香港國際機場
HONG KONG INTERNATIONAL AIRPORT

Building an Airport City

ANNUAL REPORT 2018/19

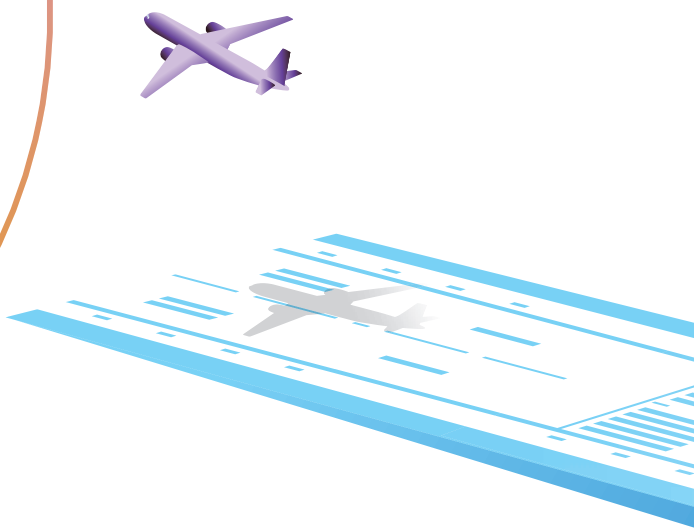
OUR VISION

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



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.

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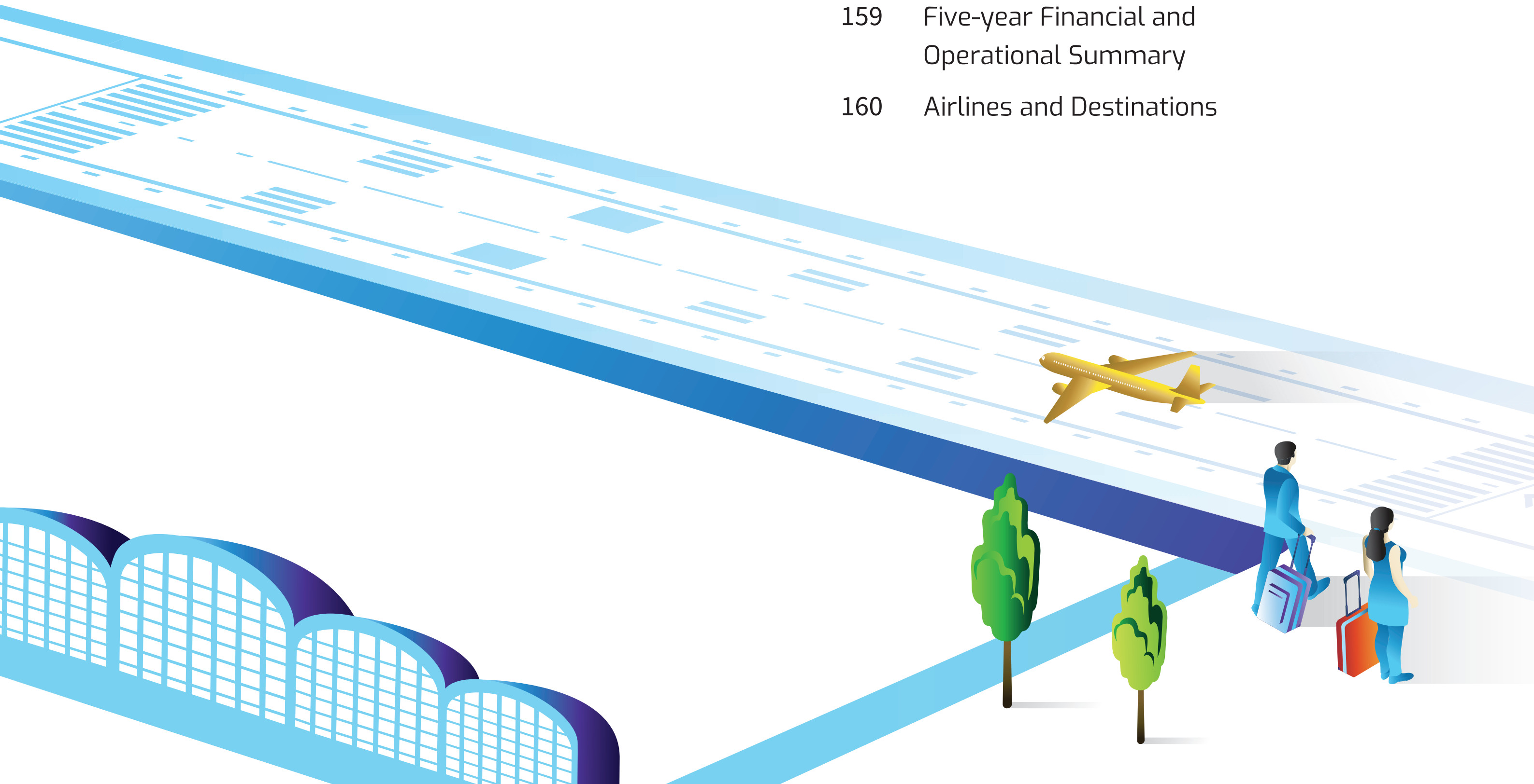


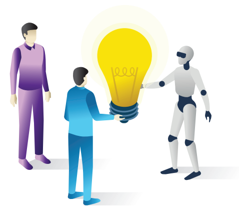
OUR VALUES

COMMITMENT

Can-do Attitude & Willing
to Walk the Extra Mile

CREATIVITY

Embrace Change &
Think Out of the Box



COLLABORATION

Teamwork & Partnership

CONTINUOUS IMPROVEMENT

Strive for Excellence &
Continuous Learning

CARING

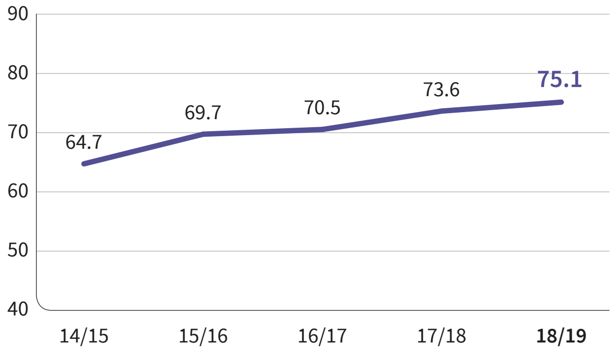
Care for People & Environment

HKIA FACTS

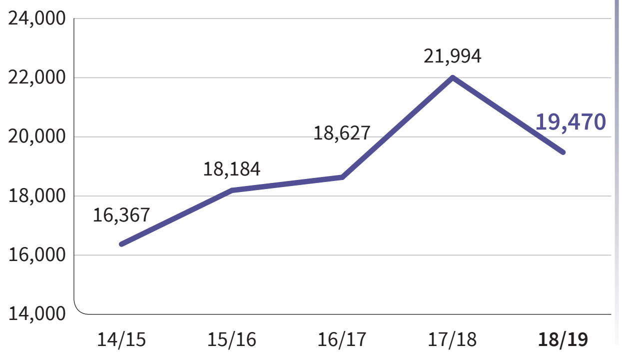
Airport Site Area	1,255 hectares
Total Terminal Area	Over 850,000 square metres
Airlines	Over 120
Destinations	Over 220
Runways	2

PERFORMANCE HIGHLIGHTS

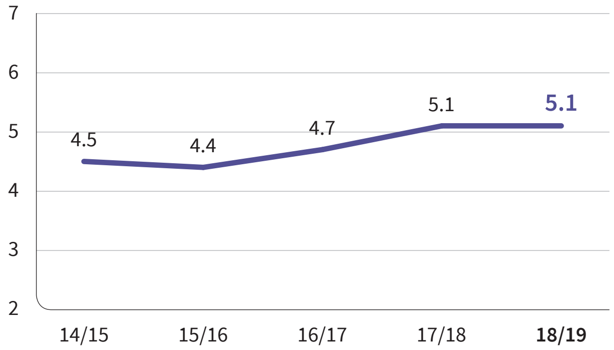
Passenger Traffic
(millions of passengers)



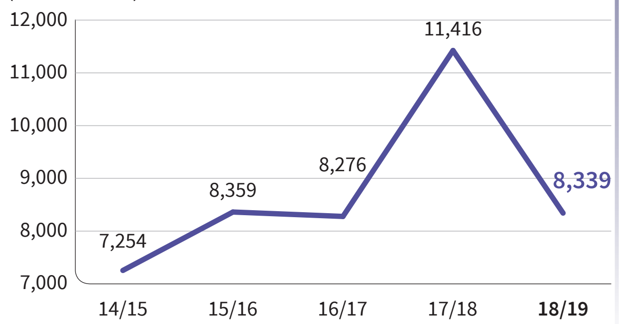
Revenue
(in HK$ million)



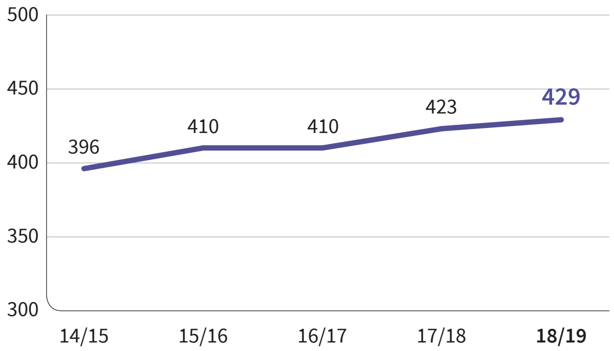
Cargo and Airmail Throughput
(millions of tonnes)



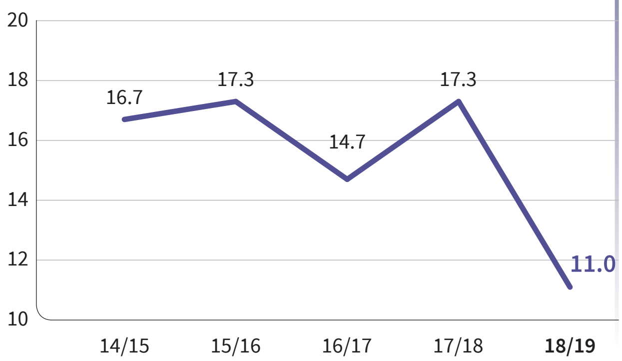
Profit Attributable to the Equity Shareholder
(in HK$ million)



Aircraft Movements
(thousands)



Return on Equity
(in percent)



CHAIRMAN'S STATEMENT

Through the continuous development of our passenger and cargo services, the expansion of our cross-boundary multimodal transport network and the growth of commercial and other facilities around the airport, HKIA is poised to transform from a city airport into an airport city in the coming years.

DEAR STAKEHOLDERS,

During the fiscal year ended 31 March 2019, we celebrated the 20th anniversary of Hong Kong International Airport (HKIA).

Since moving to Chek Lap Kok, we have become one of the world's busiest airports. In 2018/19, HKIA once again broke records, with passenger numbers and flight movements increasing 2% and 1.3%, respectively, to 75.1 million and 428,870. Total cargo volume reached 5.06 million tonnes.

Over the past two decades, HKIA has made significant contributions to Hong Kong, driving its growth as an international city. Our extensive global connectivity helps businesses—from tourism and trading to logistics and professional services. We are a major employer, directly and indirectly creating hundreds of thousands of jobs. The airport also facilitates social and cultural exchanges between Hong Kong and the world.

BUILDING AN AIRPORT CITY

In February 2019, the Central Government promulgated the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area (GBA), which designates Hong Kong as the GBA's international aviation hub.

The national plan actually has endorsed our development direction so far. Through the continuous development of our passenger and cargo services, the expansion of our cross-boundary multimodal transport network and the growth of commercial and other facilities around the airport, HKIA is poised to transform from a city airport into an airport city in the coming years.

The core project underpinning this transformation is the three-runway system (3RS), which will allow HKIA to meet long-term demand for aviation services. During the year, the 3RS project made solid progress. We completed a 6-kilometre-long seawall and began land reclamation inside its boundaries. Other 3RS components are progressing as planned, and we are confident the 3RS will be completed within budget and on schedule in 2024.

Other major elements of the airport city include SKYCITY—an integrated commercial development comprising retail, dining, entertainment, hotels and offices—that is scheduled to open in phases between 2020 and 2027. In addition, a premium logistics centre in the South Cargo Precinct will open in 2023. We are also exploring the development potential of AsiaWorld-Expo and the topside of the Hong Kong Boundary Crossing Facilities.

In line with the GBA plan, we are strengthening our role as a training centre for the aviation industry. In 2018/19, our Hong Kong International Aviation Academy has been certified by the International Civil Aviation Organisation (ICAO) to develop ICAO-compliant courses and become an ICAO Regional Training Centre of Excellence, further enhancing the development of civil aviation in this part of the world.

A "DOUBLE GATEWAY"

HKIA's expansion is in line with the Hong Kong Government's Lantau Tomorrow Vision, which positions Lantau as a "Double Gateway" to the world and the GBA.

The opening of the Hong Kong-Zhuhai-Macao Bridge (HZMB) and the Guangzhou-Shenzhen-Hong Kong Express Rail Link in 2018 strengthened HKIA's connectivity with the Mainland, providing further impetus for the airport's traffic growth.

To capitalise on the vast potential of the GBA market, we are constructing an Intermodal Transfer Terminal, which through a direct connecting bridge with the Boundary Crossing Facilities will eliminate the need for air passengers using the HZMB to clear immigration in Hong Kong. The environmental impact assessment of the bonded bridge was approved during the year, and construction has begun.

We are also expanding our footprint in the GBA by enlarging our cross-boundary transport network and adding more upstream check-in facilities on the Mainland.

Building an airport city is a massive, complex undertaking. We are committed to making it a success

TOGETHER FOR A BRIGHTER FUTURE

HKIA's success is built on the dedication and professionalism of the 73,000 members of the airport community. On behalf of the Board, I would like to thank them for their hard work and dedication.

I would also like to thank the members of the Board for their guidance and support.

Building an airport city is a massive, complex undertaking. We are committed to making it a success.

Jack So Chak-kwong
Chairman
Hong Kong, 3 June 2019

CHIEF EXECUTIVE OFFICER'S STATEMENT

To retain our leading position and meet rising demand, HKIA continually enhances its services. This commitment to service excellence helps us deliver an unrivalled airport experience to our passengers and customers.

(Front row, from left): Mr William Lo Chi-chung, Executive Director, Finance; Ms Florence Chung Wai-yee, Executive Director, Human Resources & Administration; **Mr Fred Lam, Chief Executive Officer**; Ms Cissy Chan Ching-sze, Executive Director, Commercial; Mr Ng Chi-kee, Executive Director, Airport Operations

(Back row, from left): Mr David Au Ho-cheung, Executive Director, Property Development; Mr Kevin Poole, Executive Director, Third Runway; Mr Alex Kwan King-fai, Executive Director, Engineering & Technology

DEAR STAKEHOLDERS,

Hong Kong International Airport (HKIA) enjoyed another year of growth and development in fiscal 2018/19, ended 31 March 2019. Air traffic reached new heights, reinforcing our status as one of the world's busiest aviation hubs.

To retain our leading position and meet rising demand, HKIA continually enhances its services. This commitment to service excellence helps us deliver an unrivalled airport experience to our passengers and customers.

PREPARING THE FUTURE OF TRAVEL

Coping with people's expectations for smoother, more personalised travel, we made great strides in adopting innovative, new technologies during the year.

For example, we installed new e-Security Gates that use travellers' biometric data to expedite departure screening. We will soon extend this technology to transfer checkpoints and boarding gates, creating an end-to-end biometric network that offers seamless travel, while increasing our security and handling capacity.

We are also harnessing technology to serve passengers at various stages of their journey, even outside the airport. Our award-winning mobile app—"HKG My Flight"—was upgraded with a chatbot, real-time road traffic alerts and online payments for airport parking. In future, the app will let users pre-book airport services, such as baggage pickups from outside the airport, and offer travel tips based on passengers' flights and destinations.

Behind the scenes, technology boosts our efficiency and helps us deploy personnel more effectively. For example, we are testing robots to monitor the terminal environment and employing artificial intelligence to enhance resource allocation. We are also exploring the use of the "Internet of Things" to monitor HKIA's operations and utilising big data analytics to better understand and predict passenger behaviour.

NEW DINING AND SHOPPING EXPERIENCE

Excellent shops and restaurants make travelling more pleasant. This year, we completed phase one of the East Hall food court revamp, introducing branches of three Michelin-recommended brands that offer culinary delights around the clock. Phase two of the refurbishment started during the year and will be completed by the third quarter of 2019.

In 2018/19, we introduced Airport Shopping Ambassadors. With their extensive knowledge of HKIA's outlets and offers, the ambassadors give passengers personalised recommendations, including the latest retail and food and beverage promotions, and help create customised shopping and dining itineraries.

Meanwhile, innovative retail concepts, such as technology-based entertainment and self-service shops and restaurants, are being planned.

STRENGTHENING OUR CARGO HUB STATUS

Cargo is an important business for HKIA. In 2018/19, for the ninth consecutive year, we were named the world's busiest cargo airport.

We continue to focus on fast-growing, high-value cargo segments. In 2017/18, we received Centre of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV Pharma) accreditation from the International Air Transport Association (IATA). This year, we established our first airport-to-airport pharma corridor with Brussels Airport. To ensure their integrity, all shipments in the corridor are handled in strict compliance with CEIV Pharma standards and carried by a certified airline. We will promote this initiative to other airports with the objective of forming a network of secure pharmaceutical trade lanes.

In March 2019, the reliability of our cargo services was recognised again when we became the world's first airport community to receive IATA's Centre of Excellence for Perishable Logistics (CEIV Fresh) certification for handling high-value, perishable products. We led a community-based certification effort that included cargo terminal operators and a Hong Kong–based airline.

During the year, we awarded the rights to develop and manage a premium logistics centre in the South Cargo Precinct. Scheduled to open in 2023, the centre will incorporate cutting-edge robotics and automation as well as temperature-controlled facilities, and will help us capture opportunities from the burgeoning cross-boundary e-commerce and related logistics businesses.

PARTNERING FOR SUCCESS

HKIA crossed an important milestone in 2018/19, as the airport celebrated its 20th anniversary. I would like to express my profound gratitude to our business partners and to the 73,000 men and women working at HKIA who helped us achieve outstanding performance again during the year.

As HKIA's businesses continue to flourish, the airport has opened a new chapter in its development—evolving from a transport hub to a mega-cluster that houses a wide spectrum of economic activities akin to a city, surrounding and radiating from the airport. The airport city vision will guide our future development for many years to come. This transformation will bring many challenges, but I have complete confidence in the airport community and the continued success of HKIA.

Fred Lam
Chief Executive Officer
Hong Kong, 3 June 2019

THE BOARD

The Hon Jack So Chak-kwong

Mr Fred Lam

The Hon Frank Chan Fan

Ms Linda Chan Ching-fan

Mr Stuart Thomson Gulliver

The Hon Steven Ho Chun-yin

The Honourable Jack So Chak-kwong *GBM GBS OBE JP*

Chairman

Aged 74. Appointed Chairman of the Board in June 2015 and reappointed in June 2018. Former Chairman of the Hong Kong Trade Development Council. Non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development. Independent Non-executive Director of AIA Group Limited and China Resources Power Holdings Company Limited. Senior Advisor to Credit Suisse, Greater China. He was Chairman and Chief Executive of the MTR Corporation Limited from 1995 to 2003. He was Deputy Chairman and Group Managing Director of PCCW from 2003 to 2007, Independent Director of HSBC from 2000 to 2007, Non-executive Director of Cathay Pacific Airways Limited from 2002 to 2015, International Business Adviser to the Mayor of Beijing from 2007 to 2015 and Member of the National Committee of the Chinese People's Political Consultative Conference from 2008 to 2018.

Mr Fred Lam *JP*

Chief Executive Officer*

Aged 60. Appointed Chief Executive Officer in October 2014. Former Executive Director of the Hong Kong Trade Development Council. Second Vice President of the Asia Pacific Regional Board of Airports Council International (ACI). Member of the ACI World Governing Board. 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 in the category of statutory and non-profit-distributing organisations. In 2011, he was given the Peace through Commerce Medal from the United States Government in recognition of his leadership role in boosting US exports to, and through, Hong Kong.

The Honourable Frank Chan Fan *JP*

Secretary for Transport and Housing*

Aged 61. Became a Board Member in July 2017 upon his appointment as Secretary for Transport and Housing. As the Secretary for Transport and Housing, Mr Chan is the 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 the MTR Corporation Limited and the Hong Kong Mortgage Corporation Limited, as well as a Member of the Council for Sustainable Development and the Youth Development Commission.

Ms Linda Chan Ching-fan *SC*

Aged 49. Appointed to the Board in June 2018. Recorder of the Court of First Instance, High Court. Convenor, Barristers Qualification Examination–Panel on Company Law. Council Member, Consumer Council. Member, Standing Committee on Company Law Reform. She was appointed Deputy Judge of the Court of First Instance, High Court, from 2013 to 2014. She was Chairman of the Committee on Company Law, Hong Kong Bar Association, from 2013 to 2017, Deputy Chairman of the Appeal Board Panel (Town Planning) from 2012 to 2014, Vice Chairman, Municipal Services Appeals Board from 2012 to 2014, Member of the Insolvency Advisory Group on Modernisation of Corporate Insolvency Law from 2012 to 2013, Member of the Barristers Qualification Examination–Panel on Company Law from 2002 to 2012 and Member of the Rewrite of the Companies Ordinance: Advisory Group on Inspections, Investigation and Offences and Punishment Provisions, from 2007 to 2009.

Mr Stuart Thomson Gulliver

Aged 60. Appointed to the Board in June 2019. Joined HSBC in 1980 and retired in 2018. Former Group CEO and Executive Director of HSBC Holdings plc and former Chairman and Executive Director of the Hongkong and Shanghai Banking Corporation Limited. Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and the International Advisory Council of the Stock Exchange of Hong Kong Limited. Non-executive Director of Jardine Matheson Holdings Limited. Mr Gulliver was awarded the Mexican Order of the Aztec Eagle by the Government of Mexico in 2017 and holds a law degree from the University of Oxford.


Mr Franklin Lam Fan-keung


The Hon James Henry Lau Jr.


Mr Simon Li Tin-chui


Ir Dr the Hon Lo Wai-kwok


Mr Peter To


Mr Carlson Tong

The Honourable Steven Ho Chun-yin *BBS*

Aged 39. Appointed to the Board in January 2016 and reappointed in January 2018. Member of the Legislative Council representing the Agriculture and Fisheries Functional Constituency. Member of the Legislative Council's House Committee, Finance Committee and Public Accounts Committee. Member of the Legislative Council's panels on Constitutional Affairs, Economic Development, Environmental Affairs, Food Safety and Environmental Hygiene, Home Affairs, Commerce and Industry, and Financial Affairs.

Mr Franklin Lam Fan-keung *BBS*

Aged 58. 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 James Henry Lau Jr. *JP*

Secretary for Financial Services and the Treasury*

Aged 69. Became a Board Member in July 2017 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 the MTR Corporation Limited, the Board of the Mandatory Provident Fund Schemes Authority, the Board of the Hong Kong Mortgage Corporation Limited, the Board of the West Kowloon Cultural District Authority and the Board of the Financial Services Development Council. Director of Hongkong International Theme Parks Limited.

Mr Simon Li Tin-chui *JP*

Director-General of Civil Aviation*

Aged 60. Became a Board Member in May 2016 upon his appointment as Director-General of Civil Aviation. Vice Chairman of the International Civil Aviation Organisation's Asia Pacific Air Navigation Planning and Implementation Regional Group. A Fellow of the Hong Kong Institution of Engineers.

Ir Dr the Honourable Lo Wai-kwok *SBS MH JP*

Aged 65. Appointed to the Board in June 2019. Member of the Legislative Council representing the Engineering Functional Constituency. Chairman of the Legislative Council's Public Works Subcommittee, the Hong Kong Quality Assurance Agency and the Business and Professionals Alliance for Hong Kong. Founding Chairman of the Hong Kong Green Strategy Alliance. Member of the Hong Kong Housing Authority, the Hospital Authority, the West Kowloon Cultural District Authority and the 13th National Committee of the Chinese People's Political Consultative Conference. Committee Member of the China Association for Science and Technology.

Mr Peter To *BBS*

Aged 71. 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 previously held senior executive positions in the property sector for over 30 years.

Mr Carlson Tong *SBS JP*

Aged 64. Appointed to the Board in June 2017. Former 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, Member of the Exchange Fund Advisory Committee and Chairman 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 an Independent Non-executive Director of Standard Chartered PLC. Mr Tong was appointed Chairman of KPMG in China and Hong Kong in 2007 and became the Asia Pacific Chairman and a Member of the Global Board in 2009. He retired from KPMG in 2011.

THE BOARD

Mr Adrian Wong Koon-man

Ir Billy Wong Wing-hoo

Mr Thomas Jefferson Wu

The Hon Frankie Yick Chi-ming

Dr the Hon Allan Zeman

Mr Adrian Wong Koon-man *BBS MH JP*

Aged 54. Appointed to the Board in June 2018. He is a Director of VL Asset Management Limited and Abercan Limited, Chairman of the Corruption Prevention Advisory Committee and Member of the Advisory Committee on Corruption of the Independent Commission Against Corruption. He was a Member of the Listing Committee of the Stock Exchange of Hong Kong Limited from May 2006 to April 2012, a Member of the Communications Authority from April 2012 to March 2018 and a Member of the Air Transport Licensing Authority from August 2012 to July 2018.

Ir Billy Wong Wing-hoo *BBS JP*

Aged 61. Appointed to the Board in June 2015 and reappointed in June 2018. 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 Member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Chartered Institution of Highways and Transportation (UK) and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance (Cap. 409). He is a Director of Hong Kong-Shenzhen Innovation and Technology Park Limited and a Permanent Supervisor of the Hong Kong Construction Association.

Mr Thomas Jefferson Wu *JP*

Aged 46. Appointed to the Board in June 2019. Deputy Chief Executive Officer (Hotel Operations) of Hopewell Holdings Limited. Mr Wu has served in various senior management roles with the Hopewell Holdings group since 1999, including group Deputy Chairman and Managing Director. He has held senior executive positions in the property and infrastructure sector for almost 20 years. Mr Wu is a Member of the 13th National Committee of the Chinese People's Political Consultative Conference, the Hong Kong Tourism Board, the Environment Bureau's Energy Advisory Committee, and the Securities and Futures Commission's Committee on Real Estate Investment Trusts.

The Honourable Frankie Yick Chi-ming *SBS JP*

Aged 65. Appointed to the Board in June 2014 and reappointed in June 2017. A Chartered Engineer. Joined 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. Member of the Property Management Services Authority as well as the 13th Chinese People's Political Consultative Conference National Committee. Vice Chairman of the Independent Police Complaints Council. 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 the Honourable Allan Zeman *GBM GBS JP*

Aged 71. Appointed to the Board in June 2015 and reappointed in June 2018. Chairman of Lan Kwai Fong Group and Lan Kwai Fong Association and owner of Paradise Properties Group. Non-executive Chairman of Wynn Macau, Limited. Non-executive Director of Pacific Century Premium Developments Limited. Independent Non-executive Director of Sino Land Company Limited, Tsim Sha Tsui Properties Limited, Global Brands Group Holding Limited, Television Broadcasts Limited and Fosun Tourism Group. Member of the General Committee of the Hong Kong General Chamber of Commerce. Governor of Our Hong Kong Foundation. Member of the Governing Board of the Hong Kong Entrepreneurs Fund of the Alibaba Entrepreneurs Fund. Representative of Hong Kong China to the APEC Business Advisory Council. Honorary Adviser to Ocean Park Hong Kong. Vice Patron of the Community Chest of Hong Kong. Non-official Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and the Human Resources Planning Commission.

* 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

Executive Director, Property Development

Aged 62. Holds a Master of Architecture degree and Bachelor of Science degree in Architecture from the University of Michigan, USA. Mr Au was appointed in May 2015. Before joining Airport Authority Hong Kong, Mr Au was a Director of Sun Hung Kai Development (China) Limited and Project Director of Sun Hung Kai Properties Limited. He has over 30 years of design, planning, management and project development experience particularly on large, complex development projects with architectural firms 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 53. 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 and 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 and Taiwan) and Johnson & Johnson Hong Kong.

Ms Florence Chung Wai-yee

Executive Director, Human Resources & Administration

Aged 55. Holder of a Master of Science degree from the Chaminade University of Honolulu and a Bachelor of Social Science degree from the Chinese University of Hong Kong. Ms Chung was appointed in October 2014. Before joining Airport Authority Hong Kong, Ms Chung was the General Manager of Group Human Resources at HKR International Limited. Ms Chung has 30 years of experience in general and human resources management and has 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 Alex Kwan King-fai

Executive Director, Engineering & Technology

Aged 58. 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 the planning, design and project management of large-scale transportation and civil infrastructure projects across Asia and North America. He has 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 59. 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 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 64. Holds a Bachelor 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. He has held a number of managerial and senior management positions in the fields of airfield operations, passenger services, security operations, commercial and property, technical administration and systems management since the Kai Tak Airport era to the present day. He is Chairman of the Board of AsiaWorld-Expo Management Limited and a Director of Shanghai Hong Kong Airport Management Company Limited.

Mr Kevin Poole

Executive Director, Third Runway

Aged 61. Holds a Bachelor Degree in Civil Engineering from the United Kingdom. Mr Poole was appointed Executive Director, Third Runway in February 2016. Mr Poole has more than 35 years of experience in the building and civil engineering field, specialising in the planning, design and project management of major multidisciplined development projects, ranging from airports and buildings to tunnels, bridges and roads. Mr Poole is active in the Hong Kong engineering community, having been a member of the Construction Industry Council and Chairman of its Committee on Environment from 2012 to 2018.

Note: A photo of the Executive Directors is shown on page 8.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2018/19	2017/18	+/- %[1]
Financial results			
(in HK$ million)			
Revenue	**19,470**	21,994	-11.5%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**12,443**	15,936	-21.9%
Depreciation and amortisation	**3,123**	3,097	+0.8%
Net interest and finance income	**379**	275	+37.8%
Profit attributable to the equity shareholder	**8,339**	11,416	-27.0%
Dividend declared	**–**	–	–
Financial position and ratios			
(in HK$ million)			
Total assets	**109,230**	88,930	+22.8%
Total borrowings	**5,344**	1,415	+277.7%
Total equity	**80,474**	72,569	+10.9%
Return on equity	**11.0%**	17.3%	
Total debt/capital ratio	**6%**	2%	
Credit ratings			
Standard & Poor's:			
Long-term local currency	**AA+**	AA+	
Long-term foreign currency	**AA+**	AA+	
Operational highlights[2]			
Passenger traffic[3] *(millions of passengers)*	**75.1**	73.6	+2.0%
Cargo and airmail throughput[4] *(millions of tonnes)*	**5.06**	5.09	-0.6%
Aircraft movements *(thousands)*	**429**	423	+1.3%

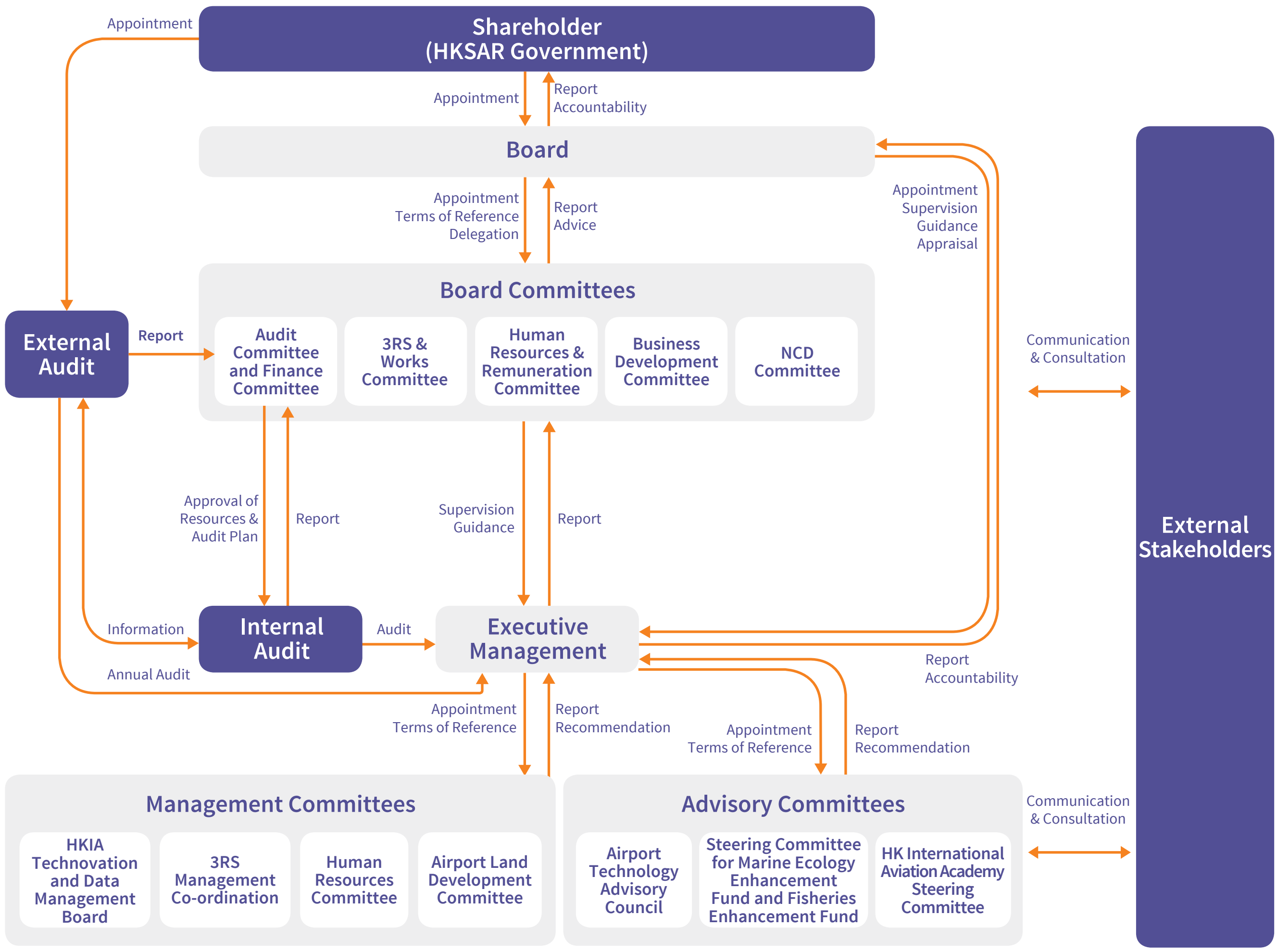
1 Subject to rounding differences.
2 Operational highlights is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.
3 Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.
4 Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail throughput includes airmail from Hongkong Post and transit mail from airlines.

CORPORATE GOVERNANCE

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

Key features of our corporate governance framework are described below:

CORPORATE GOVERNANCE STRUCTURE



THE BOARD

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

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

Board Structure

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

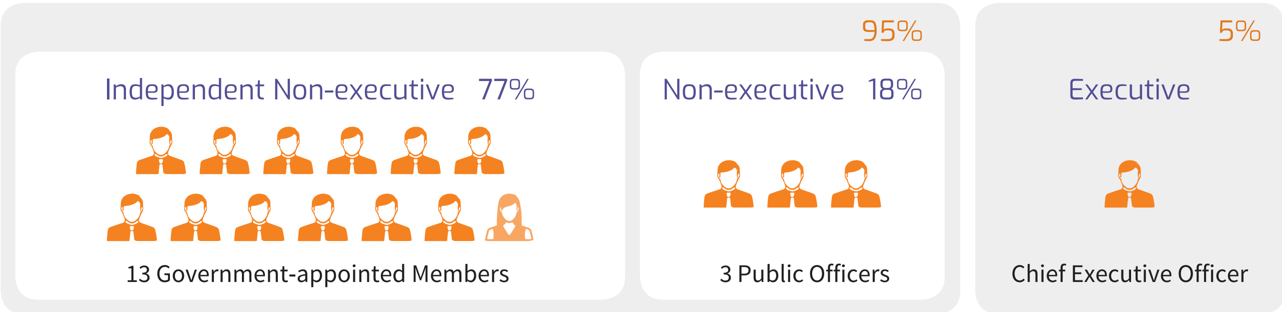
CORPORATE GOVERNANCE

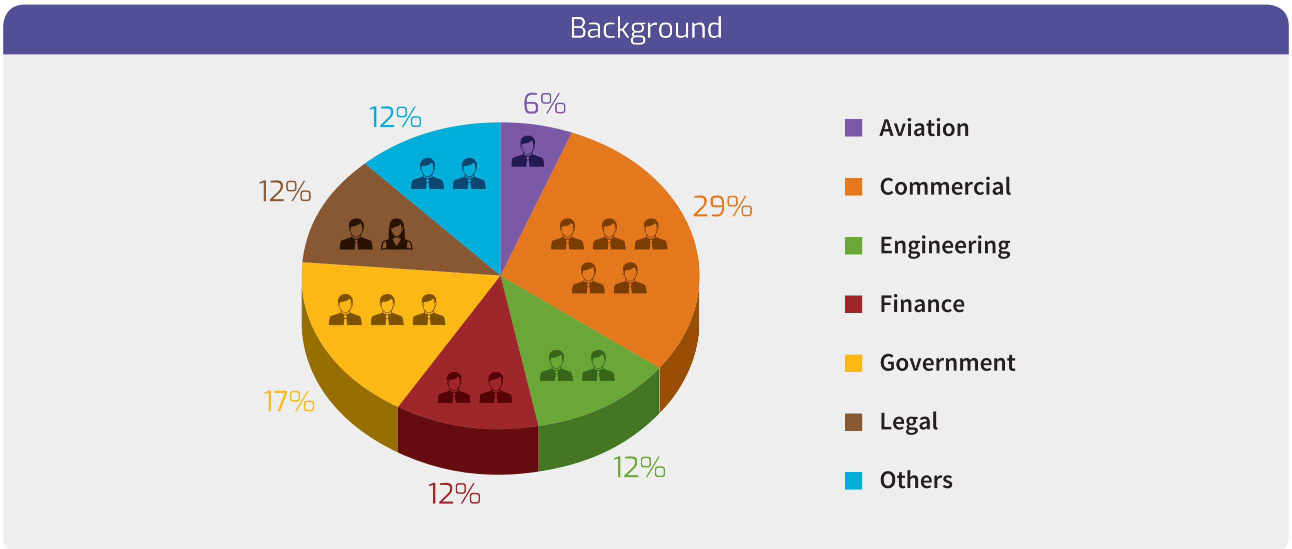
Board Composition

As of 3 June 2019, the Board has 17 Members, whose biographies are set out on pages 12 to 14 and are available on the AAHK website (www.hongkongairport.com). With the exception of the CEO, all Board Members are non-executive and 13 Members are considered independent[1], representing 77% of the total. The three public officers serving on the Board are the Secretary for Financial Services and the Treasury, the Secretary for Transport and Housing, and the Director-General of Civil Aviation.

Board Diversity

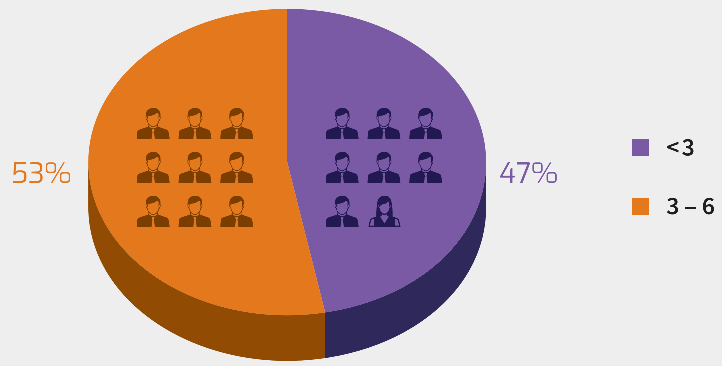
Non-executive Members make up 95% of the Board and come from diverse backgrounds, including the aviation, engineering, public administration, finance, legal and commercial sectors. They bring an external perspective with an independent point of view, constructively challenge and advise on proposals on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



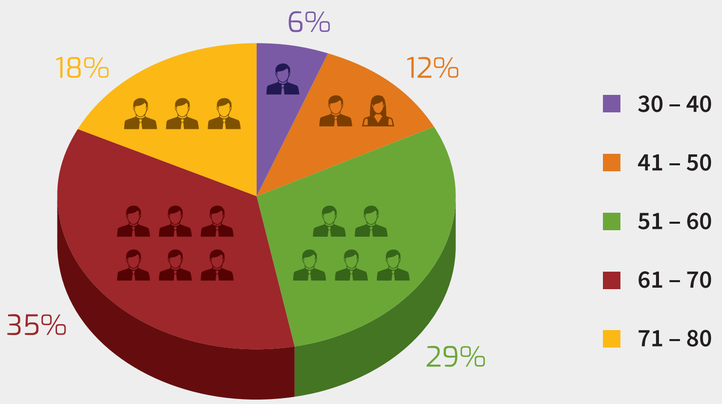


[1] Any Member who is not a public officer or an executive of AAHK and is not related to any Board Member or executive management is considered to be independent.

No. of Years on AAHK Board



Age



Appointment

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

Remuneration

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

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

Training

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

Recognising that training and development are ongoing processes, during the year Board Members visited the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Hong Kong-Zhuhai-Macao Bridge, and attended airport visits, including visits to the three-runway system (3RS) and other construction work sites.

Personal Liability

Pursuant to Section 45 of the Ordinance, Board Members are exempted from personal liability in respect of anything done, or omitted to be done, by them in good faith in relation to the performance or purported performance of any function under the Ordinance.

BOARD PROCESSES

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

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

Key Elements of the Current Modus Operandi

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

Summary of Work Done in 2018/19

- Held six meetings with an average attendance rate of 82%
- Considered 36 papers
- Significant matters considered / resolved:

Corporate

- Corporate goals and performance measures
- Board Committees' membership
- Aviation Academy development
- Internal control review and risk and business continuity management
- Annual and 5-year business plans

Financial

- Annual budget and 5-year financial plan
- Audited financial statements and unaudited interim financial report
- Quarterly management accounts and reports
- Appointment of the external auditor
- Annual dividend
- Execution of 3RS financing plan

Projects

- Major contracts under the 3RS project
- Projects relating to airport expansion and enhancement

Commercial and Business Strategies

- Major commercial licences
- Acquisition of AsiaWorld-Expo
- Tender award of SKYCITY development
- Tender award of premium logistics centre

Human Resources

- Staff remuneration, pay structure and benefits review
- Corporate performance assessment
- Reappointment of senior management

Operations

- Transformation of passenger terminal building
- Capacity enhancement

MEETINGS

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

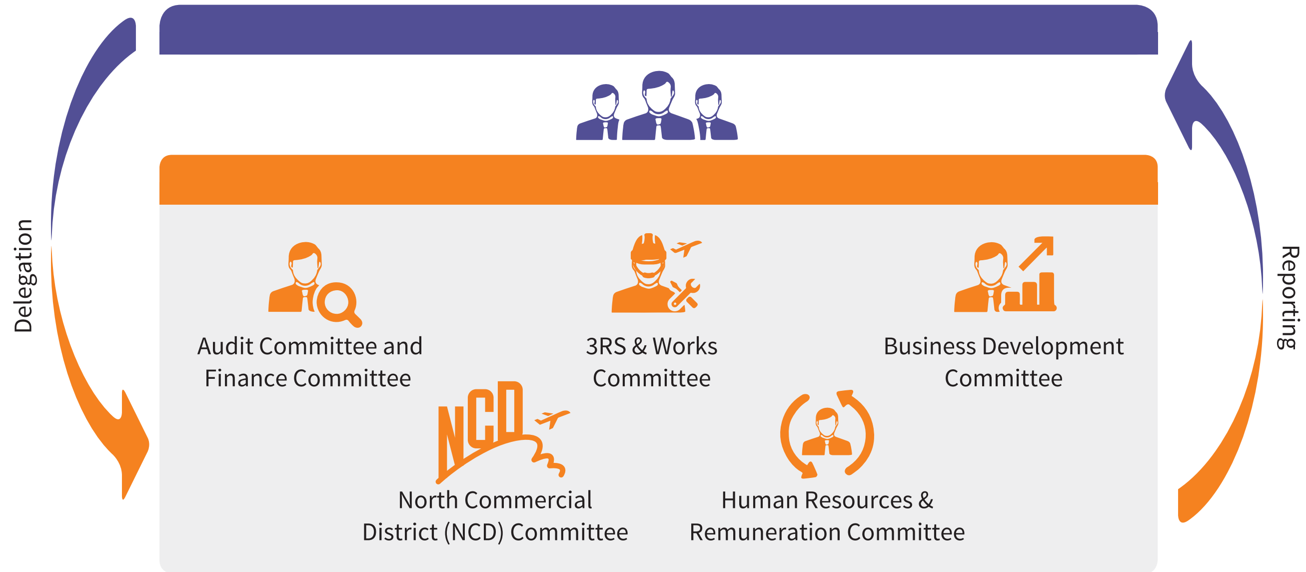
Members are required to declare their interests in business proposals, if any, to be considered by the Board. Members with interests are required to withdraw from the relevant discussions and decision-making process as appropriate. For the financial year ended 31 March 2019, there were five occasions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

BOARD COMMITTEES

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

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

Board Committees



Interface between Board and Board Committees

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

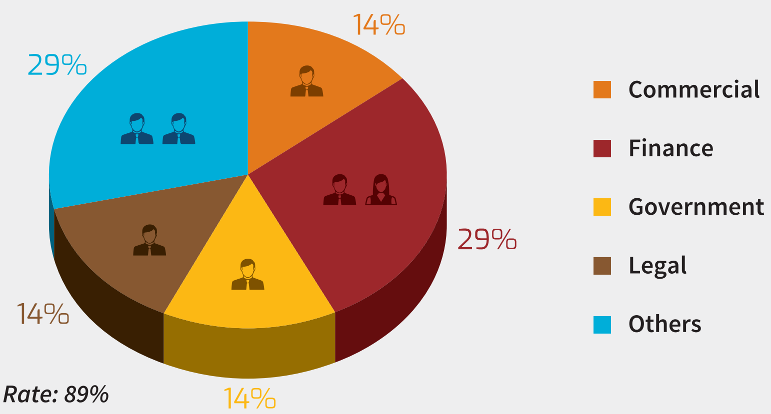
The terms of reference of Board Committees are reviewed from time to time in light of AAHK's evolving operational, business and development needs. A review was last conducted in 2017 to ensure that there were no material gaps or overlaps between the remits of the Committees. The terms of reference of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

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

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

Audit Committee and Finance Committee (ACFC)

Members' Background – ACFC



Average Attendance Rate: 89%

Members

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

Independent Non-executive

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

Non-executive

- Secretary for Financial Services and the Treasury

Principal Duties

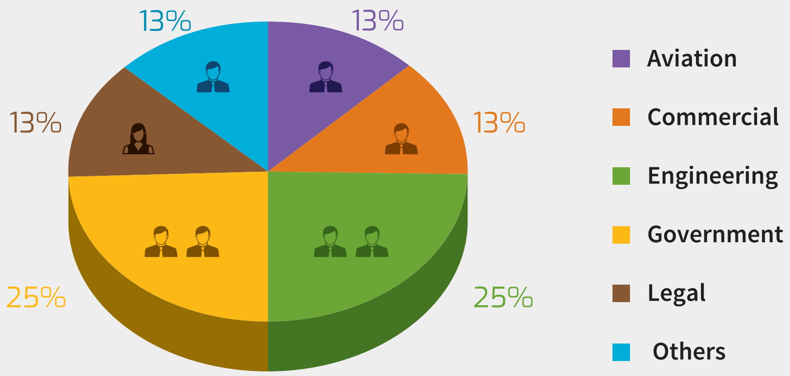
1. Reviews financial statements
2. Makes recommendations on the appointment of the external auditor, approves its remuneration and terms of engagement and oversees AAHK's relations with the external auditor
3. Reviews accounting policies, annual budget and five-year financial plan
4. Oversees internal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

Summary of Work Done in 2018/19

- Held four meetings with an average attendance rate of 89%
- Considered 16 papers
- Significant matters considered or resolved:
  - Audited annual financial statements and unaudited interim financial report
  - Annual budget and five-year financial plan
  - Quarterly operating results
  - Dividend policy
  - Appointment of the external auditor and approval of audit fee and non-audit services
  - Review of external auditor's report and the effectiveness of the audit process
  - Annual corporate governance, risk management and internal control review reports
  - Adequacy of resources, qualifications and experience of staff of the accounting, internal audit and financial reporting functions
  - Annual internal audit programme, quarterly internal audit reports and effectiveness of the internal audit function
  - Execution of 2018/19 financing plan for the 3RS

3RS & Works Committee (3RSWC)

Members' Background – 3RSWC



Average Attendance Rate: 90%

Members

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

Independent Non-executive

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

Executive

- Mr Fred Lam

Non-executive

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

Principal Duties

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

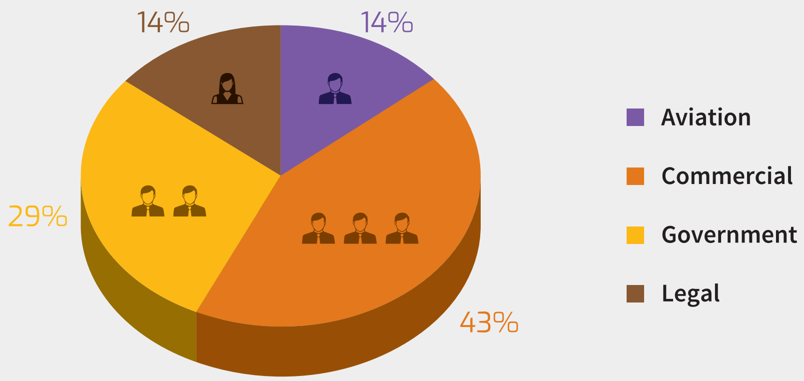
1. Advises and makes recommendations to the Board on key works-related matters for the 3RS and other capital works projects
2. Reviews and approves procurement strategy and evaluation criteria for the 3RS and works contracts and consultancy agreements
3. Reviews and approves or makes recommendations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

Summary of Work Done in 2018/19

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

Business Development Committee (BDC)

Members' Background – BDC



Average Attendance Rate: 78%

Members

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

Independent Non-executive

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

Executive

- Mr Fred Lam

Non-executive

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

Principal Duties

Considers, approves and makes recommendations to the Board on:

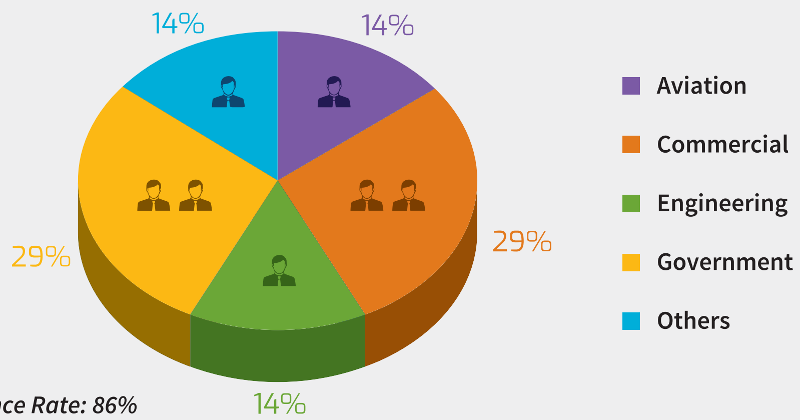
1. Business strategies relating to the development of HKIA
2. Airport commercial and business development plans and proposals other than the 3RS and North Commercial District (NCD) developments
3. Major commercial or operational commitments, including review of airport charges and other pricing and charging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

Summary of Work Done in 2018/19

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

NCD Committee (NCDC)

Members' Background – NCDC



Average Attendance Rate: 86%

Members

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

Independent Non-executive

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

Executive

- Mr Fred Lam

Non-executive

- Secretary for Financial Services and the Treasury
- Secretary for Transport and Housing

Principal Duties

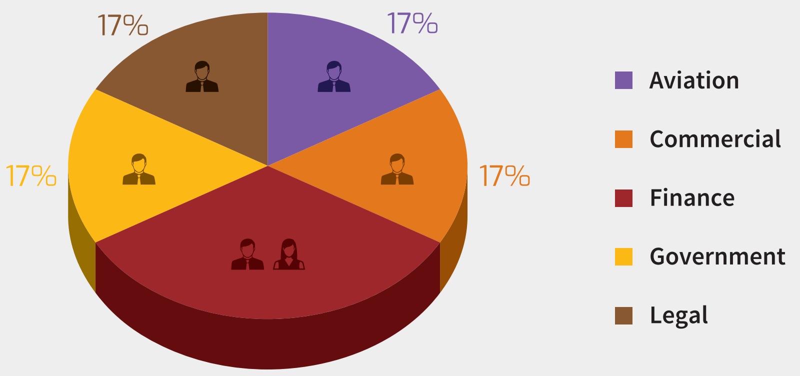
1. Oversees the master planning of the NCD development
2. Advises and makes recommendations to the Board on development strategies for the NCD site and monitors the progress of the NCD development
3. Approves and makes recommendations to the Board on major terms and conditions of commercial tenders for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

Summary of Work Done in 2018/19

- Held one meeting with an attendance rate of 86%
- Received one presentation
- Significant matters considered or resolved:
  - SKYCITY Phase 1 retail, dining and entertainment facilities design
  - SKYCITY project development progress

Human Resources & Remuneration Committee (HRRC)

Members' Background – HRRC



Average Attendance Rate: 83%

Members

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

Independent Members

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

Executive

- Mr Fred Lam

Non-executive

- Secretary for Transport and Housing

Principal Duties

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

Summary of Work Done in 2018/19

- Held two meetings with an average attendance rate of 83%
- Considered 4 papers
- Significant matters considered / resolved:
  - Annual review of staff remuneration
  - Annual corporate goals and performance measurements
  - Annual corporate performance assessment and award of variable compensation for staff
  - Pay structure and benefits review
  - Re-appointment of senior management

Meeting Attendance (1 April 2018 to 31 March 2019)

Board Members	Board[4]	ACFC[4]	3RSWC	BDC	NCDC	HRRC
Non-executive						
Secretary for Transport and Housing	6/6		5/6	3/4	1/1	2/2
Secretary for Financial Services and the Treasury	6/6	4/4			1/1	
Director-General of Civil Aviation	6/6		5/6	4/4		
Independent Non-executive						
The Hon Jack So Chak-kwong (Chairman of the Board)	6/6					
Ms Linda Chan Ching-fan[2]	3/5		5/5	3/3		
Mr Andrew Fung Hau-chung[3]	0/1	1/1		0/1		
Ms Anita Fung Yuen-mei	4/6	4/4[1]				0/2
The Hon Steven Ho Chun-yin	5/6	4/4	3/6			
Mr Franklin Lam Fan-keung	5/6	3/4			1/1	
The Hon Jeffrey Lam Kin-fung	5/6	3/4				2/2[1]
Ir Lee Shing-see	6/6		6/6[1]		1/1	
Mr Peter To	6/6			2/4	1/1[1]	
Mr Carlson Tong	5/6	3/4				2/2
Mr Adrian Wong Koon-man[2]	3/5	3/3				1/1
Ir Billy Wong Wing-hoo	5/6		6/6			
The Hon Frankie Yick Chi-ming	5/6		6/6	4/4		
Dr the Hon Allan Zeman	5/6			4/4[1]	0/1	
Executive						
Mr Fred Lam (CEO)	6/6		6/6	4/4	1/1	2/2
Total number of meetings held during the year	6	4	6	4	1	2

Notes:
[1] Chairman of the Committee throughout the term
[2] Appointed to the Board and Committees on 1 and 21 June 2018 respectively
[3] Retired as Board and Committee Member on 31 May 2018
[4] Representatives of the external auditor participated in two Board meetings and two ACFC meetings during the year

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

Balance of Responsibility

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

Matters reserved for the Board's decisions include:

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

CHAIRMAN AND CEO

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

Chairman (INED)

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

CEO

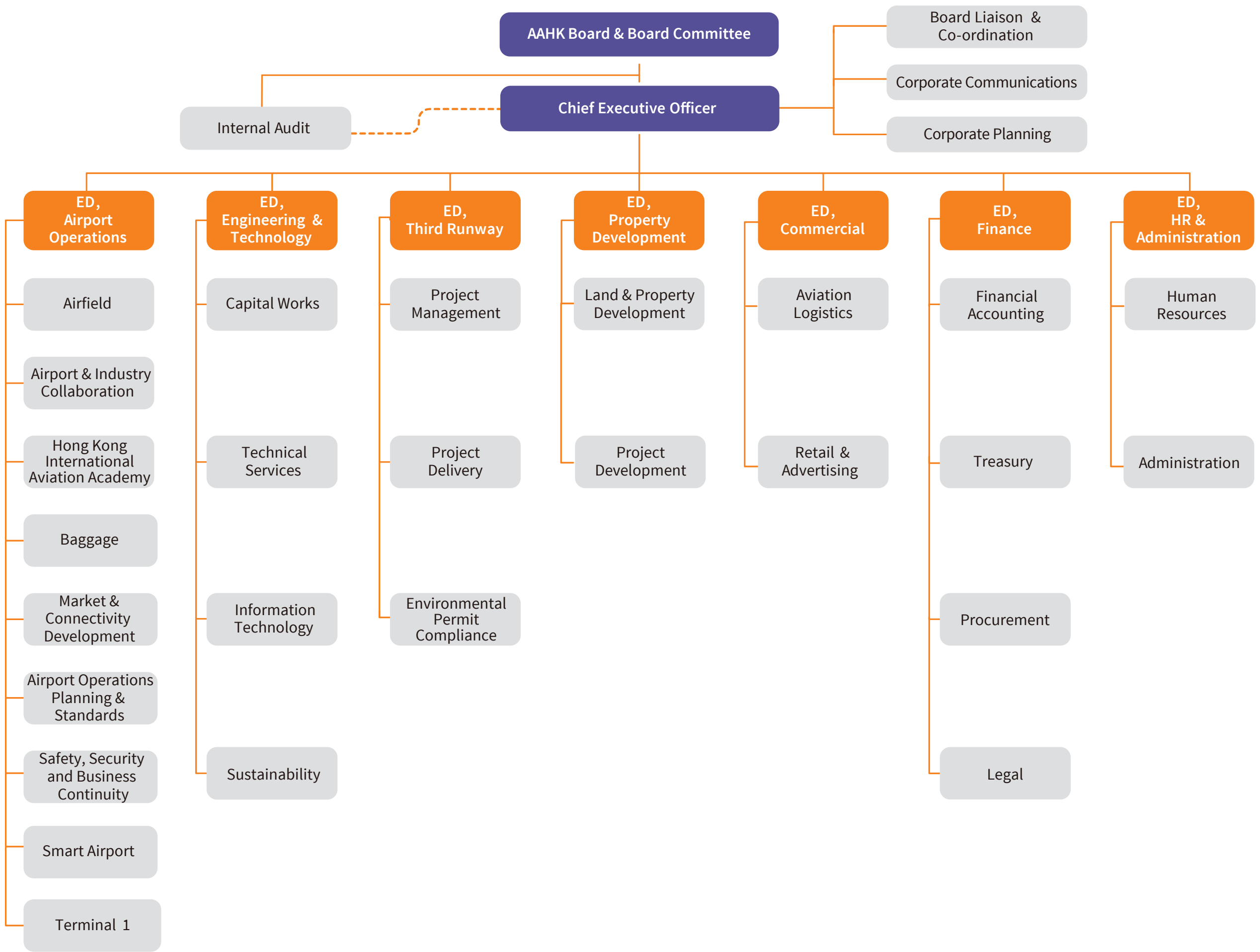
- Formulates strategic operating plans in line with the objectives established by the Board
- Assumes executive responsibility for day-to-day operational performance
- Leads the management team to implement the policies and strategies adopted by the Board

EXECUTIVE MANAGEMENT

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

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

AAHK ORGANISATION STRUCTURE



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

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

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

KEY ADVISORY COMMITTEES AND MANAGEMENT COMMITTEES

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

Management Committees

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

Advisory Committees

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

EXTERNAL STAKEHOLDERS

Transparency

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

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

Communication

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

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

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

To enhance understanding of the 3RS project during its construction, AAHK established a programme for engaging stakeholders, which includes meetings, briefings and visits. The Professional Liaison Group and five Community Liaison Groups meet from time to time for project updates and to collect feedback from experts and community leaders. A dedicated website (www.threerunwaysystem.com) provides updates on the 3RS.

Conferences and briefings are held regularly with Management and staff about work being done and plans to achieve AAHK's goals. These meetings also provide opportunities for senior management to update staff on new projects and share their thoughts on future corporate direction and focus. Key corporate objectives, strategies, results and information about major events are shared at town hall meetings that allow face-to-face communication with AAHK's staff. Chaired by the CEO, the weekly management meeting serves as an important information sharing platform for senior management to keep abreast of the latest developments and current corporate issues. Minutes of the management meetings are sent to all staff and made available on the AAHK's intranet.

SUSTAINABILITY

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

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

- The annual corporate planning exercise requires all departments to identify key challenges before formulating strategic priorities or projects in their annual business plan and rolling 5-year business plan. The status of projects is reviewed by senior management throughout the period.
- Executive management undertakes an annual review of the internal controls for key business, operational, financial and compliance risks facing each department and major subsidiaries. Additional details are described in the Review on Internal Controls section of this report.
- The Safety, Security and Business Continuity Department assesses operational risks to ensure HKIA's preparedness and minimise the effects of potential disruptions to flows of passengers, baggage, aircraft, cargo and information. Business continuity plans are developed and tested to manage potential disruptions.
- The 3RS project has developed a risk assessment and management system tailored to its requirements that reports through the 3RS & Works Committee to the Board.

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

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

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

Internal Controls

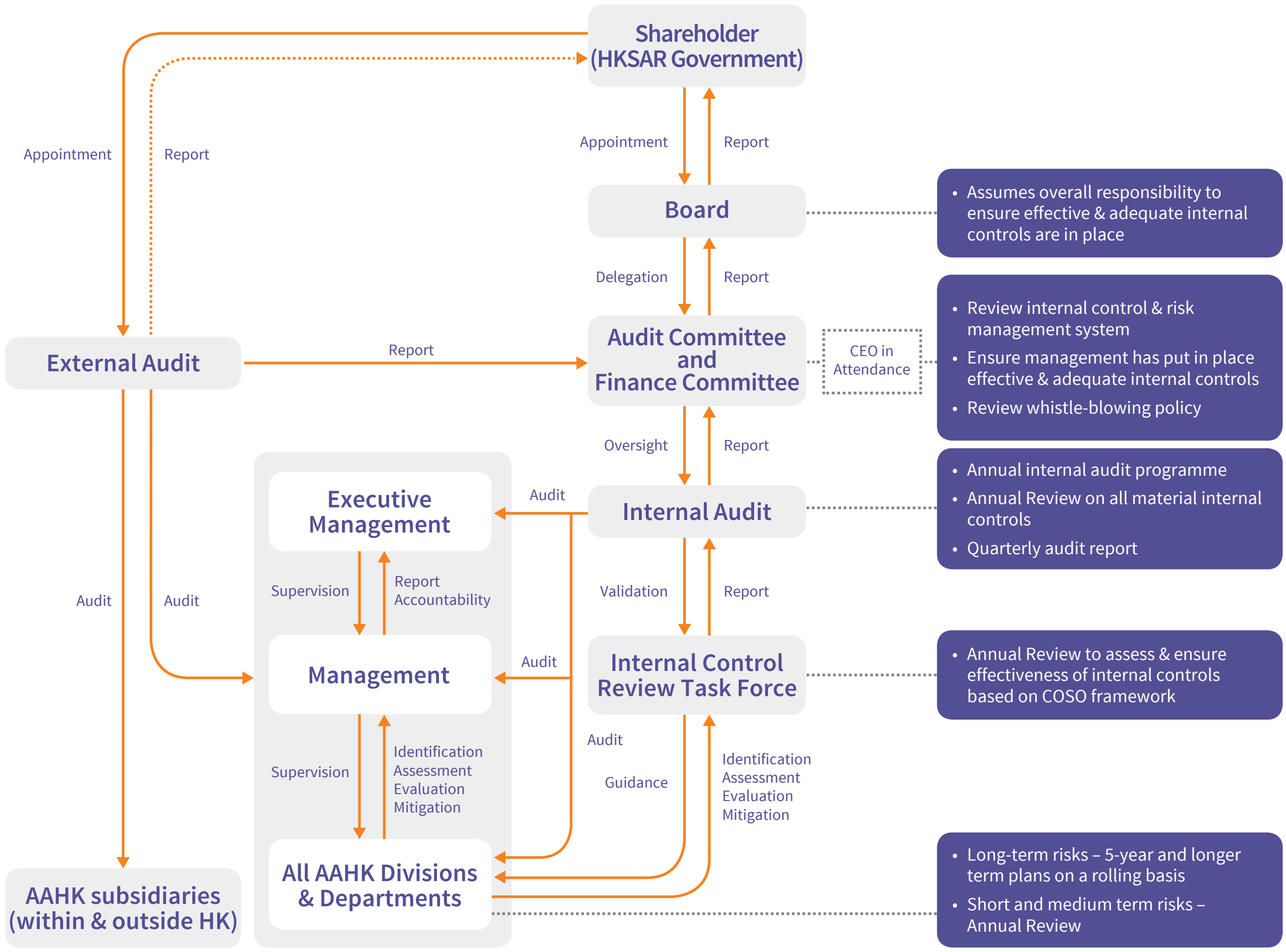
Internal controls form an integral part of AAHK's management system and are embedded in the operational procedures of functional departments. The underlying principle of AAHK's internal controls is to manage and mitigate, rather than to eliminate risks.

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

- Operations are safe, secure and free from serious interruptions
- Assets are prudently safeguarded
- Maximum value for money is obtained from its expenditures
- Business activities are conducted in a fair and responsible manner
- Financial reporting is accurate, transparent, timely and complete
- The business and operations of AAHK are conducted in compliance with relevant laws and regulations, and prudent commercial principles as stipulated in the Ordinance

Key features of our internal control framework are depicted below:

INTERNAL CONTROL FRAMEWORK



Risk management and internal controls are a critical focus for all levels at AAHK: the Board, the ACFC, executive management and operating and supporting functions. Our quantitative risk profile is assessed through a bottom-up analytical approach covering all operating and supporting functions.

The Board

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

Audit Committee and Finance Committee (ACFC)

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

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

Executive Management

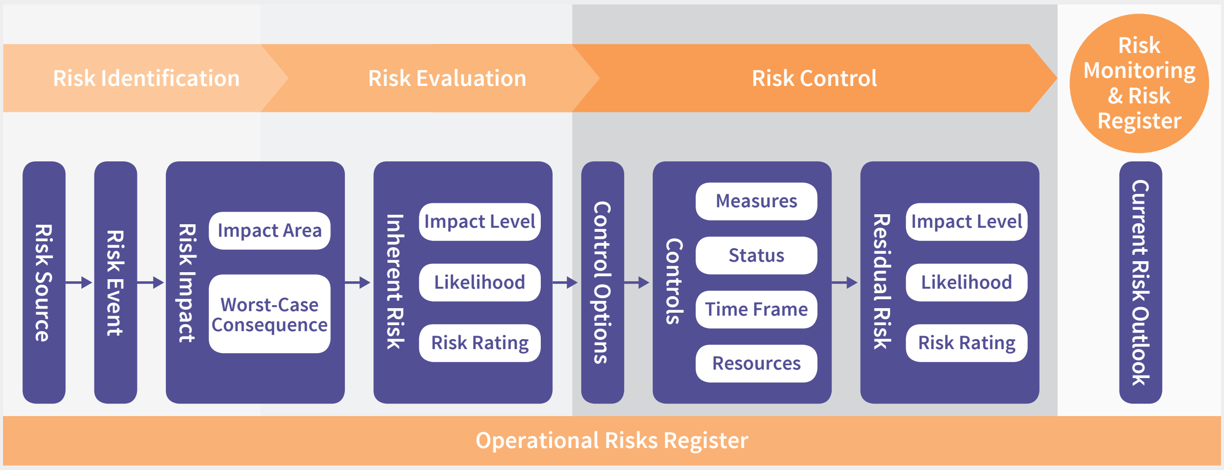
To recognise emerging risks from economic, market or environmental changes, management uses ongoing risk assessments to identify new exposure areas and implement appropriate mitigation measures.

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

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

Operating and Supporting Functions

Given the myriad potential risks that may affect the operations of the airport, all operating departments are required to implement a thorough risk identification process to review the risk and business continuity management processes pertaining to operational areas that are critical to sustaining the continuous operation of the airport. The key elements of AAHK's risk identification process include the establishment of an Operational Risks Register to track and document identified risks, the development and continual updating of preventive and responsive procedures, and the testing and drilling of action plans and procedures to ensure their effectiveness.



External Audit

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

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

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

(in HK$ million)	**2018/19**	2017/18
Audit fee	**6**	6
Fees for non-audit services	**2**	1

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

Internal Audit

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

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

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

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

Reviews on Internal Controls

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

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

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

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

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

DELEGATION OF AUTHORITY

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

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

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

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

FINANCIAL PLANNING, CONTROL AND REPORTING

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

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

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

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

ACCOUNTABILITY

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

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

DISCLOSURE OF INTERESTS

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

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

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

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

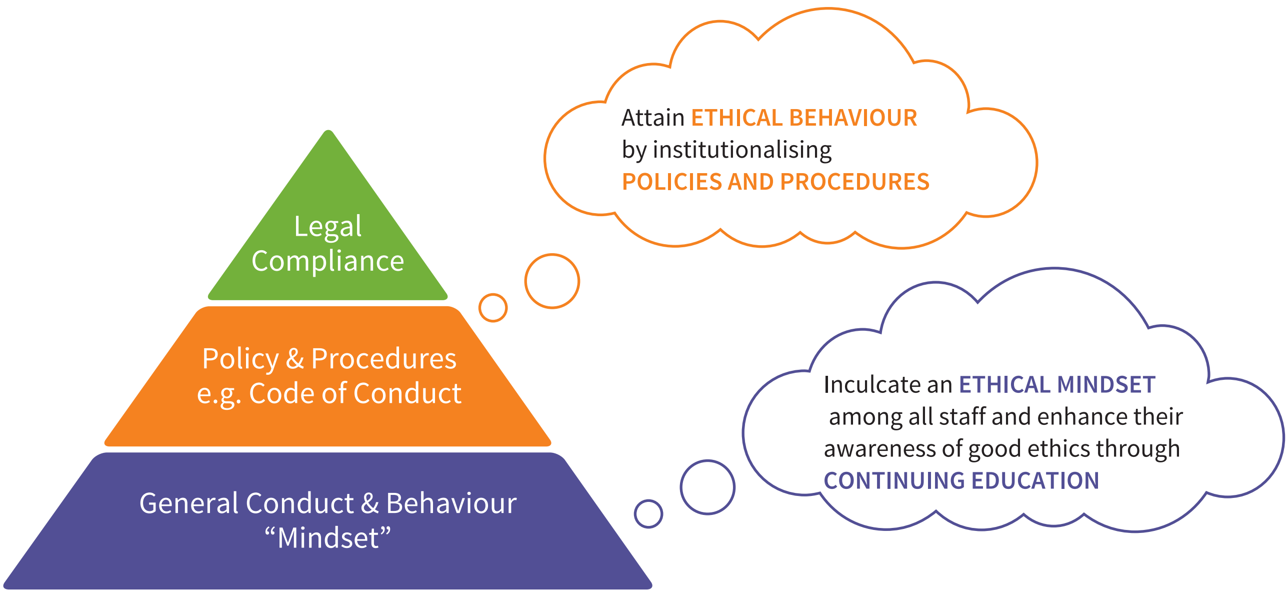
ETHICAL CULTURE

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

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

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

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



Compliance training is conducted to instill an ethical culture in new staff:

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

QUALITY OF STAFF

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

WHISTLE-BLOWING POLICY

To further strengthen corporate governance, a whistle-blowing policy is in place to encourage and guide staff members to raise serious concerns about impropriety including malpractice, unethical behaviour and violations of the Code directly to the Chief Internal Auditor for investigation, if appropriate, without any risk of retribution.

Ethics-related matters are referred to the Ethics Panel for review. Comprising members of senior management, the panel makes recommendations to the CEO after due consideration of the matter.

COMPLIANCE

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

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

FINANCIAL REPORTING

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

Corporate Governance Code and Corporate Governance Report

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

Code Provision		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.5.5	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 Government of the HKSAR and are not publicly traded.
C.2.4 (e)	This code provision relates to the disclosure of procedures and internal controls for handling and dissemination inside information.	

Code Provision		Reason for Deviation
A.6.5	Arranging and funding suitable training for all directors to participate in continuous professional development. Directors to provide a record of the training they received to the issuer.	AAHK arranges 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.	
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 before a meeting (excluding the date of despatch and the date of the meeting). About 81.4% of 97 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 Practice		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 Board Members by band from the financial year 2014/15 onwards. Board Members' remuneration continues 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 Government of the HKSAR, are members.

RISK MANAGEMENT

Airport Authority Hong Kong (AAHK) recognises the risks it faces and manages them by establishing a good internal control environment and making continual improvements to suit changing operational needs. The Corporate Governance Report on pages 17 to 43 sets out details of our risk management and internal control systems.

RISK PROFILES AND CONTROLS

Key risks identified in the annual review for 2018/19 and controls put in place are as follows:

Strategic and Operational Risks

Strategic risks may arise from poor business decisions, substandard execution of decisions, inadequate resources or failure to respond to changes in the business environment. Inadequate or failed procedures, systems or polices can lead to operational risks.

Major Challenges	• Maintaining Hong Kong as a centre of international and regional aviation is part of AAHK's statutory mandate • Meeting ever-increasing traffic demand, which is expected to reach over 120 million passengers and about 10 million tonnes of cargo (including airmail) in 2035, according to the latest IATA Consulting forecast • Availability of project management staff and skilled labour to successfully deliver the three-runway system (3RS) and other projects • Maintaining high service standards in a congested airport • Unforeseen disruptions to flow management • Maintaining ageing facilities
Controls in Place	• The 3RS is a strategic development project that will help to enhance Hong Kong's long-term competitiveness and economic development. The new North Runway is expected to be commissioned in 2022, and action plan in hand to prepare for the commissioning • Procurement of external consultants and specialists to augment in-house project management resources • Close collaboration with educational, trade and government bodies to provide training for local workers • Constant monitoring and regular reviews of service delivery standards and operating procedures • Contingency plans and regular drills to test the response capabilities of all concerned parties and minimise impact on passengers • Research into new technologies to improve efficiency in predictive and smart maintenance • Continual investment in facilities upgrades and replacement projects to ensure efficient and safe operation

Environmental Risk

Caring for the environment is an imperative for the long-term sustainable development of Hong Kong International Airport (HKIA) and 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 AAHK 5-year environmental plan. Three categories of environmental risk have been identified: regulatory, reputational and operational.

Major Challenges	• Operating in full compliance with environmental legislation • Implementing AAHK's environmental initiatives
Controls in Place	• Maintain an environmental management system in accordance with ISO14001 • Continue to ensure that projects, including the 3RS, incorporate environmental considerations from the early planning stage onwards • Ensure any footprint reduction measure is supported by a sound business case that is based on a combination of cost and/or risk reduction

Details of our environmental initiatives are set out in Sustainability Report 2017/18, which is available from www.hongkongairport.com.

Safety, Security and Health Risks

Safety is the cornerstone of HKIA's smooth operation. The effective implementation of a safety management system is crucial for ensuring the safety of airport staff and passengers. HKIA delivered a remarkable safety performance in 2018/19. The Airport Composite Safety Index, which measures the rate of injuries among airport staff and passengers, 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	• Upholding high standards of safety while facing rapid growth in the aviation industry • Reinforcing safety consciousness and security awareness among airport staff • Changing threats from acts of terrorism committed around the world • Emerging global public health risks, such as Zika virus disease, Middle East Respiratory Syndrome (MERS) and measles
Controls in Place	**Safety** • Operate an effective safety management system with our business partners and regularly review and update the Aerodrome Safety Management System Manual • Adopt a risk-based approach for implementing safety inspections and audit programmes • Arrange mandatory basic safety training and safety awareness testing for airport restricted area permit holders, baggage hall operators and works contractors and safety briefing to non-permit holders • Organise quarterly theme-based safety promotion programmes for the airport community **Security** • Kerbside bollards at entrances to Terminal 1 provide additional physical protection against vehicle-borne explosives • Liquid explosives detection at transfer security points through liquids, aerosols and gels (LAG) screening • Control measures to enhance the accountability and traceability of tradespersons' tools brought into restricted areas for work purposes • Enhanced security measures for electronic devices on United States–bound flights per US Transportation Security Administration (TSA) requirements confirmed to be in full compliance by the TSA • Briefing sessions and workshops to reinforce security awareness amongst the airport community

Safety, Security and Health Risks

Controls in Place	**Health** • Monitor and closely co-ordinate with the Government of the HKSAR and the airport community to address potential public health risks • Support government response plans for major disease outbreaks through: – Temperature screening of arriving passengers – Public announcements, and displaying posters and distributing leaflets to passengers arriving from affected areas, where appropriate – Workshops with the Port Health Office to raise awareness of public health risks amongst the airport community – Joint exercises with the Department of Health to familiarise the airport community with emergency response protocols for public health incidents.

Financial Risk

AAHK is exposed to a variety of financial risks.

Major Challenges	• Credit, liquidity, interest rate and foreign currency risks
Controls in Place	• 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 134 to 139.

Information Technology Risk

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

Major Challenges	• The adoption of new technologies and the rise in intensity and sophistication of cyberattacks may introduce instability or security exposure to HKIA's IT infrastructure and systems • Emerging technologies and trends, such as the "Internet of Things", cloud computing, big data and further IT (Information Technology) OT (Operational Technology) convergence, may make the airport's operational systems more exposed to vulnerabilities
Controls in Place	• IT governance and risk management frameworks ensure consistent risk assessment and management • An annual review ensures IT projects align with corporate strategies • Continual monitoring of emerging IT security risks, with proactive measures to enhance risk awareness • Preventive, detective and containment measures mitigate security threats, while monitoring tools alert management to risks and vulnerabilities • Annual IT obsolescence review and mitigation planning with regular reviews of the mitigation progress • Cybersecurity Committee steers the strategic direction of cybersecurity and IT/OT convergence

Legal and Regulatory Risk

Effective management of legal and regulatory risks helps management avoid taking unnecessary and imprudent risks in the business, operation and development of HKIA.

Major Challenges	• Violation of law, non-compliance with regulatory requirements and breach of contract, even if unintentional, may bring about legal consequences affecting AAHK, including damage to reputation, disruption to business or operations, and pecuniary loss associated with enforcement actions and lawsuits
Controls in Place	• A proactive and forward-looking approach to monitoring changes in government policy and legislation. Judgments, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to AAHK • Policies, procedures and appropriate action steps to manage risk and address changes in a timely way to guide management to operate legally and within AAHK's acceptable risk level • Ongoing management education to manage risk and adapt to any changes. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement

Human Resources Risk

Airport expansion to meet growing demand is a key work focus in the medium to long term. An insufficient supply of talent to support airport development will adversely affect HKIA's growth and hub status.

Major Challenges	• Acquisition of sufficient talent to support HKIA's expansion
Controls in Place	• A human resources plan up to 2025/26 and resourcing strategies ensure a timely supply of talent • Continued enhancement to AAHK's people development framework and training curriculum to ensure staff have the expertise and experience to support the airport's growth

Reputation Risk

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

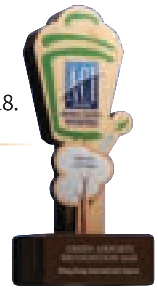
Major Challenges	• Managing and pre-empting possible reputational risks
Controls in Place	• Public sentiment and socio-economic dynamics are closely monitored • Continuous engagement with key stakeholders to enhance understanding of and gauge views about HKIA's short-, medium- and long-term development • A database is used to track and monitor public affairs issues • Engagement plans are in place to ensure effective communication with key stakeholder groups on an ongoing basis

EVENT HIGHLIGHTS

2018

APR

Hong Kong International Airport's (HKIA) mobile app, "HKG My Flight", wins gold in the "Smart Mobility (Smart Transport)" category at the Hong Kong ICT Awards 2018.



HKIA clinches "Platinum Recognition" in the Asia-Pacific Green Airports Recognition 2018 organised by Airports Council International.

MAY

Airport Authority Hong Kong (AAHK) awards the right to develop and manage a 350,000-square-metre integrated commercial development, comprising retail, dining and entertainment facilities, in SKYCITY to Roxy Limited, a wholly owned subsidiary of New World Development Company Limited.

AAHK's commitment to sustainability is recognised with a "10th Anniversary Special Award" at the Hong Kong Awards for Environmental Excellence held by the Environmental Campaign Committee.

JUN

AAHK awards the right to develop and manage a premium logistics centre in the South Cargo Precinct to a joint venture led by Cainiao Network, the logistics arm of Alibaba Group.

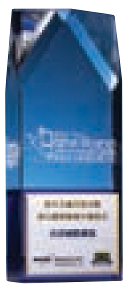
AAHK signs two memoranda of understanding with Groupe ADP, operator of Paris-Charles de Gaulle, to strengthen co-operation in airport management, and aviation and air cargo development.

JUL

Virgin Australia begins service at HKIA with daily direct flights to Sydney.

HKIA commemorates its 20th anniversary with a series of celebration activities.

AUG



"HKG My Flight" and MyTAG, a smart luggage tag developed by AAHK, claim prizes in the Digital Brand Awards 2018 organised by the Chamber of Hong Kong Computer Industry and Metro Broadcast Corporation Limited.

SEP

EgyptAir starts twice-weekly flights from HKIA to Cairo.

AAHK acquires AsiaWorld-Expo Management Limited, the company that operates AsiaWorld-Expo (AWE), a 70,000-square-metre convention centre on the airport island. The acquisition will generate strong synergies between AWE and SKYCITY and other airport developments.

OCT

HKIA receives three accolades at the Asia Pacific ICT Alliance Awards for strategic implementation of smart technology.

HKIA is named "Best Airport: Asia" in *Monocle's* Travel Top 50 Awards.

Thai Smile Airways starts operating at HKIA with daily flights to Bangkok and Phuket.

NOV

AAHK hosts the Mega Hub Airports–CEO Summit, a forum for communication and co-operation among international aviation hubs.

SpiceJet begins daily flights from HKIA to Delhi.

DEC

AirAsia launches flights from HKIA to Krabi and IndiGo starts service to Bangalore.

Hong Kong International Aviation Academy attains full membership in the International Civil Aviation Organisation's TRAINAIR PLUS Programme.

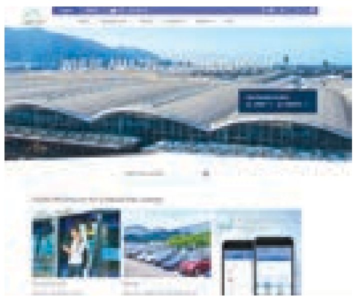
HKIA is honoured with the "Airport of the Year" title by *International Airport Review*.

2019

JAN

In collaboration with Brussels Airport, HKIA launches an airport-to-airport pharma corridor, offering secure service for shipments of temperature-sensitive pharmaceuticals.

The HKIA website and "HKG My Flight" earn "Triple Gold Awards" in the Web Accessibility Recognition Scheme co-organised by Hong Kong Internet Registration Corporation Limited and the Office of the Government Chief Information Officer.

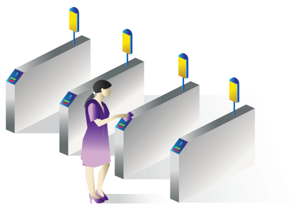


FEB

AAHK signs a memorandum of understanding with the Hainan Provincial Development and Reform Commission, facilitating closer co-operation with airports in Hainan, China.

MAR

HKIA is the world's first airport community to receive Centre of Excellence for Perishable Logistics (CEIV Fresh) certification from the International Air Transport Association.



PASSENGER SERVICES

With new technologies and innovative ideas, Hong Kong International Airport (HKIA) smooths and enriches the passenger experience, reinforcing our status as a leading international aviation hub.

A WELCOMING ENVIRONMENT

In a major investment to enhance the airport's ambience, we will transform the 49 boarding gates in Terminal 1 (T1) into vibrant zones catering to the needs of different groups of travellers. With themes such as entertainment and technology, family-friendly and relaxation, these zones will feature movies, interactive games and children's play areas, as well as work tables and reclining chairs where passengers can unwind or catch up on their work. New landscaping and artwork will also be installed. The project will increase T1's airside seating capacity by 5%. Designs for the gates were finalised in 2018/19, and construction will begin in 2019/20. Completion is scheduled for 2021.

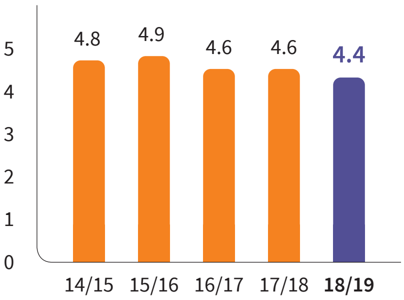
During the year, we increased passenger convenience by introducing new services and upgrading existing amenities. For instance, we launched a drop box service at departure security checkpoints that lets passengers with non-dangerous goods that cannot be taken through security send the items to local or overseas addresses by mail. Passengers can also dispatch items prior to security screening from the post office or a new international courier counter in T1's Departures Hall.

A medical post opened near Departure Gate 34, complementing an existing facility in the non-restricted area. Construction of a new shower room on the Arrivals Level has started, after the free showers that opened in 2017/18 proved popular with passengers. In addition, we boosted the efficiency of our lost-and-found services with a new, bar code–based system that helps us better track the location and retention period of items found at the airport.

The revamped boarding gate areas will better suit the needs of different types of travellers.

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

(millions of passengers)



SMART TRAVEL AT HKIA

To expedite passenger flow, 44 e-Security Gates were installed at T1's departure security checkpoints in 2018/19. The gates use facial recognition technology to compare passengers' biometric data and passport photos, allowing for processing time of about 20 seconds. By 2020, we plan to install around 40 of these gates at nine of HKIA's transfer security checkpoints.

The e-Security Gates are part of a plan to implement a single-token travel experience at HKIA. We will extend the use of facial recognition technology from check-in to boarding, so passengers can use their face as identification and breeze through the airport.

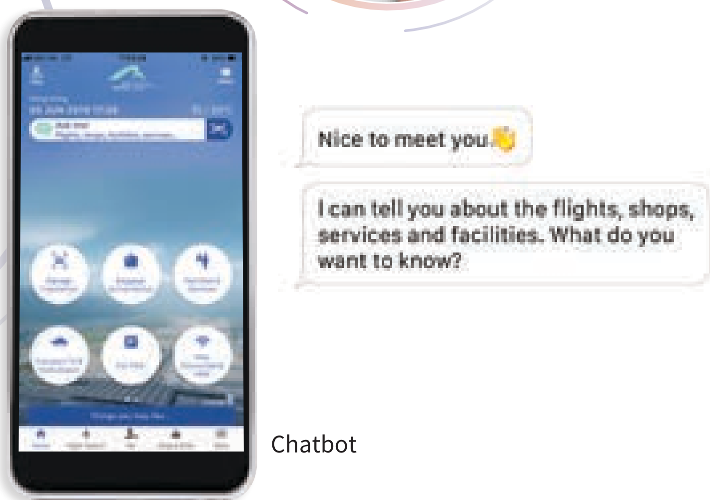
This year, we added several convenient features to our mobile app, "HKG My Flight". Travellers can now receive traffic congestion alerts 4 hours before their flight and use the app to pay for parking at HKIA. A chatbot has been introduced to answer questions about flights

e-Security Gates complete identity verification in about **20** seconds

Traffic alerts and online payment for airport parking

e-Coupon

More friendly services from our "HKG My Flight" mobile app



Chatbot

and our facilities and services. The chatbot handles queries from about 3,000 users each day, with a 93% success rate. And an e-coupon service helps shoppers easily collect, manage and redeem coupons from online and physical stores at HKIA. New functions, such as booking baggage pickups and destination guides, are now under development.

"HKG My Flight" is widely recognised in the information technology industry, winning a gold award in the Hong Kong ICT Awards and a merit award in the Asia Pacific ICT Alliance Awards.

Technology is also used to maintain a pleasant environment. This year, we piloted the use of a multifunctional robot that gathers data on environmental conditions, such as temperature, and the status of Wi-Fi and iBeacon signals in the terminal buildings. In future, we will introduce video analytics that will permit the robots to detect anomalies such as garbage on the floor and problems with overhead lights and flight information displays.

Airport Authority Hong Kong (AAHK) continues to support the development and introduction of new technologies at HKIA. This year we expanded the Smart Airport Technovation Conference and Exhibition into a two-day event and welcomed a record 1,400 participants. The Smart Airport Technovation Awards were launched at the event to further encourage the airport community to adopt innovative technologies.

Robots monitor the terminal environment

iBeacon signals

Wi-Fi signals

Temperature

The refurbished East Hall food court offers a wider variety of cuisines around the clock.

ENRICHED DINING AND SHOPPING

Dining and shopping are keys to passenger satisfaction and a focus for our enhancement activities.

In December 2018, renovations on the north side of the East Hall food court were completed. Branches of three Michelin-recommended brands—Tasty Congee & Noodle Wantun Shop, PUTIEN and Moon Thai Express—opened and are now serving passengers around the clock. Renovations on the south side of the food court started in February 2019 and will be completed in the third quarter of 2019, when four new food kiosks will open. The project increases the food court's total seating capacity from 900 to 1,200.

Launched in October 2018, the Airport Shopping Ambassadors programme helps passengers make faster, better-informed decisions by proactively offering information about the airport's shopping and dining outlets and latest promotions. In its first six months of operation, around 170,000 passengers used this popular service.

In December 2018, we introduced an electronic version of the Airport Shopping Ambassadors programme. Passengers sending an enquiry via www.hongkongairport.com receive shopping and dining information, as well as itinerary suggestions before they arrive at HKIA. An e-newsletter that keeps passengers abreast of new shops and services at HKIA also debuted in December 2018.

We continue to diversify our retail mix, introducing new categories such as athleisure wear and kids entertainment. Product variety on "HKairport Shop", an online platform where passengers order goods and pick them up at HKIA, expanded with the addition of lifestyle and travel gadgets, fashion accessories and watches. "HKairport Shop" now offers more than 3,500 items.

PASSENGERS BY MARKET

(year ended 31 March 2019)

SOUTH EAST ASIA
25%

MAINLAND
20%

JAPAN
12%

TAIWAN
11%

EUROPE
8%

USA & CANADA
7%

AUSTRALASIA
5%

OTHERS
12%

HKIA's shopping and dining won several accolades in 2018, including two prestigious "Product Awards" from *Duty Free News International*. For the ninth time since 2007, HKIA was cited in the annual Skytrax survey for offering the "World's Best Airport Dining Experience".

Stationed in key locations throughout HKIA's retail areas, Airport Shopping Ambassadors advise passengers on the airport's dining and shopping information and latest promotions.

INCREASED SAFETY AND SECURITY

The safety and security of passengers, airport staff and our business partners remains our highest priority.

All transfer passengers may now carry more than 100 millilitres of liquids, aerosols and gels (LAGs) in sealed, tamper-evident bags in their hand baggage. In August 2018, following acceptance by Hong Kong's Aviation Security Authority, we updated screening procedures for LAGs carried through HKIA's transfer security checkpoints in sealed, tamper-evident bags. The revised procedures introduced the security screening of LAGs using equipment that is specifically designed to detect liquid explosives.

The new procedures were subsequently approved by the US Department of Homeland Security and Australia's Department of Home Affairs, thereby exempting airlines operating flights to the US and Australia from having to conduct additional searches of LAGs at boarding gates. The new arrangements enhance transfer security screening and provide a smoother boarding experience for passengers.

In 2018/19, we completed a two-year programme to add ramp handling to HKIA's business continuity manual, which documents major operational risks and our plans to address them. Working with the three ramp handling companies operating at HKIA, we identified specific risks that may disrupt airport operations. These risks were consolidated as a subcategory in our Operational Risk Register. Each risk was assessed and, where appropriate, mitigation measures were applied and business continuity plans established.

This year, the Airport Composite Safety Index score was 2.78, exceeding our target by 26.5%

SERVICE PERFORMANCE IN 2018/19

95.1%	**Baggage Delivery (First Bag)[1]**
92.6%	**Baggage Delivery (Last Bag)[2]**
91.4%	**Passenger Embarkation & Disembarkation by Air Bridge**
99.5%	**Departures Security Screening Under Normal Circumstances[3]**
99.3%	**Transfer Security Screening Under Normal Circumstances[3]**

1 The target for delivery of the first bag to baggage reclaim is 20 minutes. The target for bags from aircraft at the Midfield and remote parking bays is 25 minutes owing to the distance.
2 The target for delivery of the last bag to baggage reclaim is 40 minutes throughout the airport.
3 Passengers whose queuing time at the screening channels is 4.5 minutes or less under normal circumstances.

This year, we organised over 70 seminars, campaigns and training sessions and staged more than 30 drills. Our efforts to promote a robust safety culture throughout the airport community were recognised with multiple accolades from the Occupational Safety and Health Council, including a "Safety Management System Award", a "Safety Culture Award" and a "Safety Performance Award".

In 2018/19, we achieved an Airport Composite Safety Index score of 2.78, exceeding the target of 3.78 by 26.5%. The index measures the injury rate among passengers and staff at HKIA.

AIRPORT SERVICE QUALITY (ASQ) SURVEY OVERALL SATISFACTION SCORE

86.9%
EXCELLENT

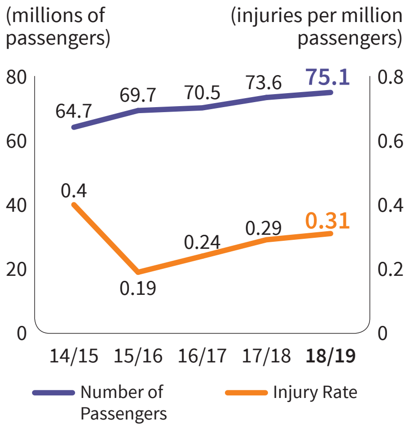
13.0%
VERY GOOD

0.1%*
GOOD

* *There were 3 cases of Overall Satisfaction scoring 3 (Good) in 2018.*

Source: ASQ Official Report 2018

PASSENGER TRAFFIC AND INJURY RATE



CROSS-BOUNDARY CONNECTIVITY

Extensive cross-boundary transport links help HKIA capture the vast opportunities in the Greater Bay Area (GBA).

In 2018/19, cross-boundary land transport at HKIA served 1.94 million passengers. SkyPier, which provides ferry services between HKIA and nine ports in the GBA, served 2.5 million travellers.

The Hong Kong-Zhuhai-Macao Bridge (HZMB), which opened in October 2018, helps enlarge our catchment area by strengthening our connectivity with the GBA. The HZMB reduces travel time to the western Pearl River Delta from 4 hours to about 45 minutes.

In tandem with the HZMB's commissioning, we established a city terminal at Zhuhai Port. Seven airlines, including four Hong Kong–based carriers, offer upstream check-in (UCI) services at the new terminal. Another city terminal is expected to open at the Macao Boundary Crossing Facilities in the second quarter of 2019.

Check-in facilities equipped with baggage acceptance are also available at the HZMB's Hong Kong Boundary Crossing Facilities and at the Guangzhou-Shenzhen-Hong Kong Express Rail Link's West Kowloon Station. These facilities offer passengers a smooth transit experience.

In 2018/19, we kept expanding our network of city terminals in

The HZMB reduces travel time from HKIA to the western Pearl River Delta to about **45 minutes**

other parts of the GBA, including Shengli Bus Station in Jiangmen, Ocean Plaza in Zhongshan, YiCi Station in Kai Ping and Guangzhou East Railway Station. We also conducted trials of a service that lets passengers drop their bags at the city terminal in Guangzhou Yitai Square before taking a ferry to HKIA.

During the year, we expanded our UCI service—which lets passengers check in at ferry ports or land points in the GBA before taking a ferry or coach directly to HKIA for their flight. With the addition of the HZMB's Zhuhai Port and the Guangdong Yingbin Hotel, UCI service is now available in 16 locations.

HKIA's check-in facilities at the boundary crossing facilities of the HZMB give passengers a smoother transfer experience.

In 2018/19, Lanmei Airlines started offering UCI service at seven ferry ports served by SkyPier. All Nippon Airways and Air Japan extended their UCI service to Zhongshan and Dongguan ports, while HK Express, China Airlines and Mandarin Airlines began service from Guangzhou Nansha Port.

We continue to work closely with governments, airlines, and ferry and ground transport operators to facilitate the development of intermodal products that simplify the booking of travel between HKIA and other destinations in the GBA. In February 2018, Hong Kong and the Mainland signed a memorandum of understanding (MOU) that allows designated airlines from both sides to share flight codes with sea and land transport operators. The land and sea journeys then become an extension of the airlines' flights. Since November 2018, travel agents have been able to reserve these code-sharing products for journeys between SkyPier and nine GBA ferry ports on all global distribution systems.

Another MOU was signed in February 2019 to expand the intermodal code-sharing arrangements to cover all types of land transport, including railway services, passenger vehicles and coaches. AAHK is in discussion with HKIA's cross-boundary land transport operators to develop more intermodal packages for passengers' convenience.

CARGO AND AVIATION SERVICES

Hong Kong International Airport (HKIA) provides efficient, reliable cargo services that are crucial to the city's prosperity. We continually enhance our services and facilities to meet the latest business trends, capturing opportunities in the global airfreight market and strengthening our air cargo leadership.

HIGH-VALUE CARGO

Last year, the International Air Transport Association (IATA) accredited HKIA as a Partner Airport in its Centre of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV Pharma) programme.

In January 2019, we launched an airport-to-airport pharma corridor with Brussels Airport. All shipments in the corridor are handled in strict compliance with the IATA's CEIV Pharma standards and carried by a CEIV Pharma-certified airline.

The corridor was established through Pharma.Aero, a cross-industry collaboration for shippers, CEIV-certified cargo communities, airport operators and other air cargo industry stakeholders. The initiative aims to create pioneering services and set standards for handling temperature-sensitive pharmaceutical products. Through Pharma.Aero, we will promote the corridor model to other airports, with the goal of forming a transportation network for pharma shippers.

In March 2019, we became the world's first airport community to receive the IATA's Centre of Excellence for Perishable Logistics (CEIV Fresh) certification. CEIV Fresh improves the transport of perishable products to ensure food safety and reduce waste and loss in the supply chain. The certification covers two cargo terminal operators and a Hong Kong–based airline, each of which handles perishable airfreight at a stringent, globally recognised standard.

The CEIV Fresh certification from IATA helps HKIA meet growing demand for perishable goods.

A 380,000-square-metre premium logistics centre is slated to commence operation in 2023

PREMIUM LOGISTICS CENTRE

In June 2018, Airport Authority Hong Kong (AAHK) awarded development and management rights for a premium logistics centre on a 5.3-hectare plot in the South Cargo Precinct to a joint venture led by Cainiao Network, the logistics arm of Alibaba Group.

With an estimated gross floor area of 380,000 square metres and advanced technologies, such as automated warehousing and

CARGO THROUGHPUT BY MARKET*

(year ended 31 March 2019)

USA & CANADA 18%

SOUTH EAST ASIA 17%

EUROPE 14%

MAINLAND 10%

TAIWAN 8%

JAPAN 7%

AUSTRALASIA 3%

OTHERS 23%

* Airmail is excluded.

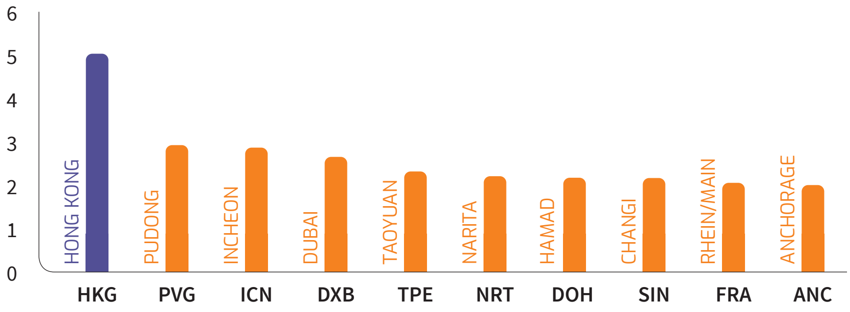
An artist's impression of the premium logistics centre.

temperature-control solutions, the facility will be Hong Kong's third-largest warehouse when it commences operation in 2023.

The new warehouse will strengthen Hong Kong's competitiveness by helping HKIA meet rapidly growing demand for logistics services for e-commerce and temperature-sensitive products. When operating at full capacity, the logistics centre will enable HKIA to handle an incremental cargo volume of approximately 1.7 million tonnes per annum.

10 BUSIEST AIRPORTS IN 2018 – 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.

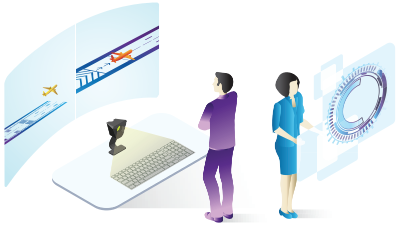
Source: Preliminary figures from Airports Council International in April 2019

FACILITATING TRANSSHIPMENTS

AAHK is exploring the development of new transshipment and intermodal air cargo handling facilities in the airside Eastern Support Area of the three-runway system. In addition to bolstering the efficiency of our cargo operations, the new facilities would allow HKIA to capitalise on demand for intermodal transshipments in the Greater Bay Area.

EXPANDED CONNECTIVITY

In 2018/19, five new carriers—Air Belgium, EgyptAir, IndiGo, SpiceJet and Thai Smile Airways—began serving Hong Kong, and we added 17 destinations—Brussels South Charleroi, Cairo, Cape Town, Copenhagen, Darwin, Datong, Davao, Dublin, Hohhot, Krabi, Medan, Moscow Vnukovo, Nagasaki, Washington, Yancheng, Yangzhou, Yinchuan—to our growing global network.



AIRFIELD AND SYSTEMS

As one of the world's busiest airports, Hong Kong International Airport (HKIA) uses the latest technologies and state-of-the-art infrastructure to ensure safe, efficient airfield operations.

APPLYING NEW TECHNOLOGIES

We leverage technology to enhance various aspects of airport operations.

After conducting trials of different methods for detecting cracks in airfield pavement, in March 2019 we implemented a system that uses lasers, high-speed cameras and advanced optics to acquire both images and high-resolution, three-dimensional profiles of the pavement surface. The new system strengthens airfield safety by automatically identifying pavement problems—including cracks, potholes and ruts—and rating the severity of each defect.

The growing popularity of drones and other unmanned aircraft systems (UASs) poses risks to airport safety. In 2018/19, we conducted a study on the technical feasibility of applying UAS detection systems at HKIA with the Civil Aviation Department (CAD). In addition to existing protection measures, we are now exploring an enhanced system for use at the airport.

During the year, we increased the efficiency of our maintenance operations by automating a storeroom that keeps spare parts for airport systems and facilities. Staff can now use a mobile app to request spare parts, which will be delivered by a robotic system. A facial recognition system validates the staff's identity before the parts are released.

We also take advantage of technology to streamline manual processes. In July 2018, we tested an automatic air bridge positioning and retraction system in Terminal 1. The new system automates most of the air bridge docking and retracting process, which occurs under an operator's supervision. Additional tests will be conducted in the North Satellite Concourse and Midfield Concourse, with airport-wide introduction planned for 2019/20.

An automated storeroom for spare parts allows better inventory management and maintenance efficiency.

AIRFIELD AND SYSTEMS

This year, we procured a new, automatic aircraft parking stand allocation system. After user acceptance testing and training, the new system is scheduled for implementation in May 2019.

In 2018/19, we continued phase one development of the Augmented Airfield System, also known as AS2. The system uses "Internet of Things" (IoT) technology to track ground handling activities. Phase one of the programme focuses on tracking baggage offloading, which is one of HKIA's key performance indicators. Data from phase one will be evaluated for further development of AS2, which will cover a wider spectrum of ground handling activities, such as aircraft fueling, maintenance, baggage uploading and cargo operations. These activities will undergo data analytics with the aim of optimising the allocation of airfield resources. We also plan to apply IoT technology—which allows instant and continuous monitoring—to predictive maintenance of airport infrastructure, including the Automated People Mover, rainwater drainage, airfield guidance signage and more.

INTRODUCING NEW ASSETS

As HKIA's passenger numbers have increased, so have baggage volumes. To maintain the well-being and safety of baggage handling staff, in 2018/19 we conducted a three-month trial of an unloading aid that is installed at the infeed dock of arrival belts. We are now sourcing the most suitable model for installation on all arrivals and transfer belts.

HKIA plans to install an automated system for positioning of air bridges to reduce manual works.

INCREASING RUNWAY CAPACITY

Airport Authority Hong Kong (AAHK) is working closely with the CAD to increase the runway capacity of HKIA's existing two-runway system.

A new capacity management solution, Performance-based Capacity Declaration (PBCD), is being studied by the CAD and AAHK. With the purpose of balancing operational demands on key airport infrastructure elements, the solution utilises simulation software, Strategic Airport Capacity Management (S-ACM), to take a range of aircraft operational performance

AAHK is exploring ways to increase the runway capacity of HKIA's existing two-runway system

characteristics into consideration when formulating forecast flight schedules and assessing their corresponding impact on overall air traffic. Trials of S-ACM began in the first quarter of 2019.

During the year, we also formed a task force with the CAD and the Hong Kong Observatory to study the feasibility of implementing Wake Vortex Re-categorisation (RECAT) separation minima between aircraft to achieve efficiency gains at HKIA. RECAT is an aircraft categorisation methodology that aims to marginally increase the arrival and/or departure capacity at airports by redefining the wake vortex categories of aircraft without compromising air traffic safety. If successfully implemented, RECAT will have a positive effect on enhancing runway capacity and could reduce airborne delays at HKIA.

INDUSTRY COLLABORATION

The International Airport Benchmarking Programme, a platform for hub airports to share key performance indicator data, improvement opportunities and new ideas, includes HKIA, London Heathrow, Toronto Pearson, Los Angeles, Munich and San Francisco. In 2018/19, the number of participants grew to nine with the addition of Sydney, Paris-Charles de Gaulle and Amsterdam Airport Schiphol.

In November 2018, the programme marked a milestone as AAHK hosted the first Mega Hub Airports–CEO Summit, where senior executives from the nine airports discussed issues of common interest, such as enhancing the passenger experience and boosting operational efficiency, and identified collaboration opportunities.

MAINLAND PROJECTS

By sharing management expertise with our Mainland counterparts, Airport Authority Hong Kong (AAHK) contributes to the development of China's aviation industry.

HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

In 2006, AAHK took a 35% interest in Hangzhou Xiaoshan International Airport (HXIA).

Traffic at HXIA grew steadily in calendar 2018. Passenger numbers increased 7.5% from 2017, to 38.2 million, cargo volume rose 8.7%, to 641,000 tonnes, while flight movements gained 5.1%, to 285,000.

In terms of passenger and cargo throughput, HXIA is the second fastest growing of the Mainland's top 10 airports. It is China's 10th busiest passenger airport and its sixth busiest cargo airport.

HXIA's network continued to grow in 2018. Six new airlines began serving Hangzhou, bringing the total to 66. The number of domestic destinations increased 12, to 125. With the addition of passenger services to Zhukovsky and Yangon, and direct cargo flights to New York, Riga and Liege, HXIA now serves 46 international destinations.

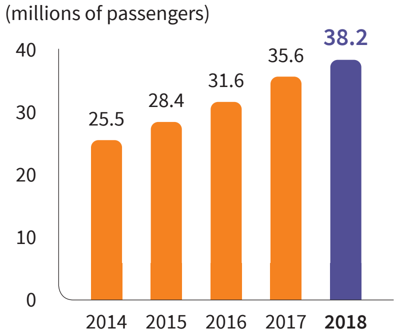
In 2018, the duty free shops on the departures level of Terminal 2 were refurbished. By incorporating Hangzhou's scenery into their design, the stores highlight the city's natural beauty.

With design featuring the scenery of Hangzhou, new duty free shops at HXIA deliver a fresh shopping experience to passengers.

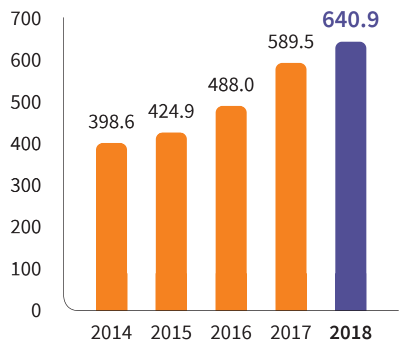
HXIA's long-term development also made good progress during 2018. A groundbreaking ceremony was held for Terminal 4 and the Integrated Transportation Centre, and a preliminary study for a new international cargo terminal and associated cargo apron was completed. HXIA will ensure these projects are ready for the 19th Asian Games Hangzhou 2022.

THROUGHPUT AT HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China (CAAC)

MAINLAND PROJECTS

SHANGHAI HONGQIAO INTERNATIONAL AIRPORT

2019 marks the 10th anniversary of the establishment of a joint venture between AAHK and Shanghai Airport Authority that manages the terminal operations and retail businesses in Shanghai Hongqiao International Airport.

In 2018, passenger throughput at Hongqiao airport increased 4.2%, to 43.6 million, while flight movements rose 1.2%, to 267,000.

In October 2018, Hongqiao airport completed a renovation programme that enhanced the capacity and passenger experience in Terminal 1. From self-service check-in and bag drop to electronic security channels and boarding gates, passengers can now enjoy a fully automated departure from the terminal's Building B.

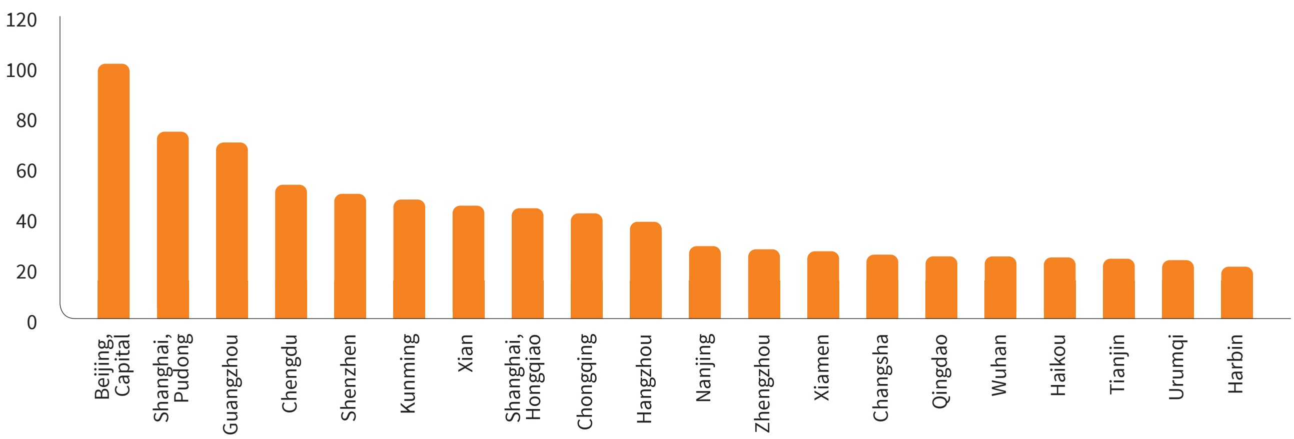
The use of new technologies, such as self bag drop facilities, increases Hongqiao airport's handling capacity.

During 2018, more than 80 enhancement projects were completed in Terminals 1 and 2. Finished in time for the inaugural China International Import Expo in November 2018, these projects bring a fresh look to Hongqiao airport and a major upgrade to its services.

Hongqiao airport was named the Mainland's best airport in the 2018 Skytrax survey. The use of advanced technologies also earned Hongqiao airport a "Platinum Certificate" in the International Air Transport Association's Fast Travel Programme.

TOP 20 AIRPORTS ON THE MAINLAND IN 2018 – PASSENGER THROUGHPUT

(millions of passengers)



Source: Civil Aviation Administration of China (CAAC)

ZHUHAI AIRPORT

AAHK has a 55% stake in the Hong Kong-Zhuhai Airport Management Company Limited, the joint venture that began managing Zhuhai Airport in 2006.

In 2018—for the first time in its history—more than 10 million people used Zhuhai Airport. Passenger throughput grew 21.7%, to 11.2 million, domestic cargo volume jumped 24.1%, to 46,393 tonnes, while flight movements climbed 16.4% to 81,138. Fourteen new domestic destinations were added to the airport's network.

A centralised operations monitoring platform, the Airport Integrated Control, was launched in October 2018. The new platform, coupled with the Airport Collaborative Decision Making system, which facilitates information sharing among airport community members, helped boost Zhuhai Airport's average on-time departure rate in 2018 to 82.1%, a 21% increase from 2017.

During 2018, several enhancement projects were completed. Ten remote aircraft stands entered service, bringing the number of parking stands to 33. Four air bridges were replaced and the airport's four baggage carousels were renovated. A first-class lounge opened in the eastern wing and new shops and restaurants were introduced throughout the terminal.

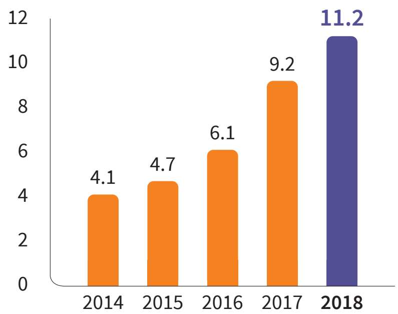
When the Hong Kong-Zhuhai-Macao Bridge was commissioned in October 2018, a dedicated lounge opened in Zhuhai Port. The new lounge offers additional comfort and convenience for travellers connecting to flights at Zhuhai Airport.

To further enhance the airport experience, an annex for premium passengers is now under construction and the terminal is being enlarged to serve international flights. Both projects are expected to be finished by early 2020.

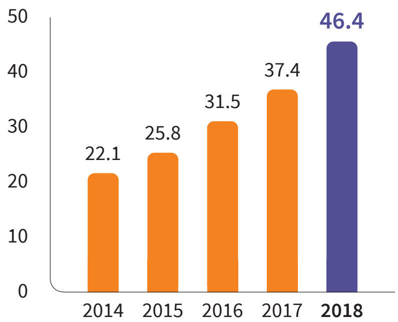
Zhuhai Airport welcomes more than 10 million passengers in 2018, marking an important milestone in the airport's history.

THROUGHPUT AT ZHUHAI AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China (CAAC)

SUSTAINABILITY AND PEOPLE

In building a sustainable future for our city, Hong Kong International Airport (HKIA) is committed to operating and growing in an environmentally and socially responsible manner.

CARING FOR THE ENVIRONMENT

We are on track to deliver on our pledge of achieving a 10% reduction in our carbon intensity by 2020, relative to 2015 levels. To meet this target, Airport Authority Hong Kong (AAHK) continued to maintain close communications with its business partners during the year. In November 2018, we hosted the third HKIA Senior Executive Roundtable to help the airport community establish long-term carbon reduction strategies. We also organised the HKIA Carbon Reduction Award Scheme, where we presented 24 awards to 13 business partners for their outstanding performance and innovative ideas in carbon reduction.

In another initiative to enhance HKIA's environmental performance, in 2018/19 we deployed a system that uses big data and artificial intelligence to find energy-saving opportunities in the Midfield Concourse. Data from sensors throughout the building are fed into algorithms that automatically adjust the lighting, ventilation and air conditioning to optimise the building's environmental performance. We expect this application will produce a 3% energy saving, equivalent to 0.9 million kilowatt-hours of electricity, in the first year. We plan to extend the system to Terminal 1 in 2019/20.

Waste management is another important element in HKIA's environmental strategy. To help airport tenants and business partners prepare for mandatory municipal solid waste (MSW) charging, in December 2018 we completed a 20-month pilot scheme that tested different charging mechanisms. We are evaluating the programme's findings to develop a practical and cost-effective mechanism that can be implemented at HKIA.

In addition to the MSW pilot, we promoted recycling by facilitating waste separation at source. During the year, we introduced a performance-based contract for our main waste management contractor. To encourage the contractor to sort and collect recyclables, the agreement includes minimum recycling targets that rise each year and are reinforced with incentive payments.

We also promote sustainability beyond the airport. The HKIA Environmental Fund supports a three-year public engagement project called "In-To Tung Chung River". Initiated in September 2018 by Green Power, a local non-governmental organisation, this project helps conserve the catchment area of the Tung Chung River by conducting comprehensive water quality and ecological monitoring.

AAHK promotes environmental sustainability to its business partners and neighbouring communities

A pilot scheme helps airport business partners prepare for MSW charging, which will soon be introduced in Hong Kong.

The "In-To Tung Chung River" project supported by AAHK helps preserve the environment near HKIA.

SUSTAINABILITY REPORT 2017/18

This year, we published our sixth sustainability report. The report delivers a comprehensive account of AAHK's sustainability performance and management approach.

Ten interviews with AAHK staff were featured in the report to demonstrate how sustainability has been integrated into our business and operations.

The report was prepared in accordance with the Global Reporting Initiative's GRI Standards: Core option and the GRI G4 Airport Operators Sector Disclosures and externally verified to offer greater transparency and accountability to our stakeholders. This year, for the first time, an external review committee was convened to provide independent feedback on the report.

CONTRIBUTIONS TO SOCIETY

Spearheaded by AAHK and launched in 2017/18, the EXTRA MILE project is a novel community investment initiative that creates a platform for AAHK and its business partners to attract and retain talent for HKIA, while unleashing the latent potential of the workforce in surrounding neighbourhoods.

EXTRA MILE facilitates participants' personal growth and builds an inclusive society. Two job placement programmes provide job opportunities at the airport for youth and non-Chinese speakers, while another programme offers after-school childcare for airport staff with children.

In 2018/19, EXTRA MILE matched participants to over 60 positions—including flight attendants, customer service representatives, human resources officers, assistant mechanics and ramp service supervisors—and benefitted around 100 primary school students whose parents are working at HKIA.

To care for our elderly neighbours, AAHK arranged home visits and events such as moon cake workshops and Christmas lunches. This year's spring reception for Tung Chung seniors welcomed more than 400 guests.

The EXTRA MILE project allows participants to gain practical skills through on-the-job training at HKIA.

ExtraMile
A Community Investment Project of HKIA
香港國際機場社區投資項目

DEVELOPING OUR WORKFORCE

A talented and engaged workforce is the cornerstone of HKIA's success. During the year, we continued to strengthen AAHK's corporate culture and developing talent remained our key focus.

The Work Improvement Team (WIT) programme, which provides front-line staff with a platform to practise AAHK's core values and generate new ideas for value creation, continued in 2018/19 with 43 WITs formed by 246 staff. To promote employee engagement among airport staff, the WIT programme was extended to the HKIA community.

To cultivate stronger bonds among staff and promote cross-departmental collaboration, a corporate-wide team building programme was extended to staff at manager level and below. A total of 22 sessions, covering 730 middle managers and more than 1,300 general and operational staff, was organised during the year.

The staff recognition programme continued to encourage and give corporate-wide recognition to outstanding employees and teams for their exemplary performance and achievement of AAHK's core values.

With remarkable achievements in driving a preferred culture, AAHK won the "Gold Award" in the Airports Council International's Asia-Pacific Human Resources Excellence Recognition Programme 2019.

With a view to building a talent pool and strengthening the leadership pipeline, the talent review and succession planning process continued with executive development programmes arranged for high-potential staff.

Internal communications were bolstered with regular staff and management mingling sessions where staff members at middle and general levels conversed with senior management in a relaxed atmosphere. In addition to "Dialogue with Chairman" and town hall meetings hosted by the CEO, some 600 employees shared their ideas and opinions in more than 30 outreach communication sessions.

On employee wellness and caring, a two-week wellness programme was successfully launched, attracting over 1,700 enrolments for various health and fitness activities. To promote a healthy and fun workplace, a step challenge campaign, where staff participated in a competition by recording their steps with a step tracker, was launched in February 2019. More than 1,000 staff participated in the programme.

In 2018/19, we continued to enhance staff benefits by introducing birthday leave, extending maternity leave to 14 weeks and enhancing medical benefits. To further caring support to working parents in the airport community, a second Airport Preschool will be established. The new preschool will double the capacity of the current one to provide services for about 100 children in 2020. Plans for the new preschool have been devised and a service contract was awarded to the current service provider.

AAHK organises various activities to strengthen bonds within the airport community.

In recognition of our efforts to develop comprehensive caring measures for staff, we were awarded the "Excellent Family-friendly Employment Practices Award" from the Hong Kong Institute of Human Resource Management and the "Outstanding Family-friendly Employment Practices" award from the Family Council and the Home Affairs Bureau.

AAHK stimulates young people's interest in aviation through an annual summer internship programme for students from local and overseas universities and training institutions. In August 2018, a record 110 students completed internships, learning about airport operations and experiencing working life at HKIA through classroom learning and customised on-the-job training.

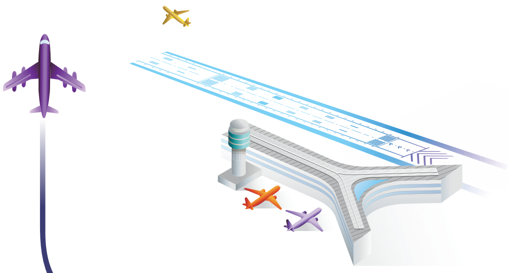
We also contribute to the industry's development through the Hong Kong International Aviation Academy (HKIAA), which celebrated its first full year of operation in 2018/19. During the year, HKIAA delivered more than 1,200 courses to some 40,000 participants, 786 of whom were from outside Hong Kong.*

In 2018/19, the International Civil Aviation Organisation (ICAO) accredited HKIAA as a full member in its TRAINAIR PLUS Programme and an Aviation Security Training Centre. These certifications recognise HKIAA's ability to develop and deliver ICAO-compliant training packages. HKIAA is now working to become an ICAO Regional Training Centre of Excellence.

To strengthen our position as a regional training hub, HKIAA is also developing air traffic control training courses for Hong Kong's Civil Aviation Department and students from other parts of Asia. The courses are scheduled to begin in 2019/20.

In 2018/19, HKIAA delivered more than 1,200 courses to some 40,000 participants, 786 of whom were from outside Hong Kong.*

* Includes 878 courses and 32,614 participants for training of Aviation Security Company Limited staff.



LOOKING FORWARD

Several new developments are consolidating the position of Hong Kong International Airport (HKIA) as a leading international aviation hub. As the airport grows, it has become an urban centre that houses a broad range of businesses and activities. Today, HKIA is transforming from a transport hub into an airport city.

THE THREE-RUNWAY SYSTEM

The three-runway system (3RS) is a major infrastructure project that will increase HKIA's long-term capacity. With completion planned for the end of 2024, the 3RS involves the reclamation of approximately 650 hectares of land north of the existing airport island and the construction of a new third runway, a supporting taxiway system, a Third Runway Passenger Building (TRPB) and associated infrastructure. Terminal 2 (T2) will also be expanded to provide a full suite of passenger services.

The 3RS project includes two new 5.2-kilometre aviation fuel pipelines between HKIA and the Aviation Fuel Receiving Facility at Sha Chau. The submarine pipelines were installed in two tunnels built with horizontal directional drilling (HDD) method, an environmentally-friendly technique that avoids seabed dredging and minimises disturbance to nearby marine life. The pipelines are the world's longest to be built using HDD and replace existing ones under the 3RS reclamation area. After a series of tests, the new pipelines entered service in June 2018.

In 2018/19, more than 90% of the deep cement mixing works, covering areas over all contaminated mud pits, seawall and critical reclamation areas, were completed and handed over to the main reclamation contractor for construction of seawall and marine filling. Marine filling commenced in May 2018 and the first parcel of land will be available in mid-2019 for the follow-on contractor to commence construction of the new North Runway. The Third Runway and Associated Works contract was awarded in April 2019. The target is to commission the new North Runway by 2022. Meanwhile, the procurement of infrastructure works for the reclaimed land, such as the TRPB foundation and substructure and the Automated People Mover (APM)/Baggage Handling System (BHS) tunnels (Reclaimed Section), has commenced.

During the year, the structure of the APM depot was completed ahead of schedule and the fitting-out works were started. The APM system installation works have commenced, which will allow the existing APM depot under T2 to be relocated to the new depot in 2019/20. The foundation and substructure works for T2's expansion are progressing well. Construction of the North Runway crossover taxiway, airside

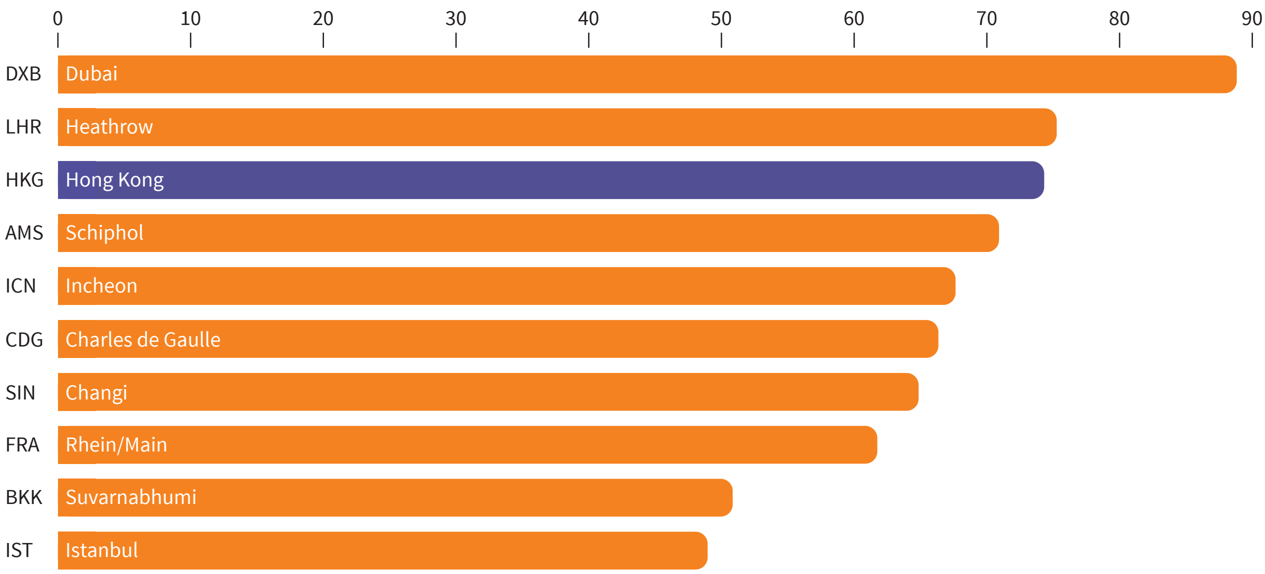
AAHK is committed to balancing environmental sustainability and development throughout the 3RS project

eastern vehicular tunnel and APM/BHS tunnels on the existing airport island is carried out as planned, while the design and build contracts for the APM/BHS are ongoing.

Throughout the construction process, Airport Authority Hong Kong (AAHK) uses a comprehensive monitoring and audit programme to track the 3RS project's environmental impact. We are committed to implementing all the mitigation measures recommended in the 3RS environmental impact assessment report and observing the conditions in the project's environmental permit. During the year, we started consultations for the establishment of a 2,400-hectare marine park with Hong Kong Government officials, marine users and the Marine Department's advisory and consultative committees.

10 BUSIEST AIRPORTS IN 2018 – 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 2019

An artist's impression of the ITT.

INTERMODAL TRANSFER TERMINAL

This project includes construction of the Intermodal Transfer Terminal (ITT) building next to SkyPier and a bonded vehicular bridge between the ITT and the Hong Kong Boundary Crossing Facilities (HKBCF) of the Hong Kong-Zhuhai-Macao Bridge (HZMB). By providing direct access between the airport and the HKBCF, this project will bring added convenience for air passengers arriving or departing on the HZMB.

Construction of the ITT building began in early 2019. An environmental impact assessment for the bonded bridge was approved and detailed designs are in progress. The entire project is expected to be complete by the end of 2022.

FUTURE EXPANSION OF ASIAWORLD-EXPO

During the year, AAHK acquired the rights and equity interest held by IEC Investments Limited, and the ownership of AsiaWorld-Expo Management Limited, the company that manages and operates AsiaWorld-Expo (AWE).

AWE is a world-class convention and exhibition venue offering more than 70,000 square metres of rentable space. It hosts large trade fairs, high-level conferences, popular concerts and international sporting events.

We are now planning the phase two expansion of AWE. Our goal is to create synergy with SKYCITY, an integrated commercial project on the airport island, as well as other airport developments.

NEW LAND USE OPPORTUNITIES

Located on a 150-hectare artificial island, the HKBCF provides clearance facilities for passengers and vehicles using the HZMB.

During the year, the Hong Kong Government invited AAHK to submit a land use proposal for airport-related developments on the artificial island. The study is now under way.

The new land use opportunities at the HKBCF will help to expand HKIA's capacity and functionality

FINANCIAL REVIEW

FINANCIAL SUMMARY

(in HK$ million)	**2018/19**	2017/18	+/- %[1]
Revenue	**19,470**	21,994	-11.5%
Operating expenses before depreciation and amortisation	**7,027**	6,058	+16.0%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**12,443**	15,936	-21.9%
Depreciation and amortisation	**3,123**	3,097	+0.8%
Net interest and finance income	**379**	275	+37.8%
Share of results of joint ventures	**261**	201	+29.9%
Profit before taxation	**9,960**	13,315	-25.2%
Income tax	**1,558**	1,829	-14.8%
Profit for the year	**8,402**	11,486	-26.9%
Profit attributable to the equity shareholder	**8,339**	11,416	-27.0%
Dividend declared	**–**	–	–
Key financial ratios			
Return on equity	**11.0%**	17.3%	
Total debt/capital ratio	**6%**	2%	
Key traffic summary[2]			
Passenger traffic[3] *(millions of passengers)*	**75.1**	73.6	+2.0%
Cargo and airmail throughput[4] *(millions of tonnes)*	**5.06**	5.09	-0.6%
Aircraft movements *(thousands)*	**429**	423	+1.3%

[1] Subject to rounding differences.
[2] Key traffic summary is based on Airport Authority Hong Kong's data for Hong Kong International Airport only.
[3] Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.
[4] Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail throughput includes airmail from Hongkong Post and transit mail from airlines.

OVERVIEW

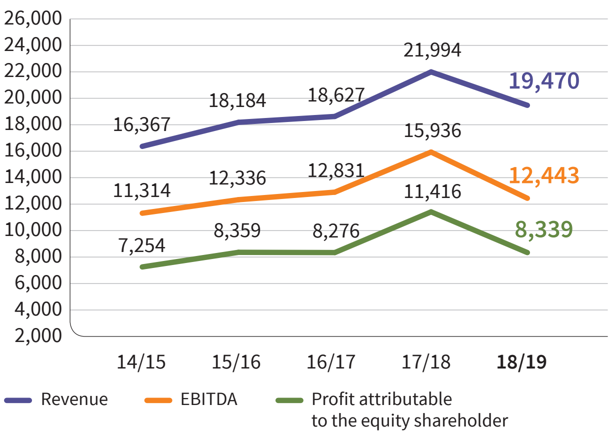
Airport Authority Hong Kong (AAHK) faced challenges due to geopolitical discord and global trade tensions in fiscal 2018/19, ended 31 March 2019.

Passenger volume and flight movements set new records in 2018/19. During the year, Hong Kong International Airport (HKIA) welcomed 75.1 million passengers and handled 428,870 flight movements, representing annual increases of 2.0% and 1.3%, respectively. Cargo and airmail throughput, however, fell 0.6%, to 5.06 million tonnes.

Despite the growth in passenger volume and flight movements, AAHK and its subsidiaries (the Group) recorded a weaker financial performance in 2018/19. This was largely the result of a one-off gain from the sublease of land at HKIA for SKYCITY's hotel development in 2017/18, coupled with lower revenues from retail concessions and airside support services franchises in

Financial Results

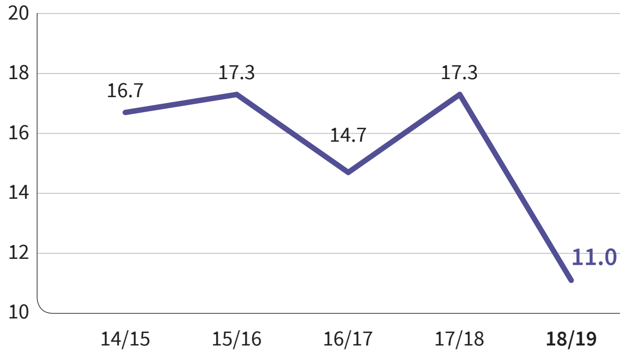
(in HK$ million)



2018/19. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK$12,443 million and profit attributable to the equity shareholder of HK$8,339 million, representing decreases of 21.9% and 27.0%, respectively, from 2017/18. As a result, the Group's return on equity decreased to 11.0%. No dividend was declared for the year.

Return on Equity

(in percent)



REVENUE

Despite higher passenger numbers and flight movements, total revenue fell 11.5%, to HK$19,470 million, largely as a result of a one-off gain from the sublease of land at HKIA for SKYCITY's hotel development in 2017/18 and lower revenue from retail licences and airside support services franchises in 2018/19. The major revenue categories were airport and security charges; revenues from airside support services franchises, retail licences and advertising; other terminal commercial revenue; and other income, which collectively comprised 96.6% of total revenue.

Airport and security charges, representing 36.1% of total revenue, rose 5.7%, to HK$7,024 million, primarily due to growth in flight movements and passenger traffic, and increases in landing and security charges, which took effect on 1 September 2018 and 1 October 2018, respectively.

Revenues from airside support services franchises dropped 8.8%, to HK$2,786 million, mainly due to the expiry of the aviation fuel system facility payment in July 2018. This was partly offset by higher franchise fees from air cargo and ramp handling due to improved terms when contracts were renewed during the year; amortisation of upfront payments for the premium logistics centre; and higher ground handling service and cargo revenues at Zhuhai Airport that accompanied increases in flight movements and cargo throughput.

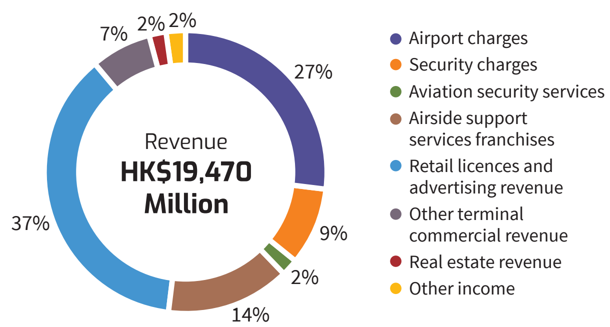
Retail licences and advertising revenue, representing 36.7% of total revenue, fell 9.6%, to HK$7,149 million. This decrease was mainly a result of the full-year effect of the new anchor and money exchange licences awarded in the second half of 2017/18.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 4.0%, to HK$1,460 million, largely due to the revised licence fee structure for commercial pay-in lounges.

Other income dropped 83.1%, to HK$394 million. This decrease was attributable to a one-off gain in 2017/18 of HK$2,185 million from the sublease of land at HKIA to Regal Hotels Group for the development and management of the SKYCITY hotel.

Revenue by Source

(for the year ended 31 March 2019)



OPERATING EXPENSES

The Group continues to exercise stringent financial discipline to control its operating expenses while expanding its operations and maintaining the highest standards of safety, security, service and sustainability. Total operating expenses before depreciation and amortisation increased 16.0%, to HK$7,027 million, mainly due to inflationary pressures, strong traffic growth and expanded service scope during the fiscal year.

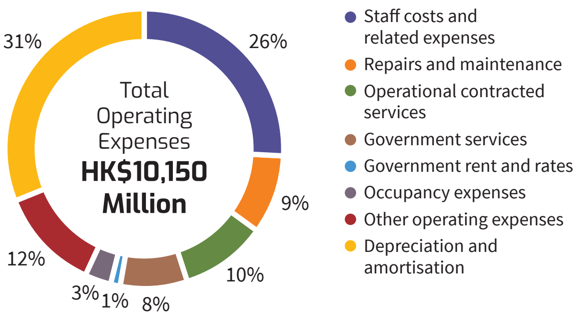
The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, other operating expenses, and depreciation and amortisation, which accounted for approximately 95.3% of total operating expenses. Approximately 40% of the 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, representing 26.4% of total operating expenses, increased 7.8%, to HK$2,687 million, mainly due to adjustments to ensure the market competitiveness of employees' remuneration and the increase in staff numbers to cope with traffic growth.

Repairs and maintenance costs grew 3.6%, to HK$864 million, principally due to additional works on the airfield and terminals to ensure safe and reliable operations amidst increased traffic. Wage increases due to labour shortages and inflationary pressures on material costs also contributed to the increase.

Operating Expenses by Category

(for the year ended 31 March 2019)



Operational contracted services represents costs for operations outsourced to third-party contractors. This category rose 27.4%, to HK$977 million, largely due to traffic growth, newly outsourced operations and higher costs as a result of contract renewals and wage increases due to labour shortages during the year.

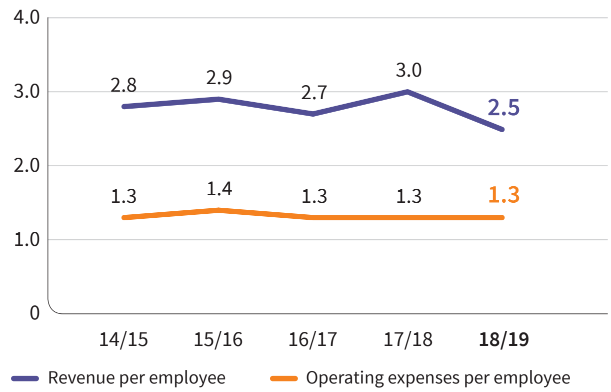
Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. Increased flight movements led to higher air traffic control fees, and government services expense grew 4.4%, to HK$823 million.

Other operating expenses increased 63.8%, to HK$1,204 million, mainly attributable to an increase in the loss allowance for trade debtors; promotional activities for the 20th anniversary of HKIA; and an increase in the unrealised exchange loss from the depreciation of the renminbi.

Despite the completion of expansion and improvement projects for facilities and systems during the fiscal year, depreciation and amortisation increased only 0.8%, to HK$3,123 million, as certain fixed assets have now been fully depreciated.

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.
2. Operating expenses include depreciation and amortisation, but exclude interest and finance costs.

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 and cargo throughput.

In calendar 2018, passenger traffic and flight movements at Hangzhou Xiaoshan International Airport (HXIA) grew 7.5% and 5.1%, respectively, to 38.2 million and 285,000. Cargo throughput rose 8.7%, to 641,000 tonnes. AAHK's share of HXIA's profits increased by 30.0%, to HK$260 million, in 2018/19, largely due to solid traffic growth.

In calendar 2018, passenger traffic at Zhuhai Airport grew 21.7%, to a record 11.2 million, flight movements climbed 16.4%, to 81,138, while domestic cargo throughput jumped 24.1%, to 46,393 tonnes. AAHK's share of Zhuhai Airport's profits decreased by 12.0%, to HK$73 million, in 2018/19, mainly due to higher staff numbers needed to meet traffic growth.

FINANCIAL POSITION

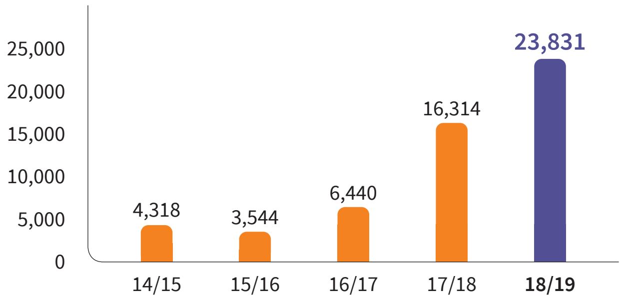
The Group's financial position remains strong and well capitalised. The Group's total equity as at 31 March 2019 reached HK$80,474 million, an increase of 10.9% over the previous year, mainly due to the net profit achieved in 2018/19 and non-payment of dividend for 2017/18.

Investment property, interest in leasehold land, and other property, plant and equipment amounted to HK$78,911 million, which accounted for 72.2% of total assets. The Group incurred capital expenditures of HK$23,831 million during 2018/19, mainly related to the three-runway system (3RS), the capacity enhancement of Terminal 1 (T1), the expansion of Car Park 4, the Midfield Apron development, the Automated People Mover System Depot, the automation of arrival bags delivery, the Sky Bridge connecting the North Satellite Concourse and T1, and the enhancement and improvement of other facilities and systems.

Intangible assets of HK$350 million represented the unamortised cost of the right to operate and manage Zhuhai Airport and the AsiaWorld-Expo (AWE) exhibition centre for a period of 20 years and 12.5 years, starting in 2006 and 2019, respectively.

CAPITAL EXPENDITURES

(in HK$ million)



Note: Capital expenditures are before deduction of the airport construction fee used to fund 3RS construction costs.

Interest in an associate of HK$652 million represented the Group's effective interest in the net assets of Hong Kong IEC Limited (which holds shares in AWE), plus the amount due from the associate and the preference shares premium.

Interests in joint ventures of HK$4,342 million represented the Group's effective interest in the net assets of HXIA and Shanghai Hong Kong Airport Management Co., Ltd., plus associated goodwill.

Trade and other receivables decreased 3.8%, to HK$3,747 million, primarily due to lower advance payments to certain contractors, despite the rise in trade debtors.

Total trade and other payables increased 76.5%, to HK$14,674 million, mainly attributable to the increase in construction costs payable and contract retentions in relation to the 3RS, and deposits received from licensees.

Unused airport construction fee (ACF) of HK$1,685 million represented the balance of ACF received and receivable that has not yet been used to fund 3RS construction costs.

Deferred income of HK$1,721 million mainly represented amounts received in advance in respect of subleases of leasehold land at HKIA. During the year, AAHK received up-front payments of HK$1,560 million for the SKYCITY and premium logistics centre developments.

DIVIDEND

Pursuant to the financial arrangement plan for the 3RS, the Board did not declare a dividend for 2018/19.

CASH FLOW

Net cash generated from operating activities decreased from HK$12,274 million in 2017/18 to HK$12,119 million this year, mainly due to the decrease in profit for the year.

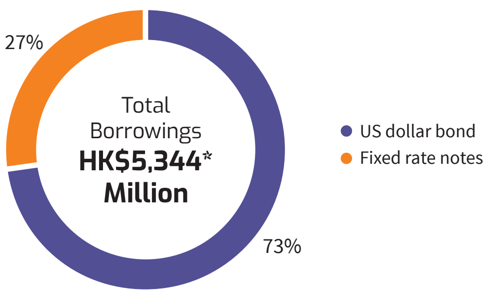
FINANCING

AAHK's total borrowings as at 31 March 2019 amounted to HK$5,344 million (2017/18: HK$1,415 million). AAHK upsized its Medium Term Note programme to US$8 billion in 2017/18. The programme allows AAHK to access capital markets when needed. In February 2019, AAHK issued US$500 million in bonds due in 2029 with a coupon rate of 3.45% under this programme. The bonds were over seven times oversubscribed by potential investors.

AAHK continues to be one of the highest-rated corporations in Hong Kong. Standard & Poor's assigns an AA+ 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

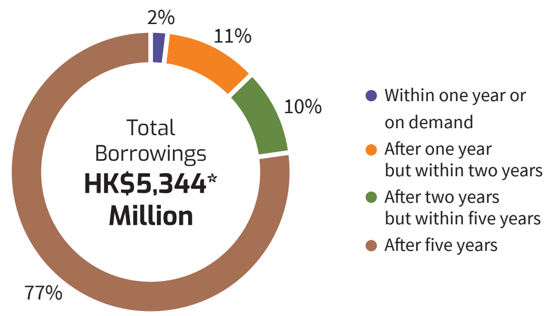
(as at 31 March 2019)



* After unamortised finance costs of HK$19 million.

Loan Maturity Profile

(as at 31 March 2019)



* After unamortised finance costs of HK$19 million.

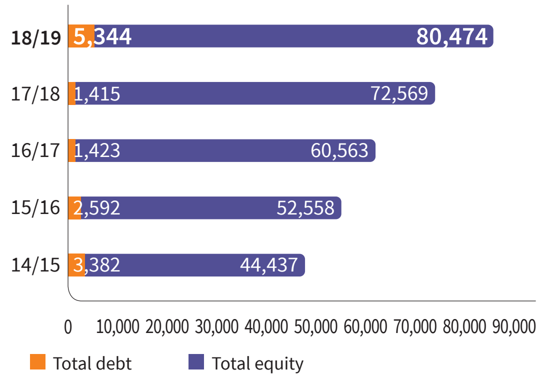
FINANCIAL RISK MANAGEMENT

AAHK manages its financial risks with a variety of instruments and techniques, including spreading its borrowings over different rollover and maturity dates. Financial instruments, such as interest rate swaps and cross-currency swaps, are also used to hedge AAHK's financial risks. In accordance with approved policy, AAHK adopts measures to maintain an appropriate mix of fixed and floating rate borrowings to reduce the impact of interest rate fluctuations on earnings.

AAHK is exposed to renminbi movements as a result of its investment in Mainland airports and cash and bank balances denominated in this currency. AAHK is also exposed to United States dollar movements from cash and bank balances and trade and other receivables, as well as external borrowings issued in United States dollars. However, external borrowings in other currency has been swapped into Hong Kong dollars whenever possible while revenues and costs at AAHK are largely denominated in Hong Kong dollars.

Capital Structure

(in HK$ million)



OUTLOOK

We expect passenger and cargo traffic will experience moderate growth until the commissioning of the 3RS. To meet rising traffic demand and retain our leading position, we will carry out various enhancement projects to ensure the airport has sufficient capacity and maintains high service standards before the 3RS is commissioned.

The expansion of T1, which includes new passenger facilities such as check-in counters with self bag drop services and additional seating, is ongoing. The new facilities are expected to enter service in phases, starting in 2019. We completed phase one of the East Hall food court revamp in 2018/19 and phase two will open in the third quarter of 2019. Other enhancement initiatives, including the transformation of boarding gates into themed zones and the refurbishment of public seating areas, are under way.

To meet passengers' expectations for smoother and more personalised travel, innovative technologies will continue to be adopted. We plan to extend the use of travellers' biometric data to transfer checkpoints and boarding gates to create an end-to-end biometric network that offers seamless travel. New features are being developed for our "HKG My Flight" app that will let passengers pre-book services even when they are outside the airport. The use of new technologies, including artificial intelligence and big data analytics, will help us enhance resource allocation, improve productivity and deploy personnel more effectively. We will continue to introduce new technologies and carry out enhancement projects to optimise the use of our facilities.

The construction of the 3RS is a long-term solution to HKIA's capacity constraints. The 3RS project made solid progress during 2018/19. We will closely monitor the project to ensure its timely completion within budget, thereby maintaining HKIA's competitiveness and reinforcing our position as a leading international aviation hub.

During the year, our cross-boundary multimodal transport network grew with the commissioning of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge (HZMB). Our growing transport network, together with new commercial facilities around HKIA, is fuelling our transformation from a city airport into an airport city. The SKYCITY development, which comprises hotels as well as retail, dining and entertainment facilities, is scheduled to open in phases between 2020 and 2027. In addition, a premium logistics centre will open in 2023, helping us capture opportunities from cross-boundary e-commerce and related logistics businesses. We will collaborate closely with the companies developing these projects to ensure they open on schedule. We are also exploring opportunities at AsiaWorld-Expo and the topside of the Hong Kong Boundary Crossing Facilities.

The opening of the HZMB and the Express Rail Link strengthened our connectivity with the Mainland, providing impetus for traffic growth. To capture the growth potential, we are constructing an Intermodal Transfer Terminal to provide a direct connection between HKIA and the Hong Kong Boundary Crossing Facilities. We are also adding upstream check-in facilities in the Greater Bay Area to expand HKIA's catchment area.

While we project profits will grow at a slower pace until the 3RS starts service, we will strive for productivity gains and apply prudent financial discipline to contain the growth of operating expenses, while maintaining the highest standards of safety, security, service and sustainability.

We believe HKIA will continue to create value for its stakeholders, fulfil customers' expectations and benefit Hong Kong and the Greater Bay Area alike.

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REPORT OF THE MEMBERS OF THE BOARD

Financial year ended 31 March 2019

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 2019.

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 11 to the Financial Statements.

FINANCIAL STATEMENTS

The profit of AAHK and its subsidiaries (the "Group") for the year ended 31 March 2019 and the Group's financial position as at that date are set out in the Financial Statements on pages 99 to 158.

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 the Group, direct AAHK to pay dividends out of the distributable profits of AAHK. No dividend has been declared since the year ended 31 March 2015, in order to preserve capital for the purpose of funding the three-runway system project.

TRANSFER TO RESERVES

The Group's profit attributable to equity shareholder of HK$8,339 million (2017/18: HK$11,416 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 9 to the Financial Statements.

CAPITALISED INTEREST

Interest amounting to HK$88 million (2017/18: HK$66 million) was capitalised by the Group during the year as set out in Note 5 to the Financial Statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2019 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 159 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 2019.

DONATIONS

Donations made during the year amounted to HK$4,056,000 (2017/18: HK$3,528,000), 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	**22%**	
Top five customers	**40%**	
The largest supplier		**26%**
Top five suppliers		**39%**

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 99 to 158 have been prepared on a going concern basis. The Board has approved AAHK's budget for 2019/20 and the business plan and financial plan for 2019/20 to 2023/24 and is satisfied that AAHK has sufficient resources to continue as a going concern for the foreseeable future.

RETIREMENT SCHEMES

Details with regard to AAHK's retirement schemes are set out in Note 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 43 of the annual report.

EMPLOYEES

As of 31 March 2019, AAHK, excluding its subsidiaries, had a total of 2,602 staff (31 March 2018: 2,314). AAHK has developed human resources policies to ensure that employees' remuneration is competitive and that employees are rewarded according to their performance within the framework of AAHK's performance management and reward 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 remuneration package is competitive in the market.

MEMBERS OF THE BOARD AND EXECUTIVE DIRECTORS

Biographies of the 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. Changes of the Board Members from the beginning of the financial year to the date of this report are as follows:

- Mr Andrew Fung Hau-chung, after serving the Board for three years, retired on 31 May 2018.
- Ms Linda Chan Ching-fan and Mr Adrian Wong Koon-man were appointed to the Board for a term of three years, from 1 June 2018 to 31 May 2021.
- Mr Jack So Chak-kwong was reappointed as the Board Chairman for a term of three years, from 1 June 2018 to 31 May 2021.
- Ir Billy Wong Wing-hoo and Dr the Hon Allan Zeman were reappointed to the Board for a term of three years, from 1 June 2018 to 31 May 2021.
- Ms Anita Fung Yuen-mei, after serving the Board for nine years, retired on 31 May 2019.
- The Hon Jeffrey Lam Kin-fung and Ir Lee Shing-see, after serving the Board for eight years, retired on 31 May 2019.
- Mr Stuart Thomson Gulliver, Ir Dr the Hon Lo Wai-kwok and Mr Thomas Jefferson Wu were appointed to the Board for a term of three years, from 1 June 2019 to 31 May 2022.
- Mr Wilson Fung Wing-yip ceased to be Executive Director, Corporate Development with effect from 25 September 2018.

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 2019, 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.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account changes that occurred between the financial year-end and the date of the approval of this report.

By order of the Board

H Y Shu
Secretary to the Board

Hong Kong, 3 June 2019

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 99 to 158, which comprise the consolidated statement of financial position as at 31 March 2019, 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 2019 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 28(t) to the consolidated financial statements for the relevant accounting policies

The Key Audit Matter	How the matter was addressed in our audit
Revenue from airport and security charges, airside support services franchises, retail licences and advertising accounted for approximately 87% of the Authority's total revenue for the year ended 31 March 2019. 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. 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. 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. 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.	Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following: • 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 note 26(b)(ii) to the consolidated financial statements and notes 28(g)(vi) and 28(s) for the relevant accounting policies

The Key Audit Matter	How the matter was addressed in our audit
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. 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. 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.	Our audit procedures to assess project provisions for capital works projects included the following: • 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 2018 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 HKSAs 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 HKSAs, 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 Yue Tat Wai.

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

3 June 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

$ million	Note	2019	2018
Airport charges		5,255	4,990
Security charges		1,769	1,655
Aviation security services		356	344
Airside support services franchises		2,786	3,054
Retail licences and advertising revenue		7,149	7,909
Other terminal commercial revenue		1,460	1,404
Real estate revenue		301	310
Other income	9(f)	394	2,328
Revenue	8	19,470	21,994
Staff costs and related expenses	4	(2,687)	(2,492)
Repairs and maintenance		(864)	(834)
Operational contracted services		(977)	(767)
Government services		(823)	(788)
Government rent and rates		(158)	(154)
Occupancy expenses		(314)	(288)
Other operating expenses	14(b)	(1,204)	(735)
Operating expenses before depreciation and amortisation		(7,027)	(6,058)
Operating profit before depreciation and amortisation		12,443	15,936
Depreciation and amortisation		(3,123)	(3,097)
Operating profit before interest and finance costs	3	9,320	12,839
Interest and finance costs:			
Finance costs	5	(7)	(2)
Interest income		386	277
		379	275
Share of results of joint ventures	13	261	201
Profit before taxation		9,960	13,315
Income tax	6(a)	(1,558)	(1,829)
Profit for the year		8,402	11,486
Attributable to:			
Equity shareholder of the Authority		8,339	11,416
Non-controlling interests		63	70
Profit for the year		8,402	11,486

The notes on pages 105 to 158 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

$ million	2019	2018
Profit for the year	**8,402**	11,486
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	**(40)**	(9)
Add: deferred tax	**7**	2
	(33)	(7)
– a subsidiary in the People's Republic of China ("the PRC")	**(4)**	6
– a joint venture in the PRC	**(65)**	26
	(102)	25
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC	**(339)**	495
Cash flow hedge: net movement in the cost of hedging reserve	**(56)**	–
	(395)	495
Other comprehensive income for the year	**(497)**	520
Total comprehensive income for the year	**7,905**	12,006
Attributable to:		
Equity shareholder of the Authority	**7,864**	11,906
Non-controlling interests	**41**	100
Total comprehensive income for the year	**7,905**	12,006

The notes on pages 105 to 158 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019 (Expressed in Hong Kong dollars)

$ million	Note	2019	2018
Non-current assets			
Investment property	9	**82**	83
Interest in leasehold land	9	**6,528**	6,757
Other property, plant and equipment	9	**72,301**	54,814
		78,911	61,654
Intangible assets	10	**350**	146
Interest in an associate	12	**652**	–
Interests in joint ventures	13	**4,342**	4,482
Trade and other receivables	14	**8**	776
Derivative financial assets	22(e)	**29**	2
		84,292	67,060
Current assets			
Stores and spares		**84**	59
Trade and other receivables	14	**3,739**	3,117
Cash and bank balances	15	**21,115**	18,694
		24,938	21,870
Current liabilities			
Trade and other payables	16	**(13,572)**	(7,097)
Interest-bearing borrowings	17	**(95)**	–
Current taxation	6(c)	**(73)**	(381)
Unused airport construction fee	18	**(1,685)**	(1,103)
Deferred income	19	**(154)**	(69)
Derivative financial liabilities	22(e)	**(2)**	(2)
		(15,581)	(8,652)
Net current assets		**9,357**	13,218
Total assets less current liabilities		**93,649**	80,278
Non-current liabilities			
Trade and other payables	16	**(1,102)**	(1,219)
Interest-bearing borrowings	17	**(5,249)**	(1,415)
Deferred income	19	**(1,567)**	(263)
Derivative financial liabilities	22(e)	**(89)**	(20)
Net defined benefit retirement obligations	20	**(258)**	(191)
Deferred tax liabilities	6(d)	**(4,910)**	(4,601)
		(13,175)	(7,709)
Net assets		**80,474**	72,569
Capital and reserves	21		
Share capital		**30,648**	30,648
Reserves		**49,417**	41,553
Total equity attributable to the equity shareholder of the Authority		**80,065**	72,201
Non-controlling interests		**409**	368
Total equity		**80,474**	72,569

Approved and authorised for issue on behalf of the Members of the Board on 3 June 2019.

The Hon Jack So Chak-kwong
Chairman

Mr Fred Lam
Chief Executive Officer

Mr William Lo Chi-chung
Executive Director, Finance

The notes on pages 105 to 158 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

		Attributable to the equity shareholder of the Authority							
$ million	Note	Share capital	Exchange reserve	Capital reserve	Cost of hedging reserve	Retained profits	Total	Non-controlling interests	Total equity
At 1 April 2017		30,648	244	1,007	–	28,396	60,295	268	60,563
Changes in equity for the year:									
Profit for the year		–	–	–	–	11,416	11,416	70	11,486
Other comprehensive income		–	468	–	–	22	490	30	520
Total comprehensive income		–	468	–	–	11,438	11,906	100	12,006
Transfer from retained profits to capital reserve	21(c)(ii)	–	–	18	–	(18)	–	–	–
At 31 March 2018 and 1 April 2018		**30,648**	**712**	**1,025**	**–**	**39,816**	**72,201**	**368**	**72,569**
Changes in equity for the year:									
Profit for the year		**–**	**–**	**–**	**–**	**8,339**	**8,339**	**63**	**8,402**
Other comprehensive income		**–**	**(319)**	**–**	**(56)**	**(100)**	**(475)**	**(22)**	**(497)**
Total comprehensive income		**–**	**(319)**	**–**	**(56)**	**8,239**	**7,864**	**41**	**7,905**
Transfer from retained profits to capital reserve	21(c)(ii)	**–**	**–**	**15**	**–**	**(15)**	**–**	**–**	**–**
At 31 March 2019		**30,648**	**393**	**1,040**	**(56)**	**48,040**	**80,065**	**409**	**80,474**

The notes on pages 105 to 158 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

$ million	Note	2019	2018
Operating activities			
Profit before taxation		**9,960**	13,315
Adjustments for:			
Depreciation		**2,868**	2,852
Amortisation of interest in leasehold land		**229**	229
Amortisation of intangible assets		**26**	16
Interest on notes		**69**	54
Other borrowing costs and interest expense		**28**	20
Borrowing costs capitalised into assets under construction		**(88)**	(66)
Interest income		**(386)**	(277)
Fair value (gain)/loss on derivative financial instruments in fair value hedges		**(12)**	3
Net gain on derivative financial instruments in cash flow hedges		**(2)**	–
Net loss/(gain) on underlying hedged interest-bearing borrowings in fair value hedges		**12**	(9)
Share of results of joint ventures		**(261)**	(201)
Impairment losses on trade and other receivables		**440**	31
Net loss/(gain) on disposal of interest in leasehold land and other property, plant and equipment		**9**	(2,171)
Amortisation of deferred income		**(171)**	(188)
Expenses recognised in respect of defined benefit retirement plans		**51**	51
Operating profit before changes in working capital		**12,772**	13,659
Increase in stores and spares		**(22)**	(10)
Increase in trade and other receivables		**(787)**	(72)
Increase in trade and other payables		**169**	579
Increase in deferred income	19	**1,560**	–
Decrease in net defined benefit retirement obligations		**(23)**	(23)
Cash generated from operations		**13,669**	14,133
Hong Kong Profits Tax paid		**(1,498)**	(1,810)
PRC Corporate Income Tax paid:			
– dividend received from a joint venture		**(2)**	(2)
– others		**(50)**	(47)
Net cash generated from operating activities		**12,119**	12,274
Investing activities			
Net maturity/(placement) of deposits with banks with over three months of maturity when placed		**2,142**	(6,089)
Interest received		**336**	235
Dividend received from a joint venture		**40**	40
Payments for the purchase of other property, plant and equipment		**(17,496)**	(13,624)
Receipts from disposal of interest in leasehold land and other property, plant and equipment	9(f)	**1**	2,189
Payment of annual franchise fee for a PRC subsidiary		**(24)**	(16)
Payment to acquire interest in an associate	12	**(652)**	–
Acquisition of subsidiary, net of cash acquired	11(b)	**(2)**	–
Net cash used in investing activities		**(15,655)**	(17,265)

CONSOLIDATED CASH FLOW STATEMENT

$ million	Note	2019	2018
Financing activities			
Interest paid on notes	15(b)	(54)	(55)
Other borrowing costs and interest expense paid	15(b)	(25)	(20)
Airport construction fee received	15(b)	3,816	3,821
Receipts from issue of notes	15(b)	3,918	–
Net interest income received on interest rate swaps	15(b)	30	4
Net cash generated from financing activities		7,685	3,750
Net increase/(decrease) in cash and cash equivalents		4,149	(1,241)
Cash and cash equivalents at beginning of year		810	2,022
Effect of foreign exchange rate changes		(22)	29
Cash and cash equivalents at end of year	15(a)	4,937	810

The notes on pages 105 to 158 form part of these consolidated financial statements.

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 11.

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 28.

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

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements comprise the financial statements of the group as well as the group's interests in an associate and 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 28(e), (f) and (n).

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	**2019**	2018
Auditors' remuneration:		
– audit services	**6**	6
– tax services	**1**	1
– other services	**1**	–
Stores and spares expensed	**95**	84
Net loss/(gain) on disposal of interest in leasehold land and other property, plant and equipment (note 9(f))	**9**	(2,171)
Impairment losses on trade and other receivables (note 14(b))	**440**	31
Depreciation:		
– assets held for use under operating leases (note 9(d))	**169**	179
– other assets	**2,699**	2,673
Amortisation:		
– interest in leasehold land		
– leased out under operating leases (note 9(d))	**18**	15
– others	**211**	214
– intangible assets (note 10)	**26**	16
Operating lease charges: minimum lease payments		
– hire of other assets (including property rentals)	**16**	13
Rentals from investment property less direct outgoings of $15 million (2018: $15 million)	**(45)**	(44)

4. STAFF COSTS AND RELATED EXPENSES

$ million	**2019**	2018
Contributions to defined contribution retirement plans	**132**	118
Expenses recognised in respect of defined benefit retirement plans (note 20)	**51**	51
Total retirement costs	**183**	169
Salaries, wages and other benefits	**2,999**	2,656
Total staff costs and related expenses	**3,182**	2,825
Less: staff costs and related expenses capitalised into assets under construction	**(495)**	(333)
	2,687	2,492

5. FINANCE COSTS

$ million	**2019**	2018
Interest on notes	**69**	54
Other borrowing costs	**21**	18
Other interest expense	**7**	2
Total interest expense	**97**	74
Less: borrowing costs capitalised into assets under construction	**(88)**	(66)
	9	8
Fair value (gain)/loss on derivative financial instruments in fair value hedges[1]	**(12)**	3
Net gain on derivative financial instruments in cash flow hedges	**(2)**	–
Net loss/(gain) on underlying hedged interest-bearing borrowings in fair value hedges	**12**	(9)
	7	2

[1] Includes net interest income of $1 million (2018: $5 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 4.94% (2018: 4.66%) per annum.

6. TAXATION

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

$ million	**2019**	2018
Current tax – Hong Kong Profits Tax		
– provision for the year	**1,198**	1,525
– over-provision in respect of prior year	**(5)**	–
Current tax – PRC Corporate Income Tax		
– provision for the year	**46**	50
– provision on dividends received/receivable from joint ventures for the year	**3**	2
Deferred tax (note 6(d))		
– origination and reversal of temporary differences	**316**	252
	1,558	1,829

The provision for Hong Kong Profits Tax is calculated at 8.25% of the estimated assessable profits for the year up to $2 million and 16.5% on any part of the estimated assessable profits for the year over $2 million (2018: 16.5%).

The provision for PRC Corporate Income Tax is calculated at 25% (2018: 25%) of the estimated assessable profits for the year, while the provision for PRC withholding tax on dividends received/receivable from joint ventures is calculated at 5% (2018: 5%) of the dividends received/receivable from joint ventures for the year.

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

$ million	**2019**	2018
Profit before taxation	**9,960**	13,315
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	**1,664**	2,215
Tax effect of non-deductible expenses	**36**	33
Tax effect of non-taxable income	**(137)**	(419)
Over-provision in respect of prior year	**(5)**	–
Actual tax expense	**1,558**	1,829

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

$ million	**2019**	2018
Provision for the year (note 6(a))		
– Hong Kong Profits Tax	**1,198**	1,525
– PRC Corporate Income Tax	**49**	52
Provisional Hong Kong Profits Tax paid	**(1,139)**	(1,160)
PRC Corporate Income Tax paid/payable	**(36)**	(49)
Balance of tax provision relating to prior years	**1**	13
Current taxation	**73**	381

6. 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:

$ million **Deferred tax arising from:**	**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**
At 1 April 2017	4,429	(97)	19	4,351
Charged to profit or loss	219	23	10	252
Credited to other comprehensive income	–	(2)	–	(2)
At 31 March 2018	4,648	(76)	29	4,601
At 1 April 2018	**4,648**	**(76)**	**29**	**4,601**
Charged/(credited) to profit or loss	**380**	**(73)**	**9**	**316**
Credited to other comprehensive income	**–**	**(7)**	**–**	**(7)**
At 31 March 2019	**5,028**	**(156)**	**38**	**4,910**

(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 $59 million (2018: $61 million) and $6 million (2018: $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.

7. 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.

7. 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:

2019 *$'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]	–	–	–	–	–
Linda Chan Ching-fan (appointed in June 2018)	92	–	–	–	92
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
Carlson Tong	110	–	–	–	110
Adrian Wong Koon-man (appointed in June 2018)	92	–	–	–	92
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
Andrew Fung Hau-chung (retired in May 2018)	18	–	–	–	18
Executive Member					
Fred Lam (Chief Executive Officer)	–	6,500	3,197	865	10,562
	1,632	6,500	3,197	865	12,194

[1] Jack So Chak-kwong has donated his Chairman's Fee as "Jack So Scholarship" to children of Airport Authority employees 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.

7. EMOLUMENTS OF THE MEMBERS OF THE BOARD AND EXECUTIVE DIRECTORS (CONTINUED)

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

2018 *$'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]	–	–	–	–	–
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
Carlson Tong (appointed in June 2017)	92	–	–	–	92
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
Edward Cheng Wai-sun (retired in May 2017)	18	–	–	–	18
Lin Jing-zhen (appointed in June 2017 and resigned in February 2018)	75	–	–	–	75
Executive Member					
Fred Lam (Chief Executive Officer)	–	6,276	3,066	835	10,177
	1,615	6,276	3,066	835	11,792

1 Jack So Chak-kwong has donated his Chairman's Fee as "Jack So Scholarship" to children of Airport Authority employees 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.

7. 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	**2019**	2018
Basic compensation	**27,745**	27,557
Performance-related compensation	**11,253**	12,295
Retirement benefits	**3,161**	3,205
	42,159	43,057

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

	Number of individuals	
$	**2019**	2018
2,500,001 – 3,000,000	**1**	–
4,000,001 – 4,500,000	**1**	1
4,500,001 – 5,000,000	**–**	1
5,000,001 – 5,500,000	**3**	3
5,500,001 – 6,000,000	**1**	1
6,000,001 – 6,500,000	**1**	2
6,500,001 – 7,000,000	**1**	–
	8	8

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2018: five comprise the Chief Executive Officer and four Executive Directors), whose emoluments are disclosed under note 7(a) and above, respectively.

8. 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.

8. SEGMENTAL INFORMATION (CONTINUED)

Revenue from major services

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

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major services is as follows:

$ million	2019	2018
Revenue from contracts with customers within the scope of HKFRS 15		
Airport charges	5,255	4,990
Security charges	1,769	1,655
Aviation security services	356	344
Others	623	570
	8,003	7,559
Revenue from other sources		
Airside support services franchises	2,365	2,689
Retail licences and advertising revenue	7,145	7,906
Other terminal commercial revenue	1,426	1,368
Others	531	2,472
	11,467	14,435
	19,470	21,994

The group's revenue from contracts with customers within the scope of HKFRS 15 is mainly recognised at a point in time.

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 11 and 13 to the consolidated financial statements respectively.

Information about major customers

The group's customer base is diversified and includes only one customer (2018: 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 $4,218 million which arose from this customer (2018: $6,642 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.

9. INVESTMENT PROPERTY, INTEREST IN LEASEHOLD LAND, OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Reconciliation of carrying amount

	Other property, plant and equipment									
$ million	**Airfields**	**Terminal complexes & ground transportation centre**	**Access, utilities, other buildings & support facilities**	**Systems, installations, plant & equipment**	**Furniture, fixtures & equipment**	**Construction in progress**	**Sub-total**	**Investment property**	**Interest in leasehold land**	**Total**
Cost										
At 1 April 2017	11,278	29,356	16,412	11,638	2,027	6,022	76,733	153	11,315	88,201
Exchange adjustments	–	9	–	10	4	2	25	–	–	25
Additions	76	367	175	450	189	11,292	12,549	1	–	12,550
Reclassifications	1,666	353	96	357	33	(2,505)	–	–	–	–
Disposals	(65)	(39)	(4)	(321)	(44)	–	(473)	–	(6)	(479)
At 31 March 2018	12,955	30,046	16,679	12,134	2,209	14,811	88,834	154	11,309	100,297
At 1 April 2018	12,955	30,046	16,679	12,134	2,209	14,811	88,834	154	11,309	100,297
Exchange adjustments	–	(8)	–	(8)	(4)	(6)	(26)	–	–	(26)
Additions	–	1	3	395	272	19,713	20,384	–	–	20,384
Reclassifications	1,247	251	206	143	98	(1,953)	(8)	8	–	–
Disposals	(94)	(44)	(353)	(222)	(70)	–	(783)	–	–	(783)
At 31 March 2019	14,108	30,246	16,535	12,442	2,505	32,565	108,401	162	11,309	119,872
Accumulated depreciation, amortisation and impairment										
At 1 April 2017	4,166	12,084	7,157	6,606	1,611	–	31,624	65	4,325	36,014
Exchange adjustments	–	3	–	4	2	–	9	–	–	9
Charge for the year	479	1,111	550	590	116	–	2,846	6	229	3,081
Written back on disposals	(61)	(35)	(3)	(318)	(42)	–	(459)	–	(2)	(461)
At 31 March 2018	4,584	13,163	7,704	6,882	1,687	–	34,020	71	4,552	38,643
At 1 April 2018	4,584	13,163	7,704	6,882	1,687	–	34,020	71	4,552	38,643
Exchange adjustments	–	(2)	–	(3)	(1)	–	(6)	–	–	(6)
Charge for the year	437	1,107	557	600	161	–	2,862	6	229	3,097
Reclassifications	–	–	(3)	–	–	–	(3)	3	–	–
Written back on disposals	(92)	(39)	(353)	(219)	(70)	–	(773)	–	–	(773)
At 31 March 2019	4,929	14,229	7,905	7,260	1,777	–	36,100	80	4,781	40,961
Net book value										
At 31 March 2019	9,179	16,017	8,630	5,182	728	32,565	72,301	82	6,528	78,911
At 31 March 2018	8,371	16,883	8,975	5,252	522	14,811	54,814	83	6,757	61,654

9. 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 $11,309 million (2018: $11,309 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 2019 calculated by reference to net rental income allowing for reversionary income potential amounted to $639 million (2018: $560 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 Approach. Under the Income Approach, 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 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/sub-lease agreements for periods ranging from 5 to 49 years. Under the franchise/sub-lease agreements, the franchisees/lessees are granted sub-leases of interest in leasehold land for the periods of the respective franchises/sub-leases. 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.

Payments receivable under the above mentioned operating leases and franchise/sub-lease 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/sub-lease agreements receivable by the group are as follows:

$ million	**2019**	2018
Within one year	**4,391**	2,815
After one but within five years	**12,304**	5,791
After five years	**14,629**	7,109
	31,324	15,715

9. INVESTMENT PROPERTY, INTEREST IN LEASEHOLD LAND, OTHER PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

(d) (continued)

In addition to the above, during the year the group began to sub-lease a portion of its interest in leasehold land to a developer to develop and manage a commercial development in SKYCITY which is scheduled to be opened in phases. The sub-lease agreement is for the period to 2066. The group will receive revenue rent only during the initial phase of operations, as set out in the agreement. Subsequent to the initial phase, the group will receive the higher of a guaranteed rent or revenue rent throughout the remaining lease term. Revenue rent represents 20%, or 30%, subject to subsequent adjustment, of the gross revenue derived from the commercial development.

During the year, $10,913 million (2018: $11,238 million) was recognised as income in profit or loss in respect of the operating leases and franchise/sub-lease agreements, which included contingent rentals of $7,912 million (2018: $8,458 million).

The cost less accumulated amortisation of the interest in leasehold land for airport related development and the provision of airside support services sub-leased to third parties under non-cancellable franchise/sub-lease agreements for the group as at 31 March 2019 was $502 million (2018: $447 million) with annual amortisation amounting to $18 million (2018: $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 2019 was $2,225 million (2018: $2,372 million) with annual depreciation amounting to $169 million (2018: $179 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 $2 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of $24 million.

(f) The gain of $2,185 million on disposal of interest in leasehold land for the SKYCITY hotel development at a consideration of $2,189 million was included in other income in the prior year.

10. INTANGIBLE ASSETS

$ million	**2019**	2018
Cost		
At 1 April	**344**	311
Additions (note 11(b))	**239**	–
Exchange adjustments	**(22)**	33
At 31 March	**561**	344
Accumulated amortisation		
At 1 April	**198**	163
Exchange adjustments	**(13)**	19
Charge for the year	**26**	16
At 31 March	**211**	198
Net book value		
At 31 March	**350**	146

Intangible assets as at 31 March 2019 represent the rights to operate and manage Zhuhai Airport and AsiaWorld-Expo (see note 11(b)) which are being amortised over 20 years and 12.5 years on a straight line basis respectively.

11. INVESTMENTS IN SUBSIDIARIES

	The Authority	
$ million	**2019**	2018
Unlisted shares, at cost	**253**	5

(a) The following list contains only the particulars of principal subsidiaries. The class of shares held is ordinary unless otherwise stated.

			Proportion of ownership interest			
Name of company	**Place of incorporation and operation**	**Particulars of issued and paid up ordinary share capital/ registered capital**	**Group's effective interest**	**Held by the Authority**	**Held by a subsidiary**	**Principal activity**
Aviation Security Company Limited ("AVSECO")	Hong Kong	$10,000,000	51%	51%	–	Provision of aviation security services
HKIA Precious Metals Depository Limited	Hong Kong	$2	100%	100%	–	Provision of storage space and related services
Hong Kong – Zhuhai Airport Management Co., Ltd. ("HKZAM")* (note 11(a))	PRC	RMB360 million	55%	–	55%	Airport management and provision of transportation and ground services relating to aviation
AsiaWorld-Expo Management Limited ("AWEM") (note 11(b))	Hong Kong	$100,000	100%	100%	–	Asiaworld-Expo exhibition centre operation and management

* 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	**2019**	2018
NCI percentage	**45%**	45%
Non-current assets	**394**	376
Current assets	**674**	526
Non-current liabilities	**(73)**	(73)
Current liabilities	**(235)**	(155)
Net assets	**760**	674
Carrying amount of NCI	**342**	303
Revenue	**670**	567
Profit for the year	**134**	150
Total comprehensive income for the year	**130**	156
Profit for the year allocated to NCI	**61**	67
Total comprehensive income for the year allocated to NCI	**59**	70

11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(b) AWEM operates AsiaWorld-Expo exhibition centre under a management and operating agreement up to 2031 in return for a management fee. AsiaWorld-Expo exhibition centre is held by Hong Kong IEC Limited ("HKIEC", majority owned by the Government) (see note 12).

In September 2018, the Authority acquired the entire shareholding of AWEM at a consideration of $248 million in cash. AWEM is accounted for as a consolidated subsidiary of the Authority. AWEM's management and operating agreement is recognised as an intangible asset of $239 million upon consolidation (see note 10).

(i) Details of net assets acquired in respect of the acquisition of AWEM at the acquisition date were as follows:

$ million	**2019**
Intangible asset arising from acquisition (note 10)	**239**
Other property, plant and equipment	**2**
Trade and other receivables	**18**
Stores and spares	**3**
Cash and bank balances	**682**
Trade and other payables	**(694)**
Current taxation	**(2)**
Fair value of net assets acquired	**248**
Goodwill on acquisition	**–**
Total consideration settled in cash	**248**
Less: cash and cash equivalents acquired	**(246)**
Net cash outflow	**2**

(ii) Revenue and profit contribution

AWEM contributed revenue of $14 million and profit of $2 million to the group for the period from the completion date of the acquisition on 22 September 2018 to 31 March 2019. If the acquisition had occurred on 1 April 2018, the group's consolidated revenue would have been $19,481 million and the consolidated profit for the year would not be materially impacted.

12. INTEREST IN AN ASSOCIATE

$ million	**2019**	2018
Share of net assets	**150**	–
Amount due from an associate	**214**	–
Preference shares premium	**288**	–
	652	–

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

			Proportion of ownership interest		
Name of associate	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by a subsidiary**	**Principal activity**
HKIEC	Hong Kong	$2,670,842,512	15.1%	15.1%	Development and holding of AsiaWorld-Expo exhibition centre

In September 2018, the group acquired all preference shares issued by HKIEC, which represent 15.1% of the total equity interest of HKIEC, at a consideration of $652 million in cash. Net assets of HKIEC include mainly the carrying amounts of the AsiaWorld-Expo exhibition centre facilities.

The group is entitled to the equity return from HKIEC and the return arising from the preference shares in form of preferred dividend. The settlement of the preferred dividend is subject to the availability of the distributable profits or cash surplus of HKIEC. There have been no material share of results from HKIEC for the year.

13. INTERESTS IN JOINT VENTURES

$ million	**2019**	2018
Share of net assets	**4,118**	4,242
Goodwill	**224**	240
	4,342	4,482

13. INTERESTS IN JOINT VENTURES (CONTINUED)

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

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up registered capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Authority	Principal activity
Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIA")	Incorporated	PRC	RMB5,686 million	35%	35%	Management, operation and development of Hangzhou Xiaoshan International Airport and provision of related services
Shanghai Hong Kong Airport Management Co., Ltd. ("SHKAM")	Incorporated	PRC	RMB100 million	49%	49%	Management and operation of the terminals at Hongqiao International Airport, Shanghai ("HIA")

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

(a) HXIA

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

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

$ million	2019	2018
Gross amounts of HXIA		
Non-current assets	14,259	15,559
Current assets	5,574	4,420
Non-current liabilities	(2,041)	(2,789)
Current liabilities	(6,198)	(5,251)
Net assets/equity	11,594	11,939

13. INTERESTS IN JOINT VENTURES (CONTINUED)

(a) HXIA (continued)

$ million	**2019**	2018
Income	**4,236**	3,707
Expenses	**(3,250)**	(2,923)
Profit before taxation	**986**	784
Income tax	**(244)**	(211)
Profit after taxation	**742**	573
Other comprehensive income	**185**	74
Total comprehensive income	**927**	647

$ million	**2019**	2018
Reconciled to the group's interest in HXIA		
Gross amounts of HXIA's net assets	**11,594**	11,939
Group's effective interest	**35%**	35%
Group's share of HXIA's net assets	**4,058**	4,179
Goodwill	**224**	240
Carrying amount in the consolidated financial statements	**4,282**	4,419

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

$ million	**2019**	2018
Share of profit after taxation	**260**	200
Share of other comprehensive income	**(65)**	26
Less: transfer to capital reserve	**(13)**	(14)
Share of profit and other comprehensive income to be retained	**182**	212
Share of retained profits brought forward from previous years	**832**	660
Dividend received	**(40)**	(40)
Share of retained profits carried forward to next year	**974**	832

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

$ million	**2019**	2018
At 1 April	**966**	952
Transfer from retained profits	**13**	14
At 31 March	**979**	966

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 as at 31 March 2019 are as follows:

$ million	**2019**
Contracted for	**2,515**
Authorised but not contracted for	**30,634**
	33,149

In the prior year, HXIA's board approved a budget of $31,919 million for HXIA's Phase 3 Development. Other than the Phase 3 Development, HXIA has capital commitments for other capital works of $1,549 million.

These are to be financed independently by HXIA 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:

$ million	**2019**	2018
Gross amounts of SHKAM		
Current assets	**131**	138
Current liabilities	**(9)**	(10)
Net assets/equity	**122**	128

$ million	**2019**	2018
Income	**13**	12
Expenses	**(11)**	(10)
Net profit and other comprehensive income	**2**	2

$ million	**2019**	2018
Reconciled to the group's interest in SHKAM		
Gross amounts of SHKAM's net assets	**122**	128
Group's effective interest	**49%**	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	**60**	63

14. TRADE AND OTHER RECEIVABLES

$ million	2019	2018
Trade debtors	3,871	3,009
Less: loss allowance (note 14(b))	(515)	(75)
	3,356	2,934
Other debtors	239	82
	3,595	3,016
Advance payments to contractors	–	776
Prepayments	130	79
Deposits and debentures	22	22
	3,747	3,893
Classified in the consolidated statement of financial position as:		
Current assets	3,739	3,117
Non-current assets	8	776
	3,747	3,893

As at 31 March 2019, 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 $17 million (2018: $20 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 loss allowance, included above is as follows:

$ million	2019	2018
Amounts not yet due	2,894	2,629
Less than one month past due	261	205
One to three months past due	201	77
More than three months past due	–	23
	3,356	2,934

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). The group holds cash deposits and bank guarantees of $3,280 million (2018: $2,719 million) as collateral over the trade debtors.

(b) Impairment of trade debtors

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

The movements in the loss allowance during the year are as follows:

$ million	2019	2018
At 1 April	75	44
Impairment loss recognised in other operating expenses	440	31
At 31 March	515	75

14. TRADE AND OTHER RECEIVABLES (CONTINUED)

(c) Credit risk arising from trade debtors

The group measures loss allowance for trade debtors at an amount equal to lifetime expected credit losses ("ECLs"), which is calculated using a provision matrix. As the group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the group's different customer bases.

Expected loss rates are based on actual loss experience in the past. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the trade debtors.

Expected loss rates ranged from 20% to 50% for debtors aged from 30 days to 120 days overdue. The Authority usually fully provide for trade receivables aged over 180 days based on historical experience save for any exceptional exposures.

Comparative information under HKAS 39

Prior to 1 April 2018, an impairment loss was recognised only when there was objective evidence of impairment. As at 31 March 2018, trade debtors of $54 million was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

$ million	2018
Neither past due nor impaired	2,629
Less than 1 month past due	161
1 to 3 months past due	52
More than 3 months past due	9
	222
	2,851

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.

15. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

(a) Cash and bank balances comprise:

$ million	2019	2018
Deposits with banks within three months of maturity when placed	3,276	231
Cash at bank and in hand	1,661	579
Cash and cash equivalents in the consolidated cash flow statement	4,937	810
Deposits with banks with over three months of maturity when placed	16,178	17,884
Cash and bank balances in the consolidated statement of financial position	21,115	18,694

As at 31 March 2019, cash and bank balances of $513 million (2018: $339 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.

(b) Reconciliation of (assets)/liabilities arising from financing activities:

The table below details changes in the group's (assets)/liabilities from financing activities, including both cash and non-cash changes. (Assets)/liabilities arising from financing activities are (assets)/liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated cash flow statement as cash flows from financing activities.

$ million	Interest-bearing borrowings	Interest and other borrowing costs payables and deferred finance charges	Airport construction fee receivable	Net derivative financial liabilities	Total
	(Note 17)			(Note 22(e))	
At 1 April 2018	1,415	(19)	(1,038)	20	378
Changes from financing cash flows:					
Interest paid on notes	–	(54)	–	–	(54)
Other borrowing costs and interest expense paid	–	(25)	–	–	(25)
Airport construction fee received	–	–	3,816	–	3,816
Receipts from issue of notes	3,918	–	–	–	3,918
Net interest income received on interest rate swaps	–	30	–	–	30
Total changes from financing cash flows	3,918	(49)	3,816	–	7,685
Non-cash changes:					
Interest on notes (note 5)	–	69	–	–	69
Other borrowing costs (note 5)	–	21	–	–	21
Other interest expense (note 5)	–	7	–	–	7
Airport construction fee	–	–	(4,029)	–	(4,029)
Other non-cash movements	11	(31)	–	42	22
Total other changes	11	66	(4,029)	42	(3,910)
At 31 March 2019	5,344	(2)	(1,251)	62	4,153

15. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION (CONTINUED)

(b) Reconciliation of (assets)/liabilities arising from financing activities: (continued)

$ million	**Interest-bearing borrowings**	**Interest and other borrowing costs payables and deferred finance charges**	**Airport construction fee receivable**	**Net derivative financial liabilities**	**Total**
	(Note 17)			(Note 22(e))	
At 1 April 2017	1,423	(17)	(885)	12	533
Changes from financing cash flows:					
Interest paid on notes	–	(55)	–	–	(55)
Other borrowing costs and interest expense paid	–	(20)	–	–	(20)
Airport construction fee received	–	–	3,821	–	3,821
Net interest income received on interest rate swaps	–	4	–	–	4
Total changes from financing cash flows	–	(71)	3,821	–	3,750
Non-cash changes:					
Interest on notes (note 5)	–	54	–	–	54
Other borrowing costs (note 5)	–	18	–	–	18
Other interest expense (note 5)	–	2	–	–	2
Airport construction fee	–	–	(3,974)	–	(3,974)
Other non-cash movements	(8)	(5)	–	8	(5)
Total other changes	(8)	69	(3,974)	8	(3,905)
At 31 March 2018	1,415	(19)	(1,038)	20	378

16. TRADE AND OTHER PAYABLES

$ million	**2019**	2018
Creditors and accrued charges	**11,428**	5,738
Deposits received	**1,888**	1,514
Contract retentions	**1,358**	1,064
	14,674	8,316
Classified in the consolidated statement of financial position as:		
Current liabilities	**13,572**	7,097
Non-current liabilities	**1,102**	1,219
	14,674	8,316

16. TRADE AND OTHER PAYABLES (CONTINUED)

As at 31 March 2019, all of the trade and other payables are expected to be settled or recognised as income within one year except for $1,102 million (2018: $1,219 million), which are expected to be settled after more than one year and mainly relate to licence deposits received from retail licencees and contract retentions.

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

$ million	**2019**	2018
Due within 30 days or on demand	**2,279**	1,648
Due after 30 days but within 60 days	**1,710**	1,823
Due after 60 days but within 90 days	**342**	389
Due after 90 days	**7,097**	1,878
	11,428	5,738

17. INTEREST-BEARING BORROWINGS

$ million	**2019**	2018
Notes payable (a)		
HK dollar fixed rate notes due 2019 to 2043	**1,438**	1,426
US dollar bond due 2029	**3,925**	–
Less: unamortised finance costs	**(19)**	(11)
	5,344	1,415

(a) The Authority established the United States ("US") $1 billion Medium Term Note programme in 2010. The programme is increased to US$8 billion in 2017. The Authority issued notes due 2029 with a principal amount of US$500 million at an issue price of 99.857 per cent and at annual coupon rate of 3.45% in February 2019. The notes are listed on the Hong Kong Stock Exchange and repayable in Hong Kong dollar under cross currency swaps (see note 22(d)). Prior to that, the Authority's Hong Kong dollar notes were issued through private placement.

As at 31 March 2019, the Authority's outstanding fixed rate notes have annual coupon rates ranging from 2.25% to 4.85% (2018: 2.25% to 4.85%). 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 Hong Kong Interbank Offered Rate ("HIBOR"). As at 31 March 2019, there was no outstanding amount under this facility (2018: $nil).

(c) The Authority has uncommitted money market line facilities of $2,192 million (2018: $2,192 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2019, there was no outstanding amount under these facilities (2018: $nil).

17. INTEREST-BEARING BORROWINGS (CONTINUED)

(d) As at 31 March 2019, the unsecured interest-bearing borrowings were repayable as follows:

$ million	**2019**	2018
Within one year or on demand	**95**	–
After one year but within two years	**600**	97
After two years but within five years	**542**	1,128
After five years	**4,107**	190
	5,249	1,415
	5,344	1,415

(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 Hong Kong dollar fixed rate notes 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")

$ million	**2019**	2018
At 1 April	**1,103**	893
Add: ACF received or receivable for the year	**4,029**	3,974
Less: payment of three-runway system ("3RS") capital expenditure	**(3,447)**	(3,764)
At 31 March	**1,685**	1,103

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 amounts received in respect of sub-leases of interest in leasehold land of the airport site. During the year, the Authority has received up-front payments of $1,560 million for the SKYCITY and premium logistics centre developments. They are accounted for in accordance with the accounting policies detailed in notes 28(t)(v) and 28(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 13% (2018: 16%) 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 2019 according to HKAS 19, "*Employee benefits*" prepared by qualified staff of Mercer (Hong Kong) Limited (2018: 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 79% (2018: 85%) 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 covers 35% (2018: 49%) 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 2019 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	**2019**	2018
The Hong Kong plan		
Present value of funded obligations	**958**	907
Fair value of plan assets	**(754)**	(767)
	204	140
The HKZAM plan		
Present value of unfunded obligations	**54**	51
Net defined benefit retirement obligations	**258**	191

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 2020.

20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

(ii) Plan assets consist of the following:

$ million	**2019**	2018
Equity securities	**364**	380
Corporate bonds	**329**	349
Cash	**61**	38
	754	767

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

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

$ million	**2019**	2018
The Hong Kong plan		
At 1 April	**907**	855
Remeasurements:	**38**	55
– Actuarial losses arising from changes in demographic assumptions	**–**	8
– Actuarial losses arising from changes in financial assumptions	**18**	39
– Experience adjustments	**20**	8
Benefits paid by the plans	**(46)**	(57)
Current service cost	**43**	42
Interest cost	**16**	12
At 31 March	**958**	907
The HKZAM plan	**54**	51
At 31 March	**1,012**	958

The weighted average durations of the defined benefit obligations for the Hong Kong and the HKZAM plans are 6.5 years (2018: 7.1 years) and 9.7 years (2018: 9.7 years) respectively.

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

$ million	**2019**	2018
At 1 April	**767**	747
Group's contributions paid to the plans	**23**	23
Benefits paid by the plans	**(46)**	(57)
Actual return on plan assets	**10**	54
– Interest income	**14**	10
– Return on plan assets, excluding interest income	**(2)**	46
– Administrative expenses paid from plan assets	**(2)**	(2)
At 31 March	**754**	767

20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

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

$ million	2019	2018
The Hong Kong plan		
Current service cost	43	42
Administrative expenses paid from plan assets	2	2
Net interest on net defined benefit liability	2	2
	47	46
The HKZAM plan	4	5
Total amounts recognised in profit or loss	51	51
The Hong Kong plan		
Remeasurements:		
– Actuarial losses arising from changes in demographic assumptions	-	8
– Actuarial losses arising from changes in financial assumptions	18	39
– Experience adjustments	20	8
Return on plan assets, excluding interest income	2	(46)
	40	9
The HKZAM plan	4	(6)
Total amounts recognised in other comprehensive income	44	3
Total defined benefit debits	95	54

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	2019	2018
Staff costs and related expenses	51	51

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

	2019	2018
The Hong Kong plan		
Discount rate	1.5%	1.8%
Future long term salary increases	4.5%	4.5%
The HKZAM plan		
Discount rate	3.1%	3.9%

20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

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

The below analysis shows how the defined benefit obligations as at 31 March 2019 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	**(30)**	**32**
Future long term salary increases	**35**	**(34)**
The HKZAM plan		
Discount rate	**(3)**	**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 102.

(b) Share capital

	The Authority	
$ million	**2019**	2018
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of $100,000 each (2018: 306,480 ordinary shares)	**30,648**	30,648

21. CAPITAL AND RESERVES (CONTINUED)

(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 28(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) Hedging reserve

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

(iv) Cost of hedging reserve

The cost of hedging reserve comprises the fair value of the effect of foreign currency basis spread and forward element of the cross currency swaps used in cash flow hedges in accordance with the accounting policy adopted for cash flow hedges set out in note 28(f).

(v) Distributability of reserves

As at 31 March 2019, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was $46,906 million (2018: $38,895 million). The Board did not propose any final dividend for the year ended 31 March 2019 (2018: $nil).

(vi) 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	**2019**	2018
Total debt[1]	17	**5,344**	1,415
Total equity		**80,474**	72,569
Total capital[2]		**85,818**	73,984
Total debt/capital ratio		**6%**	2%

[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.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. 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/sub-lease 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 prior 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% (2018: 17%) and 43% (2018: 39%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

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

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

(b) Liquidity risk

All cash management of the group, including the short term investment of cash surpluses and raising of loans and other borrowings to cover expected cash demands, are managed centrally by the Authority except AVSECO, AWEM 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:

		Contractual undiscounted cash flow				
$ million	**Carrying amount at 31 March**	**Total**	**Within 1 year or on demand**	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**
2019						
Interest-bearing borrowings	**5,344**	**7,041**	**290**	**786**	**1,000**	**4,965**
Trade and other payables	**10,474**	**10,536**	**9,377**	**93**	**960**	**106**
Interest rate swaps (net settled)	**8**	**3**	**(1)**	**2**	**2**	**–**
Cross currency swaps (net settled)	**54**	**(164)**	**(16)**	**(16)**	**(50)**	**(82)**
	15,880	**17,416**	**9,650**	**865**	**1,912**	**4,989**
2018						
Interest-bearing borrowings	1,415	1,816	54	154	1,236	372
Trade and other payables	8,316	8,381	7,101	674	549	57
Interest rate swaps (net settled)	20	(12)	(4)	(5)	(3)	–
Cross currency swaps (net settled)	–	–	–	–	–	–
	9,751	10,185	7,151	823	1,782	429

As shown above, interest-bearing borrowings (including interest) of the group amounting to $290 million (2018: $54 million) are due to be repaid in the upcoming 12 months after 31 March 2019. 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

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. 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. At the time of issuance of the US$500 million bond, it was considered prudent to maintain the bond on a fixed rate basis. As such the fixed rate borrowings are higher than the adopted policy ratio. The group is now reviewing the ratio given the likely increase in external borrowings in the coming years. The group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedges of interest rate risk

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 28(f).

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(c) Interest rate risk (continued)

(i) Hedges of interest rate risk (continued)

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.

The group seeks to hedge the benchmark interest rate component only and applies a hedge ratio of 1:1. The existence of an economic relationship between the interest rate swaps and the variable rate borrowings is determined by matching their critical contract terms, including the reference interest rates, tenors, maturity dates, interest payment and/or receipt dates, the notional amounts of the swaps and the outstanding principal amounts of the borrowings. The main source of hedge ineffectiveness in these hedging relationships is the effect of the counterparty and the group's own credit risk on the fair value of the swaps which is not reflected in the fair value of the hedged cash flows attributable to the change in interest rates.

(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	**2019**	2018
Fixed rate borrowings		
Fixed rate notes	**4,707**	790
Variable rate borrowings		
Fixed rate notes[1]	**637**	625
Total borrowings	**5,344**	1,415
Fixed rate borrowings as a percentage of total borrowings	**88%**	56%

1 Swapped to floating rate

(iii) Sensitivity analysis

As at 31 March 2019, 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 (2018: $2 million). There was no material increase/decrease in other components of consolidated equity (2018: $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.

The group is exposed to foreign currency risk primarily through the issue of notes that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US dollars.

As at 31 March 2019, the group is exposed to US dollar currency risk in respect of the US dollar bond issued of US$500 million (2018: US$nil), cash and bank balances of US$344 million (2018: US$314 million) and trade and other receivables of US$nil (2018: US$9 million).

Although the US dollar currency risk is substantially mitigated by the peg between Hong Kong dollar and US dollar, the group further reduces this risk by the use of cross currency swaps to hedge all payment of the US dollar bond into Hong Kong dollar. The group designates these cross currency swaps as cash flow hedges. Details of the notional amounts, maturity period and fair values of cross currency 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.

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between the cross currency swaps and the US dollar bond based on their currency amounts and the timing of their respective cash flows. The main sources of ineffectiveness in these hedging relationships is due to the different day count and day adjustments in each of the deals.

The following table provides a reconciliation of the hedging reserve in respect of foreign currency risk and shows the effectiveness of the hedging relationships:

$ million	**2019**	2018
At 1 April	**–**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**2**	–
Amount transferred from equity to consolidated statement of profit or loss	**(2)**	–
At 31 March	**–**	–
Change in fair value of the cross currency swaps during the year	**2**	–
Hedge ineffectiveness recognised in consolidated statement of profit or loss	**–**	–
Effective portion of the cash flow hedge recognised in other comprehensive income	**2**	–

As at 31 March 2019, the group's borrowings denominated in US dollar were swapped into Hong Kong dollar by entering the cross currency swaps. As the 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 unhedged US dollar exposure is also not material to the group. Accordingly, no sensitivity analysis is considered necessary.

As at 31 March 2019, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB134 million (2018: RMB90 million). If Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables held constant, the group's profit after taxation and retained earnings would have been $7 million (2018: $5 million) lower/higher. The analysis is performed on the same basis for 2017/18.

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

22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

(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 9(c)).

As at 31 March 2018 and 2019, 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 (2018: $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.

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)					
	2019			2018		
$ million	**Notional amount**	**Financial assets**	**Financial liabilities**	Notional amount	Financial assets	Financial liabilities
Cash flow hedges						
Cross currency swaps	**US$500**	**29**	**(83)**	Nil	–	–
Fair value hedges						
Interest rate swaps	**$650**	**–**	**(8)**	$650	2	(22)
Total		**29**	**(91)**		2	(22)
Less: portion to be recovered/ (settled) within one year						
Cash flow hedges						
Cross currency swaps	**US$500**	**–**	**–**	Nil	–	–
Fair value hedges						
Interest rate swaps	**$650**	**–**	**(2)**	$650	–	(2)
		–	**(2)**		–	(2)
Portion to be recovered/(settled) after one year		**29**	**(89)**		2	(20)

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)

Derivative financial instruments qualifying as cash flow hedges as at 31 March 2019 have a maturity of 10 years (2018: nil) from the end of the reporting period.

Derivative financial instruments qualifying as fair value hedges as at 31 March 2019 have a maturity of 0.5 year to 3.5 years (2018: 1 year to 4.5 years) from the end of the reporting period.

Valuation techniques and inputs used in Level 2 fair value measurements

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

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

The carrying amounts of the group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2019 and 2018 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

				Fair value measurements categorised into		
$ million	**Notional amount**	**Carrying amount at 31 March**	**Fair value at 31 March**	**Level 1**	**Level 2**	**Level 3**
2019						
Fixed rate notes	**US$500 and $1,450**	**5,344**	**5,609**	**4,054**	**1,555**	**–**
2018						
Fixed rate notes	$1,450	1,415	1,559	–	1,559	–

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.

23. OUTSTANDING COMMITMENTS

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

	2019			2018		
$ million	**3RS**	**Others**	**Total**	3RS	Others	Total
Contracted for	**20,649**	**5,198**	**25,847**	27,777	6,679	34,456
Authorised but not contracted for	**87,478**	**17,199**	**104,677**	98,047	16,231	114,278
	108,127	**22,397**	**130,524**	125,824	22,910	148,734

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 are disclosed in note 7.

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 $68 million (2018: $64 million). As at 31 March 2019, the amounts due to the Government with respect to the above services amounted to $51 million (2018: $42 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 $819 million (2018: $785 million) and the amounts due to the Government as at 31 March 2019 with respect to the above services amounted to $0.4 million (2018: $1.6 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 maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2, SkyPier and Midfield Concourse. The amounts incurred by the Authority for these services for the year amounted to $109 million (2018: $102 million). As at 31 March 2019, the amounts due to MTRC with respect to the maintenance services amounted to $89 million (2018: $69 million).

24. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(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 $70 million (2018: $72 million). As at 31 March 2019, there was no outstanding amount due from HKITP (2018: $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 $41 million (2018: $68 million). As at 31 March 2019, the aggregate amounts due from these departments, agencies or entities amounted to $5 million (2018: $7 million).

(g) In mid-2018, the Authority has received compensation amounting to $221 million in respect of the compensation claims relating to Hong Kong-Zhuhai-Macao Bridge related facilities submitted to the Government on 22 July 2013.

(h) AWEM has entered into a management and operating agreement with HKIEC, in which the Government is the majority shareholder, to manage, promote, operate and maintain the AsiaWorld-Expo exhibition centre (note 11).

25. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 March 2019, 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 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.

26. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

(iii) Interests in joint ventures

HXIA receives Civil Aviation Development Fund subsidies, airport construction fee subsidies and certain other subsidies (collectively known as "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.

Prior to June 2016, 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.

(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. FUND-RAISING EVENT REQUIRING PUBLIC SUBSCRIPTION PERMIT FROM SOCIAL WELFARE DEPARTMENT

The Authority has a donation box fund-raising programme under Public Subscription Permit (Permit No.: 2018/077/1) from Social Welfare Department to support the services of certain charitable organisations. After deducting handling fees charged by a service provider not related to the Authority, the net donations received during the period from 1 April 2018 to 31 March 2019 amounted to $0.51 million (2018: $0.51 million) and were equally allocated among The Community Chest of Hong Kong, Changing Young Lives Foundation, Friends of the Earth (HK) Charity Limited, Green Power Limited, Hong Kong Sheng Kung Hui Tung Chung Integrated Services, OIWA Limited and The Neighbourhood Advice-Action Council Tung Chung Integrated Services Centre.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Changes in accounting policies

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

- HKFRS 9, *"Financial instruments"*
- HKFRS 15, *"Revenue from contracts with customers"*
- Amendments to HKAS 40, *"Investment property: Transfers of investment property"*

None of these developments has had a material effect on how the group's results and financial position for the current or prior periods have been prepared or presented 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.

(1) HKFRS 9, *"Financial instruments"*

HKFRS 9 replaces HKAS 39, "*Financial instruments: recognition and measurement*". It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of financial assets and financial liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL.

The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 did not affect the measurement basis, and hence the carrying amounts of the group's financial assets as at 1 April 2018.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 April 2018 have not been impacted by the initial application of HKFRS 9.

The group did not designate or de-designate any financial assets or financial liabilities at FVPL at 1 April 2018.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Changes in accounting policies (continued)

(1) HKFRS 9, *"Financial instruments"* (continued)

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the ECL model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39. The group applies the ECL model to the group's financial assets measured at amortised cost and lease receivables, but not to the group's derivative financial assets measured at fair value.

For the group's trade receivables, the loss allowance is measured at an amount equal to "lifetime ECLs" (which are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the group's cash and bank balances, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs".

There was no significant change in the amount of provision for impairment losses recognised as at 1 April 2018 as a result of the adoption of the ECL model.

(2) HKFRS 15, *"Revenue from contracts with customers"*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, "*Revenue*", which covered revenue arising from sale of goods and rendering of services, and HKAS 11, "*Construction contracts*", which specified the accounting for construction contracts.

Previously under HKAS 18, revenue arising from provision of services was recognised over time. However, under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised services in the contract, which may be at a single point in time or over time.

The adoption of HKFRS 15 does not have a significant impact on the timing of revenue recognition of the group.

(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.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

(c) Associate and joint ventures

An associate is an entity in which the group or company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

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 an associate or 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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the group's share of the investee's net assets and any impairment losses relating to the investment (notes 28(d) and (j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the associate or 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 investee. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the group's net investment in the associate or the joint venture.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Associate and joint ventures (continued)

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

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or 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.

(d) Goodwill

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

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

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

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

(i) Fair value hedges

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

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

(ii) Cash flow hedges

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

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

The foreign currency basis spread and forward element of derivatives, which have been separated and excluded from the designation as cash flow hedges, are recognised directly in other comprehensive income and accumulated separately in equity in the cost of hedging reserve. Amounts accumulated in equity are amortised and reclassified from equity to profit or loss over the term of derivatives.

(iii) Derivatives that do not qualify for hedge accounting

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

(g) 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 28(j)).

(ii) Investment property

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

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

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

(vi) Construction in progress

Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 28(n)) capitalised during the period of construction or installation and testing. Capitalised costs also included provision amount assessed by the group that may be required for the settlement of contractual claims from contractors. 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 28(h).

(vii) Leased assets

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

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

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

28. 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.

(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 28(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The group's intangible assets, which are a franchise with a finite useful life, are amortised from the date it became available for use over the franchise periods of 12.5 or 20 years. The period and method of amortisation are reviewed annually.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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;
- interest in an associate; and
- interests in joint ventures.

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

(ii) Interim financial reporting and impairment

At the end of the interim period, the group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

(k) Stores and spares

Stores and spares are carried at the lower of cost and net realisable value. Cost comprises 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 recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

Receivables are stated at amortised cost using the effective interest method less loss allowance for credit losses.

(l) Trade and other receivables (continued)

(i) Policy applicable from 1 April 2018

The group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (trade and other receivables).

Financial assets measured at fair value, including derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the group in accordance with the contract and the cash flows that the group expects to receive).

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs (which are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies).

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. The group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Policy applicable prior to 1 April 2018

Prior to 1 April 2018, an "incurred loss" model was used to measure impairment losses for bad and doubtful debts.

Impairment losses for bad and doubtful debts were recognised when there was objective evidence of impairment and were 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 was material.

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

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

28. 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)).

28. 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.

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.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Income tax (continued)

(iii) (continued)

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.

(t) Revenue recognition

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts. 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.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition (continued)

(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.

(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 transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

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.

28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

29. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2019

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 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
HKFRS 16, *"Leases"*	1 January 2019
HK(IFRIC) 23, *"Uncertainty over income tax treatments"*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *"Long-term interest in associates and joint ventures"*	1 January 2019

The group considers that the adoption of the amendments, new standards and interpretations which will be effective for accounting periods beginning on 1 January 2019 is unlikely to have a significant impact on the group's consolidated financial statements.

FIVE-YEAR FINANCIAL AND OPERATIONAL SUMMARY

(in HK$ million)	14/15	15/16	16/17	17/18	**18/19**
Consolidated statement of profit or loss					
Revenue	16,367	18,184	18,627	21,994	**19,470**
Operating expenses before depreciation and amortisation	(5,053)	(5,848)	(5,796)	(6,058)	**(7,027)**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	11,314	12,336	12,831	15,936	**12,443**
Depreciation and amortisation	(2,420)	(2,813)	(3,079)	(3,097)	**(3,123)**
Net interest and finance income	33	28	131	275	**379**
Share of results of joint ventures	137	189	83	201	**261**
Profit before taxation	9,064	9,740	9,966	13,315	**9,960**
Income tax	(1,794)	(1,366)	(1,656)	(1,829)	**(1,558)**
Profit for the year	7,270	8,374	8,310	11,486	**8,402**
Attributable to:					
Equity shareholder of the Authority	7,254	8,359	8,276	11,416	**8,339**
Non-controlling interests	16	15	34	70	**63**
Consolidated statement of financial position					
Non-current assets	53,474	54,192	57,572	67,060	**84,292**
Current assets	4,587	10,800	16,748	21,870	**24,938**
Current liabilities	(5,813)	(5,428)	(6,740)	(8,652)	**(15,581)**
Net current (liabilities)/assets	(1,226)	5,372	10,008	13,218	**9,357**
Total assets less current liabilities	52,248	59,564	67,580	80,278	**93,649**
Non-current liabilities	(7,811)	(7,006)	(7,017)	(7,709)	**(13,175)**
Net assets	44,437	52,558	60,563	72,569	**80,474**
Share capital	30,648	30,648	30,648	30,648	**30,648**
Reserves	13,546	21,662	29,647	41,553	**49,417**
Non-controlling interests	243	248	268	368	**409**
Total equity	44,437	52,558	60,563	72,569	**80,474**
Key financial and operational statistics					
Dividend declared *(HK$ million)*	–	–	–	–	**–**
Return on equity	16.7%	17.3%	14.7%	17.3%	**11.0%**
Total debt/capital ratio	7%	5%	2%	2%	**6%**
Passenger traffic[1, 2] *(millions of passengers)*	64.7	69.7	70.5	73.6	**75.1**
Cargo and airmail throughput[1, 3] *(millions of tonnes)*	4.5	4.4	4.7	5.1	**5.1**
Aircraft movements[1] *(thousands)*	396	410	410	423	**429**

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 throughput includes airmail from Hongkong Post and transit mail from airlines.

AIRLINES OPERATING AT HKIA AS AT MARCH 2019

Aeroflot Russian Airlines
AeroLogic*
Air Astana
Air Belgium
Air Busan
Air Canada
Air Cargo Global*
Air China
Air France
Air Hongkong*
Air India
Air Japan
Air Mauritius
Air New Zealand
Air Niugini
Air Seoul
AirAsia
AirBridgeCargo Airlines*
AirExplore
All Nippon Airways
American Airlines
Asiana Airlines
ASL Airlines Belgium*
Atlas Air*
Aurora Airlines
Austrian Airlines
Aviastar-TU*
Bangkok Airways
Bismillah Airlines*
British Airways
CargoLogicAir*
Cargolux Airlines*
Cargolux Italia S.p.A.*
Cathay Dragon
Cathay Pacific
Cebu Pacific Air
China Airlines
China Cargo Airlines*
China Eastern Airlines
China Southern Airlines
Delta Air Lines
Eastar Jet
EgyptAir
EL AL Israel Airlines
Emirates
Ethiopian Airlines
Etihad Airways
EVA Airways
Federal Express*
Fiji Airways
Finnair
Garuda Indonesia
HK Express
Hong Kong Air Cargo*
Hong Kong Airlines
IndiGo
Japan Airlines
JC (Cambodia) International Airlines
Jeju Air
Jet Airways
Jetstar Asia Airways
Jetstar Japan
Jetstar Pacific Airlines
Jin Air
Juneyao Airlines
Kalitta Air*
KLM Royal Dutch Airlines
K-Mile Air*
Korean Air
Lanmei Airlines (Cambodia)
Lufthansa
Lufthansa Cargo*
Malaysia Airlines
Malindo Air
Mandarin Airlines
MIAT Mongolian Airlines
Myanmar National Airlines
National Air Cargo*
Nepal Airlines
Nippon Cargo Airlines*
Peach Aviation
Philippine Airlines
Philippines AirAsia
Polar Air Cargo*
Qantas Airways
Qatar Airways
Raya Airways*
Royal Brunei Airlines
Royal Jordanian
S7 Airlines
Saudi Arabian*
Scandinavian Airlines
Scoot
SF Airlines*
Shandong Airlines
Shanghai Airlines
Shenzhen Airlines
Sichuan Airlines
Silk Way West Airlines*
Singapore Airlines
Sky Angkor Airlines
Sky Gates Cargo Airlines*
Sky Lease Cargo*
Small Planet Airlines
South African Airways
Southern Air Inc.*
SpiceJet
Spring Airlines
SriLankan Airlines
Suparna Airlines*
SW Italia S.p.A.*
Swiss International Air Lines
Thai AirAsia
Thai Airways
Thai Smile Airways
Turkish Airlines
T'way Air
United Airlines
United Parcel Service*
Vanilla Air
Vietjet Air
Vietnam Airlines
Virgin Atlantic Airways
Virgin Australia International Airlines
Western Global Airlines*
Xiamen Airlines

* *Freighter services only*

DESTINATIONS SERVED FROM HKIA AS AT MARCH 2019

NORTH ASIA

Beijing
Busan
Changchun
Changsha
Cheju
Chengdu
Chongqing
Daegu
Dalian
Datong
Dunhuang
Fukuoka
Fuzhou
Guangzhou
Guilin
Guiyang
Haikou
Hangzhou
Harbin
Hiroshima
Hohhot
Hualien
Irkutsk
Ishigaki
Jinan
Jinjiang
Kagoshima
Kaohsiung
Komatsu
Krasnoyarsk*
Kumamoto
Kunming
Meixian
Miyazaki
Moscow/Vnukovo
Nagasaki
Nagoya
Nanchang
Nanjing
Nanning
Ningbo
Okayama
Okinawa
Osaka/Kansai
Qingdao
Sanya
Sapporo
Seoul/Incheon
Shanghai/Hongqiao
Shanghai/Pudong
Shenyang
Shijiazhuang
Taichung
Tainan
Taipei
Taiyuan
Takamatsu
Tianjin
Tokushima
Tokyo/Haneda
Tokyo/Narita
Ulan Bator
Vladivostok
Wenzhou
Wuhan
Wuxi
Wuyishan
Xiamen
Xian
Xuzhou
Yancheng
Yangzhou
Yantai
Yinchuan
Yiwu
Yonago
Yuncheng
Zhangjiajie
Zhanjiang
Zhengzhou

SOUTH EAST ASIA

B S Begawan
Bangkok/Don Mueang
Bangkok/Suvarnabhumi
Cebu
Chiang Mai
Chiang Rai
Clark
Da Nang
Davao
Denpasar
Hanoi
Ho Chi Minh
Iloilo
Jakarta
Koh Samui
Kota Kinabalu
Krabi
Kuala Lumpur
Kuala Lumpur/Subang*
Kuching*
Manila
Medan/Kuala Namu
Nha Trang/Cam Ranh
Penang
Phnom Penh
Phuket
Siem Reap
Sihanoukville
Singapore
Surabaya
Udon Thani*
Yangon

MIDDLE EAST/ CENTRAL ASIA/ SOUTH ASIA

Abu Dhabi
Almaty
Amman
Bahrain
Baku*
Bangalore
Beirut*
Chennai
Colombo
Dammam*
Delhi
Dhaka
Doha
Dubai
Dubai/Al Maktoum*
Hyderabad
Jeddah*
Kathmandu
Kolkata
Koror
Kuwait*
Male
Mumbai
Muscat*
Novosibirsk
Riyadh*
Sharjah*
Tashkent*
Tel Aviv
Turkmenbashi

EUROPE

Amsterdam
Barcelona
Brussels
Brussels/South Charleroi
Budapest*
Cologne*
Copenhagen/Kastrup
Dublin
Frankfurt
Helsinki
Istanbul
Leipzig*
Liege*
London/Gatwick
London/Heathrow
London/Stansted
Luxembourg*
Madrid/Barajas
Manchester
Milan/Malpensa
Moscow/Domodedovo*
Moscow/Sheremetyevo
Munich
Paris
Prague
Rome
Stockholm/Arlanda
Vienna*
Warsaw
Yekaterinburg
Zurich

AUSTRALASIA/ PACIFIC ISLANDS

Adelaide
Auckland
Brisbane
Cairns
Christchurch
Darwin
Gold Coast
Guam
Melbourne
Nadi
Perth
Port Moresby
Sydney
Toowoomba/Wellcamp*

AFRICA

Addis Ababa
Cairo
Cape Town
Johannesburg
Mauritius

NORTH AMERICA

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

CENTRAL AND SOUTH AMERICA

Guadalajara*
Mexico City*

* *Freighter services only*

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