

ANNUAL REPORT
2016/17

A NEW STAGE OF GROWTH

PROSPERITY

CONNECTIVITY

SUSTAINABILITY

GROWTH


INNOVATION





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





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

OUR VALUES

COMMITMENT

Can-do Attitude &
Willing to Walk the
Extra Mile

CARING

Care for People &
Environment

CREATIVITY

Embrace Change
& Think Out of
the Box

CONTINUOUS IMPROVEMENT

Strive for Excellence &
Continuous Learning

COLLABORATION

Teamwork & Partnership

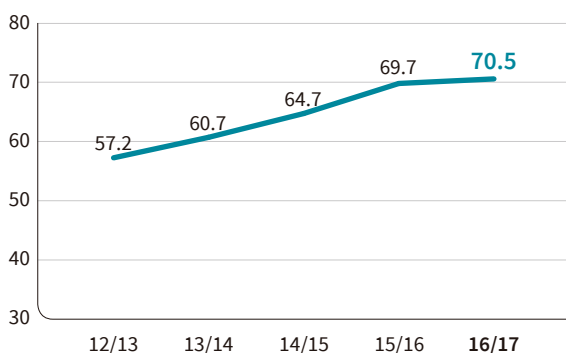
HKIA FACTS

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

PERFORMANCE HIGHLIGHTS

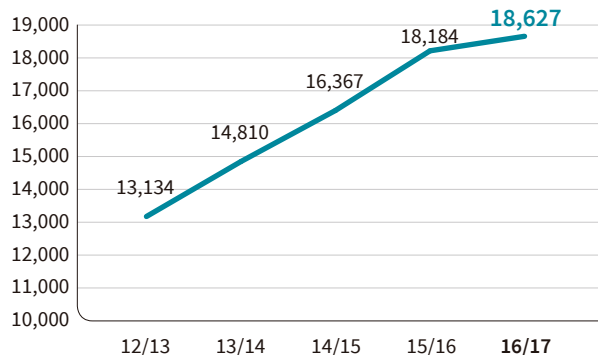
PASSENGER TRAFFIC

(millions of passengers)



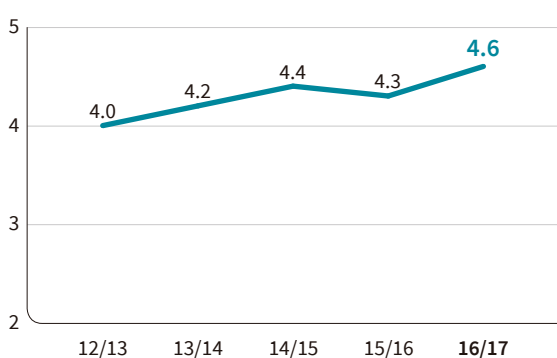
REVENUE

(in HK\$ million)



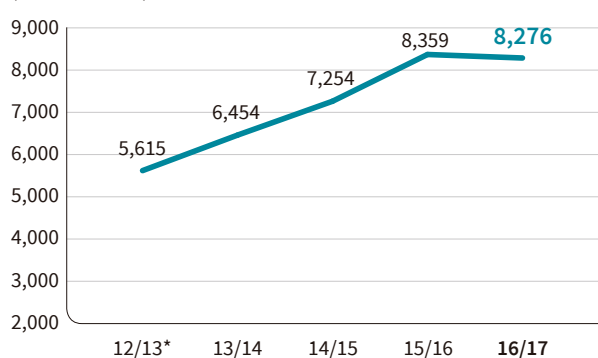
CARGO THROUGHPUT

(millions of tonnes)



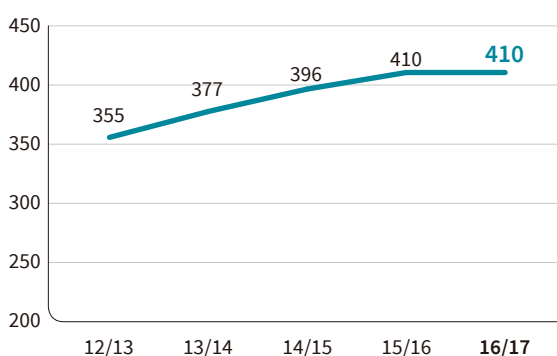
PROFIT ATTRIBUTABLE TO THE EQUITY SHAREHOLDER

(in HK\$ million)



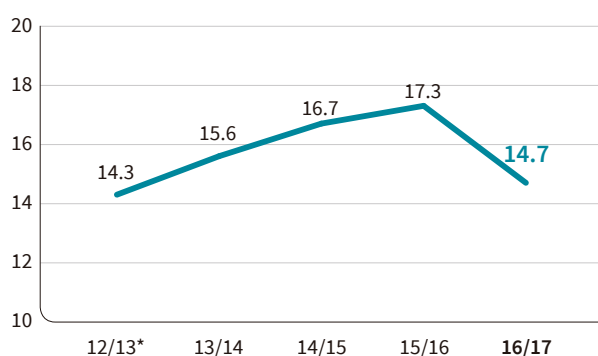
AIRCRAFT MOVEMENTS

(thousands)



RETURN ON EQUITY

(in percent)



* Restated



CHAIRMAN'S STATEMENT



DEAR STAKEHOLDERS,

Hong Kong International Airport (HKIA) enjoyed another record-breaking year in 2016/17. Passenger traffic rose 1.1%, to 70.5 million, exceeding the 70-million mark for the first time. Cargo throughput increased 6.7%, to 4.6 million tonnes, while flight movements rose 0.1%, to 410,440.

We achieved this strong performance while maintaining high standards of service and efficiency. HKIA was again honoured by *TTG*'s Travel Hall of Fame, an accolade we have held after winning the magazine's "Best Airport" award 10 consecutive times. For the sixth time, we received the "Top Asian Airport Efficiency Excellence Award" from the Air Transport Research Society. We also won commendations from the air freight industry, clinching the "Best Global Airport" title from *Asia Cargo News* and the "Asia Pacific Airport of the Year — Industry Choice Award" from *Payload Asia*. Meanwhile, voters in the annual Skytrax World Airport Awards commended HKIA for delivering the best airport dining experience.

THE 3RS — THE KEY TO FUTURE GROWTH

In 2016, we began construction of the three-runway system (3RS) after a long process that included feasibility studies, environmental impact assessments and consultations with stakeholders and the public.

The 3RS is a massive undertaking involving the reclamation of 650 hectares of land — equivalent in size to 34 Victoria Parks. In addition to a third runway, the 3RS includes the construction of a 283,000-square-metre passenger building with 57 aircraft parking positions, a 2.6-kilometre extension to the Automated People Mover, a Baggage Handling System and other associated facilities.

The 3RS is one of the largest infrastructure projects ever undertaken in Hong Kong's history, and building it next to an operating airport is arguably more difficult than building an entirely new airport. I would like to thank everyone who has contributed to this challenging project.

The first step in the land formation process is to stabilise the contaminated mud pits at the reclamation site. We are doing this with deep cement mixing, a non-dredge reclamation technique that minimises the project's environmental impact. We are closely monitoring the construction progress to ensure we meet all environmental requirements.

When the 3RS project is complete, it will increase HKIA's capacity by 50%. This will help us meet growing demand, enabling Hong Kong to compete with neighbouring cities and maintain our role as a leading international aviation hub.

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GROOMING TALENT

As our airport continues to grow, attracting and nurturing a pool of skilled staff is a critically important task. Hong Kong International Aviation Academy (HKIAA) is established to address this need. Offering a range of courses, from youth programmes to on-the-job training for airport employees to master's degree programmes, HKIAA develops its curriculum in co-operation with our business partners as well as local and overseas universities and vocational training institutes. Last year, we started a collaboration with the renowned École Nationale de l'Aviation Civile of France, the largest aeronautics and civil aviation college in Europe, to create a set of joint programmes for HKIAA.

From July 2017, HKIAA will organise a series of summer day camps to stimulate young people's interest in the aviation industry. A 5,500-square-metre permanent home for HKIAA is now under construction. The facility will provide students with an even more modern, comfortable learning environment when it opens.



SKYCITY

During the year, we unveiled SKYCITY, an integrated commercial development located next to HKIA that will comprise retail, food and beverage, and entertainment spaces, as well as hotels and offices.

Our vision is to create a new destination that goes beyond the traditional notion of a shopping mall. SKYCITY will capture tourism and business opportunities provided by our expanded airport as well as the new Hong Kong–Zhuhai–Macao Bridge, which will bring customers from a much larger catchment. Of course, SKYCITY will also provide a lifestyle and family entertainment centre for Hong Kong residents.

LOOKING AHEAD

I would like to express my appreciation to our Board Members for their guidance and advice throughout the year.

My sincere gratitude also goes to the staff of Airport Authority Hong Kong and the 73,000 members of the airport community. Together, we have achieved excellent results and we will continue to bring HKIA to the next phase of its development.

A handwritten signature in black ink, appearing to read 'Jack So'.

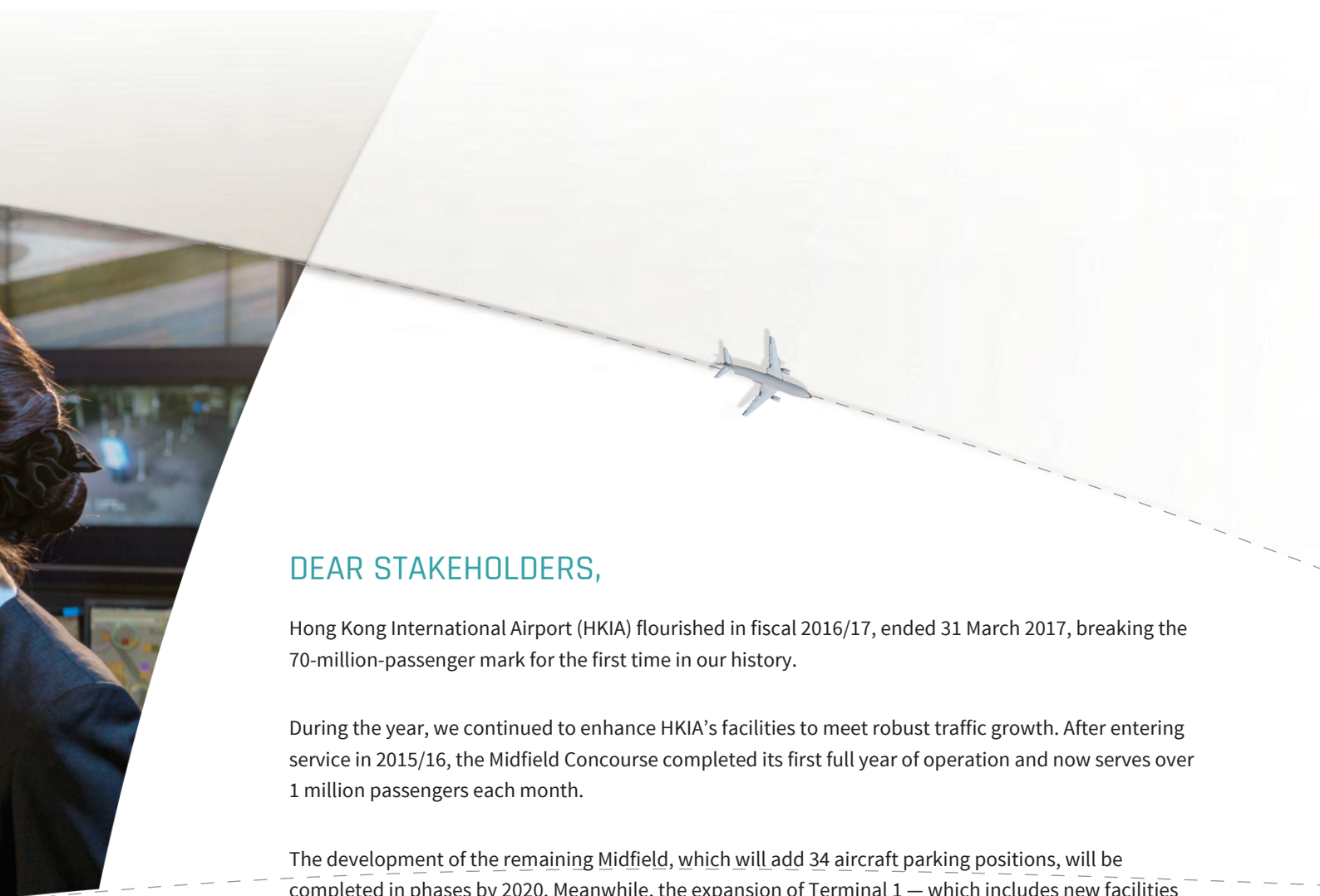
Jack So Chak-kwong

Chairman

Hong Kong, 12 June 2017



CHIEF EXECUTIVE OFFICER'S STATEMENT



DEAR STAKEHOLDERS,

Hong Kong International Airport (HKIA) flourished in fiscal 2016/17, ended 31 March 2017, breaking the 70-million-passenger mark for the first time in our history.

During the year, we continued to enhance HKIA's facilities to meet robust traffic growth. After entering service in 2015/16, the Midfield Concourse completed its first full year of operation and now serves over 1 million passengers each month.

The development of the remaining Midfield, which will add 34 aircraft parking positions, will be completed in phases by 2020. Meanwhile, the expansion of Terminal 1 — which includes new facilities for arriving and departing passengers as well as recreational amenities and parking spaces — is now under way.

CREATING A SMARTER HKIA

While we expand the airport's infrastructure, we are deploying automation and mobile technologies to create a smooth, hassle-free passenger experience.

In 2016/17, we installed advanced X-ray machines that make security screening faster for travellers and aircrews. We are also exploring the use of biometrics, including facial recognition technology, to manage passenger access to the airside area and boarding gates.

Meanwhile, we are introducing more of the technology-based self-service facilities that are increasingly popular among travellers. In addition to the self-bag drop service that debuted in March 2016, we recently completed a trial of a smart luggage tag. The new tags, which contain a radio frequency identification chip that allows passengers to track their bags as they arrive at HKIA, will be launched in 2017/18.

During the year, we began installing approximately 10,000 iBeacon transmitters that enable us to send directions and boarding alerts to passengers' mobile phones and other Bluetooth-enabled devices via our upgraded "HKG My Flight" mobile app. We will soon add several new features to the app, including airport signage translation and car park booking.

While we expand the airport's infrastructure, we are deploying automation and mobile technologies to create a smooth, hassle-free passenger experience.

Behind the scenes, we also plan to adopt new technologies, such as self-driving baggage containers and automated runway inspection systems, to increase productivity and efficiency.

Innovation is more than technology, it is also about new ideas. To foster a culture of innovation among our front-line staff, this year we created 25 Work Improvement Teams. Comprising more than 130 employees, the teams met regularly to brainstorm ideas on service enhancements and areas for improvement.

SHOPPERS' DELIGHT

During the year, we refreshed HKIA's retail mix, introducing new brands and retail categories, like lifestyle products, that are seldom found in airports. In addition, we increased convenience for shoppers by extending HKIA's complimentary home-delivery service, which previously covered Hong Kong, the Mainland, Macao and Taiwan, to include six countries in South East Asia.



Technology helps us transcend the limitations of bricks-and-mortar to write a new chapter in airport shopping and dining. In 2017/18, for example, we will launch an e-commerce portal called “HKairport Shop” that will let passengers pre-order food and merchandise for delivery at HKIA.

DEVELOPING OUR PEOPLE

As HKIA grows, demand for skilled labour and professional services will continue to increase. It is therefore essential that we strengthen our talent pool.

In 2016/17, we reinforced our people development with a focus on cultivating leadership competencies through structured training and development programmes.

In addition, we improved the welfare of the airport community by enhancing transportation to and from HKIA and staff recreational facilities. In March 2017, we opened the Airport Preschool, a crèche for airport staff’s children up to three years of age. By making childcare available to the airport community, we make HKIA a more attractive place to work.

OUR SHARED DREAM

In 2016/17, the hard work and dedication of the 73,000-strong airport community helped HKIA increase traffic volumes while maintaining the highest standards of safety and service.

In the year ahead, we will continue to improve our service quality and efficiency through partnerships with stakeholders who share our dream of strengthening HKIA’s competitiveness as both a leading international aviation hub and a driver of Hong Kong’s economy.



Fred Lam Tin-fuk

Chief Executive Officer

Hong Kong, 12 June 2017

THE BOARD



Mr Jack So Chak-kwong



Mr Fred Lam Tin-fuk



Professor the Hon K C Chan



Professor the Hon Anthony Cheung Bing-leung



Mr Andrew Fung Hau-chung



Ms Anita Fung Yuen-mei

Mr Jack So Chak-kwong GBS OBE JP Chairman

Aged 72. Appointed as Chairman of the Board in June 2015. Former Chairman of the Hong Kong Trade Development Council (HKTDC). 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 the Lantau Development Advisory Committee of the HKSARG. Independent Non-executive Director of AIA Group Limited and China Resources Power Holdings Company Limited. Senior Advisor to Credit Suisse, Greater China. Mr So served as Executive Director of the HKTDC from 1985 to 1992. He became Chairman and Chief Executive of the MTR Corporation Limited in 1995. He was the Deputy Chairman and Group Managing Director of PCCW from 2003 to 2007 and an Independent Director of HSBC from 2000 to 2007.

Mr Fred Lam Tin-fuk JP Chief Executive Officer*

Aged 58. Appointed as Chief Executive Officer in October 2014. Former Executive Director of the Hong Kong Trade Development Council. Member of the Aviation Development and Three-runway System Advisory Committee and the 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" by 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 60. 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 Mandatory Provident Fund Schemes Authority, the Hong Kong Mortgage Corporation Limited and the West Kowloon Cultural District Authority. Ex-officio Member of the Financial Services Development Council. Director of Hongkong International Theme Parks Limited.

Professor the Honourable Anthony Cheung Bing-leung GBS JP

Secretary for Transport and Housing*

Aged 64. 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 Chairman of the Hong Kong Housing Authority, the Hong Kong Maritime and Port Board, the Hong Kong Logistics Development Council and the Aviation Development and Three-runway System Advisory Committee. He is also a Board Member of MTR Corporation Limited and the Hong Kong Mortgage Corporation Limited, as well as a Member of the Council for Sustainable Development and the Economic Development Commission.

Mr Andrew Fung Hau-chung JP

Aged 59. Appointed to the Board in June 2015. Executive Director and Head of Global Banking and Markets at Hang Seng Bank Limited. Associate Member of the Central Policy Unit of the HKSARG. Member of the 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 the HKSAR. 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 56. Appointed to the Board in June 2010 and reappointed until 31 May 2018. Former Group General Manager of the HSBC Group and former Chief Executive Officer Hong Kong of The Hongkong and Shanghai Banking Corporation Limited. Honorary Professor at the School of Economics and Finance, the University of Hong Kong. Trustee of Asia Society Hong Kong Centre. Member of the Financial Infrastructure Subcommittee of the Exchange Fund Advisory Committee of the Hong Kong Monetary Authority. Founding Member of the Advisory Council to the Board of Directors of the Australian Chamber of Commerce Hong Kong and Macau. Member of the Board of West Kowloon Cultural District Authority. Member of the Museum Advisory Committee



The Hon Steven Ho Chun-yin



Mr Franklin Lam Fan-keung



The Hon Jeffrey Lam Kin-fung



Ir Lee Shing-see



Mr Simon Li Tin-chui



Mr Lin Jing-zhen

and Chairman of its History Sub-Committee. Non-official Member of the Hong Kong Housing Authority. Director of the Hong Kong Mortgage Corporation Limited. Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited, Hang Lung Properties Limited and China Construction Bank.

The Honourable Steven Ho Chun-yin BBS

Aged 37. Appointed to the Board in January 2016. Member of the Legislative Council representing the Agriculture and Fisheries Functional Constituency. Member of the Legislative Council's Finance Committee and Public Accounts Committee. Member of Legislative Council Panels on Administration of Justice and Legal Services, Constitutional Affairs, Economic Development, Environmental Affairs, Food Safety and Environmental Hygiene, Home Affairs, Information Technology and Broadcasting, and Security.

Mr Franklin Lam Fan-keung BBS

Aged 56. Appointed to the Board in June 2014 and reappointed in June 2017. Founder of HKGolden50, an independent non-profit public policy research group. Prior to this, Mr Lam held senior regional leadership positions in 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 65. Appointed to the Board in June 2011 and reappointed in June 2014 and June 2017. Managing Director of Forward Winsome Industries Limited. Non-official Member of the Executive Council. Member of the Legislative Council. Chairman of the Mega Events Fund Assessment Committee. Chairman of the Independent Commission Against Corruption Complaints Committee. Member of the Fight Crime Committee. Member of the 12th National Committee of the Chinese People's Political Consultative Conference. Director of the Hong Kong Mortgage Corporation Limited.

Ir Lee Shing-see GBS OBE JP

Aged 75. Appointed to the Board in June 2011 and reappointed in June 2014 and June 2017. An Engineer by profession. Fellow of the Hong Kong Institution of Engineers and the Institution of Civil Engineers (UK). Former Secretary for Works of the HKSARG. Former Chairman of the Construction Industry Council. Vice Chairman of CreateSmart Initiative Vetting Committee. Member of the Youth Education, Employment and Training Task Force of the Commission on Poverty.

Mr Simon Li Tin-chui JP Director-General of Civil Aviation*

Aged 58. Became a Board Member in May 2016 upon his appointment as Director-General of Civil Aviation.

Mr Lin Jing-zhen

Aged 51. Appointed to the Board in June 2017. Deputy Chief Executive of the Bank of China (Hong Kong) Limited (BOCHK) overseeing the Global Corporate Banking Department, the Commercial Banking Department, the Transaction Banking Department, the Institutional Business Department, the Corporate Credit Management Centre and the business in Southeast Asia. He was Vice Chairman of Nanyang Commercial Bank (China). Prior to joining BOCHK, Mr Lin served as General Manager of the Corporate Banking Department of BOC in charge of the corporate banking business, covering product development, relationship management with premium customers and major project financing. Joining BOC in 1987, Mr Lin has extensive experience in corporate banking business and held various positions in the Hong Kong Branch, Xiamen Branch, Fujian Branch and Head Office of BOC. Mr Lin graduated from Xiamen University with a bachelor's degree in Finance and a master's degree in Business Administration.

The Board



Mr Peter To



Mr Carlson Tong



Ir Billy Wong Wing-hoo



The Hon Frankie Yick Chi-ming



Dr Allan Zeman

Mr Peter To

Aged 69. Appointed to the Board in June 2014 and reappointed in June 2017. Former Director of the Urban Renewal Authority (1.5.2007 – 30.4.2013). He has previously held senior executive positions in the property sector for over 30 years.

Mr Carlson Tong SBS JP

Aged 62. Appointed to the Board in June 2017. Chairman of the Securities and Futures Commission. Mr Tong is a UK Chartered Accountant and a Hong Kong Certified Public Accountant. Chairman of the University Grants Committee. A Member of the Exchange Fund Advisory Committee and the Banking Advisory Committee of the Hong Kong Monetary Authority and a Member of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR. He is also a Member of the Listing Nominating Committee of Hong Kong Exchanges and Clearing Limited. Mr Tong was appointed Chairman of KPMG in China and Hong Kong in 2007 and became Asia Pacific Chairman and a Member of the Global Board in 2009. He retired from KPMG in 2011. He was also the Chairman of the Hong Kong Sports Institute Limited from 2012 to 2017.

Ir Billy Wong Wing-hoo BBS JP

Aged 59. Appointed to the Board in June 2015. Mr Wong is the Senior Vice President of Henderson (China) Investment Company Limited and General Manager of the

Construction Department of Henderson Land Development Company Limited. Fellow of the Institution of Civil Engineers (UK), the Hong Kong Institution of Engineers, the Chartered Institution of Highways & Transportation (UK) and the Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance Chapter 409. He is currently a Director of Hong Kong Science and Technology Parks Corporation and a Permanent Supervisor of the Hong Kong Construction Association.

The Honourable Frankie Yick Chi-ming JP

Aged 63. Appointed to the Board in June 2014 and reappointed in June 2017. A chartered Engineer. Joined the Wharf Group in 1994, now overseeing *inter alia*, the Wharf Group's public transport and terminals portfolio. Member of the Legislative Council representing the Transport Functional Constituency. Non-executive Director of Harbour Centre Development Limited (stock code: 51) and The "Star" Ferry Company, Limited. Director of Modern Terminals Limited and Hong Kong Air Cargo Terminals Limited.

Dr Allan Zeman GBM GBS JP

Aged 68. Appointed to the Board in June 2015. Chairman of Lan Kwai Fong Group and Lan Kwai Fong Association. 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. Vice Chairman and Independent Non-executive Director of Wynn Macau, Limited. Director of The "Star" Ferry Company, Limited. Chairman of the Commercial Letting Panel and Honorary Advisor to the West Kowloon Cultural District Authority. Member of the Economic Development Commission of Hong Kong, the General Committee of the Hong Kong General Chamber of Commerce and the Board of Governors of the Canadian Chamber of Commerce in Hong Kong. Member of the Hong Kong Governing Board of the Alibaba Entrepreneurs Fund. Representative of Hong Kong China to the APEC Business Advisory Council. Governor of the Board of Our Hong Kong Foundation. Honorary Advisor to Ocean Park Hong Kong. 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



Ms Cissy Chan Ching-sze



Ms Florence Chung Wai-yee



Mr Wilson Fung Wing-yip



Mr Alex Kwan King-fai



Mr William Lo Chi-chung



Mr Ng Chi-kee



Mr Kevin Poole

Mr David Au Ho-cheung

Executive Director, Property Development

Aged 60. Holds a Master of Architecture degree and Bachelor of Science degree in Architecture from the University of Michigan, U.S.A. Mr Au was appointed in May 2015. Before joining Airport Authority Hong Kong, Mr Au was the Director of Sun Hung Kai Development (China) Limited and the Project Director at 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 Authorised Person in Hong Kong with a PRC Class 1 Registered Architect Qualification.

Ms Cissy Chan Ching-sze

Executive Director, Commercial

Aged 51. A Master of Business Administration graduate from the Chinese University of Hong Kong. Ms Chan was appointed in September 2012. Before joining Airport Authority Hong Kong, Ms Chan was the Director, Retail Portfolio & Marketing at Hysan Development Company Limited. 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 53. Holds 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 Airport Authority Hong Kong, 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 Limited 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 53. Holds a Bachelor's degree in Social Science (First-Class Honours). Mr Fung was appointed in August 2010. Before joining Airport Authority Hong Kong, Mr Fung was the Executive Director of the 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 Alex Kwan King-fai

Executive Director, Engineering & Technology

Aged 56. Holds a Master of Science degree in Environmental Engineering (with Distinction) from Imperial College London and a Bachelor of Science degree in Civil Engineering from the University of Hong Kong. Mr Kwan was appointed in January 2017. Before joining Airport Authority Hong Kong, he was the Chief Executive of AECOM Greater China. He has more than 30 years' experience in planning, design and project management of large transportation and civil infrastructure projects across Asia and North America, having worked for the Civil Engineering Services Department of the Hong Kong Government and held senior positions in major consulting companies locally and overseas. He is a Fellow of the Hong Kong Institution of Engineers.

Mr William Lo Chi-chung

Executive Director, Finance

Aged 57. A Master of Business Administration graduate from the University of Warwick in

the United Kingdom. Mr Lo was appointed in July 2010. Before joining Airport Authority Hong Kong, Mr Lo was the Group Senior Director (Finance and Administration) of Vitasoy International Holdings Limited. He has more than 30 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 Institute of Chartered Accountants in England and Wales, and a Director of Hangzhou Xiaoshan International Airport Company Limited.

Mr Ng Chi-kee

Executive Director, Airport Operations

Aged 62. Holds a Bachelor's degree in Applied Economics from the United Kingdom. Joined Airport Authority Hong Kong in 1996 and was appointed Executive Director in March 2012. Mr Ng was previously the Deputy Director, Airport Operations. With more than 27 years of experience in airport management, he has held several managerial and senior management positions in airfield operations, passenger services, security operations, commercial and property, technical administration and systems management since the Kai Tak Airport days to the present time. He is a Director of Shanghai Hong Kong Airport Management Company Limited.

Mr Kevin Poole

Executive Director, Third Runway

Aged 59. Holds a Bachelor's degree in Civil Engineering from the United Kingdom. Mr Poole was appointed Executive Director in February 2016. Previously he was 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.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2016/17	2015/16	+/-% ¹
Financial results <i>(in HK\$ million)</i>			
Revenue	18,627	18,184	+2.4%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	12,831	12,336	+4.0%
Depreciation and amortisation	3,079	2,813	+9.5%
Net interest and finance income	131	28	+367.9%
Profit attributable to the equity shareholder	8,276	8,359	-1.0%
Dividend declared	–	–	–
Financial position and ratios <i>(in HK\$ million)</i>			
Total assets	74,320	64,992	+14.4%
Total borrowings	1,423	2,592	-45.1%
Total equity	60,563	52,558	+15.2%
Return on equity	14.7%	17.3%	
Total debt/capital ratio	2%	5%	
Credit ratings			
Standard & Poor's:			
Long-term local currency	AAA	AAA	
Long-term foreign currency	AAA	AAA	
Operational highlights²			
Passenger traffic ³ <i>(millions of passengers)</i>	70.5	69.7	+1.1%
Cargo throughput ⁴ <i>(millions of tonnes)</i>	4.6	4.3	+6.7%
Aircraft movements <i>(thousands)</i>	410	410	+0.1%

¹ Subject to rounding differences.

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

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

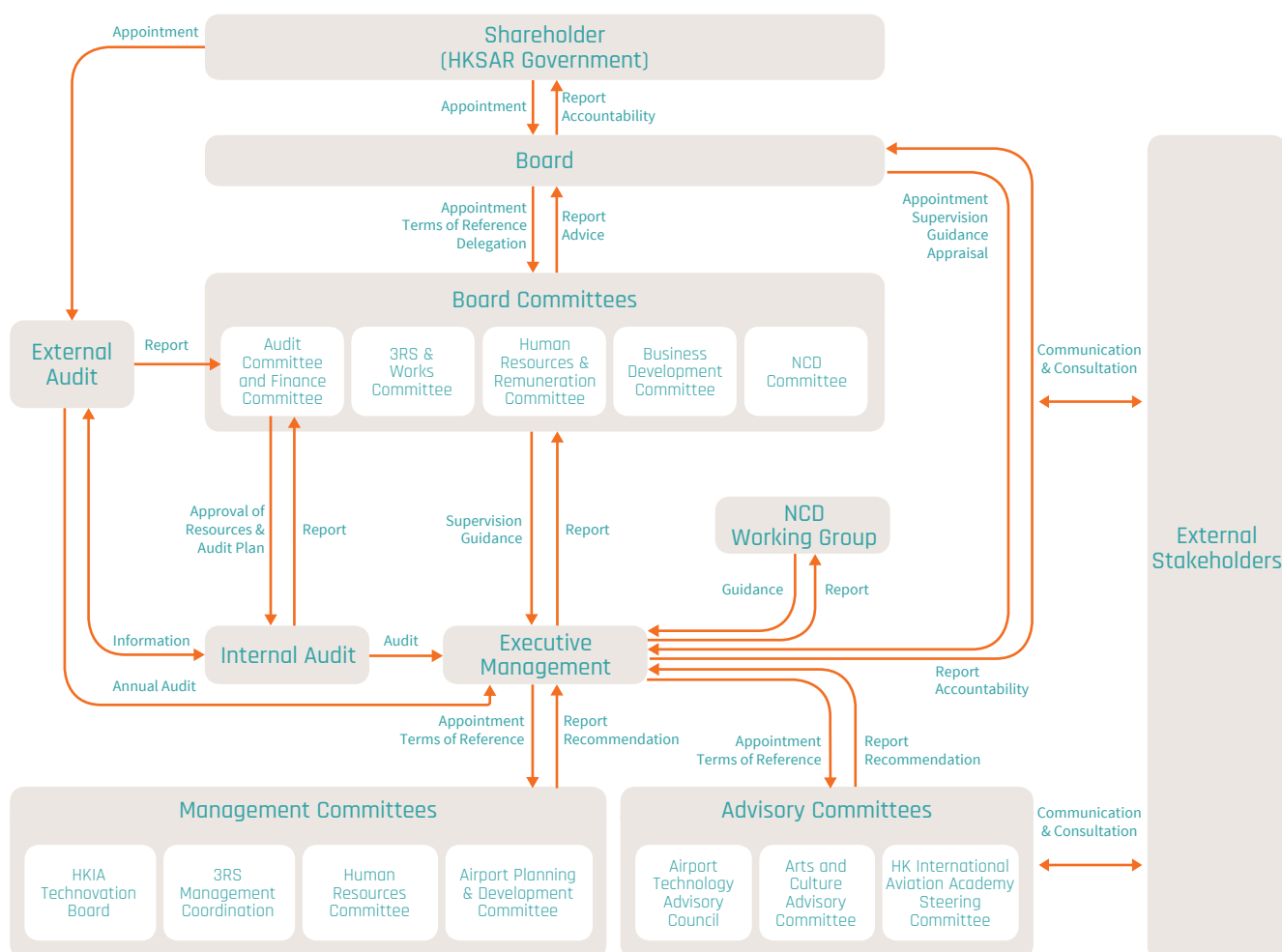
⁴ Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.

CORPORATE GOVERNANCE

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

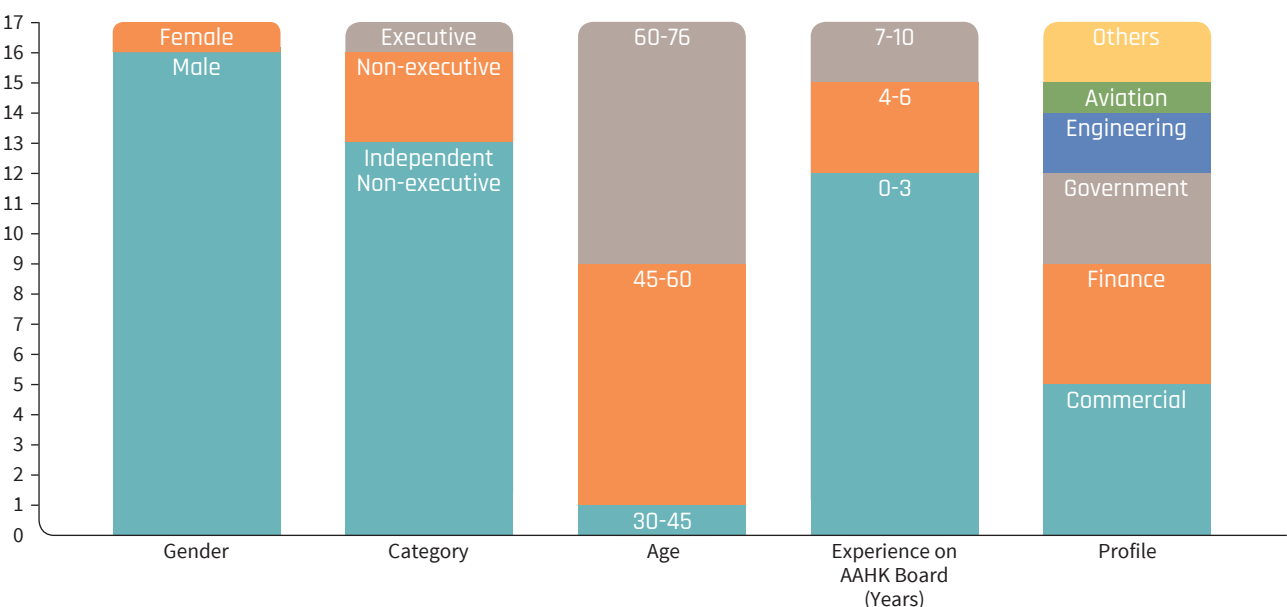
The Airport Authority Ordinance (the Ordinance) provides that the Board shall comprise a Chairman, a Chief Executive Officer (ex officio) and between 8 and 15 other Members. The Members who are public officers shall not be more than the Members who are not public officers. This structure effectively 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 17 Members, whose details are set out on pages 12 to 14 and are available on the AAHK website. With the exception of the Chief Executive Officer, all Board Members are non-executive and 13 of whom are considered independent¹. Currently, the three public officers serving on the Board are the Secretary for Financial Services and the Treasury, the Secretary for Transport and Housing, and the Director-General of Civil Aviation. Non-executive Members bring an external perspective, constructively challenge and advise on proposals on strategy, and monitor the performance of Management.

BOARD COMPOSITION

(no. of members)



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 for a term of up to three years.

Remuneration

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

The remuneration of Board Members for the year under review is disclosed on page 105.

Training

On appointment, each new Board Member (including public officers) receives a tailored induction programme. 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.

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

During the year under review, Board Members were invited to attend airport visits, including visit to the 3RS work site, briefings and the annual crash exercise.

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 at least 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

For the financial year ended 31 March 2017, six Board meetings were held with an average attendance rate of 90%. Attendance records of individual Members are on page 25.

A total of 64 Board papers covering the following key areas were considered or resolved:

- Corporate
 - Corporate goals and performance measures
 - Establishment of Marine Ecology Enhancement Fund and Fisheries Enhancement Fund
 - Hong Kong International Aviation Academy
- Financial
 - 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
 - Cash management
 - Airport Construction Fee (ACF)
 - Investment guidelines
- Projects
 - Three-runway system (3RS) project
 - Midfield apron development
 - Airport expansion works
 - Intermodal Transfer Terminal development
- Commercial and Business Strategies
 - Major commercial licences
 - North Commercial District (NCD) development
 - Future HKIA retail development
 - HKIA air cargo development strategies
- Human Resources
 - Staff remuneration and corporate performance assessment
- Operations
 - Automation
 - Noise Quota Count Pilot Scheme
 - Capacity enhancement

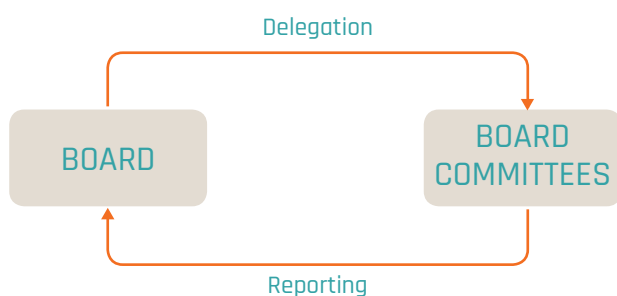
Corporate Governance

Members are required to declare their interests in business proposals, if any, to be considered by the Board. Members with interests are required to withdraw from the relevant discussions and decision-making process as appropriate. For the financial year ended 31 March 2017, there were seven occasions when 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. 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.

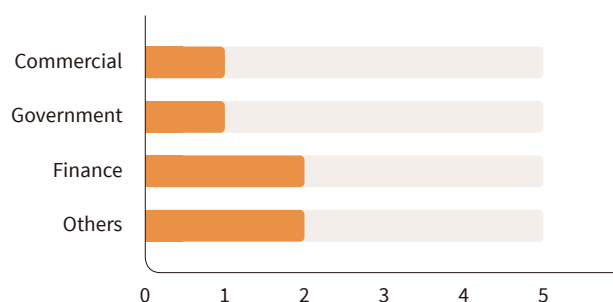
The composition of Board Committees was last reviewed and approved by the Board in July 2015. Excluding the Chief Executive Officer and public officers, each independent Board Member serves on an average of about 1.8 Board Committees.

The following sets out details of Board Committees, their memberships, principal duties and key matters considered or resolved for the financial year ended 31 March 2017.

Audit Committee and Finance Committee (ACFC)

Members' Profile – ACFC

(No. of members)



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: The ACFC met four times during the year with an average attendance rate of 88%. Attendance records of individual members are set out on page 25. A total of 22 Committee papers were considered or resolved.

Principal duties:

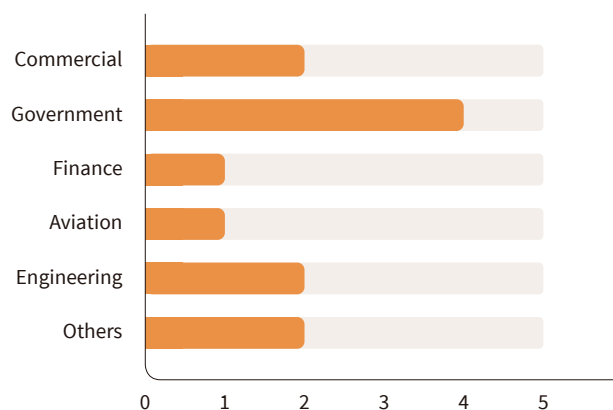
- Reviews financial statements
- Makes recommendations on the appointment of the external auditor, approves its remuneration and terms of engagement and oversees AAHK's relations with the external auditor
- Reviews accounting policies, annual budget, five-year financial plan and charging policies
- Oversees 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 and the objectivity and effectiveness of the 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, internal audit and financial reporting functions, and their relevant training programmes and budget
- Annual internal audit programme, quarterly internal audit reports and effectiveness of the internal audit function
- Cash management
- Investment guidelines
- Accounting treatment of the Airport Construction Fee (ACF)

3RS & Works Committee (3RSWC)**Members' Profile - 3RSWC**

(No. of members)

**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 six times during the year with an average attendance rate of 86%. Attendance records of individual members are set out on page 25. 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

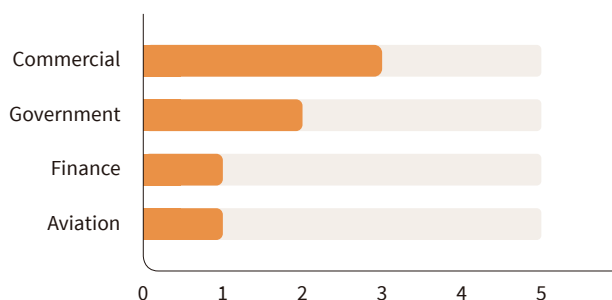
Key matters considered or resolved:

- Annual capital works budget and five-year capital works plan
- Midfield development
- 3RS project development
- Terminal 1 capacity enhancement works
- Intermodal Transfer Terminal development
- North Commercial District infrastructure works
- Enhancement 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

(No. of members)



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 four times during the year with an average attendance rate of 96%. Attendance records of individual members are set out on page 25. A total of 22 Committee papers were considered.

Principal duties:

Considers, approves and makes recommendations to the Board on:

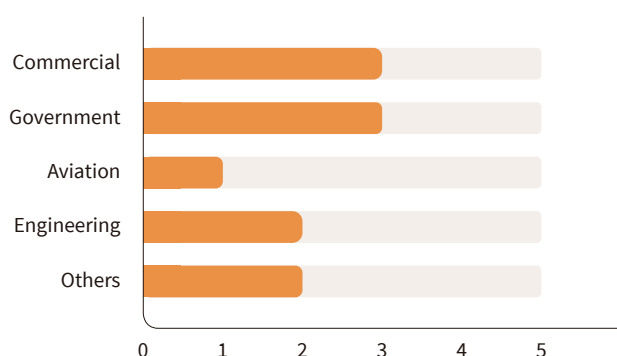
- Business strategies relating to the development of HKIA
- Airport commercial and business development plans and proposals other than the 3RS and NCD developments
- Major commercial or operational commitments
- Sustainability, public relations and communication strategies

Key matters considered or resolved:

- Airport retail and licensing strategy
- Air cargo development strategies
- Provision of airport facilities
- Procurement strategies and award of operation and service contracts
- Sustainability report for 2015/16
- Carbon reduction strategies
- Community investment strategy

North Commercial District Committee (NCDC)**Members' Profile - NCDC**

(No. of members)



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 NCDC met four times during the year with an average attendance rate of 82%. Attendance records of individual members are set out on page 25. A total of 9 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:

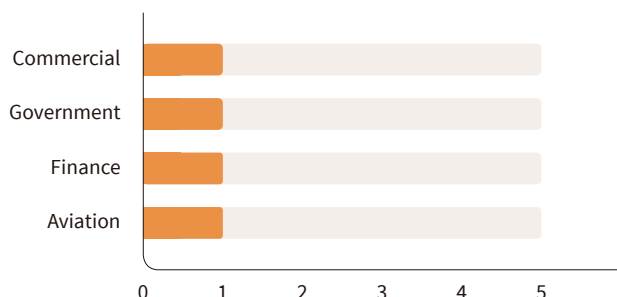
- Brand building and marketing strategy for SKYCITY
- SKYCITY Phase 1 hotel development
- SKYCITY Phase 1 Retail / Dining / Entertainment development

Corporate Governance

Human Resources & Remuneration Committee (HRRC)

Members' Profile – HRRC

(No. of members)



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 met twice during the year with an average attendance rate of 100%. Attendance records of individual members are set out on page 25. A total of 3 Committee papers were considered.

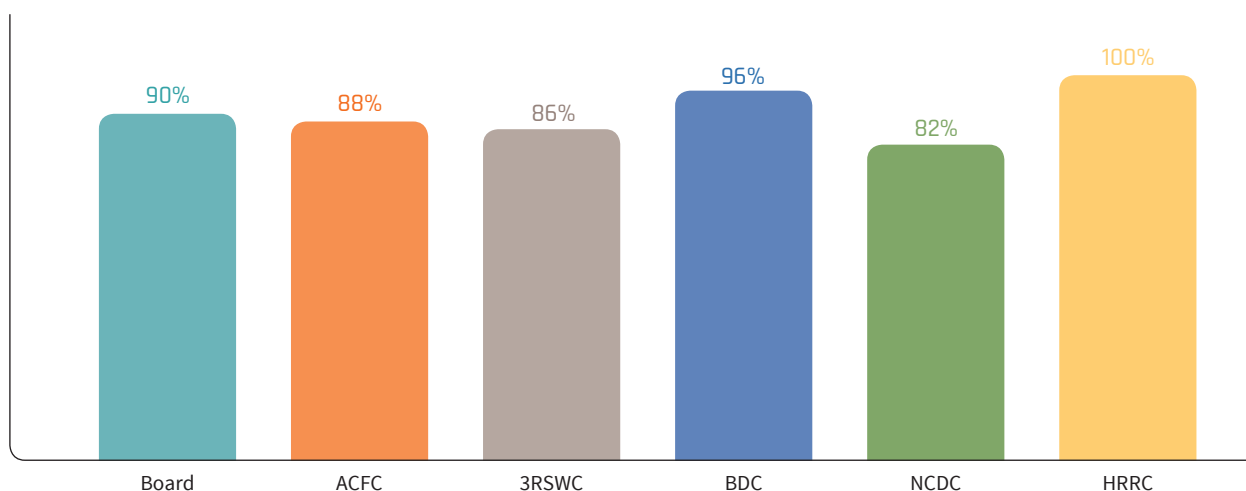
Principal duties:

- 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
- Performance reviews of senior executives
- Corporate goals and performance measurements

MEETING ATTENDANCE (1 April 2016 to 31 March 2017)



MEMBERS ATTENDANCE (1 April 2016 to 31 March 2017)

Members of the Board	Board	ACFC	3RSWC	BDC	NCDC	HRRC
Non-executive						
Secretary for Transport and Housing	6/6		6/6	4/4	4/4	2/2
Secretary for Financial Services and the Treasury	6/6	4/4	5/6		2/4	
Director-General of Civil Aviation	6/6		6/6	4/4		
Independent Non-executive						
Mr Jack So Chak-kwong (Chairman of the Board)	6/6					
Mr Edward Cheng Wai-sun	5/6				4/4	
Mr Andrew Fung Hau-chung	6/6	2/4		3/4		
Ms Anita Fung Yuen-mei	3/6	4/4*				2/2
The Hon Steven Ho Chun-yin	4/6	3/4	5/6			
Mr Franklin Lam Fan-keung	5/6	4/4			4/4	
The Hon Jeffrey Lam Kin-fung	5/6	4/4				2/2*
Ir Lee Shing-see	6/6		6/6*		4/4	
Mr Peter To	6/6			4/4	4/4*	
Ir Billy Wong Wing-hoo	6/6		6/6		2/4	
The Hon Frankie Yick Chi-ming	5/6		4/6	4/4		
Dr Allan Zeman	5/6		4/6	4/4*		
Executive						
Mr Fred Lam Tin-fuk (Chief Executive Officer)	6/6		6/6	4/4	4/4	2/2

Notes:

* Chairman of the Committee throughout the term

ACFC: Audit Committee and Finance Committee

BDC: Business Development Committee

HRRC: Human Resources & Remuneration Committee

NCDC: North Commercial District Committee

3RSWC: 3RS & Works 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 HKSAR, 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 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 105 to 108.

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, there are working group, advisory committees, management committees and co-ordination meetings to deal with specific 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 the success of this important project, the NCD Working Group was formed in August 2015. Comprising the NCDC Chairman, internal Management from AAHK and external advisors, the working group assists the NCDC in reviewing business models and key commercial terms proposed by consultants and helps 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 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 use 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 guidance to Management on the development of HKIA as a platform for promoting arts and culture and advises AAHK on 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.

Hong Kong International Aviation Academy Steering Committee

The Hong Kong International Aviation Academy (HKIAA) Steering Committee was established in November 2016 to provide guidance to Management on achieving the HKIAA's objectives of nurturing aviation talents for Hong Kong, to make recommendations on the positioning and development of HKIAA and to help make HKIAA a sustainable operation. Chaired by an AAHK Board Member, the Committee comprises no more than 12 core members including the Chief Executive Officer, internal Management from AAHK and external members from the government, education sector and the airport community.

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 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 human resources capabilities 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 Executive Directors as members, was established to ensure a more co-ordinated 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 2016/17, a total of 19 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 social media, such as Facebook, Instagram and YouTube, as well as the mobile app "HKG My Flight" for information dissemination. In addition, AAHK organises exhibitions to inform the public about the future development of HKIA.

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

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

To further enhance understanding on the 3RS project as it entered the construction phase, AAHK has put in place an ongoing programme for engaging various stakeholders, which includes meetings, briefings and visits. The Professional Liaison Group and five Community Liaison Groups meet from time to time for project updates and to collect feedback from experts and community leaders. There is also a dedicated website (www.threerunwaysystem.com) and a Facebook page (www.facebook.com/threerunwaysystem) to provide updates on the 3RS.

Conferences and briefings are held regularly with the Management team and staff members on work being done and plans to achieve AAHK's goals. They also provide opportunities for senior management to update colleagues on new projects and share their thoughts on future corporate direction and focus.

A newsletter, *HKIA News*, is published every month to inform AAHK staff, the airport community at large and other stakeholders of news and developments at HKIA. The Legislative Council and neighbouring District Councils are also kept abreast of major developments at HKIA through outreach meetings and visits to the airport.

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 BDC, 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 support the development of AAHK's sustainability reporting and framework.

AAHK's Sustainability Report 2015/16, published in October 2016, was prepared 'in accordance' with the internationally-recognised Global Reporting Initiative G4 Sustainability Reporting Guidelines and the Airport Operators Sector Disclosures: the Core option. The report was framed as a response to the most significant sustainability issues raised by our stakeholders. It was independently verified by the Hong Kong Quality Assurance Agency.

INTERNAL CONTROLS

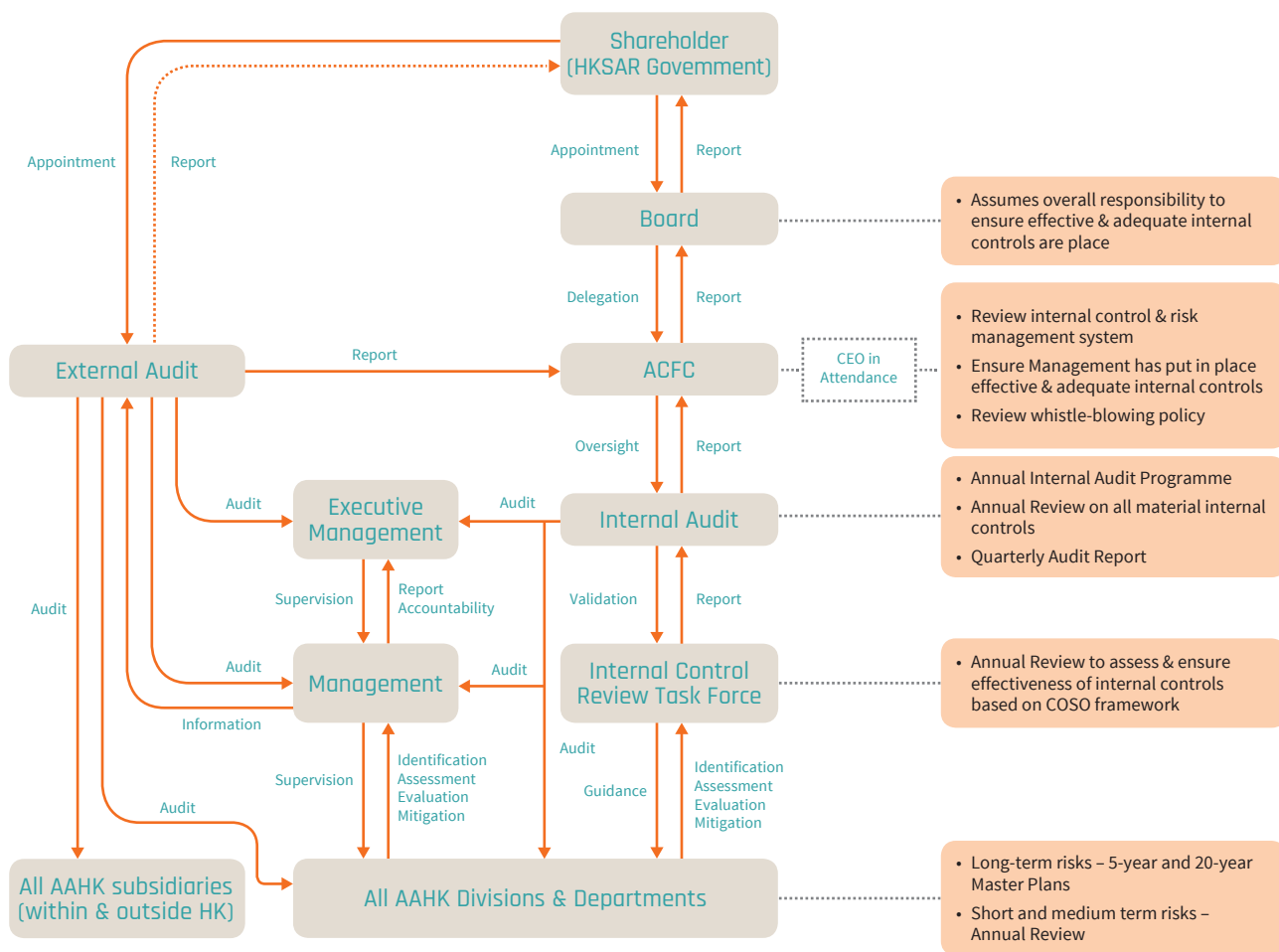
Internal controls form an integral part of AAHK's management system and are embedded in the operational procedures of functional departments. The underlying principle of AAHK's internal controls is to manage and mitigate, rather than to eliminate risks.

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 accounting, internal audit and financial reporting function

External Audit

The main purpose of the external audit is to provide independent assurance to the Board and shareholder that the annual financial statements of AAHK are fairly stated. The appointment of AAHK's external auditor is subject to the approval of the Chief Executive of the HKSAR, on the recommendation of the ACFC and the Board.

The external auditor for the year under review was KPMG. To ensure the independence and objectivity of the external auditor, AAHK has policies that restrict the non-audit services to be provided by the external auditor and require the lead engagement partner responsible for AAHK to be rotated every seven years. The last rotation took place in 2011/12.

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

(in HK\$ million)	2016/17	2015/16
Audit fee	6	5
Fees for non-audit services	2	1

The non-audit work conducted by KPMG during 2016/17 was mainly in relation to tax compliance and other advisory services.

Internal Audit

The internal audit is primarily responsible for reviewing the adequacy and effectiveness of internal control procedures and monitoring compliance with them. The annual internal audit programme is drawn up using a risk-based approach and is approved by the ACFC 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 need 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 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. The Risk Management Report had been submitted to the ACFC and Board for review.

Details of the risk assessment framework and management initiatives are described in the Risk Management Report on pages 38 to 43.

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 3RSWC, NCDC and BDC 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.

FINANCIAL PLANNING, CONTROL AND REPORTING

AAHK has a three-tier corporate planning process under which a master plan with a planning horizon of 20 years is compiled every five years. AAHK is currently in the process of compiling the HKIA Master Plan 2035 which is expected to be completed in 2017/18. 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 3RSWC at approximately bimonthly intervals. Reporting procedures are in place to ensure a potential delay or cost overrun will be reported to the appropriate level at the earliest possible stage.

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 usually submitted to the ACFC for review within two months from the end of the financial year and then to the Board for approval. Financial statements are despatched to the 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

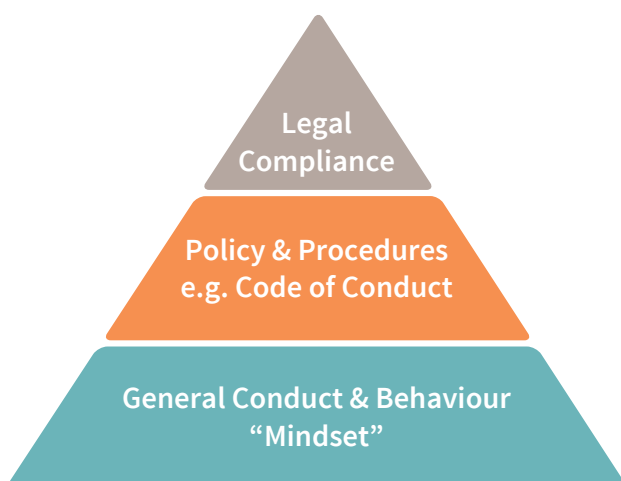
Ethics is a core value of AAHK. To foster an ethical culture, AAHK follows both the “structural” and “people” approaches.

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 shared 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 a key 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 2017 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)

On 19 December 2014, Hong Kong Exchanges and Clearing Limited published new requirements relating to the risk management and internal control section of the CG Report which would come into effect in 2016/17. While not required to comply with the CG Code, AAHK already adopted the new CG Code since its 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 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.	These provisions are 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.	
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 and briefings from time to time.
D.3.1	Terms of reference of the board or committees to include reviewing and monitoring the training and continuous professional development of directors and senior management.	

Code Provisions		Reason for Deviation
A.7.1	An agenda and board papers should be sent to all directors at least three days before a meeting.	AAHK has self-imposed a more stringent guideline of issuing papers to Board Members at least three clear days (excluding the date of despatch and the date of the meeting) before a meeting. About 87.6% of a total of 161 papers met the guideline in the year under review. 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.
Recommended Best Practices		Reason for Deviation
B.1.8	Disclose details of any remuneration payable to members of senior management, on an individual and named basis, in the annual reports.	AAHK decided to adopt the approach of disclosing remuneration of senior executives who are not Members of the Board by band from the financial year 2014/15 onwards. Remuneration to Board Members continue to be disclosed on a named basis.
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

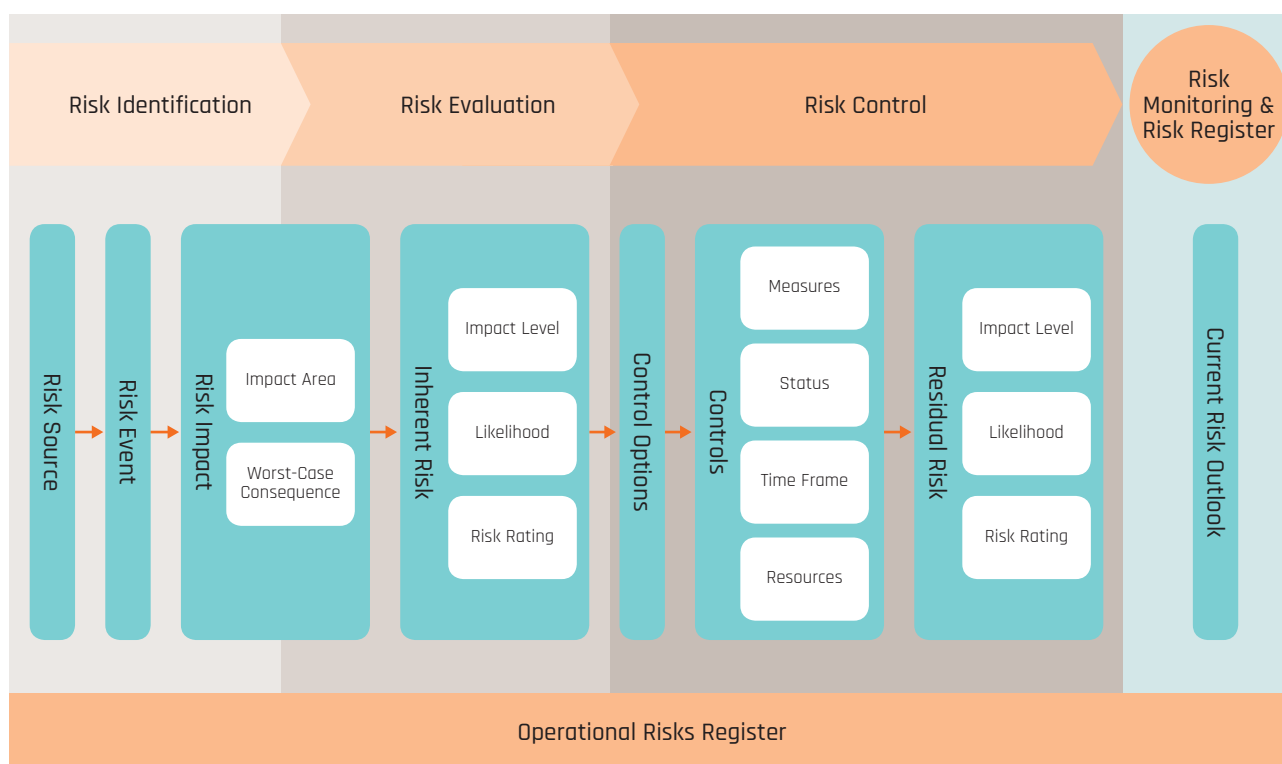
AAHK's internal controls are designed to manage and mitigate risks, rather than eliminate them. Risk assessment and management is a critical focus for all levels at AAHK: the Board, the Audit Committee and Finance Committee (ACFC), Executive Management and operating and supporting functions.

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 including 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 affect 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 2016/17, the ACFC reviewed the consolidated review report on AAHK's risk profiles and control system and confirmed that no significant risk control issues needed 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 systems 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 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 need to be made.

Risk Management Report

RISK PROFILES AND CONTROLS

Key risks identified in the annual review for 2016/17 and controls put in place are as follows:

STRATEGIC AND OPERATIONAL RISKS

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

Major Challenges	<ul style="list-style-type: none">• Maintain Hong Kong as a centre of international and regional aviation is a statutory mandate of AAHK• Meet ever-increasing traffic demand. Traffic demand is expected to reach 102 million passengers, 8.9 million tonnes of cargo and 607,000 flight movements in 2030 according to the latest IATA Consulting forecast
Controls in place	<ul style="list-style-type: none">• The 3RS is a strategic development project that will help enhance Hong Kong's long-term competitiveness and economic development. Construction works on the 3RS already commenced on 1 August 2016• Continual investments in facilities upgrades and replacement projects to ensure efficient and safe operation• Constant monitoring of service delivery standards and operating procedures• Contingency plans in place to ensure impact on passengers is minimised• Carry out regular drills 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 a responsible manner by minimising the environmental footprint of its operations. The concept of risk management is clearly articulated in the five-year environmental plan this year. Three categories of risk have been identified – regulatory, reputational and operational risks.

Major Challenges	<ul style="list-style-type: none">• Operate in full compliance with environmental legislation• Implementation of AAHK's environmental initiatives
Controls in place	<ul style="list-style-type: none">• Continue to ensure that future projects including the 3RS incorporate environmental considerations from the early planning stage onward• Ensure any footprint reduction measure should be supported by a sound business case that is based on a combination of cost and/or risk reduction• Further details of AAHK's environmental initiatives are set out in AAHK's upcoming sustainability report

SAFETY, SECURITY AND HEALTH RISKS

Safety is the cornerstone of HKIA's smooth operation. The effective implementation of a well-established safety management system is crucial for ensuring the safety of airport staff and passengers travelling through HKIA. HKIA delivered a remarkable safety performance in 2016/17. The Airport Composite Safety Index, which measures the rate of airport staff and passengers injuries, recorded a downward trend and surpassed our target. We will continue to be vigilant to the risks that may compromise a safe and secure operating environment.

Major Challenges

- Uphold high standards of safety while facing rapid growth of the aviation industry
- Reinforce safety consciousness and security awareness among airport staff
- Changing threats brought by acts of terrorism committed around the world
- Public health risks posed by major disease outbreak, e.g. spread of Zika virus disease

Controls in place

Safety

- Operate an effective safety management system with our business partners
- Enhanced the Aerodrome Safety Management System by incorporating a Live Operations Risk Assessment Register which serves as a change management tool to continuously monitor hazards and risks arising from development projects
- Introduced mandatory safety awareness test for airport restricted area permit holders
- Participated in the "Joyful@Healthy Workplace" programme co-organised by the Labour Department, the Department of Health and the Occupational Safety and Health Council to promote corporate culture that prioritises employees' physical and mental well-being

Security

- Introduced security patrols in the landside, particularly the check-in area, with Aviation Security Company Limited (AVSECO) reinforcing the presence of law enforcement agencies
- Enhance security awareness through additional briefings and case sharing sessions and through implementation of an online examination system requiring holders of airport restricted area permit to answer security-related questions
- Reviewed security processes and countermeasures in light of changing terrorist threats, e.g. security screening equipment capable of detecting liquid explosives were installed to enhance the screening process for passengers carrying liquids, aerosols and gels
- Conducted trials of full-body scanners in 2016/17, in anticipation of using this technology at the 3RS. Trial installations of full-body scanners at selected, existing screening locations is being planned

Health

- Co-ordinate closely with the HKSAR Government and the airport community to address public health risks
- Support government response plans for major disease outbreaks by:
 - conducting temperature screening on passengers arriving at HKIA throughout the year
 - making public announcements, displaying posters and distributing leaflets to passengers arriving from affected areas
 - holding a series of workshops to raise awareness of public health risks amongst the airport community together with the Port Health Office
- Facilitated the government's implementation of an aircraft disinfection programme that reduced the risk of Zika virus transmission by infected mosquitoes. The programme – applicable to all airlines and aircraft operators, including passenger, cargo and private flights – began in April 2017

Risk Management Report

FINANCIAL RISK

AAHK's activities are exposed to a variety of financial risks.

Major Challenges	<ul style="list-style-type: none">• Credit risk, liquidity risk, interest rate risk and foreign currency risk
Controls in place	<ul style="list-style-type: none">• Details of AAHK's exposure to financial risks and the policies and practices adopted to manage these risks are described in Note 22 to the Financial Statements on pages 126 to 132

INFORMATION TECHNOLOGY RISK

The effectiveness and security of information technology (IT) systems is instrumental to the smooth and safe operation of HKIA. An interruption of HKIA's IT services or a system failure may disrupt airport operations.

Major Challenges	<ul style="list-style-type: none">• The adoption of new innovation and technology and the rise in intensity and sophistication of cyber attacks may introduce instability or security exposure to existing IT infrastructure and systems
Controls in place	<ul style="list-style-type: none">• Established IT governance framework and IT risk management framework to ensure consistent risk assessment and management• Annual review is undertaken to ensure IT projects align with corporate strategies• Monitor emerging IT security risks and proactive measures are in place to enhance risk awareness• Adopt preventive, detective and containment measures to mitigate security threats; use of monitoring tools to alert management to risks and vulnerabilities• Conduct IT obsolescence status review and mitigation planning annually with the mitigation progress monitored regularly

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. Effective management of legal and regulatory risk will help Management avoid taking unnecessary and imprudent risks in the business, operation and development of HKIA.

Major Challenges	<ul style="list-style-type: none">• Any appeal made by any judicial review applicant to the Court of Appeal concerning environmental aspects, if successful, can potentially 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
Controls in place	<ul style="list-style-type: none">• Adopt a proactive and forward-looking approach to monitor 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• Develop policies, procedures and appropriate action steps to address changes in a timely way to guide Management to operate legally and within AAHK's acceptable risk level• Provide ongoing education to Management to adapt to these changes. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement

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.

Major Challenges

- Acquisition of sufficient talent to meet the growing manpower need for Airport expansion

Controls in place

- Developed a manpower plan up to 2024/25 and resourcing strategies to ensure a timely supply of talent. We will continue to enhance our people development framework and refine our training curriculum to ensure our staff have the expertise and experience to support the growth of the airport

REPUTATION RISK

Public sentiment and socio-economic dynamics may have implications for AAHK's corporate image.

Major Challenges

- To manage and pre-empt possible reputational risks

Controls in place

- Public sentiment and socio-economic dynamics are closely monitored
- Continuous engagement with key stakeholders is carried out to enhance understanding of and gauge views about HKIA's short-, medium- and long- term developments
- Established a database to track and monitor public affairs issues and 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 maintaining Hong Kong's status 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 our business partners.

EVENT HIGHLIGHTS



2016

APRIL

The Chief Executive-in-Council approves the draft Chek Lap Kok Outline Zoning Plan and authorises the reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance for the expansion of Hong Kong International Airport (HKIA) into a three-runway system (3RS).

MAY

- 1 Airport Authority Hong Kong (AAHK) signs a memorandum of understanding with Jiangxi Airports Group Company to share airport management expertise and information.

JUNE

- 2 The HKIA Customer Service Excellence Programme recognises over 900 airport staff for delivering outstanding service.

HKIA's network expands with new services to Madrid, Spain, and Ishigaki, Japan.

- 3 HKIA is named "Best Global Airport" by *Asia Cargo News* and clinches the "Top Asian Airport Efficiency Excellence Award" from the Air Transport Research Society for the sixth time.

JULY

AAHK signs an agreement with Hong Kong Applied Science and Technology Research Institute (ASTRI) to establish the "ASTRI-HKIA Joint Research and Development Centre for Smart Airport". The centre explores the use of new technologies to enhance HKIA's efficiency and service quality.

AUGUST

- 4 Construction of the 3RS begins. The construction is expected to take eight years.

SEPTEMBER

AAHK's efforts to reinforce airport safety receive a "Safety Performance Award — Other Industries" from the Occupational Safety and Health Council.

- 5 Non-stop passenger services commence between Hong Kong and Vienna, Austria.
- 6 For the third consecutive year, HKIA wins the "Asia Pacific Airport of the Year — Industry Choice Award" from *Payload Asia*.



7



9



11



8



10



12

NOVEMBER

8 AAHK and its business partners pledge to reduce HKIA's carbon intensity by 10% from 2015 levels.

HKIA adds Chiang Rai, Thailand, to its network.

2017

JANUARY

AAHK garners the "Employer of Choice Award" from *JobMarket*.

OCTOBER

7 AAHK unveils plans for SKYCITY, an integrated development located next to HKIA that includes retail, dining and entertainment facilities, as well as hotels and office towers.

Two AAHK staff receive the "Ombudsman's Award for Officers of Public Organisations" for providing excellent public service.

HKIA launches Caring Corner, a rest area for passengers with special needs, including those with reduced mobility, the elderly and pregnant women.

DECEMBER

AAHK hosts the "Greater Pearl River Delta A5 Chairmen's meeting", where the leaders of five regional airports discuss the latest trends and technologies about smart airport.

9 AAHK signs a memorandum of understanding with École Nationale de l'Aviation Civile to develop joint programmes for Hong Kong International Aviation Academy.

10 HKIA's annual passenger volume surpasses the 70-million mark for the first time.

FEBRUARY

11 Hong Kong Air Cargo Terminals Limited receives Centre of Excellence for Independent Validators in Pharmaceutical Logistics certification from the International Air Transport Association.

MARCH

12 Airport Preschool begins offering childcare and educational services to the children of airport community staff.

PASSENGER SERVICES



iBeacon





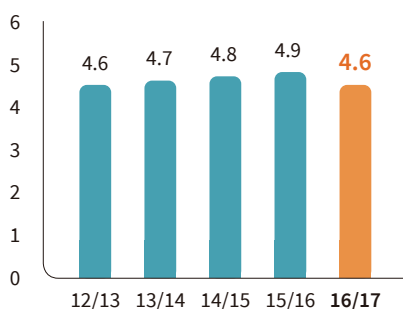
HKIA offers a new airport experience with passenger-centred services and advanced technologies.

At HKIA, passengers' needs are at the heart of our operations. We continually enhance our services and facilities to deliver an outstanding passenger experience.



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

(millions of passengers)



A BETTER AIRPORT EXPERIENCE

Catering to the diverse needs of passengers, we enhanced many of our facilities during the year.

For example, we increased the capacity of the automated passenger clearance system by adding 18 e-Channels in the Arrivals and Departures Immigration halls. The additional e-Channels reduce travellers' waiting time and smooth passenger flows.

In October 2016, we opened the 140-square-metre Caring Corner, a rest area for travellers with special

needs, including passengers with reduced mobility, the elderly and pregnant women. Located on the Departures Level of Terminal 1 (T1), the 42-seat, wheelchair-accessible facility is equipped with televisions and telephone helplines.

At the end of 2016, we made navigating Hong Kong International Airport (HKIA) easier by installing 14 interactive directories in T1. In addition to offering comprehensive information about airport shops and facilities, the touch-screen displays suggest routes to help passengers find destinations in HKIA. The directories also provide up-to-date flight information.

PASSENGERS BY MARKET

(year ended 31 March 2017)



SOUTH EAST ASIA

26%

MAINLAND

20%

TAIWAN

13%

JAPAN

11%

EUROPE

7%

USA & CANADA

6%

AUSTRALASIA

5%

OTHERS

12%



This year, we also started work on a free shower facility for transfer passengers, which will open in the third quarter of 2017. Meanwhile, passenger comfort is being enhanced with a programme to update the facilities and improve the air quality in HKIA's washrooms. To help passengers stay connected, an additional 900 charging points for personal electronic devices will be installed throughout HKIA in 2017.



▶▶▶ From interactive directories to Caring Corner, HKIA takes care of passengers' different needs.

Passenger Services

BUILDING A SMARTER AIRPORT

HKIA uses advanced technology to deliver a superior passenger experience. During the year, for example, we refined and extended the capabilities of “HKG My Flight”, our award-winning mobile app, with the addition of an “auto join” function. After passengers register their mobile device, “HKG My Flight” automatically connects it to HKIA’s free Wi-Fi service whenever they visit the airport, saving them from having to sign in.

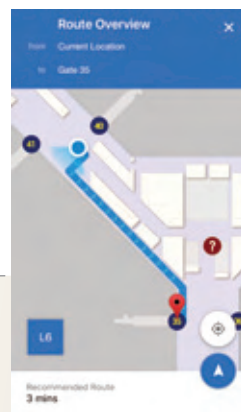
“HKG My Flight” was also enhanced to give passengers information about public transportation to and from HKIA, including fares and journey times. In 2017/18, drivers will be able to use the app to check the availability of parking, pre-book long-term parking spaces and pay parking fees at HKIA.

In 2016/17, we installed approximately 10,000 iBeacon transmitters throughout the airport terminals. The iBeacon transmitters allow “HKG My Flight” to send directions and boarding alerts to passengers who have the app installed on their smartphones and other Bluetooth-enabled devices. We

are upgrading the system to enable virtual signage and voice navigation, and to push location-specific promotional messages for retailers.

To help arriving passengers track their luggage, next year we will add a feature to “HKG My Flight” that displays a notification when luggage bearing a special electronic tag is delivered to HKIA’s baggage reclaim belts.

In 2017/18, we will further enhance “HKG My Flight” with online shopping, the ability to book ancillary passenger services such as porter service, and real-time information about ground transportation and traffic conditions.



The “HKG My Flight” app provides passengers with essential airport information at their fingertips, creating a hassle-free travel experience.



Passengers appreciate the speed and convenience of HKIA's self-service facilities. In 2017/18, we will extend this capability to transfer passengers with the installation of four self-transfer kiosks on the Arrivals Level. We are also developing an advanced self check-in kiosk that can not only verify travel documents, but also print baggage tags.

Behind the scenes, we adopt new technologies to boost operational efficiency. This year, we implemented a video analytics system that enables real-time monitoring of trolley availability, ensuring baggage trolleys are ready when and where people need them.

We also completed a trial of a robotic cleaning system that will be used in overnight cleaning starting in 2017/18.

In search of new technologies, we signed an agreement with Hong Kong Applied Science and Technology Research Institute (ASTRI) to establish the "ASTRI-HKIA Joint Research and Development Centre for Smart Airport" in July 2016. The centre focuses on wireless technologies, big data analytics and artificial intelligence, with the goal of enhancing HKIA's efficiency and service quality.

In November 2016, we hosted the second Technovation Conference and Exhibition, where industry experts shared robotic applications that increase operational efficiency and passenger convenience at HKIA.

SERVICE PERFORMANCE IN 2016/17 (percent)



96.8

Baggage Delivery (First Bag)
First bag delivered to baggage reclaim within 20 minutes



96.6

Baggage Delivery (Last Bag)
Last bag delivered to baggage reclaim within 40 minutes



92.9

Passenger Embarkation & Disembarkation
Passengers embarking and disembarking by air bridge



99.0

Departures Security Screening Under Normal Circumstances
Passengers whose queuing time at the screening channels is 4.5 minutes or less



98.8

Transfer Security Screening Under Normal Circumstances
Passengers whose queuing time at the screening channels is 4.5 minutes or less



HKIA adopts new technologies in back-end operations to achieve service excellence. For example, video analytics is used for trolley management.



Passenger Services



AIRPORT SERVICE QUALITY (ASQ) SURVEY OVERALL SATISFACTION SCORE



86.2%

EXCELLENT



13.8%

VERY GOOD



0.0%*

GOOD

* There were 2 cases of Overall Satisfaction scoring 3 (Good) in 2016.

Source: ASQ Official Report 2016

REFINED RETAIL AND DINING

HKIA is renowned for its exceptional retail and food and beverage (F&B) offerings. This year, for the eighth time, we were recognised as having the world's "Best Airport Dining Experience" in the 2017 Skytrax survey.

The East to West Food Market — a 1,497-square-metre dining area in the West Hall — became fully operational at the end of 2016. Offering passengers a range of F&B choices, including branches of Michelin-recommended Cantonese restaurants, Japanese ramen, Korean fusion as well as international brands, the Market also features stunning views of the airport apron.

The "I Love Hong Kong" retail zone in the East Hall, which focuses on well-known local brands, is extremely popular with travellers. To optimise the zone's productivity, we began converting two restaurants into retail space in a project that will be finished in 2017/18. The East Hall will also feature a unique concept that combines shopping with fine dining.

In 2016/17, we introduced an array of retail innovations, including pop-up stores showcasing new retail categories such as drones and aerial photography systems, and a distinctive beer truck where travellers can enjoy a cold one before their flight. HKIA's retail environment was also enlivened with virtual reality exhibitions, a 360-degree selfie experience and interactive screens.



Retail innovations, such as the newly introduced beer truck, make passengers' stay at HKIA more pleasant.



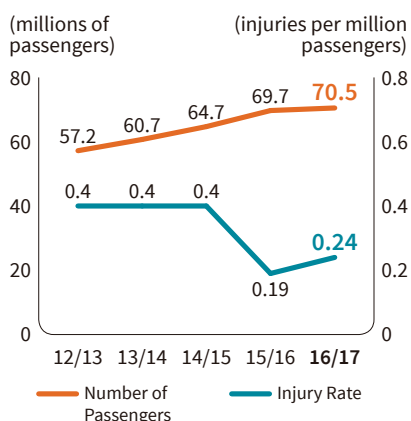
This year, we expanded our free home-delivery service, which originally served addresses in Hong Kong, Mainland China, Taiwan and Macao, to include Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam. Adding convenience to passengers' shopping experience, we also started the development of an online shopping platform. Merchandise ordered via the platform can be collected at HKIA or delivered to addresses covered by the home-delivery service. The online platform will debut in 2017/18.



The great variety of local products available in the "I Love Hong Kong" retail zone allows travellers to take home a taste of Hong Kong.

Passenger Services

PASSENGER TRAFFIC AND INJURY RATE



ENHANCED SAFETY AND SECURITY

Maintaining a safe, secure environment for our passengers, staff and business partners is Airport Authority Hong Kong's top priority. In the face of evolving risks, we remain vigilant by continually reviewing our security processes and measures. In

2016/17, we completed a programme to replace our passenger security screening equipment with advanced models that help staff examine cabin baggage and carry-on items more effectively. We also evaluated new body scanners, which will be installed at selected security checkpoints in 2017/18.

Throughout the year, we held training programmes for airport franchisees and ramp operators to enhance safety awareness among their staff. We also organised promotional campaigns and recognition schemes to improve safety performance at HKIA.

In 2016/17, we delivered more than 180 business continuity seminars and training sessions and staged nearly 40 drills, including annual exercises simulating adverse weather and an aircraft crash.

This year, the Airport Composite Safety Index, which measures the injury rate among passengers and staff, was 3.94 injuries per million passengers, down from 4.04 last year.

CROSS-BOUNDARY CONNECTIONS

HKIA is a multi-modal transport hub for Hong Kong and the entire Pearl River Delta (PRD).

In 2016/17, land-based cross-boundary traffic, which includes coaches and limousines, totalled 2 million passengers. SkyPier, which provides ferry services between HKIA and nine ports in the PRD and Macao handled 2.6 million travellers. Meanwhile, 930,000 people used our upstream check-in (UCI) service, which lets travellers check in at ferry ports and land points in the PRD and Macao before taking a coach or ferry directly to HKIA for their flight.



HKIA continually reviews security processes and upgrades equipment to bolster airport safety.

Jet Airways and Virgin Atlantic Airways joined the UCI service in 2016/17, bringing the number of participating airlines to 21. To enhance the service's competitiveness, we reduced the minimum connection time from 80 to 70 minutes by introducing priority containers for UCI baggage and increasing the service frequency of baggage tractors.

This year, cross-boundary coach services were extended to Qingyuan and the Window of the World theme park in Shenzhen, and the number of daily departures to Zengcheng and Kaiping increased from eight to 18. Each day, there are approximately 550 scheduled coach departures between HKIA and 110 Mainland cities and towns.

We also increased traveller convenience by offering packages that combine flights from HKIA with cross-boundary ferry or limousine tickets. These packages are now available on



selected Mainland travel portals and global distribution systems.

To capitalise on the opening of the Hong Kong–Zhuhai–Macao Bridge, we are looking at provision of a land-to-air bonded shuttle bus between locations in the PRD and HKIA's restricted area. The service would also be available to overseas

passengers travelling to Zhuhai and Macao via HKIA. The bonded bus service would significantly shorten the transit time between Hong Kong, the western PRD and Macao, thereby enhancing HKIA's connectivity and competitiveness.



Passengers at HKIA can conveniently travel to and from the PRD region and Macao with the airport's extensive cross-boundary connections.



As the world's busiest air cargo hub, HKIA is the backbone of our city's economy.

The secure and efficient movement of cargo is an important part of Hong Kong's growth story. It's also an essential element in our city's future, as Hong Kong businesses continue to develop and deliver higher-value products and services.



CARGO AND AVIATION SERVICES



Cargo and Aviation Services



AIR MAIL TONNAGE

(year ended 31 March 2017)

Total air mail*



99 THOUSAND TONNES

16/17 +21%
15/16

* Includes air mail from Hongkong Post and transit mail from airlines.

In 2016, for the seventh consecutive year, Hong Kong International Airport (HKIA) was the world's busiest cargo airport. We also received *Payload Asia's* "Asia Pacific Airport of the Year — Industry Choice Award" and were named "Best Global Airport" by *Asia Cargo News*.

HIGH-VALUE CARGO

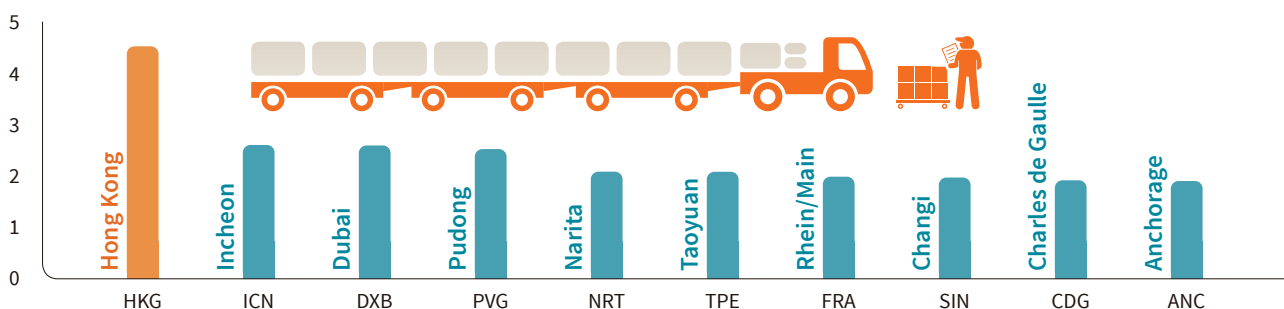
HKIA continues to develop its ability to serve fast-growing segments of

the high-value cargo business, such as fresh produce and temperature-sensitive pharmaceuticals, that require specialised handling.

This year, we established a task force with the local cargo industry — including cargo terminals, ramp handling operators, airlines, freight forwarders, logistics operators as well as pharmaceutical distributors and manufacturers — to develop an end-to-end solution for temperature-controlled cargo. The task force

10 BUSIEST AIRPORTS IN 2016 - 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 2017

CARGO THROUGHPUT BY MARKET*

(year ended 31 March 2017)



* Air mail is excluded.

agreed to collectively pursue Centre of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV Pharma) certification from the International Air Transport Association (IATA). CEIV Pharma is a globally recognised standard for temperature-controlled pharmaceutical product handling.

Training for participating companies was completed and assessment and validation by IATA is under way. One cargo terminal was certified in February 2017, with the other six companies expected to be certified by the third quarter of 2017. When the accreditation process is complete, HKIA will be recognised as an IATA CEIV Pharma Partner Airport.

SOUTH CARGO PRECINCT

Land in the South Cargo Precinct has been reserved for high-growth segments — including cross-boundary e-commerce, high-value temperature-controlled cargo and transshipments — to facilitate HKIA's repositioning from volume-focused to value-focused businesses.

CATERING SERVICES

At the end of 2016, Cathay Pacific Catering Services (H.K.) Ltd completed an expansion project that increased the company's capacity from 100,000 to 140,000 meals per day.

NEW AIRLINES AND DESTINATIONS

During the year, we welcomed four new carriers to HKIA: Austrian Airlines, Bismillah Airlines, T'way Air and Vietjet Air.

We also expanded our network with 14 new destinations: London Gatwick, New York LaGuardia, Portland, Madrid, Saipan, Ahmedabad (India), Chiang Rai (Thailand), Daegu (South Korea), Manado (Indonesia), Mandalay (Myanmar), Toowoomba (Australia), and Ishigaki, Takamatsu and Yonago (Japan).

E-COMMERCE

The global e-commerce market continues to grow, stimulating demand for express and air mail services. Airport Authority Hong Kong has been actively exploring collaboration opportunities with Hongkong Post and China Post to capture more cross-boundary e-commerce shipments.



AIRFIELD AND SYSTEMS





▶▶▶ The smooth operation of the airfield underpins HKIA's reputation for reliable, efficient service.

Enhancing the efficiency and reliability of airfield services, HKIA continually invests in infrastructure and new technologies.

Airfield and Systems

NEW TECHNOLOGIES

At Hong Kong International Airport (HKIA), we use advanced technologies to maximise the airport's efficiency and operational capacity.

This year, we piloted a system that uses high-speed, vehicle-mounted cameras to inspect, record and analyse the operation of airfield ground lighting (AGL). The system reduces the time required for regular AGL inspections from 6 to 0.5 person-hours per runway. Implementation of the system will begin in 2017/18 and is scheduled for completion in 2019/20.

Another example is an automatic foreign object debris detection system that has been installed on both runways. Now undergoing final testing, the system will be fully operational in mid-2017.

In 2016/17, we concluded a successful trial of a heat- and motion-sensing technology that monitors intrusions on the baggage conveyor belts behind the check-in counters. This solution, which can distinguish between people and baggage and sound an alarm in 1 second, will be implemented in 2017/18.

Next year, we will begin testing a video analytics system for pre-arrival checks of aircraft parking stands. If the system detects an abnormality, such as ground service equipment (GSE) blocking an aircraft's access to a stand, it alerts the control centre, which stops the aircraft from parking until the abnormality is resolved.

In addition, we are developing and evaluating new technologies that speed up night-time inspection of the airfield pavement and the Automated People Mover (APM) system to maximise the operation hours of HKIA.

ASSET MANAGEMENT

We increase productivity by carefully managing the airport's assets. In 2016/17, we completed the replacement of some aircraft parking aids with new models that interface directly with the Airport Collaborative Decision Making (A-CDM) system. The A-CDM system is a platform through which Airport Authority Hong Kong (AAHK) and the airport community share information. By connecting to the A-CDM system, the new parking aids show ramp staff the target time for completing all pre-departure work. This helps staff ensure aircraft are ready to start on schedule, enhancing airlines' on-time performance.



The airside vehicle tracking system helps optimise resources deployment and enhance operational efficiency.

In August 2016, two high-voltage chillers in Terminal 1 were updated with new units that reduce energy consumption by 30%. In addition, we are going to replace eight sets of cars on the APM system, which has been in operation since 1998. The new cars are expected to arrive by the end of 2018.

Meanwhile, we are studying the feasibility of integrating our asset information systems to streamline interrelated work processes, such as maintenance, control and monitoring, for better efficiency.

FUSELAGE MOCK-UP

To maintain safe and efficient operations on the airfield, AAHK introduced a driving qualification scheme for operators of airside GSE that includes on-site training and driving tests. In July 2016, we enhanced this programme by introducing an aircraft fuselage mock-up to the driving test site to simulate real-life docking scenarios.

The mock-up has seven types of compartment door for the Boeing 777 and Airbus 320. Operators of five kinds of GSE now use the mock-up in their driving test. Three more operator classes will be added in future.

INFORMATION SHARING AND DATA ANALYTICS

HKIA has a complex collection of systems and equipment operated by different users. Efficient information flow among these systems and users is crucial in achieving operational excellence.

In 2016/17, we completed the implementation of a mandatory, real-time tracking system for airside motorised vehicles and GSE. The system helps airport staff and franchisees effectively deploy resources for aircraft refuelling and other essential services and reduce speeding and traffic violations.

We are extending the tracking system to HKIA's 7,200 non-motorised pieces of airside GSE with a three-month trial that will start next year. Our goal is to fully implement the system by the end of 2018/19.

The vehicle tracking system, the A-CDM system and other technologies used at HKIA generate rich streams of data. Leveraging the "internet of things", which connects devices and systems, AAHK is developing an airfield service system that is scheduled to launch in 2017/18. The system will use data analytics to review operational performance and identify bottlenecks, thereby helping us optimise resource deployment and reduce aircraft turnaround time.





Collaboration between
HKIA and Mainland
airports enhances
passenger convenience.



AAHK maintains a presence
on the Mainland through
an investment in Hangzhou
and joint ventures in
Shanghai and Zhuhai.



MAINLAND PROJECTS

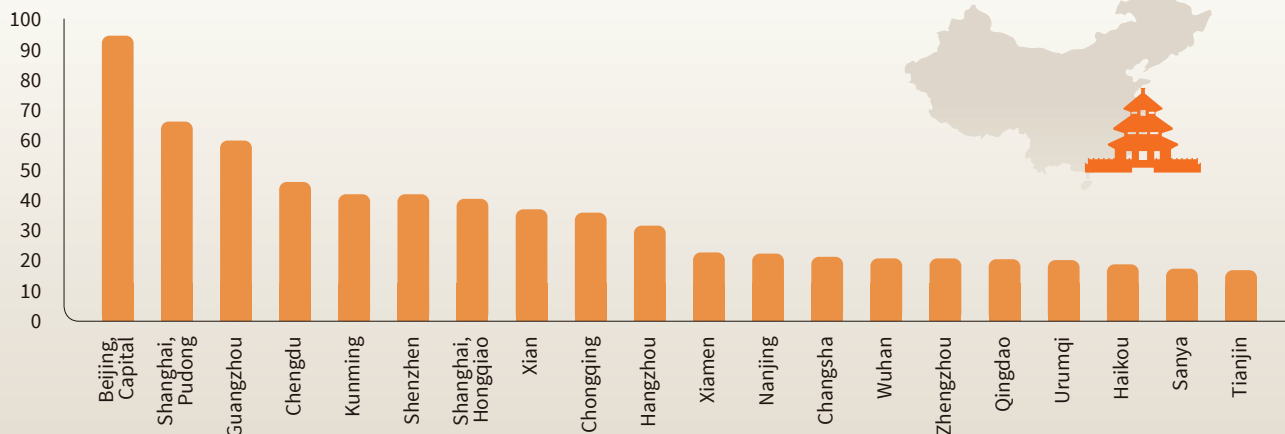


Mainland Projects



TOP 20 AIRPORTS ON THE MAINLAND IN 2016 - PASSENGER THROUGHPUT

(millions of passengers)



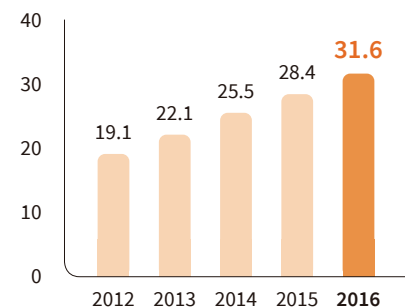
Source: Civil Aviation Administration of China (CAAC)

HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

new destinations helped raise international passenger throughput to over 4 million.

THROUGHPUT AT HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

(millions of passengers)



2016 marks the 10th anniversary of Airport Authority Hong Kong's (AAHK) acquisition of a 35% interest in Hangzhou Xiaoshan International Airport (HXIA). In 2016, passenger throughput at HXIA continued its strong performance, growing 11.4% from 2015, to 31.6 million, while flight movements increased 8.2%, to 251,000. Cargo volume rose 14.8%, to 488,000 tonnes, making HXIA the sixth busiest cargo airport in China.

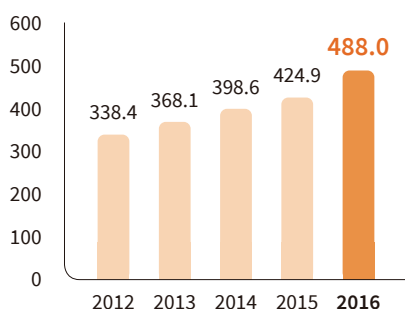
HXIA played a pivotal role in the success of the G20 Hangzhou Summit, which took place in September 2016. In the 18 months before the summit, all aspects of the airport's operations were enhanced to ensure a warm welcome for dignitaries from around the world.

SHANGHAI HONGQIAO INTERNATIONAL AIRPORT

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

In 2016, passenger throughput at Hongqiao airport increased 3.5%, to 40.5 million, while flight movements rose 2.1%, to 262,000.

(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China (CAAC)

Among China's 10 busiest airports, HXIA's cargo growth ranks first, while its growth in passenger throughput and flight movements rank third and fifth, respectively.

In 2016, HXIA's network grew 7%, to 140 cities, including nine new international destinations. Service to North America is available for the first time, with flights to San Francisco, Los Angeles and Vancouver. The



Facilities at HXIA were upgraded in preparation for the G20 Hangzhou Summit.



Part of the eastern wing of Zhuhai Airport's terminal building was renovated and reopened in 2016.



The newly renovated Building A in Terminal 1 (T1) commenced operation in March 2017, while Building B in T1 was closed for renovations that will be completed by the end of 2018. T1, which handles all of the airport's international traffic as well as domestic flights by Spring Airlines, has an annual design capacity of 10 million passengers.

In 2016, Hongqiao airport was named "Best Domestic Airport in China" in the annual Skytrax survey. It was the third consecutive year that Hongqiao airport received this award.

ZHUHAI AIRPORT

The Hong Kong-Zhuhai Airport Management Company Limited celebrated its 10th anniversary in 2016. AAHK has a 55% stake in this company, which manages Zhuhai Airport.

Zhuhai Airport broke three records in 2016: passenger throughput rose 30.2%, to 6.1 million, domestic cargo volume grew 22%, to 31,512 tonnes, and flight movements jumped 25.5%, to 49,731.

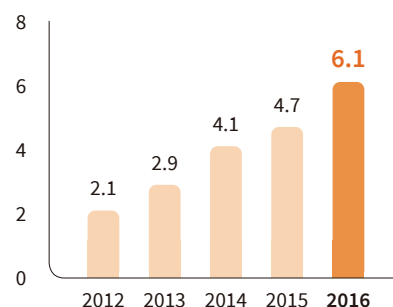
Twenty-eight airlines now offer scheduled service to 46 domestic destinations from Zhuhai Airport.

To meet growing demand, Zhuhai Airport is being renovated. Part of the terminal's eastern wing reopened in 2016 with an expanded departures hall and new check-in counters and self check-in kiosks. The terminal's annual capacity will increase to 12 million passengers when the first phase of the upgrade is finished and the whole eastern wing reopens in early 2018. Separate wings for international and premium passengers will be available when the entire upgrade is completed in 2020.

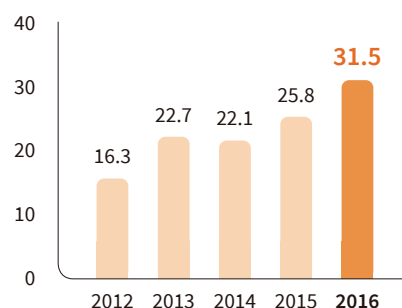
In preparation for the opening of the Hong Kong-Zhuhai-Macao Bridge, Zhuhai Airport is exploring ways to increase passenger and cargo flows with Hong Kong International Airport. This includes signing a co-operation agreement with Hong Kong Business Aviation Centre in June 2016. In November 2016, an inaugural helicopter flight between Hong Kong and Zhuhai Airport marked a milestone in efforts to develop charter helicopter services between the two cities.

THROUGHPUT AT ZHUHAI AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China (CAAC)

SUSTAINABILITY AND PEOPLE





At HKIA, promoting sustainability and Hong Kong's long-term development is central to our business.

By operating HKIA in a responsible manner, AAHK ensures the airport contributes to Hong Kong's long-term growth and development.





Sustainability Report 2015/16 gives a wide perspective on HKIA's sustainability issues and initiatives.

SUSTAINABILITY REPORT 2015/16

In October 2016, we published our fourth sustainability report, *Building Our Shared Future*.

In preparing the report, we expanded our stakeholder engagement exercise to include academics and young people, to better understand their views on the sustainability challenges faced by Hong Kong International Airport (HKIA). We also conducted a self-assessment of the sustainability risks to our supply chain and developed a preliminary, high-level risk map, which is included in the report.

FURTHERING OUR ENVIRONMENTAL COMMITMENT

During the year, we made significant progress towards building a greener airport. By the end of 2015, through the collective efforts of the airport community, we exceeded our 2010 pledge and reduced airport-wide carbon intensity by 25.6%, relative to 2008 levels. In November 2016 — along with 53 of our business partners — we pledged that by 2020,

we would reduce the airport's carbon intensity by a further 10%, relative to 2015 levels.

This year, we began upgrading our environmental management and energy management systems in line with the internationally recognised ISO 14001 and ISO 50001 standards. In February 2017, we received ISO 50001 certification for Terminal 1, the largest single building in Hong Kong to receive this certification.

In 2016/17, several green initiatives were launched or expanded:

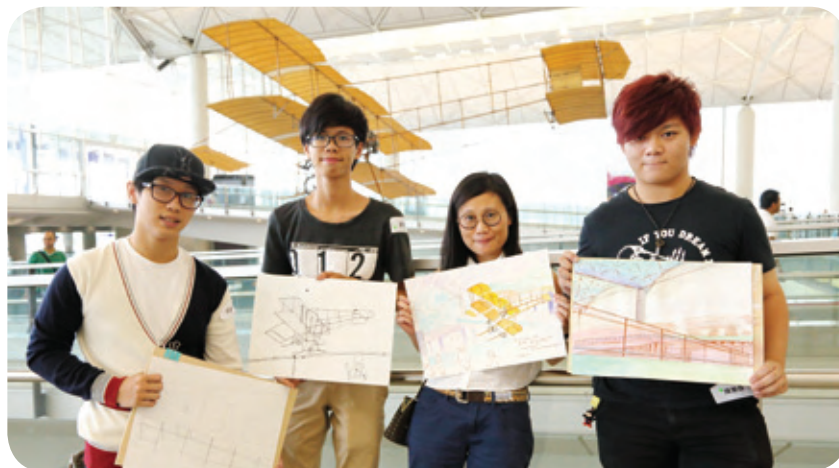
- We broadened the scope of the HKIA Environmental Management Recognition Scheme — which targets airport business partners — to include passengers to raise their awareness of waste reduction and recycling.
- We extended the collection area for the HKIA Food Rescue Programme, which gathers surplus food from airport business partners and transforms it into meals for the underprivileged, to include Tung Chung and Discovery Bay. The programme also began serving hot meals to needy Tung Chung residents.



Environmental responsibility is a major consideration in HKIA's operations.



- We introduced a municipal solid waste (MSW) pilot charging scheme at the Airport World Trade Centre. In 2017/18, the scheme will grow to cover other airport tenants and contractors, to help them prepare for the government's new MSW legislation.



- Our Sustainable Dining Policy was tightened to completely ban the consumption of shark's fin at events organised by Airport Authority Hong Kong (AAHK).
- We implemented a framework to offset carbon emissions from AAHK's events and staff overseas business travel.

second time. During the event, teams built giant sculptures out of canned food to increase awareness of hunger and donate food to the needy.

In July 2016, we welcomed 70 teenage artists to HKIA as part of "HK Territory-wide Youths Painting Day". In February 2017, we continued our tradition of partnering with Tung Chung community organisations to hold a spring dinner for over 400 elderly residents.

To strengthen the economies of nearby communities and address the airport's staffing needs, we organised district-level job fairs in Kwai Tsing

and Tung Chung during the year.

These events complemented a large-scale career expo at the Hong Kong Convention and Exhibition Centre in June 2016. In the year ahead, we will launch the "Extra Mile" project, which focuses on community investment in areas near HKIA.

We engage with young people through a range of activities, including airport visits and outreach presentations. In 2017/18, we will step up these efforts through the "0725 Fly High Project", which will provide a structured framework for our activities to attract new talent to the aviation industry.

ENRICHING SOCIETY

In 2016/17, we participated in numerous charity and volunteer activities that enriched the local community. In June 2016, for example, we participated in Canstruction Hong Kong for the





The Work Improvement Team programme empowers AAHK staff by giving them an opportunity to develop their creative thinking and enhance productivity.



Ensuring staff's professional growth and well-being is crucial to HKIA's continued development.

CARING FOR OUR PEOPLE

Attracting and retaining talented people and helping them achieve their potential is a key to sustaining HKIA's long-term development. Last year, we established a Culture Promotion Committee to reinforce the corporate culture embodied in our vision, mission and values. In 2016/17, we held focus groups with more than 130 staff from all levels of our organisation to solicit their views on building a better environment for them to contribute to and grow with AAHK. Information gathered in these

meetings is being used to develop culture promotion initiatives and to strengthen our staff communications.

The Work Improvement Team (WIT) programme was launched in April 2016 to provide a platform for front-line staff to practise AAHK's core values in the workplace. In a pilot programme, 138 airport operations staff formed 25 WITs that participated in problem-solving workshops and visited other organisations to learn about best practices for improving workplace processes. An incentive scheme was developed to recognise participants' contributions and achievements. This successful programme will be extended to all of AAHK's divisions in 2017/18.



The Airport Preschool fosters a family-friendly work environment at HKIA.



During the year, we revamped our staff recognition programme to reinforce an appreciation culture. The new programme gives wider recognition to individuals and teams that deliver outstanding performance.

To strengthen our leadership pipeline, we further institutionalised our talent development efforts in 2016/17. In addition to continuing the organisation-wide annual talent review and succession planning process, we embedded the leadership competency model — which was updated to reflect AAHK's core values — into the recruitment and performance management processes. Our learning curriculum was also enriched to align with the new model and a development centre was set up to support our talent development.

In October 2016, we launched a staff exchange programme with London's Heathrow Airport. Two managers from each airport's operations team participated in the three-month exchange, which helped the airports develop their staff and share best practices.

To attract young people to the aviation industry, we continued to enhance our management trainee programme. Twenty-four management trainees were recruited in 2016, while applications for this programme jumped 78% in 2017. Meanwhile, 57 people participated in our 2016 summer internship programme, a 32% increase from 2015.

During the year, we also continued to review and enhance our staff welfare programmes, particularly those relating to staff well-being and family-friendliness such as medical and dental benefits, and marriage and maternity leave. We also established the Airport Preschool for airport staff's children under the age of three. Located next to Terminal 2, the facility is managed by Hong Kong Christian Service. The preschool opened in March 2017, serving 46 children of staff from over 20 companies in the airport community.



The development of HKIA is the cornerstone of Hong Kong's future growth and prosperity.

Through comprehensive medium- and long-term development plans for HKIA, AAHK contributes to Hong Kong's economic growth.

LOOKING FORWARD



Looking Forward

THE THREE-RUNWAY SYSTEM

The three-runway system (3RS) is crucial in supporting air traffic growth at Hong Kong International Airport (HKIA) and Hong Kong's long-term development. The project reached a major milestone when construction began in August 2016. The 3RS requires the reclamation of approximately 650 hectares of land north of the existing airport island. Non-dredge methods, including deep cement mixing (DCM), are being used for the reclamation. DCM is a technique that slowly injects and mixes cement into the soft mud in the contaminated mud pits in the reclamation area. The technique was tested and proved effective in preventing the release of pollutants and strengthening soft ground. More than 25 DCM barges are now operating at the reclamation site, representing the largest marine DCM operation in the world.

All major 3RS design works, including those for the expansion of Terminal 2, the third runway passenger building, the airfield, and the associated infrastructure, are on schedule. Tendering for the design-and-build contracts for the Automated People Mover and Baggage Handling System is in progress.

Advance works for the 3RS are also under way. During the year, 5.2-kilometre-long pilot holes for diversion of the existing aviation fuel pipes were successfully completed using the state-of-the-art horizontal directional drilling technique. We also began diverting the undersea power cables that serve HKIA. This work is scheduled for completion in 2017/18.

As the project moves ahead, we continue to fulfil the commitments made in the Environmental Impact Assessment Report and comply with the conditions in the Environmental Permit (EP) for the 3RS. Conducting

a comprehensive monitoring and audit programme that covers air and water quality, Chinese White Dolphins, noise, waste management, etc., we established environmental baselines before construction started and are now monitoring the impact of the construction. This ensures a balance between development and environmental conservation.

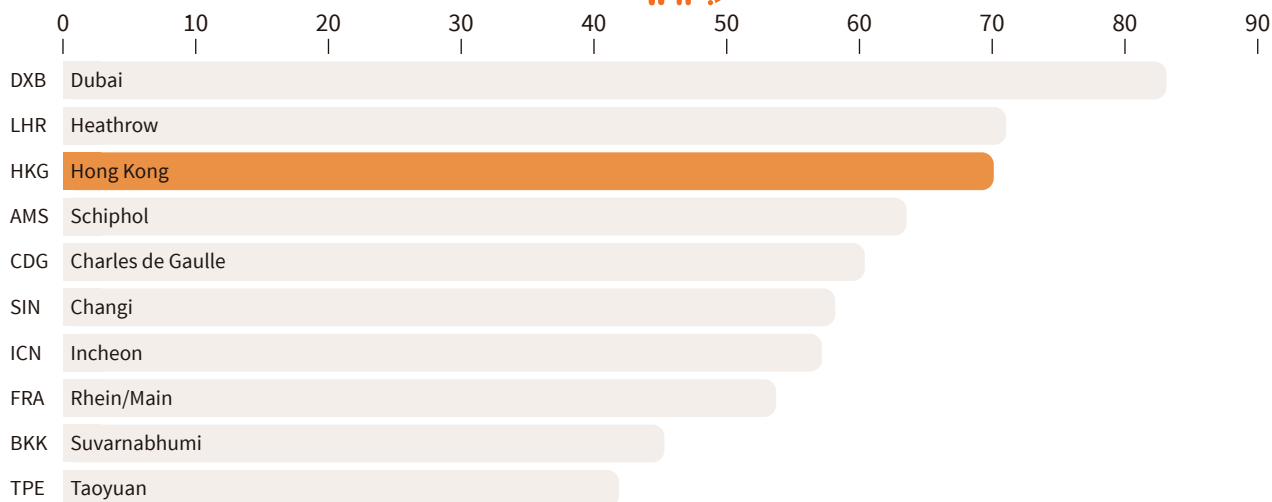
As prescribed in the EP, in 2016/17 we established a Marine Ecology Enhancement Fund and a Fisheries Enhancement Fund and formed management committees for both funds. A steering committee was established to guide the funds' operation. The funds began inviting applications in December 2016 and the first batch of successful applications will be announced in mid-2017.

In addition, the Environmental Protection Department approved our proposed Marine Ecology Conservation Plan, Fisheries Management Plan and marine park during the year.



10 BUSIEST AIRPORTS IN 2016 – INTERNATIONAL PASSENGER THROUGHPUT*

(millions of passengers)



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

Source: Preliminary figures from Airports Council International in April 2017

STAKEHOLDER ENGAGEMENT

Throughout the year, we maintained an active dialogue with stakeholders — including environmental groups, unions, students and professional bodies — to better understand their views and to explain our development plans. We also held regular meetings with our Community Liaison Groups and our Professional Liaison Group to communicate developments at the airport. In 2016/17, we organised and participated in more than 280 events, including briefings, seminars, exhibitions and airport tours.

SKYCITY

In October 2016, Airport Authority Hong Kong (AAHK) unveiled plans for SKYCITY, a 25-hectare integrated development located next to HKIA that will comprise retail, dining and entertainment facilities, plus offices and hotels.

With its strategic location, SKYCITY will benefit from traffic flows from the 3RS, the Tuen Mun–Chek Lap Kok Link and the Hong Kong–Zhuhai–Macao Bridge. In addition to being

a venue where tourists can discover Hong Kong's vibrant culture, SKYCITY will be a lifestyle and entertainment hub for Hong Kong residents.

The first phase of SKYCITY comprises a multi-storey hotel and retail, dining and entertainment facilities. The hotel development, with its contract awarded in February 2017, is scheduled to open in 2020/21. Tendering exercise for the retail, dining and entertainment development will take place in 2017/18.



Looking Forward



Terminal 1 is being expanded to add more passenger and recreational facilities.

TERMINAL 1 CAPACITY ENHANCEMENT

In mid-2016, we began expanding Terminal 1 (T1) to introduce new facilities that will make the airport experience smoother and more efficient.

This project includes the construction of the T1 Annex Building on a site north of T1. The annex will offer additional check-in, baggage reclaim and security and immigration facilities plus a variety of dining outlets. Next to the annex, a new mixed-use building will include a 5,500-square-metre home for Hong Kong International Aviation Academy (HKIAA), which is expected to open in 2019/20. The building will also offer more parking spaces and a range of staff amenities.

In addition, T1's East Hall in the restricted area will be expanded to provide more recreational facilities.

HONG KONG INTERNATIONAL AVIATION ACADEMY

Established during the year, HKIAA is Hong Kong's first civil aviation academy. HKIAA aims to attract and nurture talent to support the development of the local industry and make Hong Kong an aviation training hub.

Operating in partnership with local and international educational and vocational training institutions, AAHK's business partners and other organisations, HKIAA offers a range of courses and gives airport employees

career advancement opportunities through on-the-job coaching and on-site training.

The first batch of courses was introduced in April 2017. In July 2017, HKIAA will launch a series of summer youth camps and job placement programmes, allowing young people to experience different aspects of the industry.

Meanwhile, AAHK is developing a virtual reality-based training system for airport drills. The system, which provides realistic airport environments, will be available at HKIAA in 2019/20.

FINANCIAL REVIEW

FINANCIAL SUMMARY

(in HK\$ million)	2016/17	2015/16	+/- % ¹
Revenue	18,627	18,184	+2.4%
Operating expenses before depreciation and amortisation	5,796	5,848	-0.9%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	12,831	12,336	+4.0%
Depreciation and amortisation	3,079	2,813	+9.5%
Net interest and finance income	131	28	+367.9%
Share of results of joint ventures	83	189	-56.1%
Profit before taxation	9,966	9,740	+2.3%
Income tax	1,656	1,366	+21.2%
Profit for the year	8,310	8,374	-0.8%
Profit attributable to the equity shareholder	8,276	8,359	-1.0%
Dividend declared	-	-	-
Key financial ratios			
Return on equity	14.7%	17.3%	
Total debt/capital ratio	2%	5%	
Key traffic summary²			
Passenger traffic ³ (millions of passengers)	70.5	69.7	+1.1%
Cargo throughput ⁴ (millions of tonnes)	4.6	4.3	+6.7%
Aircraft movements (thousands)	410	410	+0.1%

¹ Subject to rounding differences.

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

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

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

OVERVIEW

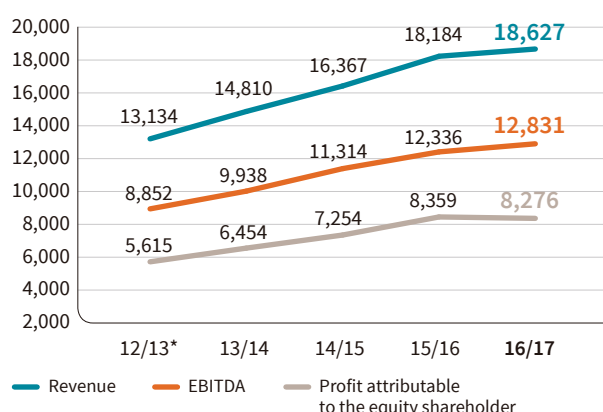
Airport Authority Hong Kong (AAHK) delivered a solid financial performance in fiscal 2016/17, ended 31 March 2017.

Hong Kong International Airport (HKIA) exceeded the 70-million-passenger mark for the first time in 2016/17. During the year, HKIA welcomed 70.5 million passengers and handled 410,440 flight movements, representing annual increases of 1.1% and 0.1%, respectively. Cargo throughput rose 6.7%, to 4.6 million tonnes.

These results, coupled with higher revenues from airport charges, airside support services franchises and retail concessions, helped AAHK and its subsidiaries (the Group) deliver an outstanding financial performance in 2016/17. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK\$12,831

FINANCIAL RESULTS

(in HK\$ million)



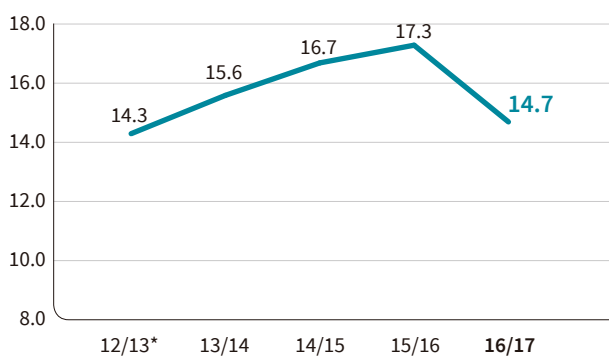
* Restated

Financial Review

million, representing an improvement of 4.0% from the previous fiscal year. However, depreciation and amortisation and income tax surged 9.5% and 21.2%, respectively, to HK\$3,079 million and HK\$1,656 million, which led to a 1.0% decrease in profit attributable to the equity shareholder, to HK\$8,276 million. As a result, the Group's return on equity decreased to 14.7%. No dividend was declared for the year.

RETURN ON EQUITY

(in percent)



* Restated

REVENUE

Total revenue grew 2.4%, to HK\$18,627 million, largely as a result of increased passenger traffic, flight movements and cargo throughput; and strong retail performance. 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 32.4% of total revenue, rose 4.8%, to HK\$6,033 million, primarily due to increases in flight movements and passenger traffic, and higher landing and parking charges which took effect on 1 September 2016.

Revenues from airside support services franchises grew 7.4%, to HK\$2,719 million. This increase was mainly attributable to higher franchise fees received from the aviation fuel system as a result of a rise in aviation fuel throughput and higher tariffs, and franchise fees from air cargo and maintenance services due to index adjustments in rental rates during the fiscal year.

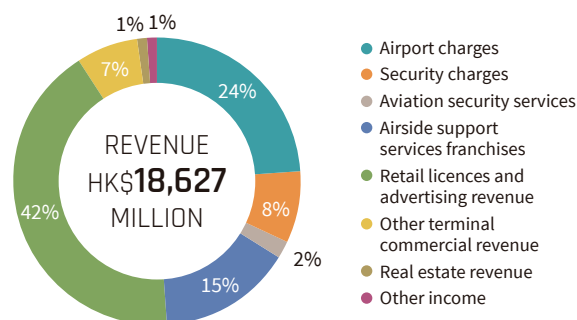
Retail licences and advertising revenue, representing 41.9% of total revenue, rose 3.7%, to HK\$7,803 million. This increase was a result of higher revenue from better licence terms, passenger growth at HKIA and new retail outlets in the Midfield Concourse, accompanied by retail promotion campaigns throughout the year.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 8.0%, to HK\$1,336 million, largely due to an index adjustment in rental rates during the year.

Other income fell 76.4%, to HK\$127 million. This decrease was mostly attributable to a one-off gain from the sublease of land at HKIA to an airline for the construction of a flight training centre in 2015/16.

REVENUE BY SOURCE

(for the year ended 31 March 2017)



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 service, safety, security and sustainability. Despite the upsurge of most operating expenses in 2016/17 owing to the opening of the Midfield Concourse, total operating expenses before depreciation and amortisation decreased 0.9%, to HK\$5,796 million, mainly due to the expenditures required to comply with the Environmental Permit (EP) for the three-runway system (3RS) in 2015/16.

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 98.4% 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 10.2%, to HK\$2,241 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 and the opening of the Midfield Concourse.

Repairs and maintenance costs grew 3.1%, to HK\$820 million, largely due to the opening of the Midfield Concourse and additional work on the airfield and terminals to ensure safe and reliable operation amidst increased traffic. Wage increases due to labour shortages 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 12.5%, to HK\$691 million, largely due to traffic growth, the opening of the Midfield Concourse and higher costs as a result of contracts renewed and wage increases due to labour shortages during the year.

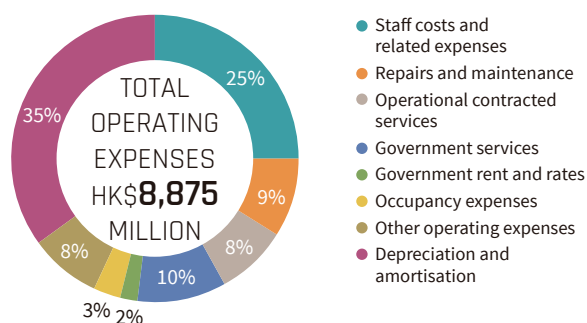
Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. Increased flight movements led to higher air traffic control fees and government services expense grew 6.5%, to HK\$917 million.

Occupancy expenses comprises the cost of electricity and water. This category increased 10.9%, to HK\$285 million, mainly attributable to additional power consumption due to the opening of the Midfield Concourse.

Other operating expenses decreased 39.1%, to HK\$706 million, mainly attributable to one-off expenditures required to comply with the EP in 2015/16, 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 2017)

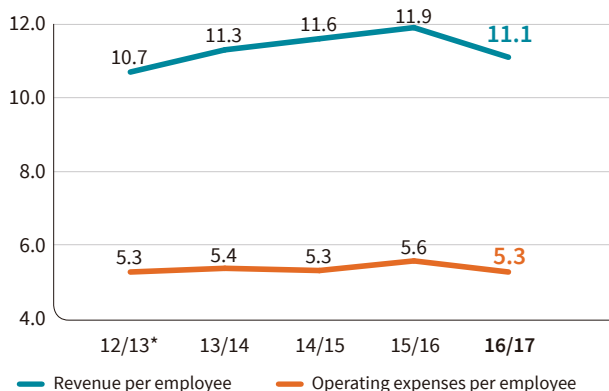


Financial Review

Depreciation and amortisation increased 9.5%, to HK\$3,079 million, due to the completion of the Midfield Concourse near the end of last year and other improvement projects for facilities and systems during the year.

REVENUE/OPERATING EXPENSES PER EMPLOYEE

(in HK\$ million)



Notes: 1. Excludes employees of AAHK whose staff costs and related expenses are capitalised into assets under construction and 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 2016, passenger traffic and flight movements at Hangzhou Xiaoshan International Airport (HXIA) grew 11.4% and 8.2%, respectively, to 31.6 million and 251,000. Cargo throughput rose 14.8%, to 488,000 tonnes. AAHK's share of HXIA's profits decreased 55.9%, to HK\$83 million, in 2016/17, which was largely due to the change in the accounting method for Civil Aviation Development Fund subsidies received from the Central Government.

In calendar 2016, passenger traffic at Zhuhai Airport grew 30.2%, to a record 6.1 million, flight movements jumped 25.5%, to 49,731, while domestic cargo throughput increased 22%, to 31,512 tonnes. AAHK's share of Zhuhai Airport's profits increased 84.2%, to HK\$35 million, in 2016/17, 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 2017 reached HK\$60,563 million, an increase of 15.2% over the previous year, mainly due to the net profit achieved in 2016/17 and nonpayment of a dividend for 2015/16.

Investment property, interest in leasehold land and other property, plant and equipment amounted to HK\$52,187 million, which accounted for 70.2% of total assets. The Group incurred capital expenditures of HK\$5,389 million during 2016/17, mainly related to the 3RS, the remaining Midfield, the automated people mover (APM) depot, the expansion of Terminal 1, the apron expansion and the enlargement and improvement of other facilities and systems.

Intangible asset of HK\$148 million represented the unamortised cost of the right to operate and manage Zhuhai Airport for a period of 20 years, starting in 2006.

Interests in joint ventures of HK\$3,859 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 twofold, to HK\$4,255 million, primarily due to advance payments to certain contractors and increased revenue.

Total trade and other payables increased 29.7%, to HK\$5,734 million, mainly attributable to the increase in construction costs payable in relation to the 3RS.

Unused airport construction fee (ACF) of HK\$893 million represented the balance of ACF received and receivable that have not yet been used to fund 3RS construction costs.

DIVIDEND

Pursuant to the financial arrangement plan for the 3RS, the Board did not declare a dividend for 2016/17.

CASH FLOW

Net cash generated from operating activities increased from HK\$10,715 million in 2015/16 to HK\$11,534 million this year, mainly due to the increase in profit for the year.

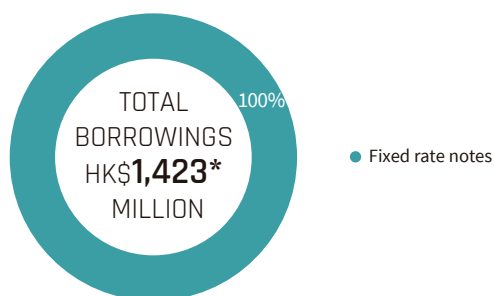
FINANCING

AAHK's total borrowings as at 31 March 2017 amounted to HK\$1,423 million (2015/16: HK\$2,592 million). Total borrowings comprised a total of seven unsecured notes. AAHK has a US\$1 billion medium-term note programme, which allows AAHK to access capital markets when needed 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

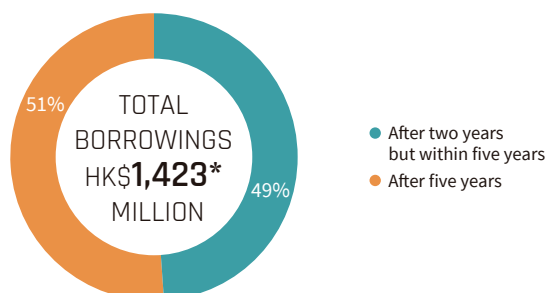
(as at 31 March 2017)



* After unamortised finance costs of HK\$12 million.

LOAN MATURITY PROFILE

(as at 31 March 2017)



* After unamortised finance costs of HK\$12 million.

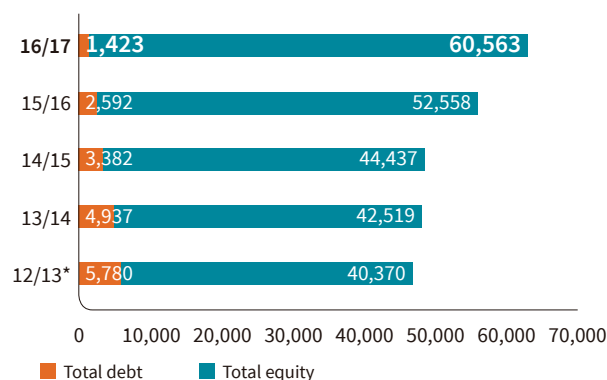
FINANCIAL RISK MANAGEMENT

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

CAPITAL STRUCTURE

(in HK\$ million)



* Restated

OUTLOOK

We project traffic demand at HKIA will continue to grow, but at a slower pace as the number of annual flight movements is expected to be constrained by the two-runway system. In view of growing traffic demand, we will continue to find innovative ways to address capacity constraints and to enhance service levels before the 3RS opens.

To meet immediate needs, the Midfield Concourse entered service in 2015/16. The development of the remaining Midfield, which will add 34 aircraft parking positions, will be completed in phases by 2020. The expansion of Terminal 1, which includes new facilities for passengers as well as car parking spaces, is under way. We will continue to deploy new technologies and carry out other enhancement projects to optimise the use of existing facilities and to create a smooth, hassle-free passenger experience.

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 began detailed design and construction of the 3RS, with reclamation works commencing in 2016. We will continue to drive this project forward and closely monitor construction to ensure we meet all environmental requirements.

To enhance our services and strengthen our reputation for operational efficiency, we will continue our customer service, safety and security initiatives. New passenger service features will be added to our upgraded "HKG My Flight" mobile app and the baggage delivery process will be enhanced to transform HKIA into a full self-service airport. We are also exploring the use of biometrics to manage passenger access to the airside area. We will continue to work on other projects, including runway and taxiway resurfacing, reconfiguring the Departures Immigration Hall and enhancing APM capacity.

In the short term, we forecast profits will 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 to various customer segments, introducing new brands and retail categories and providing a unique HKIA retail experience. We will launch an e-commerce portal called "HKairport Shop" to let passengers pre-order merchandise for delivery at the airport. To leverage the tourism and business opportunities brought by the opening of the Hong Kong-Zhuhai-Macao Bridge and our expanded airport, in 2016 we unveiled an integrated commercial development named "SKYCITY", which will be a lifestyle and family entertainment centre for both tourists and Hong Kong residents.

To maintain HKIA's position as a leading international aviation hub and capture the growth of the Pearl River Delta (PRD), we will continue to expand HKIA's catchment area by enhancing land and sea connectivity with the PRD and strengthening co-operation with neighbouring airports. 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 strive for productivity gains and continue to apply prudent financial discipline to contain the growth of operating expenses, while maintaining the highest standards of service, safety, security and sustainability.

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

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REPORT OF THE MEMBERS OF THE BOARD

Financial year ended 31 March 2017

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 2017.

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 place on the airport island, and other 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 2017 and the Group's financial position as at that date are set out in the Financial Statements on pages 95 to 150.

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 the equity shareholder of HK\$8,276 million (2015/16: HK\$8,359 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\$ 55 million (2015/16: HK\$67 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 2017 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 151 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 (HKSAR) of the People's Republic of China 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 2017.

Donations

Donations made during the year amounted to HK\$4,611,000 (2015/16: HK\$3,251,000), 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	47%	
The largest supplier		31 %
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 95 to 150 have been prepared on a going concern basis. The Board has approved AAHK's budget for 2017/18 and the business plan and financial plan for 2017/18 to 2021/22 and is satisfied that AAHK has sufficient resources to continue as a going concern for the foreseeable future.

Report of the Members of the Board

Retirement Schemes

Details with regard to AAHK's retirement schemes are set out in Note 20 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 17 to 37 of the annual report.

Employees

As of 31 March 2017, AAHK, excluding its subsidiaries, had a staff of 1,941 (31 March 2016: 1,616). 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 pay-for-performance culture, a variable compensation scheme has been in place since 2002. Regular reviews are conducted to ensure AAHK's pay position and remuneration package stay competitive against market trends.

Members of the Board and Executive Directors

Members of the Board and Executive Directors as at the date of this report are set out on pages 12 to 15 of the annual report.

Mr Edward Cheng Wai-sun, after serving the Board for six years, retired on 31 May 2017.

Ms Anita Fung Yuen-mei was re-appointed as a Member for a one-year term, from 1 June 2017 to 31 May 2018. The Hon Jeffrey Lam Kin-fung and Ir Lee Shing-see were re-appointed for a two-year term, from 1 June 2017 to 31 May 2019.

Mr Franklin Lam Fan-keung, Mr Peter To, the Hon Frankie Yick Chi-ming, the Secretary for Transport and Housing, the Secretary for Financial Services and the Treasury and the Director-General of Civil Aviation have been re-appointed as Members for a term of three years from 1 June 2017 to 31 May 2020.

Mr Lin Jing-zhen and Mr Carlson Tong have been appointed to the Board of the AA for a term of three years from 1 June 2017 to 31 May 2020.

Mr John Chai Sung-veng, former Executive Director, Engineering and Technology, retired on 16 January 2017. Mr Alex Kwan King-fai succeeded Mr Chai on the same date.

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 24 to the Financial Statements.

Members' Responsibilities for the Financial Statements

The Members of the Board are responsible for the preparation of financial statements for each financial year 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 2017, the Members of the Board 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 HKSAR approved the appointment of KPMG as auditors and they remain in office.

By order of the Board

H Y Shu

Secretary to the Board

Hong Kong, 12 June 2017

INDEPENDENT AUDITOR'S REPORT

To the Airport Authority

(Incorporated in Hong Kong under the Airport Authority Ordinance)

Opinion

We have audited the consolidated financial statements of the Airport Authority (“the Authority”) and its subsidiaries (together “the group”) set out on pages 95 to 150, which comprise the consolidated statement of financial position as at 31 March 2017, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 March 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Airport Authority Ordinance.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor’s responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the group in accordance with the HKICPA’s *Code of Ethics for Professional Accountants* (“the Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

Recognition of revenue from airport and security charges, airside support services franchises, retail licences and advertising	
Refer to note 27(t) to the consolidated financial statements for the relevant accounting policies	
The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue from airport and security charges, airside support services franchises, retail licences and advertising accounted for approximately 89% of the Authority's total revenue for the year ended 31 March 2017.</p> <p>Airport and security charges are recognised when the airport facilities are utilised. Revenue is determined based on aircraft movements and passenger traffic captured by the Authority's information technology systems which are complex and involve multiple interfaces.</p> <p>Revenue from airside support services franchises, retail licences and advertising (collectively "franchise and licence operations") is generally charged at the higher of (1) a minimum fee based on throughput, passenger numbers, rental indices or areas occupied, and (2) amounts calculated based on pre-determined percentages of gross revenue earned by the franchisees and licensees ("royalties"). For certain franchisees, franchise revenue is charged based on a minimum fee and royalties.</p> <p>Revenue from franchise and licence operations is recognised in instalments over the accounting periods covered by the franchise and licence agreements, taking into account adjustments to the minimum fee due to changes in throughput, passenger numbers, rental indices or areas occupied and adjustments for any royalties payable by the franchisees and licensees during the billing period.</p> <p>We identified the recognition of revenue from airport and security charges and franchise and licence operations as a key audit matter because of its significance to the consolidated financial statements and because the determination of airport and security charges involves complex information technology systems.</p>	<p>Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following:</p> <ul style="list-style-type: none"> evaluating the design, implementation and operating effectiveness of key internal controls over the recording of revenue, which included engaging our internal information technology specialists to assess the operating effectiveness of key automated controls and interfaces over the capturing of aircraft movements and passenger traffic and the processing of revenue transactions and to assess the completeness and accuracy of the transaction details contained within the Authority's information technology systems; performing analytical procedures on the Authority's airport and security charges recognised during the current year by developing expectations with reference to figures for aircraft movements and passenger traffic extracted from government statistics, agreements on security charges with airlines and the Scheme of Airport Charges published in the Government Gazette and comparing our expectations with the revenue recorded by the Authority; for franchise and licence operations, comparing the minimum fees received and receivable with underlying franchise/licence information, including the monthly payments and the franchise/licence periods as set out in the signed franchise/licence agreements, on a sample basis, re-performing the calculation of minimum fees and assessing whether the minimum fees or the royalties, whichever was higher, had been recorded in the appropriate accounting period; and re-performing the calculation of royalties received and receivable with reference to turnover reports submitted by the franchisees and licensees and the bases of calculation thereof as set out in the signed franchise/licence agreements, on a sample basis, and assessing whether the royalties had been recorded and accounted for in the appropriate accounting period.

Key audit matters (continued)

Assessing project provisions for capital works projects	
Refer to notes 10(f) and 26(b)(ii) to the consolidated financial statements and note 27(s) for the relevant accounting policies	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Authority undertakes a number of capital works projects at Hong Kong International Airport. These projects may take several years to complete and the contractual arrangements can be complex.</p> <p>The Authority establishes project provisions for the estimated amounts which will be required to settle claims from contractors which may arise due to time delays, additional costs or other unforeseen circumstances. The assessment of the required project provisions involves the exercise of significant management judgement which can be inherently uncertain because the amounts eventually payable may be different from the recorded project provisions.</p> <p>We identified assessing project provisions for capital works projects as a key audit matter because the assessment of project claims and the determination of project provisions involves the exercise of significant management judgement and estimation which can be inherently uncertain.</p>	<p>Our audit procedures to assess project provisions for capital works projects included the following:</p> <ul style="list-style-type: none"> • assessing the design and implementation of management's key internal controls over the assessment of project claims; • inspecting the minutes of the relevant Board sub-committees responsible for overseeing the progress of capital works projects and discussing with management the project status, including the costs incurred to date, the remaining critical milestones and contract claims, and assessing the financial implications for the group; • obtaining the project claim status report as at the reporting date, comparing the claims amount recorded in this report with claim submissions from contractors, discussing with the Project Accounting and Control Team of Finance Division and the projects departments the projects' current status and the project provisions made, on a sample basis, and challenging the assumptions and critical judgements made by management which impacted their estimation of project provisions by comparing these assumptions, on a sample basis, with key contract terms and correspondence with the contractors; • performing a retrospective review, on a sample basis, of capital works projects completed or claims finalised during the current year by comparing the actual settlement of costs during the current year, including project claims, with estimates made as at 31 March 2016 to assess the reliability of management's assessment process and evaluating significant variances identified; and • in respect of projects which were undergoing dispute resolution procedures, holding discussions with management and the Authority's internal legal counsel to assess the Authority's legal obligations and financial exposure in connection with these claims.

Information other than the consolidated financial statements and auditor's report thereon

The Board Members are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board Members for the consolidated financial statements

The Board Members are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the Board Members are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board Members either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The Board Members are assisted by the Audit Committee and Finance Committee in discharging their responsibilities for overseeing the group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee and Finance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee and Finance Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee and Finance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Wing Han, Ivy.

KPMG

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

12 June 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2017	2016
Airport charges		4,462	4,182
Security charges		1,571	1,577
Aviation security services		309	301
Airside support services franchises		2,719	2,532
Retail licences and advertising revenue		7,803	7,523
Other terminal commercial revenue		1,336	1,237
Real estate revenue		300	295
Other income		127	537
Revenue		18,627	18,184
Staff costs and related expenses	4	(2,241)	(2,034)
Repairs and maintenance		(820)	(795)
Operational contracted services		(691)	(614)
Government services		(917)	(861)
Government rent and rates		(136)	(127)
Occupancy expenses		(285)	(257)
Other operating expenses	5	(706)	(1,160)
Operating expenses before depreciation and amortisation		(5,796)	(5,848)
Operating profit before depreciation and amortisation		12,831	12,336
Depreciation and amortisation		(3,079)	(2,813)
Operating profit before interest and finance costs	3	9,752	9,523
Interest and finance costs:			
Finance costs	6	(19)	(19)
Interest income		150	47
		131	28
Share of results of joint ventures	13	83	189
Profit before taxation		9,966	9,740
Income tax	7(a)	(1,656)	(1,366)
Profit for the year		8,310	8,374
Attributable to:			
Equity shareholder of the Authority		8,276	8,359
Non-controlling interests		34	15
Profit for the year		8,310	8,374

The notes on pages 101 to 150 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

<i>\$ million</i>	2017	2016
Profit for the year	8,310	8,374
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
– the Authority	32	(66)
Less: deferred tax	(5)	11
	27	(55)
– a subsidiary in the People’s Republic of China (“the PRC”)	(5)	(5)
– a joint venture in the PRC	(48)	(11)
	(26)	(71)
Item 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	(279)	(182)
Other comprehensive income for the year	(305)	(253)
Total comprehensive income for the year	8,005	8,121
Attributable to:		
Equity shareholder of the Authority	7,985	8,116
Non-controlling interests	20	5
Total comprehensive income for the year	8,005	8,121

The notes on pages 101 to 150 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2017 (Expressed in Hong Kong dollars)

\$ million	Note	2017	2016
Non-current assets			
Investment property	10	88	104
Interest in leasehold land	10	6,990	7,220
Other property, plant and equipment	10	45,109	42,566
		52,187	49,890
Intangible asset	11	148	174
Interests in joint ventures	13	3,859	4,118
Trade and other receivables	14	1,374	–
Derivative financial assets	22(e)	4	10
		57,572	54,192
Current assets			
Stores and spares		49	50
Trade and other receivables	14	2,881	2,103
Derivative financial assets	22(e)	1	2
Cash and bank balances	15	13,817	8,645
		16,748	10,800
Current liabilities			
Trade and other payables	16	(4,996)	(3,898)
Interest-bearing borrowings	17	–	(1,149)
Current taxation	7(c)	(663)	(206)
Unused airport construction fee	18	(893)	–
Deferred income	19	(188)	(175)
		(6,740)	(5,428)
Net current assets		10,008	5,372
Total assets less current liabilities		67,580	59,564
Non-current liabilities			
Trade and other payables	16	(738)	(522)
Interest-bearing borrowings	17	(1,423)	(1,443)
Deferred income	19	(332)	(520)
Derivative financial liabilities	22(e)	(17)	(2)
Net defined benefit retirement obligations	20	(156)	(260)
Deferred tax liabilities	7(d)	(4,351)	(4,259)
		(7,017)	(7,006)
Net assets		60,563	52,558
Capital and reserves	21		
Share capital		30,648	30,648
Reserves		29,647	21,662
Total equity attributable to the equity shareholder of the Authority		60,295	52,310
Non-controlling interests		268	248
Total equity		60,563	52,558

Approved and authorised for issue on behalf of the Members of the Board on 12 June 2017.

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 101 to 150 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2017 (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	Retained profits	Total		
At 1 April 2015		30,648	685	864	11,997	44,194	243	44,437
Changes in equity for the year:								
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	21(c)(ii)	–	–	137	(137)	–	–	–
At 31 March 2016 and 1 April 2016		30,648	511	1,001	20,150	52,310	248	52,558
Changes in equity for the year:								
Profit for the year		–	–	–	8,276	8,276	34	8,310
Other comprehensive income		–	(267)	–	(24)	(291)	(14)	(305)
Total comprehensive income		–	(267)	–	8,252	7,985	20	8,005
Transfer from retained profits to capital reserve	21(c)(ii)	–	–	6	(6)	–	–	–
At 31 March 2017		30,648	244	1,007	28,396	60,295	268	60,563

The notes on pages 101 to 150 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2017 (Expressed in Hong Kong dollars)

\$ million	Note	2017	2016
Operating activities			
Profit before taxation		9,966	9,740
Adjustments for:			
Depreciation		2,833	2,566
Amortisation of interest in leasehold land		230	230
Amortisation of intangible asset		16	17
Interest on notes and bank loans		60	85
Other borrowing costs and interest expense		21	12
Borrowing costs capitalised into assets under construction		(55)	(67)
Interest income		(150)	(47)
Fair value loss/(gain) on derivative financial instruments:			
– fair value hedges		13	(18)
Net (gain)/loss on underlying hedged interest-bearing borrowings in fair value hedges		(20)	7
Share of results of joint ventures		(83)	(189)
(Reversal of impairment losses)/impairment losses on trade and other receivables		(10)	21
Net loss/(gain) on disposal of interest in leasehold land and other property, plant and equipment		22	(365)
Amortisation of deferred income		(175)	(165)
Expenses recognised in respect of defined benefit retirement plans		50	50
Operating profit before changes in working capital		12,718	11,877
Decrease/(increase) in stores and spares		1	(3)
Increase in trade and other receivables		(911)	(245)
Increase in trade and other payables		960	638
Decrease in net defined benefit retirement obligations		(122)	(22)
Cash generated from operations		12,646	12,245
Hong Kong Profits Tax paid		(1,093)	(1,512)
PRC Corporate Income Tax paid:			
– dividend received from a joint venture		(2)	–
– others		(17)	(18)
Net cash generated from operating activities		11,534	10,715
Investing activities			
Net placement of deposits with banks with over three months of maturity when placed		(6,914)	(4,609)
Interest received		126	39
Dividend received from a joint venture		41	–
Advance payments to contractors		(1,374)	–
Payments for the purchase of other property, plant and equipment		(4,898)	(3,863)
Payment of annual franchise fee for a PRC subsidiary		(21)	(7)
Net cash used in investing activities		(13,040)	(8,440)

Consolidated Cash Flow Statement

<i>\$ million</i>	Note	2017	2016
Financing activities			
Interest paid on notes and bank loans		(79)	(87)
Other borrowing costs and interest expense paid		(59)	(20)
Payment of loan arrangement fee		–	(25)
Airport construction fee received		1,059	–
Net repayment of bank loans		–	(600)
Repayment of notes		(1,150)	(200)
Net interest income received on interest rate swaps		8	12
Net cash used in financing activities		(221)	(920)
Net (decrease)/increase in cash and cash equivalents		(1,727)	1,355
Cash and cash equivalents at beginning of year		3,764	2,417
Effect of foreign exchange rate changes		(15)	(8)
Cash and cash equivalents at end of year	15	2,022	3,764

The notes on pages 101 to 150 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 27.

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 27(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 28).

(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 27(e), (f) and (n). Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

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 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.

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 26.

3. Operating profit before interest and finance costs

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

\$ million	2017	2016
Auditors' remuneration:		
– audit services	6	5
– tax services	1	1
– other services	1	–
Stores and spares expensed	93	115
Net loss/(gain) on disposal of interest in leasehold land and other property, plant and equipment	22	(365)
(Reversal of impairment losses)/impairment losses on trade and other receivables (note 14(b))	(10)	21
Depreciation: (note 10(d))		
– assets held for use under operating leases	174	175
– other assets	2,659	2,391
Amortisation:		
– interest in leasehold land (note 10(d))		
– leased out under operating leases	15	15
– others	215	215
– intangible asset (note 11)	16	17
Operating lease charges: minimum lease payments		
– hire of plant and machinery	1	2
– hire of other assets (including property rentals)	8	12
Rentals from investment property less direct outgoings of \$15 million (2016: \$13 million)	(43)	(40)

4. Staff costs and related expenses

<i>\$ million</i>	2017	2016
Contributions to defined contribution retirement plans	103	90
Expenses recognised in respect of defined benefit retirement plans (note 20)	50	50
Total retirement costs	153	140
Salaries, wages and other benefits	2,207	1,942
Total staff costs and related expenses	2,360	2,082
Less: staff costs and related expenses capitalised into assets under construction	(119)	(48)
	2,241	2,034

5. Other operating expenses

Included in other operating expenses for the prior year were amounts incurred for fulfilling certain conditions in the Environmental Permit obtained for the three-runway system ("3RS").

6. Finance costs

<i>\$ million</i>	2017	2016
Interest on bank loans	–	1
Interest on notes	60	84
Other borrowing costs	16	4
Other interest expense	5	8
Total interest expense	81	97
Less: borrowing costs capitalised into assets under construction	(55)	(67)
	26	30
Fair value loss/(gain) on derivative financial instruments		
– fair value hedges ¹	13	(18)
Net (gain)/loss on underlying hedged interest-bearing borrowings in fair value hedges	(20)	7
	19	19

¹ Includes net interest income of \$8 million (2016: \$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 3.86% (2016: 3.07%) per annum.

7. Taxation

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

<i>\$ million</i>	2017	2016
Current tax – Hong Kong Profits Tax		
– provision for the year	1,545	1,200
– over-provision in respect of prior years	(2)	(266)
Current tax – PRC Corporate Income Tax		
– provision for the year	24	14
– provision on dividend received from a joint venture for the year	2	–
Deferred tax (note 7(d))		
– origination and reversal of temporary differences	87	418
	1,656	1,366

The provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

The provision for PRC Corporate Income Tax is calculated at 25% (2016: 25%) of the estimated assessable profits for the year, while the provision for PRC withholding tax on dividend received from a joint venture is calculated at 5% (2016: 5%) of the dividend received from a joint venture for the year.

Over-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>	2017	2016
Profit before taxation	9,966	9,740
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	1,651	1,612
Tax effect of non-deductible expenses	33	120
Tax effect of non-taxable income	(26)	(100)
Over-provision in respect of prior years	(2)	(266)
Actual tax expense	1,656	1,366

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

<i>\$ million</i>	2017	2016
Provision for the year (note 7(a))		
– Hong Kong Profits Tax	1,545	1,200
– PRC Corporate Income Tax	26	14
Provisional Hong Kong Profits Tax paid	(896)	(1,011)
PRC Corporate Income Tax paid		
– dividend received from a joint venture	(2)	–
– others	(16)	(11)
Balance of profits tax provision relating to prior years	6	14
Current taxation	663	206

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>	Depreciation allowances in excess of the related depreciation and other expenses	Deferred income, defined benefit retirement plan liability and others	Undistributed profits of a PRC joint venture	Total
Deferred tax arising from:				
At 1 April 2015	3,973	(137)	16	3,852
Charged to profit or loss	393	23	2	418
Credited to other comprehensive income	–	(11)	–	(11)
At 31 March 2016	4,366	(125)	18	4,259
At 1 April 2016	4,366	(125)	18	4,259
Charged to profit or loss	63	23	1	87
Charged to other comprehensive income	–	5	–	5
At 31 March 2017	4,429	(97)	19	4,351

(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 \$61 million (2016: \$60 million) and \$8 million (2016: \$9 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:

2017 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
Members of the Board					
Non-executive Members					
Jack So Chak-kwong ¹	–	–	–	–	–
Edward Cheng Wai-sun	110	–	–	–	110
Andrew Fung Hau-chung	110	–	–	–	110
Anita Fung Yuen-mei	110	–	–	–	110
Steven Ho Chun-yin	110	–	–	–	110
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	110	–	–	–	110
Frankie Yick Chi-ming	110	–	–	–	110
Allan Zeman	110	–	–	–	110
Secretary for Financial Services and the Treasury ²	110	–	–	–	110
Secretary for Transport and Housing ²	110	–	–	–	110
Director-General of Civil Aviation ²	110	–	–	–	110
Executive Member					
Fred Lam Tin-fuk (Chief Executive Officer)	–	6,124	2,930	816	9,870
	1,540	6,124	2,930	816	11,410

¹ 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.

² Members who are public officers. Fees payable to the Members who are public officers are received by the Government rather than by the individuals concerned.

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

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

2016 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
Members of the Board					
Non-executive Members					
Jack So Chak-kwong ¹ (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 ²	110	–	–	–	110
Secretary for Transport and Housing ²	110	–	–	–	110
Director-General of Civil Aviation ²	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
Executive Member					
Fred Lam Tin-fuk (Chief Executive Officer)	–	6,124	2,922	816	9,862
	1,642	6,124	2,922	816	11,504

¹ 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.

² Members who are public officers. Fees payable to the Members who are public officers are received by the Government rather than by the individuals concerned.

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

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

\$'000	2017	2016
Basic compensation	27,423	23,340
Performance-related compensation	11,601	9,900
Retirement benefits	3,140	2,664
	42,164	35,904

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

	Number of individuals	
\$	2017	2016
500,001 – 1,000,000	1	1
3,500,001 – 4,000,000	1	1
4,500,001 – 5,000,000	2	3
5,000,001 – 5,500,000	3	–
5,500,001 – 6,000,000	1	3
6,000,001 – 6,500,000	1	–
	9	8

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2016: 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 (2016: two customers) with whom transactions have exceeded 10% of the group's revenue.

Included in the revenue for the year are aggregate revenues of approximately \$7,181 million which arose from these two customers (2016: \$7,071 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

	Other property, plant and equipment									
		Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Construction in progress	Sub-total	Investment property	Interest in leasehold land	Total
\$ million	Airfields									
Cost										
At 1 April 2015	10,342	24,085	14,032	8,938	1,825	9,413	68,635	168	11,321	80,124
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	11,112	29,244	16,344	11,558	1,938	1,526	71,722	168	11,315	83,205
At 1 April 2016	11,112	29,244	16,344	11,558	1,938	1,526	71,722	168	11,315	83,205
Exchange adjustments	–	(4)	–	(5)	(1)	(1)	(11)	–	–	(11)
Additions	103	1	11	184	125	4,965	5,389	–	–	5,389
Reclassifications	151	203	88	6	35	(468)	15	(15)	–	–
Disposals	(88)	(88)	(31)	(105)	(70)	–	(382)	–	–	(382)
At 31 March 2017	11,278	29,356	16,412	11,638	2,027	6,022	76,733	153	11,315	88,201
Accumulated depreciation, amortisation and impairment										
At 1 April 2015	3,556	10,211	5,939	5,823	1,510	–	27,039	57	3,866	30,962
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	3,842	11,064	6,528	6,143	1,579	–	29,156	64	4,095	33,315
At 1 April 2016	3,842	11,064	6,528	6,143	1,579	–	29,156	64	4,095	33,315
Exchange adjustments	–	(1)	–	(2)	(1)	–	(4)	–	–	(4)
Charge for the year	410	1,101	659	560	102	–	2,832	1	230	3,063
Written back on disposals	(86)	(80)	(30)	(95)	(69)	–	(360)	–	–	(360)
At 31 March 2017	4,166	12,084	7,157	6,606	1,611	–	31,624	65	4,325	36,014
Net book value										
At 31 March 2017	7,112	17,272	9,255	5,032	416	6,022	45,109	88	6,990	52,187
At 31 March 2016	7,270	18,180	9,816	5,415	359	1,526	42,566	104	7,220	49,890

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. In September 2016, the Government approved that the North Commercial District (“NCD”) area be carved out from the original land lease and put under a new lease with a 50-year term granted to the Authority up to the year 2066 to support NCD development. The net land formation cost of \$11,315 million (2016: \$11,315 million) and the land premium of \$4,000 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 2017 calculated by reference to net rental income allowing for reversionary income potential amounted to \$535 million (2016: \$561 million), which falls under Level 3 of the fair value hierarchy (note 22(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:

\$ million	2017	2016
Within one year	1,658	2,529
After one but within five years	5,632	7,102
After five years	7,554	8,158
	14,844	17,789

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

(d) (continued)

During the year, \$10,975 million (2016: \$10,488 million) was recognised as income in profit or loss in respect of the operating leases and franchise agreements, which included contingent rentals of \$8,401 million (2016: \$8,286 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 2017 was \$462 million (2016: \$479 million) with annual amortisation amounting to \$15 million (2016: \$15 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 2017 was \$2,415 million (2016: \$2,512 million) with annual depreciation amounting to \$174 million (2016: \$175 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 \$20 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of \$6 million.
- (f) The group is currently in the process of assessing claims from contractors relating to 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

\$ million	2017	2016
Cost		
At 1 April	331	344
Exchange adjustments	(20)	(13)
At 31 March	311	331
Accumulated amortisation		
At 1 April	157	146
Exchange adjustments	(10)	(6)
Charge for the year	16	17
At 31 March	163	157
Net book value		
At 31 March	148	174

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	
	2017	2016
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	2017	2016
NCI percentage	45%	45%
Non-current assets	266	278
Current assets	380	324
Non-current liabilities	(70)	(68)
Current liabilities	(118)	(107)
Net assets	458	427
Carrying amount of NCI	206	192
Revenue	352	275
Profit for the year	63	34
Total comprehensive income for the year	59	29
Profit for the year allocated to NCI	28	15
Total comprehensive income for the year allocated to NCI	26	13

13. Interests in joint ventures

<i>\$ million</i>	2017	2016
Share of net assets	3,643	3,887
Goodwill	216	231
	3,859	4,118

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		Principal activity
				Group's effective interest	Held by the Authority	
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>	2017	2016
Gross amounts of HXIA		
Non-current assets	15,101	16,443
Current assets	3,600	3,794
Non-current liabilities	(4,030)	(3,915)
Current liabilities	(4,423)	(5,386)
Net assets/equity	10,248	10,936

13. Interests in joint ventures (continued)

(a) HXIA (continued)

<i>\$ million</i>	2017	2016
Income	3,102	3,058
Government subsidies	–	392
Expenses	(2,797)	(2,887)
Profit before taxation	305	563
Income tax	(68)	(25)
Profit after taxation	237	538
Other comprehensive income	(138)	(31)
Total comprehensive income	99	507
<i>\$ million</i>	2017	2016
Reconciled to the group's interest in HXIA		
Gross amounts of HXIA's net assets	10,248	10,936
Group's effective interest	35%	35%
Group's share of HXIA's net assets	3,587	3,828
Goodwill	216	231
Carrying amount in the consolidated financial statements	3,803	4,059

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

<i>\$ million</i>	2017	2016
Share of profit after taxation	83	188
Share of other comprehensive income	(48)	(11)
Less: transfer to capital reserve	–	(137)
Share of profit and other comprehensive income to be retained	35	40
Share of retained profits brought forward from previous years	666	626
Dividend received	(41)	–
Share of retained profits carried forward to next year	660	666

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

<i>\$ million</i>	2017	2016
At 1 April	952	815
Transfer from retained profits	–	137
At 31 March	952	952

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>	2017	2016
Contracted for	94	460
Authorised but not contracted for	3,990	1,162
	4,084	1,622

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>	2017	2016
Gross amounts of SHKAM		
Current assets	123	130
Current liabilities	(9)	(10)
Net assets/equity	114	120
<i>\$ million</i>	2017	2016
Income	12	15
Expenses	(11)	(13)
Net profit and other comprehensive income	1	2
<i>\$ million</i>	2017	2016
Reconciled to the group's interest in SHKAM		
Gross amounts of SHKAM's net assets	114	120
Group's effective interest	49%	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	56	59

14. Trade and other receivables

<i>\$ million</i>	2017	2016
Trade debtors	2,786	2,056
Less: allowance for doubtful debts (note 14(b))	(44)	(54)
	2,742	2,002
Other debtors	40	18
	2,782	2,020
Advance payments to contractors	1,374	–
Prepayments	77	63
Deposits and debentures	22	20
	4,255	2,103
Classified in the consolidated statement of financial position as:		
Current assets	2,881	2,103
Non-current assets	1,374	–
	4,255	2,103

As at 31 March 2017, all of the trade and other receivables under current assets are expected to be recovered or recognised as an expense within one year except for \$20 million (2016: \$33 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>	2017	2016
Amounts not yet due	2,582	1,897
Less than one month past due	128	66
One to three months past due	23	28
More than three months past due	9	11
	2,742	2,002

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 22(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 27(l)).

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

<i>\$ million</i>	2017	2016
At 1 April	54	33
Impairment loss (reversed)/recognised	(10)	21
At 31 March	44	54

As at 31 March 2017, the group's trade debtors of \$29 million (2016: \$38 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 \$26 million (2016: \$34 million) for the group. The group holds cash deposits and bank guarantees of \$3 million (2016: \$4 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>	2017	2016
Neither past due nor impaired	2,582	1,897
Less than one month past due	105	53
One to three months past due	3	6
More than three months past due	2	3
	110	62
	2,692	1,959

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 \$9 million (2016: \$3 million) as collateral over certain past due but not impaired trade debtors totalling \$110 million (2016: \$62 million).

15. Cash and bank balances

<i>\$ million</i>	2017	2016
Deposits with banks within three months of maturity when placed	990	3,396
Cash at bank and in hand	1,032	368
Cash and cash equivalents in the consolidated cash flow statement	2,022	3,764
Deposits with banks with over three months of maturity when placed	11,795	4,881
Cash and bank balances in the consolidated statement of financial position	13,817	8,645

As at 31 March 2017, cash and bank balances of \$266 million (2016: \$240 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.

16. Trade and other payables

<i>\$ million</i>	2017	2016
Creditors and accrued charges	4,307	3,419
Deposits received	1,004	818
Contract retentions	423	183
	5,734	4,420
Classified in the consolidated statement of financial position as:		
Current liabilities	4,996	3,898
Non-current liabilities	738	522
	5,734	4,420

As at 31 March 2017, all of the trade and other payables are expected to be settled or recognised as income within one year except for \$738 million (2016: \$522 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>	2017	2016
Due within 30 days or on demand	727	1,214
Due after 30 days but within 60 days	1,283	423
Due after 60 days but within 90 days	239	258
Due after 90 days	2,058	1,524
	4,307	3,419

17. Interest-bearing borrowings

<i>\$ million</i>	2017	2016
Notes payable		
HK dollar fixed rate notes due 2016 to 2043 (a)	1,435	2,405
HK dollar floating rate note due 2016 (a)	–	200
	1,435	2,605
Less: unamortised finance costs	(12)	(13)
	1,423	2,592

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.

During the year, the Authority repaid \$950 million fixed rate notes in full with annual coupon rates ranging from 1.5% to 5.1% and \$200 million floating rate note which carries annual coupon rate based on Hong Kong Inter-bank Offer Rate (“HIBOR”), in full.

As at 31 March 2017, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 2.25% to 4.85% (2016: 1.5% to 5.1%). The fixed rate notes are unsecured and repayable in full upon maturity.

- (b) In December 2015, the Authority signed a five-year unsecured Hong Kong dollar revolving credit facility of \$5,000 million. Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2017, there was no outstanding amount under this facility (2016: \$nil).
- (c) The Authority has uncommitted money market line facilities of \$2,189 million (2016: \$2,500 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2017, there was no outstanding amount under these facilities (2016: \$nil).
- (d) As at 31 March 2017, the unsecured interest-bearing borrowings were repayable as follows:

<i>\$ million</i>	2017	2016
Within one year or on demand	–	1,149
After one year but within two years	–	–
After two years but within five years	699	702
After five years	724	741
	1,423	1,443
	1,423	2,592

- (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 22(b).

18. Unused airport construction fee (“ACF”)

<i>\$ million</i>	2017	2016
At 1 April	–	–
Add: ACF received or receivable for the year	1,944	–
Less: payment of 3RS capital expenditure	(1,051)	–
At 31 March	893	–

ACF is accrued upon the enplanement of the passenger and is remitted to the Authority by the airlines based on airlines’ passenger counts.

ACF collected by the Authority, together with the interest generated thereon, is maintained in designated bank accounts and is used exclusively for paying 3RS related projects capital expenditure.

19. 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 27(t)(v) and 27(t)(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.

20. 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 20% (2016: 25%) 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 2017 prepared by qualified staff of Mercer (Hong Kong) Limited (2016: 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 87% (2016: 74%) 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 67% (2016: 74%) 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 2017 was also prepared by qualified staff of Mercer (Hong Kong) Limited using the projected unit credit method.

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

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

\$ million	2017	2016
The Hong Kong plan		
Present value of funded obligations	855	820
Fair value of plan assets	(747)	(603)
	108	217
The HKZAM plan		
Present value of unfunded obligations	48	43
Net defined benefit retirement obligations	156	260

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay \$23 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2018.

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

- (ii) Plan assets consist of the following:

<i>\$ million</i>	2017	2016
Equity securities	–	386
Corporate bonds	10	210
Cash	737	7
	747	603

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. To preserve the solvency of the Hong Kong plan for the next actuarial review on 1 April 2017, the asset allocation of the Hong Kong plan is 1% in bond and 99% in cash as at 31 March 2017. The long-term strategic asset allocation of the Hong Kong plan is 50% in equities and 50% 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>	2017	2016
The Hong Kong plan		
At 1 April	820	775
Remeasurements:	18	30
– Actuarial (gains)/losses arising from changes in financial assumptions	(12)	12
– Experience adjustments	30	18
Benefits paid by the plans	(35)	(38)
Current service cost	42	42
Interest cost	10	11
At 31 March	855	820
The HKZAM plan	48	43
At 31 March	903	863

The weighted average durations of the defined benefit obligations for the Hong Kong and the HKZAM plans are 7.2 years (2016: 7.8 years) and 10.8 years (2016: 13.0 years) respectively.

20. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

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

\$ million	2017	2016
At 1 April	603	647
Group's contributions paid to the plans	122	22
Benefits paid by the plans	(35)	(38)
Actual return on plan assets	57	(28)
– Interest income	8	9
– Return on plan assets, excluding interest income	50	(36)
– Administrative expenses paid from plan assets	(1)	(1)
At 31 March	747	603

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

\$ million	2017	2016
The Hong Kong plan		
Current service cost	42	42
Administrative expenses paid from plan assets	1	1
Net interest on net defined benefit liability	2	2
	45	45
The HKZAM plan	5	5
Total amounts recognised in profit or loss	50	50
The Hong Kong plan		
Remeasurements:		
– Actuarial (gains)/losses arising from changes in financial assumptions	(12)	12
– Experience adjustments	30	18
Return on plan assets, excluding interest income	(50)	36
	(32)	66
The HKZAM plan	5	5
Total amounts recognised in other comprehensive income	(27)	71
Total defined benefit debits	23	121

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.

\$ million	2017	2016
Staff costs and related expenses	50	50

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

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

	2017	2016
The Hong Kong plan		
Discount rate	1.4%	1.2%
Future long term salary increases	3.5%	3.5%
The HKZAM plan		
Discount rate	3.6%	3.1%

The below analysis shows how the defined benefit obligations as at 31 March 2017 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

\$ million	Increase by 0.5%	Decrease by 0.5%
The Hong Kong plan		
Discount rate	(29)	31
Future long term salary increases	34	(33)
The HKZAM plan		
Discount rate	(2)	3

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.

21. Capital and reserves

(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 98.

(b) Share capital

\$ million	The Authority	
	2017	2016
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of \$100,000 each (2016: 306,480 ordinary shares)	30,648	30,648

(c) 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 27(u).

(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) Distributability of reserves

As at 31 March 2017, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was \$27,721 million (2016: \$19,500 million). The Board did not propose any final dividend for the year ended 31 March 2017 (2016: \$nil).

21. Capital and reserves (continued)

(c) Nature and purpose of reserves (continued)

(iv) 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:

\$ million	Note	2017	2016
Total debt ¹	17	1,423	2,592
Total equity		60,563	52,558
Total capital ²		61,986	55,150
Total debt/capital ratio		2%	5%

¹ Total debt represents interest-bearing borrowings.

² Total capital represents total debt plus total equity.

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

22. 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.

22. 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. In respect of the advance payments to contractors at the end of the reporting period, sufficient guarantees in the form of advance payment bonds are received from the respective contractor's banks 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 15% (2016: 25%) and 44% (2016: 41%) 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.

22. 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
2017						
Interest-bearing borrowings	1,423	1,870	54	54	826	936
Trade and other payables	5,734	5,799	5,000	280	399	120
Interest rate swaps (net settled)	12	(23)	(5)	(5)	(12)	(1)
	7,169	7,646	5,049	329	1,213	1,055
2016						
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)
	7,002	7,540	5,122	166	1,238	1,014

As shown above, interest-bearing borrowings (including interest) of the group amounting to \$54 million (2016: \$1,230 million) are due to be repaid in the upcoming 12 months after 31 March 2017. 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.

The group classifies interest rate swaps into fair value hedges and states them at their fair values in accordance with the policy set out in note 27(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 22(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

22. 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 fair value hedging instruments ((i) above).

\$ million	2017	2016
Fixed rate borrowings		
Fixed rate notes	790	1,589
Variable rate borrowings		
Fixed rate notes ¹	633	803
Floating rate note	–	200
	633	1,003
Total borrowings	1,423	2,592
Fixed rate borrowings as a percentage of total borrowings	56%	61%

¹ Swapped to floating rate

(iii) Sensitivity analysis

As at 31 March 2017, 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 \$2 million (2016: \$4 million). There was no increase/decrease in other components of consolidated equity (2016: \$nil) 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.

22. 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 2017, the group is exposed to US dollar currency risk in respect of cash and bank balances of US\$309 million (2016: US\$226 million) and trade and other receivables of US\$11 million (2016: US\$9 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 2017, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB165 million (2016: RMB122 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 \$8 million (2016: \$6 million) lower/higher. The analysis is performed on the same basis for 2015/16.

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 2016 and 2017, 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 (2016: \$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.

22. 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)					
	2017			2016		
<i>\$ million</i>	Notional amount	Financial assets	Financial liabilities	Notional amount	Financial assets	Financial liabilities
Fair value hedges						
Interest rate swaps	650	5	(17)	800	12	(2)
Less: portion to be recovered within one year						
Fair value hedges						
Interest rate swaps	650	1	–	800	2	–
Portion to be recovered/ (settled) after one year		4	(17)		10	(2)

Derivative financial instruments qualifying as fair value hedges as at 31 March 2017 have a maturity of 2 years to 5.5 years (2016: less than one year to 6.5 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.

22. 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 2017, the carrying value and fair value of fixed rate notes of notional amount of \$1,450 million (2016: \$2,400 million), amounted to \$1,423 million and \$1,575 million (2016: \$2,392 million and \$2,557 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.

23. Outstanding commitments

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

\$ million	2017			2016		
	3RS	Others	Total	3RS	Others	Total
Contracted for	28,885	3,976	32,861	1,589	2,465	4,054
Authorised but not contracted for	108,376	15,636	124,012	139,554	15,757	155,311
	137,261	19,612	156,873	141,143	18,222	159,365

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

24. Material related party transactions

The Authority is wholly owned by the Government. Transactions between the group and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, 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.

24. 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 \$57 million (2016: \$102 million). As at 31 March 2017, the amounts due to the Government with respect to the above services amounted to \$44 million (2016: \$82 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 \$912 million (2016: \$858 million) and the amounts due to the Government as at 31 March 2017 with respect to the above services amounted to \$0.3 million (2016: \$0.7 million).
- (c) The Authority and HKIA Staff Services Limited (“HKIASS”), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 24(b)) at nil consideration.
- (d) 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 \$83 million (2016: \$68 million). As at 31 March 2017, the amounts due to MTRC with respect to the maintenance services amounted to \$36 million (2016: \$44 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 \$60 million (2016: \$51 million). As at 31 March 2017, there was nil outstanding amount due from HKITP (2016: \$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 \$60 million (2016: \$74 million). As at 31 March 2017, the aggregate amounts due from these departments, agencies or entities amounted to \$8 million (2016: \$10 million).

25. Immediate and ultimate controlling party

As at 31 March 2017, the immediate parent and ultimate controlling party of the group is the Government.

26. Accounting judgements and estimates

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

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

(i) Interest in leasehold land

On 1 December 1995, the Authority was granted the rights to the airport site at Chek Lap Kok for a nominal land premium of \$2,000. The Authority was responsible for all of the costs for the formation of the airport site, with respect to which \$11,571 million was initially incurred. The land formed is considered to have all the characteristics of land in Hong Kong and will revert to the lessor at the end of the Land Grant. Such cost is considered to have been incurred to obtain the benefits of a leasehold land. 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.

In the group's consolidated financial statements, the group equity accounts for its share of the CADF according to its shareholding percentage, on the basis that all shareholders of HXIA can enjoy the economic benefits arising from the CADF received by HXIA.

In previous financial reporting periods, the group recognised its share of the CADF in the consolidated statement of profit or loss in the same period as recognised by HXIA. In June 2016, the group changed its method of recognising the CADF as a result of additional conditions being imposed by the Ministry of Finance and the Civil Aviation Administration of China in relation to the governance of CADF applications (財建[2016] 362號). As these new conditions are similar to those imposed on government grants related to assets, from June 2016 onwards the group recognises its share of the CADF over the useful life of the subsidised assets.

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.

26. Accounting judgements and estimates (continued)

(b) Major sources of estimation uncertainty

Notes 20 and 22(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.

27. 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 2012-2014 cycle
- Amendments to HKFRS 10 and HKAS 28, "*Sale or contribution of assets between an investor and its associate or joint venture*"
- Amendments to HKFRS 11, "*Accounting for acquisitions of interests in joint operations*"
- Amendments to HKAS 1, "*Disclosure initiative*"
- Amendments to HKAS 16 and HKAS 38, "*Clarification of acceptable methods of depreciation and amortisation*"

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.

27. 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 27(n) or (o) 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 27(c)).

27. 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 27(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.

27. 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 27(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.

(f) Accounting for derivative financial instruments and hedging activities

The group designates certain derivatives as hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value 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) 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.

27. 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 27(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 27(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 27(t).

- (iii) Other property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (note 27(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 27(n)) 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 27(h).

27. Summary of significant accounting policies (continued)

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

(vii) Leased assets

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

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

When the group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and are depreciated in accordance with the group's depreciation policies set out in note 27(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 27(t) 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.

27. Summary of significant accounting policies (continued)

(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	3 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	3 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.

27. 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 27(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.

27. Summary of significant accounting policies (continued)

(k) Stores and spares

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

(l) Trade and other receivables

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

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

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

(m) ACF

The ACF is collected by the Authority from passengers exclusively for the purpose of meeting 3RS construction costs. ACF is recognised in the statement of financial position upon receipt or becoming receivable from the collecting parties. It is initially recognised as unused ACF, until it is used to settle the relevant costs of construction. At this point in time it will be transferred from the unused ACF account and deducted from the carrying amount of the 3RS assets. Consequently, ACF is effectively recognised in profit or loss over the useful life of the 3RS assets by way of reduced depreciation expense.

27. Summary of significant accounting policies (continued)

(n) 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.

(o) 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.

(p) 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.

27. Summary of significant accounting policies (continued)

(q) 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)).

27. Summary of significant accounting policies (continued)

(r) 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.

27. Summary of significant accounting policies (continued)

(r) 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.

(s) 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.

27. Summary of significant accounting policies (continued)

(t) 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.

27. Summary of significant accounting policies (continued)

(u) 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.

(v) 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 (v)(i).
 - g) A person identified in note (v)(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.

27. Summary of significant accounting policies (continued)

(w) 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.

28. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2017

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 2017 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, " <i>Statement of cash flows: Disclosure initiative</i> "	1 January 2017
Amendments to HKAS 12, " <i>Income taxes: Recognition of deferred tax assets for unrealised losses</i> "	1 January 2017
HKFRS 9, " <i>Financial instruments</i> "	1 January 2018
HKFRS 15, " <i>Revenue from contracts with customers</i> "	1 January 2018
HKFRS 16, " <i>Leases</i> "	1 January 2019

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>	12/13 Restated ⁴	13/14	14/15	15/16	16/17
Consolidated statement of profit or loss					
Revenue	13,134	14,810	16,367	18,184	18,627
Operating expenses before depreciation and amortisation	(4,282)	(4,872)	(5,053)	(5,848)	(5,796)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	8,852	9,938	11,314	12,336	12,831
Depreciation and amortisation	(2,208)	(2,248)	(2,420)	(2,813)	(3,079)
Net interest and finance (costs)/income	(121)	(13)	33	28	131
Share of results of joint ventures	211	77	137	189	83
Profit before taxation	6,734	7,754	9,064	9,740	9,966
Income tax	(1,111)	(1,306)	(1,794)	(1,366)	(1,656)
Profit for the year	5,623	6,448	7,270	8,374	8,310
Attributable to:					
Equity shareholder of the Authority	5,615	6,454	7,254	8,359	8,276
Non-controlling interests	8	(6)	16	15	34
Consolidated statement of financial position					
Non-current assets	48,890	51,482	53,474	54,192	57,572
Current assets	4,802	5,394	4,587	10,800	16,748
Current liabilities	(5,590)	(4,776)	(5,813)	(5,428)	(6,740)
Net current (liabilities)/assets	(788)	618	(1,226)	5,372	10,008
Total assets less current liabilities	48,102	52,100	52,248	59,564	67,580
Non-current liabilities	(7,732)	(9,581)	(7,811)	(7,006)	(7,017)
Net assets	40,370	42,519	44,437	52,558	60,563
Share capital	30,648	30,648	30,648	30,648	30,648
Reserves	9,489	11,642	13,546	21,662	29,647
Non-controlling interests	233	229	243	248	268
Total equity	40,370	42,519	44,437	52,558	60,563
Key financial and operational statistics					
Dividend declared <i>(HK\$ million)</i>	4,400	5,300	–	–	–
Return on equity	14.3%	15.6%	16.7%	17.3%	14.7%
Total debt/capital ratio	13%	10%	7%	5%	2%
Passenger traffic ^{1,2} <i>(millions of passengers)</i>	57.2	60.7	64.7	69.7	70.5
Cargo throughput ^{1,3} <i>(millions of tonnes)</i>	4.0	4.2	4.4	4.3	4.6
Aircraft movements ¹ <i>(thousands)</i>	355	377	396	410	410

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

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

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

⁴ Figures in 2012/13 are restated to comply with Revised HKAS 19, "Employee benefits" which became effective for accounting periods beginning on or after 1 January 2013, to the extent such revised accounting standard was adopted retrospectively.

AIRLINES OPERATING AT HKIA AS AT MARCH 2017

Aeroflot Russian Airlines	China Airlines	K-Mile Air*	Singapore Airlines
AeroLogic*	China Cargo Airlines*	Korean Air	Singapore Airlines Cargo*
Air Astana	China Eastern Airlines	Lufthansa	Sky Lease Inc.*
Air Busan	China Southern	Lufthansa Cargo*	South African Airways
Air Canada	Delta Air Lines	Malaysia Airlines	Southern Air Inc.*
Air China	Eastar Jet	Malindo Air	Spring Airlines
Air France	EL AL Israel Airlines	Mandarin Airlines	SriLankan Airlines
Air Hong Kong*	Emirates	MIAT Mongolian Airlines	SW Italia S.p.A.*
Air India	Ethiopian Airlines	Myanmar National Airlines	Swiss International Air Lines
Air Mauritius	Etihad Airways	Nepal Airlines	Thai AirAsia
Air New Zealand	EVA Air	Nippon Cargo Airlines*	Thai Airways
Air Niugini	Federal Express*	Peach Aviation	Tigerair
AirAsia	Fiji Airways	Philippine Airlines	TNT Airways S.A.*
AirBridgeCargo Airlines*	Finnair	Philippines AirAsia	Turkish Airlines
All Nippon Airways	Garuda Indonesia	Polar Air Cargo*	T'way Air
American Airlines	HK Express	Qantas Airways	United Airlines
Asiana Airlines	Hong Kong Airlines	Qatar Airways	UPS*
Atlas Air*	Japan Airlines	Raya Airways*	Vanilla Air
Aurora Airlines	Jeju Air	Royal Brunei Airlines	Vietjet Air
Austrian Airlines	Jet Airways	Royal Jordanian	Vietnam Airlines
Bangkok Airways	Jetstar Asia Airways	S7 Airlines	Virgin Atlantic Airways
Bismillah Airlines*	Jetstar Japan	Saudi Arabian*	Xiamen Airlines
British Airways	Jetstar Pacific	Scandinavian Airlines	Yangtze River Express*
Cargolux Airlines*	Jin Air	SF Airlines*	
Cargolux Italia S.p.A.*	Juneyao Airlines	Shanghai Airlines	
Cathay Dragon	Kalitta Air*	Shenzhen Airlines	
Cathay Pacific	Kenya Airways	Sichuan Airlines	
Cebu Pacific Air	KLM Royal Dutch Airlines	Silk Way West Airlines*	

* Freighter services only

SCHEDULED DESTINATIONS SERVED FROM HKIA AS AT MARCH 2017

North Asia

Beijing
Busan
Changchun
Changsha
Cheju
Chengdu
Chongqing
Daegu
Dalian
Fukuoka
Fuzhou
Guangzhou
Guilin
Guiyang
Haikou
Hangzhou
Harbin
Hiroshima
Irkutsk
Ishigaki
Jieyang
Jinan
Jinjiang
Kagoshima
Kaohsiung
Khabarovsk
Kunming
Meixian
Miyazaki
Nagoya
Nanchang
Nanjing
Nanning
Ningbo
Okayama
Okinawa
Osaka/Kansai
Qingdao
Sanya
Sapporo
Seoul/Incheon
Shanghai/Hongqiao

Shanghai/Pudong

Shenyang
Shijiazhuang
Taipei
Taiyuan
Takamatsu
Tianjin
Tokyo/Haneda
Tokyo/Narita
Ulan Bator
Vladivostok
Wenzhou
Wuhan
Wuxi
Wuyishan
Xiamen
Xian
Xining
Xuzhou
Yantai
Yiwu
Yonago
Zhanjiang
Zhengzhou

South East Asia

B S Begawan
Bangkok/Don Muang
Bangkok/Suvarnabhumi
Cebu
Chiang Mai
Chiang Rai
Clark
Da Nang
Denpasar
Hanoi
Ho Chi Minh
Iloilo
Jakarta
Kalibo
Koh Samui
Kota Kinabalu
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
Ahmedabad*
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

Europe

Amsterdam
Barcelona*
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Brussels*
Budapest*
Cologne*
Düsseldorf
Frankfurt
Helsinki
Istanbul
Leipzig*
Liege*
London/Gatwick
London/Heathrow
Luxembourg*
Madrid/Barajas
Manchester
Milan/Malpensa
Moscow/Domodovovo*
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
Toowoomba/Wellcamp*

Africa

Addis Ababa
Johannesburg
Mauritius
Nairobi

North America

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

Central and South America

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