



# Building for the Future

ANNUAL REPORT 2019/20

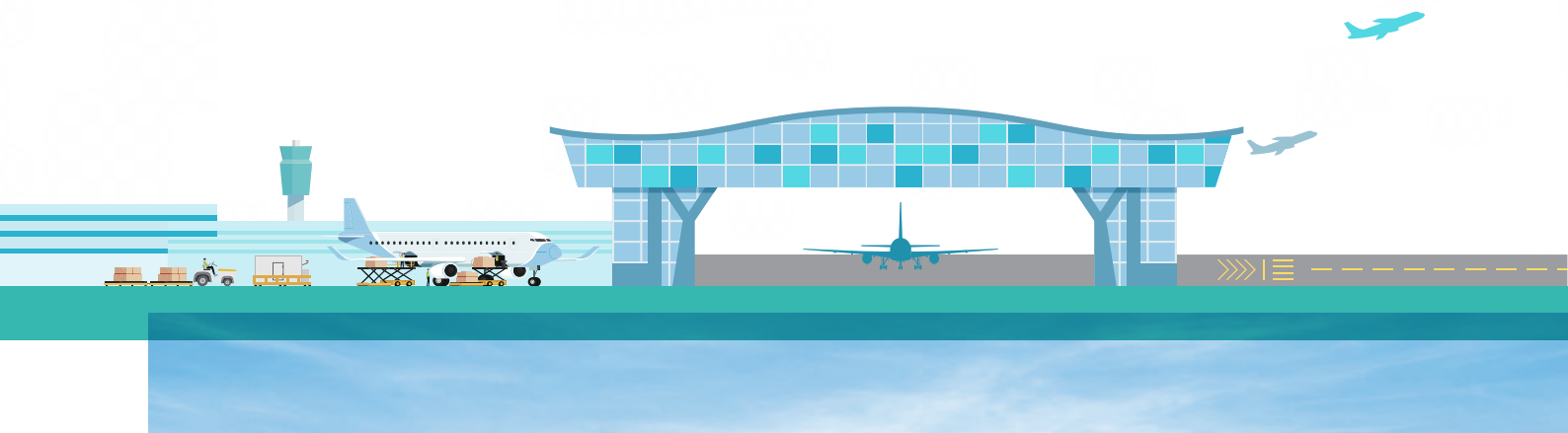
## OUR VISION

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



The 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

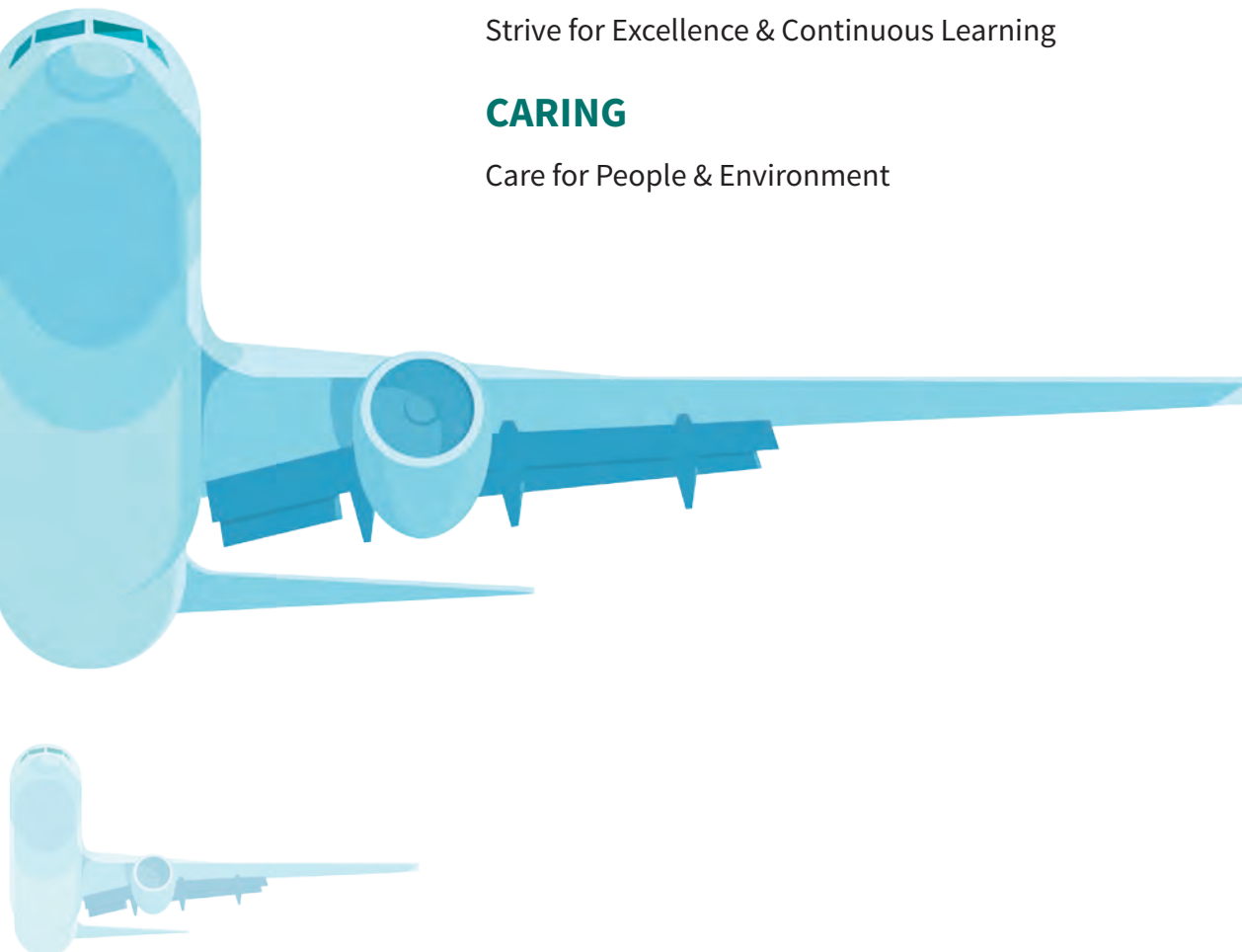
Teamwork & Partnership

## CONTINUOUS IMPROVEMENT

Strive for Excellence & Continuous Learning

## CARING

Care for People & Environment



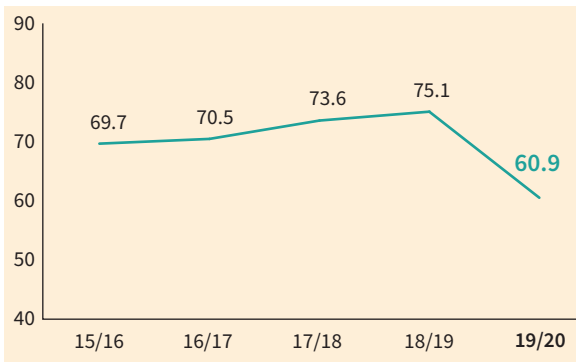
# HKIA FACTS

Airport Site Area	1,255 hectares
Terminal Building Area	Approximately 730,000 square metres
Airlines	Around 120
Destinations	Around 220
Runways	2

## PERFORMANCE HIGHLIGHTS

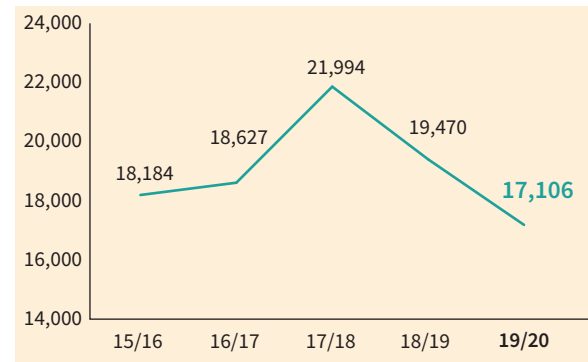
### PASSENGER TRAFFIC

(millions of passengers)



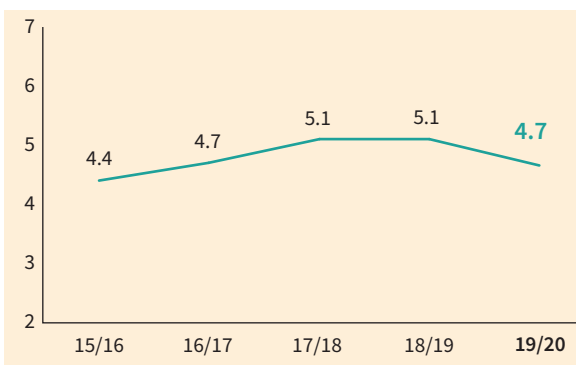
### REVENUE

(in HK\$ million)



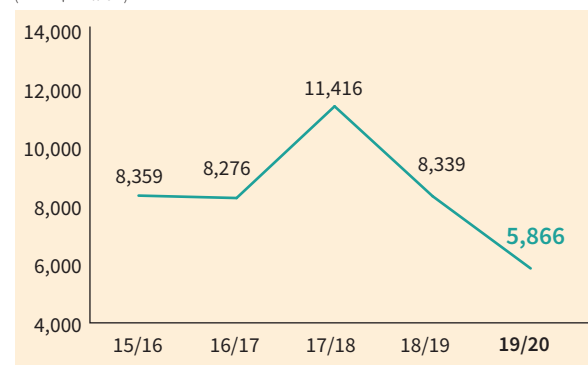
### CARGO AND AIRMAIL THROUGHPUT

(millions of tonnes)



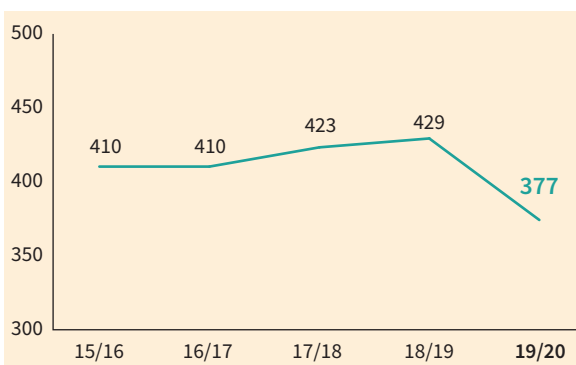
### PROFIT ATTRIBUTABLE TO THE EQUITY SHAREHOLDER

(in HK\$ million)



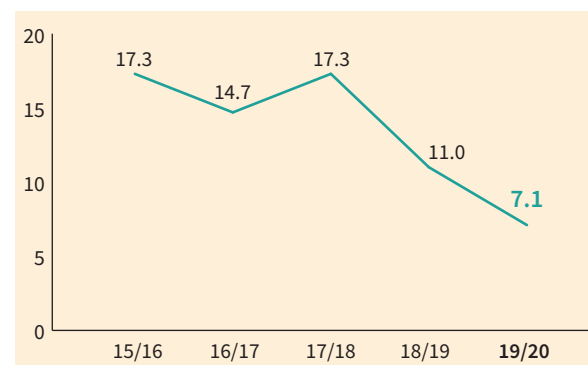
### AIRCRAFT MOVEMENTS

(thousands)



### RETURN ON EQUITY

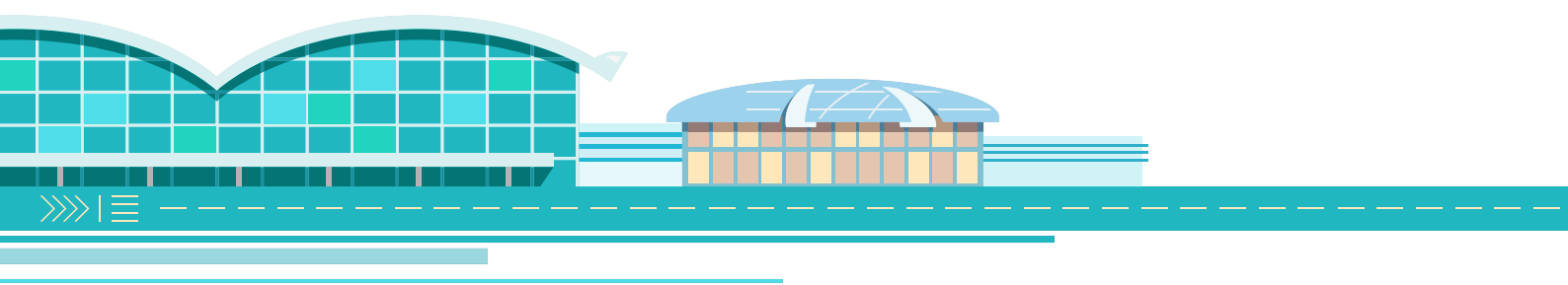
(in percent)



# CHAIRMAN'S STATEMENT



*Hong Kong people are renowned for their resilience and unbreakable spirit. Over the decades, we have experienced many ups and downs. Each time we have bounced back, stronger than before. We are confident that this time will be no exception.*



## **DEAR STAKEHOLDERS,**

Fiscal 2019/20, ended 31 March 2020, was a trying year for Hong Kong International Airport (HKIA). We faced the double negative impact of the social unrest during the second half of 2019 and the coronavirus disease (COVID-19) since early 2020. The entry restrictions, travel bans and quarantine measures implemented across the globe since the COVID-19 outbreak caused a significant drop in our passenger traffic.

## **SUPPORTING THE AIRPORT COMMUNITY**

In response to the unprecedented challenges facing our industry, as of May 2020 the Airport Authority introduced several rounds of relief measures valued at HK\$4.6 billion to help the airport community. One of our key measures is to purchase some 500,000 air tickets from four Hong Kong-based carriers to be used as giveaways to global visitors and Hong Kong residents in our future business recovery programme. This will be launched along with several other initiatives to attract passengers and stimulate business when the pandemic subsides.

I want to thank our staff and business partners for standing firm in the face of these difficulties, particularly for their efforts to facilitate the implementation of quarantine measures at the airport and the return of Hong Kong residents who were stranded outside Hong Kong.

# CHAIRMAN'S STATEMENT

## STAYING THE COURSE

The business reduction caused by COVID-19 has not distracted us from our long-term vision. In 2019/20, we continued our Airport City development and made significant progress on all projects.

The reclamation for the three-runway system (3RS) is progressing well, and a critical part of the reclaimed land has been made ready for construction of airfield infrastructure and other facilities. The third runway is on track to start service in 2022, while the entire 3RS project, which includes buildings and related infrastructure, is expected to be commissioned in 2024.

As part of the 3RS project, we closed Terminal 2 (T2) for refurbishment in November 2019. When it reopens in 2024, T2 will offer a full complement of services for arriving and departing passengers. Meanwhile, in November 2019, we opened the extension to Terminal 1 that includes 48 new check-in counters and additional two baggage reclaim belts.

On the cargo front, construction of a premium logistics centre in the South Cargo Precinct started during the year. Scheduled to open in 2023, the centre will help HKIA and its business partners capture opportunities in the rapidly expanding e-commerce market.

## MORE THAN A TRANSPORT HUB

The expansion of HKIA will stimulate passenger and cargo traffic and create new opportunities for Hong Kong businesses. SKYCITY, a major integrated commercial development connected to the passenger terminal, will be a new iconic landmark for retail, dining and entertainment (RDE) facilities. The site was handed over to the developer during the year. With cutting-edge technology and unique RDE concepts, SKYCITY will offer local residents and visitors from the Greater Bay Area and around the world an extraordinary experience.

Meanwhile, construction of SKYCITY's first hotel will soon be completed and the hotel is expected to open in 2020/21.

Last year, we acquired AsiaWorld-Expo (AWE), one of Hong Kong's largest convention centres. We are now planning the development of AWE's second phase, which will meet long-term demand for meetings, exhibitions and other events. Moreover, the Airport Authority has been invited by the Hong Kong SAR Government to study and participate in the future development of the island terminus of the Hong Kong-Zhuhai-Macao Bridge. These projects will create powerful synergies with SKYCITY and the airport as a whole.



## SUSTAINING OUR SUCCESS

Hong Kong people are renowned for their resilience and unbreakable spirit. Over the decades, we have experienced many ups and downs. Each time we have bounced back, stronger than before. We are confident that this time will be no exception.

The pandemic will pass, hopefully soon. We will continue to enhance HKIA's infrastructure and facilities which will drive the future development of the airport and contribute to Hong Kong's economic growth.

Finally, I would like to thank our Board Members for their counsel and support over the past year.



**Jack So Chak-kwong**

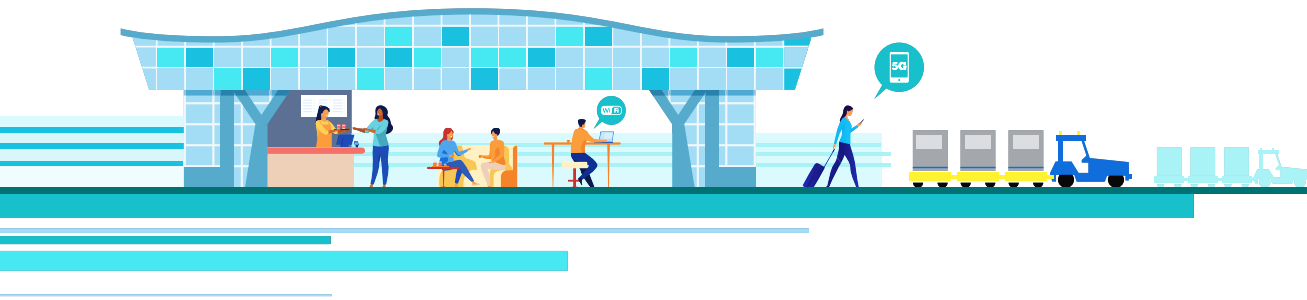
*Chairman*

Hong Kong, 25 May 2020

# CHIEF EXECUTIVE OFFICER'S STATEMENT



*The present downturn is unprecedented, but we are confident that when the disease subsides, air passenger demand will rebound. For this reason, we are maintaining our long-term development plans to meet future demands.*



## DEAR STAKEHOLDERS,

Hong Kong International Airport (HKIA) encountered unexpected headwinds in fiscal 2019/20, ended 31 March 2020. The international trade dispute and social unrest in Hong Kong reduced passenger and cargo throughput at HKIA in 2019. Then the COVID-19 pandemic brought passenger traffic to a standstill as quarantine and travel restrictions were widely introduced in major destinations and in Hong Kong.

In 2019/20, passenger numbers and cargo throughput were 60.9 million and 4.7 million tonnes, representing decreases of 18.9% and 7.3%, respectively. Flight movements fell 12.0% year-on-year, to 377,420.

## SAFEGUARDING OUR PEOPLE

When COVID-19 struck Hong Kong, we responded quickly to ensure the safety of passengers and airport staff. We stepped up cleaning schedules and deployed cutting-edge robots to thoroughly disinfect the terminal buildings and passenger facilities. Extra hand-sanitiser dispensers were installed in high-traffic areas and we used public address system announcements, posters, videos and social media to strengthen awareness of pneumonia and respiratory tract infections.

As of May 2020, it was still difficult to tell when passenger demand would recover materially. Amid these challenges, the Airport Authority launched four rounds of relief measures worth some HK\$4.6 billion for the airport community, including airlines, retailers, caterers and franchisees. However, owing to a significant revenue shortfall and committed operating and capital expenditures, we will soon need to raise funds from the financial markets to strengthen our financial capacity.

The present downturn is unprecedented, but we are confident that when the disease subsides, air passenger demand will rebound. For this reason, we are maintaining our long-term development plans to meet future demands.

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## UNVEILING A NEW EXPERIENCE

During the year, we continued to work on a series of enhancement projects that will enrich the airport experience and prepare HKIA for future demand.

In 2019/20, we made solid progress upgrading Terminal 1 (T1) with a vibrant new look and an elevated ambience.

We finished the revamp of the East Hall food court with an interior design inspired by Hong Kong's hills and peaks. Three hundred seats were added, bringing the total to 1,200. Fresh dining concepts, such as a sushi bar and a celebrity chef-branded outlet, were introduced. The food court now offers a pre-ordering service to make dining even more convenient.

This year, we began redesigning HKIA's washrooms. When renovations are completed in mid-2021, a total of 108 washrooms in the terminal buildings will have bright, modern interiors with innovative features, such as basins with built-in hand dryers.

Meanwhile, works continued on the Sky Bridge, which will link T1 and the North Satellite Concourse (NSC) when it opens in 2020. During the year, prefabrication of the bridge was completed and we began installing its equipment and systems. The 200-metre span, which is expected to be the world's longest airside bridge, will make connections to the NSC fast and easy. It will also provide spectacular views of the apron, making HKIA a memorable part of travellers' journeys.

## BUILDING A FUTURE-READY AIRPORT

Airport development is increasingly shaped by new technologies. At HKIA, we constantly explore technological innovations to optimise our operations.

In December 2019, for example, we launched an autonomous electric tractor for baggage delivery in the airport restricted area. Equipped with optical radar, cameras and GPS, the driverless tractor can avoid obstacles and operate in all weather conditions. HKIA is the first airport to use a fully autonomous electric tractor for baggage delivery in a live operating environment.

During the year, we doubled the number of high-speed Wi-Fi zones in the terminal buildings from 15 to 30 and started adding 600 new Wi-Fi access points. Meanwhile, we developed an independent mobile network to ensure reliable and secure connectivity for airport operations, and are rolling out the use of 5G technology at HKIA.

Every day, the airport produces vast amounts of data that can be mined for operational insights and better understanding of passenger behaviours. We are making use of this data in a wider range of airport operations. In 2019/20, we established a department to accelerate HKIA's transformation into a data-driven airport, thereby enhancing efficiency and delivering a more seamless, personalised travel experience.

## A BRIGHT FUTURE

In 2019/20, HKIA faced the most difficult year in its history. I would like to express my deep gratitude to the airport community and our business partners for their perseverance and support during this crisis.

As trying as it was, the past year would only be a temporary setback. HKIA is a leading international hub, and I am confident that our traffic levels will recover. I look forward to working with the airport community to revitalise our city's economy and take HKIA to new heights.

A handwritten signature in black ink, appearing to read 'Fred Lam', with a long, sweeping tail extending to the right.

**Fred Lam**

*Chief Executive Officer*

Hong Kong, 25 May 2020

# THE BOARD



The Hon Jack So Chak-kwong



Mr Fred Lam



The Hon Frank Chan Fan



Mr Stuart Thomson Gulliver



The Hon Steven Ho Chun-yin



The Hon Christopher Hui Ching-yu

## The Honourable

### Jack So Chak-kwong *GBM GBS OBE JP* Chairman

Aged 75. 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 61. Appointed Chief Executive Officer in October 2014. Former Executive Director of the Hong Kong Trade Development Council. Member of the Asia Pacific Regional Board and the World Governing Board of Airports Council International. 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. In 2019, he was elected a Chartered Fellow of the Chartered Institute of Logistics and Transport in Hong Kong and received the "Executive Award" in the DHL/SCMP Hong Kong Business Awards.

### The Honourable Frank Chan Fan *JP* Secretary for Transport and Housing\*

Aged 62. 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.

### Mr Stuart Thomson Gulliver

Aged 61. 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 and The Saudi British Bank. He holds a law degree from the University of Oxford.

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

Aged 40. 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, Establishment Subcommittee 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, Administration of Justice and Legal Services, and Public Service.

### The Honourable Christopher Hui Ching-yu *JP* Secretary for Financial Services and the Treasury\*

Aged 43. Became a Board Member in April 2020 upon his appointment as Secretary for Financial Services and the Treasury. Former Executive Director of the Financial Services Development Council. Chairman of the Managing Board of Kowloon-Canton Railway Corporation. Member of the Board of the Mandatory Provident Fund Schemes Authority, 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 Franklin Lam Fan-keung



Captain Victor Liu Chi-yung



Ir Dr the Hon Lo Wai-kwok



Mr Peter To



Mr Carlson Tong



Mr Adrian Wong Koon-man

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

Aged 59. Appointed to the Board in June 2014 and reappointed in June 2017. Founder of HKGolden50, an independent non-profit public policy research organisation. Previous to this, Mr Lam held senior regional leadership positions in a global investment bank. He has been rated by global fund managers as a top analyst for over a decade. Currently, he is a Board Member of the Hospital Authority, a Member of the Lantau Development Advisory Committee and the Research Council of Our Hong Kong Foundation, and an Adjunct Professor in the Department of Accountancy at The Hong Kong University of Science and Technology. He served as a Member of the Executive Council and Central Policy Unit of the HKSAR Government.

#### **Captain Victor Liu Chi-yung** *JP* **Director-General of Civil Aviation\***

Aged 54. Became a Board Member in April 2020 upon his appointment as Director-General of Civil Aviation. A licensed professional pilot and a Fellow of the Hong Kong Institution of Engineers. Previously he was Vice Chairman of the International Civil Aviation Organisation's Asia Pacific Regional Aviation Safety Group and Vice President (Asia) of the International Federation of Airworthiness.

#### **Ir Dr the Honourable**

#### **Lo Wai-kwok** *SBS MH JP*

Aged 67. 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 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 72. 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** *GBS SBS JP*

Aged 65. 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 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.

#### **Mr Adrian Wong Koon-man**

*BBS MH JP*

Aged 55. 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, and a Member of the Travel Industry Authority. 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.

## THE BOARD



Ir Billy Wong Wing-hoo



Mr Thomas Jefferson Wu



The Hon Frankie Yick Chi-ming



Dr the Hon Allan Zeman

**Ir Billy Wong Wing-hoo** *BBS JP*  
Aged 62. 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, a Permanent Supervisor of the Hong Kong Construction Association and a Board Member of the Hospital Authority.

**Mr Thomas Jefferson Wu** *JP*  
Aged 47. Appointed to the Board in June 2019. He had served in various senior management roles with the Hopewell Holdings group from 1999 to 2019, 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 66. 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 72. 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**  
**Ms Portia Ho**

**Auditors**  
**KPMG**



# EXECUTIVE DIRECTORS



Mr David Au Ho-cheung



Ms Cissy Chan Ching-sze



Mrs Vivian Cheung Kar-fay



Ms Florence Chung Wai-yee



Mr Ricky Leung Wing-kee



Mr Kevin Poole

## Mr David Au Ho-cheung Executive Director, Property Development

Aged 63. 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 the 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 54. A Master of Business Administration graduate from the Chinese University of Hong Kong. Ms Chan was appointed in September 2012. Before joining the 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.

## Mrs Vivian Cheung Kar-fay Executive Director, Airport Operations

Aged 59. Holds a Master of Business Administration degree from Southern Illinois University and a Bachelor of Computer Science degree from The State University of New York. Mrs Cheung is an alumnus of Stanford University's Stanford Executive Programme. She was appointed Executive Director, Airport Operations

in December 2019. Mrs Cheung worked for the General Electric Company and a high-technology start-up in Silicon Valley for many years before joining the Airport Authority Hong Kong (AAHK) in 1992. With more than 27 years of experience in airport management, she has held a number of senior management positions in AAHK. Mrs Cheung is currently a Director of the Hong Kong-Zhuhai Airport Management Company Limited and Vice Chairman of the Shanghai Hong Kong Airport Management Company Limited. Active in community service, she is a member of the Liaison Panel for Accreditation of Vocational and Professional Education and Training of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, and a member of the Board of Directors of Support! International Foundation.

## Ms Florence Chung Wai-yee Executive Director, Human Resources & Administration

Aged 56. Holder of a Master of Science degree from the Chaminade University of Honolulu and a Bachelor of Social Science degree from the Chinese University of Hong Kong. Ms Chung was appointed in October 2014. Before joining the Airport Authority 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 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 Ricky Leung Wing-kee Executive Director, Engineering & Technology

Aged 59. Holds a Master of Business Administration degree from the Chinese

University of Hong Kong and a Bachelor of Science (Engineering) degree from the University of Hong Kong. Mr Leung was appointed Executive Director, Engineering & Technology in January 2020. With more than 28 years of experience at the Airport Authority Hong Kong (AAHK), Mr Leung is responsible for AAHK's engineering and technology development, managing AAHK's assets and delivering engineering projects at Hong Kong International Airport. Before joining AAHK, Mr Leung worked in consulting engineering firms and various government departments on the planning, design and project management of large-scale infrastructure projects in Hong Kong. Mr Leung is a Chartered Civil and Structural Engineer with over 37 years of experience, of which 29 years are on the planning, design, construction, operation and maintenance of airport infrastructure, facilities and systems. Mr Leung is also a Board Member of Hong Kong IEC Limited and Logistics and Supply Chain MultiTech R&D Centre Limited.

## Mr Kevin Poole Executive Director, Third Runway

Aged 62. 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 multidisciplinary 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.

# FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2019/20	2018/19	+/- % <sup>1</sup>
<b>Financial results</b>			
<i>(in HK\$ million)</i>			
Revenue	<b>17,106</b>	19,470	-12.1%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	<b>9,220</b>	12,443	-25.9%
Depreciation and amortisation	<b>2,924</b>	3,123	-6.4%
Net interest and finance income	<b>461</b>	379	+21.6%
Profit attributable to the equity shareholder	<b>5,866</b>	8,339	-29.7%
Dividend declared	-	-	-
<b>Financial position and ratios</b>			
<i>(in HK\$ million)</i>			
Total assets	<b>114,902</b>	109,230	+5.2%
Total borrowings	<b>5,215</b>	5,344	-2.4%
Total equity	<b>86,185</b>	80,474	+7.1%
Return on equity	<b>7.1%</b>	11.0%	
Total debt/capital ratio <sup>2</sup>	<b>6%</b>	6%	
<b>Credit ratings</b>			
Standard & Poor's:			
Long-term local currency	<b>AA+</b>	AA+	
Long-term foreign currency	<b>AA+</b>	AA+	
<b>Operational highlights<sup>3</sup></b>			
Passenger traffic <sup>4</sup> ( <i>millions of passengers</i> )	<b>60.9</b>	75.1	-18.9%
Cargo and airmail throughput <sup>5</sup> ( <i>millions of tonnes</i> )	<b>4.7</b>	5.1	-7.3%
Aircraft movements ( <i>thousands</i> )	<b>377</b>	429	-12.0%

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

<sup>2</sup> Total debt represents interest-bearing borrowings. Total capital represents total debt plus total equity.

<sup>3</sup> Operational highlights is based on the Airport Authority Hong Kong's data for Hong Kong International Airport only.

<sup>4</sup> Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

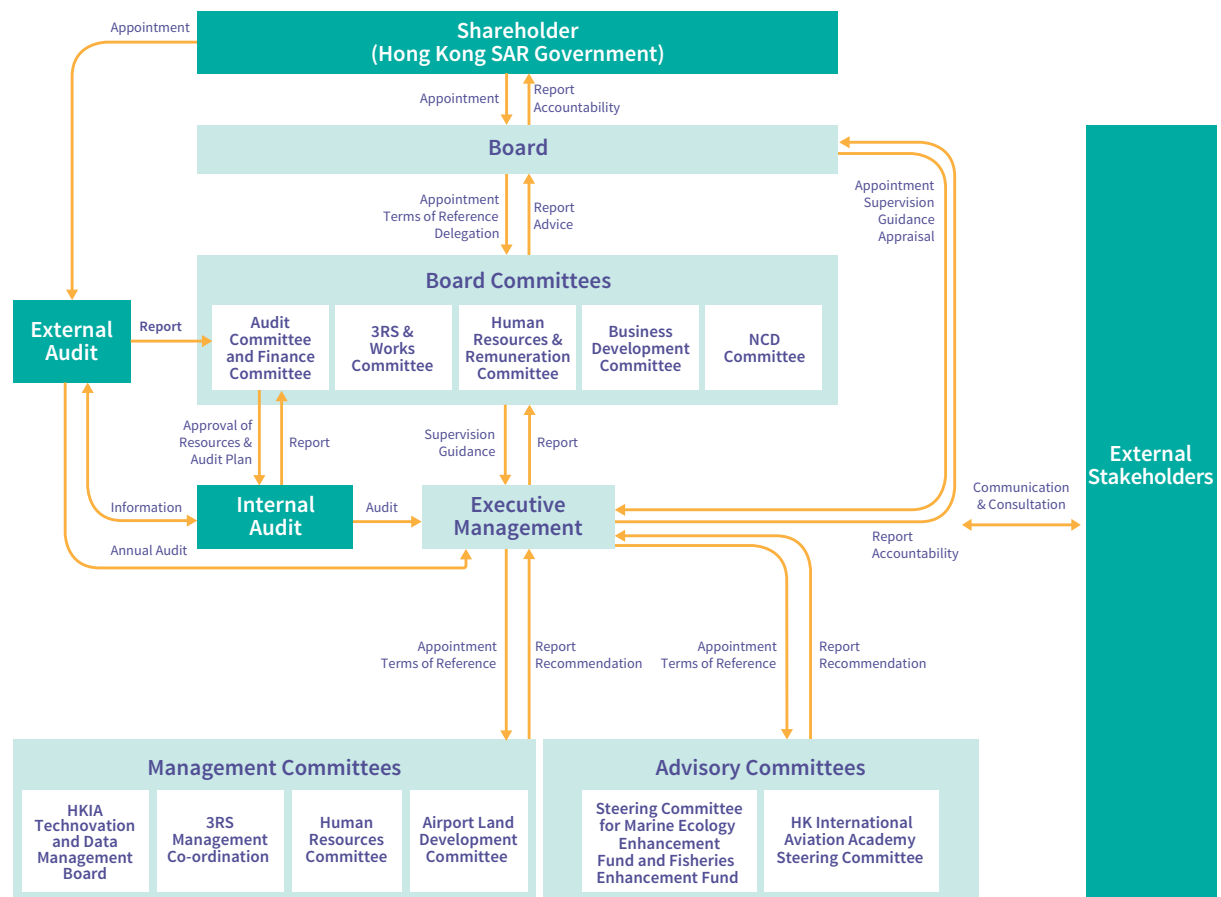
<sup>5</sup> Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail throughput includes airmail from Hongkong Post and transit mail from airlines.

# CORPORATE GOVERNANCE

The 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 those 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.

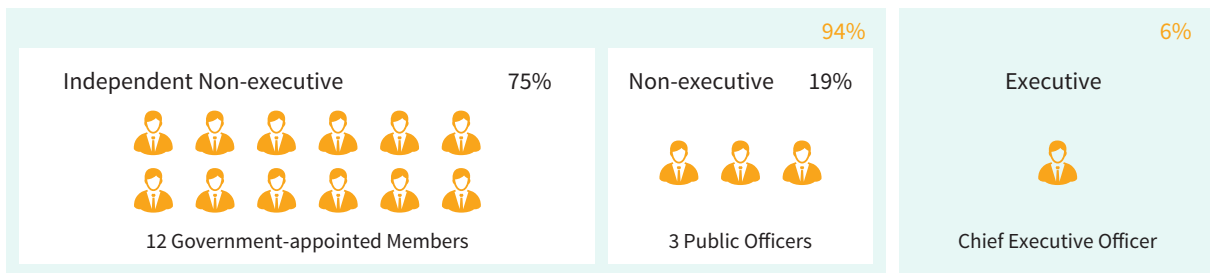
# CORPORATE GOVERNANCE

## BOARD COMPOSITION

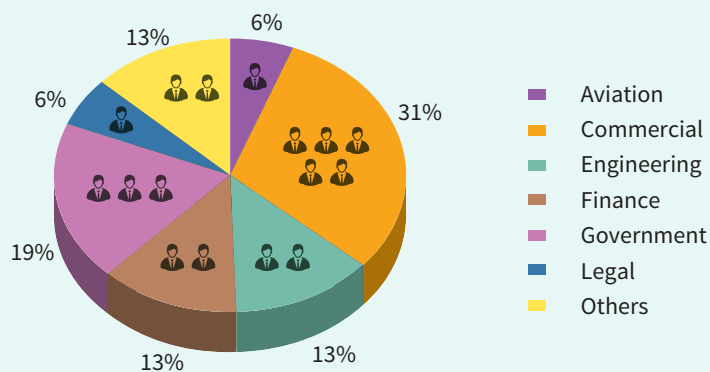
As of 25 May 2020, the Board had 16 Members, whose biographies are set out on pages 12 to 14 and are available on the AAHK website ([www.hongkongairport.com](http://www.hongkongairport.com)). With the exception of the CEO, all Board Members are non-executive and 12 Members are considered independent<sup>1</sup>, representing 75% 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 94% 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.

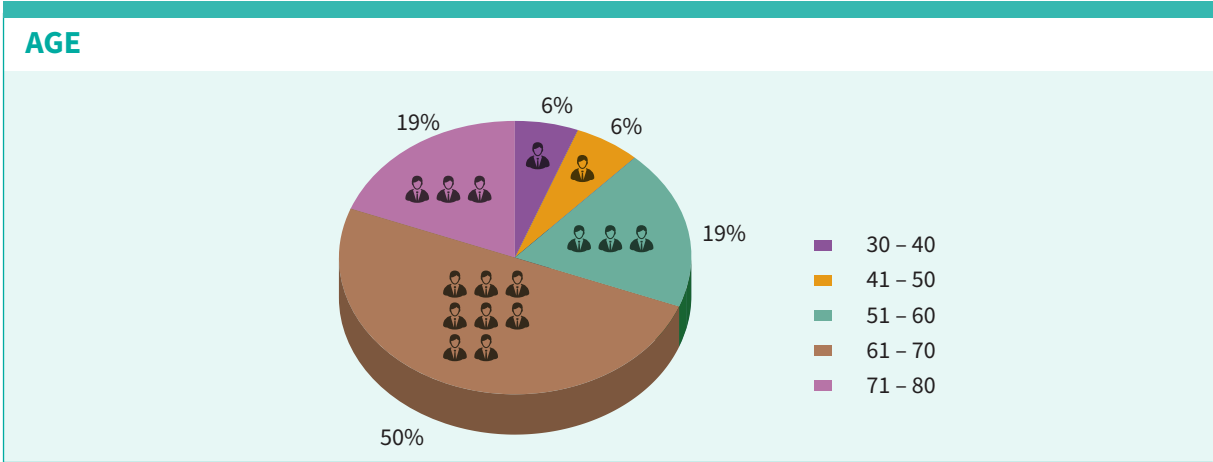
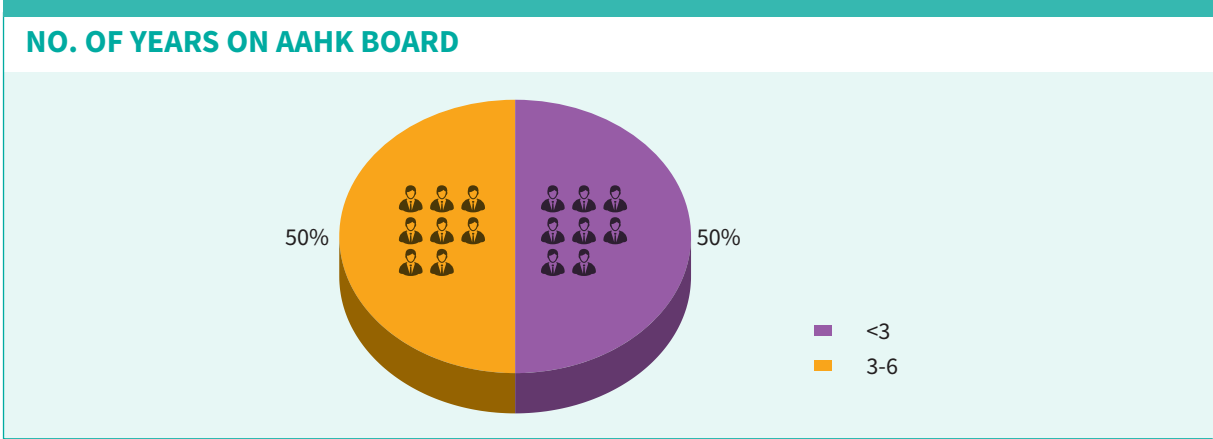


## BACKGROUND



Percentages may not add up to 100% due to rounding.

<sup>1</sup> 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.



#### 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 110.

#### 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 attended airport visits, including visits to the Annex Building, the three-runway system (3RS) reclamation, SKYCITY and other construction work sites.

# CORPORATE GOVERNANCE

## 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 dispatch and the date of meeting)
- Members are obliged to safeguard confidential information and observe procedures for declaration of interests

### SUMMARY OF WORK DONE IN 2019/20

- Held five meetings with an average attendance rate of 95.3%
- Considered 44 papers
- Significant matters considered/resolved:

#### CORPORATE

- Corporate goals and performance measures
- Board Committees' membership
- Establishment of a wholly owned subsidiary for non-core businesses
- 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
- Investment guidelines
- 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
- Development of AsiaWorld-Expo

#### HUMAN RESOURCES

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

#### OPERATIONS

- Transformation of passenger terminal building
- Capacity and service enhancements

## MEETINGS

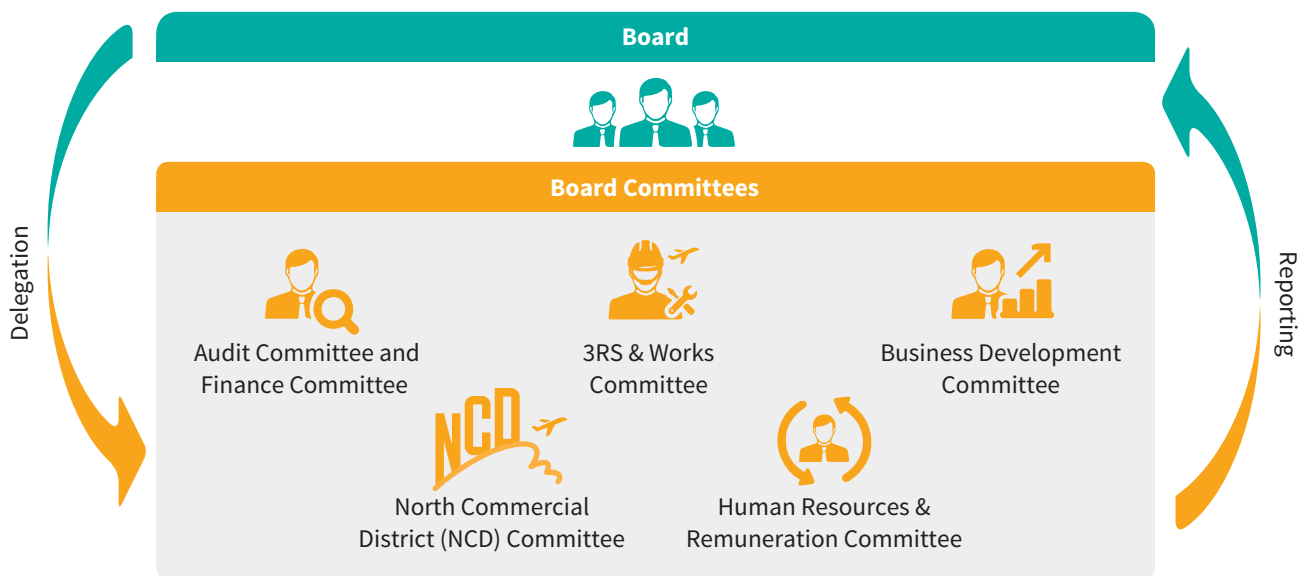
Attendance records of Members at the five Board meetings are detailed on page 27.

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.

## 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.



### 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](http://www.hongkongairport.com).

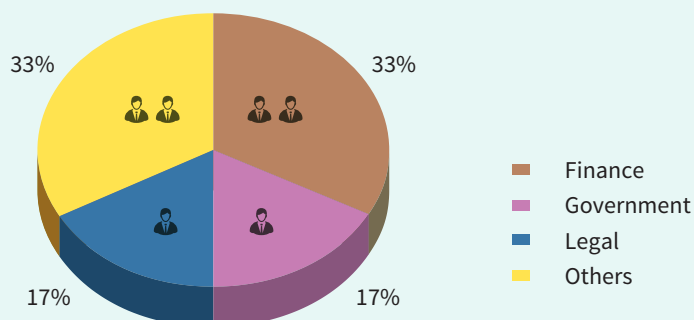
The composition of Board Committees was last reviewed and approved by the Board in June 2019. Each Board Member serves on an average of 2 Board Committees.

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 2020.

# CORPORATE GOVERNANCE

## AUDIT COMMITTEE AND FINANCE COMMITTEE (ACFC)

### MEMBERS' BACKGROUND – ACFC



Average Attendance Rate: 93.8%

### MEMBERS

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

#### INDEPENDENT NON-EXECUTIVE

- Mr Stuart Thomson Gulliver (Chairman)
- The Hon Steven Ho Chun-yin
- Mr Franklin Lam Fan-keung
- 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 5-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

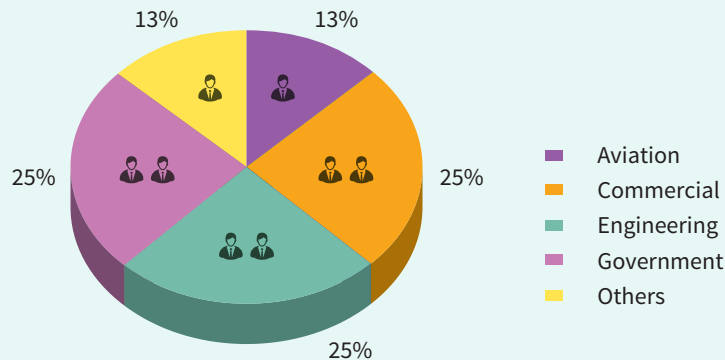
### SUMMARY OF WORK DONE IN 2019/20

- Held four meetings with an average attendance rate of 93.8%
- Considered 17 papers
- Significant matters considered or resolved:
  - Audited annual financial statements and unaudited interim financial report
  - Annual budget and 5-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
  - Risk management strategy for the 3RS financing plan
  - Investment guidelines



## 3RS & WORKS COMMITTEE (3RSWC)

### MEMBERS' BACKGROUND – 3RSWC



*Average Attendance Rate: 85.5%*  
*Percentages may not add up to 100% due to rounding.*

### MEMBERS

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

#### INDEPENDENT NON-EXECUTIVE

- Ir Dr the Hon Lo Wai-kwok (Chairman)
- The Hon Steven Ho Chun-yin
- Ir Billy Wong Wing-hoo
- Mr Thomas Jefferson Wu
- 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, 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 5-year plan for all capital works

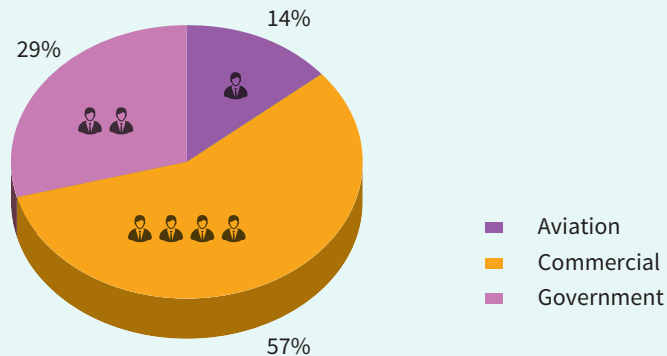
### SUMMARY OF WORK DONE IN 2019/20

- Held six meetings with an average attendance rate of 85.5%
- Considered 36 papers
- Significant matters considered or resolved:
  - Annual capital works budget and 5-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

# CORPORATE GOVERNANCE

## BUSINESS DEVELOPMENT COMMITTEE (BDC)

### MEMBERS' BACKGROUND – BDC



### MEMBERS

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

#### INDEPENDENT NON-EXECUTIVE

- Dr the Hon Allan Zeman (Chairman)
- Mr Peter To
- Mr Thomas Jefferson Wu
- 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:

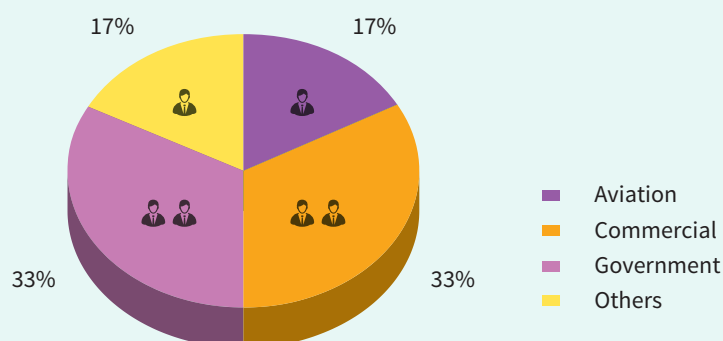
1. Business strategies relating to the development of HKIA
2. Airport commercial and business development plans and proposals other than the 3RS and North Commercial District (NCD) developments
3. Major commercial or operational commitments, including review of airport charges and other pricing and charging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

### SUMMARY OF WORK DONE IN 2019/20

- Held four meetings with an average attendance rate of 79.2%
- Considered 13 papers
- Significant matters considered or resolved:
  - Airport retail and licensing strategy and tender awards
  - Redevelopment of the Air Mail Centre
  - Provision of airport facilities
  - Procurement strategies and award of operation and service contracts
  - Air Cargo Terminal Charge Concession Scheme

## NCD COMMITTEE (NCD C)

### MEMBERS' BACKGROUND – NCD C



Average Attendance Rate: 66.7%

### MEMBERS

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

#### INDEPENDENT NON-EXECUTIVE

- Mr Peter To (Chairman)
- Mr Franklin Lam Fan-keung
- 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

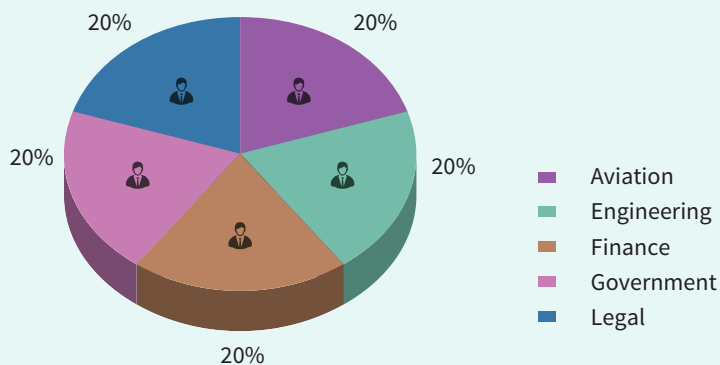
### SUMMARY OF WORK DONE IN 2019/20

- Held one meeting with an attendance rate of 66.7%
- Received one presentation
- Significant matter considered:
  - SKYCITY project development progress

# CORPORATE GOVERNANCE

## HUMAN RESOURCES & REMUNERATION COMMITTEE (HRRC)

### MEMBERS' BACKGROUND – HRRC



Average Attendance Rate: 76.2%

### MEMBERS

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

#### INDEPENDENT MEMBERS

- Mr Adrian Wong Koon-man (Chairman)
- Ir Dr the Hon Lo Wai-kwok
- Mr Carlson Tong

#### 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 2019/20

- Held three meetings with an average attendance rate of 76.2%
- Considered 5 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
  - Appointment of senior management

## Meeting Attendance (1 April 2019 to 31 March 2020)

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

## Notes:

<sup>1</sup> Chairman of the Committee

<sup>2</sup> Appointed to the Board and Committees on 1 and 3 June 2019 respectively

<sup>3</sup> Retired as Board and Committee Members on 31 May 2019

<sup>4</sup> Resigned as Board and Committee Members on 16 December 2019

<sup>5</sup> 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 Committee

3RSWC: 3RS & Works Committee

## CORPORATE GOVERNANCE

### 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

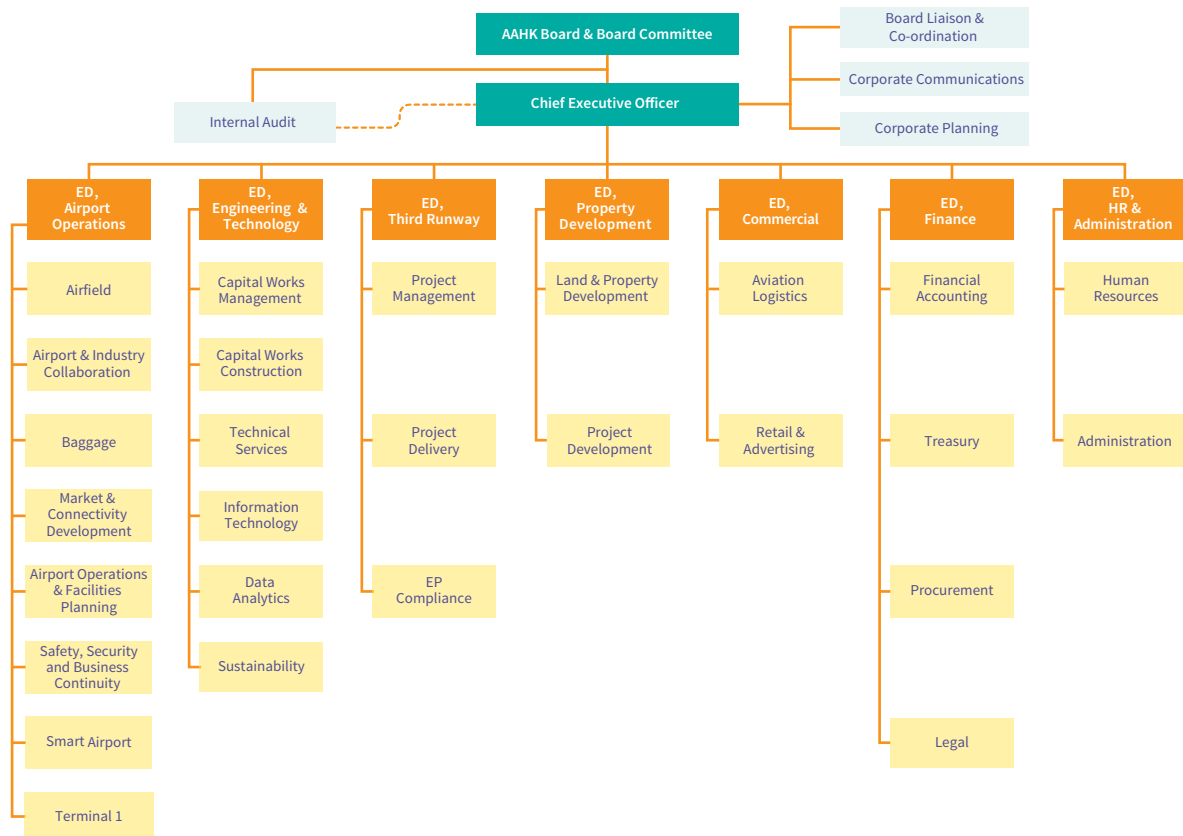
- Formulates strategic operating plans in line with the objectives established by the Board
- Assumes executive responsibility for day-to-day operational performance
- Leads the management team to implement the policies and strategies adopted by the Board

## 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 while maintaining the accountability of individual departments. The organisation structure of AAHK as at 31 March 2020 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 110 to 113.

The Company Secretary, is responsible for Board-related matters and reports directly to the CEO.

## CORPORATE GOVERNANCE

### 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
<b>HKIA Technovation and Data Management Board</b>	<ul style="list-style-type: none"> <li>• CEO (Chairman)</li> <li>• Relevant EDs</li> <li>• Other senior staff</li> </ul>	<ul style="list-style-type: none"> <li>• Steers the strategic direction of technology and innovation for HKIA's development</li> <li>• Determines HKIA's development focus and priorities and advises on the allocation of resources</li> <li>• Reviews the institutional arrangements for effective implementation of technovation programmes</li> <li>• 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</li> </ul>
<b>3RS Management Co-ordination Meetings</b>	<ul style="list-style-type: none"> <li>• CEO (Chairman)</li> <li>• EDs</li> <li>• Other senior staff</li> </ul>	<ul style="list-style-type: none"> <li>• A regular platform for the CEO to receive updates and for Management to obtain advice on matters relating to the 3RS project</li> </ul>
<b>Human Resources Committee</b>	<ul style="list-style-type: none"> <li>• CEO (Chairman)</li> <li>• EDs</li> </ul>	<ul style="list-style-type: none"> <li>• Reviews and formulates people development strategies to meet future business needs</li> <li>• Plans the development of AAHK's overall human resources capabilities, including people development, talent management and succession planning for senior executive positions</li> <li>• Champions AAHK's corporate culture</li> </ul>
<b>Airport Land Development Committee</b>	<ul style="list-style-type: none"> <li>• CEO (Chairman)</li> <li>• Relevant EDs</li> </ul>	<ul style="list-style-type: none"> <li>• Ensures the 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</li> <li>• Oversees and reviews AAHK's corporate strategies and policies on HKIA's land use and development</li> </ul>



## ADVISORY COMMITTEES

Committee	Members	Role and Functions
<b>Steering Committee for the Marine Ecology Enhancement Fund and Fisheries Enhancement Fund</b>	<ul style="list-style-type: none"> <li>• CEO (Chairman)</li> <li>• External members from academia and the accounting, water, engineering and environmental sectors</li> </ul>	<ul style="list-style-type: none"> <li>• Provides guidance on the operation of the Marine Ecology Enhancement Fund and Fisheries Enhancement Fund</li> <li>• Considers the allocation of resources to meet the funds' objectives</li> </ul>
<b>Hong Kong International Aviation Academy (HKIAA) Steering Committee</b>	<ul style="list-style-type: none"> <li>• CEO (Chairman)</li> <li>• No more than 12 core members including:             <ul style="list-style-type: none"> <li>– AAHK Management</li> <li>– External members from government, academia and the airport community</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Provides guidance to Management on achieving HKIAA's objective of nurturing aviation talent for Hong Kong</li> <li>• Makes recommendations on the positioning and development of HKIAA</li> <li>• Helps make HKIAA a sustainable operation</li> </ul>

# CORPORATE GOVERNANCE

## 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 2019/20, 35 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, emails, 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 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](http://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 in the monthly newsletter *HK Airport News* and 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 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 2018/19*, 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 2019/20, AAHK received a number of awards recognising its efforts in improving HKIA's sustainability performance and achieving its pledge to become the world's "greenest airport". The awards include:

- Gold Award in the public and community service category at the 2018 Hong Kong Awards for Environmental Excellence, organised by the Environmental Campaign Committee
- Silver award in the over 45 million passengers per annum category at the ACI Asia-Pacific Green Airports Recognition 2019, organised by Airports Council International
- Sustainability award in the large organisation category at the Hong Kong Sustainability Awards 2018/19, organised by the Hong Kong Management Association
- Gold award in the public sector/not-for-profit (large) category and a special mention of the Sustainability and Social Responsibility Reporting Award in the same category at the 2019 Best Corporate Governance Awards organised by the Hong Kong Institute of Certified Public Accountants

## CORPORATE GOVERNANCE

### 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

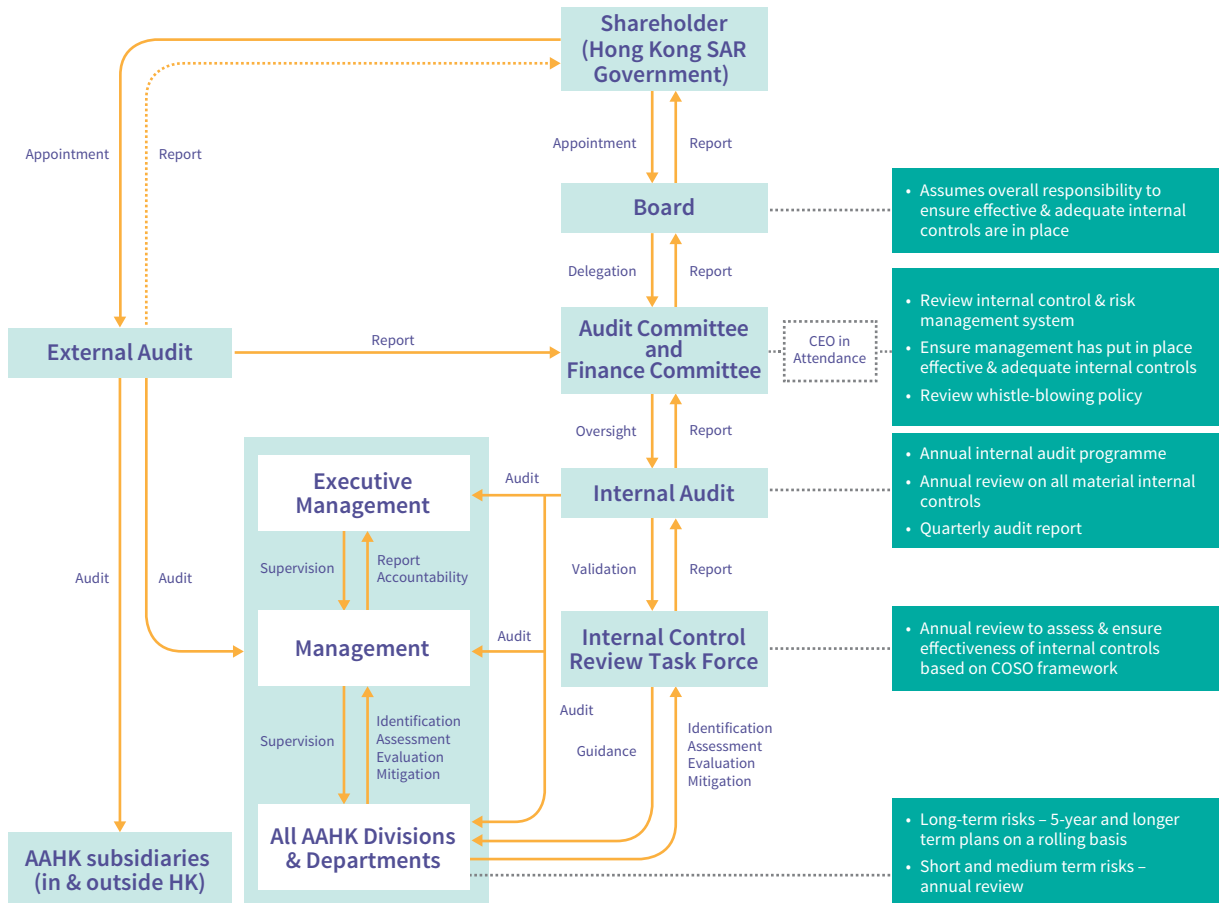
Internal controls form an integral part of AAHK's management system and are embedded in the operational procedures of functional departments. The underlying principle of AAHK's internal controls is to manage and mitigate, rather than to eliminate risks.

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.

# CORPORATE GOVERNANCE

## 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 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

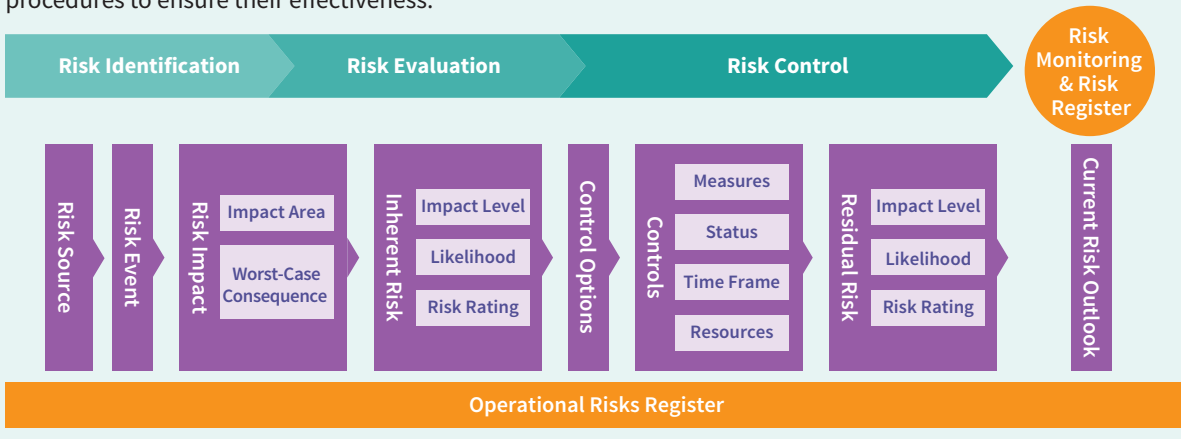
To recognise emerging risks from economic, market or environmental changes, management uses ongoing risk assessments to identify new exposure areas and implement appropriate mitigation measures.

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 of potential risks that may affect the operations of the airport, all operating departments are required to implement a thorough risk identification process to review the risk and business continuity management processes pertaining to operational areas that are critical to sustaining the continuous operation of the airport. 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. The lead engagement partner responsible for AAHK is rotated every seven years. The last rotation took place in 2019/20.

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)	2019/20	2018/19
Audit fees	7	6
Fees for non-audit services	4	2

The non-audit work conducted by KPMG during 2019/20 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 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 ongoing 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 the Third Runway team on issues warranting management attention. That in turn should help internal audit render better assurance on project governance.

## REVIEWS ON INTERNAL CONTROLS

Assessing risks and reviewing the effectiveness of internal controls are a continuing processes 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.

## CORPORATE GOVERNANCE

The annual internal control review evaluates all of AAHK's major operations and processes based on the five main components of the COSO framework: control environment, risk assessment, control activities, information and communication, and monitoring. 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 5-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 dispatched to the Hong Kong SAR Government and the Legislative Council and published on the HKIA website after approval by the Board.

## ACCOUNTABILITY

AAHK considers accountability one of the fundamental pillars of corporate governance and has built its corporate structure and management culture 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.

## CORPORATE GOVERNANCE

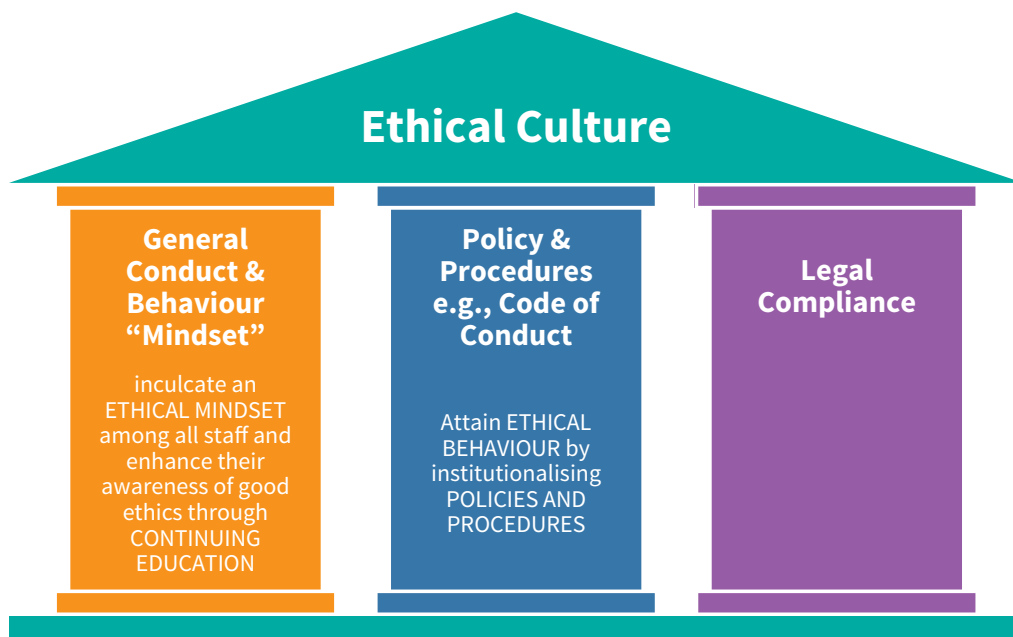
### ETHICAL CULTURE

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 behaviour, different organisations, such as the ICAC and the 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
<b>General Mindset &amp; Behaviour (Mandatory)</b>	– Orientation for new hires	Within three months
	• Importance and framework of corporate governance	
	• Highlights of Code of Conduct	
	– Code of Conduct	Within one month Annual refresher
	– Staff Information Security Handbook	Within one month Annual refresh
<b>Legal Compliance (Mandatory)</b>	– Employee Safety Handbook	Within one month
	– Brief introduction to AAHK's Environmental Management System	Within one month
	– Briefing on Equal Opportunities	Within one month
	– Seminar on data privacy	
<b>Procedures and Practices (By nomination)</b>	– ICAC briefing: General awareness	
	– ICAC briefing: Misconduct in public office	
	– Internal audit workshop	Within six months
	– Finance policies workshop	
	– Information technology policies workshop	
	– Procurement policies workshop	
	– Overseas business travel workshop	

## 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.

## CORPORATE GOVERNANCE

### 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 2020 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

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 Provisions		Reason for Deviation
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 reappointed 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 Hong Kong SAR Government 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 Provisions		Reason for Deviation
A.6.5	Arranging and funding suitable training for all directors to participate in continuous professional development. Directors to provide a record of the training they received to the issuer.	AAHK arranges 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 dispatch and the date of the meeting). About 86.7% of 113 papers met this guideline in the year under review. AAHK will continue to strive to comply with this guideline to the extent practicable.
B.1.2	This code provision relates to the terms of reference of the remuneration committee.	The provision on the power to determine Board Members' remuneration is not applicable because Section 11(4) of the Ordinance provides that the remuneration of Board Members shall be determined by the Chief Executive of the HKSAR.
E.1.1 to E.1.4 E.2.1	These code provisions deal with the proceedings for annual general meetings.	These provisions are not applicable because AAHK has only one shareholder and is not required to hold annual general meetings.
Recommended Best Practices		Reason for Deviation
B.1.8	Disclose details of any remuneration payable to members of senior management, on an individual and named basis, in the annual reports.	AAHK decided to adopt the approach of disclosing remuneration of senior executives who are not 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 Hong Kong SAR Government, are members.

# RISK MANAGEMENT

The 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 2019/20 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 policies can lead to operational risks.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>• Maintaining Hong Kong as a centre of international and regional aviation is part of AAHK's statutory mandate</li> <li>• Meeting future 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</li> <li>• Availability of project management staff and skilled labour to successfully deliver the three-runway system (3RS) and other projects</li> <li>• Maintaining high service standards in a congested airport</li> <li>• Unforeseen disruptions to flow management</li> <li>• Maintaining ageing facilities</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>• 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 an action plan is in hand to prepare for its commissioning</li> <li>• Procurement of external consultants and specialists to augment in-house project management resources</li> <li>• Close collaboration with educational, trade and government bodies to provide training for local workers</li> <li>• Constant monitoring and regular reviews of service delivery standards and operating procedures</li> <li>• Contingency plans and regular drills to test the response capabilities of all concerned parties and minimise impact on passengers</li> <li>• Research into new technologies to improve efficiency in predictive and smart maintenance</li> <li>• Continual investment in facilities upgrades and replacement projects to ensure efficient and safe operation</li> </ul>

### ENVIRONMENTAL RISK

Caring for the environment is 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's 5-year environmental plan. Three categories of environmental risk have been identified: regulatory, reputational and operational.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>• Operating in full compliance with environmental legislation</li> <li>• Implementing AAHK's environmental initiatives</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>• Maintain an environmental management system in accordance with ISO14001</li> <li>• Continue to ensure that projects, including the 3RS, incorporate environmental considerations from an early planning stage</li> <li>• Ensure any footprint reduction measure is supported by a sound business case that is based on a combination of cost and/or risk reduction</li> </ul>

Details of our environmental initiatives are set out in Sustainability Report 2018/19, which is available at [www.hongkongairport.com](http://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 2019/20. The Airport Composite Safety Index, which measures the rate of injuries among airport staff and passengers has surpassed our target. We will continue to be vigilant to the risks that may compromise a safe and secure operating environment.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>• Upholding high standards of safety while facing rapid growth in the aviation industry</li> <li>• Reinforcing safety consciousness and security awareness among airport staff</li> <li>• Changing threats from acts of terrorism committed around the world</li> <li>• Emerging global public health risks, such as Zika virus disease, Middle East Respiratory Syndrome (MERS), measles and COVID-19</li> </ul>
<b>Controls in Place</b>	<p><b>Safety</b></p> <ul style="list-style-type: none"> <li>• Implement and maintain an effective safety management system (SMS) and regularly review and update the Aerodrome Safety Management System Manual to ensure its appropriateness</li> <li>• Monitor SMS implementation of franchisees, licensees and contractors through regular safety inspection and audit programmes</li> <li>• Establish and maintain a Live Operations Risk Assessment Register to continuously control and monitor safety hazards arising from new projects</li> <li>• Arrange mandatory basic safety training and safety awareness testing for airport restricted area permit holders, baggage hall operators and works contractors and safety briefings for non-permit holders</li> <li>• Organise theme-specific and airport-wide safety promotion programmes for the airport community</li> </ul> <p><b>Security</b></p> <ul style="list-style-type: none"> <li>• Implement the approved replacement programme for the hold baggage screening system to enhance the standards and effectiveness of baggage security</li> <li>• Complete the trial of "Smartlane" which sets out a higher standard of passenger security screening requirements for future implementation in Terminal 1 and 3RS</li> <li>• Establish the Contingency Response Unit to reinforce the role of AVSECO in landside security and to enhance contingency response and control in the event of airport disruptions such as protests</li> <li>• Complete the upgrade of CCTV cameras to provide enhanced image information, security surveillance and tracking capabilities, and event recording</li> <li>• Adopt high security awareness culture through the implementation of HKIA Airport Permit Control Regime by organising monthly awareness workshops and conducting field audits to the Permit Control Office of Airport Permit Sponsoring Organisations</li> </ul>

## RISK MANAGEMENT

### SAFETY, SECURITY AND HEALTH RISKS

<b>Controls in Place</b>	<b>Health</b> <ul style="list-style-type: none"> <li>• Monitor and closely co-ordinate with the Hong Kong SAR Government and the airport community to address potential public health risks</li> <li>• Support government response plans for major disease outbreaks through: <ul style="list-style-type: none"> <li>— Temperature screening of passengers and staff</li> <li>— Public announcements, displaying posters and distributing leaflets to passengers arriving from affected areas, where appropriate</li> <li>— Workshops with the Port Health Division to raise awareness of public health risks among the airport community</li> <li>— Joint exercises with the Department of Health to familiarise the airport community with emergency response protocols for public health incidents</li> <li>— Staff countermeasures to reduce risk of infection, such as work from home arrangements, staggered work deployment and workplace social distancing</li> <li>— Distribution of face masks and hand sanitizers to the airport community</li> <li>— Physical set-up of health declaration posts to strengthen preventive measures against COVID-19 or similar outbreaks</li> <li>— Coordination of the operational regime for handling Hong Kong residents returning from affected cities</li> </ul> </li> </ul>
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### FINANCIAL RISK

AAHK is exposed to a variety of financial risks.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>• Credit, liquidity, interest rate and foreign currency risks</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>• 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 136 to 144</li> </ul>

### 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.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>• IT governance and risk management frameworks ensure consistent risk assessment and management</li> <li>• An annual review ensures IT projects align with corporate strategies</li> <li>• Continual monitoring of emerging IT security risks, with proactive measures to enhance risk awareness</li> <li>• Preventive, detective and containment measures help mitigate security threats and monitoring tools are in place to alert management to risks and vulnerabilities</li> <li>• Annual IT obsolescence review and mitigation planning, with regular review of the mitigation progress</li> <li>• Cybersecurity Committee to steer the strategic direction of cybersecurity and IT/OT convergence</li> </ul>



## 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.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>Violation of laws, non-compliance with regulatory requirements and breach of contracts, 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</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>A proactive and forward-looking approach to monitor changes in government policy and legislation. Judgments, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to AAHK</li> <li>Policies, procedures and appropriate actions to manage risk and address changes in a timely way to guide management to operate legally and within AAHK's acceptable risk level</li> <li>Ongoing liaison with management and education to manage risk and adapt to any changes</li> <li>Adequate risk mitigation measures are in place and are constantly reviewed for enhancement</li> </ul>

## 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.

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>Acquisition of sufficient talent to support HKIA's expansion</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>A human resources plan up to 2025/26 and resourcing strategies ensure a timely supply of talent</li> <li>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</li> </ul>

## REPUTATION RISK

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

<b>Major Challenges</b>	<ul style="list-style-type: none"> <li>Managing and pre-empting possible reputational risks</li> </ul>
<b>Controls in Place</b>	<ul style="list-style-type: none"> <li>Public sentiment and socio-economic dynamics are closely monitored</li> <li>Continuous engagement with key stakeholders to enhance their understanding of and gauge their views on HKIA's short-, medium- and long-term developments</li> <li>A database is used to track and monitor public affairs issues</li> <li>Engagement plans are in place to ensure effective communication with key stakeholder groups on an ongoing basis</li> </ul>

# EVENT HIGHLIGHTS

## 2019

### APR

Hong Kong International Airport (HKIA) hosts the 2019 Airports Council International (ACI) Asia-Pacific/World Annual General Assembly, Conference and Exhibition, welcoming over 800 industry leaders and professionals from around the globe.



The Airport Authority Hong Kong (AAHK) receives a gold prize in the ACI Asia-Pacific Human Resources Excellence Recognition Programme.



HKIA is named “Freighter Hub of the Year 2019” by *Air Cargo News*.

### MAY

AAHK publishes “From City Airport to Airport City”, a report that outlines a vision and strategy for transforming HKIA into an Airport City.



HKIA Career Expo showcases over 4,000 jobs from more than 40 airport companies and organisations.



### JUN

For the fourth time, HKIA is crowned “Best Global Airport” by *Asia Cargo News*.



AAHK hands over a site at SKYCITY designated for retail, dining and entertainment facilities to the developer, a wholly owned subsidiary of New World Development Company Limited.

### JUL

HKIA wins the Air Transport Research Society’s “Top Asian Airport Efficiency Excellence” award for the ninth time.

HKIA becomes the first airport to join both EV100 and EP100, initiatives by The Climate Group that promote the use of electric vehicles and enhanced energy productivity.



### AUG

The Airport Preschool holds its first graduation ceremony for children, aged 2–3, of airport community staff.



AsiaWorld-Expo is voted the “Best Convention Centre–North Asia” in the M&C Asia Stella Awards 2019 hosted by Northstar Travel Group.

**SEP**

With an expanded range of cuisines and 24-hour service, the renovated East Hall food court is unveiled.



AAHK claims two accolades—for graduate recruitment and development, and for change management—at the HR Distinction Awards 2019 organised by *Human Resources Magazine*.

**DEC**

Construction of the Automated People Mover depot for the three-runway system is completed.

HKIA becomes the world’s first airport to use a driverless autonomous electric tractor for baggage delivery in a live operating environment.



**2020**

**OCT**

AAHK wins “Airport Operator of the Year” at the DFNI Frontier Awards for constantly driving a better retail experience at HKIA.



AAHK’s Internet of Things–augmented Airfield Service System earns a “Global ICT Excellence Award” from the World Information Technology and Services Alliance.

Hong Kong International Aviation Academy launches its inaugural air traffic control training programme.

**JAN**



In response to the COVID-19 outbreak, HKIA intensifies cleaning and disinfection work, and dissemination of information about pneumonia and respiratory tract infections in the passenger terminals.

**NOV**

AAHK’s commitment to green operations is recognised at the Hong Kong Sustainability Award 2018/19, organised by the Hong Kong Management Association.

HKIA is celebrated as “Asia Pacific Large Airport of the Year 2019” at the Aviation Awards for Excellence held by CAPA-Centre for Aviation.



The prefabricated components of the Sky Bridge, which will connect T1 and the North Satellite Concourse, are moved into their final position.



The extension to Terminal 1 (T1) commences operations, adding a new aisle with 48 check-in counters.

**FEB**

The contract for the foundation and substructure works of the Third Runway Passenger Building is awarded.

**MAR**

AAHK releases its seventh sustainability report.



# PASSENGER SERVICES



*Hong Kong International Airport (HKIA) continually upgrades its services and facilities, bringing passengers a safe journey and a fresh airport experience.*



## COVID-19 OUTBREAK

During the coronavirus disease (COVID-19) outbreak that began in early 2020, the Airport Authority Hong Kong (AAHK) worked closely with the Hong Kong SAR Government and its business partners to ensure the safety of passengers, staff and airport users.

We fully supported and facilitated all health and quarantine measures imposed by the government as the situation evolved. This included providing dedicated areas in Terminal 1 (T1) to process passengers arriving from affected areas and assisting in the implementation of various port health measures—such as health declarations, distribution of monitoring wristbands for compulsory quarantine arrangements, distribution of deep-throat saliva test kits to all arriving passengers, etc.

Meanwhile, temperature checks were extended to all departing, arriving and transit passengers. To supplement the Port Health Division's temperature screening of passengers upon their entry to the airside, we set up thermal imaging cameras at all passenger entry points in T1. This better safeguarded all users of the terminal. Extra hand-sanitiser dispensers were installed throughout the airport.

Cleaning and disinfection activities were stepped up, with a focus on high-contact surfaces, such as smart check-in kiosks, self bag drop facilities, lift buttons and escalator and travelator handrails. We also deployed an autonomous robot that uses ultraviolet light to sterilise the passenger terminal washrooms. Equipped with 360-degree spray heads and 0.3 micron air filtering, the robot kills bacteria and viruses in the air and on the surface of nearby objects.



HKIA uses an autonomous, ultraviolet light-equipped robot for sterilisation in the passenger terminals.

## PASSENGER SERVICES

In addition, we used posters, pamphlets, and audio and video messages to reinforce awareness of COVID-19, pneumonia and respiratory tract infections.

### ENRICHING THE AIRPORT EXPERIENCE

In 2019/20, we completed a series of enhancement projects to rejuvenate the environment in T1.

In November 2019, we opened an 18,000-square-metre extension to T1 that includes a new aisle with 48 check-in counters as well as self bag drop facilities, e-Security Gates and smart check-in kiosks. Two baggage reclaim carousels, new catering outlets and offices will open in phases. Other services—including lost-and-found, baggage

storage and ticket counters for cross-boundary limousines and coaches—moved to the extension from Terminal 2 (T2), which is now closed for expansion. T2 will reopen as a full-fledged terminal when the three-runway system project is commissioned in 2024.

This year, we opened five redesigned washrooms in the passenger terminals. Based on traveller feedback from two prototype designs, the revamped washrooms have bright, modern interiors with innovative features, such as basins with built-in hand dryers, LED cubicle occupancy indicators and digital displays showing the number of free cubicles. A total of 108 washrooms in the passenger terminals will be renovated by mid-2021.

We also added comfort and convenience for young travellers and their parents with a freshly refurbished nursing room in the East Hall food court. Another 15 nursing rooms, equipped with hot water dispensers and spacious cubicles for breastfeeding and diaper changing, will be upgraded and enter service by 2022/23.

Meanwhile, we redecorated the Relaxation Corner at Gate 23 to create an even more tranquil environment for departing travellers and opened a second, 24-hour shower room at Gate 43 on the Arrivals Level. The complimentary shower room is a convenient place for arriving passengers to freshen up.



An extension to T1 adds a new aisle with 48 check-in counters.



THE SKY BRIDGE  
HALVES THE TRAVEL  
TIME BETWEEN T1 AND  
THE NORTH SATELLITE  
CONCOURSE  
TO LESS THAN  
**10** MINUTES.

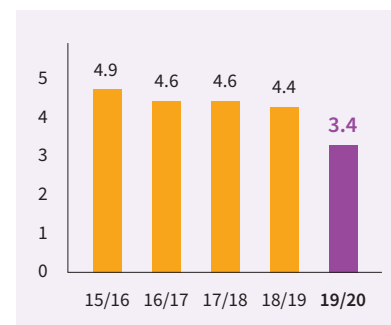
## SKY BRIDGE

Construction of the Sky Bridge achieved several milestones in 2019/20. Components that were precast in Zhongshan, Guangdong Province, were delivered to HKIA for assembly and later set in their final position in January 2020. Facilities and systems are now being installed.

When it opens in the second half of 2020, the 200-metre Sky Bridge is expected to be the world's longest airside bridge. It will eliminate the need for a shuttle service between T1 and the North Satellite Concourse, and halve the inter-terminal travel time to less than 10 minutes.

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

(millions of passengers)



## PASSENGER SERVICES

### AN AIRPORT FOR THE FUTURE

To create a smoother airport experience, we are developing a biometric system that enables passengers to check in at a self-service kiosk and then use their biometric features to clear multiple pre-boarding checkpoints. When this service commences next year, travellers will no longer need to present their passport and boarding pass for manual validation at each checkpoint.

In preparation for the launch of the new system, during the year we integrated biometric modules into various passenger checkpoints, including smart check-in kiosks, self bag drop facilities and e-Security Gates. We also built

a prototype e-boarding gate, which will automate pre-boarding identity checks, and began testing it with airlines. We plan to install around 400 e-boarding gates throughout the terminals by 2021/22.

For transfer passengers, they will soon enjoy a smoother journey as we are installing e-Security Gates, which electronically validate travellers' identity and flight information, at transfer checkpoints in the passenger terminals. The gates will help to expedite passenger flow. Next year, we will study the introduction of self-service transfer kiosks.

To meet increasing passenger demand for mobile connectivity, we doubled the number of

high-speed Wi-Fi zones, which provide download speeds of up to 400 Mbps, from 15 to 30. We also introduced advanced Wi-Fi technology that improves data transmission rates and connection stability in environments with many connected devices.

During the year, HKIA embarked on a transformation into a data-driven airport. An enterprise analytics platform was launched. With tools that let staff access data generated throughout HKIA and perform self-service analytics, the platform provides insights into passenger behaviours and operational bottlenecks. These insights facilitate more timely decisions, better management and an enhanced passenger experience.



To create a smoother passenger journey, a prototype of e-boarding gate has been built. Testing is under way.





The expanded East Hall food court offers passengers a wider variety of cuisines, while a food ordering service helps travellers avoid line-ups.

## UNRIVALLED DINING AND SHOPPING

In 2019/20, we completed a revamp of the East Hall food court, which now features a vibrant design echoing Hong Kong’s hills and peaks, 300 additional seats and seven outlets, including a sushi and sake bar, and a celebrity chef-branded restaurant. In March 2020, we introduced a convenient service that helps diners avoid queuing by ordering meals via their mobile device or self-service kiosks located in the food court.

Next year, we will open a 24-hour, 250-seat food court in T1’s Central Concourse. The new dining destination will house two fast-food outlets serving Hong Kong and Western cuisine and offer spectacular apron views.

To enrich the shopping experience at HKIA, this year we refreshed our retail offering with the debut of 10 luxury brands. Upgrades to the public areas

of the luxury shopping zone will be finished by the end of 2020 and, in 2020/21, two tenants will start fit-out works in our two-storey icon shops.

In October 2019, we introduced “Luxury Reserve”, a personal shopping service that allows travellers to reserve premium products 48 hours before their flight. When the shopper arrives at HKIA, they simply collect and pay for their purchase at the store.

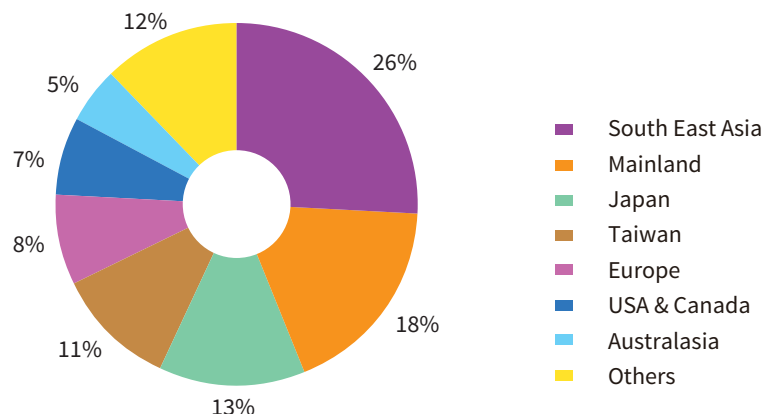
We also enhanced HKairportshop.com, an online platform through which

travellers can order goods for collection at HKIA or local delivery. We shortened the order lead time by 50%, to 90 minutes, increased the number of items by about 60%, to 5,700, and added dutiable liquor to the product mix. In November 2019, we made shopping at HKairportshop.com even more convenient by launching it on Alipay.

In 2019/20, our efforts in continuously upgrading HKIA’s retail and dining offers were rewarded with the “Airport Operator of the Year” honour at the DFNI Frontier Awards.

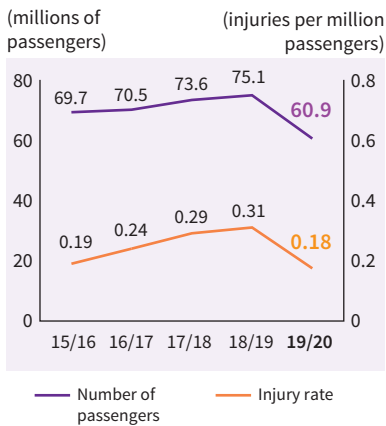
## PASSENGERS BY MARKET

(year ended 31 March 2020)



## PASSENGER SERVICES

### PASSENGER TRAFFIC AND INJURY RATE



### ENSURING SAFETY AND SECURITY

At HKIA, the safety and security of passengers, staff and business partners is always our first priority.

With a view to introducing the latest passenger screening technology at HKIA in the coming years, this year we conducted a four-month live trial of “Smartlane”. This new equipment has two components: a computed tomography X-ray system that provides enhanced screening of passengers’ hand baggage and

an automatic tray return system that is integrated with the X-ray machine to speed up passenger processing at security checkpoints.

With “Smartlane”, passengers do not need to remove liquids, aerosols or gels, or electronic devices such as laptops from their hand baggage during the screening process. The trial showed a 50% increase in screening throughput, and we are evaluating the implementation of “Smartlane” at HKIA.





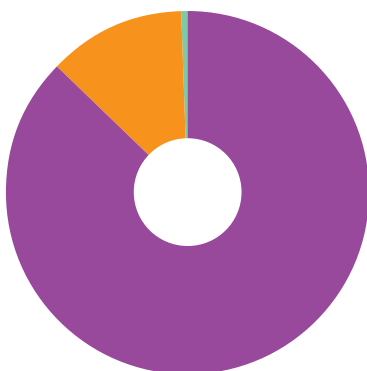
AAHK conducts various drills with its business partners and government departments to ensure HKIA's preparedness for emergencies.

As HKIA becomes a data-driven airport, we continue to focus on cybersecurity. We use an array of advanced technologies to monitor, analyse and prevent security threats and to protect airport systems and data. In

2019/20, we strengthened the airport's cyber-resilience by introducing systems that monitor users' credentials on our network, prevent data leaks, and protect our physical assets and mobile devices from attack.

This year, we held about 130 seminars, campaigns and training sessions. We also staged over 25 drills, addressing a variety of safety and security topics, such as security awareness and infectious disease control.

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



- ★ **87.3%**  
Excellent
- 👍 **12.4%**  
Very Good
- ✓ **0.3%\***  
Good

In 2019/20, we achieved an Airport Composite Safety Index score of 3.05, exceeding the target of 3.70 by 17.6%. This index measures the injury rate among passengers and staff at HKIA. In September 2019, our commitment to fostering operational safety was recognised with a gold prize at the 18th Hong Kong Occupational Safety and Health Award.

\* There were 5 cases of Overall Satisfaction scoring 3 (Good) in 2019.

## PASSENGER SERVICES



HKIA STRENGTHENS ITS  
CROSS-BOUNDARY NETWORK  
WITH THE OPENING OF A CITY  
TERMINAL AT THE HZMB'S  
MACAO PORT.

### EXPANDING CROSS-BOUNDARY CONNECTIONS

By developing cross-boundary connectivity, HKIA strengthens its status as the preferred aviation hub of the Greater Bay Area (GBA).

In 2019/20, cross-boundary land transport at HKIA served 1.51 million passengers. SkyPier, which provides ferry services between HKIA and nine ports in the GBA, handled 1.89 million passengers.

Our Mainland coach network, which serves more than 110 destinations, further expanded with the addition of Zhuhai Chimelong, Heyuan and

the Macao Port at the Hong Kong-Zhuhai-Macao Bridge (HZMB).

In December 2019, we opened a 24-hour city terminal at HZMB's Macao Port. Nine airlines offer check-in services at the city terminal and smart check-in kiosks are available.

After checking in at the Macao Port, passengers can take an airport shuttle bus to the Hong Kong Boundary Crossing Facilities (HKBCF), where they complete immigration and customs formalities. Passengers then rejoin the bus, which takes them to HKIA. The journey from the Macao Port to HKIA takes about 55 minutes.

This service will be enhanced when the Intermodal Transfer Terminal, which will be linked to the HKBCF by a bonded vehicular bridge, opens at the end of 2022. Passengers can then check in on the Mainland or in Macao and travel to HKIA via the HZMB, and proceed directly to the airport's restricted area without having to undergo border clearance at the HKBCF. Travellers arriving in Hong Kong en route to the Mainland and Macao via the HZMB will enjoy the same convenience.



The new Mainland/Macao Transport Centre at T1.

During the year, city terminals opened at Foshan Chancheng, the Huanggang Control Point and the Mango Building in Shenzhen's Nanshan Science and Technology Park, bringing the total number to 18.

This year, Thai Smile Airways joined the upstream check-in (UCI) service,

which lets passengers complete check-in procedures at locations in the GBA before taking a ferry or coach directly to HKIA for their flight. Twenty-two airlines now participate in this service.

In addition, Singapore Airlines made US-bound flights available through UCI; Thai Airways extended

its UCI service to cover land mode city terminals; and Air France and KLM Royal Dutch Airlines added city terminals at the HZMB's Macao Port and Foshan Chancheng to their UCI coverage. We will continue to promote the UCI service to airlines to expand the service coverage, so as to benefit as many passengers as possible.

## SERVICE PERFORMANCE IN 2019/20

<b>99.2%</b>	Baggage Delivery (First Bag) <sup>1</sup>
<b>96.5%</b>	Baggage Delivery (Last Bag) <sup>2</sup>
<b>98.7%</b>	Passenger Embarkation & Disembarkation by Air Bridge
<b>99.4%</b>	Departures Security Screening Under Normal Circumstances <sup>3</sup>
<b>99.0%</b>	Transfer Security Screening Under Normal Circumstances <sup>3</sup>

<sup>1</sup> 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.

<sup>2</sup> The target for delivery of the last bag to baggage reclaim is 40 minutes throughout the airport.

<sup>3</sup> Passengers whose queuing time at the screening channels is 4.5 minutes or less under normal circumstances.

# CARGO AND AVIATION SERVICES



*Hong Kong International Airport (HKIA) strengthens its cargo services to support local businesses and ensure the prosperity of our city's economy.*



## LIVE ANIMAL TRANSPORT

In 2019/20, HKIA enhanced its animal handling service, with two cargo terminal operators—Cathay Pacific Services Limited and Hong Kong Air Cargo Terminals Limited—obtaining certification in the Centre of Excellence for Independent Validators for Live Animals Logistics (CEIV Live Animals) programme established by the International Air Transport Association (IATA).

Certification affirms HKIA's ability to safeguard animals' well-being throughout the transport process according to globally recognised standards. Training was completed during the year, and the certificate was issued in March 2020.

Cathay Pacific Services and Hong Kong Air Cargo Terminals are the world's first ground handling agents to be accredited in this programme and the first to meet all of IATA's CEIV standards, covering the transport of live animals, perishable products (CEIV Fresh) and pharmaceuticals (CEIV Pharma).

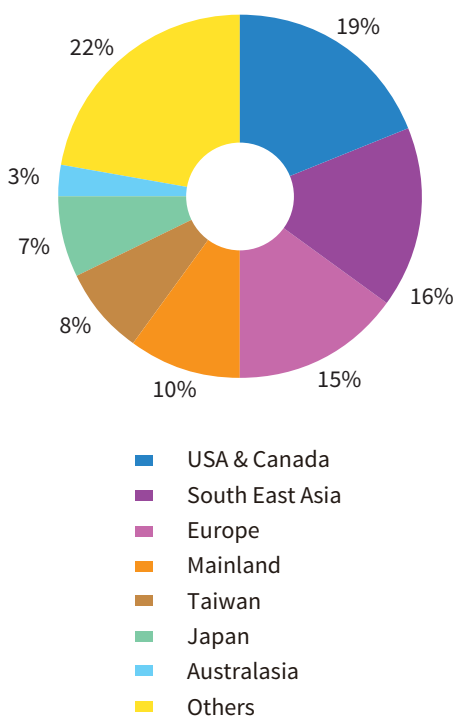


## CARGO AND AVIATION SERVICES



### CARGO THROUGHPUT BY MARKET\*

(year ended 31 March 2020)



\* Airmail is excluded.

### TEMPERATURE-CONTROLLED CARGO

In January 2019, HKIA and Brussels Airport, in partnership with a group of global pharmaceutical companies, pioneered the world's first airport-to-airport pharma corridor. In 2019/20, the two CEIV Pharma-certified airport communities and Cathay Pacific Airways successfully completed a validation exercise with no case of temperature excursion. The pharma corridor gives shippers unprecedented assurance of the quality and transparency of the entire transport process. The results also demonstrate the effectiveness of cool dollies in protecting shipments from

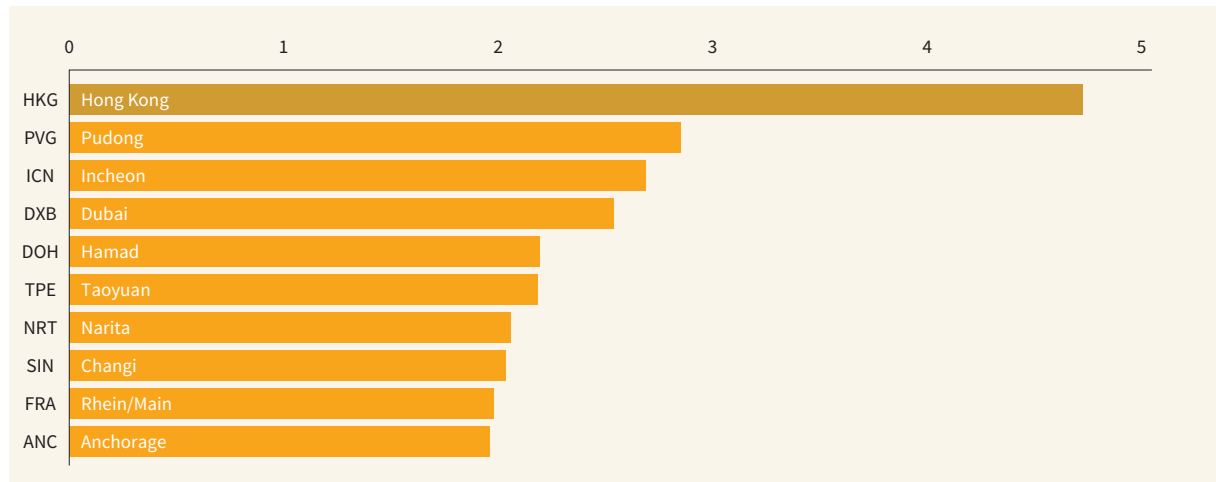
exposure to ambient temperatures, adding to HKIA's attractiveness as a pharmaceutical transshipment hub.

To further enhance HKIA's cold chain for temperature-sensitive cargo, this year 21 cool dollies were added to the equipment pooling scheme operated by the Airport Authority Hong Kong (AAHK). Part of a pool of ground handling equipment available for the airport community to rent, the dollies feature real-time temperature and location tracking, allowing users to constantly monitor the condition of their shipments. Two new apron shelters—which will include charging points for cool dollies as well as sun and rain protection—will enter service in mid-2020.



## 10 BUSIEST AIRPORTS IN 2019 — 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 May 2020

### NEW SECURITY REQUIREMENTS

In September 2016, the International Civil Aviation Organisation announced a new security policy. From 1 July 2021, shipments by consignors not subject to approval by the appropriate authority for aviation security will require 100% screening.

Hong Kong's Civil Aviation Department (CAD) introduced a four-phase transitional arrangement to help the air cargo industry comply with the new policy. Phase one of the arrangement began in January 2020.

AAHK is working closely with the CAD, cargo terminal operators and other stakeholders to ensure sufficient screening capacity is

available and efficient handling processes are in place at HKIA's cargo terminals.

To mitigate the additional cost associated with the new screening requirement, AAHK supports airlines for launching a Terminal Charge Concession Scheme. From 1 April 2020, AAHK will contribute 20% of the terminal charge concession offered by airlines to freight forwarders for export cargo. The scheme will help maintain the cost efficiency of the industry and reinforce the competitiveness of HKIA.

### CARGO COMMUNITY DATA PLATFORM

To further increase efficiency and encourage industry collaboration, AAHK started developing an HKIA

cargo community data platform this year. Covering import and export processes, the information-sharing system will be rolled out in phases starting in 2020/21.

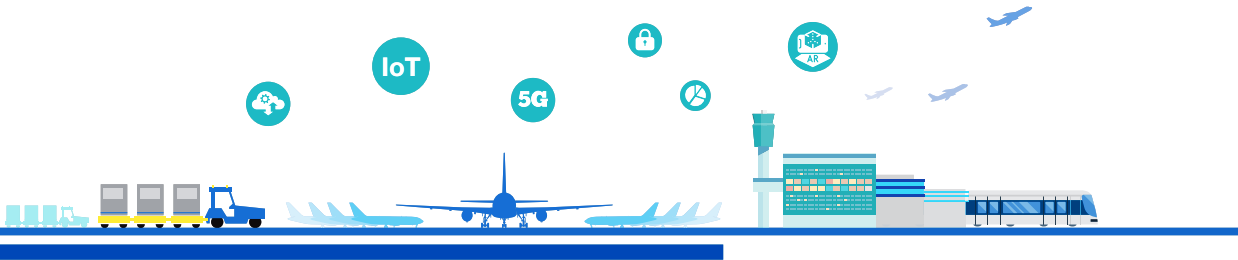
### NEW SERVICES

In 2019/20, a new carrier, Eznis Airways, began serving HKIA. Thirteen new destinations were added to our network: Beijing Daxing International Airport, Doncaster, Dover Cheswold, Guwahati, Hefei, Istanbul Atatürk, Jieyang, Labuan, Niigata, Phu Quoc, Puerto Princesa, Shimojishima and Yekaterinburg.

# AIRFIELD AND SYSTEMS



*From automation to artificial intelligence, we embrace new technologies to enhance efficiency at Hong Kong International Airport (HKIA).*



## EMERGING TECHNOLOGIES

In December 2019, we became the first airport in the world to use a driverless autonomous electric tractor (AET) for baggage delivery in a live operating environment. The AET employs advanced technologies—including optical radar, differential GPS and high-definition video cameras—to ensure safe, reliable operation. A remote control system permits human intervention in an emergency and sounds an alarm if abnormal conditions are detected. Capable of operating in inclement weather, the AET helps us increase efficiency.



HKIA is the first airport in the world to deploy a driverless autonomous electric tractor for baggage delivery in a live operating environment.

By the end of March 2020, the AET had recorded more than 5,000 kilometres of operation, all accident-free, on the bonded road to the SkyPier Baggage Hall and delivered over 17,000 pieces of luggage for sea-to-air and air-to-sea transfer passengers. Three more AETs will be deployed in the second half of 2020, and we hope to extend their use to the Terminal 1 (T1) Baggage Hall and apron in the future.

A comprehensive inspection and maintenance regimen keeps HKIA operating at peak efficiency. During the year, the Airport Authority Hong Kong (AAHK) implemented systems that use artificial intelligence, data analytics and the Internet of Things (IoT) to monitor various airport systems and to predict and diagnose problems.

## AIRFIELD AND SYSTEMS



### IoT SENSORS

INSTALLED IN VARIOUS AIRPORT SYSTEMS, FROM THE BHS TO THE SEWERAGE SYSTEM, ENABLE PREDICTIVE MAINTENANCE.

For example, at 25 locations on the airport island, IoT sensors monitor storm water and transmit a warning via the mobile phone network if the water rises to a predetermined level. IoT sensors also track the marine cranes at SkyPier, the motors driving the Baggage Handling System (BHS), water pipes and the sewerage system. The combination of data analytics and real-time alerts help us predict when maintenance will be needed, react faster to abnormalities and recover more quickly from breakdowns.

We also use wearable technologies, such as smart glasses, to train staff. As this technology matures, we will expand the use of wearables to

include fault response, reporting and investigation, and routine maintenance tasks.

In 2019/20, we created a digital twin of T1. This three-dimensional, computer-generated replica of T1's physical infrastructure and systems collects real-time data from IoT sensors throughout the airport. Using past, current and predictive data, the digital twin creates virtual reality models that help us visualise potential problems and make better decisions about design, construction, operations and maintenance. We are also applying this technology to the construction of the Sky Bridge and the Car Park 4 extension.



New APM cars support future demand and enhance the passenger experience.

## INFRASTRUCTURE ENHANCEMENTS

We are upgrading the airport's wireless communications infrastructure to support our growing use of IoT, robotics and automation. In April 2019, we launched a private LTE network that provides guaranteed, high-speed connectivity to nearly 1,000 devices such as smart check-in kiosks and e-Security Gates. In 2020/21, the number of connected devices is expected to double.

A 5G network is under development and will be launched in parts of T1 next year. AAHK will harness 5G's low latency and high bandwidth for real-time scenario training on the operation of the Automated People Mover (APM) system—the trains that carry passengers between HKIA's terminals—the remote control of air bridges and other operational applications.

During the year, we started upgrading the APM. Twelve new

APM cars—each with high-efficiency LED lighting, enhanced air-conditioning, and improved signage and handrails—commenced service and eight more cars will soon be added to the fleet. By the end of 2020, the APM system will comprise 56 cars with a capacity of 10,800 passengers per hour.

We also began resurfacing the South Runway using an innovative technique that combines lasers with the global navigation satellite system to achieve extremely high levels of accuracy. The added precision translates into a reduction in wasted

asphalt of up to 10% and an increase in productivity of about 25%.

## INTERNATIONAL COLLABORATION

In April, we hosted the 2019 Airports Council International (ACI) Asia-Pacific/World Annual General Assembly, Conference and Exhibition. At the event, which was attended by more than 800 aviation professionals, we showcased HKIA's use of smart technologies and Hong Kong's position as the gateway to the Greater Bay Area.

AAHK is a founding member of the International Airports Benchmarking Programme, a platform for leading hub airports to share data, identify improvement opportunities and explore new ideas. During the year, the programme completed the second phase of benchmarking and prioritising its key performance indicators. Members also voted to make loyalty programmes and the use of radio-frequency identification the benchmarking programme's top priorities. AAHK is leading the drive to improve both areas.

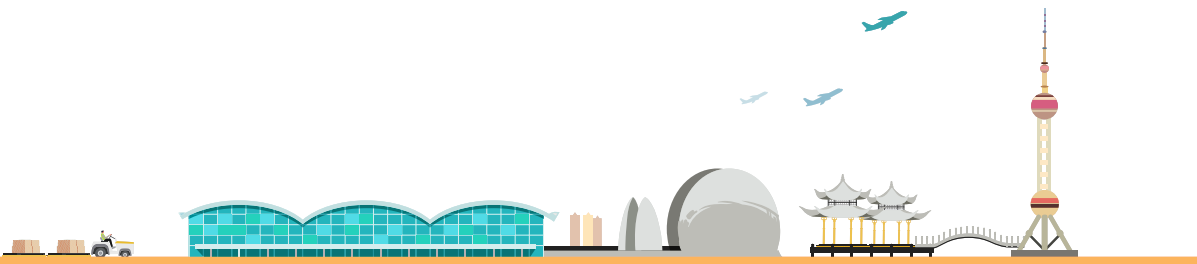


The ACI Asia-Pacific/World Annual General Assembly, Conference and Exhibition brings together global aviation leaders to share insights and discuss the future of the aviation industry.

# MAINLAND PROJECTS



*The Airport Authority Hong Kong (AAHK) contributes to the development of China's aviation industry through long-term collaborations with three Mainland airports.*



## HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

AAHK acquired a 35% interest in Hangzhou Xiaoshan International Airport (HXIA) in 2006.

Calendar 2019 was another year of growth for HXIA. Passenger numbers increased 4.9% from 2018, to 40.1 million—the first time throughput at HXIA exceeded 40 million. Cargo volume climbed 7.7%, to 690,000 tonnes, while flight movements rose 2.1%, to 291,000. This outstanding performance made HXIA the Mainland's 10th busiest passenger airport and its fifth busiest cargo airport.

During the year, HXIA's international network continued to expand, with new passenger services to Cairo, Chiang Rai, Mandalay, Nagoya, Rome, St Petersburg and Vientiane. Direct cargo flights commenced to Dhaka, Krasnoyarsk and Manila. HXIA also added six new airlines and six Mainland cities to its network. Seventy-one carriers now connect HXIA to 128 domestic and 56 international destinations.

In 2019, HXIA gained additional airspace that will allow a gradual increase in the airport's capacity, from 45 flight movements per hour to 60. Ultimately, HXIA will be able to serve 60 million passengers each year.

Meanwhile, construction of Terminal 4 and the Integrated Transportation Centre continued during the year. Associated ground transportation infrastructure was completed in early 2019.

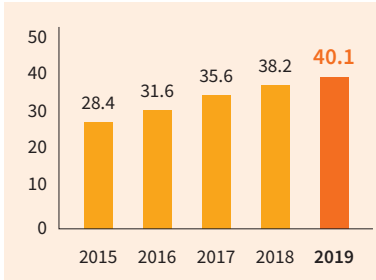


HXIA crosses a milestone in 2019, reaching 40 million in annual passenger traffic for the first time.

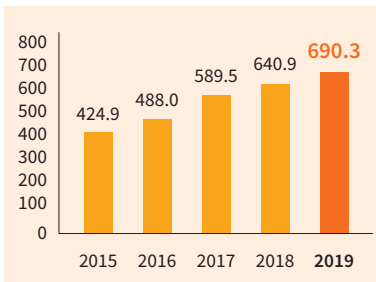
## MAINLAND PROJECTS

### THROUGHPUT AT HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China

### SHANGHAI HONGQIAO INTERNATIONAL AIRPORT

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

In 2019, passenger throughput at Hongqiao airport increased 4.6%, to 45.6 million, while flight movements rose 2.3%, to 273,000. With the introduction of more international brands, revenues at the airport's retail businesses grew 30% from 2018.

In December 2019, a 2,000-square-metre lounge in the non-restricted area of Terminal 2 (T2) began welcoming premium passengers.

Meanwhile, the Shanghai Airport Authority signed an agreement with

the Shangri-La Group that will see a 100-room, five-star hotel and a 500-room, four-star hotel open on the north side of T2 in 2023. Both hotels will have direct access to the passenger terminal.

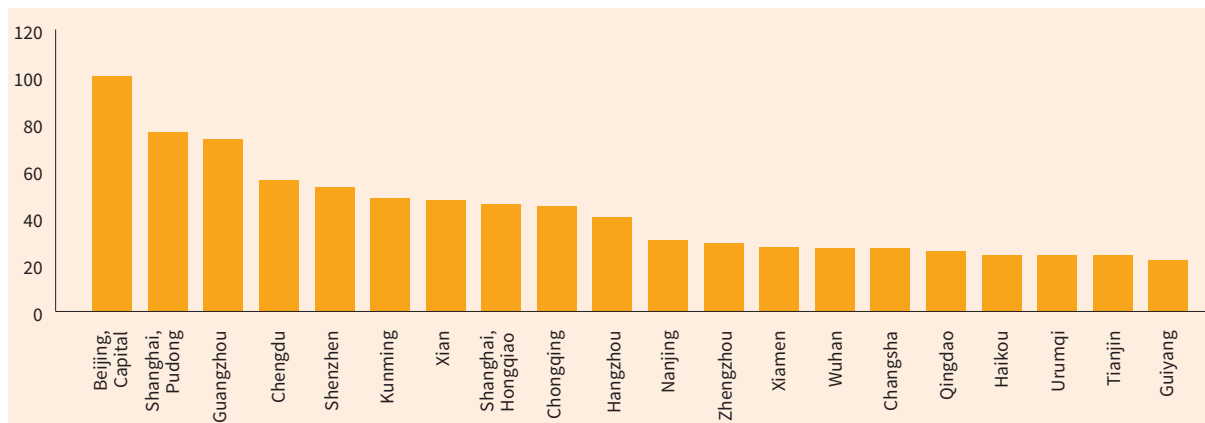
To increase efficiency and on-time performance, in December 2019 Hongqiao airport took over control of aircraft movements on the apron from the Air Traffic Management Bureau.

The airport will also benefit from a wrap-around taxiway, which will enter service between 2020 and 2021. Major construction on the taxiway, which will reduce the frequency of aircraft crossing the runway, was completed in 2019.

Hongqiao airport was named the "Best Airport in China" in the 2019 Skytrax survey and received the "CAPSE Best Airport Award 2019" from the Civil Aviation Resource Net of China.

### TOP 20 AIRPORTS ON THE MAINLAND IN 2019 — PASSENGER THROUGHPUT

(millions of passengers)



Source: Civil Aviation Administration of China





An artist's impression of the expanded Zhuhai Airport.

## ZHUHAI AIRPORT

In 2006, AAHK established a joint venture with the Zhuhai Municipal Government to manage Zhuhai Airport. AAHK owns a 55% stake in the Hong Kong-Zhuhai Airport Management Company Limited.

In 2019, passenger throughput at Zhuhai Airport gained 9.5%, to 12.3 million, flight movements increased 7.0%, to 86,836, while cargo volume grew 9.9%, to 50,989 tonnes. The airport added 13 domestic destinations to its network, for a total of 86. Commercial revenue and advertising revenue surged 43% and 67%, respectively, from 2018.

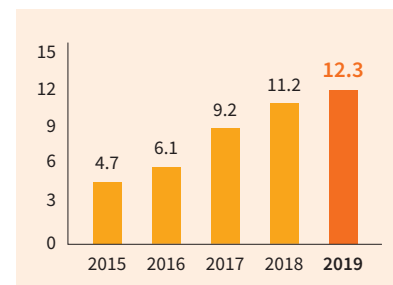
Zhuhai Airport's efficiency continued to benefit from the introduction of Airport Integrated Control, a centralised operations monitoring platform, and the Airport Collaborative Decision Making (A-CDM) system, which facilitates information sharing among airport community members. The airport's average on-time departure rate (OTP) increased from 82.1% in 2018 to 89.6% in 2019. From September to December 2019, Zhuhai Airport's monthly OTP exceeded 93%. In recognition, the Civil Aviation Administration of China awarded Zhuhai Airport's A-CDM system a class A rating.

During the year, Zhuhai Airport enhanced its environmental performance by upgrading 60% of its vehicles and installing electric vehicle charging stations at five airfield locations. The airport also replaced 11 petrol-fuelled sedans with electric cars.

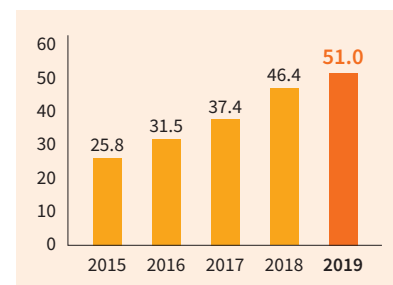
In November 2019, Zhuhai Airport began construction of a second passenger terminal. With a gross floor area of 190,000 square metres and 28 bridge-equipped aircraft parking stands, T2 will increase Zhuhai Airport's annual passenger capacity from 12.5 million to 27.5 million when it opens in 2023.

## THROUGHPUT AT ZHUHAI AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China

# SUSTAINABILITY AND PEOPLE



*At Hong Kong International Airport (HKIA), our commitment to environmentally and socially responsible development contributes to the sustainable growth of our airport and our city.*



## PLANTING A GREEN FUTURE

During the year, we continued to work closely with the airport community to fulfil our pledge of achieving a 10% reduction in carbon intensity, relative to 2015 levels, by the end of 2020.

In January 2020, the Airport Authority Hong Kong (AAHK) hosted the fourth Senior Executive Roundtable. At the event, AAHK and 48 business partners shared the latest carbon reduction strategies and initiatives. We also recognised nine partners for outstanding performance in our Carbon Reduction Award Scheme and published a report summarising the 2018 scheme's 24 winning projects. In addition, we hosted three technical working group meetings where we discussed the latest trends and developments in carbon and energy management, including Hong Kong's long-term decarbonisation strategy, with our business partners.

In another green move, in 2019/20 we began developing a study on a 15-year carbon reduction target for HKIA. The study is expected to be completed by the end of 2020/21. We also commissioned a climate resilience study that will help prepare HKIA's future operations for the effects of climate change. A climate adaptation and resilience plan will be developed in early 2021.



## SUSTAINABILITY AND PEOPLE



Joining EV100 and EP100, AAHK is committed to increasing the use of electric vehicles and promoting energy efficiency at HKIA.

We constantly identify energy-saving opportunities in our daily operations. In March 2020, we extended the artificial intelligence and big data-based building analytics system used in the North Satellite Concourse and Midfield Concourse to Terminal 1. This system will reduce electricity consumption by about 4.5 million kilowatt-hours per year. We also began replacing three chillers in the Ground Transportation Centre with high-efficiency models that will save a further 2.3 million kilowatt-hours annually.

This year, we became the first airport to join both EV100, a programme that promotes the use of electric vehicles, and EP100, which unites companies that are committed to improving their energy productivity. EV100 and EP100 are led by The

Climate Group, an international non-profit organisation that helps businesses and governments address climate change. As we participate in the two programmes, we are committed to increasing the number of electric vehicles and charging stations at HKIA to 3,000 and over 1,400, respectively, by 2030 and boosting the energy efficiency of HKIA's passenger terminals by 30%, from a 2015 baseline.

We also support research into innovative solutions to HKIA's environmental challenges. Through the HKIA Environmental Fund, we backed a two-year research project by the Hong Kong Polytechnic University that aims to develop a system for extracting chemicals and biofuels from waste generated at the airport.

In December 2019, AAHK demonstrated its commitment to protecting biodiversity by signing the Buckingham Palace Declaration, an action plan to strengthen defences against global wildlife trafficking, and becoming a member of the United for Wildlife Transport Taskforce.

To promote the environmental initiatives implemented at HKIA, we launched a quarterly e-newsletter, *Towards the Greenest Airport*, in January 2020.



## SUSTAINABILITY REPORT 2018/19

In March 2020, we published our seventh sustainability report. The report provides a comprehensive description of AAHK's performance and management approach, and features seven interviews with airport staff that illustrate 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.

## CARING FOR SOCIETY

In addition to our environmental commitment, AAHK cares for society.

This is the second year we have run EXTRA MILE, an innovative community investment partnership



The EXTRA MILE project aims to create and promote shared value between the airport community and society.

among AAHK, our business partners, non-governmental organisations (NGOs) and neighbourhoods near the airport.

EXTRA MILE comprises three components—job placements for working youth and non-Chinese speakers, and an after-school childcare programme for parents employed at HKIA. The programmes develop and nurture talent, promote social mobility and contribute to the development of HKIA and society.

In EXTRA MILE's second year, the number of business partners participating in the project increased from 15 to 28 and more than 100 young people and non-Chinese speakers were matched with jobs at HKIA. Since the project started, some 200 primary school students have received after-school care through EXTRA MILE.

To encourage employment in the wider community, in 2019/20 we held job fairs in Lok Fu, Mongkok, Shatin and Tung Chung, and hosted a large career expo with members of the airport community at the Hong Kong Convention and Exhibition Centre.

During the coronavirus disease (COVID-19) outbreak, we helped neighbouring communities by working with NGOs to deliver surgical masks and hand sanitiser to the elderly in Tung Chung. Masks and sanitiser were also distributed to EXTRA MILE participants.



During the COVID-19 outbreak, AAHK helps neighbouring communities by sending face masks and hand sanitiser to the elderly in Tung Chung.

## SUSTAINABILITY AND PEOPLE



Summer internship programme offers youngsters unique work experience at HKIA, stimulating their interest in the aviation industry.

### NURTURING TALENT

Employees are our most valuable asset. AAHK continues to focus on its people, investing in initiatives that enhance talent development and promote staff well-being and engagement.

To strengthen our leadership pipeline and to ensure a sustainable supply of effective leaders, the talent review and succession planning process continued in 2019/20. Key individuals and high-potentials were offered opportunities to participate in renowned local and overseas executive development programmes as part of their development plans. This year, we also designed and implemented a 12-month leadership development programme for middle management to expand our leadership talent pool.

Attracting youngsters, our summer internship programme provided unique work experience to 110 students from universities and training institutions to stimulate their interest in the aviation industry. To better engage new

recruits and to help them assimilate into the AAHK family, we developed and launched an e-orientation programme in 2019/20 that features animation, interactive games and videos, as well as useful information about AAHK and the airport. The programme was well received by new staff.

AAHK is always committed to promoting staff welfare and well-being. In addition to enhancing our medical coverage and organising regular wellness workshops and health talks, this year we offered an on-site professional counselling service to help staff manage stress. In facing the COVID-19 outbreak, we proactively implemented various health protection measures, including the provision of face masks and hand sanitiser to all AAHK staff since the beginning of the outbreak. Face masks were also provided to the family of each AAHK employee.

The Airport Preschool that opened in 2017 has received enthusiastic feedback. As a result, we are expanding our childcare services for airport staff with a second preschool. Works on the new facility

are under way, and it is scheduled to open in 2021.

During the year, our efforts to foster collaboration across departments continued with the second round of an organisation-wide team-building programme. The programme kicked off with senior management and will be cascaded to other staff at different levels next year.

Through the Work Improvement Team (WIT) programme, front-line staff continued to contribute innovative ideas to enhance efficiency and productivity in their workplace. The 2019 programme concluded with the WIT Convention, which was attended by 400 participants. At the convention, finalists showcased their projects to compete for the grand awards. We also promoted WIT in the airport community by organising sharing sessions with business partners.

Effective employee communication is critical in building a strong team. Throughout the year we maintained regular, two-way communication initiatives for staff at all levels, including Dialogue with Chairman, town hall meetings and employee mingling sessions.

In recognition of our pursuit of excellence in human capital strategy, AAHK won two Gold Awards for “Excellence in Change Management” and “Excellence in Graduate Recruitment and Development” at the HR Distinction Awards 2019, organised by *Human Resources Magazine*.

## HONG KONG INTERNATIONAL AVIATION ACADEMY

It was an exciting year for Hong Kong International Aviation Academy (HKIAA), the civil aviation school established in 2016/17.

In 2019/20, HKIAA delivered about 1,300 courses to some 41,000 participants, 537 of whom were from outside Hong Kong.\*

During the year, we expanded the academy's curriculum. After securing approval from the Hong Kong Civil Aviation Department, in October 2019 HKIAA began offering an introductory air traffic control course.

Two new diploma programmes received accreditation from the Hong Kong Council for Accreditation of Academic and Vocational Qualifications. The Diploma in Aviation Operations—a course that combines a month of

classroom learning with a 12-month job placement—was launched and solicited 390 job openings for 76 students. The second programme, the Professional Diploma in Aviation Management, is under development and will be launched at the end of 2020.

In addition, Airports Council International accredited the academy as a regional training centre and the International Civil Aviation Organisation approved HKIAA's second standard training package, Core Competencies for Passenger Terminal Operations Management, paving the way for more internationally recognised courses.

To promote aviation careers in Hong Kong, in 2019/20 the academy arranged talks and airport tours for more than 3,200 teachers and students. Meanwhile, HKIAA joined hands with local institutions and private training bodies to establish Corporate Tech Academy Network,

which promotes vocational and professional education.

HKIAA also works to make Hong Kong a regional training centre. In November 2019, the academy delivered two new courses to students in Shanghai and Qingdao. Bespoke training was delivered to six employees from Oman Airports and to more than 100 staff at Mainland airports.

In 2019/20, AAHK established a wholly owned subsidiary, HKIA Services Holdings Limited (HKIA SHL), to oversee HKIAA and AsiaWorld-Expo. HKIA SHL also manages HKIA Consultancy, which provides other airports with professional services covering airport operation, management, planning, design, technology and business development. The new subsidiary's multipronged development strategy will strengthen HKIA's status as an international aviation hub.



\* Includes 1,026 courses for 35,128 participants from Aviation Security Company Limited.

# LOOKING FORWARD





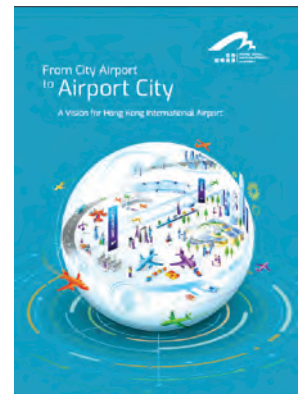
*A comprehensive development blueprint at Hong Kong International Airport (HKIA) helps us cater to long-term air traffic demand and transform the airport into a destination in its own right.*



## AN AIRPORT CITY

In May 2019, the Airport Authority Hong Kong (AAHK) published a vision for integrating HKIA and the functions that surround it in a report entitled “From City Airport to Airport City”. With this vision, we will create an Airport City that drives the economic growth of Hong Kong and the region, while strengthening HKIA’s status as an international aviation hub.

The report outlines the core elements of this vision—rigorous development of the airport’s passenger and cargo services; a multimodal, regional transportation network; commercial developments covering retail, entertainment, hotels, and convention and exhibition facilities; technology-driven and personalised facilities and services for the new generation of travellers; a regional aviation training centre; and a green and sustainable airport.



## THE THREE-RUNWAY SYSTEM

The three-runway system (3RS), a major infrastructure project that will increase HKIA’s long-term capacity, is a crucial part of the Airport City vision. The 3RS project involves the reclamation of approximately 650 hectares of land north of the existing airport island and the construction of a third runway, a supporting taxiway system, a new full-fledged Terminal 2 (T2), a Third Runway Passenger Building (TRPB) and associated infrastructure.

The 3RS project is proceeding according to schedule. We plan to open the third runway in 2022 and the entire project is scheduled to be commissioned in 2024.

More than 96% of the marine-based deep cement mixing works were completed. Meanwhile, more than 11.5 kilometres of seawall was handed over to the main reclamation contractor. Nearly 10.8 kilometres of seawall rock core and vertical seawall blocks above sea level was completed.

## LOOKING FORWARD

T2 WAS CLOSED IN NOVEMBER 2019 FOR EXPANSION AS SCHEDULED. INTERNAL DEMOLITION AND WORKS FOR T2'S FOUNDATIONS AND SUBSTRUCTURE ARE NOW UNDER WAY.

Ground improvement works are proceeding on parts of the reclaimed land. Some 71 hectares of reclaimed land was handed over to the follow-on contractor to build airfield infrastructure and construction support facilities. More land parcels will be handed over to the contractors of the TRPB and the Automated People Mover (APM) and Baggage Handling System (BHS).

T2 was closed in November 2019 for expansion as scheduled. Internal demolition and works for T2's foundations and substructure are in progress. The construction contract for the TRPB's foundations and substructure was awarded in February 2020. It is anticipated that

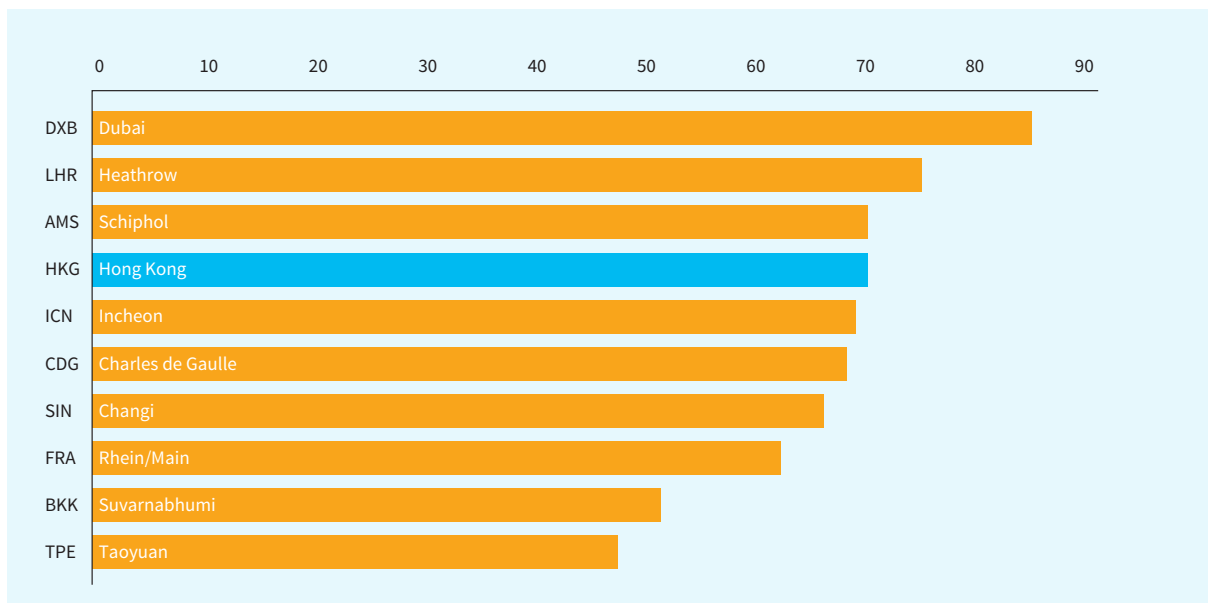
the contracts for T2's main works, and the TRPB and apron works, will be awarded in the third and fourth quarters of 2020, respectively.

Advance works for building a new Integrated Airport Centre (IAC) are substantially completed and the main works and system contracts for the IAC have started. Construction of the North Runway Crossover Taxiway is on schedule, as are advance works for the Eastern Vehicular Tunnel.

The design-and-build contracts for the APM and high-speed BHS are under way. Construction of the new APM depot was substantially completed and an occupation

### 10 BUSIEST AIRPORTS IN 2019 — 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 May 2020



permit was issued in December 2019. Works for building the APM and BHS tunnels on the existing airport island are in progress, while the construction contract for the APM and BHS tunnels on the reclaimed land will commence in mid-2020.

The majority of licences for support facilities and services on the reclaimed land have been awarded. Site works, such as installing temporary utilities and establishing temporary offices, have begun. To facilitate workers' access to the site, ferry services from Tsuen Wan, Tuen Mun and Tung Chung started in March 2020.

For better co-ordination of interface issues, AAHK has taken up the design and construction of government facilities that support

the 3RS. AAHK signed entrustment agreements with the Architectural Services Department for the first batch of government facilities in June 2019, and construction has begun.

We place great importance on sustainability when developing the 3RS project. An environmental monitoring and audit (EM&A) programme and environmental mitigation measures have been implemented since construction started. All EM&A information is published on a monthly basis on a publicly available, dedicated website.

We also continue to fulfil our commitment to enhancing the marine ecology and fisheries resources near the project. As recommended in the approved

3RS Environmental Impact Assessment Report, a 3RS Marine Park comprising an area of approximately 2,400 hectares will be designated in north Lantau waters to tie in with the full operation of the 3RS project in 2024. We continue to liaise with green groups, fishery sectors, marine users, local communities and other stakeholders to solicit their views on the goals, boundaries and preliminary management plan for the proposed 3RS Marine Park.

In 2016/17, we established a Marine Ecology Enhancement Fund (MEEF) and a Fisheries Enhancement Fund (FEF). Over HK\$30 million was granted from the MEEF and FEF to 23 projects in 2017/18, 2018/19 and 2019/20.

## LOOKING FORWARD



In addition to the two funds, we are working on a number of enhancement measures in Lantau waters on a voluntary basis, including artificial reef deployment, fish fry restocking and the adoption of eco-enhancement design on sections of the 3RS seawall to promote colonisation by epifauna.

The 3RS buildings are designed to optimise environmental performance. This year, the T2 expansion received a platinum rating in a BEAM Plus Provisional Assessment. Meanwhile, the third runway and associated works obtained an excellent rating in a sustainability performance assessment conducted under the

Interim Client and Design Award scheme of the Civil Engineering Environmental Quality Assessment and Awards Scheme (CEEQUAL). Both BEAM Plus and CEEQUAL promote sustainability in building and civil engineering projects.

### SKYCITY

The SKYCITY integrated commercial development is another core element in the Airport City. In May 2018, we handed over part of a site at SKYCITY that is designated for retail, dining and entertainment (RDE) facilities and offices to the developer. The remainder of the site was handed over on 28 June 2019.

Expected to open in phases starting from 2023, the RDE complex will be connected to T2. It will feature state-of-the-art entertainment, providing an extraordinary experience for both Hong Kong residents and overseas visitors.

Meanwhile, we are planning the phase two development of AsiaWorld-Expo and studying the development concept of the Hong Kong Boundary Crossing Facilities island of the Hong Kong-Zhuhai-Macao Bridge. Both projects will create new synergies with SKYCITY and other airport facilities.

# FINANCIAL REVIEW

## FINANCIAL SUMMARY

<i>(in HK\$ million)</i>	2019/20	2018/19	+/- % <sup>1</sup>
Revenue	<b>17,106</b>	19,470	-12.1%
Operating expenses before depreciation and amortisation	<b>7,886</b>	7,027	+12.2%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	<b>9,220</b>	12,443	-25.9%
Depreciation and amortisation	<b>2,924</b>	3,123	-6.4%
Net interest and finance income	<b>461</b>	379	+21.6%
Share of results of an associate	<b>(16)</b>	-	-
Share of results of joint ventures	<b>269</b>	261	+3.1%
Profit before taxation	<b>7,010</b>	9,960	-29.6%
Income tax	<b>1,112</b>	1,558	-28.6%
Profit for the year	<b>5,898</b>	8,402	-29.8%
Profit attributable to the equity shareholder	<b>5,866</b>	8,339	-29.7%
Dividend declared	-	-	-
<b>Key financial ratios</b>			
Return on equity	<b>7.1%</b>	11.0%	
Total debt/capital ratio <sup>2</sup>	<b>6%</b>	6%	
<b>Key traffic summary<sup>3</sup></b>			
Passenger traffic <sup>4</sup> (millions of passengers)	<b>60.9</b>	75.1	-18.9%
Cargo and airmail throughput <sup>5</sup> (millions of tonnes)	<b>4.7</b>	5.1	-7.3%
Aircraft movements (thousands)	<b>377</b>	429	-12.0%

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

<sup>2</sup> Total debt represents interest-bearing borrowings. Total capital represents total debt plus total equity.

<sup>3</sup> Key traffic summary is based on the Airport Authority Hong Kong's data for Hong Kong International Airport only.

<sup>4</sup> Passenger traffic includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.

<sup>5</sup> 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.

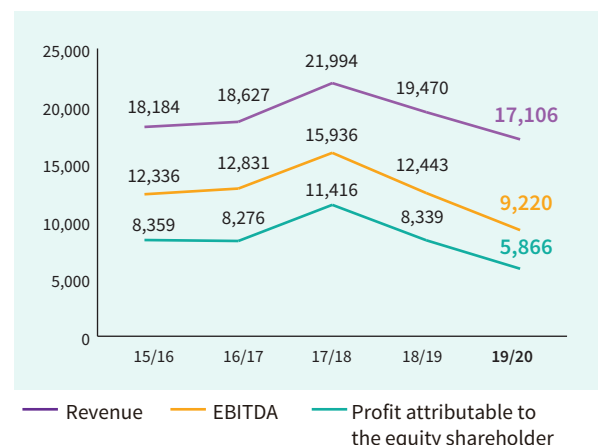
## OVERVIEW

The Airport Authority Hong Kong (AAHK) encountered unexpected headwinds due to the international trade dispute, social unrest in Hong Kong and coronavirus disease (COVID-19) in fiscal 2019/20, ended 31 March 2020.

The international trade dispute and social unrest in Hong Kong in 2019 and the COVID-19 since early 2020 had a serious impact on the local economy. As a result, the growth in traffic that followed the 2008 financial crisis reversed in 2019/20. During the year, Hong Kong International Airport (HKIA) welcomed 60.9 million passengers and handled 377,420 flight movements, representing annual decreases of 18.9% and 12.0%, respectively. Cargo and airmail throughput fell 7.3%, to 4.7 million tonnes.

## FINANCIAL RESULTS

(in HK\$ million)

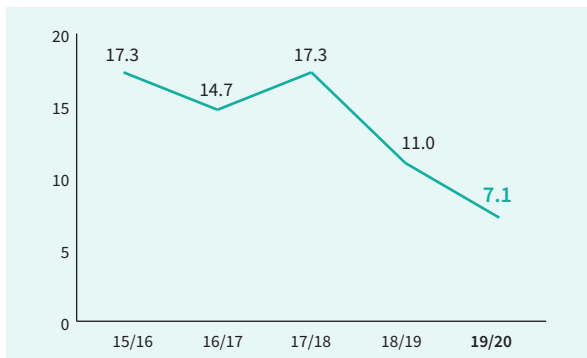


## FINANCIAL REVIEW

Following the drop in passenger volume and flight movements, AAHK and its subsidiaries (the Group) recorded a weaker financial performance in 2019/20. This was largely the result of a drop in airport and security charges and lower revenues from airside support services franchises and retail concessions, coupled with an increase in operating expenses. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK\$9,220 million and profit attributable to the equity shareholder of HK\$5,866 million, representing decreases of 25.9% and 29.7%, respectively, from 2018/19. As a result, the Group's return on equity decreased to 7.1%. No dividend was declared for the year.

### RETURN ON EQUITY

(in percent)



### REVENUE

The international trade dispute and social unrest in Hong Kong reduced passenger and cargo throughput at HKIA in calendar 2019. Then the COVID-19 pandemic since early 2020 brought passenger traffic to a standstill as quarantine and travel restrictions were introduced in major destinations and in Hong Kong. Because of the drop in passenger numbers and flight movements, total revenue fell 12.1%, to HK\$17,106 million, largely as a result of a fall in airport and security charges as well as lower revenue from retail licences and airside support services franchises in 2019/20. Major revenue categories were airport and security charges; revenues from airside support services franchises, retail licences and advertising; and other terminal commercial revenue, which collectively comprised 94.0% of total revenue.

Despite the full-year effect of increases in landing and security charges, which took effect on 1 September 2018 and 1 October 2018, respectively, airport and security charges, representing 36.4% of total revenue, fell 11.3%, to HK\$6,232 million, primarily due to reductions in passenger traffic and flight movements, and the relief measures provided to airlines.

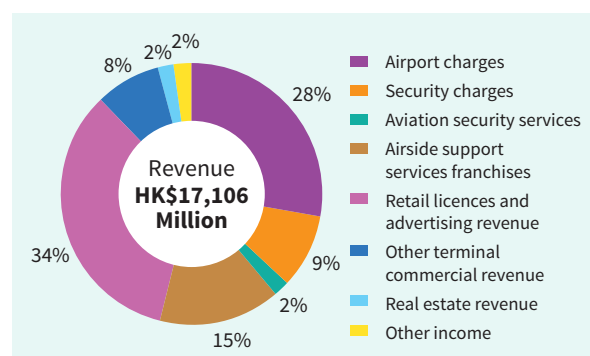
Revenues from airside support services franchises dropped 9.9%, to HK\$2,510 million, mainly due to the expiry of the aviation fuel system facility payment in July 2018; lower franchise fees from aircraft catering, ramp handling and maintenance, due to decreased flight movements during the year; lower franchise fees from the aviation fuel system as a result of the drop in aviation fuel throughput; relief measures for aviation support services including aircraft catering, into-plane fuelling, maintenance as well as cargo terminal services; relief measures for airlines, covering ramp handling, maintenance and airside vehicle-related fees; and lower ground handling service and cargo revenues at Zhuhai Airport that accompanied decreases in flight movements and cargo throughput after the COVID-19 outbreak.

Retail licences and advertising revenue, representing 34.4% of total revenue, fell 17.6%, to HK\$5,893 million. This decrease was mainly a result of the drop in passenger numbers, rental relief provided to airport shops and restaurants, and the temporary closure of airport shops and restaurants due to COVID-19.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category decreased 1.3%, to HK\$1,441 million, largely due to rental relief for offices and lounges in the terminals.

### REVENUE BY SOURCE

(for the year ended 31 March 2020)



## OPERATING EXPENSES

The Group continues to exercise stringent financial discipline to control its operating expenses while maintaining the highest standards of safety, security, service and sustainability. Total operating expenses before depreciation and amortisation increased 12.2%, to HK\$7,886 million, mainly due to inflationary pressures and business development during the fiscal year.

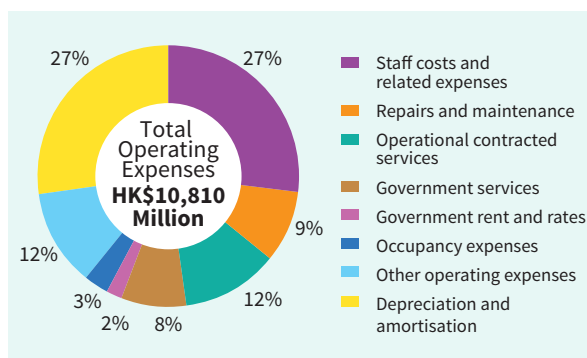
Major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, other operating expenses, and depreciation and amortisation, which accounted for approximately 95.5% of total operating expenses. Approximately 36.5% of the Group's 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 27.0% of total operating expenses, increased 8.6%, to HK\$2,918 million, mainly due to adjustments to ensure the market competitiveness of employees' remuneration and an increase in staff numbers to cope with business development.

Repairs and maintenance costs grew 8.4%, to HK\$937 million, principally due to additional work on the airfield and terminals to ensure safe and reliable operations. Wage increases due to labour shortages in calendar 2019 and inflationary pressures on material costs also contributed to the increase.

### OPERATING EXPENSES BY CATEGORY

(for the year ended 31 March 2020)



Operational contracted services represents costs for operations outsourced to third-party contractors. This category rose 35.4%, to HK\$1,323 million, largely due to newly outsourced operations, higher costs as a result of contract renewals and ad hoc security costs during the year.

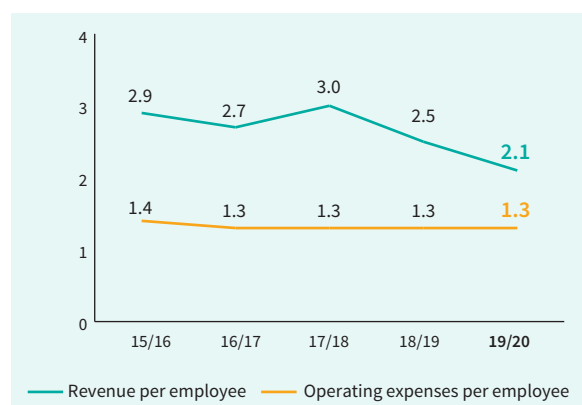
Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. Government services expense grew 3.4%, to HK\$851 million, mainly due to a higher final adjustment on 2018/19 air traffic control fees.

Other operating expenses increased 13.5%, to HK\$1,367 million, mainly attributable to additional retail promotional activities to offset the impact brought by social unrest; various consultancy studies carried out during the year; and an increase in unrealised exchange loss in relation to the revaluation of short-term foreign currency deposits.

Despite the completion of expansion and improvement projects for facilities and systems during the fiscal year, depreciation and amortisation decreased 6.4%, to HK\$2,924 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.

## FINANCIAL REVIEW

### MAINLAND AIRPORTS

Prior to COVID-19, 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 2019, passenger traffic and flight movements at Hangzhou Xiaoshan International Airport (HXIA) grew 4.9% and 2.1%, respectively, to 40.1 million and 291,000. Cargo throughput rose 7.7%, to 690,000 tonnes. AAHK's share of HXIA's profits increased 3.1%, to HK\$268 million, in 2019/20, largely due to solid traffic growth.

In calendar 2019, passenger traffic at Zhuhai Airport grew 9.5%, to a record 12.3 million, flight movements climbed 7.0%, to 86,836, while cargo throughput jumped 9.9%, to 50,989 tonnes. AAHK's share of Zhuhai Airport's profits decreased 52.1%, to HK\$35 million, in 2019/20, mainly due to the adverse impact of COVID-19 and higher staff numbers needed to meet long-term traffic growth.

### FINANCIAL POSITION

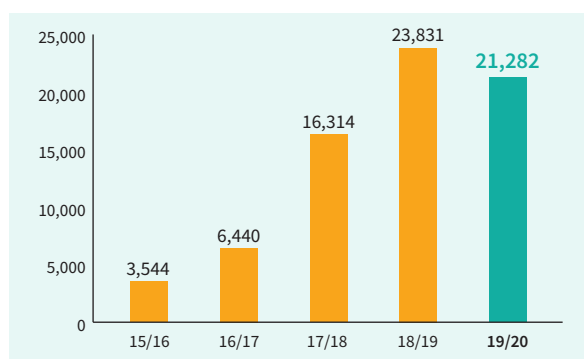
The Group's financial position remains strong and well capitalised. The Group's total equity as at 31 March 2020 reached HK\$86,185 million, an increase of 7.1% over the previous year, mainly due to the net profit achieved in 2019/20 and non-payment of a dividend for 2018/19.

Investment property, interest in leasehold land, and other property, plant and equipment amounted to HK\$93,224 million, which accounted for 81.1% of total assets. The Group incurred capital expenditures of HK\$21,282 million during 2019/20, mainly related to the three-runway system (3RS), capacity enhancements in Terminal 1 (T1), expansion of Car Park 4, the Midfield Apron development, the Sky Bridge connecting the North Satellite Concourse with T1, upgrades to the closed circuit television system, transformation of the passenger terminal buildings, automation of arriving bag delivery and enhancements to other facilities and systems.

Intangible assets of HK\$308 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 2018, 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\$589 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 an associate and the preference shares premium.

Interests in joint ventures of HK\$4,369 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 15.7%, to HK\$3,158 million, primarily due to the drop in revenue caused by COVID-19 and the relief measures provided to the airport community.

Total trade and other payables decreased 3.0%, to HK\$14,240 million, mainly attributable to a decrease in construction costs payable and contract retentions in relation to the 3RS, and deposits received from licensees.

Unused airport construction fee (ACF) of HK\$974 million represented the balance of ACF received and receivable that has not yet been used to fund 3RS construction costs.



Deferred income of HK\$2,876 million mainly represented amounts received in advance in respect of subleases of leasehold land at HKIA and subsidies from the Hong Kong SAR Government. During the year, AAHK received up-front payment of HK\$800 million for the SKYCITY development and subsidy from the Hong Kong SAR Government of HK\$670 million for AAHK's additional relief measures for providing more support and financial aids to the aviation industry.

## DIVIDEND

Pursuant to the financial arrangement plan for the 3RS, the Board did not declare a dividend for 2019/20.

## CASH FLOW

Net cash generated from operating activities decreased from HK\$12,119 million in 2018/19 to HK\$9,983 million this year, mainly due to a decrease in profit for the year.

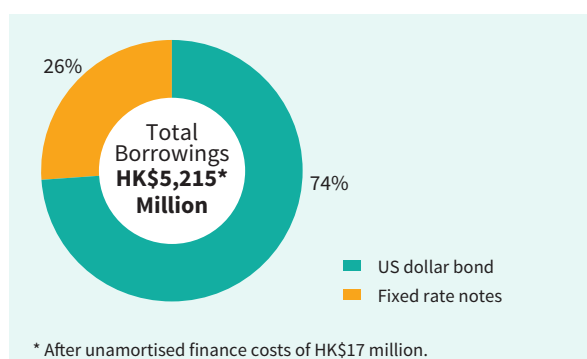
## FINANCING

AAHK's total borrowings as at 31 March 2020 amounted to HK\$5,215 million (2018/19: HK\$5,344 million). AAHK up-sized its Medium Term Note programme to US\$8 billion in 2017/18. The programme allows AAHK to access capital markets when needed.

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.

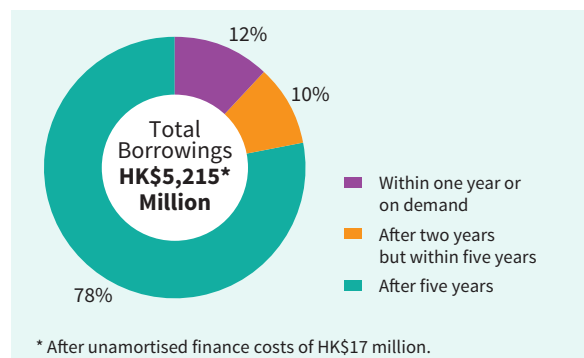
## LOAN FACILITIES AND PROGRAMMES

(as at 31 March 2020)



## LOAN MATURITY PROFILE

(as at 31 March 2020)



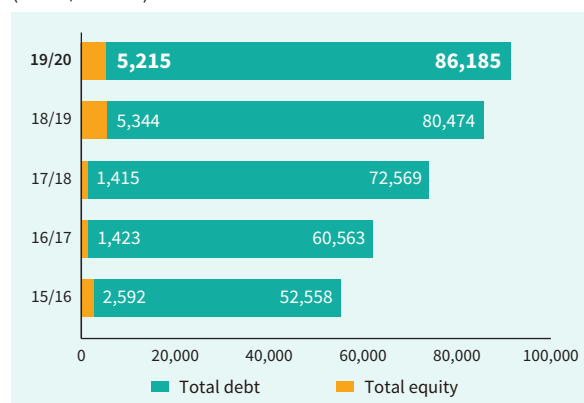
## FINANCIAL RISK MANAGEMENT

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, cross-currency swaps and forward exchange contracts, 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 currencies have been swapped into Hong Kong dollars whenever possible, while revenues and costs at AAHK are largely denominated in Hong Kong dollars. AAHK also uses forward exchange contracts to hedge exposure to future transactions denominated in Australian dollars.

## CAPITAL STRUCTURE

(In HK\$ million)



## FINANCIAL REVIEW

### OUTLOOK

Since January 2020, COVID-19 has resulted in a challenging operating environment in which travel demand has dropped substantially. As of May 2020, it remained difficult to tell when passenger demand would recover materially. But we are confident that when COVID-19 subsides, demand for air travel will rebound. To meet long-term traffic demand and retain our leading position, we are maintaining our long-term development plans to meet future demands.

The construction of the 3RS is a long-term solution to HKIA's capacity constraints. The 3RS project is in progress and the third runway is expected to enter service in 2022. The entire 3RS project, including buildings and related infrastructure, is expected to be commissioned in 2024. We will closely monitor the project's progress to ensure its timely completion within budget. This will allow us to maintain HKIA's competitiveness and reinforce our position as a leading international aviation hub.

Before the 3RS is commissioned, we will carry out various enhancement projects to ensure the airport has sufficient capacity and maintains high service standards. The extension to T1, which includes new check-in counters and additional baggage reclaim belts, opened in 2019/20. We completed the revamp of the East Hall food court with additional seats and fresh dining concepts. Works on the Sky Bridge is ongoing and this facility is targeted to open in 2020. Other enhancement initiatives, including the transformation of boarding gates into themed zones and the renovation of HKIA's washrooms, are under way.

To meet passengers' expectations for smoother and more personalised travel, innovative technologies will continue to be adopted. New features are being developed for our "HKG My Flight" app that will let passengers pre-book services before they arrive at the airport. We will continue to enhance our Wi-Fi network and are rolling out 5G technology at HKIA. To gain a better understanding of passenger behaviours and generate operational insights, we are using data generated in our daily operations to transform HKIA into a data-driven airport. This will help us enhance resource allocation, deploy personnel more effectively and improve productivity. We will continue to introduce new technologies and carry out enhancement projects to optimise the use of our facilities.

New commercial facilities around HKIA—together with a growing transport network that includes the Hong Kong-Zhuhai-Macao Bridge (HZMB) and the Guangzhou-Shenzhen-Hong Kong Express Rail Link—are fuelling our transformation from a city airport into an Airport City. SKYCITY, a major integrated development with retail, dining and entertainment facilities connected to Terminal 2, will provide local residents and global visitors with an extraordinary experience. SKYCITY's first hotel is expected to open in 2020/21 and other facilities are scheduled to open in phases by 2027. A premium logistics centre will open in 2023 and help HKIA capture opportunities from the expanding e-commerce market and related logistics businesses. To create synergies with SKYCITY and the airport as a whole, we are planning AWE's second phase development and studying the development concept of the Hong Kong Boundary Crossing Facilities (HKBCF) island of the HZMB.

The opening of the HZMB and the Express Rail Link strengthened our connectivity with the Mainland, stimulating traffic growth. To capitalise on the growth potential, we are constructing an Intermodal Transfer Terminal to directly link HKIA to the HKBCF. We are also adding upstream check-in facilities in the Greater Bay Area and exploring new promotional platforms and initiatives to expand HKIA's catchment area.

In view of COVID-19, profits will need time to recover and will grow at a slower pace in the medium term. In the meantime, 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 fulfil passengers' expectations, create value for our stakeholders and benefit Hong Kong and the Greater Bay Area.

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# REPORT OF THE MEMBERS OF THE BOARD

Financial year ended 31 March 2020

The Members of the Board have pleasure in submitting the annual report of the Airport Authority Hong Kong (AAHK) together with the audited consolidated financial statements for the year ended 31 March 2020.

## 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 2020 and the Group's financial position as at that date are set out in the Financial Statements on pages 99 to 166.

## 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\$5,866 million (2018/19: HK\$8,339 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\$205 million (2018/19: HK\$88 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 2020 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 167 of the annual report.

## SHARE CAPITAL

Under the terms of the Ordinance, AAHK may only issue shares to the Hong Kong SAR Government 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 2020.

## DONATIONS

Donations made during the year amounted to HK\$3,381,000 (2018/19: HK\$4,056,000), 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	26%	
Top five customers	48%	
The largest supplier		24%
Top five suppliers		36%

The largest supplier is the Hong Kong SAR 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 166 have been prepared on a going concern basis. The Board has approved AAHK's budget for 2020/21 and the business plan and financial plan for 2020/21 to 2024/25 and is satisfied that AAHK has sufficient resources to continue as a going concern for the foreseeable future.

## REPORT OF THE MEMBERS OF THE BOARD

### RETIREMENT SCHEMES

Details with regard to AAHK's retirement schemes are set out in Note 20 to the Financial Statements. The administration of the retirement schemes and AAHK's contributions thereto are reviewed periodically with reference to reports of the investment manager of the schemes and independent actuaries.

### CORPORATE GOVERNANCE

Principal corporate governance practices adopted by AAHK are set out in the Corporate Governance Report on pages 17 to 43 of the annual report.

### EMPLOYEES

As of 31 March 2020, AAHK, excluding its subsidiaries, had a total of 2,844 staff (31 March 2019: 2,602). AAHK has in place 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 to the composition of the Board from the beginning of the financial year to the date of this report are as follows:

- 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.
- Ms Linda Chan Ching-fan resigned from the Board on 16 December 2019.
- Mr Ng Chi-kee, former Executive Director, Airport Operations, retired on 1 December 2019, and Ms Vivian Cheung Kar-fay succeeded Mr Ng on the same date. Mr Alex Kwan King-fai, former Executive Director, Engineering & Technology, retired on 16 January 2020, and Mr Ricky Leung Wing-kee, succeeded Mr Kwan on the same date. Mr William Lo Chi-chung, former Executive Director, Finance, resigned on 1 April 2020.

## **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 2020, 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

Portia Ho  
Secretary to the Board

Hong Kong, 25 May 2020

# 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 166, which comprise the consolidated statement of financial position as at 31 March 2020, 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 2020 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 29(t) to the consolidated financial statements for the relevant accounting policies

The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue from airport and security charges, airside support services franchises, retail licences and advertising accounted for approximately 86% of the Authority's total revenue for the year ended 31 March 2020.</p> <p>Airport and security charges are recognised when the airport facilities are utilised. Revenue is determined based on aircraft movements and passenger traffic captured by the Authority's information technology systems which are complex and involve multiple interfaces.</p> <p>Revenue from airside support services franchises, retail licences and advertising (collectively "franchise and licence operations") is generally charged at the higher of (1) a minimum fee based on throughput, passenger numbers, rental indices or areas occupied, and (2) amounts calculated based on pre-determined percentages of gross revenue earned by the franchisees and licensees ("royalties"). For certain franchisees, franchise revenue is charged based on a minimum fee and royalties.</p> <p>Revenue from franchise and licence operations is recognised in instalments over the accounting periods covered by the franchise and licence agreements, taking into account adjustments to the minimum fee due to changes in throughput, passenger numbers, rental indices or areas occupied and adjustments for any royalties payable by the franchisees and licensees during the billing period.</p> <p>We identified the recognition of revenue from airport and security charges and franchise and licence operations as a key audit matter because of its significance to the consolidated financial statements and because the determination of airport and security charges involves complex information technology systems.</p>	<p>Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• 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</li> <li>• 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.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS (CONTINUED)

<b>Assessing project provisions for capital works projects</b>	
<i>Refer to note 27(b)(ii) to the consolidated financial statements and notes 29(g)(vi) and 29(s) for the relevant accounting policies</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Authority undertakes a number of capital works projects at Hong Kong International Airport. These projects may take several years to complete and the contractual arrangements can be complex.</p> <p>The Authority establishes project provisions for the estimated amounts which will be required to settle claims from contractors which may arise due to time delays, additional costs or other unforeseen circumstances. The assessment of the required project provisions involves the exercise of significant management judgement which can be inherently uncertain because the amounts eventually payable may be different from the recorded project provisions.</p> <p>We identified assessing project provisions for capital works projects as a key audit matter because the assessment of project claims and the determination of project provisions involves the exercise of significant management judgement and estimation which can be inherently uncertain.</p>	<p>Our audit procedures to assess project provisions for capital works projects included the following:</p> <ul style="list-style-type: none"> <li>• assessing the design and implementation of management's key internal controls over the assessment of project claims;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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 2019 to assess the reliability of management's assessment process and evaluating significant variances identified; and</li> <li>• 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.</li> </ul>

## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON**

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

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

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

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

## **RESPONSIBILITIES OF THE BOARD MEMBERS FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

The Board Members are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Airport Authority Ordinance and for such internal control as the Board Members determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

## **AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with section 32 of the Airport Authority Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

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

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

## INDEPENDENT AUDITOR'S REPORT

### 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 Lee Wai Shun, Wilson.

#### KPMG

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

25 May 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2020	2019 (Note)
Airport charges		4,718	5,255
Security charges		1,514	1,769
Aviation security services		366	356
Airside support services franchises		2,510	2,786
Retail licences and advertising revenue		5,893	7,149
Other terminal commercial revenue		1,441	1,460
Real estate revenue		301	301
Other income		363	394
<b>Revenue</b>	8	<b>17,106</b>	19,470
Staff costs and related expenses	4	(2,918)	(2,687)
Repairs and maintenance		(937)	(864)
Operational contracted services		(1,323)	(977)
Government services		(851)	(823)
Government rent and rates		(173)	(158)
Occupancy expenses		(317)	(314)
Other operating expenses	14(b)	(1,367)	(1,204)
<b>Operating expenses before depreciation and amortisation</b>		<b>(7,886)</b>	(7,027)
<b>Operating profit before depreciation and amortisation</b>		<b>9,220</b>	12,443
Depreciation and amortisation		(2,924)	(3,123)
<b>Operating profit before interest and finance costs</b>	3	<b>6,296</b>	9,320
Interest and finance costs:			
Finance costs	5	(25)	(7)
Interest income		486	386
		461	379
Share of results of an associate		(16)	–
Share of results of joint ventures	13	269	261
<b>Profit before taxation</b>		<b>7,010</b>	9,960
Income tax	6(a)	(1,112)	(1,558)
<b>Profit for the year</b>		<b>5,898</b>	8,402
<b>Attributable to:</b>			
Equity shareholder of the Authority		5,866	8,339
Non-controlling interests		32	63
<b>Profit for the year</b>		<b>5,898</b>	8,402

Note:

The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 29(a).

The notes on pages 105 to 166 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

<i>\$ million</i>	2020	2019 (Note)
<b>Profit for the year</b>	<b>5,898</b>	8,402
<b>Other comprehensive income for the year</b>		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
– the Authority	(49)	(40)
Add: deferred tax	8	7
	(41)	(33)
– a subsidiary in the People’s Republic of China (“the PRC”)	(2)	(4)
– a joint venture in the PRC	48	(65)
	5	(102)
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	(341)	(339)
Cash flow hedge: net movement in the hedging reserve	(22)	–
Cash flow hedge: net movement in the cost of hedging reserve	171	(56)
	(192)	(395)
<b>Other comprehensive income for the year</b>	<b>(187)</b>	(497)
<b>Total comprehensive income for the year</b>	<b>5,711</b>	7,905
<b>Attributable to:</b>		
Equity shareholder of the Authority	5,703	7,864
Non-controlling interests	8	41
<b>Total comprehensive income for the year</b>	<b>5,711</b>	7,905

Note:

The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 29(a).

The notes on pages 105 to 166 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2020	2019 (Note)
<b>Non-current assets</b>			
Investment property	9	69	82
Interest in leasehold land	9	6,299	6,528
Other property, plant and equipment	9	86,856	72,301
		<b>93,224</b>	78,911
Intangible assets	10	308	350
Interest in an associate	12	589	652
Interests in joint ventures	13	4,369	4,342
Trade and other receivables	14	-	8
Derivative financial assets	22(e)	76	29
		<b>98,566</b>	84,292
<b>Current assets</b>			
Stores and spares		104	84
Trade and other receivables	14	3,158	3,739
Tax recoverable	6(c)	201	-
Derivative financial assets	22(e)	1	-
Cash and bank balances	15	12,872	21,115
		<b>16,336</b>	24,938
<b>Current liabilities</b>			
Trade and other payables	16	(12,834)	(13,572)
Interest-bearing borrowings	17	(600)	(95)
Current taxation	6(c)	(5)	(73)
Unused airport construction fee	18	(974)	(1,685)
Deferred income	19	(564)	(154)
Derivative financial liabilities	22(e)	-	(2)
		<b>(14,977)</b>	(15,581)
<b>Net current assets</b>		<b>1,359</b>	9,357
<b>Total assets less current liabilities</b>		<b>99,925</b>	93,649
<b>Non-current liabilities</b>			
Trade and other payables	16	(1,406)	(1,102)
Interest-bearing borrowings	17	(4,615)	(5,249)
Deferred income	19	(2,312)	(1,567)
Derivative financial liabilities	22(e)	(23)	(89)
Net defined benefit retirement obligations	20	(336)	(258)
Deferred tax liabilities	6(d)	(5,048)	(4,910)
		<b>(13,740)</b>	(13,175)
<b>Net assets</b>		<b>86,185</b>	80,474
<b>Capital and reserves</b>			
Share capital	21	30,648	30,648
Reserves		55,120	49,417
Total equity attributable to the equity shareholder of the Authority		<b>85,768</b>	80,065
Non-controlling interests		417	409
<b>Total equity</b>		<b>86,185</b>	80,474

Approved and authorised for issue on behalf of the Members of the Board on 25 May 2020.

**The Hon Jack So Chak-kwong**  
Chairman

**Mr Fred Lam**  
Chief Executive Officer

**Mr Thomas Chau Chiu-leung**  
Financial Controller

Note:

The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 29(a).

The notes on pages 105 to 166 form part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

\$ million	Note	Attributable to the equity shareholder of the Authority						Total	Non-controlling interests	Total equity
		Share capital	Exchange reserve	Capital reserve	Hedging reserve	Cost of hedging reserve	Retained profits (Note)			
<b>At 1 April 2018</b>		30,648	712	1,025	-	-	39,816	72,201	368	72,569
<b>Changes in equity for the year:</b>										
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)	-	-	-
<b>At 31 March 2019 and 1 April 2019</b>		<b>30,648</b>	<b>393</b>	<b>1,040</b>	<b>-</b>	<b>(56)</b>	<b>48,040</b>	<b>80,065</b>	<b>409</b>	<b>80,474</b>
<b>Changes in equity for the year:</b>										
Profit for the year		-	-	-	-	-	5,866	5,866	32	5,898
Other comprehensive income		-	(318)	-	(22)	171	6	(163)	(24)	(187)
Total comprehensive income		-	(318)	-	(22)	171	5,872	5,703	8	5,711
Transfer from retained profits to capital reserve	21(c)(ii)	-	-	22	-	-	(22)	-	-	-
<b>At 31 March 2020</b>		<b>30,648</b>	<b>75</b>	<b>1,062</b>	<b>(22)</b>	<b>115</b>	<b>53,890</b>	<b>85,768</b>	<b>417</b>	<b>86,185</b>

Note:

The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 29(a).



## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2020 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2020	2019 (Note)
<b>Operating activities</b>			
Profit before taxation		7,010	9,960
Adjustments for:			
Depreciation		2,660	2,868
Amortisation of interest in leasehold land		229	229
Amortisation of intangible assets		35	26
Interest on notes		187	69
Interest on lease liabilities		1	–
Other borrowing costs and interest expense		50	28
Borrowing costs capitalised into assets under construction		(205)	(88)
Interest income		(486)	(386)
Fair value gain on derivative financial instruments in fair value hedges		(10)	(12)
Net gain on derivative financial instruments in cash flow hedges		(17)	(2)
Net loss on underlying hedged interest-bearing borrowings in fair value hedges		19	12
Share of results of an associate		16	–
Share of results of joint ventures		(269)	(261)
Impairment losses on trade and other receivables		413	440
Net loss on disposal of other property, plant and equipment		13	9
Amortisation of deferred income		(315)	(171)
Expenses recognised in respect of defined benefit retirement plans		54	51
<b>Operating profit before changes in working capital</b>		<b>9,385</b>	12,772
Increase in stores and spares		(20)	(22)
Increase in trade and other receivables		(104)	(787)
Increase in trade and other payables		509	169
Increase in deferred income	19	1,470	1,560
Decrease in net defined benefit retirement obligations		(22)	(23)
<b>Cash generated from operations</b>		<b>11,218</b>	13,669
Hong Kong Profits Tax paid		(1,195)	(1,498)
PRC Corporate Income Tax paid:			
– dividend received from a joint venture		–	(2)
– others		(40)	(50)
<b>Net cash generated from operating activities</b>		<b>9,983</b>	12,119
<b>Investing activities</b>			
Net maturity of deposits with banks with over three months of maturity when placed		9,494	2,142
Interest received		428	336
Dividend received from an associate		47	–
Dividend received from a joint venture		–	40
Payments for the purchase of other property, plant and equipment		(21,986)	(17,496)
Receipts from disposal of other property, plant and equipment		–	1
Payment of annual franchise fee for a PRC subsidiary		(36)	(24)
Payment to acquire interest in an associate	12	–	(652)
Acquisition of subsidiary, net of cash acquired		–	(2)
<b>Net cash used in investing activities</b>		<b>(12,053)</b>	(15,655)

## CONSOLIDATED CASH FLOW STATEMENT

<i>\$ million</i>	Note	2020	2019 (Note)
<b>Financing activities</b>			
Interest paid on notes	15(b)	(189)	(54)
Interest element of lease rentals paid	15(b)	(1)	–
Other borrowing costs and interest expense paid	15(b)	(31)	(25)
Capital element of lease rentals paid	15(b)	(13)	–
Airport construction fee received	15(b)	3,661	3,816
Receipts from issue of notes	15(b)	–	3,918
Repayment of note	15(b)	(100)	–
Net interest income received on interest rate swaps	15(b)	14	30
<b>Net cash generated from financing activities</b>		<b>3,341</b>	7,685
<b>Net increase in cash and cash equivalents</b>			
<b>Cash and cash equivalents at beginning of year</b>		<b>4,937</b>	810
Effect of foreign exchange rate changes		(20)	(22)
<b>Cash and cash equivalents at end of year</b>	15(a)	<b>6,188</b>	4,937

Note:

The group has initially applied HKFRS 16 at 1 April 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 29(a).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

## 1. PRINCIPAL ACTIVITIES OF THE AUTHORITY

The Airport Authority (“the Authority”) is a statutory corporation wholly owned by the Government of the Hong Kong Special Administrative Region of the People’s Republic of China (“the Government”). It was formally established on 1 December 1995 when the Airport Authority Ordinance (“the Ordinance”) was brought into effect as a continuation of the Provisional Airport Authority which had been set up in 1990.

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

The Authority’s principal subsidiaries and their principal activities are set out in note 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 29.

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 29(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 30).

### (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 29(e), (f) and (n).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 27.

### 3. OPERATING PROFIT BEFORE INTEREST AND FINANCE COSTS

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

<i>\$ million</i>	2020	2019
Auditors' remuneration:		
– audit services	7	6
– tax services	1	1
– other services	3	1
Stores and spares expensed	91	95
Net loss on disposal of other property, plant and equipment	13	9
Impairment losses on trade and other receivables (note 14(b))	413	440
Depreciation:		
– owned assets leased out under operating leases (note 9(d))	130	169
– right-of-use assets	14	–
– other assets	2,516	2,699
Amortisation:		
– interest in leasehold land		
– leased out under operating leases (note 9(d))	18	18
– others	211	211
– intangible assets (note 10)	35	26
Expense relating to short-term leases and low-value assets	4	–
Operating lease charges: minimum lease payments under HKAS 17		
– hire of other assets (including property rentals under short-term leases)	–	16
Rentals from investment property less direct outgoings of \$19 million (2019: \$15 million)	(38)	(45)

#### 4. STAFF COSTS AND RELATED EXPENSES

<i>\$ million</i>	2020	2019
Contributions to defined contribution retirement plans	148	132
Expenses recognised in respect of defined benefit retirement plans (note 20)	54	51
Total retirement costs	202	183
Salaries, wages and other benefits	3,436	2,999
Total staff costs and related expenses	3,638	3,182
Less: staff costs and related expenses capitalised into assets under construction	(720)	(495)
	2,918	2,687

#### 5. FINANCE COSTS

<i>\$ million</i>	2020	2019
Interest on notes	187	69
Interest on lease liabilities	1	-
Other borrowing costs	31	21
Other interest expense	19	7
Total interest expense	238	97
Less: borrowing costs capitalised into assets under construction	(205)	(88)
	33	9
Fair value gain on derivative financial instruments in fair value hedges <sup>1</sup>	(10)	(12)
Net gain on derivative financial instruments in cash flow hedges	(17)	(2)
Net loss on underlying hedged interest-bearing borrowings in fair value hedges	19	12
	25	7

<sup>1</sup> Includes net interest expense of \$3 million (2019: net interest income \$1 million) in respect of interest rate swaps under fair value hedging arrangements.

The borrowing costs have been capitalised at the average cost of funds to the group calculated on a monthly basis. The average interest rate used for capitalisation for the year was 3.88% (2019: 4.94%) per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. TAXATION

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

<i>\$ million</i>	2020	2019
Current tax – Hong Kong Profits Tax		
– provision for the year	802	1,198
– under/(over)-provision in respect of prior year	135	(5)
Current tax – PRC Corporate Income Tax		
– provision for the year	29	46
– provision on dividends received/receivable from joint ventures for the year	–	3
Deferred tax (note 6(d))		
– origination and reversal of temporary differences	146	316
	<b>1,112</b>	1,558

The provisions for Hong Kong Profits Tax for both years are 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.

The provision for PRC Corporate Income Tax is calculated at 25% (2019: 25%) of the estimated assessable profits for the year. Provision for PRC withholding tax on dividends received/receivable from joint ventures in prior year was calculated at 5% of the dividends received/receivable from joint ventures.

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

<i>\$ million</i>	2020	2019
Profit before taxation	7,010	9,960
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	1,164	1,664
Tax effect of non-deductible expenses	53	36
Tax effect of non-taxable income	(105)	(137)
Under/(over)-provision in respect of prior year	135	(5)
Tax effect of reversal of temporary differences previously recognised	(135)	–
Actual tax expense	<b>1,112</b>	1,558

## 6. TAXATION (CONTINUED)

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

<i>\$ million</i>	2020	2019
Provision for the year (note 6(a))		
– Hong Kong Profits Tax	802	1,198
– PRC Corporate Income Tax	29	49
Provisional Hong Kong Profits Tax paid	(1,002)	(1,139)
PRC Corporate Income Tax paid/payable	(45)	(36)
Balance of tax provision relating to prior years	20	1
	(196)	73
Classified in the consolidated statement of financial position as:		
Tax recoverable	(201)	–
Current taxation	5	73
	(196)	73

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

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

<i>\$ million</i>	Depreciation allowances in excess of the related depreciation and other expenses	Deferred income, defined benefit retirement plan liability and others	Undistributed profits of a PRC joint venture	Total
<b>Deferred tax arising from:</b>				
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
At 1 April 2019	5,028	(156)	38	4,910
Charged/(credited) to profit or loss	199	(61)	8	146
Credited to other comprehensive income	–	(8)	–	(8)
<b>At 31 March 2020</b>	<b>5,227</b>	<b>(225)</b>	<b>46</b>	<b>5,048</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. TAXATION (CONTINUED)

(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 \$66 million (2019: \$59 million) and \$5 million (2019: \$6 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. 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:

2020 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
<b>Members of the Board</b>					
<b>Non-executive Members</b>					
Jack So Chak-kwong <sup>1</sup>	-	-	-	-	-
Stuart Thomson Gulliver (appointed in June 2019)	92	-	-	-	92
Steven Ho Chun-yin	110	-	-	-	110
Franklin Lam Fan-keung	110	-	-	-	110
Lo Wai-kwok (appointed in June 2019)	92	-	-	-	92
Peter To	110	-	-	-	110
Carlson Tong	110	-	-	-	110
Adrian Wong Koon-man	110	-	-	-	110
Billy Wong Wing-hoo	110	-	-	-	110
Thomas Jefferson Wu (appointed in June 2019)	92	-	-	-	92
Frankie Yick Chi-ming	110	-	-	-	110
Allan Zeman	110	-	-	-	110
Secretary for Financial Services and the Treasury <sup>2</sup>	110	-	-	-	110
Secretary for Transport and Housing <sup>2</sup>	110	-	-	-	110
Director-General of Civil Aviation <sup>2</sup>	110	-	-	-	110
Linda Chan Ching-fan (resigned in Dec 2019)	78	-	-	-	78
Anita Fung Yuen-mei (retired in May 2019)	18	-	-	-	18
Jeffrey Lam Kin-fung (retired in May 2019)	18	-	-	-	18
Lee Shing-see (retired in May 2019)	18	-	-	-	18
<b>Executive Member</b>					
Fred Lam (Chief Executive Officer)	-	6,689	3,290	890	10,869
	1,618	6,689	3,290	890	12,487

<sup>1</sup> 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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

2019 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
<b>Members of the Board</b>					
<b>Non-executive Members</b>					
Jack So Chak-kwong <sup>1</sup>	-	-	-	-	-
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 <sup>2</sup>	110	-	-	-	110
Secretary for Transport and Housing <sup>2</sup>	110	-	-	-	110
Director-General of Civil Aviation <sup>2</sup>	110	-	-	-	110
Andrew Fung Hau-chung (retired in May 2018)	18	-	-	-	18
<b>Executive Member</b>					
Fred Lam (Chief Executive Officer)	-	6,500	3,197	865	10,562
	1,632	6,500	3,197	865	12,194

<sup>1</sup> 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.

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

## 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	2020	2019
Basic compensation	26,786	27,745
Performance-related compensation	9,945	11,253
Retirement benefits	3,065	3,161
	<b>39,796</b>	42,159

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

\$	Number of individuals	
	2020	2019
1,000,001 – 1,500,000	1	–
1,500,001 – 2,000,000	1	–
2,500,001 – 3,000,000	–	1
4,000,001 – 4,500,000	3	1
5,000,001 – 5,500,000	1	3
5,500,001 – 6,000,000	1	1
6,000,001 – 6,500,000	1	1
6,500,001 – 7,000,000	1	1
	<b>9</b>	8

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2019: 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.

## NOTES TO THE 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:

<i>\$ million</i>	<b>2020</b>	2019
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Airport charges	<b>4,718</b>	5,255
Security charges	<b>1,514</b>	1,769
Aviation security services	<b>366</b>	356
Others	<b>670</b>	623
	<b>7,268</b>	8,003
<b>Revenue from other sources</b>		
Airside support services franchises	<b>2,117</b>	2,365
Retail licences and advertising revenue	<b>5,751</b>	7,145
Other terminal commercial revenue	<b>1,431</b>	1,426
Others	<b>539</b>	531
	<b>9,838</b>	11,467
	<b>17,106</b>	19,470

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 one customer (2019: one customer) with whom transactions have exceeded 10% of the group's revenue.

Included in the revenue for the year are aggregate revenues of approximately \$4,367 million which arose from this customer (2019: \$4,218 million from one customer). This includes only revenue arising from those entities which are known to the group to be under common control of this customer.

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

### (a) Reconciliation of carrying amount

\$ million	Other property, plant and equipment										
	Airfields	Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Right-of-use assets	Construction in progress	Sub-total	Investment property	Interest in leasehold land	Total
<b>Cost</b>											
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
Effect of adoption of HKFRS 16 (Note)	-	-	-	-	-	37	-	37	-	-	37
At 1 April 2019	14,108	30,246	16,535	12,442	2,505	37	32,565	108,438	162	11,309	119,909
Exchange adjustments	-	(9)	-	(11)	(7)	-	(4)	(31)	-	-	(31)
Additions	15	42	-	335	367	-	16,442	17,201	-	-	17,201
Reclassifications	545	448	267	3,515	60	-	(4,819)	16	(16)	-	-
Disposals	(92)	(13)	(9)	(516)	(49)	-	-	(679)	-	-	(679)
<b>At 31 March 2020</b>	<b>14,576</b>	<b>30,714</b>	<b>16,793</b>	<b>15,765</b>	<b>2,876</b>	<b>37</b>	<b>44,184</b>	<b>124,945</b>	<b>146</b>	<b>11,309</b>	<b>136,400</b>
<b>Accumulated depreciation, amortisation and impairment</b>											
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
At 1 April 2019	4,929	14,229	7,905	7,260	1,777	-	-	36,100	80	4,781	40,961
Exchange adjustments	-	(3)	-	(3)	(2)	-	-	(8)	-	-	(8)
Charge for the year	464	892	516	572	197	14	-	2,655	5	229	2,889
Reclassifications	-	-	6	1	1	-	-	8	(8)	-	-
Written back on disposals	(89)	(8)	(8)	(512)	(49)	-	-	(666)	-	-	(666)
<b>At 31 March 2020</b>	<b>5,304</b>	<b>15,110</b>	<b>8,419</b>	<b>7,318</b>	<b>1,924</b>	<b>14</b>	<b>-</b>	<b>38,089</b>	<b>77</b>	<b>5,010</b>	<b>43,176</b>
<b>Net book value</b>											
At 31 March 2020	9,272	15,604	8,374	8,447	952	23	44,184	86,856	69	6,299	93,224
At 31 March 2019	9,179	16,017	8,630	5,182	728	-	32,565	72,301	82	6,528	78,911

Note:

The group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balance at 1 April 2019 to recognise right-of-use assets relating to leases which were previously classified as operating lease under HKAS 17. See note 29(a).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 (2019: \$11,309 million) and the land premium of \$4,000 have been classified as interest in leasehold land. The costs of interest in leasehold land do not include future land premium, if any.

(c) **Fair value measurement of investment property**

The investment property is stated at cost net of accumulated depreciation and impairment losses with fair value disclosed for reference purpose.

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 2020 calculated by reference to net rental income allowing for reversionary income potential amounted to \$541 million (2019: \$639 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.

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

- (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 three 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:

<i>\$ million</i>	2020	2019
Within one year	3,726	4,391
After one but within five years	11,092	12,304
After five years	12,058	14,629
	26,876	31,324

In addition to the above, in prior 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, \$9,595 million (2019: \$10,913 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 \$6,463 million (2019: \$7,912 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) (continued)

The cost less accumulated amortisation of the interest in leasehold land for airport related development and the provision of airside support services sub-leased to third parties under non-cancellable franchise/sub-lease agreements for the group as at 31 March 2020 was \$488 million (2019: \$502 million) with annual amortisation amounting to \$18 million (2019: \$18 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 2020 was \$2,116 million (2019: \$2,225 million) with annual depreciation amounting to \$130 million (2019: \$169 million).

- (e) A review of the useful life of investment property and other property, plant and equipment is undertaken by the Authority periodically. During the year, the estimated useful lives of certain other property, plant and equipment were revised, resulting in a net increase in the group's annual depreciation charge of \$6 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of \$2 million.

### 10. INTANGIBLE ASSETS

<i>\$ million</i>	2020	2019
<b>Cost</b>		
At 1 April	561	344
Additions	-	239
Exchange adjustments	(21)	(22)
At 31 March	540	561
<b>Accumulated amortisation</b>		
At 1 April	211	198
Exchange adjustments	(14)	(13)
Charge for the year	35	26
At 31 March	232	211
<b>Net book value</b>		
At 31 March	308	350

Intangible assets as at 31 March 2020 represent the rights to operate and manage Zhuhai Airport and AsiaWorld-Expo which are being amortised over 20 years and 12.5 years on a straight line basis respectively.



## 11. INVESTMENTS IN SUBSIDIARIES

\$ million	The Authority	
	2020	2019
Unlisted shares, at cost	253	253

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

Name of company	Place of incorporation and operation	Particulars of issued and paid up ordinary share capital/ registered capital	Proportion of ownership interest			Principal activity
			Group's effective interest	Held by the Authority	Held by a subsidiary	
Aviation Security Company Limited ("AVSECO")	Hong Kong	\$10,000,000	51%	51%	-	Provision of aviation security services
HKIA Precious Metals Depository Limited	Hong Kong	\$2	100%	100%	-	Provision of storage space and related services
Hong Kong – Zhuhai Airport Management Co., Ltd. ("HKZAM")* (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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

#### (a) HKZAM

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.

<i>\$ million</i>	2020	2019
NCI percentage	45%	45%
Non-current assets	465	394
Current assets	586	674
Non-current liabilities	(80)	(73)
Current liabilities	(200)	(235)
Net assets	771	760
Carrying amount of NCI	347	342
Revenue	655	670
Profit for the year	64	134
Total comprehensive income for the year	61	130
Profit for the year allocated to NCI	28	61
Total comprehensive income for the year allocated to NCI	27	59

#### (b) AWEM

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).

## 12. INTEREST IN AN ASSOCIATE

<i>\$ million</i>	2020	2019
Share of net assets	136	150
Amount due from an associate	225	214
Preference shares premium	228	288
	589	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:

Name of associate	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by a subsidiary	
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. The share of results from HKIEC for the year is \$16 million (2019: \$nil). During the year, preferred dividend of \$47 million was received in cash (2019: \$nil).

## 13. INTERESTS IN JOINT VENTURES

<i>\$ million</i>	2020	2019
Share of net assets	4,159	4,118
Goodwill	210	224
	4,369	4,342

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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		Principal activity
				Group's effective interest	Held by the Authority	
Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIA")	Incorporated	PRC	RMB5,686 million	35%	35%	Management, operation and development of Hangzhou Xiaoshan International Airport and provision of related services
Shanghai Hong Kong Airport Management Co., Ltd. ("SHKAM")	Incorporated	PRC	RMB100 million	49%	49%	Management and operation of the terminals at Hongqiao International Airport, Shanghai ("HIA")

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

#### (a) HXIA

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

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

<i>\$ million</i>	2020	2019
<b>Gross amounts of HXIA</b>		
Non-current assets	16,650	14,259
Current assets	4,852	5,574
Non-current liabilities	(4,937)	(2,041)
Current liabilities	(4,846)	(6,198)
Net assets/equity	11,719	11,594

### 13. INTERESTS IN JOINT VENTURES (CONTINUED)

#### (a) HXIA (continued)

<i>\$ million</i>	2020	2019
Income	4,319	4,236
Expenses	(3,328)	(3,250)
Profit before taxation	991	986
Income tax	(226)	(244)
Profit after taxation	765	742
Other comprehensive income	137	(185)

<i>\$ million</i>	2020	2019
<b>Reconciled to the group's interest in HXIA</b>		
Gross amounts of HXIA's net assets	11,719	11,594
Group's effective interest	35%	35%
Group's share of HXIA's net assets	4,102	4,058
Goodwill	210	224
Carrying amount in the consolidated financial statements	4,312	4,282

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

<i>\$ million</i>	2020	2019
Share of profit after taxation	268	260
Share of other comprehensive income	48	(65)
Less: transfer to capital reserve	(19)	(13)
Share of profit and other comprehensive income to be retained	297	182
Share of retained profits brought forward from previous years	974	832
Dividend received	-	(40)
Share of retained profits carried forward to next year	1,271	974

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

<i>\$ million</i>	2020	2019
At 1 April	979	966
Transfer from retained profits	19	13
At 31 March	998	979

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. INTERESTS IN JOINT VENTURES (CONTINUED)

#### (a) HXIA (continued)

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

<i>\$ million</i>	2020	2019
Contracted for	11,087	2,515
Authorised but not contracted for	15,310	30,634
	26,397	33,149

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 commencing from December 2009 in return for a management fee to be paid by Shanghai Airport (Group) Co. Ltd. Hongqiao International Airport Company.

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

<i>\$ million</i>	2020	2019
<b>Gross amounts of SHKAM</b>		
Current assets	126	131
Current liabilities	(9)	(9)
Net assets/equity	117	122

<i>\$ million</i>	2020	2019
Income	12	13
Expenses	(9)	(11)
Net profit and other comprehensive income	3	2

<i>\$ million</i>	2020	2019
<b>Reconciled to the group's interest in SHKAM</b>		
Gross amounts of SHKAM's net assets	117	122
Group's effective interest	49%	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	57	60

## 14. TRADE AND OTHER RECEIVABLES

<i>\$ million</i>	2020	2019
Trade debtors	3,556	3,871
Less: loss allowance (note 14(b))	(927)	(515)
	2,629	3,356
Other debtors	347	239
	2,976	3,595
Prepayments	160	130
Deposits and debentures	22	22
	3,158	3,747
Classified in the consolidated statement of financial position as:		
Current assets	3,158	3,739
Non-current assets	-	8
	3,158	3,747

As at 31 March 2020, 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 \$16 million (2019: \$17 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:

<i>\$ million</i>	2020	2019
Amounts not yet due	1,443	2,894
Less than one month past due	333	261
One to three months past due	279	201
More than three months past due	574	-
	2,629	3,356

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 \$2,370 million (2019: \$3,280 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 29(l)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14. TRADE AND OTHER RECEIVABLES (CONTINUED)

#### (b) Impairment of trade debtors (continued)

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

<i>\$ million</i>	2020	2019
At 1 April	515	75
Impairment losses recognised in other operating expenses	413	440
Uncollectible amounts written off	(1)	–
At 31 March	927	515

#### (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 18% to 82% for debtors aged from 30 days to 120 days overdue (2019: 20% to 50% for debtors aged from 30 days to 120 days). The Authority usually fully provides for trade receivables aged over 180 days (2019: 180 days) based on historical experience save for any exceptional exposures.

### 15. CASH AND BANK BALANCES AND OTHER CASH FLOW INFORMATION

#### (a) Cash and bank balances comprise:

<i>\$ million</i>	2020	2019
Deposits with banks within three months of maturity when placed	4,351	3,276
Cash at bank and in hand	1,837	1,661
Cash and cash equivalents in the consolidated cash flow statement	6,188	4,937
Deposits with banks with over three months of maturity when placed	6,684	16,178
Cash and bank balances in the consolidated statement of financial position	12,872	21,115

As at 31 March 2020, cash and bank balances of \$478 million (2019: \$513 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.



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

### (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.

<i>\$ million</i>	Interest-bearing borrowings	Interest and other borrowing costs payables and deferred finance charges	Lease liabilities	Airport construction fee receivable	Net derivative financial liabilities/ (assets)	Total
	(Note 17)		(Note 16)		(Note 22(e))	
At 31 March 2019	5,344	(2)	-	(1,251)	62	4,153
Effect of adoption of HKFRS 16 (Note)	-	-	37	-	-	37
At 1 April 2019	5,344	(2)	37	(1,251)	62	4,190
<b>Changes from financing cash flows:</b>						
Interest paid on notes	-	(189)	-	-	-	(189)
Interest element of lease rentals paid	-	-	(1)	-	-	(1)
Other borrowing costs and interest expense paid	-	(31)	-	-	-	(31)
Capital element of lease rentals paid	-	-	(13)	-	-	(13)
Airport construction fee received	-	-	-	3,661	-	3,661
Repayment of note	(100)	-	-	-	-	(100)
Net interest income received on interest rate swaps	-	14	-	-	-	14
Total changes from financing cash flows	(100)	(206)	(14)	3,661	-	3,341
<b>Non-cash changes:</b>						
Interest on notes (note 5)	-	187	-	-	-	187
Interest on lease liabilities (note 5)	-	-	1	-	-	1
Other borrowing costs (note 5)	-	31	-	-	-	31
Airport construction fee	-	-	-	(3,370)	-	(3,370)
Other non-cash movements	(29)	(57)	-	-	(116)	(202)
Total other changes	(29)	161	1	(3,370)	(116)	(3,353)
<b>At 31 March 2020</b>	<b>5,215</b>	<b>(47)</b>	<b>24</b>	<b>(960)</b>	<b>(54)</b>	<b>4,178</b>

Note:

The group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balance at 1 April 2019 to recognise lease liabilities relating to leases which were previously classified as operating lease under HKAS 17. See note 29(a).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

<i>\$ million</i>	Interest-bearing borrowings	Interest and other borrowing costs payables and deferred finance charges	Lease liabilities	Airport construction fee receivable	Net derivative financial liabilities	Total
	(Note 17)		(Note 16)		(Note 22(e))	
At 1 April 2018	1,415	(19)	-	(1,038)	20	378
<b>Changes from financing cash flows:</b>						
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
<b>Total changes from financing cash flows</b>	<b>3,918</b>	<b>(49)</b>	<b>-</b>	<b>3,816</b>	<b>-</b>	<b>7,685</b>
<b>Non-cash changes:</b>						
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
<b>Total other changes</b>	<b>11</b>	<b>66</b>	<b>-</b>	<b>(4,029)</b>	<b>42</b>	<b>(3,910)</b>
At 31 March 2019	5,344	(2)	-	(1,251)	62	4,153

### 16. TRADE AND OTHER PAYABLES

<i>\$ million</i>	2020	2019
Creditors and accrued charges	11,515	11,428
Deposits received	1,342	1,888
Contract retentions	1,359	1,358
Lease liabilities	24	-
	<b>14,240</b>	14,674
Classified in the consolidated statement of financial position as:		
Current liabilities	12,834	13,572
Non-current liabilities	1,406	1,102
	<b>14,240</b>	14,674

## 16. TRADE AND OTHER PAYABLES (CONTINUED)

As at 31 March 2020, all of the trade and other payables are expected to be settled or recognised as income within one year except for \$1,406 million (2019: \$1,102 million), which are expected to be settled after more than one year and mainly relate to licence deposits received from retail licensees and contract retentions.

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

<i>\$ million</i>	2020	2019
Due within 30 days or on demand	4,051	2,279
Due after 30 days but within 60 days	3,163	1,710
Due after 60 days but within 90 days	609	342
Due after 90 days	3,692	7,097
	11,515	11,428

## 17. INTEREST-BEARING BORROWINGS

<i>\$ million</i>	2020	2019
Notes payable (a)		
HK dollar fixed rate notes due 2019 to 2043	1,356	1,438
US dollar bond due 2029	3,876	3,925
Less: unamortised finance costs	(17)	(19)
	5,215	5,344

- (a) The Authority established the United States (“US”) \$1 billion Medium Term Note programme in 2010. The programme was 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.

During the year, the Authority repaid \$100 million fixed rate note in full with annual coupon rate of 3.85%.

As at 31 March 2020, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 2.25% to 4.85% (2019: 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 2020, there was no outstanding amount under this facility (2019: \$nil).
- (c) The Authority has uncommitted money market line facilities of \$2,188 million (2019: \$2,192 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2020, there was no outstanding amount under these facilities (2019: \$nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17. INTEREST-BEARING BORROWINGS (CONTINUED)

(d) As at 31 March 2020, the unsecured interest-bearing borrowings were repayable as follows:

<i>\$ million</i>	2020	2019
Within one year or on demand	600	95
After one year but within two years	–	600
After two years but within five years	556	542
After five years	4,059	4,107
	4,615	5,249
	5,215	5,344

(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”)

<i>\$ million</i>	2020	2019
At 1 April	1,685	1,103
Add: ACF received or receivable for the year	3,370	4,029
Less: payment of three-runway system (“3RS”) capital expenditure	(4,081)	(3,447)
At 31 March	974	1,685

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 and subsidy from the Government. During the year, the Authority has received up-front payment of \$800 million for the SKYCITY (2019: \$1,560 million for the SKYCITY and premium logistics centre developments) and subsidy from the Government of \$670 million for the Authority's additional relief measures for providing more support and financial aids to the aviation industry. They are accounted for in accordance with the accounting policies detailed in notes 29(t)(vi) and 29(t)(x) 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 11% (2019: 13%) 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 2020 according to HKAS 19, “*Employee benefits*” prepared by qualified staff of Mercer (Hong Kong) Limited (2019: 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 70% (2019: 79%) 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 29% (2019: 35%) 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 2020 was also prepared by qualified staff of Mercer (Hong Kong) Limited using the projected unit credit method.

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

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

<i>\$ million</i>	2020	2019
<b>The Hong Kong plan</b>		
Present value of funded obligations	931	958
Fair value of plan assets	(652)	(754)
	279	204
<b>The HKZAM plan</b>		
Present value of unfunded obligations	57	54
Net defined benefit retirement obligations	336	258

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay \$47 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2021.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

(ii) Plan assets consist of the following:

<i>\$ million</i>	2020	2019
Equity securities	298	364
Corporate bonds	317	329
Cash	37	61
	652	754

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:

<i>\$ million</i>	2020	2019
<b>The Hong Kong plan</b>		
At 1 April	958	907
Remeasurements:	(9)	38
– Actuarial (gains)/losses arising from changes in financial assumptions	(19)	18
– Experience adjustments	10	20
Benefits paid by the plans	(75)	(46)
Current service cost	43	43
Interest cost	14	16
At 31 March	931	958
<b>The HKZAM plan</b>	57	54
At 31 March	988	1,012

The weighted average durations of the defined benefit obligations for the Hong Kong and the HKZAM plans are 6.0 years (2019: 6.5 years) and 9.5 years (2019: 9.7 years) respectively.

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

<i>\$ million</i>	2020	2019
At 1 April	754	767
Group's contributions paid to the plans	22	23
Benefits paid by the plans	(75)	(46)
Actual return on plan assets	(49)	10
– Interest income	11	14
– Return on plan assets, excluding interest income	(58)	(2)
– Administrative expenses paid from plan assets	(2)	(2)
At 31 March	652	754

## 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:

<i>\$ million</i>	2020	2019
<b>Amounts recognised in profit or loss:</b>		
<b>The Hong Kong plan</b>		
Current service cost	43	43
Administrative expenses paid from plan assets	2	2
Net interest on net defined benefit liability	3	2
	48	47
<b>The HKZAM plan</b>	6	4
Total amounts recognised in profit or loss	54	51
<b>Amounts recognised in other comprehensive income:</b>		
<b>The Hong Kong plan</b>		
Remeasurements:		
– Actuarial (gains)/losses arising from changes in financial assumptions	(19)	18
– Experience adjustments	10	20
Return on plan assets, excluding interest income	58	2
	49	40
<b>The HKZAM plan</b>	2	4
Total amounts recognised in other comprehensive income	51	44
Total defined benefit debits	105	95

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

<i>\$ million</i>	2020	2019
Staff costs and related expenses	54	51

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

	2020	2019
<b>The Hong Kong plan</b>		
Discount rate	0.7%	1.5%
Future long term salary increases	3.5%	4.5%
<b>The HKZAM plan</b>		
Discount rate	2.6%	3.1%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 2020 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

<i>\$ million</i>	<b>Increase by 0.5%</b>	<b>Decrease by 0.5%</b>
<b>The Hong Kong plan</b>		
Discount rate	(27)	29
Future long term salary increases	33	(31)
<b>The HKZAM plan</b>		
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. 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

\$ million	The Authority	
	2020	2019
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of \$100,000 each (2019: 306,480 ordinary shares)	<b>30,648</b>	30,648

### (c) Nature and purpose of reserves

#### (i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of entities outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 29(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 29(f).

#### (iv) Cost of hedging reserve

The cost of hedging reserve comprises the fair values of the effect of foreign currency basis spread and forward element of the derivative financial instruments used in cash flow hedges in accordance with the accounting policy adopted for cash flow hedges set out in note 29(f).

#### (v) Distributability of reserves

As at 31 March 2020, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was \$52,469 million (2019: \$46,906 million). The Board did not propose any final dividend for the year ended 31 March 2020 (2019: \$nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. CAPITAL AND RESERVES (CONTINUED)

#### (c) Nature and purpose of reserves (continued)

##### (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:

<i>\$ million</i>	Note	2020	2019
Total debt <sup>1</sup>	17	5,215	5,344
Total equity		86,185	80,474
Total capital <sup>2</sup>		91,400	85,818
Total debt/capital ratio		6%	6%

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

<sup>2</sup> Total capital represents total debt plus total equity.

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

### 22. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

### (a) Credit risk

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.

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 13% (2019: 15%) and 55% (2019: 43%) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (b) Liquidity risk (continued)

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

\$ million	Carrying amount at 31 March	Contractual undiscounted cash flow				
		Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
<b>2020</b>						
Interest-bearing borrowings	5,215	6,735	784	155	982	4,814
Trade and other payables	13,240	13,330	11,909	83	1,200	138
Interest rate swaps (net settled)	(6)	7	3	3	1	-
Cross currency swaps (net settled)	(71)	(133)	(15)	(15)	(44)	(59)
Forward exchange contracts	23	160	-	-	29	131
	<b>18,401</b>	<b>20,099</b>	<b>12,681</b>	<b>226</b>	<b>2,168</b>	<b>5,024</b>
<b>2019</b>						
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)
Forward exchange contracts	-	-	-	-	-	-
	15,880	17,416	9,650	865	1,912	4,989

As shown above, interest-bearing borrowings (including interest) of the group amounting to \$784 million (2019: \$290 million) are due to be repaid in the upcoming 12 months after 31 March 2020. The short term liquidity risk inherent in this contractual maturity will be addressed by internal sources of funds and new external borrowings.

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

### (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. For the previous years, the group adopted 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. In view of increasing future external borrowings in the coming years, the group has revised the ratio of fixed rate basis borrowings to between 70% and 100% in May 2019. 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 29(f).

Details of the notional amounts, maturity period and fair values of swaps entered into by the group at the end of the reporting periods are set out in note 22(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

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).

<i>\$ million</i>	2020	2019
<b>Fixed rate borrowings</b>		
Fixed rate notes	4,659	4,707
<b>Variable rate borrowings</b>		
Fixed rate notes <sup>1</sup>	556	637
Total borrowings	5,215	5,344
Fixed rate borrowings as a percentage of total borrowings	89%	88%

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (c) Interest rate risk (continued)

##### (iii) Sensitivity analysis

As at 31 March 2020, 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 (2019: \$2 million). 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) 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) is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as for prior years.

#### (d) Foreign currency risk

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

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

As at 31 March 2020, the group is exposed to US dollar currency risk in respect of the US dollar bond issued of US\$500 million (2019: US\$500 million) and cash and bank balances of US\$350 million (2019: US\$344 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 uses forward exchange contracts to manage its Australian dollar currency risk until the settlement date of foreign currency payables. The group designates those forward exchange contracts as hedging instruments in cash flow hedges and separate the forward and spot element of a forward exchange contract and designates the change in value of the spot element as hedging instrument. Correspondingly, the hedged item is measured based on the forward exchange rate.

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

### (d) Foreign currency risk (continued)

The group applies a hedge ratio of 1:1 and determines the existence of an economic relationship between:

- (i) the cross currency swaps and the US dollar bond; and
- (ii) the forward exchange contracts and the highly probable forecast transactions, based on their currency amounts and the timing of their respective cash flows.

The main sources of ineffectiveness in these hedging relationships are 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:

<i>\$ million</i>	2020	2019
At 1 April	-	-
Effective portion of the cash flow hedge recognised in other comprehensive income	(70)	2
Amount transferred from equity to consolidated statement of profit or loss	48	(2)
At 31 March	(22)	-
Change in fair value of the cross currency swaps during the year	(48)	2
Change in fair value of the forward exchange contracts during the year	(22)	-
Hedge ineffectiveness recognised in consolidated statement of profit or loss	-	-
Effective portion of the cash flow hedge recognised in other comprehensive income	(70)	2

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (d) Foreign currency risk (continued)

As at 31 March 2020, 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 2020, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB142 million (2019: RMB134 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 (2019: \$7 million) lower/higher. The analysis is performed on the same basis for 2018/19.

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

#### (e) Fair value measurement

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

###### *Fair value hierarchy*

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

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

The fair value disclosure of investment property carried at cost follows the above hierarchy (note 9(c)).

As at 31 March 2019 and 2020, 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 (2019: \$nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.



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

### (e) Fair value measurement (continued)

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

##### *Fair value hierarchy (continued)*

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

\$ million	Recurring fair value measurement using significant other observable inputs (Level 2)			2019		
	2020 Notional amount	2020 Financial assets	2020 Financial liabilities	Notional amount	Financial assets	Financial liabilities
Cash flow hedges						
Cross currency swaps	US\$500	71	-	US\$500	29	(83)
Forward exchange contracts	AUD29	-	(23)	Nil	-	-
Fair value hedges						
Interest rate swaps	\$650	6	-	\$650	-	(8)
<b>Total</b>		<b>77</b>	<b>(23)</b>		<b>29</b>	<b>(91)</b>
Less: portion to be recovered/ (settled) within one year						
Cash flow hedges						
Cross currency swaps	US\$500	-	-	US\$500	-	-
Forward exchange contracts	AUD29	-	-	Nil	-	-
Fair value hedges						
Interest rate swaps	\$650	1	-	\$650	-	(2)
		<b>1</b>	<b>-</b>		<b>-</b>	<b>(2)</b>
Portion to be recovered/(settled) after one year		<b>76</b>	<b>(23)</b>		<b>29</b>	<b>(89)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 2020 have a maturity of 2.3 to 9.4 years (2019: 10 years) from the end of the reporting period.

Derivative financial instruments qualifying as fair value hedges as at 31 March 2020 have a maturity of 2 to 2.5 years (2019: 0.5 year to 3.5 years) from the end of the reporting period.

##### *Valuation techniques and inputs used in Level 2 fair value measurements*

The fair values of forward exchange contracts, cross currency swaps and interest rate swaps are the estimated amount that the Authority would receive or pay to terminate the swap and forward exchange contracts at the end of the reporting period, taking into account current interest rates and the current creditworthiness of the 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 2020 and 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

\$ million	Notional amount	Carrying amount at 31 March	Fair value at 31 March	Fair value measurements categorised into		
				Level 1	Level 2	Level 3
<b>2020</b>						
Fixed rate notes	US\$500 and \$1,350	5,215	5,661	4,239	1,422	-
<b>2019</b>						
Fixed rate notes	US\$500 and \$1,450	5,344	5,609	4,054	1,555	-

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:

\$ million	2020			2019		
	3RS	Others	Total	3RS	Others	Total
Contracted for	27,944	6,864	34,808	20,649	5,198	25,847
Authorised but not contracted for	64,999	25,193	90,192	87,478	17,199	104,677
	92,943	32,057	125,000	108,127	22,397	130,524

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, other than disclosed elsewhere in the consolidated financial statements, 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 \$76 million (2019: \$68 million). As at 31 March 2020, the amounts due to the Government with respect to the above services amounted to \$50 million (2019: \$51 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 \$847 million (2019: \$819 million) and the amounts due to the Government as at 31 March 2020 with respect to the above services amounted to \$0.4 million (2019: \$0.4 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 \$129 million (2019: \$109 million). As at 31 March 2020, the amounts due to MTRC with respect to the maintenance services amounted to \$129 million (2019: \$89 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 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 \$64 million (2019: \$70 million). As at 31 March 2020, there was no amount due from HKITP (2019: \$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 \$52 million (2019: \$41 million). As at 31 March 2020, the aggregate amounts due from these departments, agencies or entities amounted to \$26 million (2019: \$5 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. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

- (a) In April 2020, the Authority announced to provide additional \$2 billion relief measures to airlines and aviation support services operators due to worsening impact of coronavirus disease (“COVID-19”). The Authority will offer to purchase around 500,000 air tickets in advance from four home-based airlines and provide an option for aviation support services operators at Hong Kong International Airport to sell their ground services equipment to the Authority.
- (b) The outbreak of COVID-19 and, since March, the introduction of quarantine and travel restrictions by most major destinations, including Hong Kong, has significantly reduced the number of air passengers, air traffic movements and the revenue of the Authority. The Authority has been closely monitoring the impact of these developments on its operations and has put in place the necessary measures. While the circumstances of the COVID-19 outbreak are evolving rapidly, the unpredictable outcome of this outbreak makes it impractical for the Authority to estimate the likely financial impact.
- (c) In April and May 2020, the Authority issued under the Medium Term Note programme a total of \$2,949 million fixed rate notes with maturity of 7 and 10 years and annual coupon rates ranging between 1.935% and 2.33%. The fixed rate notes are unsecured and repayable in full upon maturity.

### 26. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 March 2020, the immediate parent and ultimate controlling party of the group is the Government.

## 27. 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.

#### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

#### (b) Major sources of estimation uncertainty

Notes 20 and 22(e) contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and the fair value of financial instruments respectively. Other major areas of estimation uncertainty are as follows:

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

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

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

##### (ii) Project provisions

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

### 28. 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.: 2019/048/1) 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 2019 to 31 March 2020 amounted to \$0.43 million (2019: \$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.

## 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Changes in accounting policies

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

- HKFRS 16, “Leases”
- HK(IFRIC) 23, “Uncertainty over income tax treatments”
- Annual Improvements to HKFRSs 2015-2017 Cycle
- Amendments to HKAS 28, “Long-term interest in associates and joint ventures”

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 16, “Leases”

HKFRS 16 replaces HKAS 17, “Leases”, and the related interpretations, HK(IFRIC) 4, “Determining whether an arrangement contains a lease”, HK(SIC) 15, “Operating leases – incentives”, and HK(SIC) 27, “Evaluating the substance of transactions involving the legal form of a lease”.

The accounting policies in respect of leases prior to and after 1 April 2019 are detailed in note 29(g)(vii). The lessor accounting requirements are brought forward from HKAS 17 and are substantially unchanged.

The group has initially applied HKFRS 16 as from 1 April 2019 and applies the new definition of a lease in HKFRS 16 to contracts that were effective as at 1 April 2019. Contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 where the group controls the use of an identified asset. The group has elected to use the modified retrospective approach to measure the right-of-use assets at an amount equal to the amount recognised for the remaining lease liabilities for all leases previously classified as operating leases under HKAS 17 which are required to be capitalised at the date of transition to HKFRS 16. Therefore, the adoption of HKFRS 16 does not result in an adjustment to the opening balance of equity as at 1 April 2019. For lease liabilities, at the date of transition to HKFRS 16 (i.e. 1 April 2019), the group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases (other than short-term leases or leases of low value assets) at the present value of the remaining lease payments, discounted using its incremental borrowing rates as at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Upon adoption of HKFRS 16 on 1 April 2019, the group recognised right-of-use assets under “other property, plant and equipment” of \$37 million and lease liabilities under “trade and other payables” of \$37 million.

After the initial recognition of right-of-use assets and lease liabilities as at 1 April 2019, the group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholder of the Authority. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholder of the Authority. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 29(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 29(c)).



## 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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 29(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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (d) Goodwill

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

In respect of an investment in a joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in the joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 29(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.

##### (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.

## 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (ii) Cash flow hedges (continued)

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 29(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 29(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 29(t).

(iii) Other property, plant and equipment, including right-of-use assets arising from leases of underlying property, plant and equipment, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (note 29(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. 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 29(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 29(h).

(vii) Leased assets

At inception of a contract, the group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(1) As a Lessee

(A) Policy applicable from 1 April 2019

At the lease commencement date, the group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the group enters into a lease in respect of a low-value asset, the group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses ((iii) above).

## 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

##### (1) As a Lessee (continued)

##### (B) Policy applicable prior to 1 April 2019

Leases of assets under which the group assumed substantially all the risks and rewards of ownership were classified as being held under finance leases and treated as if the group owned the assets outright. Leases of assets under which the group did not transfer substantially all the risks and rewards of ownership were classified as operating leases.

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

##### (2) As a Lessor

When the group acts a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

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 29(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 29(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. 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
Right-of-use assets	Unexpired term of lease
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 29(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.

## 29. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (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.

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.



## 29. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. 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)).

## 29. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Income tax (continued)

##### (iii) (continued)

Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

#### (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.

## 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (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.
- (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 yet 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Revenue recognition (continued)

- (viii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (ix) Interest income is recognised as it accrues using the effective interest rate method.
- (x) Subsidy from the Government is recognised in profit or loss on a systematic basis over the periods in which the Authority recognises the relevant relief measures as expenses.

(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 entities outside Hong Kong 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 entities outside Hong Kong, 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 an entity outside Hong Kong, the cumulative amount of the exchange differences relating to that entity is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

## 29. 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 30. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2020

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, “*Insurance contracts*”, which are not yet effective for the year ended 31 March 2020 and which have not been adopted in these consolidated financial statements. These developments include the following which may be relevant to the group.

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 17, “ <i>Insurance contracts</i> ”	1 January 2020
Amendments to HKFRS 3, “ <i>Definition of a business</i> ”	1 January 2020
Amendments to HKAS 1 and HKAS 8, “ <i>Definition of material</i> ”	1 January 2020

The group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far it is concluded that the adoption of them is unlikely to have a significant impact on the group’s consolidated financial statements.



## FIVE-YEAR FINANCIAL AND OPERATIONAL SUMMARY

<i>(in HK\$ million)</i>	15/16	16/17	17/18	18/19	19/20
<b>Consolidated statement of profit or loss</b>					
Revenue	18,184	18,627	21,994	19,470	<b>17,106</b>
Operating expenses before depreciation and amortisation	(5,848)	(5,796)	(6,058)	(7,027)	<b>(7,886)</b>
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	12,336	12,831	15,936	12,443	<b>9,220</b>
Depreciation and amortisation	(2,813)	(3,079)	(3,097)	(3,123)	<b>(2,924)</b>
Net interest and finance income	28	131	275	379	<b>461</b>
Share of results of an associate	–	–	–	–	<b>(16)</b>
Share of results of joint ventures	189	83	201	261	<b>269</b>
Profit before taxation	9,740	9,966	13,315	9,960	<b>7,010</b>
Income tax	(1,366)	(1,656)	(1,829)	(1,558)	<b>(1,112)</b>
Profit for the year	8,374	8,310	11,486	8,402	<b>5,898</b>
Attributable to:					
Equity shareholder of the Authority	8,359	8,276	11,416	8,339	<b>5,866</b>
Non-controlling interests	15	34	70	63	<b>32</b>
<b>Consolidated statement of financial position</b>					
Non-current assets	54,192	57,572	67,060	84,292	<b>98,566</b>
Current assets	10,800	16,748	21,870	24,938	<b>16,336</b>
Current liabilities	(5,428)	(6,740)	(8,652)	(15,581)	<b>(14,977)</b>
Net current assets	5,372	10,008	13,218	9,357	<b>1,359</b>
Total assets less current liabilities	59,564	67,580	80,278	93,649	<b>99,925</b>
Non-current liabilities	(7,006)	(7,017)	(7,709)	(13,175)	<b>(13,740)</b>
Net assets	52,558	60,563	72,569	80,474	<b>86,185</b>
Share capital	30,648	30,648	30,648	30,648	<b>30,648</b>
Reserves	21,662	29,647	41,553	49,417	<b>55,120</b>
Non-controlling interests	248	268	368	409	<b>417</b>
Total equity	52,558	60,563	72,569	80,474	<b>86,185</b>
<b>Key financial and operational statistics</b>					
Dividend declared <i>(HK\$ million)</i>	–	–	–	–	–
Return on equity	17.3%	14.7%	17.3%	11.0%	<b>7.1%</b>
Total debt/capital ratio <sup>1</sup>	5%	2%	2%	6%	<b>6%</b>
Passenger traffic <sup>2,3</sup> <i>(millions of passengers)</i>	69.7	70.5	73.6	75.1	<b>60.9</b>
Cargo and airmail throughput <sup>2,4</sup> <i>(millions of tonnes)</i>	4.4	4.7	5.1	5.1	<b>4.7</b>
Aircraft movements <sup>2</sup> <i>(thousands)</i>	410	410	423	429	<b>377</b>

<sup>1</sup> Total debt represents interest-bearing borrowings. Total capital represents total debt plus total equity.

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

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

<sup>4</sup> Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail throughput includes airmail from Hongkong Post and transit mail from the airlines.

## AIRLINES OPERATING AT HKIA AS AT MARCH 2020

Aeroflot Russian Airlines  
AeroLogic\*  
Air Astana  
Air Busan  
Air Canada  
Air China  
Air France  
Air Hongkong\*  
Air India  
Air Japan  
Air Mauritius  
Air New Zealand  
Air Niugini  
Air Seoul  
AirAsia  
AirBridgeCargo Airlines\*  
All Nippon Airways  
American Airlines  
Asiana Airlines  
Atlas Air\*  
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  
Eastar Jet  
EgyptAir  
EL AL Israel Airlines  
Emirates  
Ethiopian Airlines  
Etihad Airways  
EVA Airways  
Eznis Airways  
Federal Express\*  
Fiji Airways  
Finnair  
Garuda Indonesia  
HK Express  
Hong Kong Air Cargo\*  
Hong Kong Airlines  
IndiGo  
Japan 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  
Natioanl Air Cargo\*  
Nepal Airlines  
Nippon Cargo Airlines\*  
Peach Aviation  
Philippine Airlines  
Philippines AirAsia  
Polar Air Cargo\*  
Qantas Airways  
Qatar Airways  
Raya Airways\*  
Royal Air Philippines  
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\*  
South African Airways

Southern Air Inc.\*  
SpiceJet  
Spring Airlines  
Suparna Airlines\*  
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 2020

### NORTH ASIA

Beijing/Capital  
Beijing/Daxing  
Busan  
Changchun  
Changsha  
Cheju  
Chengdu  
Chongqing  
Daegu  
Dalian  
Dunhuang  
Fukuoka  
Fuzhou  
Guangzhou  
Guilin  
Guiyang  
Haikou  
Hangzhou  
Hefei  
Hiroshima  
Hohhot  
Irkutsk  
Ishigaki  
Jinan  
Jinjiang  
Kagoshima  
Kaohsiung  
Khabarovsk  
Komatsu  
Krasnoyarsk\*  
Kumamoto  
Kunming  
Meixian  
Nagasaki  
Nagoya  
Nanchang  
Nanjing  
Nanning  
Niigata  
Ningbo  
Okayama  
Okinawa  
Osaka/Kansai  
Qingdao  
Sanya  
Sapporo

Seoul/Incheon  
Shanghai/Hongqiao  
Shanghai/Pudong  
Shenyang  
Shijiazhuang  
Shimoshima  
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  
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  
Krabai  
Kuala Lumpur  
Kuala Lumpur/Subang\*  
Kuching\*  
Labuan  
Manila  
Medan/Kuala Namu  
Nha Trang/Cam Ranh  
Penang  
Phnom Penh  
Phu Quoc  
Phuket  
Puerto Princesa  
Siem Reap  
Sihanoukville  
Singapore  
Surabaya  
Tagbilaran  
Yangon

### MIDDLE EAST/ CENTRAL ASIA/ SOUTH ASIA

Abu Dhabi  
Almaty  
Amman  
Bahrain  
Baku\*  
Bangalore  
Chennai  
Colombo  
Dammam\*  
Delhi  
Dhaka  
Doha  
Dubai  
Dubai/Al Maktoum\*  
Guwahati  
Hyderabad  
Jeddah\*  
Kathmandu  
Kolkata  
Koror  
Kuwait\*  
Male  
Mumbai

Muscat\*  
Novosibirsk  
Riyadh\*  
Sharjah\*  
Tashkent\*  
Tel Aviv

### EUROPE

Amsterdam  
Barcelona  
Brussels  
Budapest\*  
Cologne\*  
Copenhagen/Kastrup  
Doncaster  
Dublin  
Frankfurt  
Helsinki  
Istanbul  
Istanbul/Atatürk  
Leipzig\*  
Liege\*  
London/Gatwick  
London/Heathrow  
London/Stansted  
Luxembourg\*  
Madrid/Barajas  
Manchester  
Milan/Malpensa  
Moscow/Domodovovo\*  
Moscow/Sheremetyevo  
Munich  
Paris  
Rome  
Vienna\*  
Warsaw  
Yekaterinburg  
Zurich

### AUSTRALASIA/ PACIFIC ISLANDS

Adelaide  
Auckland  
Brisbane  
Cairns  
Christchurch  
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  
Denver  
Dover/Cheswold  
Honolulu\*  
Houston\*  
Huntsville\*  
Los Angeles  
Louisville\*  
Memphis\*  
Miami\*  
New York/John Kennedy  
New York/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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