



香港國際機場 | HONG KONG  
INTERNATIONAL  
AIRPORT

# HKIA

## A Hong Kong Story

Annual Report 2015/16



## Our Vision

To strengthen Hong Kong International Airport (HKIA) as the leading international aviation hub and a key engine for the economic growth of Hong Kong.

## Our Mission

To excel in the operation and development of HKIA in collaboration with our partners by:

- ▶ Upholding high standards in safety and security
- ▶ Operating efficiently with care for the environment
- ▶ Applying prudent commercial principles
- ▶ Striving to exceed customer expectations
- ▶ Valuing our people
- ▶ Fostering a culture of innovation



## Contents

02	Our Values	50	Cargo and Aviation Services
03	HKIA Facts / Performance Highlights	54	Airfield and Systems
04	Chairman's Statement	58	Mainland Projects
08	Chief Executive Officer's Statement	62	Sustainability and People
12	The Board	66	Looking Forward
14	Executive Directors	71	Financial Review
15	Financial and Operational Highlights	78	Report of the Members of the Board
16	Corporate Governance	81	Independent Auditor's Report
36	Risk Management Report	82	Consolidated Financial Statements
40	Event Highlights	135	Five-year Financial and Operational Summary
42	Passenger Services	136	Airlines and Destinations



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.



# OUR VALUES

## CARING

CARE FOR PEOPLE & ENVIRONMENT

## COMMITMENT

CAN-DO ATTITUDE & WILLING TO WALK THE EXTRA MILE

## CREATIVITY

EMBRACE CHANGE & THINK OUT OF THE BOX

## CONTINUOUS IMPROVEMENT

STRIVE FOR EXCELLENCE & CONTINUOUS LEARNING

## COLLABORATION

TEAMWORK & PARTNERSHIP

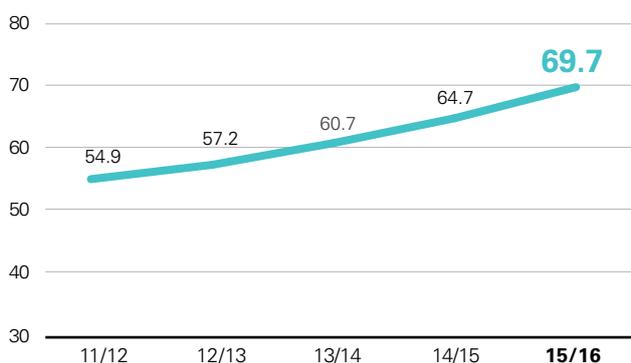
# HKIA Facts

Airport Site Area	1,255 hectares
Total Terminal Area	Over 850,000 square metres
Airlines	Over 100
Destinations	Over 190
Runways	2

## Performance Highlights

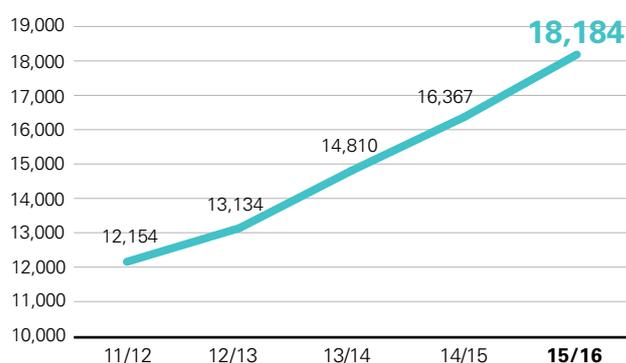
### PASSENGER TRAFFIC

(millions of passengers)



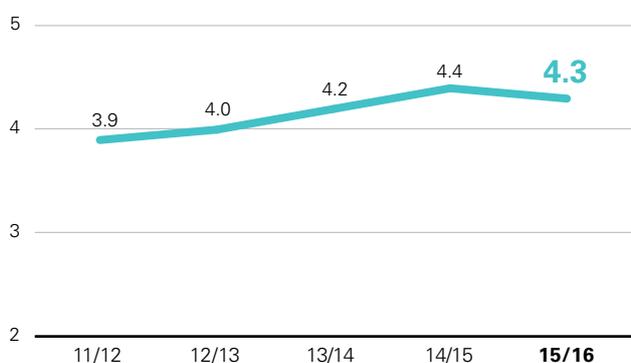
### REVENUE

(in HK\$ million)



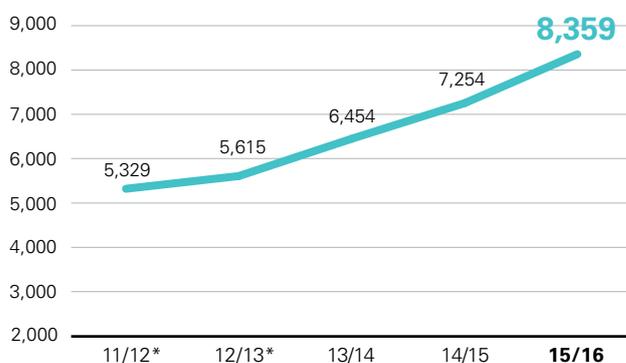
### CARGO THROUGHPUT

(millions of tonnes)



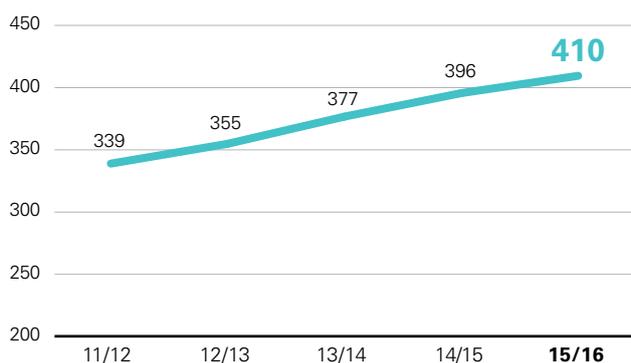
### PROFIT ATTRIBUTABLE TO THE EQUITY SHAREHOLDER

(in HK\$ million)



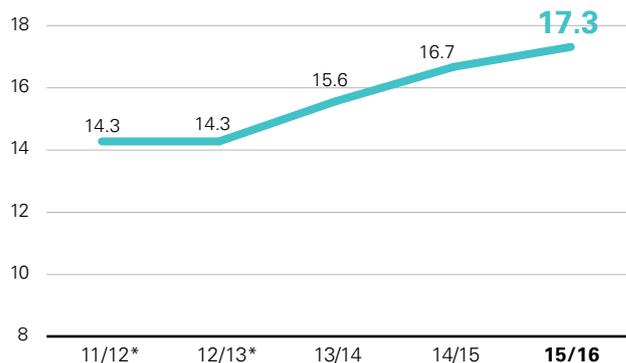
### AIRCRAFT MOVEMENTS

(thousands)



### RETURN ON EQUITY

(in percent)



\* Restated

# Chairman's Statement



## Dear Stakeholders,

Hong Kong International Airport (HKIA) enjoyed a fruitful year in 2015/16, ended 31 March 2016. Passenger volume reached 69.7 million, up 7.8% from 2014/15, and flight movements increased 3.6%, to 410,000. While cargo throughput softened 1.4% to 4.3 million tonnes, HKIA remained the world's third busiest international airport and busiest cargo airport for the sixth consecutive year.

We started year 2016 on a high note with the "Airport of the Year" award from *Air Transport World*. The prestigious trade magazine commended HKIA for its excellent partnerships with airline customers, high standards of environmentally friendly operations, innovative passenger services, and robust working relationships with local authorities to deliver excellence and drive Hong Kong's economic growth.

Our steadfast commitment to service excellence was also recognised with many other awards during the year. These honours belong to all the 73,000 members of the airport community, particularly the people working tirelessly on the front line.

**“The three-runway system project is more than a new runway. Its scale is almost equivalent to building a new airport. I have every confidence that our team has the determination and technological know-how to overcome the challenges ahead.**

### **HKIA: A Hong Kong Story**

I was honoured to take on the Chairman’s role in June 2015. Looking back on my career, I am fortunate to have been involved in quite a few public utility projects with the MTR, PCCW and the Hong Kong Trade Development Council, all of which have contributed to Hong Kong’s economic development. Today, I am thrilled to be part of the three-runway system project.

### **Expanding HKIA’s Capacity**

During the year, we celebrated a key milestone as the Midfield Concourse (MFC) was completed on schedule. An integral part of the HK\$10 billion Midfield development, the MFC includes 20 aircraft parking positions and can handle approximately 20% of HKIA’s daily flights, raising the airport’s capacity by at least 10 million passengers a year. The MFC relieves some of the pressure from HKIA’s rapidly rising passenger numbers. But to meet long-term traffic demand and maintain Hong Kong’s status as an international aviation hub, HKIA must expand into a three-runway system.



The three-runway system project is more than a new runway. Its scale is almost equivalent to building a new airport. The task is even more challenging because we will build this new infrastructure next to an operating airport. Nonetheless, I have every confidence that our team has the determination and technological know-how to overcome the challenges ahead.

Early in the year, we announced the revised financial arrangement plan for the three-runway system project. We are grateful to have received approval from the Chief Executive-in-Council for the draft Chek Lap Kok Outline Zoning Plan and authorisation of the reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance. We will start construction as soon as possible and strive to make sure that the project will be completed on time and within budget.

I would like to take this opportunity to express my gratitude to the Hong Kong SAR Government and our Board Members for their sound advice and guidance. I would also like to extend my appreciation to our staff for their hard work and dedication.



## Flying High

The airport has grown up with Hong Kong over the past century. From humble beginnings, HKIA today serves over 190 destinations worldwide with over 100 airlines. Moreover, many cities we serve are along the "One Belt One Road", making HKIA an ideal gateway for developing businesses through our country's Belt and Road initiative. With the continued support of our business partners and the Hong Kong SAR Government, I am confident that we will seize this opportunity and continue to propel Hong Kong's economic miracle.

**Jack So Chak-kwong**

*Chairman*

Hong Kong, 30 May 2016

# Chief Executive Officer's Statement



## Dear Stakeholders,

Fiscal 2015/16, ended 31 March 2016, was a remarkable year for Hong Kong International Airport (HKIA).

During the year, the Midfield Concourse (MFC) commenced operation in time to relieve some of the capacity constraints from our rapidly growing passenger volumes. We also introduced new technologies that help us maintain our high service standards, boost operational efficiency and enhance the airport's ambience.

## The Midfield Concourse

The 105,000-square-metre, five-storey MFC entered full operation in March 2016. The new concourse serves over 200 flights per day, or about 20% of HKIA's daily passenger flights.

In addition to providing much-needed capacity, the MFC includes passenger-focused facilities that make travelling more pleasant. Seating with built-in power and USB charging outlets for mobile devices, children's play areas and automatic paper towel dispensers in the washrooms are just a few examples of this approach.

**“During the year, the Midfield Concourse commenced operation in time to relieve some of the capacity constraints from our rapidly growing passenger volumes. We also introduced new technologies that help us maintain our high service standards, boost operational efficiency and enhance the airport’s ambience.**

The MFC is also a showcase for our commitment to sustainability. Thirty-five green initiatives and many green technologies were used in the building’s design, construction materials and methods.

### **A Smart Airport**

Through a 10-year roadmap, in 2015/16 we started introducing new technologies to make HKIA a smart airport. For example, we began implementing an airport-wide vehicle tracking programme based on the global positioning system. Over 51% of the motorised vehicles on the airside of HKIA are now equipped with tracking devices that help us deploy resources more efficiently and ensure the right vehicle is in the right place at the right time. The same technology will be installed on the remainder of the airside fleet, including non-motorised equipment.

HKIA processes more than 80,000 bags each day, so an efficient baggage handling system is crucial to the airport’s operation. During the year, we completed a trial of an ergonomic loading aid that reduces the risk of injury among baggage handlers and enhances the automation of the system. We plan to install around 160 of these devices, at a cost of HK\$165 million, by the first quarter of 2018.



In addition to behind-the-scenes improvements, we use new technologies to make the airport experience smoother for travellers. This year, we launched a self-bag drop system that lets passengers tag their luggage and accelerate the check-in process. The system is available at 20 check-in counters, a number that will grow to 120 by the end of next year. We are investigating a range of new self-service technologies, which are increasingly popular with travellers.

As electronic retailing and mobile phones have transformed the retail industry, we are introducing proximity marketing that uses iBeacon technology to “push” location-specific offers and information to travellers’ mobile devices. In the year ahead, we will continue to implement the iBeacon system and explore new business models that ensure the airport’s retail environment is compelling and relevant to travellers’ changing tastes.

### A Sense of Place

Each year, HKIA welcomes millions of visitors and shapes their first impression of Hong Kong. As a global gateway, we have a powerful opportunity to promote our city’s unique culture and history.

This year, we focused on creating a sense of place at HKIA by introducing the “I Love Hong Kong” retail zone. A range of local products — including festive food, local snacks and Chinese clothing — is available in the zone, giving passengers a chance to take home a piece of Hong Kong.

We also highlighted local artists and musicians through “Hong Kong Classics: Art, Culture and Music,” a six-month-long festival that featured paintings, sculpture, photographs and performances of Cantopop, jazz and classical music. An Arts and Culture Advisory Committee was established to give advice on future events and make HKIA a place that travellers enjoy and want to revisit.



## People are the Key

To meet the evolving business needs of Airport Authority Hong Kong (AAHK) and ensure our continued success, during the year we refined several elements of our human resources strategy.

We revamped our management trainee programme and leadership competency models to better develop future leaders. We also improved staff welfare programmes to create an excellent working environment.

In light of our expansion plans, every member of our staff must share a common vision. This year, we updated AAHK's vision, mission and values and introduced a new employee value proposition that describes our commitment to our employees. In 2016/17, we will organise a series of programmes to ensure our staff fully understand and embrace AAHK's values.

During the year, our efforts to attract and retain talent were recognised with the "Employer of Choice Award 2015" from JobMarket.

In 2015/16, we witnessed many exciting milestones at HKIA. With the support and dedication of the entire airport community, I am confident that we will achieve another outstanding year in 2016/17.

**Fred Lam Tin-fuk**

*Chief Executive Officer*

Hong Kong, 30 May 2016

# The Board



Mr Jack So Chak-kwong



Mr Fred Lam Tin-fuk



Professor the Hon K C Chan



Mr Edward Cheng Wai-sun



Mr Franklin Lam Fan-keung



The Hon Jeffrey Lam Kin-fung



Ir Lee Shing-see



Mr Simon Li Tin-chui

## Mr Jack So Chak-kwong GBS OBE JP Chairman

Aged 71. Appointed as Chairman of the Board in June 2015. Former Chairman of the Hong Kong Trade Development Council (HKTDCC). Non-official member of the Economic Development Commission. Chairman of Harrow International School Hong Kong. Vice Chairman of the Hong Kong Philharmonic Society. Member of the Chinese People's Political Consultative Conference. Honorary Consultant to the Mayor of San Francisco and former International Business Advisor to the Mayor of Beijing. Member of Lantau Development Advisory Committee of HKSARG. Independent non-executive Director of AIA Group Ltd and China Resources Power Holdings Company Ltd. Senior advisor to Credit Suisse, Greater China, and Advisor to The Hong Kong & China Gas Company Ltd. Mr So served as Executive Director of the HKTDCC from 1985 to 1992. He became Chairman and Chief Executive of the MTR Corporation in 1995. He was Deputy Chairman and Group Managing Director of PCCW from 2003 to 2007 and Independent Director of HSBC from 2000 to 2007.

## Mr Fred Lam Tin-fuk JP Chief Executive Officer\*

Aged 57. Appointed as Chief Executive Officer in October 2014. Former Executive Director of the Hong Kong Trade Development Council (HKTDCC). 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 59. 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.

## Mr Edward Cheng Wai-sun SBS JP

Aged 61. 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. 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 63. 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 and Port Board, Hong Kong Logistics Development Council and Aviation Development and Three-runway System 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.

## Mr Andrew Fung Hau-chung JP

Aged 58. Appointed to the Board in June 2015. Executive Director and Head of Global Banking and Markets of the Hang Seng Bank Limited. Associate Member of the Central Policy Unit of HKSARG. Member of Energy Advisory Committee of the HKSARG Environment Bureau. Lay Member of the Council of the Hong Kong Institute of Certified Public Accountants. Member of the Hospital Authority. Member of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of HKSARG. Non-official Member of the Independent Commission on Remuneration for Members of the District Councils of the HKSAR. Member of the Protection of Wages on Insolvency Fund Board of the HKSARG Labour Department. Board member of the Community Chest of Hong Kong.

## Ms Anita Fung Yuen-mei BBS JP

Aged 55. Appointed to the Board in June 2010 and re-appointed till 31 May 2017. 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 Financial Infrastructure Sub-Committee of the Exchange Fund Advisory Committee of Hong Kong Monetary Authority. Founding member of the Advisory Council to the Board of Directors of The Australian Chamber of Commerce Hong Kong & Macau. Non-official Member of the Hong Kong Housing Authority, Director of the Hong Kong Mortgage Corporation Limited and Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited.



**Professor the Hon Anthony Cheung Bing-leung**



**Mr Andrew Fung Hau-chung**



**Ms Anita Fung Yuen-mei**



**The Hon Steven Ho Chun-yin**



**Mr Peter To**



**Ir Billy Wong Wing-hoo**



**The Hon Frankie Yick Chi-ming**



**Dr Allan Zeman**

### **The Honourable**

#### **Steven Ho Chun-yin** BBS

Aged 36. Appointed to the Board in January 2016. Member of the Legislative Council representing the constituency of Agriculture and Fisheries. Member of the Finance Committee & House Committee of the Legislative Council. Deputy Chairman of the Panel on Food Safety and Environmental Hygiene. Member of the Panels on Administration of Justice & Legal Services, Constitutional Affairs, Economic Development, Education, Environmental Affairs, Home Affairs, Information Technology and Broadcasting of the Legislative Council.

#### **Mr Franklin Lam Fan-keung** BBS

Aged 55. 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 64. 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. Chairman of the Complaints Committee of Independent Commission Against Corruption. Member of the Fight Crime Committee. Member of the 12th National Committee of Chinese People's Political Consultative Conference. Director of the Hong Kong Mortgage Corporation Limited.

#### **Ir Lee Shing-see** GBS OBE JP

Aged 74. 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. Former Chairman of the Construction Industry Council. Vice Chairman of CreateSmart Initiative Vetting Committee. Member of the Committee on Education, Employment and Training of the Commission on Poverty.

#### **Mr Simon Li Tin-chui** JP

##### **Director-General of Civil Aviation\***

Aged 57. Became a Board Member in May 2016 upon his appointment as Director-General of Civil Aviation.

#### **Mr Peter To**

Aged 68. Appointed to the Board in June 2014. Former Director of the Urban Renewal Authority (1.5.2007 - 30.4.2013).

#### **Ir Billy Wong Wing-hoo** BBS JP

Aged 58. Appointed to the Board in June 2015. Mr Wong is Senior Vice President of Henderson (China) Investment Co. Ltd. and General Manager of the Construction Department of Henderson Land Development Co. Ltd. Fellow member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Institution of Highways and Transportation and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance Chapter 409. Mr Wong is currently a Director of Hong Kong Science & Technology Parks Corporation and Permanent Supervisor of Hong Kong Construction Association.

### **The Honourable**

#### **Frankie Yick Chi-ming** JP

Aged 62. 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.

#### **Dr Allan Zeman** GBM GBS JP

Aged 67. Appointed to the Board in June 2015. Chairman of Lan Kwai Fong Group and owner of Paradise Properties Group. Independent Non-executive Director of Pacific Century Premium Developments Limited, Sino Land Company Limited, Tsim Sha Tsui Properties Limited, Global Brands Group and Television Broadcasts Limited. Board of Director and Vice Chairman of Wynn Macau Limited. Director of the "Star" Ferry Company, Limited. Member of the Board of West Kowloon Cultural District Authority and the Chairman of its Performing Arts Committee, the Economic Development Commission of Hong Kong, the General Committee of the Hong Kong General Chamber of Commerce, the Board of Governors of The Canadian Chamber of Commerce in Hong Kong and the Asian Advisory Board of the Richard Ivey School of Business, The University of Western Ontario. Board of Director of the Alibaba Entrepreneurs Fund. Representative of Hong Kong China to the APEC Business Advisory Council (ABAC). Governor of the Our Hong Kong Foundation. Honorary Advisor of Tai Shue Wan Steering Group of the Ocean Park. Vice Patron of the Hong Kong Community Chest.

\* Member by virtue of being holder of the post

#### **Secretary to the Board**

##### **Mr H Y Shu**

#### **Auditors**

##### **KPMG**

# Executive Directors



Mr David Au Ho-cheung



Mr John Chai Sung-veng



Ms Cissy Chan Ching-sze



Ms Florence Chung Wai-yee



Mr Wilson Fung Wing-yip



Mr William Lo Chi-chung



Mr Ng Chi-kee



Mr Kevin Poole

## Mr David Au Ho-cheung

### Executive Director, Property Development

Aged 59. Holds a Master of Architecture degree and Bachelor of Science degree in Architecture from University of Michigan, U.S.A. Mr Au was appointed in May 2015. Before joining the Airport Authority, Mr Au was the Director of Sun Hung Kai Development (China) Limited and Project Director of Sun Hung Kai Properties Limited. He has over 30 years of design, planning, management and project development experience particularly on large, complex development projects with architectural firm and major developers in Hong Kong. He is a Registered Architect and Authorized Person in Hong Kong with PRC Class 1 Registered Architect Qualification.

## Mr John Chai Sung-veng

### Executive Director, Engineering & Technology

Aged 65. 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 50. 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-yee

### Executive Director, Human Resources & Administration

Aged 52. 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 52. 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 56. An MBA graduate from Warwick University in the United Kingdom. Mr Lo was appointed in July 2010. Before joining the Airport Authority, Mr Lo was Group Senior Director (Finance and Administration) of Vitasoy International Holdings Limited and has had more than

25 years of wide-ranging experience in auditing, accounting, finance management and control, corporate finance and investor relations. 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 61. Holds a Bachelor Degree in Applied Economics from the UK. Joined the Airport Authority in 1996 and was appointed Executive Director in March 2012. Mr Ng was previously the Deputy Director, Airport Operations of AAHK. With more than 27 years of experience in airport management, he has held a number of managerial and senior management positions in the fields of airfield operations, passenger services, security operation, commercial and property, technical administration and systems management since the Kai Tak Airport days to the present time. He is a Director of Hong Kong – Zhuhai Airport Management Company Limited.

## Mr Kevin Poole

### Executive Director, Third Runway

Aged 58. Holds a Bachelor Degree in Civil Engineering from the UK. Mr Poole was appointed Executive Director in February 2016. Previously the Acting Executive Director, Third Runway, Mr Poole has more than 30 years of experience in the building and civil engineering field specialising in major multi-disciplined infrastructure and building projects. Mr Poole is active in the Hong Kong engineering community being a member of the Construction Industry Council and Chairman of the Committee on Environment, Innovation and Technology.

# Financial and Operational Highlights

	2015/16	2014/15	±% <sup>1</sup>
<b>Financial results</b>			
<i>(in HK\$ million)</i>			
Revenue	<b>18,184</b>	16,367	+11.1%
EBITDA	<b>12,336</b>	11,314	+9.0%
Depreciation and amortisation	<b>2,813</b>	2,420	+16.2%
Net interest and finance income	<b>28</b>	33	-15.2%
Profit attributable to the equity shareholder	<b>8,359</b>	7,254	+15.2%
Dividend declared	–	–	
<b>Financial position and ratios</b>			
<i>(in HK\$ million)</i>			
Total assets	<b>64,992</b>	58,061	+11.9%
Total borrowings	<b>2,592</b>	3,382	-23.4%
Total equity	<b>52,558</b>	44,437	+18.3%
Return on equity	<b>17.3%</b>	16.7%	
Total debt/capital ratio	<b>5%</b>	7%	
<b>Credit ratings</b>			
Standard & Poor's:			
Long-term local currency	<b>AAA</b>	AAA	
Long-term foreign currency	<b>AAA</b>	AAA	
<b>Operational highlights<sup>2</sup></b>			
Passenger traffic <sup>3</sup> <i>(millions of passengers)</i>	<b>69.7</b>	64.7	+7.8%
Cargo throughput <sup>4</sup> <i>(millions of tonnes)</i>	<b>4.3</b>	4.4	-1.4%
Aircraft movements <i>(thousands)</i>	<b>410</b>	396	+3.6%

<sup>1</sup> Subject to rounding differences.

<sup>2</sup> Operational highlights is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.

<sup>3</sup> Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

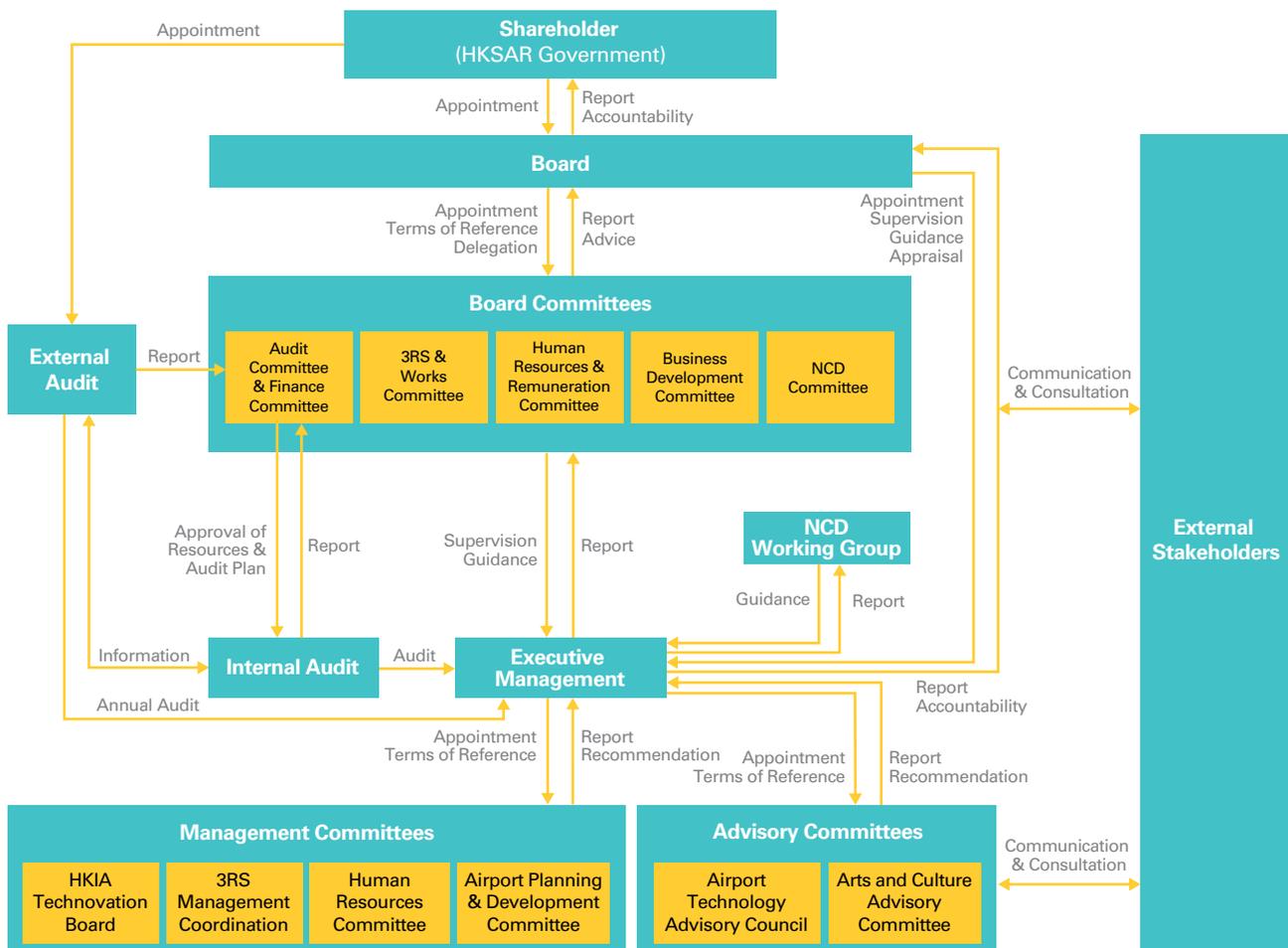
<sup>4</sup> Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

# 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 essential to attaining long-term sustainable growth. We strive to achieve this commitment by institutionalising a clear and comprehensive governance framework and fostering an ethical and responsible culture at all levels of the organisation.

Key features of our corporate governance framework are described below:

## CORPORATE GOVERNANCE STRUCTURE



### The Board

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

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

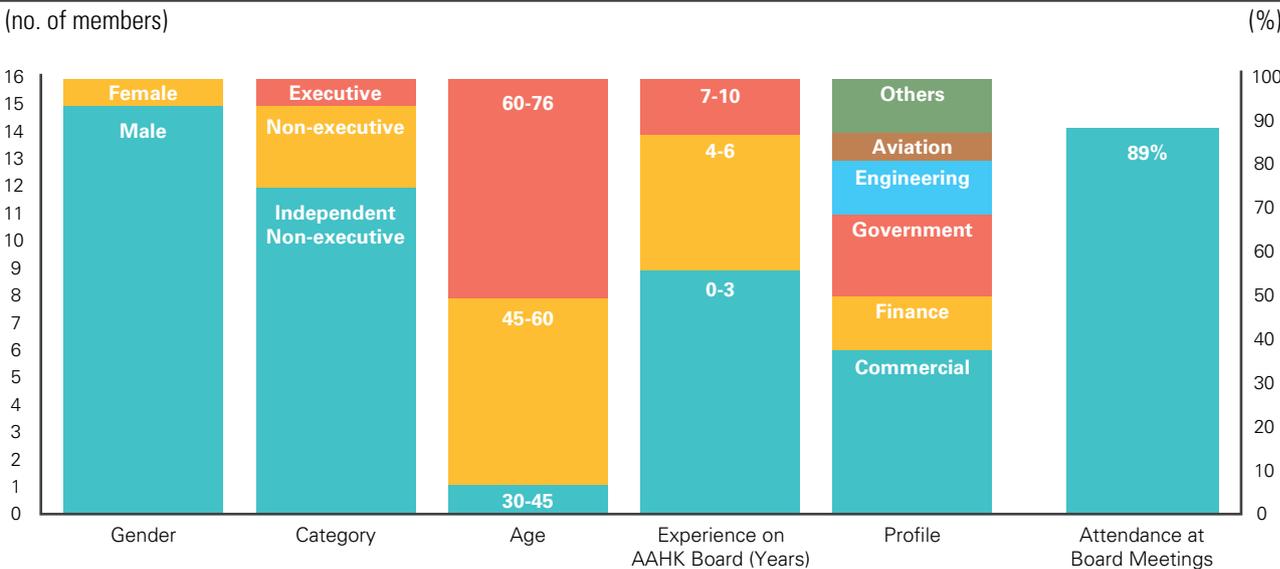
### Board Structure

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 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 independent<sup>1</sup>. 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 (HKSAR). With the exception of the Chief Executive Officer who is an ex officio member, the Chairman and all other Board Members are normally appointed up to a term of three years.

### Remuneration

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

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

### Training

Tailored induction programmes are arranged for newly appointed Chairman and Board Members. The programmes consist of a series of meetings with the Chief Executive Officer, Executive Directors and Management, briefings on airport operations, aviation security and major developments, and visits to airport facilities to enable the new Chairman and 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 cum briefings during the year under review.

<sup>1</sup> 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, six Board meetings were held with an average attendance rate of 89%. Attendance records of individual Members are on pages 23 to 24.

A total of 55 Board papers and 1 set 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 the external auditor
- Annual dividend
- Staff remuneration, pay structure and corporate performance assessment
- 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
- Capacity enhancement
- Inter-modal transfer terminal
- Board Committee structure
- Automation
- Contingency plan
- Aviation Academy
- Development strategies

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 2015/16, there were two occasions where Members withdrew from meetings in light of their directorships in companies associated with tenderers for capital works.

## 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 on 3 July 2015. As a result of the review, the Executive Committee was dissolved and the Business Development Committee was set up, the 3RS Committee and Capital Works Committee

were merged to form the 3RS & Works Committee to deal with all works-related matters and the Remuneration Committee was renamed as the Human Resources and Remuneration Committee to look after human resources and staff engagement strategies. Currently there are five 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

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

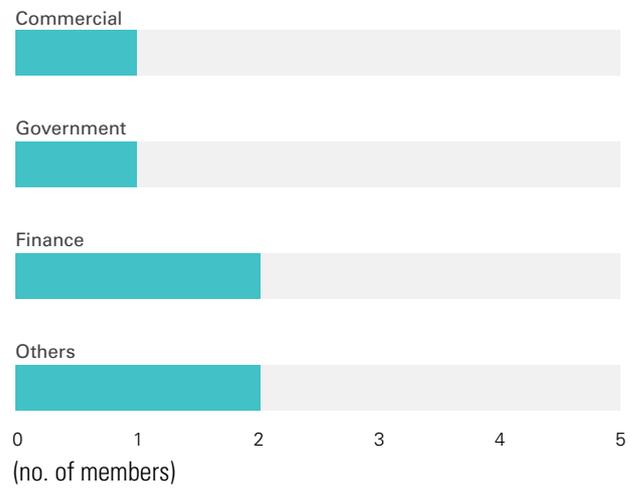
The terms of reference of Board Committees are reviewed from time to time in light of AAHK's evolving operational, business and development needs. A review was last conducted in 2015 to ensure that there were no material gaps or overlaps between the remits of the Committees. The terms of reference of Board Committees are available on HKIA's website at [www.hongkongairport.com](http://www.hongkongairport.com).

The composition of Board Committees was last reviewed and approved by the Board in July 2015. Excluding the Chief Executive Officer and public officers, each independent Board Member serves on average of about 1.8 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, five of whom are independent

Chairman: Ms Anita Fung Yuen-mei

Members: Mr Andrew Fung Hau-chung  
the Hon Steven Ho Chun-yin  
Mr Franklin Lam Fan-keung  
the Hon Jeffrey Lam Kin-fung  
the Secretary for Financial Services and the Treasury

**Meetings and Papers:** The ACFC met four times during the year with an average attendance rate of 83%. Attendance records of individual members are set out on pages 23 to 24. A total of 20 Committee papers were considered or resolved.

#### Principal duties:

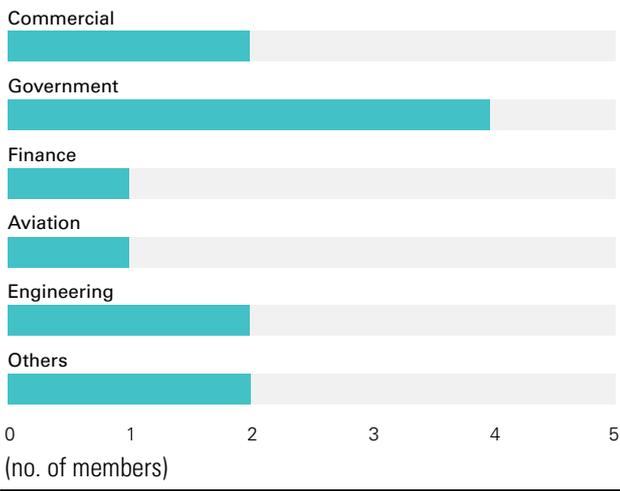
- Reviews financial statements
- Makes recommendations on the appointment of the external auditor, approves its remuneration and terms of engagement and oversees AAHK's relations with the external auditor
- Reviews accounting policies, annual budget, five-year financial plan and charging policies
- Oversees 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
- External auditor’s audit report, objectivity and effectiveness of audit process
- Appointment of the 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 programmes and budget
- Annual internal audit programme and quarterly internal audit reports
- Effectiveness of the internal audit function
- Revolving credit facility refinancing
- Adjustment of airport charges at HKIA

**3RS & Works Committee (3RSWC)**

**MEMBERS’ PROFILE – 3RSWC**



**Membership:**

Twelve members in total (including three co-opted members), eight of whom are independent

Chairman:

Ir Lee Shing-see

Members:

- the Hon Steven Ho Chun-yin
- Ir Billy Wong Wing-hoo
- the Hon Frankie Yick Chi-ming
- Dr Allan Zeman
- 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 3RSWC met seven times during the year with an average attendance rate of 75%. Attendance records of individual members are set out on pages 23 to 24. A total of 41 Committee papers were considered or resolved.

**Principal duties:**

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

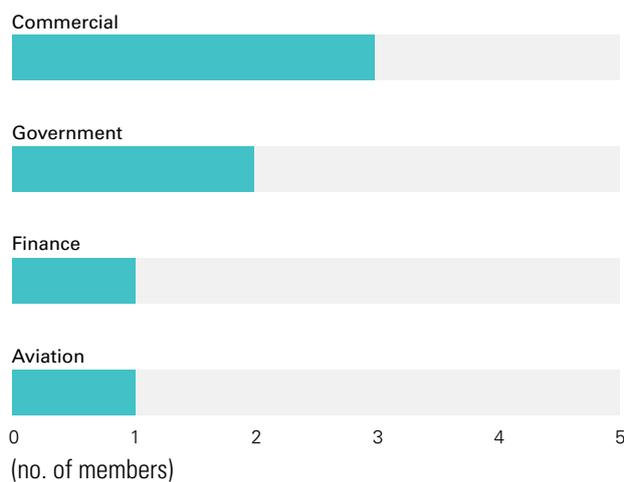
- Advises and makes recommendations to the Board on all key works-related matters relating to the 3RS and other capital works projects
- Reviews and approves procurement strategy and evaluation criteria for the 3RS and works contracts and consultancy agreements
- Reviews and approves or makes recommendations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

**Key matters considered or resolved:**

- Annual capital works budget and five-year capital works plan
- Midfield development
- 3RS project planning
- Terminal 1 capacity enhancement works
- Provision of airport facilities
- Airport improvement and maintenance works
- Progress Reports on the 3RS and major capital works and projects
- Procurement strategies and award of works contracts

**Business Development Committee (BDC)**

**MEMBERS' PROFILE – BDC**



**Membership:** Seven members in total, four of whom are independent

Chairman: Dr Allan Zeman

Members: Mr Andrew Fung Hau-chung  
Mr Peter To  
the Hon Frankie Yick Chi-ming  
Mr Fred Lam Tin-fuk  
the Secretary for Transport and Housing  
the Director-General of Civil Aviation

**Meetings:** The BDC met twice during the year with an average attendance rate of 93%. Attendance records of individual members are set out on pages 23 to 24. A total of 7 Committee papers were considered.

**Principal duties:**

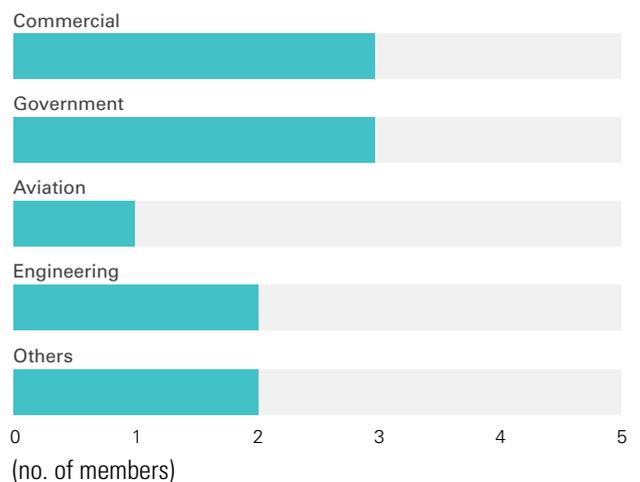
- Considers, approves and makes recommendations to the Board on:
- Business strategies relating to the development of HKIA
  - Airport commercial and business development plans and proposals other than the 3RS and NCD developments
  - Major commercial or operational commitments
  - Sustainability, PR and communication strategies

**Key matters considered or resolved:**

- Airport retail and advertising strategy
- Provision of airport facilities
- Procurement strategies and award of operation and service contracts

**North Commercial District Committee (NCDC)**

**MEMBERS' PROFILE – NCDC**



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

Chairman: Mr Peter To

Members: Mr Edward Cheng Wai-sun  
Mr Franklin Lam Fan-keung  
Ir Lee Shing-see  
Ir Billy Wong Wing-hoo  
Mr Fred Lam Tin-fuk  
the Secretary for Financial Services and the Treasury  
the Secretary for Transport and Housing

Co-opted Members: the Deputy Secretary for Transport and Housing (Transport)  
 Mr Andrew Leung Chi-kwan  
 Mr Edward Leung Hoi-kwok

**Meetings:** The NCD met five times during the year with an average attendance rate of 86%. Attendance records of individual members are set out on pages 23 to 24. A total of 8 Committee papers were considered.

**Principal duties:**

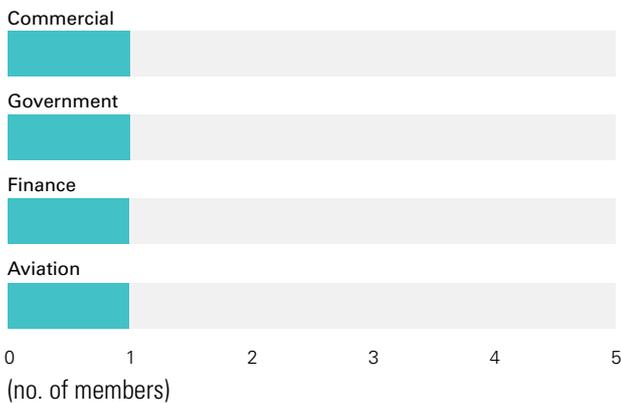
- Oversees the master planning of the NCD development
- Advises and makes recommendations to the Board on development strategies for the NCD site and monitors the progress of the NCD development
- Approves and makes recommendations to the Board on major terms and conditions of commercial tenders for the NCD development and the award of such tenders in accordance with its delegated authority
- Advises on interfacing issues between the NCD and other developments as well as connectivity issues
- Oversees and advises on marketing programmes relating to the NCD development

**Key matters considered or resolved:**

- Phase 1 of the retail development
- Marketing of the NCD
- Name and logo design of the NCD
- Hotel tender strategy and terms

**Human Resources & Remuneration Committee (HRRC)**

**MEMBERS' PROFILE – HRRC**



**Membership:** Four members in total, two of whom are independent  
 Chairman: the Hon Jeffrey Lam Kin-fung  
 Members: Ms Anita Fung Yuen-mei  
 Mr Fred Lam Tin-fuk  
 the Secretary for Transport and Housing

**Meetings:** The HRRC, which was known as the Remuneration Committee until 3 July 2015, met twice during the year with an average attendance rate of 94%. Attendance records of individual members are set out on pages 23 to 24. A total of 5 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 recommendations on the appointment of Executive Directors
- Makes recommendations on the remuneration of the Chief Executive Officer and Executive Directors
- Oversees senior management succession planning

**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 reviews of senior executives
- Corporate goals and performance measurements
- Corporate performance assessment mechanism
- Annual pay review mechanism
- Acting appointment and related allowance
- Changes to organisation structure
- Management trainee programme

## Meeting Attendance (1 April 2015 to 2 July 2015)

The Members	Board	ACFC	NCDC	RC	EC	3RSC	CWC
<b>Non-executive</b>							
Secretary for Transport and Housing	1/1		1/1	1/1	2/2	1/1	
Secretary for Financial Services and the Treasury	1/1	1/1	1/1			0/1	
Director-General of Civil Aviation	1/1	1/1	1/1	1/1		1/1	
<b>Independent Non-executive</b>							
Mr Jack So Chak-kwong <sup>1</sup>	–				1/1		
The Hon Chan Kam-lam	1/1			1/1			0/1
Mr Edward Cheng Wai-sun	1/1		1/1				
Mr Andrew Fung Hau-chung <sup>3</sup>	–	–					
Ms Anita Fung Yuen-mei	1/1	1/1		1/1 <sup>2</sup>	2/2		
The Hon Albert Ho Chun-yan	1/1	0/1				0/1	
Mr Franklin Lam Fan-keung	1/1	1/1	1/1	1/1		1/1	1/1
The Hon Jeffrey Lam Kin-fung	1/1		1/1	0/1			
Ir Lee Shing-see	1/1		1/1		2/2		1/1 <sup>2</sup>
Mr Peter To	1/1		1/1 <sup>2</sup>		2/2	1/1	
Ir Billy Wong Wing-hoo <sup>3</sup>	–		–				
The Hon Frankie Yick Chi-ming	1/1		1/1				1/1
Dr Allan Zeman <sup>3</sup>	–						
Mr Vincent Lo Hong-sui <sup>4</sup>	1/1				1/1		
Mr Benjamin Hung Pi-cheng <sup>5</sup>	1/1	1/1 <sup>6</sup>		1/1	0/1		
Ir Lo Yiu-ching <sup>5</sup>	0/1		0/1		0/1	1/1 <sup>6</sup>	
<b>Executive</b>							
Mr Fred Lam Tin-fuk (Chief Executive Officer)	1/1		1/1	1/1	2/2	1/1	1/1

Notes:

<sup>1</sup> Appointed Chairman of the Board and Executive Committee on 1 June 2015

<sup>2</sup> Chairman of the Committee throughout the term

<sup>3</sup> Appointed to the Board and Committees on 1 June and 3 July 2015 respectively

<sup>4</sup> Ceased to be Chairman of the Board and Executive Committee on 1 June 2015

<sup>5</sup> Ceased to be the Board and Committee Members on 1 June 2015

<sup>6</sup> Ceased to be Chairman of the Committee on 1 June 2015

ACFC: Audit Committee and Finance Committee

NCDC: North Commercial District Committee

RC: Remuneration Committee

EC: Executive Committee

3RSC: 3RS Committee

CWC: Capital Works Committee

**Meeting Attendance** (3 July 2015 to 31 March 2016)

<b>The Members</b>	<b>Board</b>	<b>ACFC</b>	<b>NCDC</b>	<b>BDC</b>	<b>3RSWC</b>	<b>HRRC</b>
<b>Non-executive</b>						
Secretary for Transport and Housing	5/5		4/4	2/2	5/5	1/1
Secretary for Financial Services and the Treasury	5/5	2/3	2/4		3/5	
Director-General of Civil Aviation	4/5			2/2	5/5	
<b>Independent Non-executive</b>						
Mr Jack So Chak-kwong (Chairman of the Board)	5/5					
Mr Edward Cheng Wai-sun	5/5		3/4			
Mr Andrew Fung Hau-chung	4/5	3/3		2/2		
Ms Anita Fung Yuen-mei	3/5	3/3 <sup>8</sup>				1/1
The Hon Steven Ho Chun-yin <sup>7</sup>	2/2	1/1			0/1	
Mr Franklin Lam Fan-keung	5/5	2/3	4/4			
The Hon Jeffrey Lam Kin-fung	5/5	2/3				1/1 <sup>8</sup>
Ir Lee Shing-see	5/5		4/4		5/5 <sup>8</sup>	
Mr Peter To	4/5		4/4 <sup>8</sup>	2/2		
Ir Billy Wong Wing-hoo	4/5		3/4		4/5	
The Hon Frankie Yick Chi-ming	5/5			1/2	5/5	
Dr Allan Zeman	5/5			2/2 <sup>8</sup>	3/5	
The Hon Chan Kam-lam <sup>9</sup>	3/3				3/3	
The Hon Albert Ho Chun-yan <sup>9</sup>	2/3	1/2			2/3	
<b>Executive</b>						
Mr Fred Lam Tin-fuk (Chief Executive Officer)	5/5		4/4	2/2	5/5	1/1

Notes:

<sup>7</sup> Appointed to the Board and Committees on 1 January and 25 January 2016 respectively<sup>8</sup> Chairman of the Committee throughout the term<sup>9</sup> Ceased to be Board and Committee Members on 1 January 2016

ACFC: Audit Committee and Finance Committee

3RSWC: 3RS &amp; Works Committee

NCDC: North Commercial District Committee

HRRC: Human Resources &amp; Remuneration Committee

BDC: Business Development Committee

## 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 Hong Kong SAR, on the recommendation of the Board.

The compensation of the Chief Executive Officer and the Executive Directors is reviewed and recommended by the HRRC 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.

## Key Advisory Committees and Management Committees

Apart from the five Board Committees, at management level there are advisory committees, management committees and co-ordination meetings composed primarily of Management staff that 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:

### **NCD Working Group**

The NCD development is one of the major undertakings being pursued by AAHK to capture the "Bridgehead Economy" that will be brought about by the completion of the Hong Kong-Zhuhai-Macao Bridge and the Tuen Mun-Chek Lap Kok Link. To ensure success of this important project, the NCD Working Group was formed in August 2015 which comprises the NCDC Chairman, internal management from AAHK and external advisors to assist the NCDC in previewing the details of different business models and key commercial terms proposed by consultants and to help develop relevant tender strategies for the NCD development.

### **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 AAHK senior staff and not more than eight external members.

### **HKIA Technovation Board**

The HKIA Technovation Board, chaired by the Chief Executive Officer with relevant Executive Directors and other senior staff as members, was set up in February 2015 to steer the strategic direction of technology and innovation for HKIA's development, to determine focus and priorities, to advise on the allocation of resources and to review the institutional arrangements for effective implementation of technovation programmes.

### **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.

### **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 reviewing and formulating of human resources policies and procedures to meet AAHK's 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 Planning and Development Committee**

The Airport Planning and Development Committee, chaired by the Chief Executive Officer with the Executive Directors as members, was established 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.

### **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. In 2015/16, a total of 17 inquiries were accepted and processed through AAHK's system for access to information.

## Communication

AAHK adopts an open and proactive communication policy. To promote effective communication with stakeholders and the public at large, the HKIA website contains up-to-date and comprehensive information about AAHK, and HKIA and its services. AAHK also makes use of online media such as Facebook and Instagram 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 3RS, AAHK has stepped up its efforts in engaging various stakeholders by organising and attending meetings, briefings and visits. A professional liaison group and various community liaison groups were formed to collect views from experts and community leaders. A newsletter, *3RS Bulletin*, and a dedicated website [www.threerunwaysystem.com](http://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 ([www.facebook.com/threerunwaysystem/](http://www.facebook.com/threerunwaysystem/)) 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 updates 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 Business Development Committee, the Executive Director of Corporate Development (EDCD) has responsibility for AAHK's sustainability. Under the Corporate Development Division, the Sustainability Department is responsible for developing and implementing AAHK's sustainability strategy, management and reporting systems. The EDCD chairs the Sustainability Working Group, which was established with representatives from departments across AAHK to strengthen the framework for sustainability reporting.

AAHK's Sustainability Report 2014/15 was published in October 2015. The report is prepared 'in accordance' with the internationally-recognised Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and the Airport Operators Sector Disclosures: the Core option. Moving from GRI G3.1 to GRI G4 reflects AAHK's commitment to continuous improvement by incorporating greater transparency and accountability. The content of the report was informed by a materiality assessment, which included direct engagement with a wide range of stakeholders. The report was independently verified by the Hong Kong Quality Assurance Agency.

## 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.

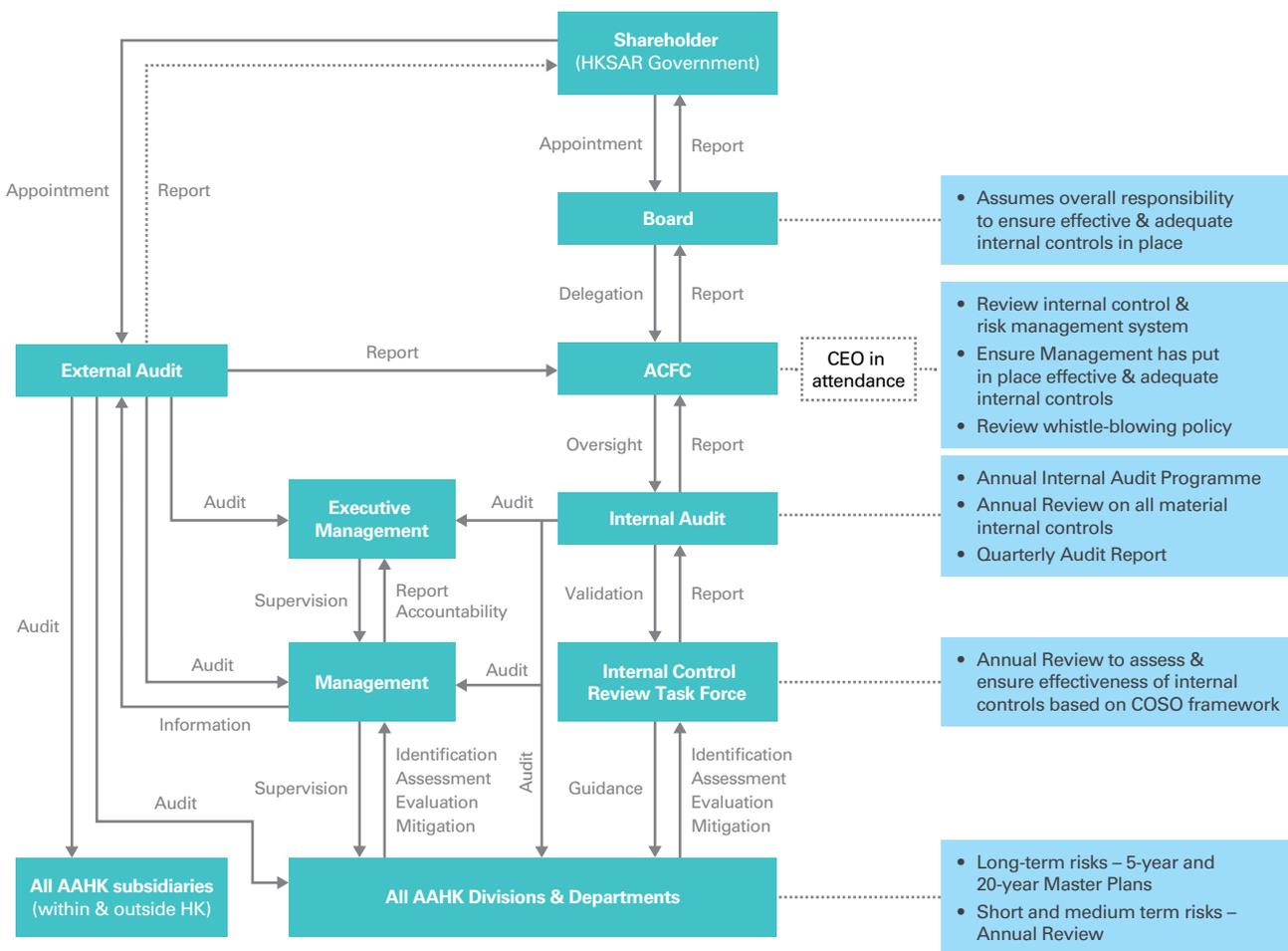
AAHK’s internal controls are designed to give reasonable assurance that:

- 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 conducted 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 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 the external auditor at least twice a year. At least one meeting is without the presence of executive management
- Receives the external auditor's reports and considers control issues raised
- Receives the 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 Hong Kong SAR, on the recommendation of the ACFC and the Board.

The external auditor for the year under review was KPMG. To ensure the independence and objectivity of the external auditor, AAHK has policies 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:

(in HK\$ million)	2015/16	2014/15
Audit fee	5	5
Fees for non-audit services	1	1

The non-audit work conducted by KPMG during 2015/16 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 to their 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 the internal controls are working as intended or 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 that 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 July 2015.

Under the current delegations, the 3RS & Works Committee, NCD Committee and Business Development Committee are delegated the power to make commitments of up to HK\$500 million for works contracts/commercial tenders 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 are 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 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 control on major capital projects is reported to and monitored by the 3RS & Works Committee at approximately bimonthly intervals.

The Board is responsible for the preparation of financial statements that give a true and fair view of AAHK's financial position and performance. The Board is assisted by the ACFC in discharging this responsibility. In preparing this year's financial statements, the Board 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 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 on this concept. Under the current structure, the Board is 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 epitomised 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.

## 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 financial position of the Group as at 31 March 2016 and of the Group's financial performance 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 been voluntarily announcing its interim financial results since 2006/07.

## Corporate Governance Code and Corporate Governance Report (CG Report)

Hong Kong Exchanges and Clearing Limited published new requirements relating to the risk management and internal control section of CG Report on 19 December 2014. Although AAHK is not required to comply with the CG Code and the new requirements will only be applicable in 2016/17, AAHK opted for an early adoption in the 2015/16 CG Report and has applied its principles and voluntarily complied with the code provisions and the recommended best practices therein except for those set out below:

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 normally appointed for a fixed term of three years. Board Members are not subject to re-election but may be re-appointed by the Chief Executive of the HKSAR pursuant to Section 3 of the Ordinance.
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.
C.2.4(e)	This code provision relates to the disclosure of the procedures and internal controls for the handling and dissemination of inside information.	

<b>Code Provisions</b>		<b>Reason for Deviation</b>
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 AAHK's objectives, strategies, operations and internal controls. Board Members are invited for airport visits cum 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.	
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 a meeting. About 65% of a total of 144 papers met the guideline in the year under review due to occasional urgent business and last minute developments of critical matters. AAHK will 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.

<b>Recommended Best Practices</b>		<b>Reason for Deviation</b>
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 because of concerns about 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 that may hinder AAHK from achieving its long-term objectives are analysed within the context of its master plan, which is compiled at five-year intervals. Risks relating to AAHK’s short- and medium-term objectives are identified and addressed annually during the preparation of the annual business plan and the rolling five-year business plan.

## Risk Management Framework

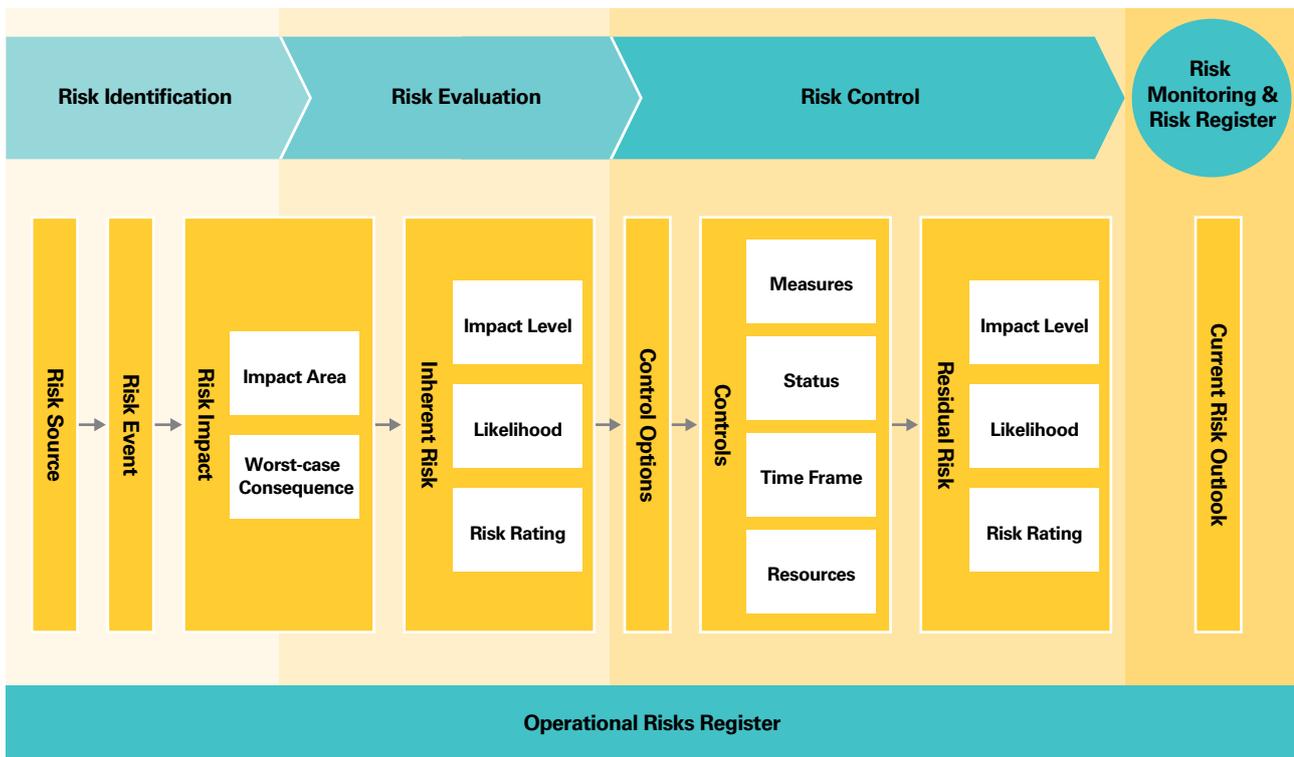
AAHK’s internal controls are designed to manage and mitigate risks, rather than eliminate risks. Risk assessment and management is a critical focus for all levels at AAHK: The Board, the Audit Committee & Finance Committee (ACFC), executive management and operating and supporting functions.

## 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, that includes 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 that 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 2015/16, 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 responsible for ensuring that AAHK has effective risk management and control systems and is assisted by the ACFC in discharging this responsibility. During the year, a review of the effectiveness of the risk management and internal control system was conducted. The Board considered the risk management and internal control systems to be effective and adequate.

## Annual Review

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

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 2015/16 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 Hong Kong International Airport (HKIA) amid ever-increasing traffic demands.

HKIA handled 69.7 million passengers, 4.3 million tonnes of cargo and 410,000 aircraft movements in 2015/16. 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 to 2030 and beyond.

Operational risks identified included potential degradation of service delivery standards, unforeseen disruptions to flow management and maintenance challenges to ageing facilities. Continuous investments in facilities upgrades and replacement projects have 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 minimised. Regular drills are 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 continued to be a key tool for the implementation of AAHK's environmental initiatives. The concept of risk management is clearly articulated in 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

AAHK and its business partners are committed to continual improvements in airport and aviation safety. Safe operations at HKIA are achieved through the concerted efforts of AAHK, airlines, ramp handlers, air traffic controllers, aircraft maintenance companies, cargo operators, flight catering companies and other key stakeholders. To this end, the standard operating procedures that cover all parts of HKIA's operations on the airfield, on the apron, at gates and in maintenance areas are reviewed regularly and all safety aspects scrutinised.

Instilling a positive safety culture from top management down has always been a priority at AAHK. Reporting safety hazards and occurrences is encouraged and monitored at all levels. HKIA maintained a very high level of safety performance in 2015/16. The Airport Composite Safety Index, which measures the rate of airport staff and passenger injuries, surpassed our target. To maintain and improve airport-wide safety performance, there have been continuous enhancements in ramp and passenger safety. A comprehensive ramp safety programme, which includes ramp operation audits, ramp safety surveillance and joint inspections, has been in place to improve

standards on the ramp. Other major safety initiatives implemented included enhancement of the safety features installed on airside passenger buses and terminal escalators.

The construction, maintenance and operation of airport facilities involve risks in the workplace that can be reduced, mitigated and transferred. AAHK has formulated a safety management system that is regularly reviewed and updated. This year, the on-line Electronic Safety Management System was launched to provide a real time safety management platform.

HKIA continues to be vigilant to the potential risks that may compromise a safe and secure operating environment. Security patrols in the landside, particularly the check-in area, have been introduced, with Aviation Security Company Limited (AVSECO) reinforcing the presence of law enforcement agencies. AAHK believes the most effective way to mitigate security risks is to implement countermeasures, and to combine them with a collaborative effort on the part of the entire airport community. To this end, AAHK has enhanced security awareness amongst airport staff through additional briefings and case sharing sessions. Moreover, in order to create a culture of security awareness amongst airport workers, an online examination system is being implemented. The system requires holders of Airport Restricted Area Permit to answer and pass a set of security questions.

To address public health risks, AAHK remained vigilant and co-ordinated closely throughout the year with the Hong Kong SAR Government and the airport community. As usual AAHK fully supported government response plans for any major disease outbreak at HKIA. Arrangements for temperature screening of arriving passengers were maintained throughout the year. In addition, public announcements were broadcast, posters were displayed and leaflets were distributed to passengers arriving from affected areas. Together with the Port Health Office, AAHK also held a series of workshops to raise awareness of public health risks amongst the airport community. In response to the Middle East Respiratory Syndrome outbreak in South Korea during the summer of 2015, special temperature screening was implemented at strategic terminal locations for flights arriving from South Korea. Major health exercises and training programmes continued to add to the airport's public health 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 reviews 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, may bring about legal consequences impacting AAHK, including damage to reputation, disruption to business or operations, and pecuniary loss associated with enforcement actions and lawsuits. Judicial reviews can delay the 3RS project, giving rise to adverse consequences impacting AAHK, including damage to reputation, and pecuniary loss associated with inflation of costs, claims' submission and review mechanism under 3RS construction contracts, enforcement of contractor's rights against AAHK such as extension of time or lawsuits. Whilst some legal risks are stand-alone, many 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 are constantly reviewed for enhancement. AAHK will continue to monitor and manage legal and regulatory risk vigilantly.

## 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.

Manpower plan up to 2023/24 and resourcing strategies have been developed to ensure a timely supply of talent. We will continue to enhance our people development framework and refine our training curriculum to ensure that our people are equipped with the necessary expertise and experience to support the growth of the airport.

## Reputational Risk

Public sentiment and socio-economic dynamics are closely monitored to manage and pre-empt possible reputational risks that may have implications for AAHK's corporate image. 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 grow in size and complexity, the risk management framework is reviewed from time to time to ensure its effectiveness and robustness, which is essential in 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

HKIA named  
**“Airport of the Year”** by  
*Air Transport World*



2



4



3



5



1

“HKG My Flight” is also selected as one of the top three most favourite mobile apps in an online public voting introduced in the recognition scheme.

## May

2 A roving exhibition entitled “Our Airport Our Future” introduces HKIA’s development plans at locations throughout Hong Kong.

AAHK wins a gold award in the Public Organisations and Utilities sector at the 2014 Hong Kong Awards for Environmental Excellence.

Boston rejoins HKIA’s network with four scheduled flights per week.

## June

3 AAHK welcomes more than 7,000 visitors to the fourth HKIA Career Expo, which offers thousands of jobs at organisations throughout the airport community. The expo features a model of HKIA that highlights behind-the-scenes operations at the airport.



6

HKIA is named “Best Airport-Asia” at the 2015 Asian Freight, Logistics and Supply Chain Awards organised by *Asia Cargo News*.

## July

4 The debut of “Hong Kong Classics: Art, Culture and Music” enlivens HKIA with a six-month-long programme and exhibitions by local artists and organisations to enhance passengers’ travelling experience and showcase the city’s unique East-meets-West culture.

HKIA expands its SkyPier ferry network in the PRD region with the commencement of services to Guangzhou Lianhuashan.

# 2015

## April

1 Airport Authority Hong Kong (AAHK) staff clinch the “Juror’s Favourite” and “Best Design” awards at “Canstruction® Hong Kong 2015”, an event where teams build giant structures using canned food.

AAHK’s “HKG My Flight” mobile app and Hong Kong International Airport (HKIA) website receive gold awards in the Web Accessibility Recognition Scheme organised by the Government Chief Information Officer and the Equal Opportunities Commission.



The Relaxation Corner opens in Terminal 1, giving passengers a comfortable, quiet place to unwind before their flight.

## August

**5** The “HKIA in Focus” photo exhibition is launched, showcasing different perspectives of HKIA’s iconic beauty.

Online travel platform *Australian Business Traveller* names HKIA “Best International Airport” for 2015, citing the airport’s compact, traveller-friendly footprint and excellent transport links.

## September

**6** The inaugural HKIA Technovation Conference and Exhibition highlights technology solutions and opportunities for the airport community and local start-ups.

AAHK announces the revised financial arrangement plan for the three-runway system project.

## October

**7** HKIA wins “Asia Pacific Airport of the Year–Industry Choice” award by air cargo publication *Payload Asia* for the second consecutive year and is again named to the Travel Hall of Fame by TTG Travel Awards.

## November

**8** *Inspiration* — Hong Kong’s first locally-built and certified aircraft — successfully completes its maiden flight from HKIA’s North Runway.

HKIA is recognised as the “Best Airport in China” by *Business Traveller China* magazine.

## December

**9** Located to the west of Terminal 1 and between the two existing runways, the Midfield Concourse is completed on schedule.

AAHK signs a five-year, HK\$5 billion revolving credit facility with 21 local and international banks.

AAHK wraps up the month-long “Give Me 5 in the Airport” campaign, which recognises customer service excellence by encouraging travellers to vote for outstanding airport staff.

# 2016

## January

**10** For the third year, AAHK works with Link Asset Management Limited and The Salvation Army Hong Kong and Macao Command to collect more than 61,000 gifts and donate them to underprivileged children.

AAHK and Shenzhen Airport Management Company Limited sign an agreement to strengthen co-operation between HKIA and Shenzhen Bao’an International Airport.

## February

**11** HKIA is named “Airport of the Year” at the Airline Industry Achievement Awards 2016 organised by the long-established aviation magazine *Air Transport World*.

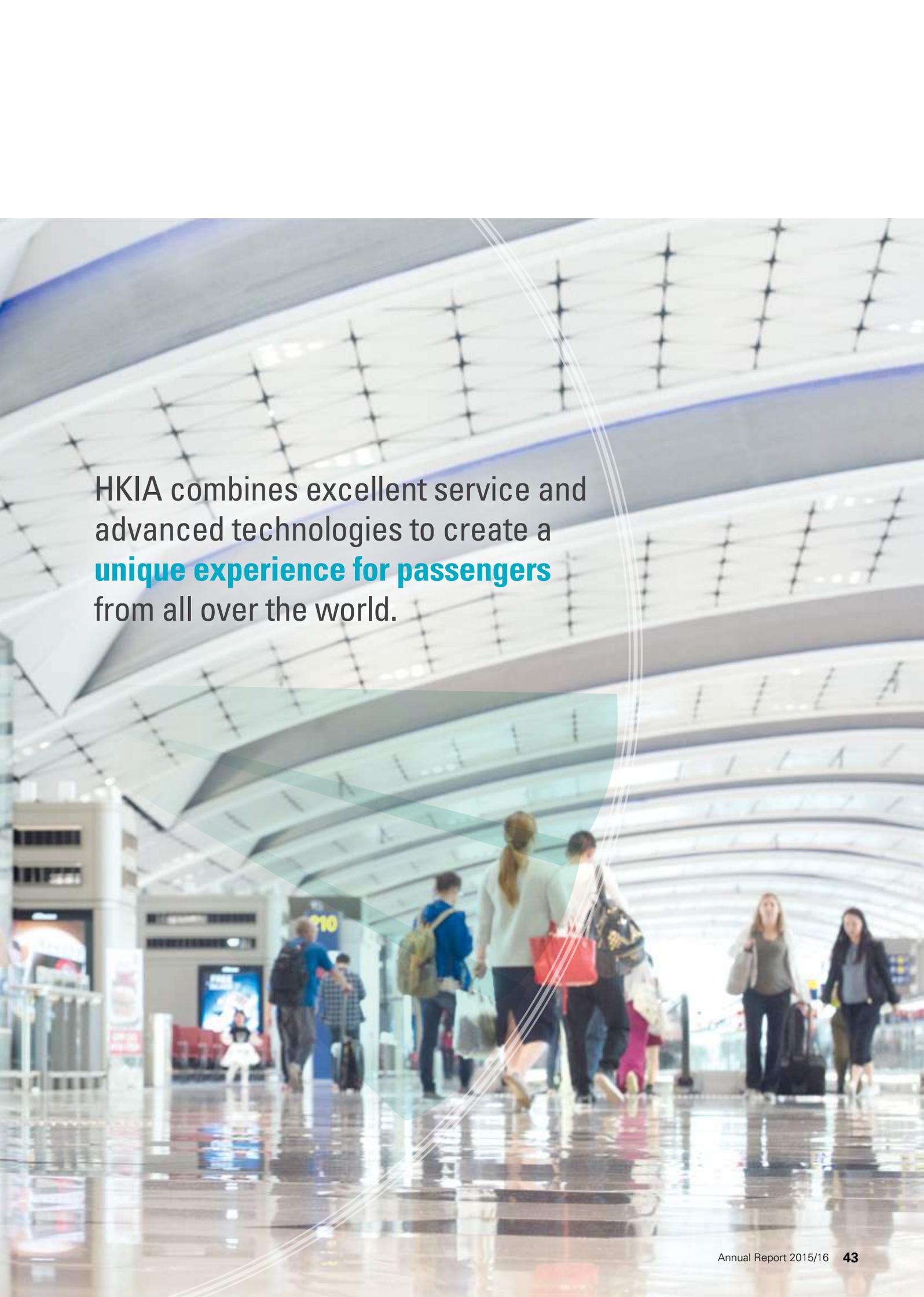
Commissioner of Police, Stephen Lo Wai-chung, visits HKIA, where he is given a behind-the-scenes tour of the airport’s daily operations.

## March

**12** A grand opening ceremony is held to celebrate the full operation of the Midfield Concourse, marking another milestone in the ongoing development of HKIA.

# Passenger Services





HKIA combines excellent service and advanced technologies to create a **unique experience for passengers** from all over the world.

For many residents, Hong Kong International Airport (HKIA) represents “home” and the warm feelings they experience when returning from a holiday or a business trip. To build those positive associations for visitors and locals alike, Airport Authority Hong Kong (AAHK) combines excellent customer service and advanced technologies to create a unique experience for each passenger travelling through HKIA.

In 2015/16, the efforts of the airport community were recognised with a range of commendations, including “Airport of the Year” from *Air Transport World*, “Best International Airport” from *Australian Business Traveller* and “Best Airport in China” from *Business Traveller China*. In 2015, HKIA was again named to the TTG Hall of Fame in the TTG Travel Awards. HKIA was also recognised as having the world’s best airport immigration service in the annual Skytrax World Airport Survey. To date, HKIA has won more than 60 “best airport” awards.



### Enhancing the Airport Experience

This year, we introduced several new facilities and services to better meet travellers’ changing needs. In January 2016, 300 strollers that combine seating for a small child with space for luggage were introduced in Terminal 1 (T1). Catering to families, we introduced two new children’s television lounges in the Midfield Concourse (MFC). In T1, we opened a new Relaxation Corner that features comfortable lounge chairs, recharging facilities and massages. Hot water dispensers, which make it easy for travellers to enjoy tea and other beverages, were installed at 10 locations in T1, the North Satellite Concourse and SkyPier.

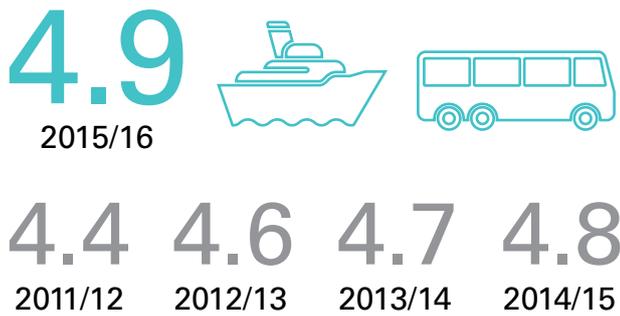
Staying connected is a top priority for modern travellers. This year, we continued to enhance the Wi-Fi service throughout the terminals and complemented our existing 3,500 power sockets and USB recharging facilities with eight new wireless charging points at various locations in T1.

We also updated the signage in the passenger terminals with a new, easy-to-read font and added a yellow “beacon colour” to make the signs more visible. These small, yet important touches enrich the HKIA experience.

To ensure the airport is accessible to visually impaired travellers, we installed three Braille maps in the MFC, one each on the arrivals and departures levels and one

### PASSENGERS USING HKIA’S CROSS-BOUNDARY LAND AND SEA TRANSPORT

(millions of passengers)

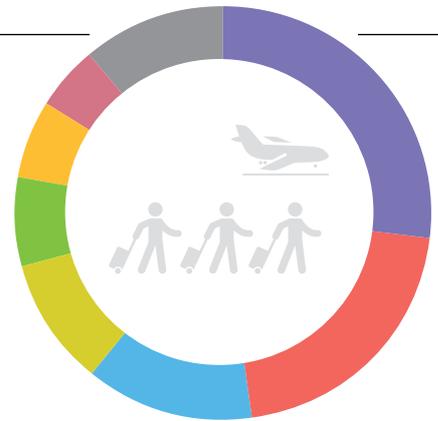
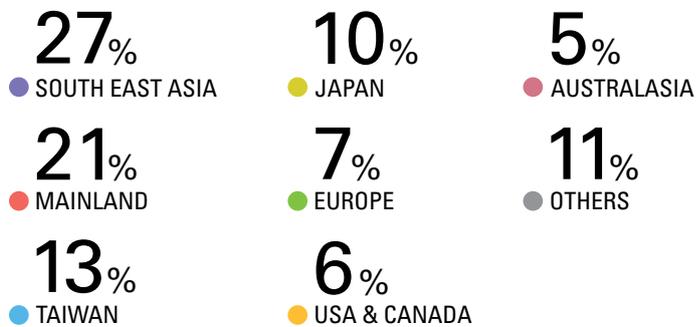


HKIA’s expanding network efficiently connects Hong Kong to the world.



## PASSENGERS BY MARKET

(year ended 31 March 2016)



on the Automated People Mover platform. Three more Braille maps will be installed at the entrances to T1 and T2 in 2016/17.

Following the Hong Kong Council of Social Service's assessment of the airport's disabled washrooms, induction loops, safety guard rails, help phones and other facilities, in 2015/16 HKIA was certified as a "Barrier-Free Organisation".

### Creating a Smart Airport

In 2015/16, AAHK established the Airport Technology Advisory Council to provide guidance on introducing advanced technologies at HKIA to deliver a superior passenger experience and operational efficiency. We also created a 10-year technology roadmap that defines the focus areas, the technologies and the timetable for creating a smart airport.



*The Relaxation Corner in Terminal 1 gives travellers a moment of tranquillity before their journey.*





*With the self-bag drop system, which reduces check-in time, HKIA offers a hassle-free travel experience.*

These initiatives have already begun to pay dividends. For example, in December 2015 we introduced the Positive Boarding System, which tracks the number of passengers in the airside of HKIA, and the time each passenger entered the departure area. Data from the system helps us improve airside security and operational efficiency, and helps airlines improve their on-time performance.

In March 2016, we launched a self-bag drop system that lets travellers tag their own luggage, reducing baggage processing time from 2–3 minutes to about 60 seconds. In addition to increasing customer satisfaction, the system

enhances passenger handling efficiency and resource utilisation, especially during peak periods. Currently, four carriers operate 20 self-bag drop counters. By the end of 2017, the system will be installed at 120 counters.

We also rolled out new self-service initiatives, including five “iCheck-in Agents”, which are mobile check-in counters that can conduct check-in procedures when the airport is busy and conventional counters are all occupied.

The 10-year technology roadmap also helps us personalise the airport experience. For instance, iBeacons are

Efficiency is a recurring theme in the Hong Kong story. Throughout HKIA, we use the latest technology to help passengers enjoy a smooth, seamless journey.



low-power radio transmitters that send messages to nearby Bluetooth-enabled mobile devices as well as phones and tablets running our “HKG My Flight” mobile app. This year, we began using iBeacons for “push” notifications to passengers and in a proximity marketing trial that featured special offers from retailers and restaurants.

“HKG My Flight” was revamped in July 2015. Travellers can now access a much wider range of airport-related information, including cross-boundary bus and ferry schedules. Since its launch in 2013, “HKG My Flight” has been downloaded more than 600,000 times, and the app won gold for “Best Location-Based Marketing” at the Mob-Ex Awards 2016. Both the HKIA website and “HKG My Flight” received gold awards in the Web Accessibility Recognition Scheme organised by the Government Chief Information Officer and the Equal Opportunities Commission.

In September 2015, we held the first HKIA Technovation Conference and Exhibition, which showcased opportunities at HKIA for local technology companies and our business partners. We continue to harness technology to enhance HKIA’s operations, security, passenger services and businesses.

## A Hong Kong Experience

HKIA is the first—and last—point of contact for many people visiting Hong Kong and a natural place to showcase our city.

This year, we launched the “I Love Hong Kong” retail zone in the East Hall. Comprising 14 well-known local brands, the zone offers a variety of Hong Kong products, including food, fashions and traditional Chinese medicines. We encourage retailers to offer limited-edition products, special gift packs and merchandise that is only available at HKIA. The zone also features pop-up stores from emerging Hong Kong designers and entrepreneurs.



In 2015/16, we extended our free delivery service from Hong Kong to the Mainland, Taiwan and Macao. The expansion has proved popular with passengers and retailers, and opened up new retail categories, such as footwear, luggage and prescription eye glasses.

Shoppers also benefited from a project to refresh the West Hall. Retail offerings will be enriched with 29 shops providing new products and services when the revamp is finished in 2016/17. In addition, the West Hall food court has been rebranded as the “East to West Food Market”, with phase one launched in the third quarter of 2015/16. The new food court — which has a unique design featuring a specially selected range of local and international cuisine, including branches of Michelin-starred restaurants — will double in size when it is fully completed in the second quarter of 2016/17.

For the seventh time since 2007, we were recognised for having the world’s best airport dining in the 2015 Skytrax survey. HKIA was also named the “Outstanding International Airport for Dining” in *Saveur’s* 2015 Good Taste Awards.

Throughout the year, HKIA entertained travellers with festive celebrations and fun-filled events. We also enhanced the airport experience by partnering with Hong Kong-based airlines, schools, entertainers and other groups to stage concerts, giveaways and lucky draws.

## SERVICE PERFORMANCE IN 2015/16

(percent)





➤ *The West Hall revitalisation includes new shops and fresh branding for the food court.*

**AIRPORT SERVICE QUALITY (ASQ) SURVEY  
OVERALL SATISFACTION SCORE**

**86.0%**  
**Excellent**

**13.9%** **0.0%\***  
**Very Good** **Good**



\*There were 2 cases of Overall Satisfaction scoring 3 (Good) in 2015

Source: ASQ Official Report 2015

While Hong Kong is renowned for its shopping, our city also has a vibrant arts scene that we promoted through “Hong Kong Classics: Art, Culture and Music”. From July to December 2015, travellers enjoyed local painting, sculpture, photography and a wide range of music. To help us plan and execute future events, an Arts and Culture Advisory Committee was established this year.

**A Warm, Safe Welcome**

By their nature, airports are a people business. Since 2002, HKIA has operated the Customer Service Excellence Programme, which recognises members of the airport community who provide outstanding service. This year, nearly 500 people were commended for a range of selfless

By highlighting local brands and culture, HKIA introduces travellers to the excitement that is at the very heart of the Hong Kong story.



actions. In addition, we hosted the month-long “Give Me 5 in the Airport” campaign to enhance customer service for international passengers.

During the year, we bolstered airport safety by implementing a comprehensive ramp safety programme, which included ramp operations audits, ramp safety surveillance and joint inspections to improve the ramp safety standards. Other major safety initiatives included enhancing the safety features installed on airside passenger buses and terminal escalators.

In 2015/16, the Airport Composite Safety Index, which measures the injury rate among passengers and staff, was 4.04 injuries per million passengers, down from 4.85 the previous year. Meanwhile, a new online electronic safety management system was launched in December 2015 to collect real time data for incident monitoring and analysis.

This year, we conducted successful trials of dual-view X-ray machines and bottle liquid scanners for screening passengers’ luggage. A programme has been rolled out to install dual view X-ray machines, supplemented by bottle liquid scanners and archway metal detectors, at all the screening checkpoints at HKIA. These devices will help HKIA maintain high security standards.

Maintaining a safety culture is an ongoing process for the staff of AAHK and our business partners. More than 100 exercises and training sessions were carried out involving cross-functional units and organisations to increase awareness of airport disruption handling procedures. A series of safety campaigns and training sessions were also organised for passengers, retail shop operators, aviation logistics franchisees, ramp operators and contractors. These efforts were rewarded with a “Safety Performance Award” from the Occupational Safety and Health Council, as well as a bronze award for safety promotion.



## Cross-boundary Services

HKIA plays a critical role as multi-modal transport hub for Hong Kong and the Pearl River Delta (PRD).

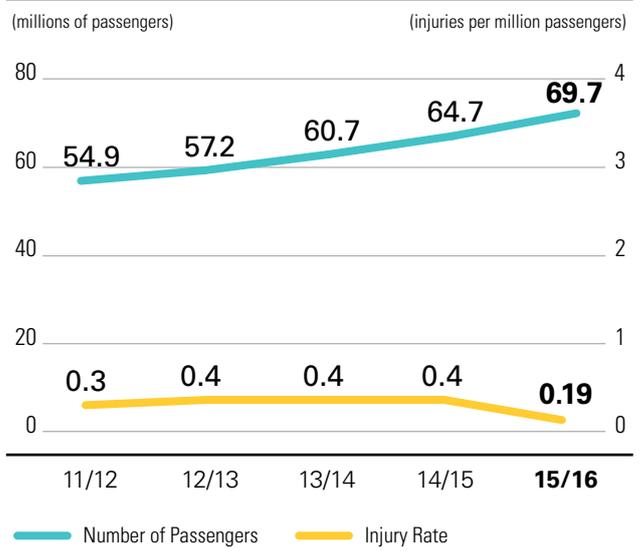
In 2015/16, we handled 2.1 million land-based cross-boundary passengers, an increase of 1.2% from 2014/15. These travellers use SkyLimo, which provides about 560 daily departures, and Mainland coaches, which offer around 550 trips each day. During the year, coach services were extended to Enping and Zhanjiang and the service frequency to Huizhou and Sha Tau Kok increased from 20 to 25 trips per day.

Traffic at SkyPier, which provides ferry service between HKIA and ports in the PRD and Macao, was up 0.1%, to 2.81 million passengers. A ninth PRD ferry port, Guangzhou Lianhuashan, was added to the SkyPier network with a thrice-daily service.

In 2015/16, the number of passengers using the upstream check-in (UCI) service rose 15%, to 930,000. This service lets passengers complete check-in procedures at one of the upstream destinations in the PRD and Macao before taking a ferry or coach to HKIA for their flight.

During the year, we extended the UCI service to Zhuhai Jiuzhou and Guangzhou Lianhuashan ferry ports and added two airlines to service, bringing the number of participating ferry ports and airlines with UCI service to eight and 19 respectively.

### PASSENGERS TRAFFIC AND INJURY RATE



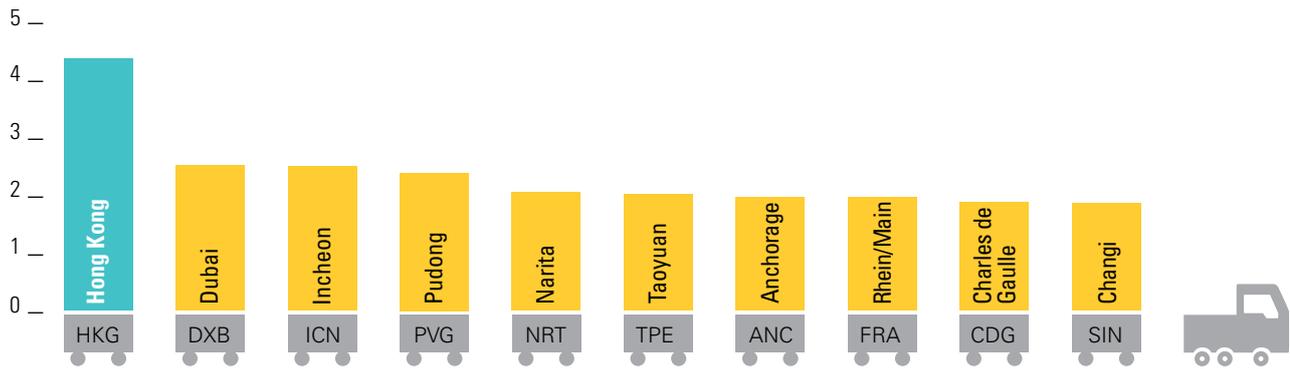
# Cargo and Aviation Services

As the world's busiest cargo airport, HKIA is critical to Hong Kong's reputation as **an international aviation and logistics hub.**



## 10 BUSIEST AIRPORTS IN 2015 – INTERNATIONAL FREIGHT THROUGHPUT \*

(millions of tonnes)



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

Source: Preliminary figures from Airports Council International in April 2016

Trade sits at the very heart of the Hong Kong story. At Hong Kong International Airport (HKIA), our ability to efficiently and reliably handle a wide range of air cargo contributes to our city’s reputation as one of the world’s leading commercial centres.

In 2015, HKIA was the world’s busiest cargo airport for the sixth consecutive year. Amid growing regional competition, we took several steps to ensure the long-term competitiveness of our cargo operations.

### Air Cargo Study

In 2015/16, we conducted a study on the development of our cargo operations that highlighted opportunities in fast-growing market segments, including e-commerce shipments by integrators and postal services, transshipments and industries requiring high-value logistics services. In the future, HKIA will capitalise on its reputation for efficiency and reliability to transition from a “volume-focus” to a “value-focus” operation.

### Specialised Cargo Handling

Specialised cargo handling is a growing market segment at HKIA. All of HKIA’s cargo terminal operators (CTOs) have received accreditation for Good Distribution Practices, a set of international guidelines for handling medicines for human consumption. In addition, a cross-industry task force will be formed to strengthen the airport’s temperature-controlled product handling capabilities.

### Transshipment

During the year, Airport Authority Hong Kong facilitated a review of the inter-terminal transshipment turnaround time at HKIA. Working with the CTOs, the Carrier Liaison Group

### AIR MAIL TONNAGE

(year ended 31 March 2016)

Air mail\*  **82** thousand tonnes

Percentage growth compared to 14/15 **13%** 

\*Including air mail from Hong Kong Post and transit mail from airlines

From fresh food to the latest fashions, HKIA adds cosmopolitan flair to the Hong Kong story.





➤ *HKIA processes a wide range of air freight, with a growing emphasis on specialised cargo handling services.*

and the Customs and Excise Department, we implemented the electronic Inter-Terminal Transfer (eITT) system and reduced the standard turnaround time for inter-terminal transshipments from 10 hours to seven hours.

### Freighter Stands

Nine new freighter parking stands were commissioned on the west apron in 2015/16. The new additions bring the total number of freighter stands at HKIA to 43.

### Aviation Fuel

A third into-plane operator, CNAF Hong Kong Refuelling Limited, began serving HKIA in September 2015. The new operator joined existing licensees, AFSC Refuelling Limited and Worldwide Flight Services Fueling (HK) Limited, and increased HKIA's total into-plane capacity by 40%. The extra capacity facilitated the timely commissioning of the Midfield Concourse hydrant system.

### New Airlines and Destinations

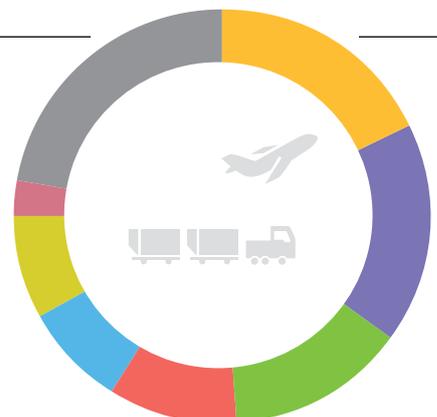
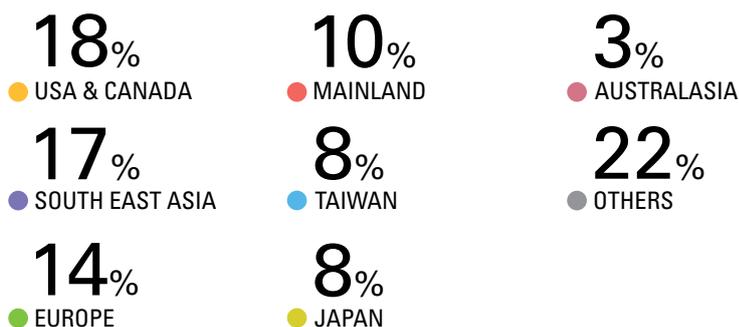
In 2015/16, AirAsia Zest, Jetstar Pacific, Scandinavian Airlines, Malindo Air, Etihad Airways and Sky Lease Cargo began serving HKIA, while Düsseldorf and Gold Coast (Australia) joined HKIA's network. This year, Myanmar National Airlines also resumed service to Hong Kong and Boston rejoined our network.

### Awards

Our cargo operations received several awards this year. In June 2015, HKIA was named "Best Airport-Asia" at the Asian Freight, Logistics and Supply Chain Awards organised by *Asia Cargo News*. In October 2015, we won *Payload Asia's* "Asia Pacific Airport of the Year-Industry Choice" award for the second consecutive year. At the Air Cargo Excellence Awards in March 2016, we were the first runner-up among airports in Asia handling one million or more tonnes of cargo annually.

## CARGO THROUGHPUT BY MARKET \*

(year ended 31 March 2016)



\* Air mail is excluded

# Airfield and Systems

HKIA enhances its reputation in efficiency by **continuing to invest in airport infrastructure and technologies.**





*The Midfield Concourse, with its advanced technology and passenger-centric facilities, provides a new airport experience for passengers.*

Hong Kong International Airport (HKIA) ensures a smooth operation of the airfield and its associated systems. During the year, we continued to invest in airport infrastructure and work to enhance productivity and efficiency at HKIA.

### **The Midfield Concourse**

In March 2016, we held a grand opening ceremony to celebrate the full operation of the Midfield Concourse (MFC). The 105,000-square-metre, five-storey concourse and its supporting facilities — which include 20 aircraft parking positions, an aviation fuel supply system and an Automated People Mover link to Terminal 1 (T1) — increase HKIA's capacity by at least 10 million passengers each year.

The MFC's distinctive design includes many energy-saving features, such as high-performance glazing, façade solar shading and over 1,200 square metres of photovoltaic panels. The building's 35 green features also include a treatment plant that makes greywater available for the

cooling system. Meanwhile, the MFC offers free internet access, comfortable deck chairs in the departures level, seating with built-in power and USB charging outlets, and extensive selection of retail outlets and restaurants.

### **Technology-enabled Enhancements**

This year, we began upgrading the Wi-Fi service on the apron, helping our airside operators to use more productivity enhancing mobile technologies. When this project is completed in 2017, 168 of the existing 2.4GHz wireless access points will be replaced with 5GHz



long-range units. The upgrade will increase the Wi-Fi signal strength on the apron and extend the coverage area to more than 1.5 million square metres.

In November 2015, we began installing tracking devices based on the global positioning system on airside vehicles and ground service equipment. Over 51% of the motorised vehicles have been fitted with the devices, which help us improve operational safety and efficiency.

To relieve pressure from increasing baggage volumes, this year we tested a flexible loading arm called STACK@EASE that lets workers safely and easily load baggage using only two kilogrammes of force. In the trial, STACK@EASE enhances the automation of the baggage system and minimises employees' physical workload, reducing the risk of injury from heavy lifting. In addition, radio frequency identification (RFID) sensors can be integrated into STACK@EASE, improving the read rate of RFID baggage tags and enhancing the efficiency of the baggage system. Around 160 of these devices will be installed by the first quarter of 2018.

In 2015/16, we began installing an automated foreign object debris (FOD) detection system, which uses sensors and radar technology to monitor conditions on our two existing runways. By strengthening our round-the-clock FOD detection capability, the safety of runway operations is enhanced. This project will be completed by the second quarter of 2017.

## Asset Replacement

In addition to introducing new technologies, we are upgrading and replacing existing assets. In the first quarter of 2016, for example, we completed a four-year-long project to add 200,000 square metres of waterproof membrane to the roof of T1.

## Strengthening Communication and Co-operation

Seamless communication and information flow amongst the airport community is a key factor in improving operational efficiency, particularly for the aircraft turnaround and pre-departure sequencing process.

During the year, we introduced the Airport Collaborative Decision Making System, a platform that promotes information sharing and improves information flow amongst companies operating at HKIA.

In 2015/16, we invited airside operators to co-locate some of their staff to the Integrated Airport Centre (IAC). Having airside operators and HKIA staff working side-by-side improves communications during normal operations and facilitates rapid decision making during disruptions. Three line maintenance operators — Hong Kong Aircraft Engineering Company Limited, Pan Asia Pacific Aviation Services Limited and China Aircraft Services Limited — have co-located to the IAC. One ramp handling operator is expected to join the IAC in the coming year.

To further improve the passenger experience, we share information and best practices with other airport operators. This year, we signed a partnership agreement with London Heathrow Airport, the first phase of which covers topics on central management of airport operations, passenger service, future terminal design and crisis planning. Separately, we signed a co-operation agreement with Shenzhen Bao'an International Airport to strengthen co-operation in areas including airspace resources optimisation, cross-boundary services as well as enhancement of sea and land transport services and equipment. A memorandum of understanding with Taoyuan International Airport was also signed to strengthen experience sharing in marketing and internalisation of airport management.



From integration of systems to the introduction of new technologies, HKIA focuses on enhancing efficiency and airport services.

# Mainland Projects

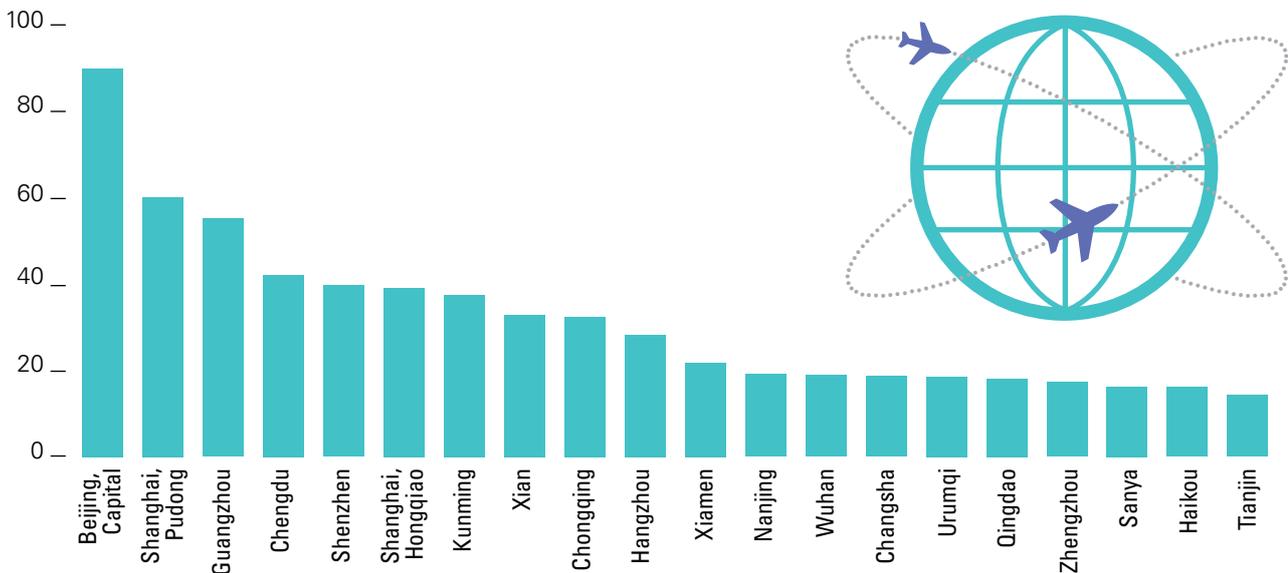
A photograph of two business professionals in grey suits shaking hands. The background shows a city skyline with several prominent skyscrapers, including the Shanghai Tower and the Shanghai World Financial Center. The image is overlaid with a semi-transparent teal circle and a diagonal teal band.

**By collaborating with airports on the Mainland**, HKIA continues enhancing its airport operation experience and knowledge.



## TOP 20 AIRPORTS ON THE MAINLAND IN 2015 – PASSENGER THROUGHPUT

(millions of passengers)



Source: Civil Aviation Administration of China (CAAC)

Airport Authority Hong Kong (AAHK) is active in the Mainland aviation market through an investment in Hangzhou and joint ventures in Shanghai and Zhuhai.

### Hangzhou Xiaoshan International Airport

AAHK acquired a 35% interest in Hangzhou Xiaoshan International Airport (HXIA) in 2006. In 2015, passenger throughput at HXIA grew 11.1% from the previous year, to 28.4 million, flight movements increased 8.8%, to 232,100, and cargo volume rose 6.6%, to 424,900 tonnes. This growth put HXIA in the top five for passenger throughput and maintained the airport's top three ranking for flight movements and cargo volume among China's 10 busiest airports.

In July 2015, Asia's largest and most technologically advanced express cargo hub opened at HXIA. Built at cost of RMB 1.4 billion, the 13-hectare facility is operated by S.F. Express Company Limited, and can process 78,000 pieces of express cargo per hour.

In 2015, HXIA's network grew 8%, to 131 cities. Seven new international routes were added, including service to Madrid. This helped raise international passenger throughput to 3.7 million, reinforcing HXIA's position as the fifth busiest international airport in China.

### Shanghai Hongqiao International Airport

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

In 2015, passenger throughput at Hongqiao airport increased 3%, to 39.1 million, while flight movements rose 1.3%, to 256,603. The number of flights between Hongqiao airport and Hong Kong International Airport (HKIA) increased from 56 to 72 per week.

Work continued on a RMB 4 billion renovation project, with the debut of Building A at Terminal 1 scheduled for early 2017. The rest of the project is expected to be finished by the end of 2018.



The facilities at Hangzhou Xiaoshan International Airport (left) and Zhuhai Airport (right) have undergone several enhancements during the year.

In 2015, Hongqiao airport received the “Best Domestic Airport in China” award in the annual Skytrax survey and ranked second in the 25–40 million passengers category of the Airport Service Quality Awards organised by Airports Council International.

### Zhuhai Airport

Since 2006, Zhuhai Airport has been managed by a joint venture in which AAHK has a 55% stake. Zhuhai Airport broke three records in 2015: passenger throughput rose 15.5%, to 4.7 million, domestic cargo volume grew 16.7%, to 25,828 tonnes, and flight movements advanced 9.7%, to 39,642. Zhuhai Airport now offers scheduled service to 42 domestic destinations.

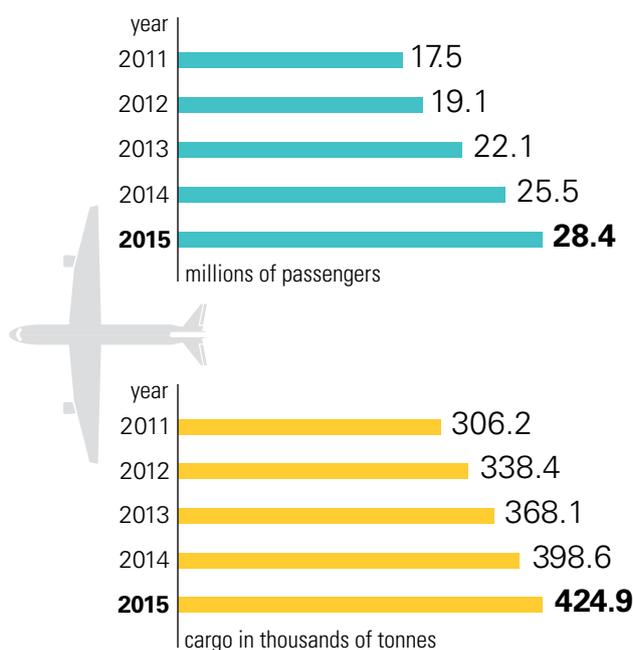
To meet growing demand, Zhuhai Airport is increasing the number of security channels, and upgrading the car

park and flight information display system. Renovations to the eastern wing of the passenger terminal and passenger and cargo apron enhancement projects are scheduled for late 2016.

In 2015, the frequency of the shuttle between Zhongshan and Zhuhai Airport was increased and new pick-up points were added in Zhongshan. As a result, the number of travellers from Zhongshan rose 23.3%, to a record 185,000.

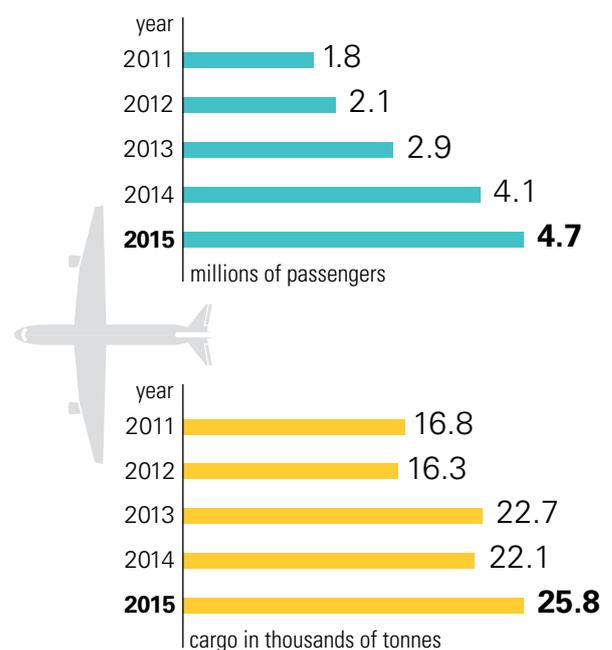
In preparation for the commissioning of the Hong Kong–Zhuhai–Macao Bridge, Zhuhai Airport continues to explore ways to facilitate passenger and cargo flows with HKIA. In January 2016, this process reached a milestone with the opening of temporary business aviation port facilities, with customs, immigration and quarantine services, at Zhuhai Airport.

### THROUGHPUT AT HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT



Source: Civil Aviation Administration of China (CAAC)

### THROUGHPUT AT ZHUHAI AIRPORT



Source: Civil Aviation Administration of China (CAAC)

# Sustainability and People

A woman with dark hair, wearing a white polka-dot shirt, is shown in profile, smiling and looking towards the right. She is seated at a white table with a white disposable cup in front of her. The background is a modern office or meeting room with bright green walls, glass partitions, and several digital displays showing data. The overall atmosphere is professional and positive.

HKIA is **committed to sustainable growth** and the long-term development of Hong Kong.



Airport Authority Hong Kong (AAHK) is committed to operating Hong Kong International Airport (HKIA) in a sustainable manner to ensure the airport contributes to Hong Kong for the long term.

## Operating Sustainably

This year, we renamed our Environmental Department the Sustainability Department to better reflect its role in developing and executing corporate sustainability strategy. In October 2015, we published our third sustainability report, *Growing Together*, which was prepared in accordance with the Global Reporting Initiative G4 Sustainability Reporting Guidelines for the first time. The report covers our sustainability performance and management approach in terms of economic contribution, airport growth, operational excellence, environment as well as people and community.

## Enhancing Our Environmental Performance

In 2015/16, we reduced HKIA's environmental footprint through a variety of initiatives, including an award-winning HKIA carbon reduction programme in which we worked with almost 40 business partners with a target of reducing airport-wide carbon intensity by 25% from a 2008 baseline. We are now working with our business partners to develop an airport-wide carbon reduction target for 2020 and a process for determining a long-term carbon reduction goal.

We also established a strategy for biodiversity conservation. The HKIA Environmental Fund will finance the Ocean Park Conservation Foundation Hong Kong's work with the International Union for Conservation of Nature to develop a conservation framework for Chinese White Dolphins in the Pearl River Estuary.

AAHK is committed to sharing its environmental experience with local and international audiences. This year, we hosted four Airport Community Environmental

Forums, where we discussed a variety of sustainability topics with our business partners.

AAHK chairs Airports Council International's Asia-Pacific Regional Environment Committee. During the year, we shared our airport-wide approach to carbon management at conferences in Asia Pacific, Europe and the United States.

## Supporting the Community

AAHK's sustainability programmes reach out to the community. For example, the Airport Authority Staff Club partnered with Hong Kong Sheng Kung Hui Tung Chung Integrated Services to hold a rice dumpling making class during the Tuen Ng Festival and a moon cake making class for the elderly during the Mid-Autumn Festival.

During the Mid-Autumn Festival, we also donated over 300 Hong Kong Disneyland entrance tickets to the Hong Kong Outlying Islands Women's Association, so that underprivileged families could enjoy a fun day out.

For the third year, AAHK co-operated with Link Asset Management Limited and The Salvation Army Hong Kong and Macao Command to place gift collection boxes in Terminal 1 (T1), Link REIT's shopping malls and The Salvation Army Headquarters. From 11 to 24 January 2016, the campaign collected more than 61,000 items, which The Salvation Army distributed to underprivileged children in Hong Kong.

We also work closely with schools and youth groups. This year we hosted more than 40 delegates and participants from the International Air Cadet Exchange and arranged airport tours for university students.

## Developing Our People

AAHK regards people as its most valuable asset. During the year, we refined our human resources strategy to build a professional, experienced and engaged team that is ready to meet future challenges. A milestone in this

Through community outreach and sustainability programmes, we work for the betterment of neighbouring communities and the whole of Hong Kong.





## Our commitment to sustainability was recognised with numerous awards in 2015/16:

- ★ A gold award in the Public Organisations and Utilities sector at the 2014 Hong Kong Awards for Environmental Excellence
- ★ A “Sustainable Business Award 2015” from the World Green Organisation
- ★ A “Top Green Companies in Asia” award at the Asia Corporate Excellence & Sustainability Awards
- ★ A silver award in the Best Innovation for Carbon Reduction category at the World Responsible Tourism Awards 2015
- ★ Championship in the Biggest Units Saver Award (Organisation) category in the Power Smart Energy Saving Contest 2015 organised by Hong Kong Friends of the Earth
- ★ An “Asia’s Best Carbon Disclosure” award at the Asia Sustainability Reporting Awards 2015
- ★ A “CarbonCare® Label 2015” from Carbon Care Asia

process was revisiting AAHK’s vision, mission and values, formulating a culture promotion strategy and establishing a dedicated committee to build a sustainable culture at AAHK.

To ensure AAHK’s leaders possess the necessary competencies to manage HKIA’s future development, our leadership competency model was revamped to include supportive behaviours along with the revised vision, mission and values.

We held an annual talent review and succession planning meeting to systematically review AAHK’s leadership bench strength and the development plans of key individuals and high potentials.

Our management trainee programme, which grooms future leaders to support airport expansion, was further enhanced in line with our talent acquisition and development strategy. To meet strong demand for talent at the airport, AAHK hosted the HKIA Career Expo in conjunction with the Labour Department. The 2015 event attracted over 7,000 job seekers.

We attach paramount importance to people development. Our learning curriculum is continuously enriched to meet the development needs of employees at different levels. In 2015/16, we reaffirmed our commitment to promoting from within and introduced a new internal staffing process to ensure transparency and fairness in promotion decisions.

In early 2015, we commissioned a comprehensive remuneration review to ensure our competitiveness in comparison with leading local and multinational companies. As a result, we adopted a revised pay

structure, which was approved by the Board in May 2015. We also enhanced staff welfare and benefits, including work-related allowances, healthcare programmes, family-friendly measures and assistance towards employees’ continuous development.

To help attract and retain staff, AAHK works closely with the Transport Department and public transport operators. In 2015/16, fare discounts were offered for staff on over 10 additional bus routes. In July 2015, we supported the launch of four overnight express franchised bus routes. Free shuttle is available to connect airport staff working at non-terminal areas to the overnight express franchised bus stations. The new bus services have been well received and we are in discussions with the Transport Department and franchised bus operators to expand the overnight routes to areas such as Sha Tin and Ma On Shan.

During the year, we made several improvements to the working environment at HKIA. For instance, the staff canteen was renovated and more seating and budget-friendly meals were introduced. Three new rest areas in the departures area of T1 were opened for airport employees and additional drinking water dispensers were installed on the apron.

To strengthen bonding amongst AAHK staff, the Airport Authority Staff Club maintains a busy schedule of activities for employees and their families. This year’s highlights included a stand-up comedy night, a culture and heritage tour of Lantau, a golf tournament and the “AA’s Got Talent” singing contest.

# Looking Forward



The image is a composite background for a report. It features a hand reaching out from the bottom left corner towards the center. The background is a blurred view of an airport tarmac with several aircraft, including a prominent Qatar Airways plane. In the distance, there are airport buildings and a control tower, with mountains visible under a blue sky. An airplane is shown in flight in the upper right quadrant. The text is overlaid on the center of the image.

HKIA's continued growth is  
**essential to Hong Kong's prosperity.**

*Mid- and long-term development plans strengthen HKIA's status as a leading international aviation hub.*



In 2015/16, Hong Kong International Airport (HKIA) edged closer to operating at full capacity. To ensure that HKIA can support our city's social and economic development, Airport Authority Hong Kong (AAHK) has medium- and long-term development strategies. These strategies allow HKIA to capture growth opportunities, strengthen its status as a leading international and regional aviation hub and write an encouraging next chapter in the Hong Kong story.

### Medium-term Development

In 2015/16, we made good progress with our medium-term development plans. The Midfield Concourse became fully operational in March 2016 and in the next few years, we will continue to work on the Midfield Apron development, which will provide 34 additional aircraft parking positions. The parking positions are expected to be completed in phases between 2017 and 2020.

Our medium-term plan also includes the Terminal 1 (T1) Capacity Enhancement project, which was approved by the AAHK Board in 2015/16. Scheduled for completion in 2019, this project will expand T1's core passenger and baggage processing facilities and enhance the terminal's ambience.

The T1 Capacity Enhancement project includes construction of the T1 Annex Building, which will offer additional check-in counters, baggage reclaim carousels, departure security screening channels and departure immigration counters. An early bag storage facility and an enlarged seating area for the airside East Hall food court are also included. In addition, the existing Car Park 4 will be expanded into a mixed-use building that offers more parking spaces and a range of other facilities and services.

### Long-term Development

The three-runway system (3RS) project, which anchors our long-term development strategy, made significant progress during the year.





## The three-runway system project includes seven core projects and facilities:

- **Reclamation of approximately 650 hectares of land**
- **A 3,800-metre-long new runway and its supporting taxiway systems**
- **A new Third Runway passenger building and apron**
- **An expanded Terminal 2**
- **A new Automated People Mover system**
- **A new Baggage Handling System**
- **Comprehensive road network and transportation facilities**



The three-runway system project anchors our long-term development strategy and offers a fresh page for the next chapter of the Hong Kong story.

In September 2015, AAHK announced the revised financial arrangement plan for the 3RS, which included a reduction in the level and charge differentiation in the originally proposed airport construction fee that will be paid by departing passengers. Based on the “joint contribution and user-pay” principle, funding for the project will come from AAHK’s retained operating surplus, the new airport construction fee and funds raised from the market.

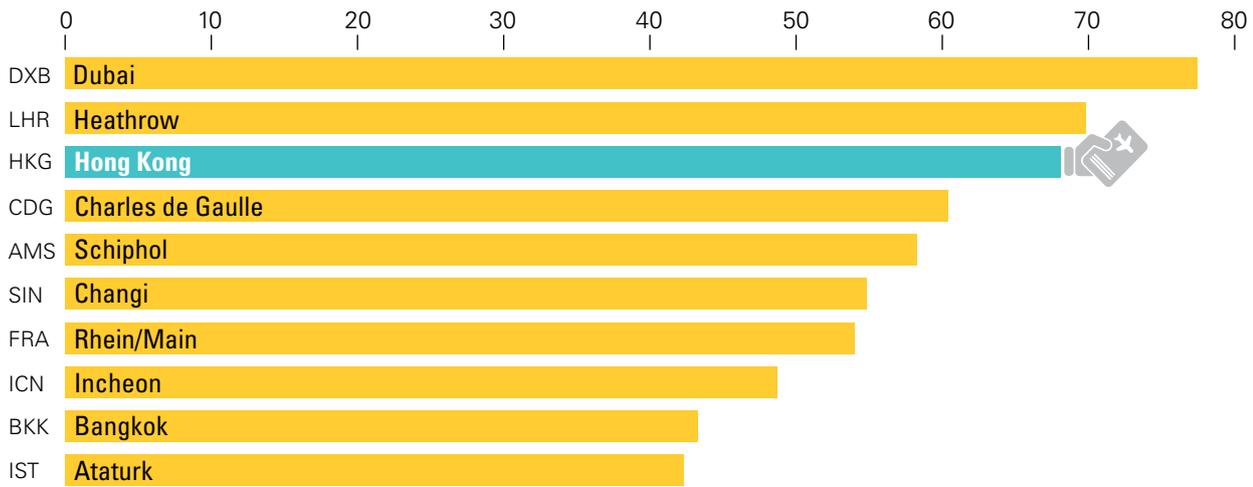
In April 2016, the Chief Executive-in-Council granted the approval for the draft Chek Lap Kok Outline Zoning Plan, as well as the authorisation of the reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance

for the expansion of HKIA into 3RS. We are proceeding with the detailed design for the 3RS and procurement of construction contracts with a view to commencing reclamation works as soon as possible.

Meanwhile, we continue to fulfil the commitments made in the Environmental Impact Assessment (EIA) Report on the 3RS and to comply with the respective requirements stipulated in the Environmental Permit granted under the EIA Ordinance. For example, we are setting up a Marine Ecology Enhancement Fund for the conservation of marine life, in particular the Chinese White Dolphins, within the Hong Kong and Pearl River Water Estuary waters, as well

## 10 BUSIEST AIRPORTS IN 2015 – INTERNATIONAL PASSENGER THROUGHPUT \*

(millions of passengers)



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

Source: Preliminary figures from Airports Council International in April 2016

as a Fisheries Enhancement Fund to enhance fisheries resources and support the fishing industry in Hong Kong. In addition, we are preparing for commencement of reclamation works using non-dredge methods, including deep cement mixing.

### Community Outreach

AAHK organises meetings, seminars and airport visits to engage the community and keep them abreast of the 3RS project. Between April 2015 and March 2016, we held more than 300 communication events.

In 2012, we set up five Community Liaison Groups (CLGs), with which we maintain regular contact. In July 2015, AAHK met the five CLGs to deliver updates on the 3RS project.

In September 2015, AAHK set up a new Professional Liaison Group, which comprises 22 experts in different environmental fields, to replace the four Technical Briefing Groups that were formed to provide advice for the Environmental Impact Assessment study. The

Professional Liaison Group facilitates communication about the implementation of various environmental commitments and measures related to the 3RS project.

During the year, roving exhibitions, TV advertisements, videos and media workshops were used to keep stakeholders and the public informed about the progress of the 3RS project. We also operate a dedicated 3RS website, [www.threerunwaysystem.com](http://www.threerunwaysystem.com), and a Facebook page.

While we move ahead with the 3RS project, we have begun work on *HKIA Master Plan 2035*, which will outline the airport’s long-term development needs.

### North Commercial District

Preparatory work for the development of the North Commercial District (NCD) is underway. During the year, we produced schematic infrastructure designs for the NCD, including the road network, car park, utilities, connecting footbridges, seawater cooling system and green airport design strategy. The terms and conditions of the development tender are being finalised.

Using meetings, seminars and airport visits, we share the Hong Kong story with audiences from around the world.



# Financial Review

## Financial Summary

(in HK\$ million)	2015/16	2014/15	±% <sup>1</sup>
Revenue	<b>18,184</b>	16,367	+11.1%
Operating expenses before depreciation and amortisation	<b>5,848</b>	5,053	+15.7%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	<b>12,336</b>	11,314	+9.0%
Depreciation and amortisation	<b>2,813</b>	2,420	+16.2%
Net interest and finance income	<b>28</b>	33	-15.2%
Share of results of joint ventures	<b>189</b>	137	+38.0%
Profit before taxation	<b>9,740</b>	9,064	+7.5%
Income tax	<b>1,366</b>	1,794	-23.9%
Profit for the year	<b>8,374</b>	7,270	+15.2%
Profit attributable to the equity shareholder	<b>8,359</b>	7,254	+15.2%
Dividend declared	–	–	–
<b>Key financial ratios</b>			
Return on equity	<b>17.3%</b>	16.7%	
Total debt/capital ratio	<b>5%</b>	7%	
<b>Key traffic summary<sup>2</sup></b>			
Passenger traffic <sup>3</sup> (millions of passengers)	<b>69.7</b>	64.7	+7.8%
Cargo throughput <sup>4</sup> (millions of tonnes)	<b>4.3</b>	4.4	-1.4%
Aircraft movements (thousands)	<b>410</b>	396	+3.6%

<sup>1</sup> Subject to rounding differences.

<sup>2</sup> Key traffic summary is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.

<sup>3</sup> Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

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

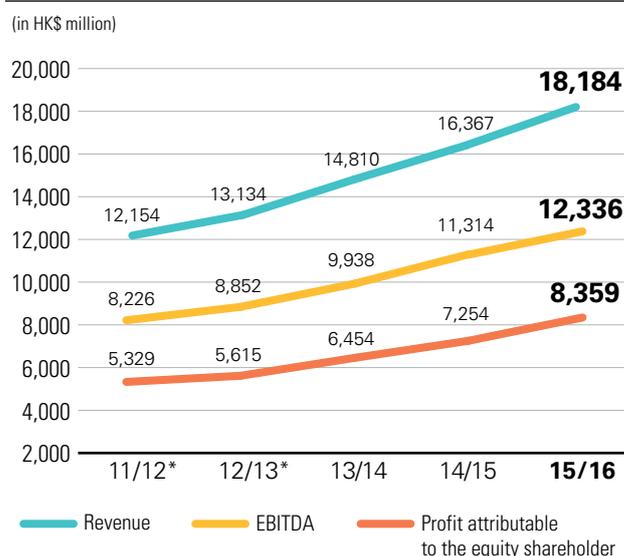
## Overview

Airport Authority Hong Kong (AAHK) reported another year of strong financial performance in fiscal 2015/16, ended 31 March 2016.

During the year, Hong Kong International Airport (HKIA) welcomed 69.7 million passengers and handled 410,000 flight movements, representing annual increases of 7.8% and 3.6%, respectively. Cargo throughput, however, softened 1.4%, to 4.3 million tonnes.

These results, coupled with higher revenues from retail concessions and security charges as well as gain from the sub-lease of land at HKIA, helped AAHK and its subsidiaries (the Group) deliver an outstanding financial performance in 2015/16. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK\$12,336 million and profit attributable

## FINANCIAL RESULTS

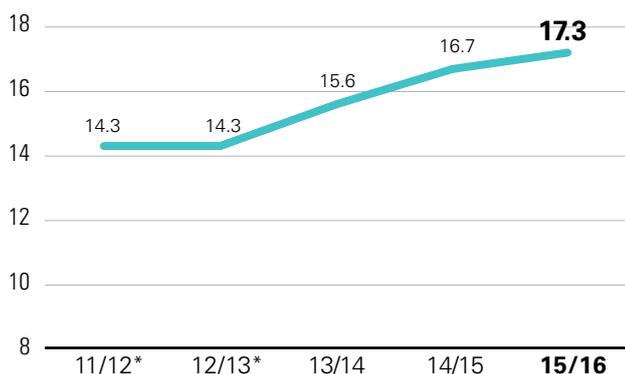


\*Restated

to the equity shareholder of HK\$8,359 million, representing an improvement of 9.0% and 15.2%, respectively, from the previous fiscal year. As a result, the Group's return on equity increased to 17.3%. No dividend was declared for the fiscal year.

## RETURN ON EQUITY

(in percentage)



\*Restated

## Revenue

Total revenue grew 11.1%, to HK\$18,184 million, largely as a result of increased passenger traffic and flight movements; the full-year impact of the adjustment of the passenger security charge from HK\$33 to HK\$45 for tickets issued on or after 1 June 2014; strong retail performance; and a one-off gain from the sub-lease of land to an airline for the construction of a flight training centre at HKIA. Airport and security charges; revenues from airside support services franchises, retail licences and advertising; other terminal commercial revenue; and other income, collectively comprised 96.7% of total revenue.

Airport and security charges, representing 31.7% of total revenue, rose 7.3%, to HK\$5,759 million, primarily due to increases in flight movements and passenger traffic, and the higher passenger security charge. This category's contribution to total revenue decreased slightly as a result of a higher growth rate in revenues from retail licences and advertising and other income.

Revenues from airside support services franchises grew 8.3%, to HK\$2,532 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 air cargo and maintenance services due to index adjustments in rental rates during the fiscal year.

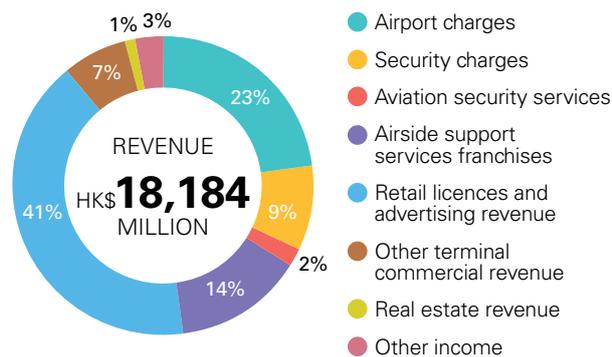
Retail licences and advertising revenue, representing 41.4% of total revenue, rose 10.3%, to HK\$7,523 million. This increase was a result of the increased revenue brought by better licence terms and passenger growth in HKIA accompanied with retail promotion campaigns conducted throughout the year. This category contributed nearly 40% of the increase in total revenue for the year.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 6.6%, to HK\$1,237 million, largely due to a property index adjustment in rental rates during the fiscal year.

Other income grew threefold, to HK\$537 million. This increase was mostly attributable to a one-off gain from the sub-lease of land to an airline for the construction of a flight training centre at HKIA.

## REVENUE BY SOURCE

(for the year ended 31 March 2016)



## 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, service and sustainability. Total operating expenses before depreciation and amortisation increased 15.7%, to HK\$5,848 million, mainly due to inflationary pressures, strong traffic growth and expenditures required to comply with the Environmental Permit for the three-runway system (3RS) during the fiscal year.

The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, occupancy expenses, other operating expenses, and depreciation and amortisation, which accounted for approximately 98.5% 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 16.5%, to HK\$2,034 million, mainly due to adjustments to ensure the market competitiveness of employees' remuneration and an increase in staff numbers, particularly aviation security personnel, to cope with traffic growth.

Repairs and maintenance costs grew 15.6%, to HK\$795 million, largely due to additional work on the airfield and terminals to ensure safe and reliable operation amidst increased traffic. Wages increases due to labour shortage and inflationary pressures on material costs also contributed to the increase.

Operational contracted services represents costs for operations outsourced to third-party contractors. This category rose 14.6%, to HK\$614 million, largely due to traffic growth and higher costs as a result of contracts renewed and wages increases due to labour shortage during the fiscal year.

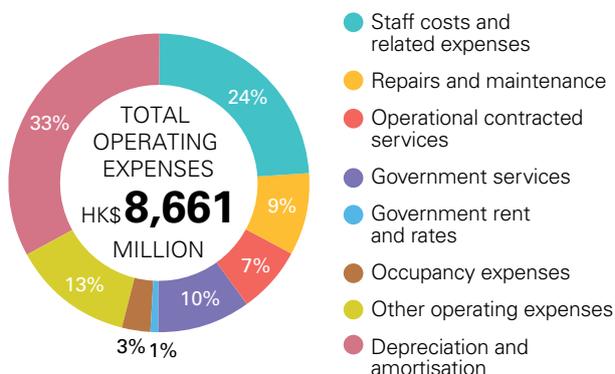
Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. Increased flight movements led to higher air traffic control fees and government services expense grew 0.8%, to HK\$861 million.

Occupancy expenses comprises the cost of electricity and water. This category decreased 4.1%, to HK\$257 million, mainly attributable to a special fuel rebate of 8 cents per unit consumed between 1 January and 30 June 2015 offered by CLP Power Hong Kong Limited.

Other operating expenses increased 45.2%, to HK\$1,160 million, mainly attributable to one-off expenditures required to comply with the Environmental Permit, in particular a HK\$400 million expenditure to establish the Marine Ecology Enhancement Fund and Fisheries Enhancement Fund.

### OPERATING EXPENSES BY CATEGORY

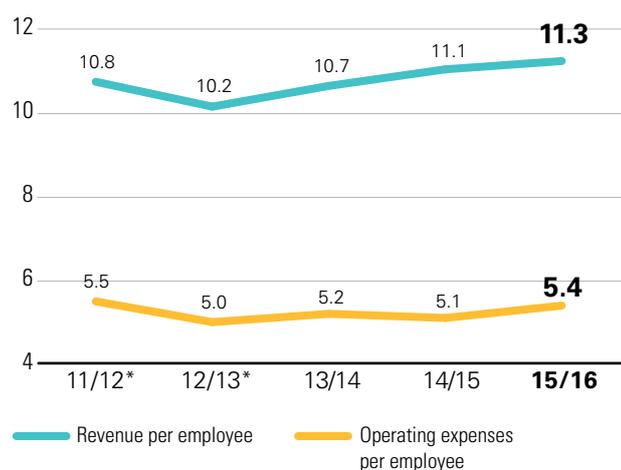
(for the year ended 31 March 2016)



Depreciation and amortisation increased 16.2%, to HK\$2,813 million, due to the completion of the Midfield Concourse and other improvement projects for facilities and systems during the fiscal year.

## REVENUE/OPERATING EXPENSES PER EMPLOYEE

(in HK\$ million)



Notes: 1. Excludes employees of subsidiaries.  
2. Operating expenses include depreciation and amortisation, but exclude 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 2015, passenger traffic and cargo throughput at Hangzhou Xiaoshan International Airport (HXIA) grew 11.1% and 6.6%, respectively, to 28.4 million and 424,900 tonnes. AAHK's share of HXIA's profits increased 37.2%, to HK\$188 million, in fiscal 2015/16, which was largely due to solid traffic growth, stronger non-aeronautical revenue and higher Civil Aviation Development Fund subsidies received from the Central Government.

In calendar 2015, passenger traffic at Zhuhai Airport grew 15.5%, to a record 4.7 million, while domestic cargo throughput increased 16.7%, to 25,828 tonnes. AAHK's share of Zhuhai Airport's profits increased 3.0%, to HK\$19 million, in fiscal 2015/16, which was largely due to strong traffic growth and higher non-aeronautical revenue.

## Financial Position

The Group's financial position remains strong and well capitalised. The Group's total equity as at 31 March 2016 reached HK\$52,558 million, an increase of 18.3% over the previous year, mainly due to the net profit achieved in 2015/16 and non-payment of dividend for 2014/15.

Investment property, interest in leasehold land and other property, plant and equipment amounted to HK\$49,890 million, which accounted for 76.8% of total assets. The Group incurred capital expenditures of HK\$3,544 million during 2015/16, mainly related to the Midfield development, apron expansion and the enlargement and improvement of other facilities and systems.

Intangible asset of HK\$174 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\$4,118 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 13.9%, to HK\$2,103 million, primarily due to increased revenue.

Total trade and other payables decreased 3.2%, to HK\$4,420 million, mainly attributable to the receipt of prepaid rent from a tenant near the end of the last fiscal year.

## Dividend

Pursuant to the financial arrangement plan for the 3RS, the Board did not declare a dividend for fiscal 2015/16.

## Cash Flow

Net cash generated from operating activities increased from HK\$10,331 million in 2014/15 to HK\$10,715 million this year, mainly due to the increase in profit for the year.

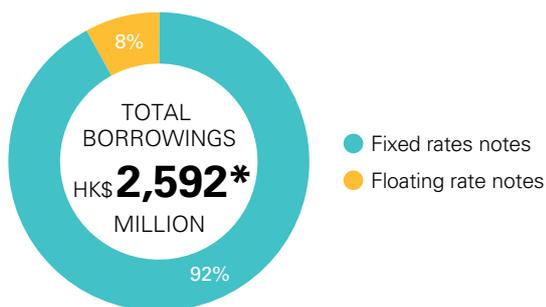
## Financing

AAHK's total borrowings as at 31 March 2016 amounted to HK\$2,592 million (2014/15: HK\$3,382 million). Total borrowings comprised unsecured bank loans and notes. AAHK has a US\$1 billion medium-term note programme, which allows AAHK to access capital markets when needed and for general corporate purposes.

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

### LOAN FACILITIES AND PROGRAMMES

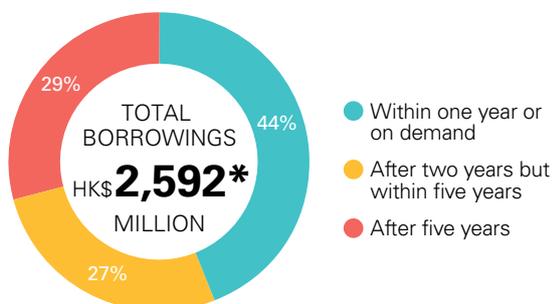
(as at 31 March 2016)



\*After unamortised financial costs of HK\$13 million.

### LOAN MATURITY PROFILE

(as at 31 March 2016)



\*After unamortised financial costs of HK\$13 million.

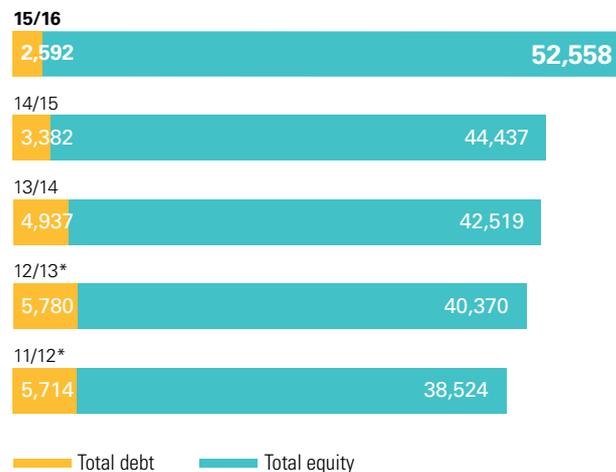
## Financial Risk Management

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 financial risks. In accordance with approved policy, we have adopted measures to fix the interest rate of a portion of total borrowings in order to reduce 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 only 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 traffic demand will continue to grow, but at a slower pace. Once the existing two-runway system at HKIA reaches its annual practical maximum capacity of 420,000 flight movements, further growth will be very limited. In view of high levels of traffic demand, we will continue to find innovative ways to address capacity constraints and to maintain and enhance service standards in the existing two-runway system.

To meet immediate needs, the Midfield development was completed on schedule and is now fully operational. Located to the west of Terminal 1 between HKIA's two existing runways, the 105,000-square-metre, five storey concourse provides 20 parking positions and will increase our handling capacity by at least 10 million passengers per year. In addition, we will continue to use new technologies and carry out enhancement projects to optimise the use of existing facilities and make the airport experience smooth and efficient for travellers.

Expanding the airport into a 3RS is the long-term solution to HKIA's capacity constraints and will maintain Hong Kong's status as an international aviation hub. We announced revised financial arrangement plan in 2015/16, which included a reduction in the originally proposed airport construction fee that will be paid by departing passengers. In April 2016, the Chief Executive-in-Council approved the draft Chek Lap Kok Outline Zoning Plan and authorised the reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance for the expansion of HKIA into 3RS. We will proceed with the detailed design for the 3RS and procurement of construction contracts with a view to commence reclamation works as soon as possible.

To maintain our high service standards and strengthen our reputation for operational excellence, we will continue our customer service, safety, security and business continuity planning initiatives. An Arts and Culture Advisory Committee was established to organise future events and make HKIA a place that travellers enjoy. We will also continue to work on other enhancement projects, including runways and taxiways resurfacing, replacing aircraft loading bridges and upgrading passenger terminal facilities.

In the short term, we forecast profits to grow at a slower pace due to capacity constraints with the two-runway system. Nevertheless, we will continue to increase non-aeronautical revenues by maintaining a diversified trade mix catering for various customer segments, enhancing the overall retail experience for our passengers and introducing innovative marketing programmes. We are introducing proximity marketing to provide location-specific offers to travellers via iBeacon technology and we will continue to explore new business models. To leverage the commercial opportunities brought by the opening of the Hong Kong–Zhuhai–Macao Bridge and the Tuen Mun–Chek Lap Kok Link around 2018, we will proceed with the development of the North Commercial District.

To strengthen HKIA's position as an international aviation hub and tap into the growth of the Pearl River Delta (PRD), we will continue to expand HKIA's catchment area in the PRD by expanding our upstream check-in services and strengthening promotional activities in the Mainland and overseas. We will also continue to liaise with the relevant authorities to ensure HKIA enjoys seamless connections through the Hong Kong–Zhuhai–Macao Bridge and other cross-boundary and local infrastructure projects.

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

With timely development, innovation and financial discipline, HKIA will continue to bring value to its stakeholders, satisfy our customers' expectations and generate economic benefits for Hong Kong and the entire PRD.

# Table of Contents

78	<b>Report of the Members of the Board</b>
81	<b>Independent Auditor's Report</b>
82	<b>Consolidated Statement of Profit or Loss</b>
83	<b>Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>
84	<b>Consolidated Statement of Financial Position</b>
85	<b>Consolidated Statement of Changes in Equity</b>
86	<b>Consolidated Cash Flow Statement</b>
88	<b>Notes to the Consolidated Financial Statements</b>
135	<b>Five-year Financial and Operational Summary</b>

# Report of the Members of the Board

Financial year ended 31 March 2016

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 2016.

## 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 on 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 2016 and the Group's financial position 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. No dividend has been declared since the year ended 31 March 2015, in order to preserve capital for the purpose of funding the three-runway system project.

## Transfer to Reserves

The Group's profit attributable to equity shareholder of HK\$8,359 million (2014/15: HK\$7,254 million) has been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

## Investment Property, Interest in Leasehold Land, Other Property, Plant and Equipment

Movements in investment property, interest in leasehold land, other property, plant and equipment during the year are set out in Note 10 to the Financial Statements.

## Capitalised Interest

Interest amounting to HK\$67 million (2014/15: HK\$107 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 2016 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) 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 2016.

## Donations

Donations made during the year amounted to HK\$3,251,000 (2014/15: HK\$1,654,000), which were funded partly from the sales of “lost and found” items at the airport.

## Major Customers and Suppliers

The information in respect to the Group’s sales and purchases attributable to major customers and suppliers during the financial year were as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	20%	
Top five customers	46%	
The largest supplier		33%
Top five suppliers		44%

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 2016/17 and the business plan and financial plan for 2016/17 to 2020/21 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 2016, AAHK, excluding its subsidiaries, had a staff of 1,616 (31 March 2015: 1,475). 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 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 2016 are set out on pages 12 to 14 of the annual report.

Mr Vincent Lo Hong-sui retired as Chairman of AAHK on 31 May 2015. Mr Jack So Chak-kwong succeeded Mr Lo as Chairman of AAHK for a term of three years, from 1 June 2015 to 31 May 2018.

Mr Benjamin Hung Pi-cheng and Ir Lo Yiu-ching retired on 31 May 2015. The Hon Chan Kam-lam and The Hon Albert Ho Chun-yan retired on 31 December 2015.

Mr Andrew Fung Hau-chung, Ir Billy Wong Wing-hoo and Dr Allan Zeman were appointed to the Board for a term of three years from 1 June 2015 to 31 May 2018. The Hon Steven Ho Chun-yin was appointed to the Board on 1 January 2016 and will retire on 31 December 2017.

Ms Anita Fung Yuen-mei was re-appointed as a Member for a one-year term, from 1 June 2016 to 31 May 2017.

Mr David Au Ho-cheung was appointed Executive Director, Property Development, on 18 May 2015. Mr Kevin Poole, formerly Acting Executive Director, Third Runway, was appointed Executive Director, Third Runway, on 1 February 2016.

### **Interest of Members of the Board and Executive Directors in Contracts**

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 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 financial position of the Group and of the Group's financial performance and cash flows for the period. In preparing the financial statements for the year ended 31 March 2016, the Members of the Board have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis. The Members of the Board are responsible for keeping proper accounting records that 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, 30 May 2016

# 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 2016, 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 financial position of the group as at 31 March 2016 and of the group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Airport Authority Ordinance.

### KPMG

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

30 May 2016

# Consolidated Statement of Profit or Loss

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	<b>2016</b>	2015
Airport charges		<b>4,182</b>	4,020
Security charges		<b>1,577</b>	1,347
Aviation security services		<b>301</b>	279
Airside support services franchises		<b>2,532</b>	2,339
Retail licences and advertising revenue		<b>7,523</b>	6,820
Other terminal commercial revenue		<b>1,237</b>	1,160
Real estate revenue		<b>295</b>	269
Other income		<b>537</b>	133
<b>Revenue</b>		<b>18,184</b>	16,367
Staff costs and related expenses	4	<b>(2,034)</b>	(1,746)
Repairs and maintenance		<b>(795)</b>	(688)
Operational contracted services		<b>(614)</b>	(536)
Government services		<b>(861)</b>	(854)
Government rent and rates		<b>(127)</b>	(162)
Occupancy expenses		<b>(257)</b>	(268)
Other operating expenses	5	<b>(1,160)</b>	(799)
<b>Operating expenses before depreciation and amortisation</b>		<b>(5,848)</b>	(5,053)
<b>Operating profit before depreciation and amortisation</b>		<b>12,336</b>	11,314
Depreciation and amortisation		<b>(2,813)</b>	(2,420)
<b>Operating profit before interest and finance costs</b>	3	<b>9,523</b>	8,894
Interest and finance costs:			
Finance costs	6	<b>(19)</b>	(11)
Interest income		<b>47</b>	44
		<b>28</b>	33
Share of results of joint ventures	13	<b>189</b>	137
<b>Profit before taxation</b>		<b>9,740</b>	9,064
Income tax	7(a)	<b>(1,366)</b>	(1,794)
<b>Profit for the year</b>		<b>8,374</b>	7,270
<b>Attributable to:</b>			
Equity shareholder of the Authority		<b>8,359</b>	7,254
Non-controlling interests		<b>15</b>	16
<b>Profit for the year</b>		<b>8,374</b>	7,270

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

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

<i>\$ million</i>	<b>2016</b>	2015
<b>Profit for the year</b>	<b>8,374</b>	7,270
<b>Other comprehensive income for the year</b>		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
– the Authority	<b>(66)</b>	(38)
Less: deferred tax	<b>11</b>	6
	<b>(55)</b>	(32)
– a subsidiary in the People’s Republic of China (“the PRC”)	<b>(5)</b>	(4)
– a joint venture in the PRC	<b>(11)</b>	(26)
	<b>(71)</b>	(62)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC	<b>(182)</b>	9
Cash flow hedge: net movement in hedging reserve	<b>–</b>	1
	<b>(182)</b>	10
<b>Other comprehensive income for the year</b>	<b>(253)</b>	(52)
<b>Total comprehensive income for the year</b>	<b>8,121</b>	7,218
<b>Attributable to:</b>		
Equity shareholder of the Authority	<b>8,116</b>	7,204
Non-controlling interests	<b>5</b>	14
<b>Total comprehensive income for the year</b>	<b>8,121</b>	7,218

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

# Consolidated Statement of Financial Position

At 31 March 2016 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2016	2015
<b>Non-current assets</b>			
Investment property	10	104	111
Interest in leasehold land	10	7,220	7,455
Other property, plant and equipment	10	42,566	41,596
		49,890	49,162
Intangible asset	11	174	198
Interests in joint ventures	13	4,118	4,105
Derivative financial assets	21(e)	10	9
		54,192	53,474
<b>Current assets</b>			
Stores and spares		50	47
Trade and other receivables	14	2,103	1,846
Derivative financial assets	21(e)	2	5
Cash and bank balances	15	8,645	2,689
		10,800	4,587
<b>Current liabilities</b>			
Trade and other payables	16	(3,898)	(4,060)
Interest-bearing borrowings	17	(1,149)	(799)
Current taxation	7(c)	(206)	(788)
Deferred income	18	(175)	(165)
Derivative financial liabilities	21(e)	–	(1)
		(5,428)	(5,813)
<b>Net current assets/(liabilities)</b>			
		5,372	(1,226)
<b>Total assets less current liabilities</b>			
		59,564	52,248
<b>Non-current liabilities</b>			
Trade and other payables	16	(522)	(507)
Interest-bearing borrowings	17	(1,443)	(2,583)
Deferred income	18	(520)	(695)
Derivative financial liabilities	21(e)	(2)	(11)
Net defined benefit retirement obligations	19	(260)	(163)
Deferred tax liabilities	7(d)	(4,259)	(3,852)
		(7,006)	(7,811)
<b>Net assets</b>			
		52,558	44,437
<b>Capital and reserves</b>			
Share capital	20	30,648	30,648
Reserves		21,662	13,546
Total equity attributable to the equity shareholder of the Authority		52,310	44,194
Non-controlling interests		248	243
<b>Total equity</b>			
		52,558	44,437

Approved and authorised for issue on behalf of the Members of the Board on 30 May 2016.

**Mr Jack So Chak-kwong**  
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 consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

\$ million	Note	Attributable to the equity shareholder of the Authority						Non-controlling interests	Total equity
		Share capital	Exchange reserve	Capital reserve	Hedging reserve	Retained profits	Total		
<b>At 1 April 2014</b>		30,648	676	737	(1)	10,230	42,290	229	42,519
<b>Changes in equity for the year:</b>									
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)	-	-	-
<b>At 31 March 2015 and 1 April 2015</b>		<b>30,648</b>	<b>685</b>	<b>864</b>	<b>-</b>	<b>11,997</b>	<b>44,194</b>	<b>243</b>	<b>44,437</b>
<b>Changes in equity for the year:</b>									
Profit for the year		-	-	-	-	8,359	8,359	15	8,374
Other comprehensive income		-	(174)	-	-	(69)	(243)	(10)	(253)
Total comprehensive income		-	(174)	-	-	8,290	8,116	5	8,121
Transfer from retained profits to capital reserve	20(d)(ii)	-	-	137	-	(137)	-	-	-
<b>At 31 March 2016</b>		<b>30,648</b>	<b>511</b>	<b>1,001</b>	<b>-</b>	<b>20,150</b>	<b>52,310</b>	<b>248</b>	<b>52,558</b>

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

# Consolidated Cash Flow Statement

For the year ended 31 March 2016 (Expressed in Hong Kong dollars)

\$ million	Note	2016	2015
<b>Operating activities</b>			
Profit before taxation		9,740	9,064
Adjustments for:			
Depreciation		2,566	2,173
Amortisation of interest in leasehold land		230	230
Amortisation of intangible asset		17	17
Interest on notes and bank loans		85	103
Other borrowing costs and interest expense		12	24
Borrowing costs capitalised into assets under construction		(67)	(107)
Interest income		(47)	(44)
Fair value loss/(gain) on derivative financial instruments:			
– cash flow hedges		–	2
– fair value hedges		(18)	(50)
Net loss on underlying hedged interest-bearing borrowings in fair value hedges		7	39
Share of results of joint ventures		(189)	(137)
Impairment losses on trade and other receivables		21	5
Net (gain)/loss on disposal of interest in leasehold land and other property, plant and equipment		(365)	25
Amortisation of deferred income		(165)	(155)
Expenses recognised in respect of defined benefit retirement plans		50	47
<b>Operating profit before changes in working capital</b>		<b>11,877</b>	11,236
(Increase)/decrease in stores and spares		(3)	8
Increase in trade and other receivables		(245)	(194)
Increase in trade and other payables		616	388
<b>Cash generated from operations</b>		<b>12,245</b>	11,438
Hong Kong Profits Tax paid		(1,512)	(1,099)
PRC Corporate Income Tax paid		(18)	(8)
<b>Net cash generated from operating activities</b>		<b>10,715</b>	10,331
<b>Investing activities</b>			
Net placement of deposits with banks with over three months of maturity when placed		(4,609)	(187)
Interest received		39	44
Payments for the purchase of other property, plant and equipment		(3,863)	(4,336)
Receipts from disposal of other property, plant and equipment		–	2
Payment of annual franchise fee for a PRC subsidiary		(7)	(5)
<b>Net cash used in investing activities</b>		<b>(8,440)</b>	(4,482)

<i>\$ million</i>	Note	<b>2016</b>	2015
<b>Financing activities</b>			
Interest paid on notes and bank loans		<b>(87)</b>	(107)
Other borrowing costs and interest expense paid		<b>(20)</b>	(27)
Payment of loan arrangement fee		<b>(25)</b>	–
Net repayment of bank loans		<b>(600)</b>	(1,100)
Repayment of notes		<b>(200)</b>	(500)
Net interest income received on interest rate swaps		<b>12</b>	10
Dividend paid		<b>–</b>	(5,300)
<b>Net cash used in financing activities</b>		<b>(920)</b>	(7,024)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>1,355</b>	(1,175)
<b>Cash and cash equivalents at beginning of year</b>		<b>2,417</b>	3,592
Effect of foreign exchange rate changes		<b>(8)</b>	–
<b>Cash and cash equivalents at end of year</b>		<b>3,764</b>	2,417
	15		

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

# Notes to the Consolidated 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 consolidated financial statements

### (a) Statement of compliance

These consolidated 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 Ordinance. These consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements (continued)

### (b) Basis of preparation of the consolidated 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 consolidated 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>	<b>2016</b>	2015
Auditors' remuneration:		
– audit services	<b>5</b>	5
– tax services	<b>1</b>	1
Stores and spares expensed	<b>115</b>	102
Net (gain)/loss on disposal of interest in leasehold land and other property, plant and equipment	<b>(365)</b>	25
Impairment losses on trade and other receivables (note 14(b))	<b>21</b>	5
Depreciation: (note 10(d))		
– assets held for use under operating leases	<b>194</b>	139
– other assets	<b>2,372</b>	2,034
Amortisation:		
– interest in leasehold land (note 10(d))		
– leased out under operating leases	<b>15</b>	17
– others	<b>215</b>	213
– intangible asset (note 11)	<b>17</b>	17
Operating lease charges: minimum lease payments		
– hire of plant and machinery	<b>2</b>	2
– hire of other assets (including property rentals)	<b>12</b>	10
Rentals from investment property less direct outgoings of \$13 million (2015: \$14 million)	<b>(40)</b>	(33)

## 4. Staff costs and related expenses

<i>\$ million</i>	<b>2016</b>	2015
Contributions to defined contribution retirement plans	<b>90</b>	74
Expenses recognised in respect of defined benefit retirement plans (note 19)	<b>50</b>	47
Total retirement costs	<b>140</b>	121
Salaries, wages and other benefits	<b>1,942</b>	1,665
Total staff costs and related expenses	<b>2,082</b>	1,786
Less: staff costs and related expenses capitalised into assets under construction	<b>(48)</b>	(40)
	<b>2,034</b>	1,746

## 5. Other operating expenses

Included in other operating expenses for the current year were amounts incurred for fulfilling certain conditions in the Environmental Permit obtained for the three-runway system ("3RS"), whereas for the prior year were amounts incurred for the statutory Environmental Impact Assessment and the preparation of the associated design details of the facilities for the 3RS, which were previously presented separately.

## 6. Finance costs

<i>\$ million</i>	2016	2015
Interest on bank loans	1	17
Interest on notes	84	86
Other borrowing costs	4	13
Other interest expense	8	11
Total interest expense	97	127
Less: borrowing costs capitalised into assets under construction	(67)	(107)
	30	20
Fair value loss/(gain) on derivative financial instruments		
– cash flow hedges	–	2
– fair value hedges <sup>1</sup>	(18)	(50)
Net loss on underlying hedged interest-bearing borrowings in fair value hedges	7	39
	19	11

<sup>1</sup> Includes net interest income of \$11 million (2015: \$11 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 3.07% (2015: 2.12%) per annum.

## 7. Taxation

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

<i>\$ million</i>	2016	2015
Current tax – Hong Kong Profits Tax		
– provision for the year	1,200	1,345
– (over)/under-provision in respect of prior years	(266)	269
Current tax – PRC Corporate Income Tax		
– provision for the year	14	16
– under-provision in respect of prior years	–	2
Deferred tax (note 7(d))		
– origination and reversal of temporary differences	418	162
	1,366	1,794

## 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% (2015: 16.5%) of the estimated assessable profits for the year.

The provision for PRC Corporate Income Tax is calculated at 25% (2015: 25%) of the estimated assessable profits for the year.

(Over)/under-provision for Hong Kong Profits Tax in respect of prior years is mainly related to adjustments for depreciation allowances claimed in respect of certain property, plant and equipment acquired in previous years.

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

<i>\$ million</i>	2016	2015
Profit before taxation	<b>9,740</b>	9,064
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	<b>1,612</b>	1,500
Tax effect of non-deductible expenses	<b>120</b>	48
Tax effect of non-taxable income	<b>(100)</b>	(25)
(Over)/under-provision in respect of prior years	<b>(266)</b>	271
Actual tax expense	<b>1,366</b>	1,794

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

<i>\$ million</i>	2016	2015
Provision for the year (note 7(a))		
– Hong Kong Profits Tax	<b>1,200</b>	1,345
– PRC Corporate Income Tax	<b>14</b>	16
Provisional Hong Kong Profits Tax paid	<b>(1,011)</b>	(844)
PRC Corporate Income Tax paid	<b>(11)</b>	(8)
Balance of profits tax provision relating to prior years	<b>14</b>	279
Current taxation	<b>206</b>	788

## 7. Taxation (continued)

### (d) Deferred tax assets and liabilities recognised in the consolidated statement of financial position represents:

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>	<b>Depreciation allowances in excess of the related depreciation and other expenses</b>	<b>Deferred income, defined benefit retirement plan liability and others</b>	<b>Undistributed profits of a PRC joint venture</b>	<b>Total</b>
<b>Deferred tax arising from:</b>				
At 1 April 2014	3,836	(154)	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	(137)	16	3,852
At 1 April 2015	<b>3,973</b>	<b>(137)</b>	<b>16</b>	<b>3,852</b>
Charged to profit or loss	<b>393</b>	<b>23</b>	<b>2</b>	<b>418</b>
Credited to other comprehensive income	–	<b>(11)</b>	–	<b>(11)</b>
<b>At 31 March 2016</b>	<b>4,366</b>	<b>(125)</b>	<b>18</b>	<b>4,259</b>

### (e) Deferred tax assets not recognised in the consolidated statement of financial position:

The group has not recognised deferred tax assets in respect of subsidiaries' cumulative tax losses and other temporary differences of \$60 million (2015: \$59 million) and \$9 million (2015: \$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.

## 8. Emoluments 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 emoluments 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. Emoluments of the Members of the Board and Executive Directors (continued)

### (a) Emoluments of the Members of the Board

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

2016 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
<b>Members of the Board</b>					
<b>Non-executive Members</b>					
Jack So Chak-kwong <sup>1</sup> (appointed in June 2015)	–	–	–	–	–
Edward Cheng Wai-sun	110	–	–	–	110
Andrew Fung Hau-chung (appointed in June 2015)	92	–	–	–	92
Anita Fung Yuen-mei	110	–	–	–	110
Steven Ho Chun-yin (appointed in January 2016)	27	–	–	–	27
Franklin Lam Fan-keung	110	–	–	–	110
Jeffrey Lam Kin-fung	110	–	–	–	110
Lee Shing-see	110	–	–	–	110
Peter To	110	–	–	–	110
Billy Wong Wing-hoo (appointed in June 2015)	92	–	–	–	92
Frankie Yick Chi-ming	110	–	–	–	110
Allan Zeman (appointed in June 2015)	92	–	–	–	92
Secretary for Financial Services and the Treasury <sup>2</sup>	110	–	–	–	110
Secretary for Transport and Housing <sup>2</sup>	110	–	–	–	110
Director-General of Civil Aviation <sup>2</sup>	110	–	–	–	110
Vincent Lo Hong-sui (retired in May 2015)	37	–	–	–	37
Chan Kam-lam (retired in December 2015)	83	–	–	–	83
Albert Ho Chun-yan (retired in December 2015)	83	–	–	–	83
Benjamin Hung Pi-cheng (retired in May 2015)	18	–	–	–	18
Lo Yiu-ching (retired in May 2015)	18	–	–	–	18
<b>Executive Member</b>					
Fred Lam Tin-fuk (Chief Executive Officer)	–	6,124	2,922	816	9,862
	<b>1,642</b>	<b>6,124</b>	<b>2,922</b>	<b>816</b>	<b>11,504</b>

<sup>1</sup> Jack So Chak-kwong has donated his Chairman's Fee to the University Entrance Scholarship for children of Airport Authority staff and therefore no payment has been made to him.

<sup>2</sup> 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. Emoluments of the Members of the Board and Executive Directors (continued)

### (a) Emoluments of the Members of the Board (continued)

2015 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
<b>Members of the Board</b>					
<b>Non-executive Members</b>					
Vincent Lo Hong-sui	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 <sup>1</sup>	110	-	-	-	110
Secretary for Transport and Housing <sup>1</sup>	110	-	-	-	110
Director-General of Civil Aviation <sup>1</sup>	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
<b>Executive Members</b>					
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

<sup>1</sup> 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) Emoluments of Executive Directors

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

\$'000	2016	2015
Basic compensation	23,340	17,091
Performance-related compensation	9,900	6,978
Retirement benefits	2,664	1,813
	35,904	25,882

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

### (b) Emoluments of Executive Directors (continued)

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

\$	Number of individuals	
	2016	2015
500,001 – 1,000,000	1	–
1,500,001 – 2,000,000	–	1
3,500,001 – 4,000,000	1	–
4,500,001 – 5,000,000	3	2
5,000,001 – 5,500,000	–	2
5,500,001 – 6,000,000	3	1
	<b>8</b>	6

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2015: 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 consolidated 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 consolidated 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 revenue and operating profit of the group is substantially derived from activities in Hong Kong, other than its investments in certain subsidiaries and interests in joint ventures in the PRC, details of which are disclosed under notes 12 and 13 to the consolidated financial statements respectively.

### Information about major customers

The group's customer base is diversified and includes only two customers (2015: two customers) with whom transactions have exceeded 10% of the group's revenue.

Included in the revenue of \$18,184 million for the year (2015: \$16,367 million) are aggregate revenues of approximately \$7,071 million which arose from these two customers (2015: \$6,577 million 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. Investment property, interest in leasehold land, other property, plant and equipment

### (a) Reconciliation of carrying amount

\$ 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				
<b>Cost</b>										
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
At 1 April 2015	<b>10,342</b>	<b>24,085</b>	<b>14,032</b>	<b>8,938</b>	<b>1,825</b>	<b>9,413</b>	<b>68,635</b>	<b>168</b>	<b>11,321</b>	<b>80,124</b>
Exchange adjustments	-	(2)	-	(3)	(1)	-	(6)	-	-	(6)
Additions	268	4	23	103	104	3,042	3,544	-	-	3,544
Reclassifications	619	5,293	2,304	2,686	27	(10,929)	-	-	-	-
Disposals	(117)	(136)	(15)	(166)	(17)	-	(451)	-	(6)	(457)
At 31 March 2016	<b>11,112</b>	<b>29,244</b>	<b>16,344</b>	<b>11,558</b>	<b>1,938</b>	<b>1,526</b>	<b>71,722</b>	<b>168</b>	<b>11,315</b>	<b>83,205</b>
<b>Accumulated depreciation, amortisation and impairment</b>										
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
At 1 April 2015	<b>3,556</b>	<b>10,211</b>	<b>5,939</b>	<b>5,823</b>	<b>1,510</b>	<b>-</b>	<b>27,039</b>	<b>57</b>	<b>3,866</b>	<b>30,962</b>
Exchange adjustments	-	(1)	-	(1)	-	-	(2)	-	-	(2)
Charge for the year	402	983	604	484	86	-	2,559	7	230	2,796
Written back on disposals	(116)	(129)	(15)	(163)	(17)	-	(440)	-	(1)	(441)
At 31 March 2016	<b>3,842</b>	<b>11,064</b>	<b>6,528</b>	<b>6,143</b>	<b>1,579</b>	<b>-</b>	<b>29,156</b>	<b>64</b>	<b>4,095</b>	<b>33,315</b>
<b>Net book value</b>										
At 31 March 2016	<b>7,270</b>	<b>18,180</b>	<b>9,816</b>	<b>5,415</b>	<b>359</b>	<b>1,526</b>	<b>42,566</b>	<b>104</b>	<b>7,220</b>	<b>49,890</b>
At 31 March 2015	6,786	13,874	8,093	3,115	315	9,413	41,596	111	7,455	49,162

## 10. Investment property, interest in leasehold land, other property, plant and equipment (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 \$11,315 million (2015: \$11,321 million) and the land premium of \$2,000 have been classified as interest in leasehold land.

### (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 2016 calculated by reference to net rental income allowing for reversionary income potential amounted to \$561 million (2015: \$554 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 revenue 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>	<b>2016</b>	2015
Within one year	<b>2,529</b>	2,155
After one but within five years	<b>7,102</b>	5,085
After five years	<b>8,158</b>	5,913
	<b>17,789</b>	13,153

## 10. Investment property, interest in leasehold land, other property, plant and equipment (continued)

### (d) (continued)

During the year, \$10,488 million (2015: \$9,591 million) was recognised as income in profit or loss in respect of the operating leases and franchise agreements, which included contingent rentals of \$8,286 million (2015: \$7,573 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 2016 was \$479 million (2015: \$563 million) with annual amortisation amounting to \$15 million (2015: \$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 2016 was \$4,016 million (2015: \$2,576 million) with annual depreciation amounting to \$194 million (2015: \$139 million).

(e) A review of the useful life of investment property, and other property, plant and equipment is undertaken by the Authority periodically. During the year, the estimated useful lives of certain other property, plant and equipment were revised, resulting in a net increase in the group's annual depreciation charge of \$6 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of \$87 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 provisions, where appropriate, for what may be required for the settlement of these claims.

## 11. Intangible asset

<i>\$ million</i>	<b>2016</b>	2015
<b>Cost</b>		
At 1 April	<b>344</b>	344
Exchange adjustments	<b>(13)</b>	–
At 31 March	<b>331</b>	344
<b>Accumulated amortisation</b>		
At 1 April	<b>146</b>	129
Exchange adjustments	<b>(6)</b>	–
Charge for the year	<b>17</b>	17
At 31 March	<b>157</b>	146
<b>Net book value</b>		
At 31 March	<b>174</b>	198

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	
	2016	2015
Unlisted shares, at cost	5	5

The following list contains only the particulars of principal subsidiaries. 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
HKIA Precious Metals Depository Limited	Hong Kong	\$2	100%	100%	–	Provision of storage space and related services
Hong Kong – Zhuhai Airport Management Co., Ltd. ("HKZAM")*	PRC	RMB360 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	2016	2015
NCI percentage	45%	45%
Non-current assets	278	285
Current assets	324	285
Non-current liabilities	(68)	(63)
Current liabilities	(107)	(92)
Net assets	427	415
Carrying amount of NCI	192	187
Revenue	275	254
Profit for the year	34	33
Total comprehensive income for the year	29	29
Profit for the year allocated to NCI	15	14
Total comprehensive income for the year allocated to NCI	13	13

### 13. Interests in joint ventures

<i>\$ million</i>	2016	2015
Share of net assets	3,887	3,866
Goodwill	231	239
	4,118	4,105

Details of the group's interests 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 registered capital	Proportion of ownership interest		
				Group's effective interest	Held by the Authority	Principal activity
Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIA")	Incorporated	PRC	RMB5,686 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	RMB100 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.

Summary of 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>	2016	2015
<b>Gross amounts of HXIA</b>		
Non-current assets	16,443	17,237
Current assets	3,794	2,934
Non-current liabilities	(3,915)	(5,433)
Current liabilities	(5,386)	(3,866)
Net assets/equity	10,936	10,872

### 13. Interests in joint ventures (continued)

#### (a) HXIA (continued)

<i>\$ million</i>	2016	2015
Income	3,058	2,821
Government subsidies	392	356
Expenses	(2,887)	(2,756)
Profit before taxation	563	421
Income tax	(25)	(29)
Profit after taxation	538	392
Other comprehensive income	(31)	(73)
Total comprehensive income	507	319

<i>\$ million</i>	2016	2015
<b>Reconciled to the group's interest in HXIA</b>		
Gross amounts of HXIA's net assets	10,936	10,872
Group's effective interest	35%	35%
Group's share of HXIA's net assets	3,828	3,805
Goodwill	231	239
Carrying amount in the consolidated financial statements	4,059	4,044

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

<i>\$ million</i>	2016	2015
Share of profit after taxation	188	137
Share of other comprehensive income	(11)	(26)
Less: transfer to capital reserve	(137)	(125)
Share of profit and other comprehensive income to be retained	40	(14)
Share of retained profits brought forward from previous years	626	640
Share of retained profits carried forward to next year	666	626

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

<i>\$ million</i>	2016	2015
At 1 April	815	690
Transfer from retained profits	137	125
At 31 March	952	815

### 13. Interests in joint ventures (continued)

#### (a) HXIA (continued)

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

<i>\$ million</i>	2016	2015
Contracted for	460	159
Authorised but not contracted for	1,162	1,518
	<b>1,622</b>	1,677

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>	2016	2015
<b>Gross amounts of SHKAM</b>		
Current assets	130	134
Current liabilities	(10)	(10)
Net assets/equity	120	124

<i>\$ million</i>	2016	2015
Income	15	15
Expenses	(13)	(14)
Net profit and other comprehensive income	2	1

<i>\$ million</i>	2016	2015
<b>Reconciled to the group's interest in SHKAM</b>		
Gross amounts of SHKAM's net assets	120	124
Group's effective interest	49%	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	59	61

## 14. Trade and other receivables

<i>\$ million</i>	<b>2016</b>	2015
Trade debtors	<b>2,056</b>	1,809
Less: allowance for doubtful debts (note 14(b))	<b>(54)</b>	(33)
Other debtors	<b>2,002</b>	1,776
	<b>18</b>	10
Prepayments	<b>2,020</b>	1,786
Deposits and debentures	<b>63</b>	49
	<b>20</b>	11
	<b>2,103</b>	1,846

As at 31 March 2016, all of the trade and other receivables are expected to be recovered or recognised as an expense within one year except for \$33 million (2015: \$84 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>	<b>2016</b>	2015
Amounts not yet due	<b>1,897</b>	1,679
Less than one month past due	<b>66</b>	63
One to three months past due	<b>28</b>	26
More than three months past due	<b>11</b>	8
	<b>2,002</b>	1,776

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>	<b>2016</b>	2015
At 1 April	<b>33</b>	28
Impairment loss recognised	<b>21</b>	5
At 31 March	<b>54</b>	33

As at 31 March 2016, the group's trade debtors of \$38 million (2015: \$17 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 \$34 million (2015: \$15 million) for the group. The group holds cash deposits and bank guarantees of \$4 million (2015: \$2 million) as collateral over the remaining 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>	<b>2016</b>	2015
Neither past due nor impaired	<b>1,897</b>	1,679
Less than one month past due	<b>53</b>	47
One to three months past due	<b>6</b>	5
More than three months past due	<b>3</b>	1
	<b>62</b>	53
	<b>1,959</b>	1,732

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 \$3 million (2015: \$5 million) as collateral over certain past due but not impaired trade debtors totalling \$62 million (2015: \$53 million).

## 15. Cash and bank balances

<i>\$ million</i>	<b>2016</b>	2015
Deposits with banks within three months of maturity when placed	<b>3,396</b>	1,980
Cash at bank and in hand	<b>368</b>	437
Cash and cash equivalents in the consolidated cash flow statement	<b>3,764</b>	2,417
Deposits with banks with over three months of maturity when placed	<b>4,881</b>	272
Cash and bank balances in the consolidated statement of financial position	<b>8,645</b>	2,689

As at 31 March 2016, cash and bank balances of \$240 million (2015: \$209 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.

## 16. Trade and other payables

<i>\$ million</i>	<b>2016</b>	2015
Creditors and accrued charges	<b>3,419</b>	3,436
Deposits received	<b>818</b>	847
Contract retentions	<b>183</b>	284
	<b>4,420</b>	4,567
Classified in the consolidated statement of financial position as:		
Current liabilities	<b>3,898</b>	4,060
Non-current liabilities	<b>522</b>	507
	<b>4,420</b>	4,567

As at 31 March 2016, all of the trade and other payables are expected to be settled or recognised as income within one year except for \$522 million (2015: \$507 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>	<b>2016</b>	2015
Due within 30 days or on demand	<b>1,214</b>	1,083
Due after 30 days but within 60 days	<b>423</b>	614
Due after 60 days but within 90 days	<b>258</b>	180
Due after 90 days	<b>1,524</b>	1,559
	<b>3,419</b>	3,436

## 17. Interest-bearing borrowings

<i>\$ million</i>	<b>2016</b>	2015
Notes payable		
HK dollar fixed rate notes due 2016 to 2043 (a)	<b>2,405</b>	2,599
HK dollar floating rate notes due 2016 (a)	<b>200</b>	200
	<b>2,605</b>	2,799
Bank loans (b) to (c)	<b>–</b>	600
	<b>2,605</b>	3,399
Less: unamortised finance costs	<b>(13)</b>	(17)
	<b>2,592</b>	3,382

## 17. Interest-bearing borrowings (continued)

- (a) The Authority established the United States (“US”) \$1 billion Medium Term Note programme in 2010. Prior to that, the Authority’s Hong Kong dollar notes were issued through private placement.

In October 2015, the Authority repaid \$200 million note, with an annual coupon rate of 0.9%, in full.

As at 31 March 2016, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 1.5% to 5.1% (2015: 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. The five-year revolving credit facility was repaid in full in June 2015.

In December 2015, the Authority signed another 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 2016, there was no outstanding amount under this facility.

- (c) The Authority has uncommitted money market line facilities of \$2,500 million (2015: \$2,888 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2016, there was no outstanding amount under these facilities (2015: \$nil).

- (d) As at 31 March 2016, the unsecured interest-bearing borrowings were repayable as follows:

<i>\$ million</i>	2016	2015
Within one year or on demand	1,149	799
After one year but within two years	–	1,149
After two years but within five years	702	104
After five years	741	1,330
	1,443	2,583
	2,592	3,382

- (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 25% (2015: 29%) 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 2016 prepared by qualified staff of Mercer (Hong Kong) Limited (2015: 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 74% (2015: 83%) 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 74% (2015: 80%) 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 HKAS 19, “Employee benefits”, as at 31 March 2016 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>	2016	2015
<b>The Hong Kong plan</b>		
Present value of funded obligations	820	775
Fair value of plan assets	(603)	(647)
	217	128
<b>The HKZAM plan</b>		
Present value of unfunded obligations	43	35
Net defined benefit retirement obligations	260	163

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay \$106 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2017.

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

(ii) Plan assets consist of the following:

<i>\$ million</i>	<b>2016</b>	2015
Equity securities	<b>386</b>	400
Corporate bonds	<b>210</b>	208
Cash	<b>7</b>	39
	<b>603</b>	647

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>	<b>2016</b>	2015
<b>The Hong Kong plan</b>		
At 1 April	<b>775</b>	693
Remeasurements:	<b>30</b>	71
– Actuarial losses arising from changes in financial assumptions	<b>12</b>	54
– Experience adjustments	<b>18</b>	17
Benefits paid by the plans	<b>(38)</b>	(45)
Current service cost	<b>42</b>	40
Interest cost	<b>11</b>	16
At 31 March	<b>820</b>	775
<b>The HKZAM plan</b>		
At 31 March	<b>863</b>	810

The weighted average durations of the defined benefit obligations for the Hong Kong and the HKZAM plans are 7.8 years (2015: 8.8 years) and 13.0 years (2015: 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>	2016	2015
At 1 April	647	624
Group's contributions paid to the plans	22	22
Benefits paid by the plans	(38)	(45)
Actual return on plan assets	(28)	46
– Interest income	9	14
– Return on plan assets, excluding interest income	(36)	33
– Administrative expenses paid from plan assets	(1)	(1)
At 31 March	603	647

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

<i>\$ million</i>	2016	2015
<b>The Hong Kong plan</b>		
Current service cost	42	40
Administrative expenses paid from plan assets	1	1
Net interest on net defined benefit liability	2	2
	45	43
<b>The HKZAM plan</b>	5	4
Total amounts recognised in profit or loss	50	47
<b>The Hong Kong plan</b>		
Remeasurements:		
– Actuarial losses arising from changes in financial assumptions	12	54
– Experience adjustments	18	17
Return on plan assets, excluding interest income	36	(33)
	66	38
<b>The HKZAM plan</b>	5	4
Total amounts recognised in other comprehensive income	71	42
Total defined benefit debits	121	89

The current service cost, administrative expenses paid 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>	2016	2015
Staff costs and related expenses	50	47

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

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

	<b>2016</b>	2015
<b>The Hong Kong plan</b>		
Discount rate	<b>1.2%</b>	1.4%
Future long term salary increases	<b>3.5%</b>	3.5%
<b>The HKZAM plan</b>		
Discount rate	<b>3.1%</b>	4.1%

The below analysis shows how the defined benefit obligations as at 31 March 2016 would have increased/ (decreased) as a result of a 0.5% change in the significant actuarial assumptions:

<i>\$ million</i>	<b>Increase by 0.5%</b>	<b>Decrease by 0.5%</b>
<b>The Hong Kong plan</b>		
Discount rate	<b>(30)</b>	<b>32</b>
Future long term salary increases	<b>35</b>	<b>(33)</b>
<b>The HKZAM plan</b>		
Discount rate	<b>(2)</b>	<b>2</b>

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>	<b>2016</b>	2015
Final dividend payable to the equity shareholder of the Authority in respect of the previous financial year, approved and paid during the year of \$nil per ordinary share (2015: \$17,293.13 per ordinary share)	–	5,300

### (c) Share capital

<i>\$ million</i>	<b>The Authority</b>	
	<b>2016</b>	2015
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of \$100,000 each (2015: 306,480 ordinary shares)	<b>30,648</b>	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 2016, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was \$19,500 million (2015: \$11,400 million). The Board did not propose any final dividend for the year ended 31 March 2016 (2015:\$nil).

#### (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	2016	2015
Total debt <sup>1</sup>	17	2,592	3,382
Total equity		52,558	44,437
Total capital <sup>2</sup>		55,150	47,819
Total debt/capital ratio		5%	7%

<sup>1</sup> Total debt represents interest-bearing borrowings.

<sup>2</sup> 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 25% (2015: 21%) and 41% (2015: 39%) 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
<b>2016</b>						
Interest-bearing borrowings	2,592	3,101	1,230	54	859	958
Trade and other payables	4,420	4,484	3,901	120	400	63
Interest rate swaps (net settled)	(10)	(45)	(9)	(8)	(21)	(7)
	<b>7,002</b>	<b>7,540</b>	<b>5,122</b>	<b>166</b>	<b>1,238</b>	<b>1,014</b>
<b>2015</b>						
Interest-bearing borrowings	3,382	3,988	887	1,230	263	1,608
Trade and other payables	4,567	4,628	4,064	182	323	59
Interest rate swaps (net settled)	(2)	(62)	(10)	(10)	(28)	(14)
	<b>7,947</b>	<b>8,554</b>	<b>4,941</b>	<b>1,402</b>	<b>558</b>	<b>1,653</b>

As shown above, interest-bearing borrowings (including interest) of the group amounting to \$1,230 million (2015: \$887 million) are due to be repaid in the upcoming 12 months after 31 March 2016. 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 in general, 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. As at 31 March 2016, the fixed rate borrowings are slightly above the policy ratio. The policy ratio will be achieved with the maturity of fixed rate borrowings in 2016.

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 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).

<i>\$ million</i>	<b>2016</b>	2015
<b>Fixed rate borrowings</b>		
Bank loans <sup>1</sup>	–	200
Fixed rate notes	<b>1,589</b>	1,788
	<b>1,589</b>	1,988
<b>Variable rate borrowings</b>		
Bank loans	–	399
Fixed rate notes <sup>2</sup>	<b>803</b>	796
Floating rate notes	<b>200</b>	199
	<b>1,003</b>	1,394
Total borrowings	<b>2,592</b>	3,382
Fixed rate borrowings as a percentage of total borrowings	<b>61%</b>	59%

<sup>1</sup> Swapped to fixed rate

<sup>2</sup> Swapped to floating rate

#### (iii) Sensitivity analysis

As at 31 March 2016, 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 \$4 million (2015: \$5 million). There was no increase/decrease in other components of consolidated equity (2015: \$0.1 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 2016, the group is exposed to US dollar currency risk in respect of cash and bank balances of US\$226 million (2015: US\$148 million) and trade and other receivables of US\$9 million (2015: 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 2016, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB122 million (2015: RMB112 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 \$6 million lower/higher. The analysis is performed on the same basis for 2014/15.

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 2015 and 2016, 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 (2015: \$nil). The group's policy is to recognise transfers between levels of fair value hierarchy as 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)			2015		
	2016 Notional amount	2016 Financial assets	2016 Financial liabilities	Notional amount	Financial assets	Financial liabilities
<i>\$ million</i>						
Cash flow hedges						
Interest rate swaps	–	–	–	200	–	(1)
Fair value hedges						
Interest rate swaps	<b>800</b>	<b>12</b>	<b>(2)</b>	800	14	(11)
<b>Total</b>		<b>12</b>	<b>(2)</b>		14	(12)
Less: portion to be recovered/ (settled) within one year						
Cash flow hedges						
Interest rate swaps	–	–	–	200	–	(1)
Fair value hedges						
Interest rate swaps	<b>800</b>	<b>2</b>	–	800	5	–
		<b>2</b>	–		5	(1)
Portion to be recovered/ (settled) after one year						
		<b>10</b>	<b>(2)</b>		9	(11)

As at 31 March 2015, derivative financial instruments qualifying as cash flow hedges have a maturity of less than one year from the end of the reporting period. These cash flow hedges were subsequently expired during the year ended 31 March 2016.

Derivative financial instruments qualifying as fair value hedges as at 31 March 2016 have a maturity of less than one year to 6.5 years (2015: one year to 7.5 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 2016, the carrying value and fair value of fixed rate notes of notional amount of \$2,400 million (2015: \$2,600 million), amounted to \$2,392 million and \$2,557 million (2015: \$2,584 million and \$2,824 million) respectively, which fall under Level 2 of the fair value hierarchy described above.

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

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

## 22. Outstanding commitments

\$ million	2016			2015 Total
	3RS	Others	Total	
Commitments outstanding not provided for in the consolidated financial statements are as follows:				
Capital expenditure				
Contracted for	1,589	2,465	4,054	2,301
Authorised but not contracted for	139,554	15,757	155,311	8,504
	141,143	18,222	159,365	10,805

- (a) The Board approved the 3RS project budget totalling \$141.5 billion on 30 May 2016, including \$357 million in relation to 3RS design services which have already been incurred during the year.

- (b) 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, rent 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, "Related party disclosures" and are identified separately in these consolidated financial statements.

Members of the Board and 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. Emoluments paid to Members of the Board and 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 sewage pumping system, waste water treatment plant and airfield ground lighting at the airport. The amounts incurred for these services for the year amounted to \$102 million (2015: \$135 million). As at 31 March 2016, the amounts due to the Government with respect to the above services amounted to \$82 million (2015: \$99 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 \$858 million (2015: \$854 million) and the amounts due to the Government as at 31 March 2016 with respect to the above services amounted to \$0.7 million (2015: \$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) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC"), in which the Government is the majority shareholder, under which MTRC provides testing and commissioning work in respect of Automated People Mover Systems in Midfield Concourse and maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2, SkyPier and Midfield Concourse. The amount incurred by the Authority for these services for the year amounted to \$68 million (2015: \$82 million). As at 31 March 2016, the amounts due to MTRC with respect to the maintenance services amounted to \$44 million (2015: \$43 million).
- (e) 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 \$51 million (2015: \$46 million). As at 31 March 2016, there was no outstanding amount due from HKITP (2015: \$nil).
- (f) 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 \$74 million (2015: \$71 million). As at 31 March 2016, the aggregate amounts due from these departments, agencies or entities amounted to \$10 million (2015: \$6 million).

## 24. Immediate and ultimate controlling party

As at 31 March 2016, 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. Accordingly, the land premium and the land formation costs have been classified as interest in leasehold land. Upon the granting of finance leases of portions of the land concerned, the cost of leasehold land excluded from the consolidated 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 in the financial statements of the Authority and are not derecognised.

(iii) Interests in joint ventures

HXIA receives Civil Aviation Development Fund subsidies, airport construction fee subsidies and certain other subsidies (collectively known as "CADF") 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 CADF received. This accounting treatment is consistent with those for publicly listed airports in the PRC. As the CADF may only be used for restricted purposes and are not distributable, the group transfers such amounts from retained profits to the capital reserve.

## 25. Accounting judgements and estimates (continued)

### (b) Major sources of estimation uncertainty

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

(i) Estimated useful lives and depreciation of property, plant and equipment

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

Management reviews the useful lives of property, plant and equipment annually and if expectations are significantly different from previous estimates of useful lives, the useful lives and, therefore, the depreciation rate for the future periods 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 Inland Revenue Department. 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 the following amendments to HKFRSs that are first effective for the current accounting period of the group:

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

None of these developments have had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

## 26. Summary of significant accounting policies (continued)

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

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

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

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

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

## 26. Summary of significant accounting policies (continued)

### (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.

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.

## 26. Summary of significant accounting policies (continued)

### (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.

#### (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.

## 26. Summary of significant accounting policies (continued)

### (g) Investment property, interest in leasehold land, other property, plant and equipment

- (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. Interest in leasehold land is stated in the consolidated 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 consolidated 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 consolidated statement of financial position at cost less accumulated depreciation and impairment losses (note 26(j)).
- (iv) Repairs and maintenance expenditure in respect of investment property, and other property, plant and equipment is charged to profit or loss as and when incurred.
- (v) Gains or losses arising from the retirement or disposal of investment property, interest in leasehold land, and an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of investment property, interest in leasehold land, and 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 investment property, interest in leasehold land, other property, plant and equipment 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) Investment property, interest in leasehold land, other property, plant and equipment (continued)

#### (vii) Leased assets (continued)

When the group leases out assets under operating leases, the assets are included in the consolidated 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 investment property, interest in leasehold land, and other property, plant and equipment 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 investment property, interest in leasehold land, and other property, plant and equipment 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 consolidated 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 MPF 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 licences, 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 consolidated 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. Consolidated 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).
  - h) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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 consolidated 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 2016

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 March 2016 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the group.

	<b>Effective for accounting periods beginning on or after</b>
Annual improvements to HKFRSs 2012-2014 cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, " <i>Sale or contribution of assets between an investor and its associate or joint venture</i> "	1 January 2016
Amendments to HKFRS 11, " <i>Accounting for acquisitions of interests in joint operations</i> "	1 January 2016
Amendments to HKAS 1, " <i>Disclosure initiative</i> "	1 January 2016
Amendments to HKAS 16 and HKAS 38, " <i>Clarification of acceptable methods of depreciation and amortisation</i> "	1 January 2016
HKFRS 15, " <i>Revenue from contracts with customers</i> "	1 January 2018
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>	11/12 Restated <sup>4</sup>	12/13 Restated <sup>4</sup>	13/14	14/15	<b>15/16</b>
<b>Consolidated statement of profit or loss</b>					
Revenue	12,154	13,134	14,810	16,367	<b>18,184</b>
Operating expenses before depreciation and amortisation	(3,928)	(4,282)	(4,872)	(5,053)	<b>(5,848)</b>
EBITDA	8,226	8,852	9,938	11,314	<b>12,336</b>
Depreciation and amortisation	(2,221)	(2,208)	(2,248)	(2,420)	<b>(2,813)</b>
Net interest and finance (costs)/income	(174)	(121)	(13)	33	<b>28</b>
Share of results of joint ventures	522	211	77	137	<b>189</b>
Profit before taxation	6,353	6,734	7,754	9,064	<b>9,740</b>
Income tax	(1,020)	(1,111)	(1,306)	(1,794)	<b>(1,366)</b>
Profit for the year	5,333	5,623	6,448	7,270	<b>8,374</b>
Attributable to:					
Equity shareholder of the Authority	5,329	5,615	6,454	7,254	<b>8,359</b>
Non-controlling interests	4	8	(6)	16	<b>15</b>
<b>Consolidated statement of financial position</b>					
Non-current assets	47,712	48,890	51,482	53,474	<b>54,192</b>
Current assets	3,652	4,802	5,394	4,587	<b>10,800</b>
Current liabilities	(2,679)	(5,590)	(4,776)	(5,813)	<b>(5,428)</b>
Net current assets/(liabilities)	973	(788)	618	(1,226)	<b>5,372</b>
Total assets less current liabilities	48,685	48,102	52,100	52,248	<b>59,564</b>
Non-current liabilities	(10,161)	(7,732)	(9,581)	(7,811)	<b>(7,006)</b>
Net assets	38,524	40,370	42,519	44,437	<b>52,558</b>
Share capital	30,648	30,648	30,648	30,648	<b>30,648</b>
Reserves	7,653	9,489	11,642	13,546	<b>21,662</b>
Non-controlling interests	223	233	229	243	<b>248</b>
Total equity	38,524	40,370	42,519	44,437	<b>52,558</b>
<b>Key financial and operational statistics</b>					
Dividend declared <i>(HK\$ million)</i>	3,900	4,400	5,300	–	<b>–</b>
Return on equity	14.3%	14.3%	15.6%	16.7%	<b>17.3%</b>
Total debt/capital ratio	13%	13%	10%	7%	<b>5%</b>
Passenger traffic <sup>1,2</sup> <i>(millions of passengers)</i>	54.9	57.2	60.7	64.7	<b>69.7</b>
Cargo throughput <sup>1,3</sup> <i>(millions of tonnes)</i>	3.9	4.0	4.2	4.4	<b>4.3</b>
Aircraft movements <sup>1</sup> <i>(thousands)</i>	339	355	377	396	<b>410</b>

<sup>1</sup> Operational statistics is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.

<sup>2</sup> Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

<sup>3</sup> Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

<sup>4</sup> Figures from 2011/12 to 2012/13 are restated to comply with Revised HKAS19, "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 2016

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

\* Freighter services only

## Scheduled Destinations Served from HKIA as at March 2016

### North Asia

Beijing  
Busan  
Changchun  
Changsha  
Cheju  
Chengdu  
Chongqing  
Dalian  
Fukuoka  
Fuzhou  
Guangzhou  
Guilin  
Guiyang  
Haikou  
Hangzhou  
Harbin  
Hiroshima  
Hohhot  
Jieyang  
Jinan  
Jinjiang  
Kagoshima  
Kaohsiung  
Kumamoto  
Kunming  
Lanzhou  
Lijiang  
Luoyang  
Meixian  
Miyazaki  
Nagoya  
Nanchang  
Nanjing  
Nanning  
Ningbo  
Okayama  
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  
Xining  
Xishuangbanna  
Xuzhou  
Yantai  
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  
Krabi  
Kuala Lumpur  
Kuala Lumpur/Subang\*

Kuching

Manila  
Nha Trang/Cam Ranh  
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  
Colombo  
Dammam\*  
Delhi  
Dhaka  
Doha  
Dubai  
Dubai/Al Maktoum\*  
Hyderabad  
Jeddah  
Kathmandu  
Kolkata  
Kuwait\*  
Male  
Mumbai  
Muscat\*  
Novosibirsk  
Riyadh  
Sharjah\*  
Tashkent\*  
Tel Aviv  
Turkmenbashi

### Europe

Amsterdam  
Barcelona\*  
Brussels\*  
Budapest\*  
Cologne\*  
Copenhagen  
Düsseldorf  
Frankfurt  
Helsinki  
Istanbul  
Krasnoyarsk/Yemelyanovo  
Leipzig\*  
Liege\*  
London/Heathrow  
Luxembourg\*  
Manchester  
Milan/Malpensa  
Moscow/Domodedovo  
Moscow/Sheremetyevo  
Munich  
Paris  
Rome  
Stockholm/Arlanda  
Vienna\*  
Zurich

### Australasia/Pacific Islands

Adelaide  
Auckland  
Brisbane  
Cairns  
Gold Coast  
Guam  
Melbourne  
Nadi  
Perth  
Port Moresby  
Sydney

### Africa

Addis Ababa  
Johannesburg  
Lagos  
Mauritius  
Nairobi

### North America

Anchorage\*  
Atlanta\*  
Boston  
Calgary\*  
Chicago  
Cincinnati\*  
Columbus\*  
Dallas  
Honolulu\*  
Houston\*  
Huntsville\*  
Los Angeles  
Louisville\*  
Memphis\*  
Miami\*  
New York/John Kennedy  
Newark  
Oakland\*  
Ontario\*  
Philadelphia\*  
San Francisco  
Seattle  
Toronto  
Vancouver

### Central and South America

Guadalajara\*  
Mexico City\*

\* Freighter services only

## Airport Authority Hong Kong

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Hong Kong International Airport  
Lantau, Hong Kong

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