.

Our focus on efficiency also extends to helping travellers to handle and recover lost and found items at HKIA with an average of 20,000 cases each year. In 2013, we upgraded our system to let front-line staff upload photos and a detailed description of found items into a central database as soon as they are discovered. The new system boosted our recovery rate to 36% in 2014/15, up from 26% a year earlier.

To help passengers have a pleasant and comfortable journey, we have experienced front-line staff and well-trained Youth Ambassadors stationed throughout the airport. This year, we added a new customer service counter in the Meeters and Greeters Hall.

When people think of an airport, it's usually from a passenger's perspective. That's why Hong Kong International Airport (HKIA) focuses on making the travel experience more efficient, pleasant and hassle-free.

PASSENGERS USING HKIA'S CROSS-BOUNDARY LAND AND SEA TRANSPORT

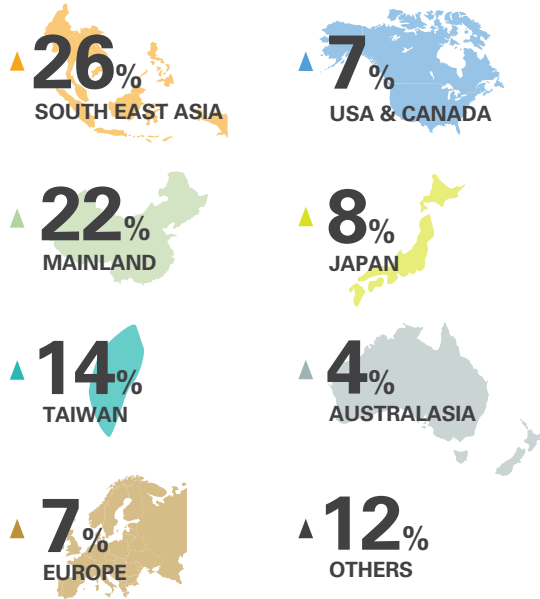
(millions of passengers)



▲ Colourful lion dancers greet travellers over the Lunar New Year holidays.

PASSENGERS BY MARKET

(year ended 31 March 2015)



In 2014/15, we arranged a wide range of special events to cheer up our passengers, including “Easter Bunnies Around the World” and Michael Jackson-themed dance shows by students from the Hong Kong Academy for Performing Arts (HKAPA) and its continuing education arm, EXCEL. Over the Lunar New Year holidays, travellers were treated to traditional lion dances and photo opportunities with the Chinese God of Fortune. In December 2014, children from neighbouring Tung Chung donned Santa suits and distributed Christmas gifts, local students sang a cappella carols accompanied by HKIA’s first-ever light show, and passengers were spellbound by renowned magicians from Las Vegas, Taiwan and Hong Kong.

In January 2015, we began recruiting 1,000 passengers and members of the airport community into a new focus group. Known as the “Airport Friends”, the group will help us learn more about passengers’ service requirements and benchmark our facilities and services against other airports.

For the eighth time in nine years, our high levels of service were recognised with the Best Airport in China Award from *Business Traveller China*. A member of HKIA’s staff was again honoured with the Ombudsman’s Award for Officers of Public Organisations, while our Customer Service Excellence Programme commended more than 300 airport staff for their efforts.



▲ Children from nearby Tung Chung spread Christmas cheer.



▲ HKIA’s festive events entertain travellers of all ages.

SERVICE PERFORMANCE IN 2014/15

(percent)



HKIA's focus on passengers was also recognised by the Hong Kong Association for Customer Service Excellence. The "Smiles at the Airport" programme won a Gold Award in the Service Appreciation Category, while our customer service counters took the Gold Prize in the Team Segment of the Counter Service Competition.

Adding Convenience

Today, most people travel with a mobile phone and a computer. We began installing public charging facilities in 2009 and now have 256 charging points in Terminal 1 (T1) and the North Satellite Concourse. In April 2015, this service was extended into Terminal 2 (T2) and SkyPier, with the installation of 400 additional charging points. By mid-2015, a further 510 charging points were installed in 16 i-Tables (desks with publicly accessible, internet-enabled computers) in the departure area of T1.



To meet passenger demand, four hot water dispensers were installed in T1's departure area in February 2015. By the second quarter of 2015, 15 more dispensers were set up in T1, T2, the North Satellite Concourse and SkyPier.

New Technology

We continue to leverage technology to make travelling at HKIA as easy as possible. In 2014/15, we continued to enhance the coverage and quality of the free WiFi service that is available in all passenger areas of the airport and began planning an upgrade of the WiFi on the apron. HKIA also joined the HKSAR Government's GovWiFi initiative, making the airport one of the free GovWiFi zones.

In January 2015, we established a channel on WeChat, a free messaging and calling app with several hundred million subscribers, to allow travellers to check their flight status and the schedules of cross-boundary coach and ferry services.

For the second consecutive year, HKIA's free mobile app, "My Flight", won a Gold Award in the 2015 Web Accessibility Recognition Scheme organised by the Government Chief Information Officer and the Equal Opportunities Commission. It was also one of the three most popular mobile apps in the public voting section.

In addition to reviewing the airport's flight information display system (FIDS), we began a one-year trial of "Personalised FIDS". We installed three kiosks in the landside and airside areas of T1, where passengers can check their flight status by scanning a boarding pass or keying a flight number. About 10,000 passengers use the system each month and their response has been positive.

In November 2014, we co-operated with Air France and KLM to launch the "Home Print Bag Tag Service" at HKIA. After printing luggage tags at home, passengers can simply drop their bags at the airline counter and go directly to security screening when they arrive at HKIA.

We also conducted a trial of a system that used WiFi tags and video analytics to track luggage trolleys in the passenger terminals. The system helped us ensure that each staging station had the optimum number of trolleys to meet passenger demand.



▲ Our focus on efficiency ensures the airport operates smoothly, even during peak travel periods.

In April 2014, we won the “Fast Travel Green Award” from the International Air Transport Association for providing passengers with self-service opportunities, such as self check-in kiosks, dedicated baggage drop-off counters and mobile boarding pass services, that make travelling more convenient and hassle-free.

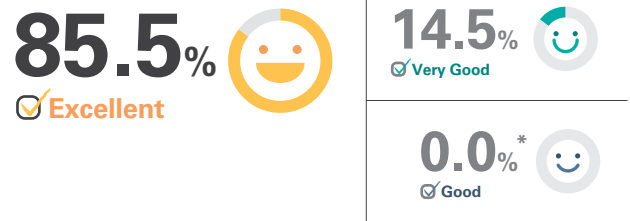
Retail and Restaurants

HKIA’s reputation for excellent dining and shopping was enhanced in 2014/15 with the opening of 33 new luxury boutiques. We welcomed 10 new brands, one of which was the company’s first airport shop. Two other brands selected HKIA as the site for their first airport stores in the Asia-Pacific region.

During the year, we worked with our business partners to arrange retail promotions, including special-offer coupons, free gift wrapping and lucky draws. Local shoppers enjoyed our free home-delivery service, while international passengers took home a taste of Hong Kong by creating personalised shopping bags with Chinese calligraphy and paintings.

The operators of five restaurants at HKIA have been honoured in the *Michelin Guide Hong Kong & Macau*. This year, for the seventh time, HKIA was recognised as offering the World’s Best Airport Dining in the annual Skytrax survey.

AIRPORT SERVICE QUALITY (ASQ) SURVEY OVERALL SATISFACTION SCORE



* There was 1 case of Overall Satisfaction scoring 3 (Good) in 2014.

Source: ASQ Official Report 2014



▲ Tasty food and beverage options make travelling more enjoyable.



▲ HKIA set new records for passenger traffic, cargo throughput and flight movements in 2014/15.

Safety and Security

We are committed to operating a safe airport. In 2014/15, we staged 30 drills and exercises, including our annual crash simulation, which involved 750 people and over 20 government departments. In March, we organised “Summer Blow 2015,” a 650-person test of our weather preparedness.

A total of 90 training programmes and workshops on topics ranging from business continuity planning to clinical features of the Ebola virus disease were held for our staff and business partners. We also conducted regular audits to ensure safety standards were maintained throughout the airport. This year, we launched a programme to monitor the safety discipline of ramp operators.

In 2014/15, the Airport Composite Safety Index, which measures the injury rate among passengers and staff, was 4.85 injuries per million passengers, down from 5.32 the previous year.

HKIA received a Safety Performance Award and a Silver Award for Safety Culture from the Occupational Safety and Health Council. The high safety standards at HKIA’s construction projects were recognised with a Gold Award for Recognised Leadership in Safety from the Lighthouse Club and the Construction Industry Council.



▲ Training drills and exercises ensure the airport community is prepared for a range of incidents.



▲ A new programme is launched to monitor the safety discipline of ramp operators.

Cross-Boundary Connections

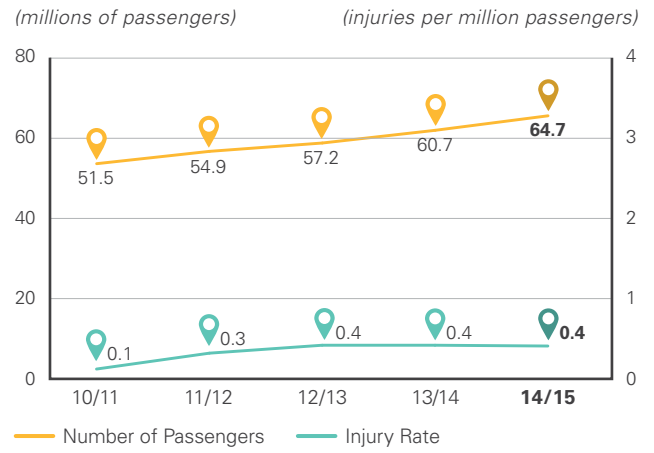
In 2014/15, HKIA continued to expand its role as a multi-modal transport hub serving Hong Kong and the PRD. Traffic at SkyPier reached 2.8 million passengers, an increase of 5.3 % from 2013/14. During the year, we upgraded one of SkyPier's baggage cranes, reducing turnaround time for ferries by 10 minutes, and increased efficiency during peak periods by introducing four mobile check-in counters.

Over two million people travelled by coach, limousine and shuttle service between HKIA and the Mainland throughout the year. Eleven operators provide these services, which link HKIA with 110 cities and towns, including destinations in Shenzhen, Guangzhou and Dongguan. During the year, our catchment area grew to encompass Chaozhou, Guangxi, Heyuan and Xiamen.

By working closely with the upstream ferry ports and promoting our services, we saw the number of people using the upstream check-in services rise 16% to 800,000. This service lets passengers check their bags and obtain a boarding pass at six PRD ferry ports before taking a ferry to HKIA. A similar service using coach and limousine transfers is available from three land sites in Shenzhen. Thai Airways and Emirates joined the upstream check-in service during the year, bringing the number of participating airlines to 17.

We will continue to work closely with the HKSAR Government to take into account the Hong Kong–Zhuhai–Macao Bridge project and related local projects in Hong Kong in planning of the airport's infrastructure and road network as appropriate.

PASSENGER TRAFFIC AND INJURY RATE



Cargo and Aviation Services

As the world's busiest air cargo hub, HKIA is critical to Hong Kong's four pillar industries and a lifeblood of its vibrant business activities.



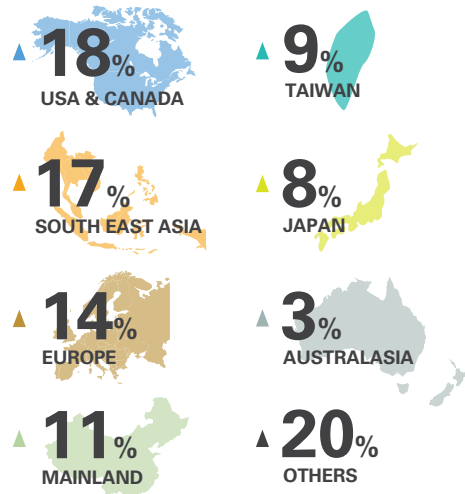


Cargo and Aviation Services



CARGO THROUGHPUT BY MARKET

(year ended 31 March 2015)



Cargo plays an important and growing role in the operations of Hong Kong International Airport (HKIA). From time-sensitive documents and fresh foods to fashions and electronics, Hong Kong's businesses and people rely on HKIA for efficient, reliable cargo services.

A Record Year

In 2014/15, air cargo throughput at HKIA rose 5.5%, to a record 4.4 million tonnes. In 2014, for the fifth consecutive year, HKIA was the world's busiest cargo airport.

This year, we received a Best Green Airport award from trade magazine *Cargonews Asia* and were named Asia-Pacific Airport of the Year by *Payload Asia*. At the Air Cargo Excellence Awards 2015 organised by *Air Cargo World*, we won the Asian Diamond Prize among airports handling one million or more tonnes of cargo annually.

Aircraft Catering

In January 2015, Cathay Pacific Catering Services (H.K.) Ltd broke ground on a new production facility at HKIA that will increase the company's capacity from 100,000 to 140,000 meals per day. With a floor area of 22,230 square metres, the facility is scheduled to be fully operational in the third quarter of 2016.



▲ Hong Kong's businesses and people count on HKIA's reliable and efficient cargo services.

Aviation Fuel

Airport Authority Hong Kong (AAHK) awarded contracts for into-plane refuelling services to Worldwide Flight Services Fueling (HK) Ltd and AFSC Refuelling Ltd in July 2014 and January 2015, respectively. With the contract that was awarded to CNAF Hong Kong Refuelling Ltd in 2013/14, into-plane fuelling capacity at HKIA would be increased by 40%. The added capacity will meet projected demand until the commissioning of the three-runway system.

Flight Training Centre

In February 2015, AAHK signed an agreement for sub-lease to develop a plot of land of about 0.6 hectares on the airport island to Hong Kong Airlines Aviation Training Centre Ltd for the construction of a flight training centre.

With a floor area of about 22,900 square metres, the flight training centre will have an administration block, a simulator block with 12 simulator halls, a safety training hall that can house a full-size mock aircraft cabin, as well as classrooms and training rooms. The new centre will be the third training facility at HKIA.

New Airlines and Destinations

As of 31 March 2015, over 100 airlines served around 180 destinations from HKIA. During the year, four new carriers — American Airlines, Siam Air, Vanilla Air and Jetstar Japan — began serving Hong Kong.



▲ From fresh food to the latest trends of fashion and electronic gadgets, HKIA handles a wide range of cargo.

10 BUSIEST AIRPORTS IN 2014 – 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 March 2015

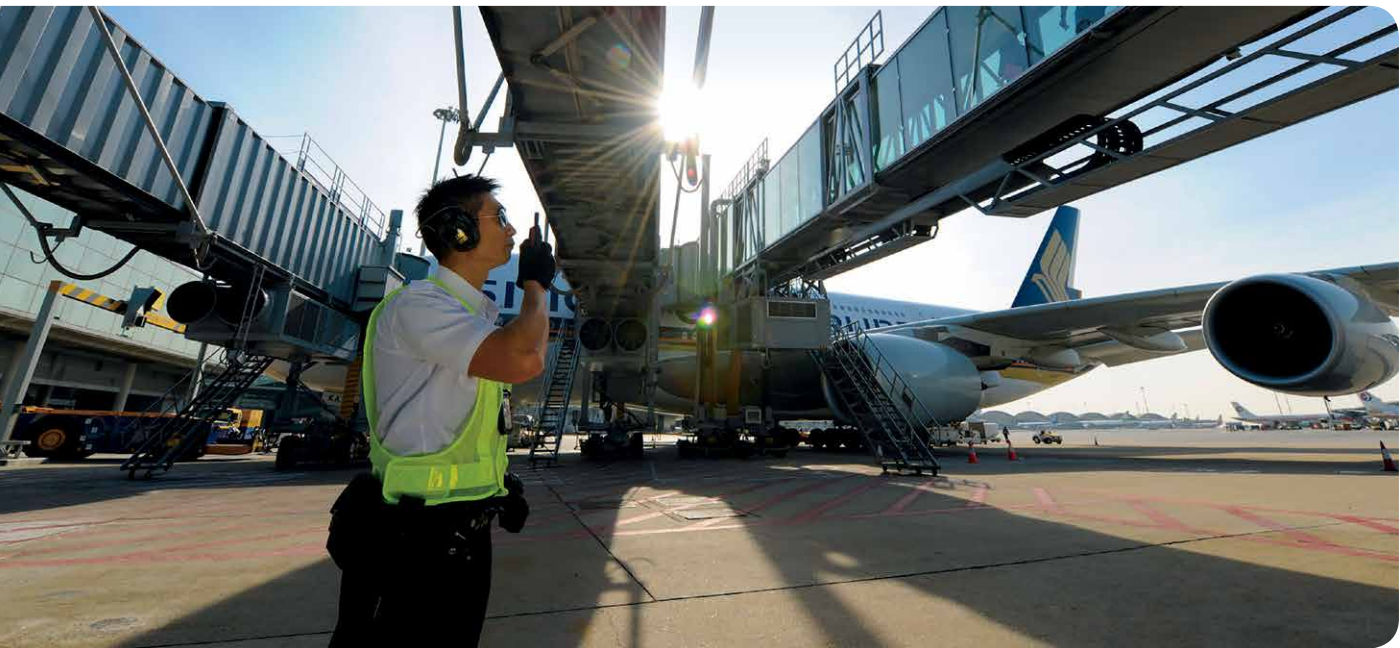
Airfield and Systems

A blend of state-of-the-art infrastructure and expertise underpins HKIA's reputation for safety, efficiency and reliability.





Airfield and Systems



The airfield is the heart of passenger and cargo operations at Hong Kong International Airport (HKIA). Ensuring that the airfield operates safely and efficiently, and has capacity to meet future demand, is central to our success.



▲ 28 new aircraft parking stands entered service to increase the airport's capacity.

Adding Capacity

During the year, HKIA reached milestones in two projects that will deliver added capacity before the commissioning of the three-runway system.

The first accomplishment, reached at the end of 2014, was completing the HK\$2.5 billion expansion of the west apron. In addition to a cross-runway tunnel and related facilities, this project adds 28 new aircraft parking stands, including seven maintenance stands and nine cargo stands. These stands increase our parking capacity on the maintenance and cargo aprons by 50% and 26%, respectively, and improve our ability to handle contingency situations such as typhoons.

In November 2014, we held a topping-out ceremony for the Midfield Concourse which is a core part of the HK\$10 billion Midfield Development. With 20 aircraft parking stands and an Automated People Mover link to Terminal 1, the 105,000-square-metre concourse is scheduled to complete at the end of 2015.

Asset Tracking

Every day, more than 1,300 bus trips transport passengers to and from the North Satellite Concourse and remote parking stands. This year, we developed and introduced software that uses the satellite-based Global Positioning System (GPS) and mobile apps to track our

airside buses in real time. The software lets our staff in the Integrated Airport Centre deploy buses more effectively, reducing traffic congestion and passenger waiting time. In the fourth quarter of 2015, we will begin installing GPS tracking devices on 3,500 more motorised vehicles.

Operator Certification

In December 2014, we launched a new customised training and certification programme for workers operating the main deck loaders (MDL) that are used to transfer cargo to and from aircraft. To obtain certification, operators must have a class 1 and 2 Hong Kong driving licence for three years; have held the airside driving endorsement for one year without incident; have completed 25 hours of MDL training at HKIA; and have passed the MDL driving test, which is conducted by an independent examiner. The programme helps to ensure the safety and professional standards of the operators. Since its inception, more than 20 candidates have been certified and the programme will gradually be expanded to include other ground service equipment (GSE).

Vehicle Upgrades

As of 31 March 2015, Airport Authority Hong Kong owned 179 vehicles, including 48 electric saloons, 10 single-cab and 20 dual-cab apron buses that meet the Euro V emission standard. Four Euro V airside staff shuttle buses were delivered in early 2015.

During the year, we completed the installation of 158 electric vehicle chargers, including six quick chargers and 56 electric GSE chargers on the apron.

Chiller Optimisation

Throughout 2014/15, we continued a long-term programme to increase the energy efficiency of the chillers in the airport's air-conditioning system. By installing additional sensors that allow us to fine-tune temperature settings and retire old motors early, a 9% efficiency gain was achieved. Further upgrades to the chillers and air handling system are planned for 2016/17 and 2017/18, respectively.

Air Bridges

To ensure maximum reliability, we are upgrading 96 air bridges in the passenger terminals. During the year, six air bridges were replaced with glass-walled models that give travellers views of the apron as they embark

and disembark. Twenty-three air bridges were refurbished, with upgrades to their lighting, walls and floors. By the end of 2016, the remaining air bridges will have been replaced or refurbished.

Ban on the use of Auxiliary Power Units

In 2014, we completed an upgrade of the fixed ground power and pre-conditioned air systems. The upgrade reduced the need for airlines to use auxiliary power units (APUs), which are emission-intensive generators that supply electricity for on-board systems including air-conditioning while aircraft are at the gate.

During the summer of 2014, we conducted a trial ban on the use of APUs. Results of the trial were positive and in December 2014, we made the ban permanent.



Mainland Projects

Through investment and joint ventures, we contribute to the Mainland's airport development and hone the know-how and capabilities of our staff.

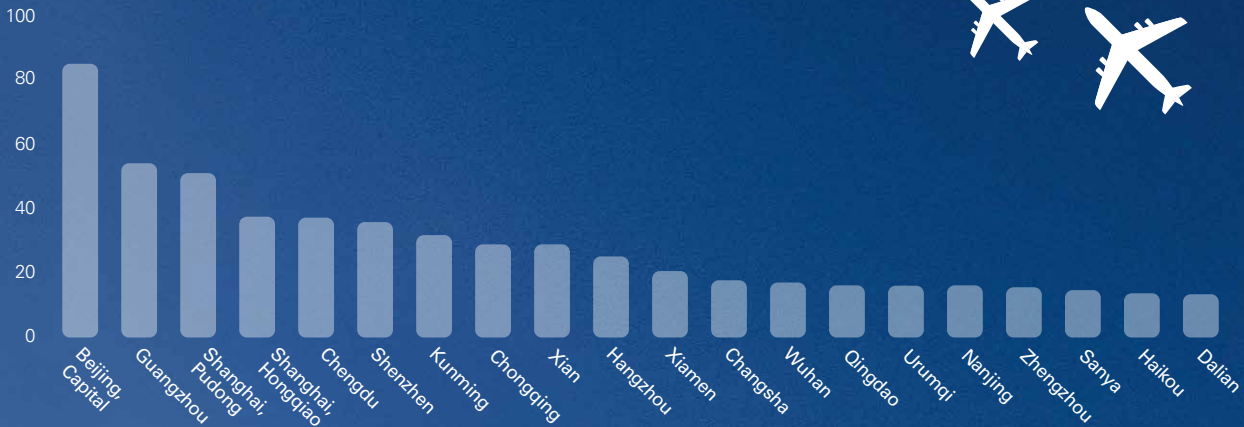




Mainland Projects

TOP 20 AIRPORTS ON THE MAINLAND IN 2014 – PASSENGER THROUGHPUT

(millions of passengers)



Source: Civil Aviation Administration of China (CAAC)

+41.2%
Passenger
throughput
Zhuhai Airport

+15.4%
Passenger
throughput
Hangzhou Airport

+6.7%
Passenger
throughput
Hongqiao Airport

Airport Authority Hong Kong's investment in Hangzhou and joint ventures in Shanghai and Zhuhai continued to perform well this year.

Hangzhou Xiaoshan International Airport

Airport Authority Hong Kong (AAHK) acquired a 35% interest in Hangzhou Xiaoshan International Airport (HXIA) in 2006. In 2014, passenger throughput at HXIA grew 15.4% from the previous year, to 25.5 million, flight movements increased 11.9%, to 213,300, and cargo volume rose 8.3%, to 398,600 tonnes. These growth rates put HXIA in the top three among China's 10 busiest airports.

In this year's Airport Service Quality (ASQ) survey conducted by Airports Council International, HXIA ranked third among airports serving 15-25 million passengers annually.

In 2014, Hangzhou airport's network grew to 121 cities, a 12% increase from the end of 2013. Eight new international routes, including service to Moscow and Paris, were added during the year, bringing international throughput to more than three million passengers.

Shanghai Hongqiao International Airport

Since 2009, a joint venture between AAHK and Shanghai Airport Authority has managed the terminal operations and retail businesses at Shanghai Hongqiao International Airport.

In 2014, passenger throughput and flight movements at Hongqiao airport set new records, increasing 6.7% from 2013 to 38 million passengers, and 3.9%, to 253,325 movements.

During the year, Hongqiao airport was named the Best Domestic Airport in China in the annual Skytrax survey and scored 4.8 in the ASQ survey. The ASQ rating was the best ever for Hongqiao airport, which placed 14th worldwide.

In October 2014, our management agreement entered a new phase in which the joint venture gains additional responsibilities and a greater degree of autonomy. In December 2014, a three-year renovation project in Terminal 1 began.

Zhuhai Airport

Since 2006, Zhuhai Airport has been managed by a joint venture in which AAHK has a 55% interest.

Zhuhai airport recorded an excellent performance in 2014. Passenger throughput rose 41.2% and flight movements increased 39%, to a record 4.08 million passengers and 36,135 movements. Domestic cargo volume grew 18.6%, to 22,128 tonnes, while the number of domestic destinations served by scheduled flights increased to 44, from 39 in 2013.

In light of strong traffic growth, Zhuhai airport is studying ways of renewing and expanding its facilities. This includes reactivating the eastern wing of the passenger terminal and building a new cargo terminal. The airport is also exploring ways to enhance co-operation and facilitate passenger flows with Hong Kong International Airport in preparation for the commissioning of the Hong Kong–Zhuhai–Macao Bridge.

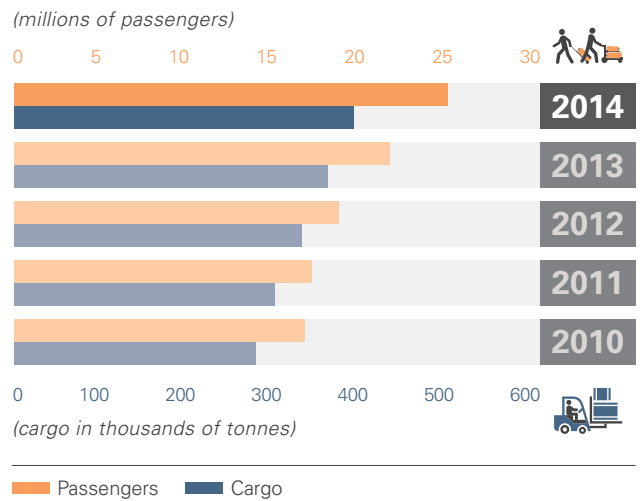


▲ A record of four million passengers used Zhuhai Airport in calendar 2014.



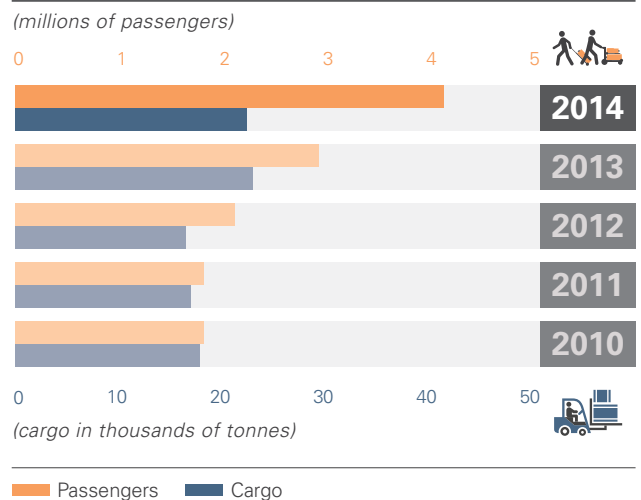
▲ Terminal 1 at Shanghai Hongqiao International Airport is undergoing a three-year renovation programme.

THROUGHPUT AT HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT



Source: Civil Aviation Administration of China (CAAC)

THROUGHPUT AT ZHUHAI AIRPORT



Source: Civil Aviation Administration of China (CAAC)

Corporate Sustainability

HKIA is committed to leadership in corporate sustainability and operating an environmentally friendly airport.





Corporate Sustainability



Hong Kong International Airport (HKIA) is committed to long-term sustainable growth and to environmental leadership, both in Hong Kong and in the aviation industry.

Sustainability Reporting

In November 2014, Airport Authority Hong Kong (AAHK) published its second annual sustainability report. *Sustaining Our Capacity — Addressing Emerging Constraints* details AAHK's approach and performance in four key areas: economic contribution, operational and service excellence, environment, and people and the community.

Environmental Initiatives

HKIA organises and participates in numerous initiatives to reduce the airport's environmental impact. One of 2014/15's highlights was the completion of a six-year programme to replace more than 100,000 incandescent, halogen and fluorescent lamps at HKIA with light-emitting diodes (LEDs) in the largest such replacement project ever undertaken in Hong Kong. The programme, which will reduce annual energy consumption by 15 million kilowatt hours, is a benchmark project for the "LED Lighting Product Certification Scheme" organised by the Hong Kong Electronic Industries Association and for the HKSAR Government's Energy Liaison Group.

In 2003, AAHK began collecting food waste from the terminal buildings and its business partners. Most of the food waste is converted into fish food at an off-site plant, with the remainder used as soil conditioner for airport landscaping. In 2014/15, we invited the operators of Citygate Outlets, a local shopping mall, and Yat Tung Estate, a public housing estate in nearby Tung Chung, to join the scheme on a trial basis. The successful pilot scheme was one of the first projects to demonstrate how different parties can work together to reduce the amount of waste being sent to Hong Kong's landfills, which are rapidly approaching capacity.



▲ The new Midfield Concourse incorporates more than 35 green features.



▲ A six-year programme to replace more than 100,000 incandescent, halogen and fluorescent lamps with LEDs is now complete.

During the year, we transformed our environmental plan from a three- to a five-year cycle. The change better integrates our environmental activities into AAHK's five-year business plans.

In May 2014, for the fourth year, HKIA was recognised at the Hong Kong Awards for Environmental Excellence with a Silver Award in the Public Organisations and Utilities category. We also received "Energywi\$e," "IAQwi\$e" and "Wastewi\$e" labels for our efforts to save energy, improve indoor air quality, and reduce waste and encourage recycling.

Staff Welfare

In 2014/15, we introduced several measures to improve the working environment of our front-line staff. For example, nine drinking fountains and 49 benches were installed on the apron. We also began installing staff pantries in the airside of Terminal 1 in March 2015. The pantries are scheduled to open in June 2015.

Public transport to HKIA can be disrupted in inclement weather, making it difficult for employees to leave. In June

2014, we created a temporary rest area in HKIA Tower. With a capacity of 60 people, the facility provides bedding, showers, washrooms, WiFi, a pantry, and televisions.

Community Outreach

Each year, the Airport Authority Staff Club organises a variety of events and activities. In August 2014, for instance, club members acted as make-up artists and photographers and used HKIA as a backdrop for portrait sessions for underprivileged families from Tung Chung. The club also brought smiles to the wider community by hosting a spring dinner for over 400 elderly residents of Tung Chung in March 2015.

From 10 to 25 January 2015, we held a territory-wide gift donation campaign that collected more than 60,000 items that the Salvation Army Hong Kong and Macao Command distributed to underprivileged families as Chinese New Year presents. For the first time, this year's campaign was held in conjunction with the Link Management Ltd, which set up 10 collection points in its shopping centres.



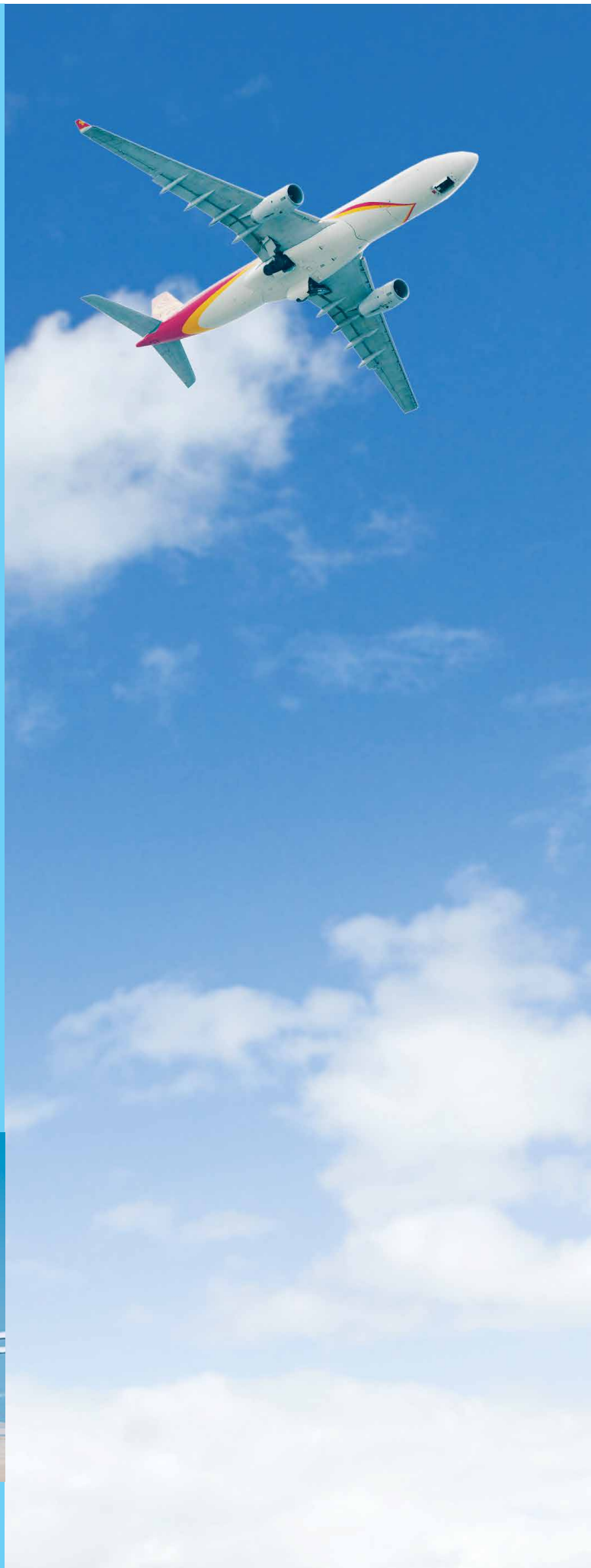
▲ The Airport Authority Staff Club arranges a variety of activities, including airport tours for the families of staff members.



▲ Our staff and their families support HKIA's green activities, including the annual International Coastal Cleanup.

Looking Forward

Through comprehensive development plans, we look forward to a continued growth and success of Hong Kong.





Looking Forward



In the coming year, Airport Authority Hong Kong (AAHK) will focus on the preparatory work for the construction of the three-runway system (3RS), which will spur economic development, create hundreds of thousands of jobs and strengthen Hong Kong's status as an international aviation hub.

In addition to a new 3,800-metre runway to be located on 650 hectares of newly reclaimed land north of the existing two-runway system at Hong Kong International Airport (HKIA), the 3RS project comprises related taxiways, an apron and a new passenger concourse with 57 parking positions. Terminal 2 (T2) will be expanded, a 2.6 kilometre-long extension to the Automated People Mover system will link T2 with the new concourse and a new high-speed Baggage Handling System will be constructed.

The 3RS project is estimated to cost HK\$141.5 billion in money-of-the-day prices. AAHK plans to finance the project from internal funds, external borrowings and charging users based on the "joint contribution" principle.

After the 3RS is commissioned, HKIA will be able to handle annual traffic that is forecast to reach 102 million passengers, 8.9 million tonnes of cargo and 607,000 flight movements by 2030. With the 3RS, HKIA is expected to contribute around 5% to Hong Kong's overall gross domestic product by 2030, bring additional economic benefits¹ of HK\$455 billion and create over 280,000 direct, indirect and induced jobs.

Planning and Approvals

In 2014/15, the 3RS attained several milestones. In June 2014, the Director of Environmental Protection confirmed that the environmental impact assessment (EIA) which AAHK submitted in mid-April fully met the requirements of the study brief and the technical memorandum. The EIA includes more than 250 measures to address and mitigate potential impacts across 12 environmental aspects and was available for public inspection at 10 locations in Hong Kong and on the



▲ Airport tours are one of the many ways we communicate with our stakeholders.

¹ Additional economic benefits refers to the Economic Net Present Value of three-runway system as compared with the two-runway system.



Environmental Protection Department’s website. In November 2014, the Director of Environmental Protection approved the EIA report and granted an Environmental Permit for the project.

With the completion of the statutory EIA process and the other planning work, namely, the design details and financial arrangement for 3RS project, AAHK submitted its recommendations to the HKSAR Government in January 2015. In March 2015, the 3RS began a new chapter when the Executive Council (ExCo) affirmed the need for the

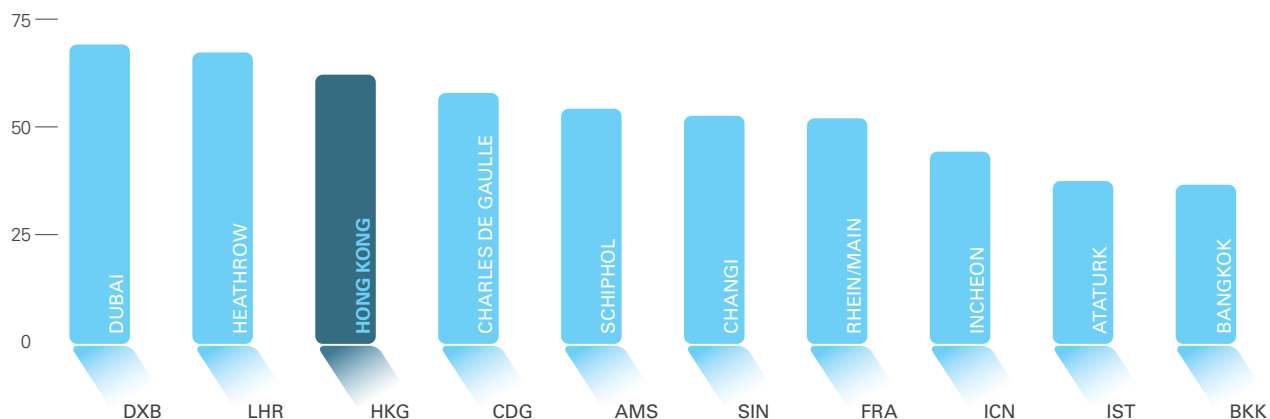
project in order to maintain the city’s competitiveness as a global and regional aviation hub, and to cater to our long-term economic and development needs.

Several statutory requirements must be completed before land reclamation work can begin. In the short term, we will continue our preparatory work as planned, with the goal of commencing a eight-year construction in 2016. We will also explore ways to facilitate the early implementation of the 3RS.

10 BUSIEST AIRPORTS IN 2014 – 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 March 2015



▲ Preliminary designs for the North Commercial District.

Stakeholder Engagement

During the year, we continued to reach out to the community to secure their understanding and support for the 3RS. Between April 2014 and March 2015 AAHK held more than 300 events to gauge stakeholders' views and concerns.

In June 2014, more than 700 members of the public attended two forums where we presented key findings of the EIA. Over the summer, we arranged separate briefings for local green groups, the Chairmen and Vice-Chairmen of 18 District Councils and representatives from the fisheries industry and the five communities that are in proximity to the airport.

We participated in joint meetings of the Legislative Council (LegCo)'s Panel on Economic Development (ED Panel) and Panel on Environmental Affairs in September and October 2014. In January 2015, we attended a meeting of the Panel on Environmental Affairs to hear deputations' views on the 3RS. We also briefed the LegCo ED Panel on ExCo's decision on the 3RS on 23 March 2015.

Our executives took part in seminars at the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong Polytechnic University, and held technical seminars for professional bodies including the Hong Kong Institution of Engineers, the Chartered Institute of Logistics and Transport in Hong Kong and the Hong Kong Institute of Environmental Impact Assessment.

Media workshops throughout the year kept stakeholders and the public up to date on the 3RS. We will continue to publicise the latest developments through the dedicated 3RS website, www.threerunwaysystem.com, a newsletter and a Facebook page.

North Commercial District

The Hong Kong–Zhuhai–Macao Bridge project and related local projects in Hong Kong will make the airport island more accessible to people throughout the Pearl River Delta and create many new business opportunities. AAHK will capture these opportunities by collaborating with other attractions on Lantau to create a destination in the North Commercial District (NCD).

In 2014/15, we finalised a master plan for the NCD. Themed as an integrated shopping resort, the NCD's first phase retail development will have a gross floor area of around 200,000 square metres. There will be a hotel with more than 1,000 rooms. The NCD will also include an underground depot for the Automated People Mover, which is being extended to the Midfield Concourse and the new passenger concourse in the 3RS.

In December 2014, we held a workshop with three renowned architectural firms to explore ways of developing the NCD. The firms prepared preliminary designs that will be used to inspire investors and developers. Our intention is to stimulate market interest in this project, which supports the HKSAR Government's plan to encourage development on Lantau. A tender for the first phase of the retail development of the NCD will be issued in 2015/16.

Financial Review

Financial Summary

(in HK\$ million)	2014/15	2013/14	±% ¹
Turnover	16,367	14,810	+10.5%
Operating expenses before depreciation and amortisation	5,053	4,872	+3.7%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	11,314	9,938	+13.8%
Depreciation and amortisation	2,420	2,248	+7.7%
Net interest and finance (income)/costs	(33)	13	-353.8%
Share of results of joint ventures	137	77	+77.9%
Profit before taxation	9,064	7,754	+16.9%
Income tax	1,794	1,306	+37.4%
Profit for the year	7,270	6,448	+12.7%
Profit attributable to the equity shareholder	7,254	6,454	+12.4%
Dividend declared	–	5,300	-100%
Key financial ratios			
Return on equity	16.7%	15.6%	
Total debt/capital ratio	7%	10%	
Key traffic summary²			
Passenger traffic ³ (millions of passengers)	64.7	60.7	+6.6%
Cargo throughput ⁴ (millions of tonnes)	4.4	4.2	+5.5%
Aircraft movements (thousands)	396	377	+4.9%

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.

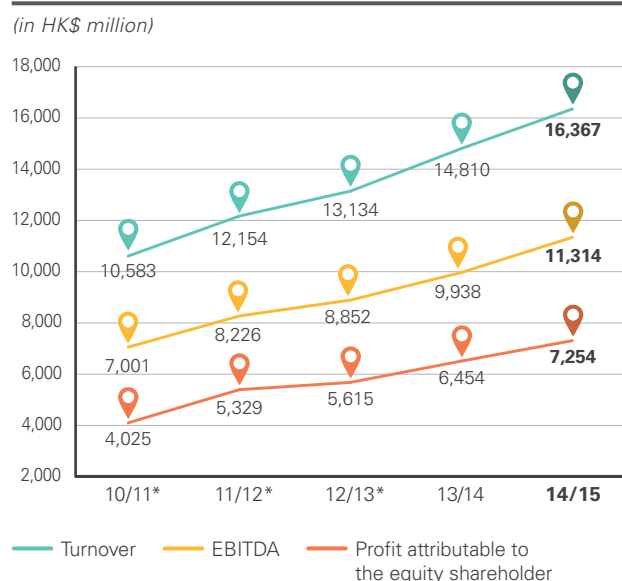
Overview

Airport Authority Hong Kong (AAHK) enjoyed a record-breaking year in fiscal 2014/15, ended 31 March 2015.

During the year, Hong Kong International Airport (HKIA) welcomed 64.7 million passengers and handled 396,000 flight movements, representing annual increases of 6.6% and 4.9%, respectively. Cargo throughput rose 5.5%, to 4.4 million tonnes.

This strong traffic growth, coupled with higher retail concessions revenue and effective cost controls, helped AAHK and its subsidiaries (the Group) deliver an outstanding financial performance in 2014/15. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK\$11,314 million and profit attributable to the equity shareholder of HK\$7,254 million,

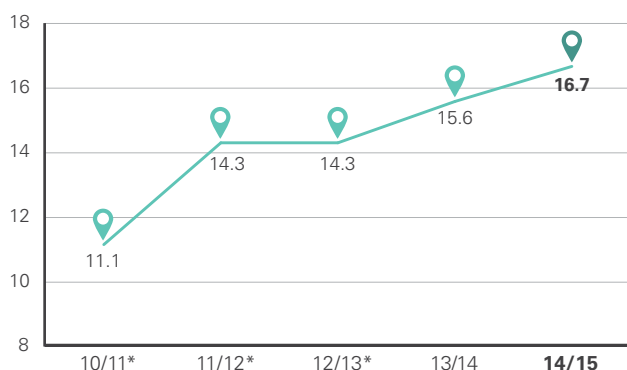
FINANCIAL RESULTS



representing an improvement of 13.8% and 12.4%, respectively, from the previous fiscal year. The Group's return on equity increased to 16.7%. No dividend was declared for the fiscal year.

RETURN ON EQUITY

(in percentage)



* Restated

Turnover

Turnover grew 10.5%, to HK\$16,367 million, largely as a result of increased passenger traffic and flight movements, an adjustment in the passenger security charge from HK\$33 to HK\$45 for tickets issued on or after 1 June 2014, and strong retail performance. Airport and security charges, revenues from airside support services franchises, retail licences and advertising, and other terminal commercial revenue, collectively comprised 95.8% of turnover.

Airport and security charges, representing 32.8% of turnover, rose 11.6%, to HK\$5,367 million, primarily due to increases in flight movements and passenger traffic, and the higher passenger security charge. Because of the rate increase in passenger security charge during the year, the airport and security charges revenue was able to remain its contribution percentage to turnover for this financial year, despite the relatively faster growth in retail licences and advertising revenue which has eclipsed the growth of this category to a smaller percentage in the past.

AAHK continues to support airlines adding new destinations to HKIA's network. The total reduction in airport charges given to airlines under the New Destination Incentive Arrangement, which offers temporary rebates on landing charges associated with new destinations, amounted to approximately HK\$24 million (2013/14: HK\$19 million).

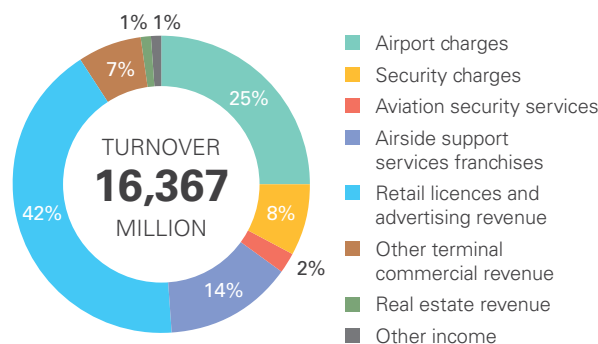
Revenues from airside support services franchises grew 9.5%, to HK\$2,339 million. This increase was mainly attributable to higher facility fees received from the aviation fuel system as a result of a rise in aviation fuel throughput; and franchise fees from aircraft catering and maintenance services, which grew in line with flight movements and passenger traffic.

Retail licences and advertising revenue, representing 41.7% of turnover, rose 10.8%, to HK\$6,820 million. This increase was a result of the commencement of new luxury retail licences; better sales performance in the luxury brands, liquor and tobacco, perfumes and cosmetics, commercial catering and financial services categories; higher advertising revenue from new clients and categories; and joint promotional initiatives with major brands and China UnionPay. Despite a slower rate of growth, this category contributed nearly half of the increase 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 5.2%, to HK\$1,160 million, largely due to a property index adjustment in rental rates during the fiscal year.

TURNOVER BY SOURCE

(for the year ended 31 March 2015)



Operating Expenses

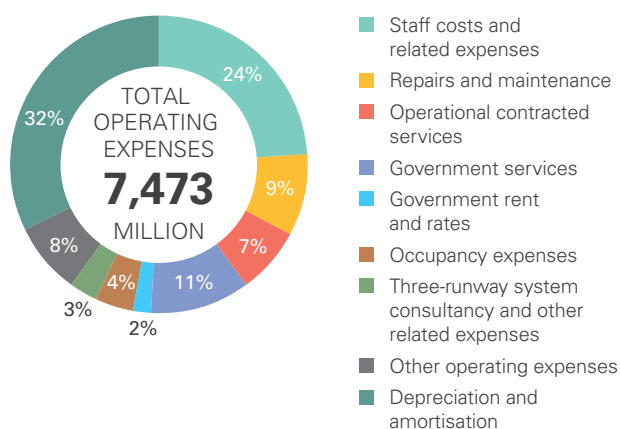
The Group continues to exercise stringent financial discipline to control its operating expenses while expanding its operations and maintaining the highest standards of safety, security, sustainability and service. Total operating expenses before depreciation and amortisation increased 3.7%, to HK\$5,053 million, mainly due to inflationary pressures and strong traffic growth during the fiscal year.

The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, occupancy expenses, 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 7.2%, to HK\$1,746 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.

OPERATING EXPENSES BY CATEGORY

(for the year ended 31 March 2015)



Repairs and maintenance costs grew 1.6%, to HK\$688 million, largely due to additional work 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 rose 11.7%, to HK\$536 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 flight movements led to higher air traffic control fees, and government services expense grew 0.5%, to HK\$854 million.

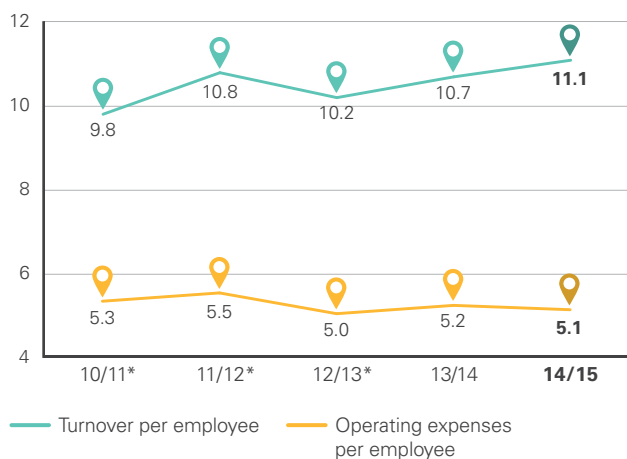
Occupancy expenses comprises the cost of electricity and water. This category rose 13.1%, to HK\$268 million, mainly attributable to higher electricity tariffs, additional power consumption due to the opening of new facilities and increased usage of fixed ground power and pre-conditioned air for aircraft after the permanent ban on the use of auxiliary power units.

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. This category fell 48.9%, to HK\$233 million, reflecting the completion of most development activities.

Depreciation and amortisation increased 7.7%, to HK\$2,420 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 2014, passenger traffic and cargo throughput at Hangzhou Xiaoshan International Airport (HXIA) grew 15.4% and 8.3%, respectively, to 25.5 million and 398,600 tonnes. AAHK's share of the profits increased 80.3%, to HK\$137 million, in fiscal 2014/15, which was largely due to the solid traffic growth, stronger non-aeronautical revenue and higher Civil Aviation Development Fund subsidies received from the Central Government.

In the same calendar year, passenger traffic at Zhuhai Airport grew 41.2%, to a record 4.08 million, while domestic cargo throughput increased 18.6%, to 22,128 tonnes. AAHK's share of the profits increased fivefold,

to HK\$19 million, in fiscal 2014/15, which was largely due to the strong traffic growth, higher non-aeronautical revenue and the one-off establishment cost of a defined benefit retirement plan incurred in last year.

Financial Position

The Group's financial position remains strong and well capitalised. The Group's total equity as at 31 March 2015 reached HK\$44,437 million, an increase of 4.5% over the previous year, mainly due to the net profit achieved in 2014/15.

Fixed assets amounted to HK\$49,162 million, which accounted for 84.7% of total assets. The Group incurred capital expenditures of HK\$4,318 million during 2014/15, mainly related to the Midfield development, apron expansion and the enlargement and improvement of other facilities and systems.

Intangible assets of HK\$198 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\$4,105 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 increased 11.4%, to HK\$1,846 million, primarily due to increased turnover.

Total trade and other payables increased 6.3%, to HK\$4,567 million, mainly attributable to the receipt of prepaid rental from a tenant near the end of the fiscal year.

Dividend

Pursuant to the financing arrangements for the three-runway system, the Board did not declare a dividend for fiscal 2014/15.

Cash Flow

Net cash generated from operating activities increased from HK\$9,933 million in 2013/14 to HK\$10,331 million this year, mainly due to the increase in profit for the year.

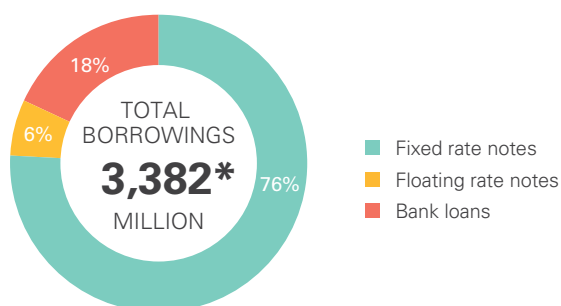
Financing

AAHK's total borrowings as at 31 March 2015 amounted to HK\$3,382 million (2013/14: HK\$4,937 million). Total borrowings comprised unsecured bank loans and notes. AAHK has a US\$1.0 billion medium-term note programme, which allows AAHK to access capital markets when needed 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 HKSAR Government's debt.

LOAN FACILITIES AND PROGRAMMES

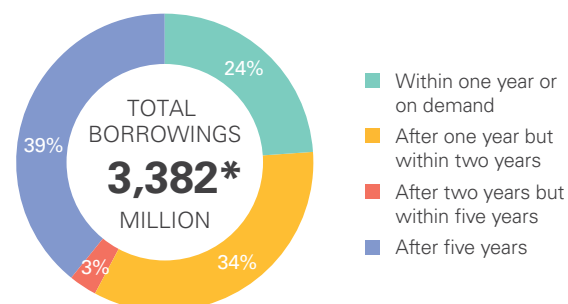
(as at 31 March 2015)



* After unamortised finance costs of HK\$17 million.

LOAN MATURITY PROFILE

(as at 31 March 2015)



* After unamortised finance costs of HK\$17 million.

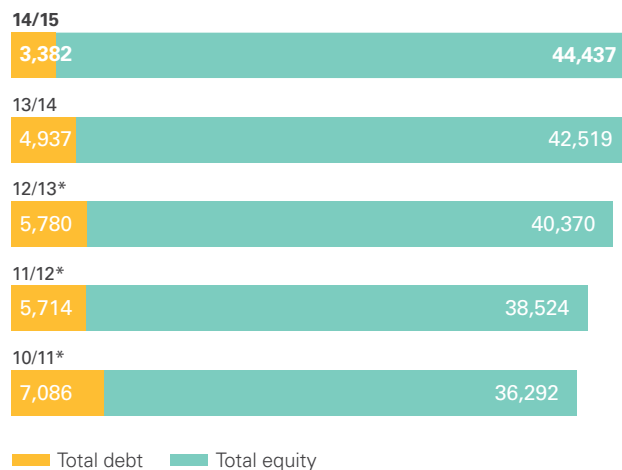
Financial Risk Management

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, 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.

AAHK is exposed to Chinese renminbi movements as a result of its investment in Mainland airports. AAHK is also exposed to United States dollar and renminbi movements from cash and bank balances and trade and other receivables denominated in these currencies. However, AAHK has 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 forecast that traffic demand will continue to grow, though at a slower pace. As a result of higher levels of traffic, some of HKIA's facilities, such as aircraft parking stands and other terminal facilities, will soon reach capacity in the existing two-runway system.

To meet immediate needs, the expanded west apron is now fully operational. The Midfield development, which includes a five-level concourse and 20 aircraft parking stands, will provide added capacity when it enters service in late 2015. We will continue to carry out other enhancement initiatives and introduce new technologies to optimise the use of existing airport facilities and enable the smooth movement of passengers, cargo and aircraft.

Expanding the airport into a three-runway system is the long-term solution to HKIA's capacity constraints. After obtaining an Environmental Permit for the three-runway system and affirmation of the need to expand HKIA into the three-runway system from the Executive Council of the HKSAR Government in fiscal 2014/15, our near-term focus is to continue the necessary preparatory work, finalise the financing arrangements and fulfil the statutory requirements associated with the project so construction can commence in 2016.

To uphold and strengthen our reputation for service and operational excellence, we will continue our customer service, safety, security and business continuity planning initiatives. This includes resurfacing runways and taxiways, replacing air bridges and upgrading the carpet in the terminal buildings. We will also expand the airport's terminal capacity with the addition of a new annex building.

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 non-aeronautical revenues by optimising HKIA's retail space, revamping the overall retail experience for our passengers, introducing innovative marketing, and supporting our business partners while they expand their operations. To tap the commercial opportunities that will accompany the Hong Kong–Zhuhai–Macao Bridge project and related local projects in Hong Kong, we will proceed with the development of North Commercial District (NCD). During the year, we finalised the master plan for the district. A tender for the first phase of the retail development of the NCD will be issued in 2015/16.

To strengthen HKIA's position as an international aviation hub, we will continue to liaise with the relevant authorities to ensure HKIA enjoys seamless and smooth connections with the Hong Kong–Zhuhai–Macao Bridge and the Hong Kong Boundary Crossing Facilities. We are also expanding HKIA's catchment area and meeting growing demand for aviation services in the Pearl River Delta by expanding our upstream check-in service.

We will continue to apply prudent financial discipline to contain the growth of operating expenses and improve productivity, while maintaining the highest standards of service, safety, security and sustainability.

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

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Report of the Members of the Board

Financial year ended 31 March 2015

The Members of the Board have pleasure in submitting the annual report of Airport Authority Hong Kong (AAHK) together with the audited consolidated financial statements for the year ended 31 March 2015.

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, AAHK is responsible for the provision, operation, development and maintenance of 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 HKIA. AAHK 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). AAHK is required under the Ordinance to conduct its business according to prudent commercial principles.

The principal activities and other particulars of AAHK'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 2015 and the state of the group's affairs as at that date are set out in the Financial Statements on pages 82 to 134.

Dividend

The Ordinance provides that AAHK may pay dividends on its shares and that the Financial Secretary may, after taking into account the financial position of AAHK and its subsidiaries, direct AAHK to pay dividends out of the distributable profits of AAHK. A final dividend of HK\$5,300 million or HK\$17,293.13 per share was declared and paid for the year 2013/14. To preserve capital for the purpose of funding the three-runway system project, no dividend will be declared for the year ended 31 March 2015.

Transfer to Reserves

The group's profit attributable to equity shareholder of HK\$7,254 million (2013/14: HK\$6,454 million) 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\$107 million (2013/14: HK\$112 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 2015 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 135 of the annual report.

Share Capital

Under the terms of the Ordinance, AAHK may only issue shares to the Government of the Hong Kong Special Administrative Region of the People's Republic of China (HKSAR 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 2015.

Donations

Donations made during the year amounted to HK\$1,654,000 (2013/14: HK\$3,418,000) which were funded partly from the sales of “lost and 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	20%	
Top five customers	48%	
The largest supplier		35%
Top five suppliers		47%

The largest supplier is the HKSAR Government which is the sole shareholder of AAHK.

Purchases are exclusive of supplies of a capital nature.

Going Concern

The financial statements on pages 82 to 134 have been prepared on a going concern basis. The Board has approved AAHK’s budget for 2015/16 and the business plan and financial plan for 2015/16 to 2019/20 and is satisfied that AAHK has sufficient resources to continue as a going concern for the foreseeable future.

Retirement Schemes

Details with regard to AAHK’s retirement schemes are set out in Note 19 to the Financial Statements. The administration of the retirement schemes and AAHK’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 AAHK are set out in the Corporate Governance Report on pages 16 to 35 of the annual report.

Employees

As of 31 March 2015, AAHK, excluding its subsidiaries, had a staff of 1,475 (31 March 2014: 1,379). AAHK 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 AAHK’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 reviews are conducted to ensure AAHK’s pay position and remuneration package including the variable pay stay competitive against market trends.

Members of the Board and Executive Directors

Members of the Board and Executive Directors as at 31 March 2015 are set out on pages 12 to 14 of the annual report. Subsequent changes from 31 March to 26 May 2015 have also been included in this Report of the Members of the Board.

The late Dr Marvin Cheung Kin-tung, who has been Chairman of AAHK since 1 June 2008, retired on 31 May 2014. Mr Vincent Lo Hong-sui, who has been a member of AAHK since 1 January 2013, succeeded Dr Cheung as Chairman of AAHK for a one-year term from 1 June 2014 and will retire on 31 May 2015. Mr Jack So Chak-kwong will be the Chairman of AAHK with effect from 1 June 2015 for a term of three years.

Dr Raymond Ho Chung-tai, Ms Miriam Lau Kin-ye, Ms Caroline Mak Sui-king and Mr Huen Wong retired on 31 May 2014.

Mr Franklin Lam Fan-keung, Mr Peter To and the Hon Frankie Yick Chi-ming have been appointed to the Board for a term of three years from 1 June 2014 to 31 May 2017. Ir Lo Yiu-ching has been appointed to the Board on 1 June 2014 and will retire on 31 May 2015.

Mr Benjamin Hung Pi-cheng has been re-appointed as a member for a one-year term from 1 June 2014 and will retire on 31 May 2015. Mr Edward Cheng Wai-sun, the Hon Jeffrey Lam Kin-fung and Ir Lee Shing-see have been re-appointed as members for a term of three years, from 1 June 2014 to 31 May 2017.

Mr Andrew Fung Hau-chung, Ir Billy Wong Wing-hoo and Dr Allan Zeman have been appointed to the Board of the AA for a term of three years from 1 June 2015 to 31 May 2018.

Mr Stanley Hui Hon-chung, AAHK's former Chief Executive Officer, resigned on 11 July 2014. Mr Ng Chi-kee served as the Acting Chief Executive Officer from 11 July to 30 September 2014. Mr Fred Lam Tin-fuk was appointed Chief Executive Officer on 1 October 2014.

Ms Florence Chung was appointed Executive Director, Human Resources & Administration, on 6 October 2014. Mr John Chai Sung-veng, formerly Executive Director, Projects, was appointed Executive Director, Engineering & Technology, and Mr Kevin Poole, formerly Deputy Director, Projects, was appointed Acting Executive Director, Third Runway, on 1 April 2015. Mr David Au Ho-cheung, was appointed Executive Director, Property Development, on 18 May 2015.

Interest of Members of the Board and Executive Directors in Contracts

Except as set out in Note 23 to the Financial Statements, no contracts of significance to which AAHK 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 AAHK 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 AAHK 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 23 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 that 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 2015, 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 of the Board 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 Hong Kong SAR 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, 26 May 2015

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 82 to 134, which comprise the consolidated statement of financial position as at 31 March 2015, 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 2015 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

26 May 2015

Consolidated Statement of Profit or Loss

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2015	2014
Airport charges		4,020	3,820
Security charges		1,347	990
Aviation security services		279	241
Airside support services franchises		2,339	2,137
Retail licences and advertising revenue		6,820	6,155
Other terminal commercial revenue		1,160	1,103
Real estate revenue		269	239
Other income		133	125
Turnover		16,367	14,810
Staff costs and related expenses	4	(1,746)	(1,628)
Repairs and maintenance		(688)	(677)
Operational contracted services		(536)	(480)
Government services		(854)	(850)
Government rent and rates		(162)	(150)
Occupancy expenses		(268)	(237)
Three-runway system consultancy and other related expenses	5	(233)	(456)
Other operating expenses		(566)	(394)
Operating expenses before depreciation and amortisation		(5,053)	(4,872)
Operating profit before depreciation and amortisation		11,314	9,938
Depreciation and amortisation		(2,420)	(2,248)
Operating profit before interest and finance costs	3	8,894	7,690
Interest and finance costs:			
Finance costs	6	(11)	(56)
Interest income		44	43
		33	(13)
Share of results of joint ventures	13	137	77
Profit before taxation		9,064	7,754
Income tax	7(a)	(1,794)	(1,306)
Profit for the year		7,270	6,448
Attributable to:			
Equity shareholder of the Authority		7,254	6,454
Non-controlling interests		16	(6)
Profit for the year		7,270	6,448

The notes on pages 88 to 134 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

<i>\$ million</i>	2015	2014
Profit for the year	7,270	6,448
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	(38)	92
Less: deferred tax	6	(15)
	(32)	77
– a subsidiary in the People’s Republic of China (“the PRC”)	(4)	4
– a joint venture in the PRC	(26)	21
	(62)	102
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of joint ventures in the PRC	9	(4)
Cash flow hedge: net movement in hedging reserve	1	3
	10	(1)
Other comprehensive income for the year	(52)	101
Total comprehensive income for the year	7,218	6,549
Attributable to:		
Equity shareholder of the Authority	7,204	6,553
Non-controlling interests	14	(4)
Total comprehensive income for the year	7,218	6,549

The notes on pages 88 to 134 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 March 2015 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2015	2014
Non-current assets			
Fixed assets			
– investment property	10	111	152
– interest in leasehold land	10	7,455	7,685
– other property, plant and equipment	10	41,596	39,437
		49,162	47,274
Intangible asset	11	198	215
Interests in joint ventures	13	4,105	3,985
Derivative financial assets	21(e)	9	8
		53,474	51,482
Current assets			
Stores and spares		47	55
Trade and other receivables	14	1,846	1,657
Derivative financial assets	21(e)	5	5
Cash and bank balances	15	2,689	3,677
		4,587	5,394
Current liabilities			
Trade and other payables	16	(4,060)	(3,857)
Interest-bearing borrowings	17	(799)	(500)
Current taxation	7(c)	(788)	(263)
Deferred income	18	(165)	(155)
Derivative financial liabilities	21(e)	(1)	(1)
		(5,813)	(4,776)
Net current (liabilities)/assets		(1,226)	618
Total assets less current liabilities		52,248	52,100
Non-current liabilities			
Trade and other payables	16	(507)	(441)
Interest-bearing borrowings	17	(2,583)	(4,437)
Deferred income	18	(695)	(860)
Derivative financial liabilities	21(e)	(11)	(50)
Net defined benefit retirement obligations	19	(163)	(97)
Deferred tax liabilities	7(d)	(3,852)	(3,696)
		(7,811)	(9,581)
Net assets		44,437	42,519
Capital and reserves			
Share capital	20	30,648	30,648
Reserves		13,546	11,642
Total equity attributable to the equity shareholder of the Authority		44,194	42,290
Non-controlling interests		243	229
Total equity		44,437	42,519

Approved and authorised for issue on behalf of the Members of the Board on 26 May 2015.

Mr Vincent Lo Hong-sui
Chairman

Mr Fred Lam Tin-fuk
Chief Executive Officer

Mr William Lo Chi-chung
Executive Director, Finance

The notes on pages 88 to 134 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

\$ million	Note	Attributable to the equity shareholder of the Authority					Total	Non-controlling interests	Total equity
		Share capital	Exchange reserve	Capital reserve	Hedging reserve	Retained profits			
At 1 April 2013		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 and 1 April 2014		30,648	676	737	(1)	10,230	42,290	229	42,519
Changes in equity for the year:									
Profit for the year		–	–	–	–	7,254	7,254	16	7,270
Other comprehensive income		–	9	–	1	(60)	(50)	(2)	(52)
Total comprehensive income		–	9	–	1	7,194	7,204	14	7,218
Dividend approved in respect of the previous year	20(b)	–	–	–	–	(5,300)	(5,300)	–	(5,300)
Transfer from retained profits to capital reserve	20(d)(ii)	–	–	127	–	(127)	–	–	–
At 31 March 2015		30,648	685	864	–	11,997	44,194	243	44,437

The notes on pages 88 to 134 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2015 (Expressed in Hong Kong dollars)

\$ million	Note	2015	2014
Operating activities			
Profit before taxation		9,064	7,754
Adjustments for:			
Depreciation		2,173	2,001
Amortisation of interest in leasehold land		230	230
Amortisation of intangible asset		17	17
Interest on notes and bank loans		103	176
Other borrowing costs and interest expense		24	28
Borrowing costs capitalised into assets under construction		(107)	(112)
Interest income		(44)	(43)
Fair value loss/(gain) on derivative financial instruments:			
– cash flow hedges		2	3
– fair value hedges		(50)	35
Net loss/(gain) on underlying hedged interest-bearing borrowings in fair value hedges		39	(71)
Share of results of joint ventures		(137)	(77)
Impairment losses/(reversal of impairment losses) on trade and other receivables		5	(3)
Net loss on disposal of fixed assets		25	10
Net foreign exchange gain		–	(3)
Amortisation of deferred income		(155)	(148)
Expenses recognised in respect of defined benefit retirement plans		47	83
Operating profit before changes in working capital		11,236	9,880
Decrease in stores and spares		8	6
(Increase)/decrease in trade and other receivables		(194)	179
Increase in trade and other payables		388	666
Cash generated from operations		11,438	10,731
Hong Kong Profits Tax paid		(1,099)	(785)
PRC Corporate Income Tax paid:			
– dividend received from a joint venture		–	(12)
– others		(8)	(1)
Net cash generated from operating activities		10,331	9,933
Investing activities			
Net placement of deposits with banks with over three months of maturity when placed		(187)	(25)
Interest received		44	43
Dividend received from a joint venture		–	243
Payments for the purchase of other property, plant and equipment		(4,336)	(3,978)
Receipts from disposal of fixed assets		2	2
Payment of annual franchise fee for a PRC subsidiary		(5)	(4)
Net cash used in investing activities		(4,482)	(3,719)

<i>\$ million</i>	Note	2015	2014
Financing activities			
Interest paid on notes and bank loans		(107)	(182)
Other borrowing costs and interest expense paid		(27)	(31)
Net (repayment)/drawdown of bank loans		(1,100)	1,500
Receipts from issue of notes		–	800
Repayment of United States (“US”) dollar Eurobond		–	(2,714)
Repayment of notes		(500)	(350)
Net interest income received on interest rate swaps		10	23
Dividend paid		(5,300)	(4,400)
Net cash used in financing activities		(7,024)	(5,354)
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		3,592	2,732
Cash and cash equivalents at end of year	15	2,417	3,592

The notes on pages 88 to 134 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 Government of the Hong Kong Special Administrative Region of the People's Republic of China ("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 26.

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 26(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 27).

(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 26(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 25.

3. Operating profit before interest and finance costs

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

<i>\$ million</i>	2015	2014
Auditors' remuneration:		
– audit services	5	5
– tax services	1	–
– other services	–	2
Stores and spares expensed	102	86
Net loss on disposal of fixed assets	25	10
Impairment losses/(reversal of impairment losses) on trade and other receivables (note 14(b))	5	(3)
Depreciation: (note 10(d))		
– assets held for use under operating leases	139	137
– other assets	2,034	1,864
Amortisation:		
– interest in leasehold land (note 10(d))		
– leased out under operating leases	17	17
– others	213	213
– intangible asset (note 11)	17	17
Operating lease charges: minimum lease payments		
– hire of plant and machinery	2	2
– hire of other assets (including property rentals)	10	10
Rentals from investment property less direct outgoings of \$14 million (2014: \$13 million)	(33)	(25)

4. Staff costs and related expenses

<i>\$ million</i>	2015	2014
Contributions to defined contribution retirement plans	74	67
Expenses recognised in respect of defined benefit retirement plans (note 19)	47	83
Total retirement costs	121	150
Salaries, wages and other benefits	1,665	1,519
Total staff costs and related expenses	1,786	1,669
Less: staff costs and related expenses capitalised into assets under construction	(40)	(41)
	1,746	1,628

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 for the three-runway system ("3RS"). Eligible expenditures for 3RS construction and capital works are accounted for in accordance with the accounting policies detailed in note 26(g)(vi).

6. Finance costs

<i>\$ million</i>	2015	2014
Interest on bank loans	17	11
Interest on notes	86	165
Other borrowing costs	13	15
Other interest expense	11	13
Total interest expense	127	204
Less: borrowing costs capitalised into assets under construction	(107)	(112)
	20	92
Net foreign exchange gain	–	(3)
Fair value loss/(gain) on derivative financial instruments		
– cash flow hedges	2	3
– fair value hedges ¹	(50)	35
Net loss/(gain) on underlying hedged interest-bearing borrowings in fair value hedges	39	(71)
	11	56

¹ Includes net interest income of \$11 million (2014: \$29 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 2.12% (2014: 2.77%) per annum.

7. Taxation

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

<i>\$ million</i>	2015	2014
Current tax – Hong Kong Profits Tax		
– provision for the year	1,345	1,123
– under/(over)-provision in respect of prior years	269	(16)
Current tax – PRC Corporate Income Tax		
– provision for the year	16	1
– provision on dividend received from a joint venture for the year	–	12
– under-provision in respect of prior years	2	–
Deferred tax (note 7(d))		
– origination and reversal of temporary differences	162	186
	1,794	1,306

7. Taxation (continued)

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

The provision for Hong Kong Profits Tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year.

The provision for PRC Corporate Income Tax is calculated at 25% (2014: 25%) of the estimated assessable profits for the year, while the provision for PRC withholding tax on dividend received from a joint venture is calculated at 5% (2014: 5%) of the dividend received from a joint venture for the year.

Under-provision for Hong Kong Profits Tax in respect of prior years mainly represents the adjustment for depreciation allowances claimed in respect of certain fixed assets acquired in previous years.

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

<i>\$ million</i>	2015	2014
Profit before taxation	9,064	7,754
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	1,500	1,279
Tax effect of non-deductible expenses	48	36
Tax effect of non-taxable income	(25)	(18)
Under/(over)-provision in respect of prior years	271	(16)
Deferred tax movement of over-provision in respect of prior years	–	25
Actual tax expense	1,794	1,306

(c) Current taxation in the consolidated statement of financial position represents:

<i>\$ million</i>	2015	2014
Provision for the year (note 7(a))		
– Hong Kong Profits Tax	1,345	1,123
– PRC Corporate Income Tax	16	13
Provisional Hong Kong Profits Tax paid	(844)	(872)
PRC Corporate Income Tax paid		
– dividend received from a joint venture	–	(12)
– others	(8)	(1)
Balance of profits tax provision relating to prior years	279	12
Current taxation	788	263

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:

<i>\$ million</i>	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
Deferred tax arising from:					
At 1 April 2013	3,658	(1)	(189)	27	3,495
Charged/(credited) to profit or loss	178	–	21	(13)	186
Charged to other comprehensive income	–	–	15	–	15
At 31 March 2014	3,836	(1)	(153)	14	3,696
At 1 April 2014	3,836	(1)	(153)	14	3,696
Charged to profit or loss	137	–	23	2	162
Credited to other comprehensive income	–	–	(6)	–	(6)
At 31 March 2015	3,973	(1)	(136)	16	3,852

(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 \$59 million (2014: \$69 million) and \$10 million (2014: \$10 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. Tax losses relating to subsidiaries in Hong Kong do not expire under the current tax legislation. The estimated tax losses for the subsidiary in the PRC will expire within five years under the current PRC legislation.

8. 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 (continued)

(a) Remuneration of the Members of the Board

The emoluments of the Members of the Board of the Authority are as follows:

2015 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
Members of the Board					
Non-executive Members					
Vincent Lo Hong-sui ¹	202	–	–	–	202
Chan Kam-lam	110	–	–	–	110
Edward Cheng Wai-sun	110	–	–	–	110
Anita Fung Yuen-mei	110	–	–	–	110
Albert Ho Chun-yan	110	–	–	–	110
Benjamin Hung Pi-cheng	110	–	–	–	110
Franklin Lam Fan-keung (appointed in June 2014)	92	–	–	–	92
Jeffrey Lam Kin-fung	110	–	–	–	110
Lee Shing-see	110	–	–	–	110
Lo Yiu-ching (appointed in June 2014)	92	–	–	–	92
Peter To (appointed in June 2014)	92	–	–	–	92
Frankie Yick Chi-ming (appointed in June 2014)	92	–	–	–	92
Secretary for Financial Services and the Treasury ²	110	–	–	–	110
Secretary for Transport and Housing ²	110	–	–	–	110
Director-General of Civil Aviation ²	110	–	–	–	110
Marvin Cheung Kin-tung (retired in May 2014)	37	–	–	–	37
Raymond Ho Chung-tai (retired in May 2014)	18	–	–	–	18
Miriam Lau Kin-yee (retired in May 2014)	18	–	–	–	18
Caroline Mak Sui-king (retired in May 2014)	18	–	–	–	18
Huen Wong (retired in May 2014)	18	–	–	–	18
Executive Members					
Fred Lam Tin-fuk (Chief Executive Officer) (appointed in October 2014)	–	3,061	1,434	408	4,903
Ng Chi-kee (Acting Chief Executive Officer during July to September 2014)	–	860	323	69	1,252
Stanley Hui Hon-chung (Chief Executive Officer) (resigned in July 2014)	–	1,281	509	6	1,796
	1,779	5,202	2,266	483	9,730

¹ Vincent Lo Hong-sui was appointed as Chairman of the Authority with effect from 1 June 2014.

² 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 (continued)

(a) Remuneration of the Members of the Board (continued)

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
Secretary for Financial Services and the Treasury ¹	110	-	-	-	110
Secretary for Transport and Housing ¹	110	-	-	-	110
Director-General of Civil Aviation ¹	110	-	-	-	110
Executive Member					
Stanley Hui Hon-chung (Chief Executive Officer)	-	4,321	1,841	15	6,177
	1,870	4,321	1,841	15	8,047

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.

(b) Remuneration of Executive Directors

The aggregate of the emoluments of the Executive Directors of the Authority is as follows:

\$'000	2015	2014
Basic compensation	17,091	15,624
Performance-related compensation	6,978	6,364
Retirement benefits	1,813	1,664
	25,882	23,652

8. Remuneration of the Members of the Board and Executive Directors (continued)

(b) Remuneration of Executive Directors (continued)

Shown below is the number of Executive Directors, whose remuneration falls within the bands stated:

\$	Number of individuals	
	2015	2014
1,500,001 – 2,000,000	1	–
4,000,001 – 4,500,000	–	1
4,500,001 – 5,000,000	2	2
5,000,001 – 5,500,000	2	2
5,500,001 – 6,000,000	1	–
	6	5

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2014: five comprise the Chief Executive Officer and four Executive Directors), whose emoluments are disclosed under note 8(a) and above, respectively.

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 (2014: two customers) with whom transactions have exceeded 10% of the group's revenue.

Included in the turnover of \$16,367 million for the year (2014: \$14,810 million) are aggregate revenues of approximately \$6,577 million which arose from these two customers (2014: \$6,276 million which arose from two customers). 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)

\$ million	Other property, plant and equipment						Sub-total	Investment property	Interest in leasehold land	Total
	Airfields	Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Construction in progress				
Cost										
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
At 1 April 2014	8,884	24,097	13,947	8,714	1,651	7,192	64,485	216	11,321	76,022
Additions	19	10	6	163	89	4,031	4,318	-	-	4,318
Reclassifications	1,464	26	86	176	106	(1,810)	48	(48)	-	-
Disposals	(25)	(48)	(7)	(115)	(21)	-	(216)	-	-	(216)
At 31 March 2015	10,342	24,085	14,032	8,938	1,825	9,413	68,635	168	11,321	80,124
Accumulated depreciation, amortisation and impairment										
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
At 1 April 2014	3,163	9,490	5,498	5,489	1,408	-	25,048	64	3,636	28,748
Charge for the year	416	760	434	434	121	-	2,165	8	230	2,403
Reclassifications	-	-	12	2	1	-	15	(15)	-	-
Written back on disposals	(23)	(39)	(5)	(102)	(20)	-	(189)	-	-	(189)
At 31 March 2015	3,556	10,211	5,939	5,823	1,510	-	27,039	57	3,866	30,962
Net book value										
At 31 March 2015	6,786	13,874	8,093	3,115	315	9,413	41,596	111	7,455	49,162
At 31 March 2014	5,721	14,607	8,449	3,225	243	7,192	39,437	152	7,685	47,274

10. Fixed assets (continued)

(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 (2014: \$11,321 million) and the land premium of \$2,000 have been classified as interest in leasehold land under fixed assets.

(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 2015 calculated by reference to net rental income allowing for reversionary income potential amounted to \$554 million (2014: \$720 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:

<i>\$ million</i>	2015	2014
Within one year	2,155	1,730
After one but within five years	5,085	4,113
After five years	5,913	6,678
	13,153	12,521

10. Fixed assets (continued)

(d) (continued)

During the year, \$9,591 million (2014: \$8,765 million) was recognised as income in profit or loss in respect of the operating leases and franchise agreements, which included contingent rentals of \$7,573 million (2014: \$6,862 million).

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 2015 was \$563 million (2014: \$580 million) with annual amortisation amounting to \$17 million (2014: \$17 million).

The cost less accumulated depreciation of other property, plant and equipment leased to third parties under non-cancellable operating leases for the group as at 31 March 2015 was \$2,576 million (2014: \$2,503 million) with annual depreciation amounting to \$139 million (2014: \$137 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, resulting in a net increase in the group's annual depreciation charge of \$87 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of \$4 million.
- (f) The group is currently in the process of assessing claims from contractors relating to the Midfield and other construction projects, for which detailed documentation is not yet fully available to the Authority. Certain elements of these claims are currently subject to dispute resolution procedures. The group has made provision, where appropriate, for what may be required for the settlement of the claims.

11. Intangible asset

<i>\$ million</i>	2015	2014
Cost		
At 1 April	344	345
Exchange adjustments	–	(1)
At 31 March	344	344
Accumulated amortisation		
At 1 April	129	112
Charge for the year	17	17
At 31 March	146	129
Net book value		
At 31 March	198	215

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

\$ million	The Authority	
	2015	2014
Unlisted shares, at cost	5	5

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			Principal activity
			Group's effective interest	Held by the Authority	Held by a subsidiary	
Aviation Security Company Limited ("AVSECO")	Hong Kong	\$10,000,000	51%	51%	–	Provision of aviation security services
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	2015	2014
NCI percentage	45%	45%
Non-current assets	285	281
Current assets	285	222
Non-current liabilities	(63)	(57)
Current liabilities	(92)	(60)
Net assets	415	386
Carrying amount of NCI	187	174
Revenue	254	201
Profit/(loss) for the year	33	(8)
Total comprehensive income for the year	29	(4)
Profit/(loss) for the year allocated to NCI	14	(4)
Total comprehensive income for the year allocated to NCI	13	(2)

13. Interests in joint ventures

<i>\$ million</i>	2015	2014
Share of net assets	3,866	3,746
Goodwill	239	239
	4,105	3,985

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		Principal activity
				Group's effective interest	Held by the Authority	
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 statutory 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 joint ventures' statutory financial year adjusted for the Authority's accounting policies.

(a) HXIA

HXIA is an unlisted sino-foreign equity joint venture with a period of operation of 30 years.

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:

<i>\$ million</i>	2015	2014
Gross amounts of HXIA		
Non-current assets	17,237	17,386
Current assets	2,934	2,420
Non-current liabilities	(5,433)	(4,968)
Current liabilities	(3,866)	(4,308)
Net assets/equity	10,872	10,530

13. Interests in joint ventures (continued)

(a) HXIA (continued)

<i>\$ million</i>	2015	2014
Income	2,821	2,498
Government subsidies	356	297
Expenses	(2,756)	(2,547)
Profit before taxation	421	248
Income tax	(29)	(31)
Profit after taxation	392	217
Other comprehensive income	(73)	61
Total comprehensive income	319	278
Dividend received from HXIA	–	243

<i>\$ million</i>	2015	2014
Reconciled to the group's interest in HXIA		
Gross amounts of HXIA's net assets	10,872	10,530
Group's effective interest	35%	35%
Group's share of HXIA's net assets	3,805	3,686
Goodwill	239	239
Carrying amount in the consolidated financial statements	4,044	3,925

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

<i>\$ million</i>	2015	2014
Share of profit after taxation	137	76
Share of other comprehensive income	(26)	21
Less: transfer to capital reserve	(125)	(104)
Share of profit and other comprehensive income to be retained	(14)	(7)
Share of retained profits brought forward from previous years	640	890
Special dividend received	–	(243)
Share of retained profits carried forward to next year	626	640

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

<i>\$ million</i>	2015	2014
At 1 April	690	586
Transfer from retained profits	125	104
At 31 March	815	690

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:

<i>\$ million</i>	2015	2014
Contracted for	159	213
Authorised but not contracted for	1,518	2,335
	1,677	2,548

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.

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:

<i>\$ million</i>	2015	2014
Gross amounts of SHKAM		
Current assets	134	132
Current liabilities	(10)	(10)
Net assets/equity	124	122

<i>\$ million</i>	2015	2014
Income	15	14
Expenses	(14)	(12)
Net profit and other comprehensive income	1	2

<i>\$ million</i>	2015	2014
Reconciled to the group's interest in SHKAM		
Gross amounts of SHKAM's net assets	124	122
Group's effective interest	49%	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	61	60

14. Trade and other receivables

<i>\$ million</i>	2015	2014
Trade debtors	1,809	1,630
Less: allowance for doubtful debts (note 14(b))	(33)	(28)
Other debtors	1,776	1,602
	10	15
Prepayments	1,786	1,617
Deposits and debentures	49	29
	11	11
	1,846	1,657

As at 31 March 2015, all of the trade and other receivables are expected to be recovered or recognised as an expense within one year except for \$84 million (2014: \$135 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:

<i>\$ million</i>	2015	2014
Amounts not yet due	1,679	1,482
Less than one month past due	63	91
One to three months past due	26	22
More than three months past due	8	7
	1,776	1,602

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 26(l)).

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

<i>\$ million</i>	2015	2014
At 1 April	28	31
Impairment loss recognised/(reversed)	5	(3)
At 31 March	33	28

As at 31 March 2015, the group's trade debtors of \$17 million (2014: \$9 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 \$15 million (2014: \$7 million) for the group. The group does not hold any collateral (2014: \$nil) over individually impaired trade debtors of \$2 million (2014: \$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:

<i>\$ million</i>	2015	2014
Neither past due nor impaired	1,679	1,482
Less than one month past due	47	55
One to three months past due	5	3
More than three months past due	1	2
	53	60
	1,732	1,542

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 (2014: \$5 million) as collateral over certain past due but not impaired trade debtors totalling \$53 million (2014: \$60 million).

15. Cash and bank balances

<i>\$ million</i>	2015	2014
Deposits with banks within three months of maturity when placed	1,980	3,026
Cash at bank and in hand	437	566
Cash and cash equivalents	2,417	3,592
Deposits with banks with over three months of maturity when placed	272	85
	2,689	3,677

As at 31 March 2015, cash and bank balances of \$209 million (2014: \$148 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.

16. Trade and other payables

<i>\$ million</i>	2015	2014
Creditors and accrued charges	3,436	3,015
Deposits received	847	976
Contract retentions	284	307
	4,567	4,298
Classified in the consolidated statement of financial position as:		
Current liabilities	4,060	3,857
Non-current liabilities	507	441
	4,567	4,298

As at 31 March 2015, all of the trade and other payables are expected to be settled or recognised as income within one year except for \$507 million (2014: \$441 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:

<i>\$ million</i>	2015	2014
Due within 30 days or on demand	1,083	887
Due after 30 days but within 60 days	614	982
Due after 60 days but within 90 days	180	54
Due after 90 days	1,559	1,092
	3,436	3,015

17. Interest-bearing borrowings

<i>\$ million</i>	2015	2014
Notes payable		
HK dollar fixed rate notes due 2015 to 2043 (a)	2,599	3,060
HK dollar floating rate notes due 2016 (a)	200	200
	2,799	3,260
Bank loans (b) to (c)	600	1,700
	3,399	4,960
Less: unamortised finance costs	(17)	(23)
	3,382	4,937

17. Interest-bearing borrowings (continued)

- (a) 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.

In April 2014, the Authority repaid \$500 million note, which had annual coupon rates of 2.2% and tenor of 5 years, in full.

As at 31 March 2015, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 0.9% to 5.1% (2014: 0.9% 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.

- (b) 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 2015, \$600 million (2014: \$1,700 million) of the revolving credit facility was drawn down.
- (c) The Authority has uncommitted money market line facilities of \$2,888 million (2014: \$2,688 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2015, there was no outstanding amount (2014: \$nil).
- (d) As at 31 March 2015, the unsecured interest-bearing borrowings were repayable as follows:

\$ million	2015			2014
	Notes payable	Bank loans	Total	Total
Within one year or on demand	200	599	799	500
After one year but within two years	1,149	–	1,149	1,894
After two years but within five years	104	–	104	1,149
After five years	1,330	–	1,330	1,394
	2,583	–	2,583	4,437
	2,783	599	3,382	4,937

- (e) 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 26(s)(v) and 26(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), which covers 29% (2014: 33%) 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.

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 2015 prepared by qualified staff of Mercer (Hong Kong) Limited (2014: Mercer (Hong Kong) Limited) using the "projected unit credit" actuarial method and a set of actuarial assumptions, the Authority's obligation under the plan is 83% (2014: 90%) 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.

HKZAM established a defined benefit retirement plan ("the HKZAM plan") for its eligible employees, which is unfunded and which covers 80% (2014: 92%) 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 2015 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:

<i>\$ million</i>	2015	2014
The Hong Kong plan		
Present value of funded obligations	775	693
Fair value of plan assets	(647)	(624)
	128	69
The HKZAM plan		
Present value of unfunded obligations	35	28
Net defined benefit retirement obligations	163	97

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay \$26 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2016.

19. Employee retirement benefits (continued)**(a) Defined benefit retirement plans** (continued)

(ii) Plan assets consist of the following:

<i>\$ million</i>	2015	2014
Equity securities	400	392
Corporate bonds	208	212
Cash	39	20
	647	624

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

An asset-liability modelling study is performed periodically to analyse the strategic investment policies of the Hong Kong plan. Based on the latest review, 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.

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

<i>\$ million</i>	2015	2014
The Hong Kong plan		
At 1 April	693	758
Remeasurements:	71	(75)
– Actuarial losses/(gains) arising from changes in financial assumptions	54	(75)
– Experience adjustments	17	–
Benefits paid by the plans	(45)	(46)
Current service cost	40	48
Interest cost	16	8
At 31 March	775	693
The HKZAM plan		
At 31 March	35	28
	810	721

The weighted average durations of the defined benefit obligations for the Hong Kong plan and the HKZAM are 8.8 years (2014: 9 years) and 13.4 years (2014: 13.4 years) respectively.

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

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

<i>\$ million</i>	2015	2014
At 1 April	624	625
Group's contributions paid to the plans	22	23
Benefits paid by the plans	(45)	(46)
Actual return on plan assets	46	22
– Interest income	14	7
– Return on plan assets, excluding interest income	33	17
– Administrative expenses paid from plan assets	(1)	(2)
At 31 March	647	624

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

<i>\$ million</i>	2015	2014
The Hong Kong plan		
Current service cost	40	48
Administrative expenses paid from plan assets	1	2
Net interest on net defined benefit liability	2	1
	43	51
The HKZAM plan	4	32
Total amounts recognised in profit or loss	47	83
The Hong Kong plan		
Remeasurements:		
– Actuarial losses/(gains) arising from changes in financial assumptions	54	(75)
– Experience adjustments	17	–
Return on plan assets, excluding interest income	(33)	(17)
	38	(92)
The HKZAM plan	4	(4)
Total amounts recognised in other comprehensive income	42	(96)
Total defined benefit debits/(credits)	89	(13)

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.

<i>\$ million</i>	2015	2014
Staff costs and related expenses	47	83

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

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

	2015	2014
The Hong Kong plan		
Discount rate	1.4%	2.3%
Future long term salary increases	3.5%	3.5%
The HKZAM plan		
Discount rate	4.1%	5.0%

The below analysis shows how the defined benefit obligations as at 31 March 2015 would have increased/ (decreased) as a result of a 0.5% change in the significant actuarial assumptions:

<i>\$ million</i>	Increase by 0.5%	Decrease by 0.5%
The Hong Kong plan		
Discount rate	(31)	33
Future long term salary increases	36	(34)
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 \$30,000 (\$25,000 prior to June 2014). 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 85.

(b) Dividends

<i>\$ million</i>	2015	2014
Final dividend payable to the equity shareholder of the Authority in respect of the previous financial year, approved and paid during the year of \$17,293.13 per ordinary share (2014: \$14,356.56 per ordinary share)	5,300	4,400
Final dividend proposed by the Authority after the end of the reporting period of \$nil per ordinary share (2014: \$17,293.13 per ordinary share)	–	5,300

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

(c) Share capital

<i>\$ million</i>	The Authority	
	2015	2014
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of \$100,000 each (2014: 306,480 ordinary 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 26(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 26(f).

20. Capital, reserves and dividends (continued)

(d) Nature and purpose of reserves (continued)

(iv) Distributability of reserves

As at 31 March 2015, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was \$11,400 million (2014: \$9,636 million). On 19 May 2014, the Board proposed a final dividend of \$17,293.13 per ordinary share. The final dividend for the year ended 31 March 2014 amounted to \$5,300 million. This dividend has not been recognised as a liability as at 31 March 2014. The Board did not propose any final dividend for the year ended 31 March 2015.

(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.

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:

<i>\$ million</i>	Note	2015	2014
Total debt ¹	17	3,382	4,937
Total equity		44,437	42,519
Total capital ²		47,819	47,456
Total debt/capital ratio		7%	10%

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.

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

(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 21% (2014: 6%) and 39% (2014: 15%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

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.

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

(b) Liquidity risk (continued)

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:

\$ million	Carrying amount at 31 March	Contractual undiscounted cash flow				
		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
2015						
Interest-bearing borrowings	3,382	3,988	887	1,230	263	1,608
Trade and other payables	4,567	4,621	4,051	183	328	59
Interest rate swaps (net settled)	(2)	(62)	(10)	(10)	(28)	(14)
	7,947	8,547	4,928	1,403	563	1,653
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

As shown above, interest-bearing borrowings (including interest) of the group amounting to \$887 million are due to be repaid in the upcoming 12 months after 31 March 2015 (2014: \$602 million). The short term liquidity risk inherent in this contractual maturity will be addressed by internal sources of funds and new external borrowings.

(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 26(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.

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

(c) Interest rate risk (continued)

(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	2015	2014
Fixed rate borrowings		
Bank loans*	200	199
Fixed rate notes	1,788	1,787
	1,988	1,986
Variable rate borrowings		
Bank loans	399	1,495
Fixed rate notes [†]	796	1,257
Floating rate notes	199	199
	1,394	2,951
Total borrowings	3,382	4,937
Fixed rate borrowings as a percentage of total borrowings	59%	40%

* Swapped to fixed rate

[†] Swapped to floating rate

(iii) Sensitivity analysis

As at 31 March 2015, 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 \$5 million (2014: \$12 million). Other components of consolidated equity would have increased/decreased by approximately \$0.1 million (2014: \$1 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.

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.

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

(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 2015, the group is exposed to US dollar currency risk in respect of cash and bank balances of US\$148 million (2014: US\$75 million) and trade and other receivables of US\$8 million (2014: US\$8 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 2015, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB112 million (2014: RMB102 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 \$7 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

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

As at 31 March 2014 and 2015, 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 (2014: \$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.

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)*

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		
	2015			Notional amount	Financial assets	Financial liabilities
<i>\$ million</i>	Notional amount	Financial assets	Financial liabilities	Notional amount	Financial assets	Financial liabilities
Cash flow hedges						
Interest rate swaps	\$200	–	(1)	\$200	–	(1)
Fair value hedges						
Interest rate swaps	\$800	14	(11)	\$1,300	13	(50)
Total		14	(12)		13	(51)
Less: portion to be recovered/ (settled) within one year						
Cash flow hedges						
Interest rate swaps	\$200	–	(1)	\$200	–	(1)
Fair value hedges						
Interest rate swaps	\$800	5	–	\$1,300	5	–
		5	(1)		5	(1)
Portion to be recovered/ (settled) after one year						
		9	(11)		8	(50)

Derivative financial instruments qualifying as cash flow hedges as at 31 March 2015 have a maturity of less than one year (2014: one year) from the end of the reporting period.

Derivative financial instruments qualifying as fair value hedges as at 31 March 2015 have a maturity of one year to 7.5 years (2014: less than one year to 8.5 years) from the end of the reporting period.

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.

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

(e) Fair value measurement (continued)

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

As at 31 March 2015, the carrying value and fair value of fixed rate notes of notional amount of \$2,600 million (2014: \$3,100 million), amounted to \$2,584 million and \$2,824 million (2014: \$3,044 million and \$3,134 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

<i>\$ million</i>	2015	2014
Commitments outstanding not provided for in the financial statements are as follows:		
Capital expenditure		
Contracted for	2,301	4,299
Authorised but not contracted for	8,504	2,976
	10,805	7,275

In January 2015, the Authority recommended the 3RS to the Executive Council which, having considered such recommendations, affirmed the need for the 3RS on 17 March 2015. In this regard, the capital cost for this project is estimated to be \$141.5 billion in money-of-the-day prices, which was approved by the Board in December 2014.

The outstanding commitments of the group's joint venture, HXIA, are separately disclosed in note 13(a).

23. 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.

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.

23. Material related party transactions (continued)

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 \$135 million (2014: \$144 million). As at 31 March 2015, the amounts due to the Government with respect to the above services amounted to \$99 million (2014: \$87 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 \$854 million (2014: \$850 million) and the amounts due to the Government as at 31 March 2015 with respect to the above services amounted to \$0.3 million (2014: \$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 23(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% (2014: 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 \$82 million (2014: \$61 million). As at 31 March 2015, the amounts due to MTRC with respect to the maintenance services amounted to \$43 million (2014: \$28 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 \$26 million (2014: \$22 million). As at 31 March 2015, the aggregate amounts due from these departments, agencies or entities amounted to \$1.1 million (2014: \$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 \$46 million (2014: \$32 million). As at 31 March 2015, there was no outstanding amount due from HKITP (2014: \$nil).

23. Material related party transactions (continued)

- (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 \$71 million (2014: \$48 million). As at 31 March 2015, the aggregate amounts due from these departments, agencies or entities amounted to \$6 million (2014: \$4 million).
- (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 \$32 million (2014: \$50 million). As at 31 March 2015, the amounts due to the contractor with respect to these works amounted to \$13 million (2014: \$23 million).

24. Immediate and ultimate controlling party

As at 31 March 2015, the immediate parent and ultimate controlling party of the group is the Government.

25. 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.

25. Accounting judgements and estimates (continued)

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

(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 2015, the group's share of net assets of HXIA includes \$856 million (2014: \$731 million) in respect of such non-distributable ACF.

(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 are 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.

26. Summary of significant accounting policies

(a) Changes in accounting policies

The HKICPA has issued a number of 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 32, "*Financial instruments: Presentation – Offsetting financial assets and financial liabilities*"
- Amendments to HKAS 36, "*Impairment of assets – Recoverable amount disclosures for non-financial assets*"
- Amendments to HKAS 39, "*Financial instruments: Recognition and measurement – Novation of derivatives and continuation of hedge accounting*"

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. These amendments do not have an impact on the consolidated financial statements.

The amendments to HKAS 36 modify the disclosures requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for impaired assets or cash-generating units the recoverable amount of which is based on fair value less costs of disposal. The adoption of these amendments does not have an impact on the consolidated financial statements.

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments do not have an impact on the consolidated financial statements as the group has not novated any of its derivatives.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(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.

26. Summary of significant accounting policies (continued)

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

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 26(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.

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 26(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 26(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.

26. Summary of significant accounting policies (continued)

(c) Joint ventures (continued)

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 26(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.

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 26(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.

26. Summary of significant accounting policies (continued)

(f) Accounting for derivative financial instruments and hedging activities (continued)

(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 26(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 26(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 26(s).

(iii) Other property, plant and equipment are stated in the statement of financial position at cost less accumulated depreciation and impairment losses (note 26(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 26(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 26(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.

26. Summary of significant accounting policies (continued)

(g) Fixed assets (continued)

(vii) Leased assets (continued)

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 26(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 26(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.

(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.

26. Summary of significant accounting policies (continued)

(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 26(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 the end of each 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.

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.

(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.

26. Summary of significant accounting policies (continued)

(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.

(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.

26. Summary of significant accounting policies (continued)

(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.

- (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)).

26. Summary of significant accounting policies (continued)

(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.

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 the 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.

26. Summary of significant accounting policies (continued)

(q) Income tax (continued)

(iii) (continued)

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.

(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.

26. Summary of significant accounting policies (continued)

(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.
- (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.

26. Summary of significant accounting policies (continued)

(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.

26. 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.

27. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2015

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2015 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 19, " <i>Defined benefit plans: Employee contributions</i> "	1 July 2014
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, " <i>Accounting for acquisitions of interests in joint operations</i> "	1 January 2016
Amendments to HKAS 16 and HKAS 38, " <i>Clarification of acceptable methods of depreciation and amortisation</i> "	1 January 2016
Annual improvements to HKFRSs 2012-2014 cycle	1 January 2016
Amendments to HKAS 1, " <i>Presentation of financial statements</i> "	1 January 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, " <i>Investment entities</i> "	1 January 2016
HKFRS 15, " <i>Revenue from contracts with customers</i> "	1 January 2017
HKFRS 9, " <i>Financial instruments</i> "	1 January 2018

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.

Five-year Financial and Operational Summary

<i>(in HK\$ million)</i>	10/11 Restated ⁴	11/12 Restated ⁴	12/13 Restated ⁴	13/14	14/15
Consolidated statement of profit or loss					
Turnover	10,583	12,154	13,134	14,810	16,367
Operating expenses before depreciation and amortisation	(3,582)	(3,928)	(4,282)	(4,872)	(5,053)
EBITDA	7,001	8,226	8,852	9,938	11,314
Depreciation and amortisation	(2,207)	(2,221)	(2,208)	(2,248)	(2,420)
Net interest and finance (costs)/income	(195)	(174)	(121)	(13)	33
Share of results of joint ventures	239	522	211	77	137
Profit before taxation	4,838	6,353	6,734	7,754	9,064
Income tax	(810)	(1,020)	(1,111)	(1,306)	(1,794)
Profit for the year	4,028	5,333	5,623	6,448	7,270
Attributable to:					
Equity shareholder of the Authority	4,025	5,329	5,615	6,454	7,254
Non-controlling interests	3	4	8	(6)	16
Consolidated statement of financial position					
Non-current assets	48,165	47,712	48,890	51,482	53,474
Current assets	2,185	3,652	4,802	5,394	4,587
Current liabilities	(2,666)	(2,679)	(5,590)	(4,776)	(5,813)
Net current (liabilities)/assets	(481)	973	(788)	618	(1,226)
Total assets less current liabilities	47,684	48,685	48,102	52,100	52,248
Non-current liabilities	(11,392)	(10,161)	(7,732)	(9,581)	(7,811)
Net assets	36,292	38,524	40,370	42,519	44,437
Share capital	30,648	30,648	30,648	30,648	30,648
Reserves	5,432	7,653	9,489	11,642	13,546
Non-controlling interests	212	223	233	229	243
Total equity	36,292	38,524	40,370	42,519	44,437
Key financial and operational statistics					
Dividend declared <i>(HK\$ million)</i>	3,100	3,900	4,400	5,300	–
Return on equity	11.1%	14.3%	14.3%	15.6%	16.7%
Total debt/capital ratio	16%	13%	13%	10%	7%
Passenger traffic ^{1,2} <i>(millions of passengers)</i>	51.5	54.9	57.2	60.7	64.7
Cargo throughput ^{1,3} <i>(millions of tonnes)</i>	4.2	3.9	4.0	4.2	4.4
Aircraft movements ¹ <i>(thousands)</i>	316	339	355	377	396

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 Figures from 2010/11 to 2012/13 are restated to comply with Revised HKAS 19, "Employee benefits" which became effective for accounting periods beginning on or after 1 January 2013, to the extent such revised accounting standard was adopted retrospectively.

Airlines Operating at HKIA as at March 2015

Aeroflot Russian Airlines	China Airlines	Kalitta Air*	Scoot
AeroLogic*	China Cargo Airlines*	K-Mile Air*	SF Airlines*
Air Astana	China Eastern Airlines	Kenya Airways	Shanghai Airlines
Air Busan	China Southern	KLM Royal Dutch Airlines	Shenzhen Airlines
Air Canada	City Airways	Korean Air	Siam Air
Air China	Delta Air Lines	LLC Globus	Sichuan Airlines
Air France	Dragonair	Lufthansa	Silk Way West Airlines*
Air Hong Kong*	Eastar Jet	Lufthansa Cargo*	Singapore Airlines
Air India	EL AL Israel Airlines	Malaysia Airlines	Singapore Airlines Cargo*
Air Mauritius	Emirates	Mandarin Airlines	South African Airways
Air New Zealand	Ethiopian Airlines	Martinair*	Southern Air Inc*
Air Niugini	Etiihad Airways*	Mega Maldives	Spring Airlines
Air Seychelles	EVA Air	MIAT Mongolian Airlines	SriLankan Airlines
AirAsia	Federal Express*	NCA*	Swiss International Air Lines
Airbridge Cargo Airline*	Fiji Airways	Nepal Airlines	Thai AirAsia
All Nippon Airways	Finnair	Orient Thai	Thai Airways
American Airlines	Garuda Indonesia	Peach Aviation	Tigerair
Asiana Airlines	HK Express	Philippine Airlines	TNT Airways S.A.*
Atlas Air*	Hong Kong Airlines	Polar Air Cargo*	Turkish Airlines
Aurora Airlines	Japan Airlines	Qantas Airways	United Airlines
Bangkok Airways	Jeju Air	Qatar Airways	UPS*
British Airways	Jestar Japan	Raya Airways*	Vanilla Air
Cargolux Airlines*	Jet Airways	Royal Brunei Airlines	Vietnam Airlines
Cargolux Italia S.P.A.*	Jetstar Asia Airways	Royal Jordanian	Virgin Atlantic Airways
Cathay Pacific	Jin Air	S7 Airlines	Xiamen Airlines
Cebu Pacific Air	Juneyao Airlines	Saudi Arabian*	Yangtze River Express*

* Freighter services only

Scheduled Destinations Served from HKIA as at March 2015

North Asia

Beihai
Beijing
Busan
Changchun
Changsha
Changzhou
Cheju
Chengdu
Chongqing
Dalian
Fukuoka
Fuzhou
Guangzhou
Guilin
Guiyang
Haikou
Hangzhou
Hefei
Hohhot
Irkutsk
Jieyang
Jinan
Jinjiang
Kagoshima
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
Xishuangbanna
Xuzhou
Yancheng
Yantai
Yinchuan
Yiwu
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
Kalibo
Koh Samui
Kota Kinabalu
Kuala Lumpur
Kuala Lumpur/Subang*
Kuching
Manila
Penang
Phnom Penh
Phuket
Siem Reap
Singapore
Surabaya
Udon Thani
Yangon

Middle East/Central Asia/ South Asia

Abu Dhabi
Almaty
Amman

Bahrain
Baku*
Bangalore
Beirut*
Chennai
Chittagong*
Colombo
Dammam*
Delhi
Dhaka
Doha
Dubai
Dubai/AI Maktoum*
Hyderabad
Jeddah
Kathmandu
Kolkata
Kuwait*
Lahore*
Mahe
Male
Mumbai
Muscat*
Novosibirsk
Riyadh
Sharjah*
Tashkent*
Tel Aviv

Europe

Amsterdam
Barcelona*
Budapest*
Cologne*
Frankfurt
Helsinki
Istanbul
Koltsovo*
Leipzig*
Liege*
London/Heathrow
Luxembourg*
Manchester
Milan/Bergamo*
Milan/Malpensa
Moscow/Domodedovo
Moscow/Sheremetyevo
Munich
Paris
Rome

Vienna*
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*
Calgary*
Chicago/O'hare
Cincinnati*
Columbus*
Dallas
Honolulu*
Houston*
Huntsville*
Indianapolis*
Los Angeles
Louisville*
Memphis*
Miami*
New York/John Kennedy
Newark
Oakland*
Ontario*
Philadelphia*
San Francisco
Seattle
Toronto
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Washington

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