

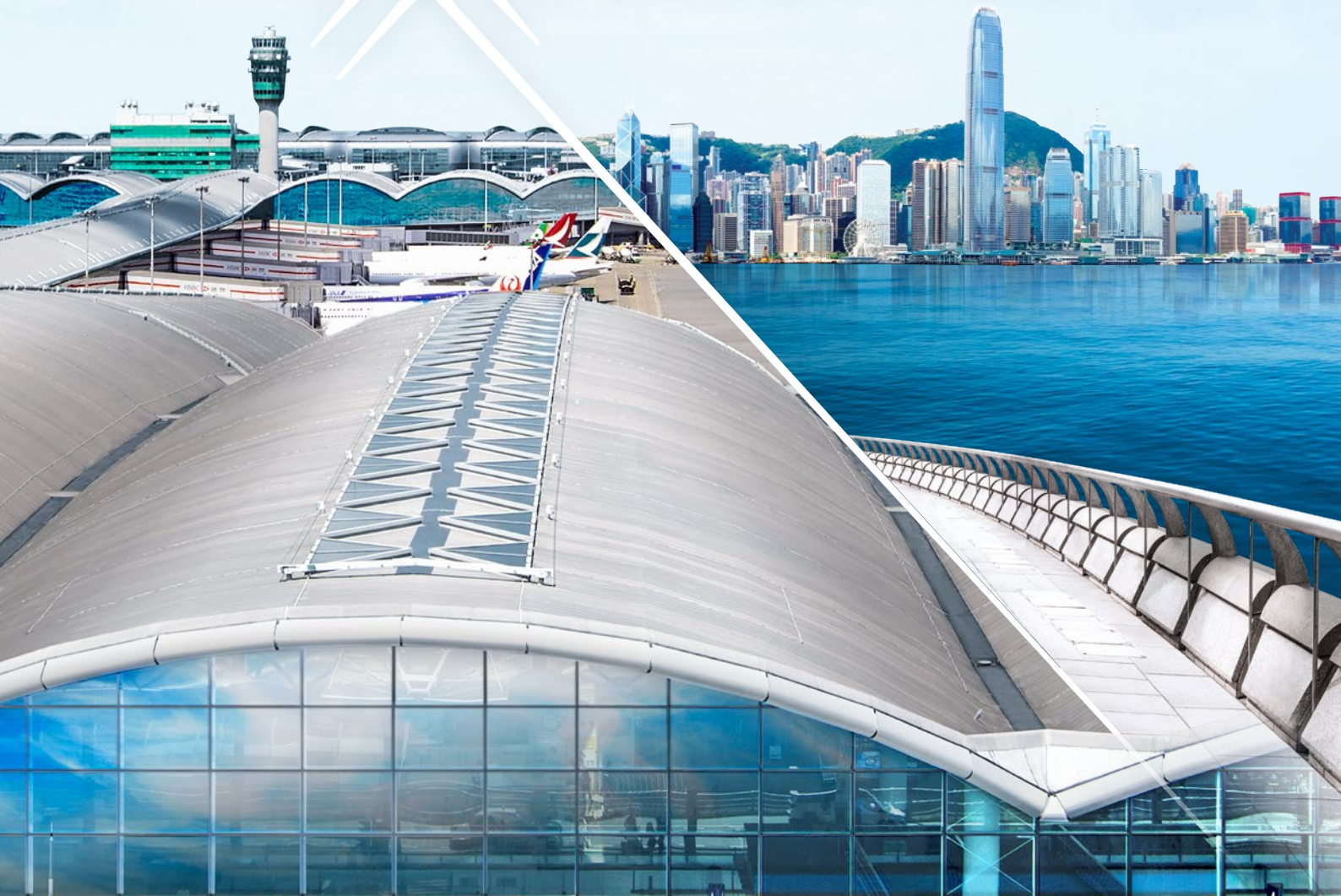


香港 | HONG KONG
國際機場 | INTERNATIONAL
AIRPORT

ANNUAL REPORT
2017/18



20 YEARS OF excellence



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

In celebration of HKIA's 20th anniversary, the cover design of this year's annual report incorporates "XX", the Roman numerals for 20, as part of the word "excellence". The motif also reflects the unique design pattern of Terminal 1's ceiling.

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



Connectivity

↑ ✈️ 閘口 1-36
Gates 1-36

→ ✈️ 閘口 201-230
Gates 201-230

↑ ✈️ 閘口 501-530
Gates 501-530

↑ 🚻 🚼 🚰 洗手間
Toilets

↑ 🚬 吸煙室
Smoking Lounge



Convenience



Efficiency

香港 HONG KONG
國際機場 INTERNATIONAL
AIRPORT

TERMINAL



Economy



Hub



Heart



Commitment



Care

Plan





Prosperity

20 YEARS OF INSPIRING JOURNEYS

1998-2007



The Northwest Concourse of Terminal 1 (T1) opens.



Airport Authority Hong Kong (AAHK) signs a franchise agreement for the development and operation of an express cargo terminal at HKIA.

• 2002

• 2001



• 2000



Hong Kong International Airport (HKIA) opens at Chek Lap Kok, with only the South Runway operating.



HKIA begins offering multi-modal freight transportation through the Marine Cargo Terminal.

• 1999



• 1998



The North Runway enters service, doubling the number of runways at HKIA.



AAHK acquires a 35% interest in Hangzhou Xiaoshan International Airport and establishes a joint venture to manage Zhuhai Airport.

● 2007



● 2006

HKIA adopts radio frequency identification (RFID) technology for handling of all departing baggage.



● 2005



AAHK signs an agreement to provide management and training support for the commissioning of Terminal 3 at Beijing Capital International Airport.

● 2004



● 2003



HKIA debuts cross-boundary ferry services from SkyPier to the Mainland.



The Central Asia Hub of DHL Express opens, consolidating HKIA's status as an express air cargo centre.

The International Air Transport Association names HKIA the world's best airport.

20 YEARS OF INSPIRING JOURNEYS

2008-2017



HKIA becomes the world's busiest cargo airport.



HKIA introduces a mobile boarding pass service.

• 2012



• 2011

AAHK publishes *HKIA Master Plan 2030* and begins a public consultation on HKIA's development.



• 2010

HKIA and Shenzhen International Airport launch the Hong Kong-Shenzhen Airports Link, allowing passengers to check in and obtain boarding passes for connecting flights at either airport.



• 2009



• 2008



HKIA's North Satellite Concourse commences operation.



HKIA embarks on a series of capacity enhancement projects, including the expansion of T1.



• 2017

The Hong Kong International Aviation Academy opens its door and receives first batch of students.



The three-runway system (3RS) project receives an Environmental Permit.

• 2016



The West Apron development is completed, adding 28 new parking stands.



Construction of the 3RS begins.

• 2015



AAHK unveils plans for SKYCITY, a 25-hectare integrated commercial development at HKIA.



• 2014

• 2013



HKIA is inducted into *TTG's* Travel Hall of Fame after winning the best airport award for 10 times.



The Midfield Concourse opens, adding 10 million passengers to HKIA's annual capacity.

OUR VALUES

CARING

Care for People &
Environment



COMMITMENT

Can-do Attitude & Willing
to Walk the Extra Mile



CONTINUOUS IMPROVEMENT

Strive for Excellence &
Continuous Learning



CREATIVITY

Embrace Change &
Think Out of the Box



COLLABORATION

Teamwork & Partnership

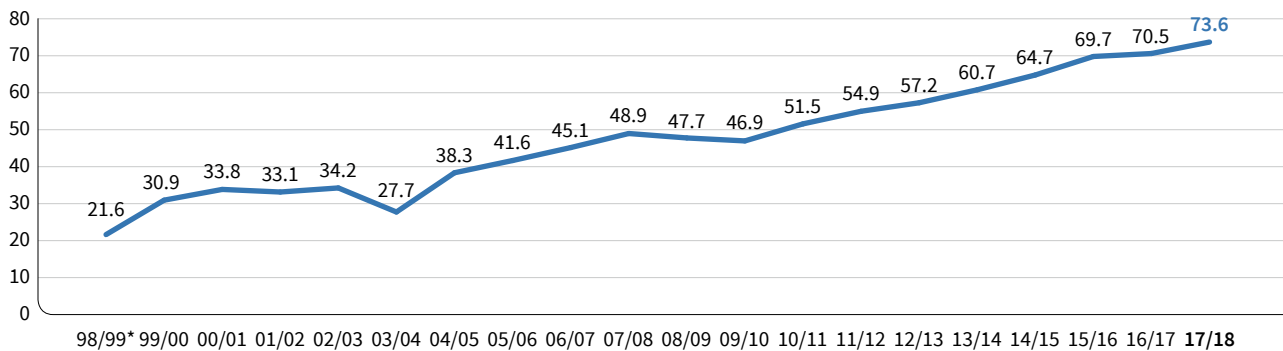
HKIA FACTS

Airport Site Area	1,255 hectares
Total Terminal Area	Over 850,000 square metres
Airlines	Over 100
Destinations	Over 220
Runways	2

PERFORMANCE HIGHLIGHTS

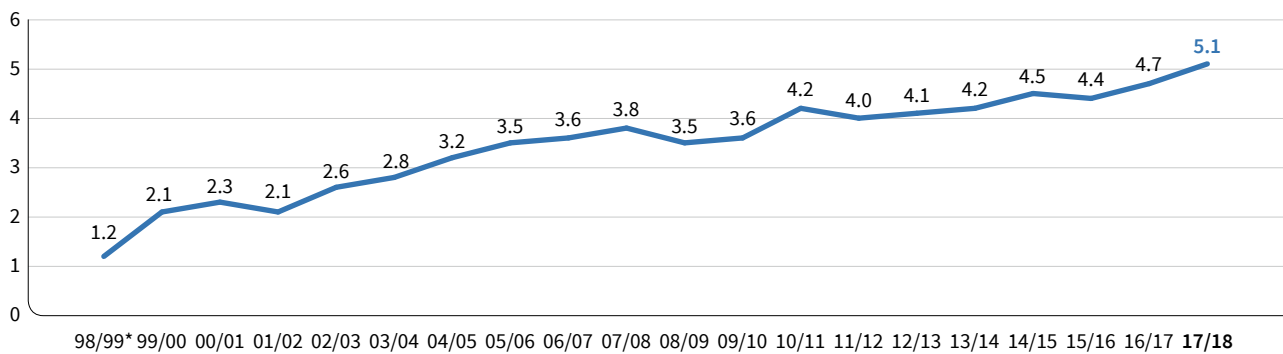
Passenger Traffic

(millions of passengers)



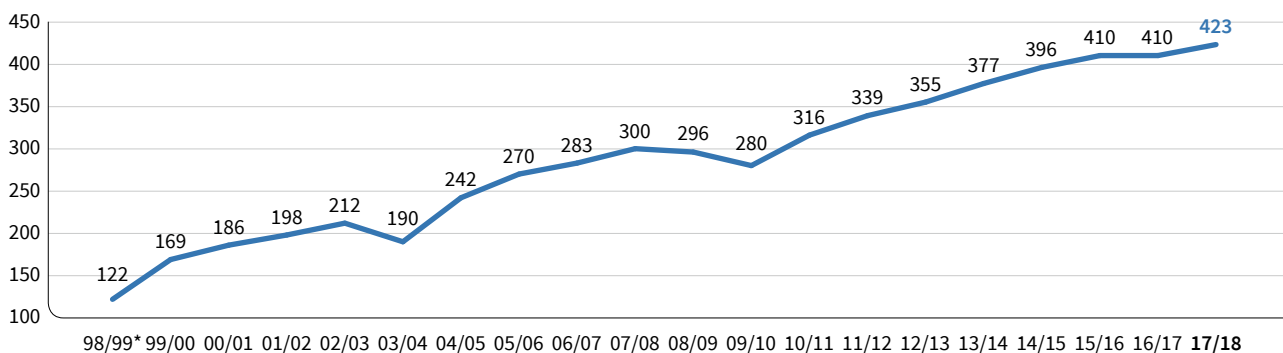
Cargo and Airmail Throughput

(millions of tonnes)



Aircraft Movements

(thousands)



* Period from 6 July 1998 to 31 March 1999.



CHAIRMAN'S STATEMENT



DEAR STAKEHOLDERS,

Hong Kong International Airport (HKIA) continued its upward growth trajectory in the fiscal year ended 31 March 2018. During the year, the airport welcomed 73.6 million passengers and handled 423,390 flight movements, registering year-on-year increases of 4.5% and 3.2%, respectively.

Cargo and airmail throughput rose 7.6%, to 5.1 million tonnes. We are the world's first airport to process more than 5 million tonnes of cargo and airmail in a single year.

In addition to outstanding growth, in 2017/18 we received numerous awards that complimented various aspects of our airport, from operational efficiency to passenger services to technological innovations. We closed the year by clinching the "Airport of the Year" accolade from *Air Transport World* for the second time.

TWO DECADES OF EXCELLENCE

HKIA celebrates its 20th anniversary in 2018. When the airport moved from Kai Tak to Chek Lap Kok in July 1998, our network comprised only 120 destinations and 60 airlines. Today, more than 100 airlines connect Hong Kong to over 220 destinations across the globe. Passenger and cargo volumes have more than doubled. This robust growth has made HKIA the world's busiest cargo airport for eight consecutive years and the world's third-busiest international passenger airport.

CHAIRMAN'S STATEMENT

Since construction commenced in August 2016, the 3RS is progressing well and the project's reclamation works are now at their peak. We will closely monitor the project to ensure its timely completion.

HKIA is more than a transport hub. It is at the heart of Hong Kong's economy, driving the development of our pillar industries—finance, trading and logistics, tourism and professional services. These industries together represent more than half of Hong Kong's gross domestic product. Without an efficient airport, our city would not have achieved its current level of success.

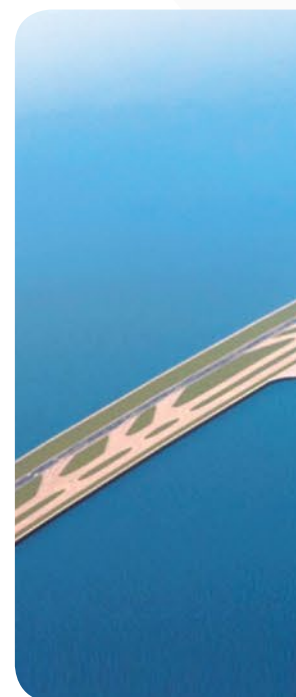
We are committed to HKIA's continued development to meet the aviation needs of this part of the world. At the core of this commitment is the construction of the three-runway system (3RS). I am pleased to report that since construction commenced in August 2016, the 3RS is progressing well and the project's reclamation works are now at their peak. We will closely monitor the project to ensure its timely completion.

WRITING A NEW CHAPTER

Hong Kong will soon see the completion of several major infrastructure projects, including the Hong Kong-Zhuhai-Macao Bridge and the Express Rail Link. These connections will significantly expand HKIA's catchment areas. In response, we are making arrangements to capture the abundant opportunities that these projects will present.

The SKYCITY integrated commercial development, a new tourism and business hub on the airport island that comprises hotels as well as retail, dining and entertainment (RDE) facilities, is going full steam ahead. Construction of the first new hotel has already commenced and the entire project is expected to be operational by 2023.

While we are busy with the 3RS expansion, our management is also focusing on maintaining and improving the standard of service of the existing airport, including bringing in all the latest technologies to further enhance the passenger experience.





Although we spare no effort to improve the hardware and software of the airport, people are still our most valuable asset. To attract and nourish aviation talent, the Hong Kong International Aviation Academy, opened in April 2017, has already reached 5,500 students in its first year of operation. The first batch of courses, offering professional knowledge and practical experience, were well received by students and our business partners.

OUR SUCCESS STORY CONTINUES

HKIA has achieved remarkable growth over the past two decades. I would like to express my heartfelt gratitude to the 73,000-strong airport community and to everyone who has contributed to HKIA's success, especially to our Board Members, past and present, for their guidance and support throughout the years.

As we celebrate HKIA's 20th anniversary, we are looking to a bright future and will strive to make HKIA a source of pride for future generations.

Jack So Chak-kwong

Chairman

Hong Kong, 4 June 2018



CHIEF EXECUTIVE OFFICER'S STATEMENT

(Front row, from left): Mr David Au Ho-cheung, Executive Director, Property Development; Ms Florence Chung Wai-yee, Executive Director, Human Resources & Administration; **Mr Fred Lam, Chief Executive Officer**; Ms Cissy Chan Ching-sze, Executive Director, Commercial; Mr Ng Chi-kee, Executive Director, Airport Operations

(Back row, from left): Mr Alex Kwan King-fai, Executive Director, Engineering & Technology; Mr William Lo Chi-chung, Executive Director, Finance; Mr Kevin Poole, Executive Director, Third Runway; Mr Wilson Fung Wing-yip, Executive Director, Corporate Development



DEAR STAKEHOLDERS,

Fiscal 2017/18, ended 31 March 2018, was a year of solid growth for Hong Kong International Airport (HKIA). All three traffic categories—passenger volume, cargo throughput and flight movements—set new records. Cargo and airmail throughput exceeded 5 million tonnes for the first time.

A FRESH NEW LOOK

As HKIA continues to experience growing demand, we are undertaking a series of enhancement projects to ensure the airport has capacity to cater for the demand in the short- and medium-term until the three-runway system enters service.

At Terminal 1 (T1), an expansion project is adding 48 new check-in counters and two new baggage reclaim carousels. The Arrivals Hall is also being enlarged to create a more spacious and pleasant environment for people receiving family and friends. On the airside, the East Hall will become a kid-friendly zone with games and playground equipment. A new open-air garden will give travellers a place to enjoy a moment of tranquillity.

We are also renovating T1's interior to create a more attractive, comfortable environment. Carpets are being replaced and public seating areas refurbished. The food court in the East Hall is undergoing a major revamp to enhance the dining ambience and introduce a wider variety of cuisines. Boarding gates will be transformed into themed zones, while washrooms will feature elegant, modern designs. When these projects are complete, the terminal will have a fresh new look.

CHIEF EXECUTIVE OFFICER'S STATEMENT

2018 marks HKIA's 20th anniversary. Over the years, HKIA has been recognised as the world's best airport more than 70 times. I would like to express my sincere thanks to the 73,000 members of the airport community and our business partners, whose efforts helped us deliver excellent results and the highest service standards again in 2017/18.



Meanwhile, we are constructing a 200-metre-long, air-conditioned bridge between T1 and the North Satellite Concourse (NSC). With an observation deck and food and beverage outlets, the Sky Bridge will reduce travel time to gates in the NSC and become an attraction in its own right.

In addition to new and enhanced facilities, two anchor stores opened in 2017/18. The new outlets offer passengers a greater variety of duty-free products and innovative retail experiences, such as a whisky-tasting corner and an interactive skincare and make-up section. More fresh concepts and pop-up stores will soon be introduced. With these changes—and our “HKairport Shop” online platform—we are redefining airport shopping.

SHAPING TOMORROW'S TRAVEL EXPERIENCE

At HKIA, we use new technologies to meet travellers' needs for more efficient, convenient services.

In 2017/18, we collaborated with the Immigration Department to introduce facial recognition technology that strengthens security and expedites immigration clearance. We are now exploring the use of a single travel token to make journeys through HKIA even faster and smoother. With this system, each passenger's biometric and travel information is captured at their first point of identity verification and used to create a digital token to identify the passenger at checkpoints throughout the airport.

We continue to introduce advanced self-service and mobile platforms at HKIA. This year, we launched an advanced, mobile self check-in kiosk where passengers can simultaneously validate their travel documents, print boarding passes and tag their luggage.

We added new features, such as car park reservations, in-terminal virtual navigation aids and signage translation, to our “HKG My Flight” mobile app. When connected to our new smart luggage tag, MyTAG, the app notifies passengers arriving at HKIA when their bags are ready to be reclaimed. Additional app features, including food ordering and real-time queuing information, are being developed.



INVESTING IN THE COMMUNITY

HKIA plays a central role in Hong Kong's development and maintains close relationships with the local community. Building on years of community engagement and service, in 2017/18 we launched the EXTRA MILE project, a collective platform for Airport Authority Hong Kong and our business partners to attract and retain talent. In co-operation with non-governmental organisations, we introduced three pilot programmes targeting working youth, non-Chinese speakers and airport staff with children. Based on the concept of creating shared value, the programmes are designed to unleash each group's potential, improve their social mobility and expand the airport's talent pool.

A BRIGHT FUTURE TOGETHER

2018 marks HKIA's 20th anniversary. Over the years, HKIA has been recognised as the world's best airport more than 70 times. I would like to express my sincere thanks to the 73,000 members of the airport community and our business partners, whose efforts helped us deliver excellent results and the highest service standards again in 2017/18.

I look forward to continuing our partnership as we write another exciting chapter in HKIA's history and strengthen the airport's status as a leading international aviation hub.

Fred Lam

Chief Executive Officer

Hong Kong, 4 June 2018

THE BOARD



The Hon Jack So Chak-kwong



Mr Fred Lam



The Hon Frank Chan Fan



Ms Linda Chan Ching-fan



Ms Anita Fung Yuen-mei



The Hon Steven Ho Chun-yin

The Honourable

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

Aged 73. Appointed as 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 Adviser to Credit Suisse, Greater China. He was Chairman and Chief Executive of the MTR Corporation from 1995 to 2003, 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 Chinese People's Political Consultative Conference from 2008 to 2018.

Mr Fred Lam *JP*

Chief Executive Officer*

Aged 59. Appointed as Chief Executive Officer in October 2014. Former Executive Director of the Hong Kong Trade Development Council. Second Vice President of Airports Council International's (ACI) Asia Pacific Regional Board. Member of the ACI World Governing Board. Member of the Aviation Development and Three-runway System Advisory

Committee and Hong Kong Logistics Development Council. In 2007, Mr Lam was named "Director of the Year" by the Hong Kong Institute of Directors under the category of statutory and non-profit-distributing organisations. In 2011, he was given the Peace through Commerce Medal from the United States Government in recognition of his leadership role in boosting US exports to, and through, Hong Kong.

The Honourable Frank Chan Fan *JP*

Secretary for Transport and Housing*

Aged 60. 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, Hong Kong Maritime and Port Board, Hong Kong Logistics Development Council and Aviation Development and Three-runway System Advisory Committee. He is also a board member of MTR Corporation Limited and Hong Kong Mortgage Corporation Limited, as well as a member of the Council for Sustainable Development, Task Force on Land Supply and Youth Development Commission.

Ms Linda Chan Ching-fan *SC*

Aged 48. Appointed to the Board in June 2018. Recorder of the Court of First Instance, High Court. Convenor, Barristers Qualification Examination-Panel on Company Law. Council Member, Consumer Council. Member,

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

Ms Anita Fung Yuen-mei *BBS JP*

Aged 57. Appointed to the Board in June 2010 and reappointed in June 2013, June 2016, June 2017 and June 2018. Former Group General Manager of the HSBC Group and Former Chief Executive Officer Hong Kong of The Hongkong and Shanghai Banking Corporation Limited. Honorary Professor of the School of Economics and Finance, the University of Hong Kong. Trustee of Asia Society Hong Kong Centre. Founding member of the Advisory Council to the Board of Directors of the Australian Chamber of Commerce Hong Kong and Macao. Member of the Board of West



Mr Franklin Lam Fan-keung



The Hon Jeffrey Lam Kin-fung



The Hon James Henry Lau Jr.



Ir Lee Shing-see



Mr Simon Li Tin-chui



Mr Peter To

Kowloon Cultural District Authority. Member of the Museum Advisory Committee and Chairman of its History Subcommittee. Director of the Hong Kong Mortgage Corporation Limited. Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited, Hang Lung Properties Limited and China Construction Bank and Committee Member of its Audit Committee.

The Honourable Steven Ho Chun-yin *BBS*

Aged 38. Appointed to the Board in January 2016 and reappointed in January 2018. Member of the Legislative Council representing the constituency of Agriculture and Fisheries. Member of the House Committee, Finance Committee and Public Accounts Committee of the Legislative Council. Member of the Panels on Constitutional Affairs, Economic Development, Environmental Affairs, Food Safety and Environmental Hygiene, Home Affairs, Transport and Security of the Legislative Council.

Mr Franklin Lam Fan-keung *BBS*

Aged 57. Appointed to the Board in June 2014 and reappointed in June 2017. Founder of HKGolden50, an independent non-profit public policy research group. Prior to this, Mr Lam held senior regional leadership positions in a global investment bank. He served as a Part-time Member of the Central Policy Unit and a Member of the Executive Council.

The Honourable Jeffrey Lam Kin-fung *GBS JP*

Aged 66. Appointed to the Board in June 2011 and reappointed in June 2014 and June 2017. Managing Director of Forward Winsome Industries Limited. Non-official Member of the Executive Council. Member of the Legislative Council. Chairman of the Mega Events Fund Assessment Committee. Chairman of the Complaints Committee of the Independent Commission Against Corruption. Member of the Fight Crime Committee. Member of the 13th National Committee of the Chinese People's Political Consultative Conference. Director of the Hong Kong Mortgage Corporation Limited.

The Honourable James Henry Lau Jr. *JP*
Secretary for Financial Services and the Treasury*

Aged 68. Became a Board Member in July 2017 upon his appointment as Secretary for Financial Services and the Treasury. Chairman of the Managing Board of Kowloon-Canton Railway Corporation. Member of the Board of Directors of MTR Corporation Limited, the Board of the Mandatory Provident Fund Schemes Authority, the Board of the Hong Kong Mortgage Corporation Limited and the Board of the West Kowloon Cultural District Authority. Ex-officio member of the Financial Services Development Council. Director of Hongkong International Theme Parks Limited.

Ir Lee Shing-see *GBS OBE JP*

Aged 76. Appointed to the Board in June 2011 and reappointed in June 2014 and June 2017. An engineer by profession. Fellow of both the Hong Kong Institution of Engineers and the Institution of Civil Engineers (UK). Former Secretary for Works of the HKSAR Government. Former Chairman of the Construction Industry Council. Vice Chairman of the CreateSmart Initiative Vetting Committee. Member of the Youth Education, Employment and Training Task Force of the Commission on Poverty.

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

Aged 59. Became a Board Member in May 2016 upon his appointment as Director-General of Civil Aviation. Vice-Chairman of the International Civil Aviation Organisation's Asia Pacific Air Navigation Planning and Implementation Regional Group. A Fellow of the Hong Kong Institution of Engineers.

Mr Peter To *BBS*

Aged 70. Appointed to the Board in June 2014 and reappointed in June 2017. Former Director of the Urban Renewal Authority (1.5.2007 - 30.4.2013). He has previously held senior executive positions in the property sector for over 30 years.

THE BOARD



Mr Carlson Tong



Mr Adrian Wong Koon-man



Ir Billy Wong Wing-hoo



The Hon Frankie Yick Chi-ming



Dr the Hon Allan Zeman

Mr Carlson Tong *SBS JP*

Aged 63. Appointed to the Board in June 2017. Chairman of the Securities and Futures Commission. Mr Tong is a UK chartered accountant and a Hong Kong certified public accountant. Chairman of the University Grants Committee, a member of the Exchange Fund Advisory Committee and the Banking Advisory Committee of the Hong Kong Monetary Authority and a member of the Independent Commission on Remuneration for Members of the Executive Council and the Legislature, and Officials under the Political Appointment System of the HKSAR. He is also a member of the Listing Nominating Committee of Hong Kong Exchanges and Clearing Limited. Mr Tong was appointed Chairman of KPMG in China and Hong Kong in 2007 and became the Asia Pacific Chairman and a member of the global board in 2009. He retired from KPMG in 2011. He was also the Chairman of the Hong Kong Sports Institute Limited from 2012 to 2017.

Mr Adrian Wong Koon-man *BBS MH JP*

Aged 53. Appointed to the Board in June 2018. He is a Director of VL Asset Management Limited and Abercan Limited. Member of the Air Transport Licensing Authority. Chairman of the Corruption Prevention Advisory Committee and Member of the Advisory Committee on Corruption of the Independent Commission Against Corruption. He was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited from May 2006 to April 2012 and a Member

of the Communications Authority from April 2012 to March 2018.

Ir Billy Wong Wing-hoo *BBS JP*

Aged 60. 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 Chapter 409. He is currently a Director of Hong Kong Science and Technology Parks Corporation, Director of Hong Kong-Shenzhen Innovation and Technology Park Limited and Permanent Supervisor of the Hong Kong Construction Association.

The Honourable Frankie Yick Chi-ming *SBS JP*

Aged 64. 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 of Hong Kong representing the Transport Functional Constituency and Property Management Services Authority. 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 69. 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. 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, and Television Broadcasts Limited. Member of the Economic Development Commission of Hong Kong and the General Committee of the Hong Kong General Chamber of Commerce. Governor of the Board of Governors of Our Hong Kong Foundation. Board of Director of the Alibaba Entrepreneurs Fund. Representative of Hong Kong China to the APEC Business Advisory Council. Honorary Adviser of the Ocean Park. Vice Patron of the Community Chest of Hong Kong. Non-official Member of the HKSAR Chief Executive's Council of Advisers on Innovation and Strategic Development and the Human Resources Planning Commission.

* Member by virtue of being holder of the post

Secretary to the Board

Mr H Y Shu

Auditors

KPMG

EXECUTIVE DIRECTORS

Mr David Au Ho-cheung

Executive Director, Property Development

Aged 61. Holds a Master of Architecture degree and Bachelor of Science degree in Architecture from the University of Michigan, USA. Mr Au was appointed in May 2015. Before joining Airport Authority Hong Kong, Mr Au was a Director of Sun Hung Kai Development (China) Limited and Project Director of Sun Hung Kai Properties Limited. He has over 30 years of design, planning, management and project development experience particularly on large, complex development projects with architectural firm and major developers in Hong Kong. He is a Registered Architect and an Authorised Person in Hong Kong with PRC Class 1 Registered Architect Qualification.

Ms Cissy Chan Ching-sze

Executive Director, Commercial

Aged 52. A Master of Business Administration graduate from the Chinese University of Hong Kong. Ms Chan was appointed in September 2012. Before joining Airport Authority Hong Kong, Ms Chan was the Director, Retail Portfolio and Marketing at Hysan Development Company Limited. Prior to that, she gained substantial management and commercial experience in multinational companies while holding senior positions at Reckitt Benckiser (Hong Kong / Taiwan) and Johnson & Johnson Hong Kong.

Ms Florence Chung Wai-ye

Executive Director, Human Resources & Administration

Aged 54. Holder of a Master of Science degree from the Chamaine University of Honolulu and a Bachelor of Social Science degree from the Chinese University of Hong Kong. Ms Chung was appointed in October 2014. Before joining Airport Authority Hong Kong, Ms Chung was the General Manager of Group Human Resources at HKR International Limited. Ms Chung has over 25 years of experience in general and human resources management and had held senior positions in sizeable commercial companies and public utilities in Hong Kong

including Hutchison Port Holdings Limited and CLP Group. Areas of expertise include organisational development as well as leadership, talent and change management.

Mr Wilson Fung Wing-yip

Executive Director, Corporate Development

Aged 54. Holds a Bachelor's Degree in Social Science (First-Class Honours). Mr Fung was appointed in August 2010. Before joining Airport Authority Hong Kong, Mr Fung was the Executive Director of the Hong Kong Productivity Council between 2006 and 2010. He has had over 20 years of experience in public administration. He joined the civil service as an Administrative Officer in 1985 and has since served in various government policy bureaux and departments. His experience stretches from air services to lands and city planning, housing policies, consumer protection and competition policies.

Mr Alex Kwan King-fai

Executive Director, Engineering & Technology

Aged 57. Holds a Master of Science degree in Environmental Engineering (with Distinction) from Imperial College London and a Bachelor of Science degree in Civil Engineering from the University of Hong Kong. Mr Kwan was appointed in January 2017. Before joining Airport Authority Hong Kong, he was the Chief Executive of AECOM Greater China. He has more than 30 years' experience in planning, design and project management of large-scale transportation and civil infrastructure projects across Asia and North America, having worked for the Civil Engineering Services Department of the Hong Kong Government and taken up senior positions in major consulting companies locally and overseas. He is a Fellow of the Hong Kong Institution of Engineers.

Mr William Lo Chi-chung

Executive Director, Finance

Aged 58. A Master of Business Administration graduate from the University of Warwick in the United Kingdom. Mr Lo was appointed in

July 2010. Before joining Airport Authority Hong Kong, Mr Lo was Group Senior Director (Finance and Administration) of Vitasoy International Holdings Limited and has had more than 30 years of wide-ranging experience in auditing, accounting, finance management and control, corporate finance and investor relations. He is a Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and a Director of Hangzhou Xiaoshan International Airport Company Limited.

Mr Ng Chi-kee

Executive Director, Airport Operations

Aged 63. Holds a Bachelor's Degree in Applied Economics from the United Kingdom. Joined Airport Authority Hong Kong in 1996 and was appointed Executive Director in March 2012. Mr Ng was previously the Deputy Director, Airport Operations. He has held a number of managerial and senior management positions in the fields of airfield operations, passenger services, security operations, commercial and property, technical administration and systems management since the Kai Tak Airport days to the present time. He is a Director of Shanghai Hong Kong Airport Management Company Limited.

Mr Kevin Poole

Executive Director, Third Runway

Aged 60. Holds a Bachelor's Degree in Civil Engineering from the United Kingdom. Mr Poole was appointed Executive Director in February 2016. Previously the Acting Executive Director, Third Runway, Mr Poole has more than 35 years of experience in the building and civil engineering field, specialising in planning, design and project management of major multidisciplinary development projects; 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 the Committee on Environment between 2012 and 2018.

Note: A photo of the Executive Directors is shown on page 22.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	2017/18	2016/17	+/-% ¹
Financial results			
<i>(in HK\$ million)</i>			
Revenue	21,994	18,627	+18.1%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	15,936	12,831	+24.2%
Depreciation and amortisation	3,097	3,079	+0.6%
Net interest and finance income	275	131	+109.9%
Profit attributable to the equity shareholder	11,416	8,276	+37.9%
Dividend declared	-	-	-
Financial position and ratios			
<i>(in HK\$ million)</i>			
Total assets	88,930	74,320	+19.7%
Total borrowings	1,415	1,423	-0.6%
Total equity	72,569	60,563	+19.8%
Return on equity	17.3%	14.7%	
Total debt/capital ratio	2%	2%	
Credit ratings			
Standard & Poor's:			
Long-term local currency	AA+	AAA	
Long-term foreign currency	AA+	AAA	
Operational highlights²			
Passenger traffic ³ (<i>millions of passengers</i>)	73.6	70.5	+4.5%
Cargo and airmail throughput ⁴ (<i>millions of tonnes</i>)	5.1	4.7	+7.6%
Aircraft movements (<i>thousands</i>)	423	410	+3.2%

¹ Subject to rounding differences.

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

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

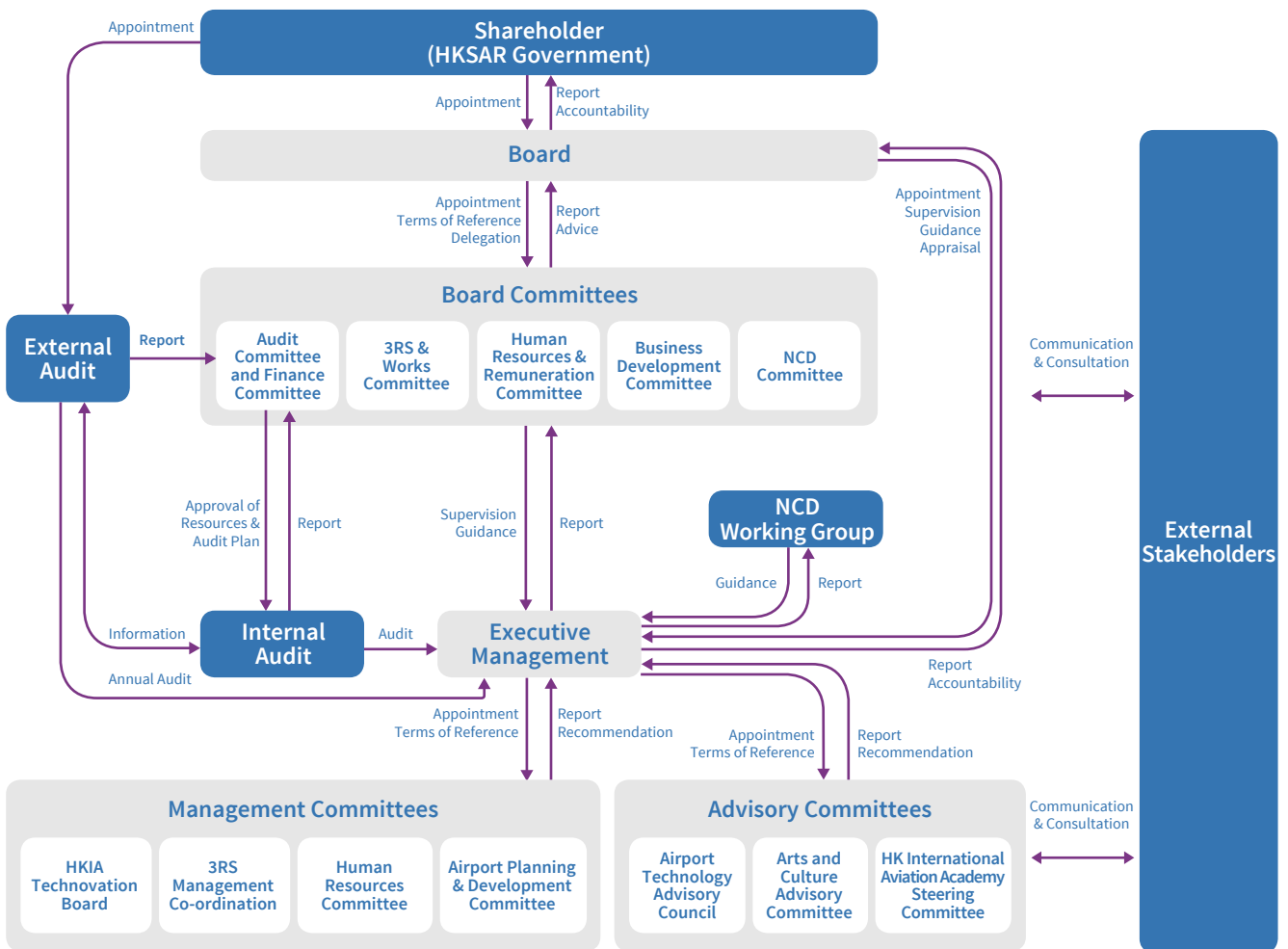
⁴ Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail throughput includes airmail from Hongkong Post and transit mail from the airlines.

CORPORATE GOVERNANCE

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

Key features of our corporate governance framework are described below:

CORPORATE GOVERNANCE STRUCTURE



THE BOARD

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

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

Board Structure

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

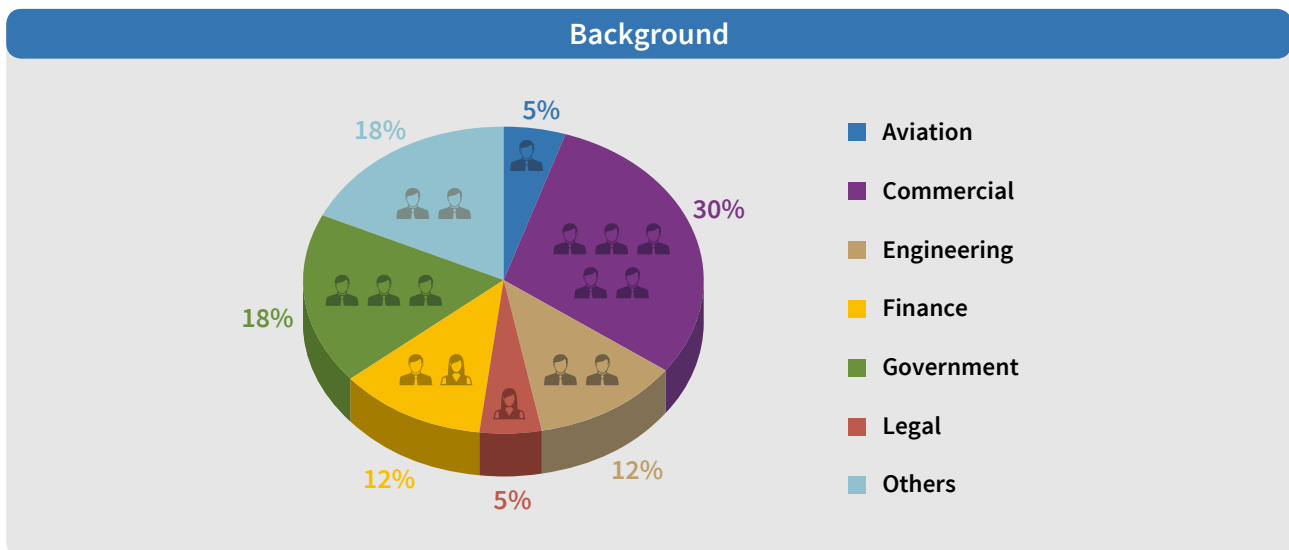
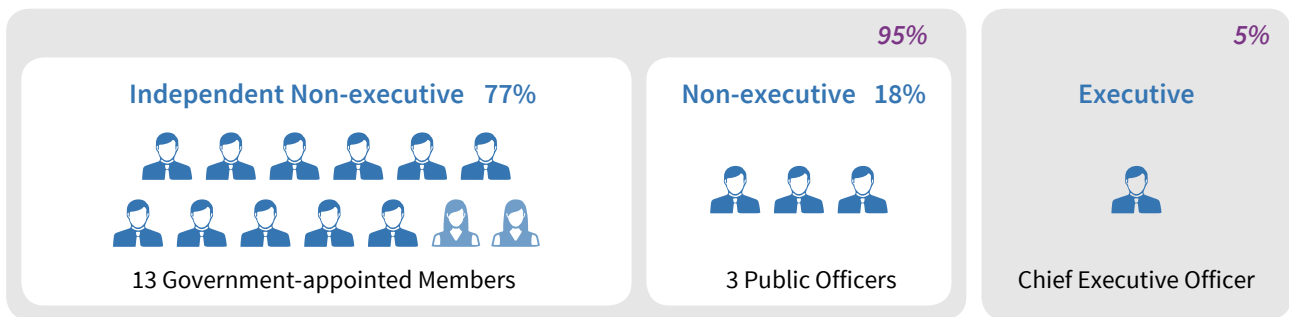
CORPORATE GOVERNANCE

Board Composition

As at the date of this Report, the Board has 17 Members, whose biographies are set out on pages 26 to 28 and are available on the AAHK website (www.hongkongairport.com). With the exception of the CEO, all Board Members are non-executive and 13 are considered independent¹, representing 77% of the total. Currently, the three public officers serving on the Board are the Secretary for Financial Services and the Treasury, the Secretary for Transport and Housing, and the Director-General of Civil Aviation.

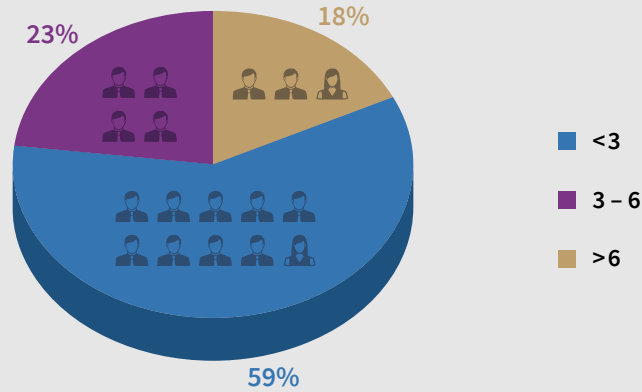
Board Diversity

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

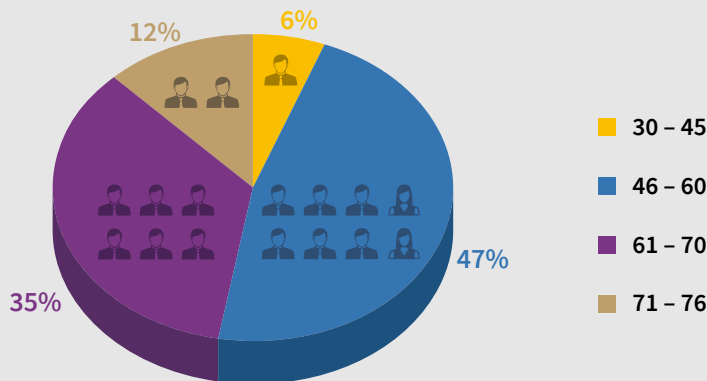


¹ Any member who is not a public officer or an executive of AAHK and is not related to any member of the Board or executive management is considered to be independent.

No. of Years on AAHK Board



Age



Appointment

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

Remuneration

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

The remuneration of Board Members for the year under review is disclosed on page 121.

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 to enable the new Members to familiarise themselves with the aviation industry and AAHK's objectives, strategies, operations and internal controls.

Recognising that training and development is an ongoing process, Board Members were invited to attend airport visits, including site visits to view the three-runway system (3RS) works, briefings and orientations during the year under review.

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 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 (excluding the date of despatch and the date of meeting) before a meeting
- Members are obliged to safeguard confidential information and observe procedures for declaration of interests

Summary of Work Done in 2017/18

- Held four meetings, with an average attendance rate of 81%
- Considered 44 papers and 3 sets of written resolutions
- Significant matters considered / resolved:

Corporate

- Corporate goals and performance measures
- Board Committees' terms of reference and membership
- Modus Operandi of the Board
- Internal control review and risk and business continuity management
- Annual and 5-year business plan

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
- Delegation of authorities

Projects

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

Commercial and Business Strategies

- Major commercial licences
- SKYCITY development
- Kwo Lo Wan site development

Human Resources

- Staff remuneration, corporate goal structure refinement and corporate performance assessment
- Reappointment of senior management

Operations

- Automation and technology roadmap
- Capacity enhancement

MEETINGS

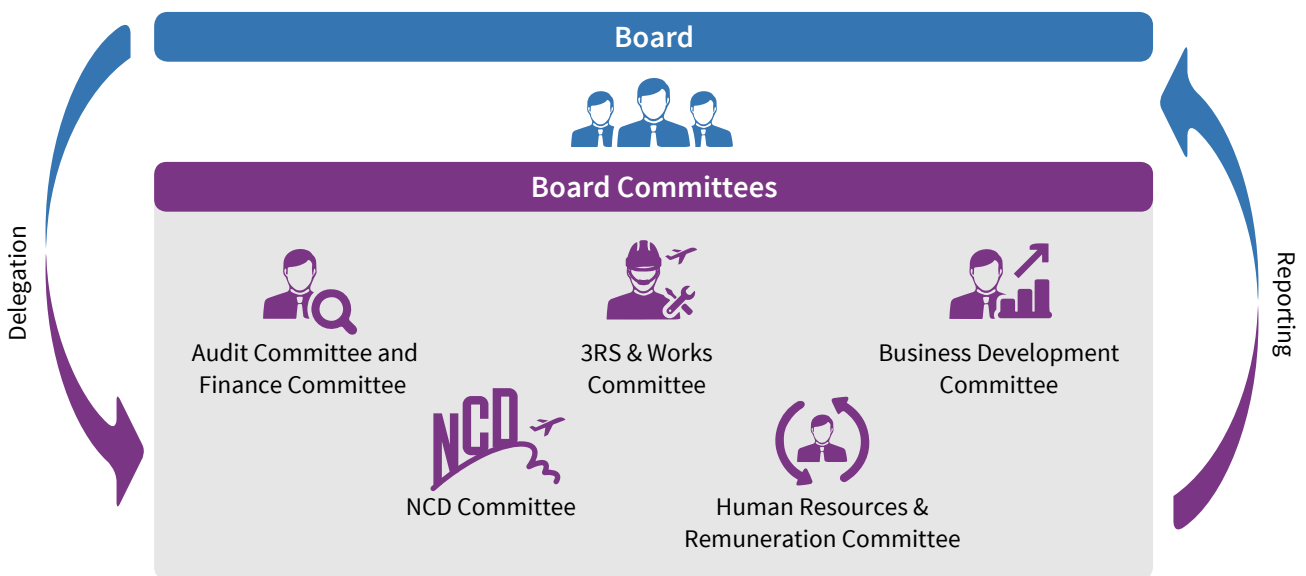
Attendance records of individual Members at the four Board meetings are detailed on page 41.

Members are required to declare their interests in business proposals, if any, to be considered by the Board. Members with interests are required to withdraw from the relevant discussions and decision-making process as appropriate. For the financial year ended 31 March 2018, there were eight occasions when Members withdrew from meetings due to their directorships in companies associated with tenderers for capital works.

BOARD COMMITTEES

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

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



Interface between Board and Board Committees

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

The terms of reference of Board Committees are reviewed from time to time in light of AAHK's evolving operational, business and development needs. A review was last conducted in 2017 to ensure that there were no material

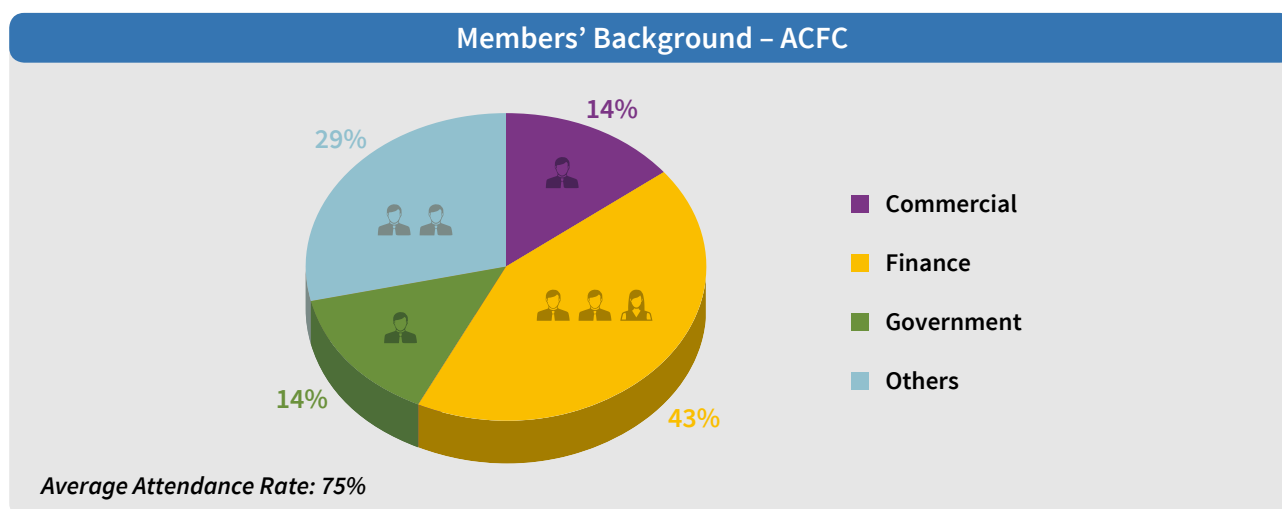
gaps or overlaps between the remits of the Committees. The terms of reference of Board Committees are available on HKIA's website at www.hongkongairport.com.

The composition of Board Committees was last reviewed and approved by the Board in June 2017. Excluding the Chief Executive Officer and public officers, each independent Board Member serves on an average of about 1.8 Board Committees.

The following sets out details of Board Committees, their memberships, principal duties and the summary of work done for the financial year ended 31 March 2018.

CORPORATE GOVERNANCE

Audit Committee and Finance Committee (ACFC)



Members

Seven non-executive Members, six of whom are independent:

Independent Non-executive

- Ms Anita Fung Yuen-mei (Chairman)
- Mr Andrew Fung Hau-chung
- The Hon Steven Ho Chun-yin
- Mr Franklin Lam Fan-keung
- The Hon Jeffrey Lam Kin-fung
- Mr Carlson Tong

Non-executive

- Secretary for Financial Services and the Treasury

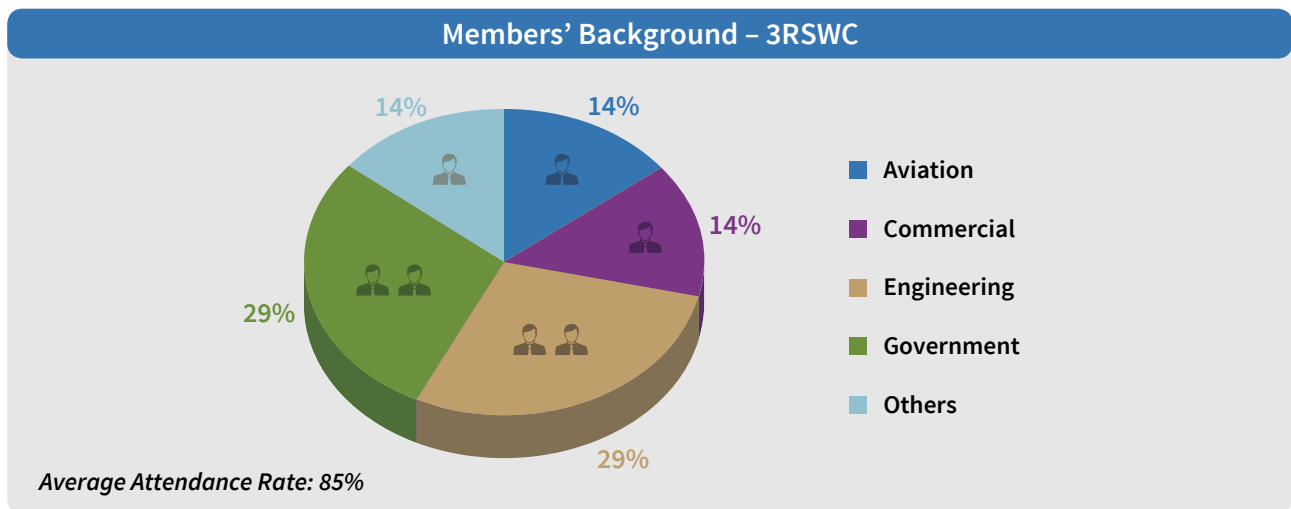
Principal Duties

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

Summary of Work Done in 2017/18

- Held four meetings with an average attendance rate of 75%
- Considered 17 papers
- Significant matters considered or resolved:
 - Audited annual financial statements and unaudited interim financial report
 - Annual budget and five-year financial plan
 - Quarterly operating results
 - Dividend policy
 - Appointment of the external auditor and approval of audit fee and non-audit services
 - Review of external auditor's report and the effectiveness of the audit process
 - Annual corporate governance, risk management and internal control review reports
 - Adequacy of resources, qualifications and experience of staff of the accounting, internal audit and financial reporting functions
 - Annual internal audit programme, quarterly internal audit reports and effectiveness of the internal audit function
 - 3RS detailed financing plan
 - Delegation of authorities for the CEO

3RS & Works Committee (3RSWC)



Members

Seven members, four of whom are independent:

Independent Non-executive

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

Executive

- Mr Fred Lam

Non-executive

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

Principal Duties

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

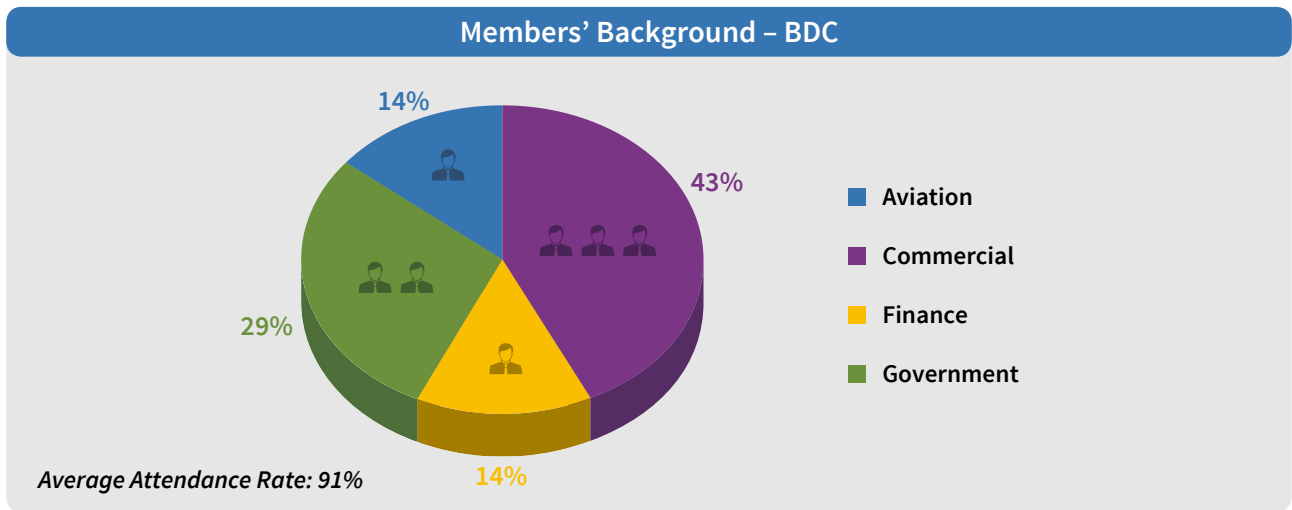
1. Advises and makes recommendations to the Board on all key works-related matters for the 3RS and other capital works projects
2. Reviews and approves procurement strategy and evaluation criteria for the 3RS and works contracts and consultancy agreements
3. Reviews and approves or makes recommendations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

Summary of Work Done in 2017/18

- Held six meetings with an average attendance rate of 85%
- Considered 36 papers
- Significant matters considered or resolved:
 - Annual capital works budget and five-year capital works plan
 - Midfield Concourse contractual issues
 - 3RS project development
 - Terminal 1 capacity enhancement works
 - North Commercial District (NCD) infrastructure works
 - 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

Seven members, four of whom are independent:

Independent Non-executive

- Dr the Hon Allan Zeman (Chairman)
- Mr Andrew Fung Hau-chung
- Mr Peter To
- The Hon Frankie Yick Chi-ming

Executive

- Mr Fred Lam

Non-executive

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

Principal Duties

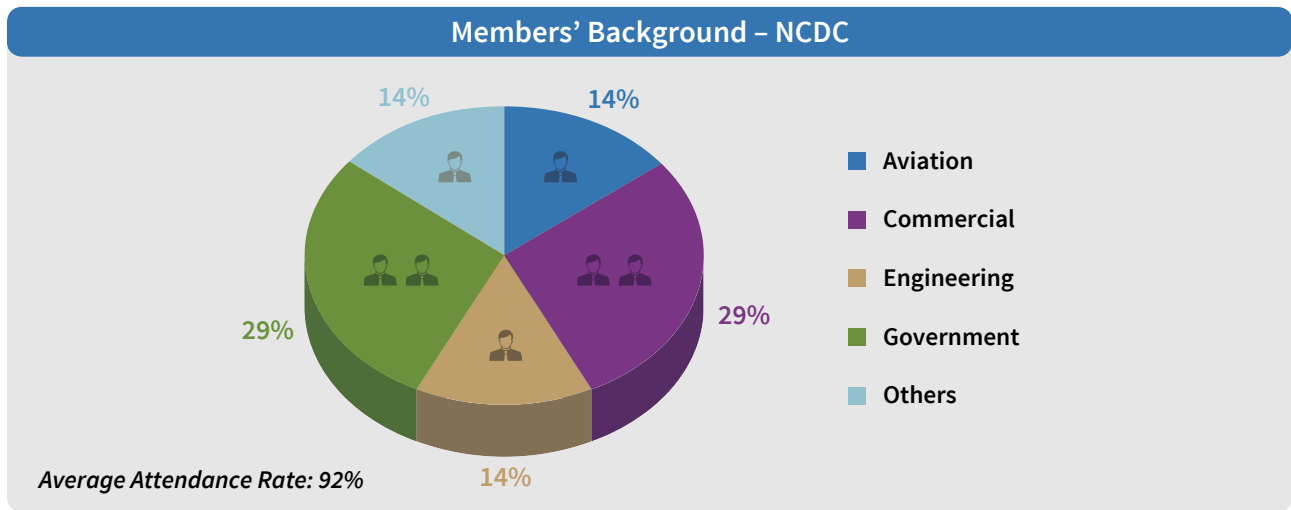
Considers, approves and makes recommendations to the Board on:

1. Business strategies relating to the development of HKIA
2. Airport commercial and business development plans and proposals other than the 3RS and 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 2017/18

- Held five meetings with an average attendance rate of 91%
- Considered 14 papers
- Significant matters considered or resolved:
 - Airport retail and licensing strategy
 - Air cargo development strategies
 - Provision of airport facilities
 - Procurement strategies and award of operation and service contracts
 - Passenger Security Charge
 - Check-in services and charges to airlines
 - New office tower

NCD Committee (NCDC)



Members

Seven members, four of whom are independent:

Independent Non-executive

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

Executive

- Mr Fred Lam

Non-Executive

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

Principal Duties

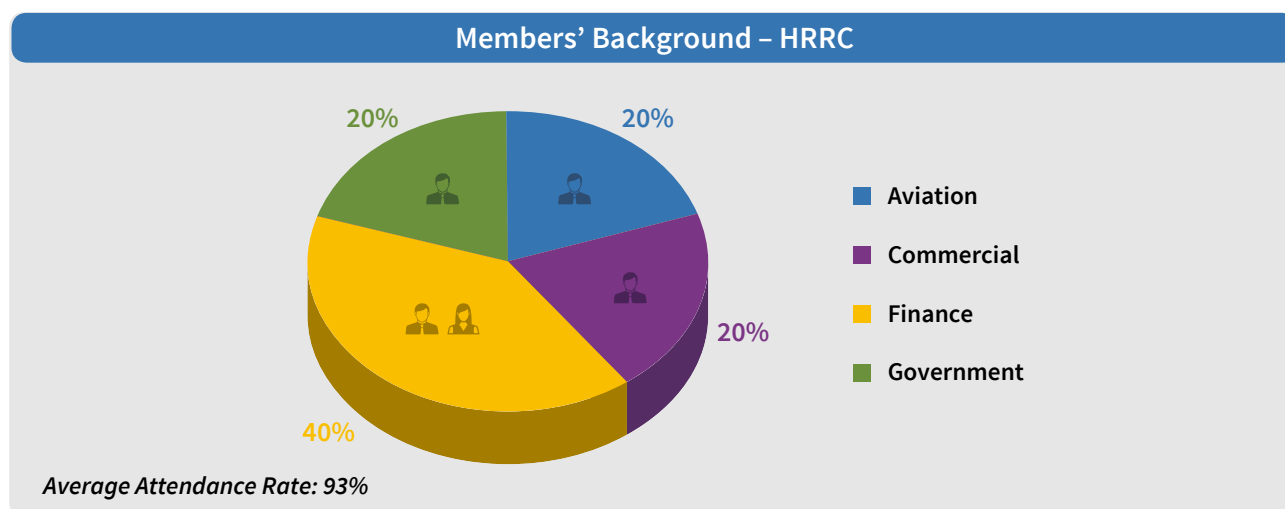
1. Oversees the master planning of the NCD development
2. Advises and makes recommendations to the Board on development strategies for the NCD site and monitors the progress of the NCD development
3. Approves and makes recommendations to the Board on major terms and conditions of commercial tenders for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

Summary of Work Done in 2017/18

- Held two meetings with an average attendance rate of 92%
- Received two presentations
- Significant matters considered or resolved:
 - SKYCITY Phase 1 Retail / Dining / Entertainment development tender
 - Results of expression of interest exercise
 - Tender progress

CORPORATE GOVERNANCE

Human Resources & Remuneration Committee (HRRC)



Members

Five members, three of whom are independent:

Independent Members

- The Hon Jeffrey Lam Kin-fung (Chairman)
- Ms Anita Fung Yuen-mei
- 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 2017/18

- Held three meetings with an average attendance rate of 93%
- Considered 6 papers
- Significant matters considered / resolved:
 - Annual review of staff remuneration
 - Annual corporate performance assessment and award of variable compensation for staff
 - Corporate goals refinement and performance measurements
 - Re-appointment of senior management

Meeting Attendance (1 April 2017 to 31 March 2018)

Members of the Board	Board ⁹	ACFC ⁹	3RSWC	BDC	NCDC	HRRC
Non-executive						
Secretary for Transport and Housing	4/4		6/6	4/5	2/2	3/3
Secretary for Financial Services and the Treasury	4/4	2/4	2/2 ⁶		2/2	
Director-General of Civil Aviation	4/4		6/6	5/5		
Independent Non-executive						
The Hon Jack So Chak-kwong (Chairman of the Board)	4/4					
Mr Edward Cheng Wai-sun ⁴	0/0				1/1	
Mr Andrew Fung Hau-chung	3/4	2/4		5/5		
Ms Anita Fung Yuen-mei	3/4	4/4 ¹				2/3
The Hon Steven Ho Chun-yin	4/4	4/4	6/6			
Mr Franklin Lam Fan-keung	4/4	3/4			2/2	
The Hon Jeffrey Lam Kin-fung	2/4	3/4				3/3 ¹
Ir Lee Shing-see	3/4		6/6 ¹		2/2	
Mr Lin Jing-zhen ^{2,8}	1/3	1/2	2/4			
Mr Peter To	3/4			5/5	2/2 ¹	
Mr Carlson Tong ²	3/4	3/3				2/2
Ir Billy Wong Wing-hoo	3/4		6/6		2/2 ⁷	
The Hon Frankie Yick Chi-ming	3/4		3/6	3/5		
Dr the Hon Allan Zeman	3/4		0/1 ⁵	5/5 ¹	1/1 ³	
Executive						
Mr Fred Lam (Chief Executive Officer)	4/4		6/6	5/5	2/2	3/3
Total number of meetings held during the year	4	4	6	5	2	3

Notes:

¹ Chairman of the Committee throughout the term

² Appointed to the Board and Committees on 1 and 12 June 2017 respectively

³ Appointed to the Committee on 12 June 2017

⁴ Retired as Board and Committee Members on 31 May 2017

⁵ Resigned as a Committee Member on 12 June 2017

⁶ Resigned as a Committee Member on 1 August 2017

⁷ Resigned as a Committee Member on 17 November 2017

⁸ Resigned as a Board and Committee Members on 5 February 2018

⁹ 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 the executive management is responsible for managing the operations and implementing the strategies set by the Board.

Matters reserved for the Board's decisions include:

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER (CEO)

At AAHK, the positions of non-executive Chairman and CEO are held by different peoples 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

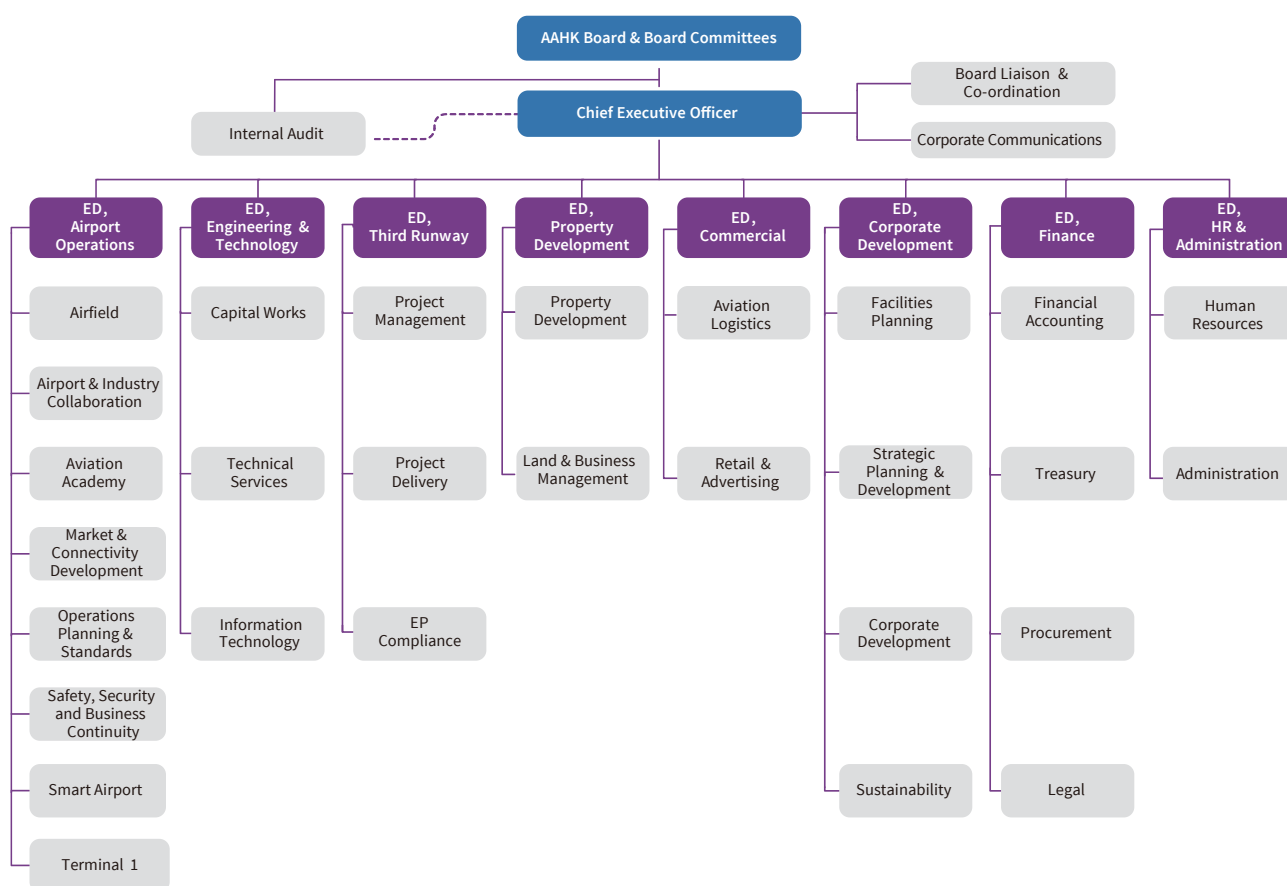
- Formulates strategic operating plans in line with the objectives established by the Board
- Assumes executive responsibility for day-to-day operational performance
- Leads the management team to implement the policies and strategies adopted by the Board

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 operates with a management structure that consists of functional divisions and departments. This structure underpins a focus on corporate performance and fosters close departmental co-operation whilst maintaining the accountability of individual departments. The organisation structure of AAHK as at 31 March 2018 is as follows:

AAHK ORGANISATION STRUCTURE



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

No senior management or Executive Directors are involved in deciding their own remuneration. Details of the remuneration of the Chief Executive Officer and Executive Directors are set out in the Notes to the Financial Statements on pages 121 to 124.

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

CORPORATE GOVERNANCE

KEY ADVISORY COMMITTEES AND MANAGEMENT COMMITTEES

Apart from the five Board Committees, there is a working group, as well as advisory committees, management committees and co-ordination meetings to deal with specific issues. The set-up of such committees and meetings is reviewed from time to time to align with the changing business and operational needs of AAHK. The current key committees and management coordination meetings are:

Management Committees

Committee	Members	Role and Functions
NCD Working Group	<ul style="list-style-type: none"> • NCDC Chairman and a Member • CEO • AAHK management • External advisors 	<ul style="list-style-type: none"> • To ensure the success of the NCD project, which capitalises on the “Bridgehead Economy” that will be brought about by the completion of the Hong Kong-Zhuhai-Macao Bridge and the Tuen Mun-Chek Lap Kok Link, the NCD Working Group assists the NCDC in reviewing business models and key commercial terms and helps develop relevant tender strategies for the NCD development
HKIA Technovation Board	<ul style="list-style-type: none"> • CEO (Chairman) • Relevant Executive Directors • Other senior staff 	<ul style="list-style-type: none"> • To steer the strategic direction of technology and innovation for HKIA’s development • To determine the development focus and priorities and to advise on the allocation of resources • To review the institutional arrangements for effective implementation of technovation programmes
3RS Management Co-ordination Meetings	<ul style="list-style-type: none"> • CEO (Chairman) • Executive Directors • Other senior staff 	<ul style="list-style-type: none"> • A regular platform for the CEO to receive progress update and for management to obtain advice on matters relating to the 3RS project
Human Resources Committee	<ul style="list-style-type: none"> • CEO (Chairman) • Executive Directors 	<ul style="list-style-type: none"> • To review and formulate human resources policies and procedures to meet AAHK’s changing business needs • To plan for the development of AAHK’s overall human resources capabilities, including people development, talent management and succession planning for senior executive positions • To champion the corporate culture of AAHK
Airport Planning and Development Committee	<ul style="list-style-type: none"> • CEO (Chairman) • Relevant Executive Directors 	<ul style="list-style-type: none"> • To ensure a co-ordinated approach in reviewing land use proposals for airport operations, airport support and airport-related developments • To review all land use requests before such requests are taken forward by the responsible departments to the higher authority for approval

Advisory Committees

Committee	Members	Role and Functions
Airport Technology Advisory Council	<ul style="list-style-type: none"> • CEO (Chairman) • AAHK management • External members from the industry, universities and research and development centres 	<ul style="list-style-type: none"> • To provide technological inputs to innovative ideas and business challenges faced by HKIA • To advise on visionary and futuristic technology and innovation for HKIA to facilitate the use and development of local technologies at HKIA
Arts and Culture Advisory Committee	<ul style="list-style-type: none"> • AAHK Board Member (Chairman) • CEO • Two AAHK senior staff • No more than eight external members 	<ul style="list-style-type: none"> • To provide guidance to management on the development of HKIA as a platform for promoting arts and culture • To advise AAHK on the creation of partnerships with the local arts and culture sectors
Hong Kong International Aviation Academy (HKIAA) Steering Committee	<ul style="list-style-type: none"> • AAHK Board Member (Chairman) • No more than 12 core members including: <ul style="list-style-type: none"> – CEO – AAHK management – External members from government, education and the airport community 	<ul style="list-style-type: none"> • To provide guidance to management on achieving the HKIAA's objective of nurturing aviation talents for Hong Kong • To make recommendations on the positioning and development of HKIAA • To help make HKIAA a sustainable operation

EXTERNAL STAKEHOLDERS

Transparency

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

To promote transparency and openness, AAHK voluntarily discloses its compliance with the CG Code issued by the Stock Exchange of Hong Kong Limited, the individual attendance records of Board and Committee

meetings and the remuneration of its Board Members and Executive Directors. In 2017/18, 29 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.

CORPORATE GOVERNANCE

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



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

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

Conferences and briefings are held regularly with the management and staff on 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 of major events are shared at the Town Hall Meetings to allow face-to-face communication with AAHK's staff. Chaired by the CEO, the weekly Management Meeting serves as an important information sharing platform for senior management to keep abreast of the latest developments and current corporate issues. Minutes of the Management Meetings are sent to all staff and made available on the AAHK's intranet.

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



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 and 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 2016/17*, 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 2017/18, AAHK received a number of awards recognising its efforts in improving HKIA's sustainability performance and pursuing its "Greenest Airport" pledge. The awards include:

- Platinum award (Over 35 million passengers per annum) in ACI Asia-Pacific Green Airports Recognition 2018 organised by ACI Asia-Pacific
- Environment Award in the 2018 Tourism for Tomorrow Awards organised by the World Travel & Tourism Council
- Gold Award (Public Services) in the 2016 Hong Kong Awards for Environmental Excellence organised by Environmental Campaign Committee
- 2017 Sustainability and Social Responsibility Reporting Award (Public Sector/Not-for profit Category) organised by Hong Kong Institute of Certified Public Accountants
- Hong Kong Sustainability Award 2016/17 organised by The Hong Kong Management Association

RISK MANAGEMENT AND INTERNAL CONTROLS

Risk Management

The operation of AAHK encompasses a diverse range of risks. At the corporate level, risks that may hinder AAHK from achieving its long-term objectives are analysed within the context of its 20-year master plan. Risks relating to AAHK's short- and medium-term objectives are identified and addressed annually during the preparation of the annual business plan and the rolling five-year business plan.

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

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.

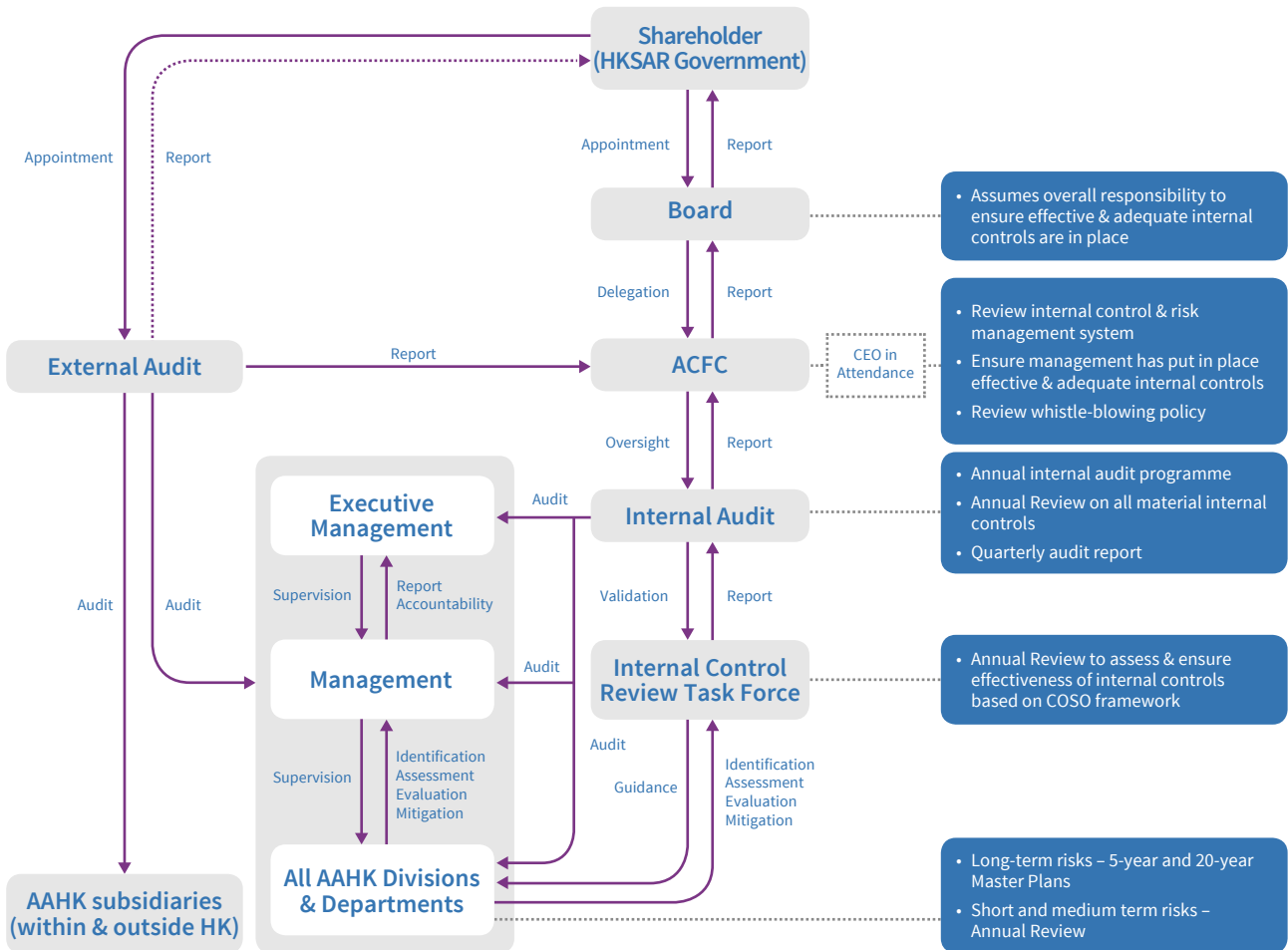
AAHK's internal controls are designed to give reasonable assurance that:

- 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 Airport Authority Ordinance

CORPORATE GOVERNANCE

Key features of our internal control framework are depicted below:

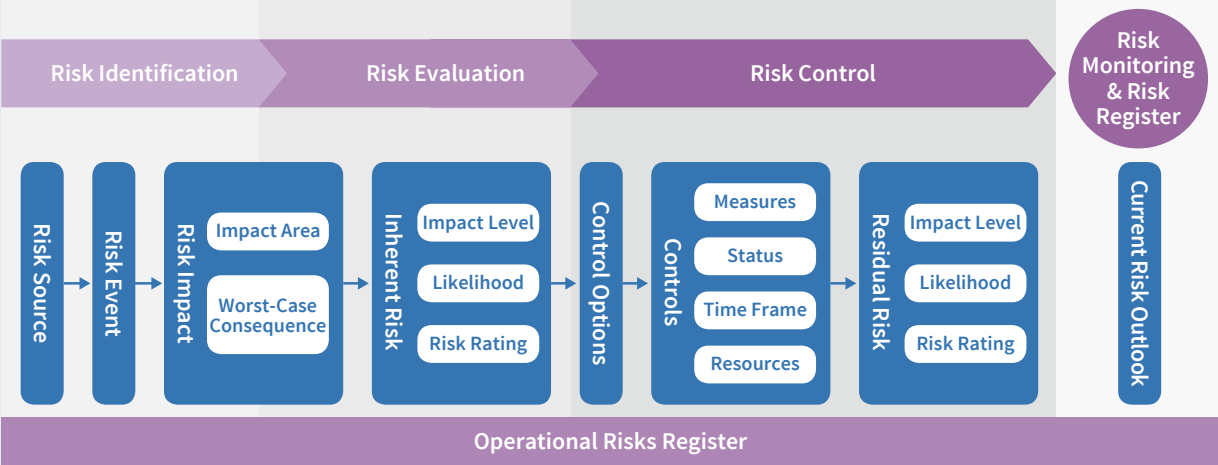
INTERNAL CONTROL FRAMEWORK



Risk management and internal controls are collectively 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.

Operating and Supporting Functions

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



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

Audit Committee and Finance Committee

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

The ACFC needs to review all risk areas presented in the risk information matrix and identify key risk issues that require its further attention and, if appropriate, the Board’s focus.

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.

CORPORATE GOVERNANCE

External Audit

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

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

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

(in HK\$ million)	2017/18	2016/17
Audit fee	6	6
Fees for non-audit services	1	2

The non-audit work conducted by KPMG during 2017/18 was mainly in relation to tax compliance and other advisory services.

Internal Audit

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

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

The quarterly internal audit reports submitted by the Chief Internal Auditor include information on audit issues

observed and relevant improvement proposals, as well as results from special reviews or investigations undertaken.

Reviews on Internal Controls

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

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

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

During the year under review, the executive management reviewed AAHK's internal control system and concluded that it was effective and adequate. A consolidated internal control report was compiled and submitted to the ACFC for review. The ACFC reviewed the consolidated review report on AAHK's risk profiles and control system and confirmed that no significant risk control issues needed to be escalated to the Board for immediate action. The Board 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 56 to 59.

DELEGATION OF AUTHORITY

AAHK has a comprehensive system of delegation of authority under which the authority of the Board, Board Committees and different levels of the executive management are clearly delineated. Such delegation of authority is reviewed from time to time to ensure that it meets AAHK's evolving business and operational needs. The last review 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 expenditure 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 has been instituted to keep the Board informed when certain delegated powers are exercised. Regular reports are also made to the ACFC on authority exercised by the CEO for commitments in excess of HK\$50 million.

FINANCIAL PLANNING, CONTROL AND REPORTING

AAHK has a three-tier corporate planning process under which a master plan with a planning horizon of 20 years is compiled about every five to ten years. AAHK is currently in the process of compiling the HKIA Master Plan 2035 which is expected to be issued in 2018/19. For medium-term planning, each year AAHK prepares a rolling five-year business plan and financial plan. For short-term planning and control purposes, an annual budget and an annual business plan are prepared for approval by the Board.

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

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

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

ACCOUNTABILITY

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

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

CORPORATE GOVERNANCE

DISCLOSURE OF INTERESTS

AAHK has clear and comprehensive procedures for disclosure of interests, which are 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 members with potential conflicts of interest will be excluded from the relevant deliberation and decision-making process.

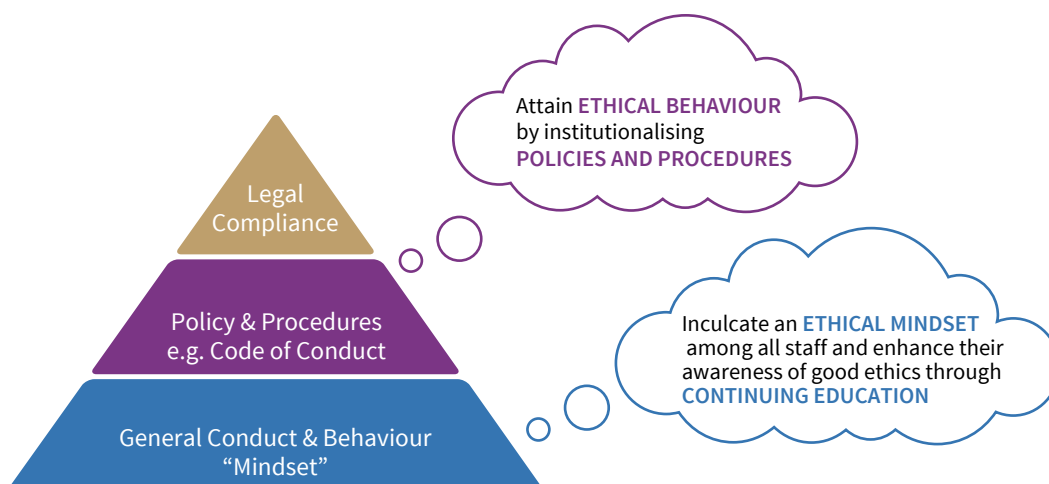
ETHICAL CULTURE

AAHK requires all staff members 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 the AAHK's property, information and records, etc. The Code was reviewed in August 2016 by making reference to the latest version of the "Sample Code of Conduct for Employees of Public Bodies" issued by the Independent Commission Against Corruption (ICAC).

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

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



To instill corporate governance culture of our new staff, a series of compliance training will be conducted:

Category	Training/topic	Timeline
General Mindset & Behaviours (Mandatory)	<ul style="list-style-type: none"> - Orientation for New Hires - Importance & framework of Corporate Governance - Highlights of Key Contents in Code of Conduct 	Within three months
	<ul style="list-style-type: none"> - Code of Conduct 	Within one month Annual Refresher
	<ul style="list-style-type: none"> - Staff Information Security Handbook 	Within one month Annual Refresher
Legal Compliance (Mandatory)	<ul style="list-style-type: none"> - Briefing on Equal Opportunities - Seminar on Data Privacy - ICAC Briefing: General Awareness - ICAC Briefing: Misconduct in Public Office 	Within one month
Procedures & Practices (By nomination)	<ul style="list-style-type: none"> - Internal Audit Workshop - Finance Policies Workshop - IT Policies Workshop - Procurement Policies Workshop - Overseas Business Travel Workshop 	Within six months

QUALITY OF STAFF

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

WHISTLE-BLOWING POLICY

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 the Group as at 31 March 2018 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 (CG Report)

Hong Kong Exchanges and Clearing Limited published a consultation paper entitled "Review of the Corporate Governance Code and Related Listing Rules" to seek comments on proposed changes to the CG Code, as well as related amendments to the listing rules, covering independent non-executive directors and board diversity on 3 November 2017. In view of this, AAHK has conducted an analysis on its board diversity, as set out on pages 32 and 33. 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.1.8	Appropriate insurance cover for directors against legal action.	This provision is not applicable to AAHK. Pursuant to Section 45 of the Ordinance, Board Members are exempted from personal liability in respect of anything done, or omitted to be done, by them in good faith.
A.4.1	Non-executive directors should be appointed for a specific term, subject to re-election.	All non-executive Members are normally appointed for a fixed term of three years. Board Members are not subject to re-election but may be re-appointed by the Chief Executive of the HKSAR pursuant to Section 3 of the Ordinance.
A.4.2 & A.4.3	These code provisions deal with the appointment of directors to fill a casual vacancy, appointment of independent non-executive directors and rotation of directors.	These provisions are not applicable to AAHK. Pursuant to Section 3 of the Ordinance, Board Members are appointed by the Chief Executive of the HKSAR. Terms of office of Board Members are governed by Section 11 of the Ordinance.
A.5.1 to A.5.6	These code provisions deal with the nomination committee.	These provisions are not applicable to AAHK. Pursuant to Section 3 of the Ordinance, Board Members are appointed by the Chief Executive of the HKSAR.
A.6.4	Directors must comply with obligations under the Model Code for Securities Transactions and the board should establish guidelines for employees dealing in the securities of the company.	These provisions are not applicable because all of AAHK's shares are held by the HKSAR Government and are not publicly traded.
C.2.4(e)	This code provision relates to the disclosure of the procedures and internal controls for the handling and dissemination of inside information.	

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 (excluding the date of despatch and the date of the meeting) before a meeting. About 78.6% of 117 papers met the guideline in the year under review. AAHK will continue to strive to comply with this guideline to the extent practicable.
B.1.2	This code provision relates to the terms of reference of the remuneration committee.	The provision on the power to determine Board Members' remuneration is not applicable because Section 11(4) of the Ordinance provides that the remuneration of Board Members shall be determined by the Chief Executive of the HKSAR.
E.1.1 to E.1.4 E.2.1	These code provisions deal with the proceedings for annual general meetings.	These provisions are not applicable because AAHK has only one shareholder and is not required to hold annual general meetings.

Recommended Best Practices		Reason for Deviation
B.1.8	Disclose details of any remuneration payable to members of senior management, on an individual and named basis, in the annual reports.	AAHK decided to adopt the approach of disclosing remuneration of senior executives who are not Members of the Board by band from the financial year 2014/15 onwards. Remuneration to Board Members continue to be disclosed on a named basis.
C.1.6	Publication of quarterly financial results and preparation of quarterly financial reports based on accounting policies consistently applied in half-year and annual accounts.	This practice is not adopted because of concerns about committing excessive resources to comply with the form rather than the substance of the practice. Quarterly financial reports are presented to the Board and the ACFC of which representatives of the sole shareholder, the HKSAR Government, are members.

RISK MANAGEMENT REPORT

Airport Authority Hong Kong (AAHK) recognises the risks it faces and deals with them by setting a good internal control environment and making continual improvements to suit changing operational needs. The Corporate Governance Report on pages 31 to 55 sets out details of our risk management and internal control systems.

RISK PROFILES AND CONTROLS

Key risks identified in the annual review for 2017/18 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 allocation or failure to respond to changes in the business environment. Inadequate or failed procedures, systems or polices could lead to operational risks.

Major Challenges

- Maintaining Hong Kong as a centre of international and regional aviation is part of AAHK's statutory mandate
- Meeting ever-increasing traffic demand, which is expected to reach 102 million passengers, 8.9 million tonnes of cargo and 607,000 flight movements in 2030, according to the latest IATA Consulting forecast
- Availability of project management staff and skilled labour to successfully deliver the three-runway system (3RS) and other projects
- Maintaining high service standards in a congested airport
- Unforeseen disruptions to flow management
- Maintaining ageing facilities

Controls in Place

- The 3RS is a strategic development project that will help to enhance Hong Kong's long-term competitiveness and economic development. Construction of the 3RS commenced on 1 August 2016
- Procurement of external consultants and specialists to augment in-house project management resources
- Close collaboration with relevant parties to provide training for local workers
- Constant monitoring and regular reviews of service delivery standards and operating procedures
- Contingency plans in place and regular drills to test the response capabilities of all concerned parties to ensure impact on passengers is minimised
- Research into new technologies to improve efficiency in predictive and smart maintenance
- Continual investments in facilities upgrades and replacement projects to ensure efficient and safe operation

Environmental Risk

Caring for the environment is an imperative for the long-term sustainable development of Hong Kong International Airport (HKIA). AAHK has established strategic and operational measures to manage environmental issues and strives to operate and develop the airport in a responsible manner by minimising the environmental footprint of its operations. The concept of risk management is clearly articulated in the five-year environmental plan this year. Three categories of environmental risk have been identified: regulatory, reputational and operational.

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

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 2017/18. The Airport Composite Safety Index, which measures the rate of injuries among airport staff and passengers, recorded a downward trend and surpassed our target. We will continue to be vigilant to the risks that may compromise a safe and secure operating environment.

Major Challenges	<ul style="list-style-type: none"> • Upholding high standards of safety while facing rapid growth in the aviation industry • Reinforcing safety consciousness and security awareness among airport staff • Changing threats brought by acts of terrorism committed around the world • Emerging global public health risks, such as Zika virus disease and Middle East Respiratory Syndrome (MERS)
Controls in Place	<p>Safety</p> <ul style="list-style-type: none"> • Operate an effective safety management system with our business partners • The Aerodrome Safety Management System now incorporates a Live Operations Risk Assessment Register that serves as a change management tool to continuously monitor hazards and risks arising from development projects • Mandatory basic safety training and safety awareness testing for airport restricted area permit holders, baggage hall operators and works contractors • Implement an online hazard reporting system for the airport community <p>Security</p> <ul style="list-style-type: none"> • Kerbside bollards at entrances to Terminal 1 provide additional physical protection against acts using vehicle-borne explosive devices • Liquid explosives detection at transfer security screening through liquids, aerosols and gels (LAG) screening to be implemented in 2018/19 • Accountability and traceability-based controls for tradespersons' tools brought into restricted areas • Enhanced security measures for electronic devices on United States-bound flights per US Transportation Security Administration (TSA) requirements confirmed to be in full compliance by the TSA • Briefing sessions and workshops to reinforce security awareness amongst the airport community

Safety, Security and Health Risks

Controls in Place	Health <ul style="list-style-type: none">• Monitor and closely co-ordinate with the HKSAR Government and the airport community to address potential public health risks• Support government response plans for major disease outbreaks through:<ul style="list-style-type: none">– Temperature screening of arriving passengers– Public announcements, displaying posters and distributing leaflets to passengers arriving from affected areas, where appropriate– Workshops with the Port Health Office to raise awareness of public health risks amongst the airport community
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Financial Risk

AAHK is exposed to a variety of financial risks.

Major Challenges	<ul style="list-style-type: none">• Credit, liquidity, interest rate and foreign currency risks
Controls in Place	<ul style="list-style-type: none">• Details of AAHK's exposure to financial risks and the policies and practices adopted to manage these risks are described in Note 21 to the Financial Statements on pages 142 to 146.

Information Technology Risk

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

Major Challenges	<ul style="list-style-type: none">• The adoption of new technologies and the rise in intensity and sophistication of cyberattacks may introduce instability or security exposure to HKIA's IT infrastructure and systems.
Controls in Place	<ul style="list-style-type: none">• IT governance and risk management frameworks ensure consistent risk assessment and management• An annual review ensures IT projects align with corporate strategies• Monitor emerging IT security risks. Proactive measures are in place to enhance risk awareness• Preventive, detective and containment measures mitigate security threats. Monitoring tools alert management to risks and vulnerabilities• Annual IT obsolescence review and mitigation planning with regular reviews of the mitigation progress

Legal and Regulatory Risk

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

Major Challenges	<ul style="list-style-type: none">• Violation of law, non-compliance with regulatory requirements and breach of contract, even though unintentional, may bring about legal consequences impacting AAHK, including damage to reputation, disruption to business or operations, and pecuniary loss associated with enforcement actions and lawsuits
Controls in Place	<ul style="list-style-type: none">• A proactive and forward-looking approach to monitoring changes in government policy and legislation. Judgements, rulings, regulatory actions and complaints are also reviewed to identify potential areas of risk that may apply to AAHK• Policies, procedures and appropriate action steps to address changes in a timely way to guide management to operate legally and within AAHK's acceptable risk level• Ongoing management education to adapt to these changes. Adequate risk mitigation measures are in place and are constantly reviewed for enhancement

Human Resources Risk

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

Major Challenges	<ul style="list-style-type: none">• Acquisition of sufficient talent to support HKIA's expansion
Controls in Place	<ul style="list-style-type: none">• A human resources plan up to 2025/26 and resourcing strategies ensure a timely supply of talent• Continued enhancement to AAHK's people development framework and training curriculum to ensure staff have the expertise and experience to support the airport's growth

Reputation Risk

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

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

WAY FORWARD

Going forward, we will expand these initiatives across our operations and continue to support and share best practices across all departments and with our business partners. In the coming year, steps will be taken to implement a more structured and holistic enterprise risk management framework within AAHK.

EVENT HIGHLIGHTS



Airport Authority Hong Kong (AAHK) launches the third Hong Kong International Airport (HKIA) Environmental Management Recognition Scheme, which focuses on waste management.

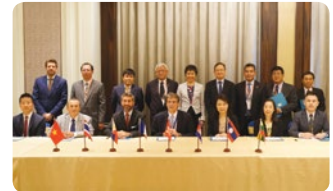
The Hong Kong International Aviation Academy (HKIAA) opens, offering foundation courses and professional training to young people and airport staff.



AAHK holds the sixth HKIA Career Expo, where over 4,000 positions are offered by more than 40 aviation-related companies.

AAHK unveils major projects, including the expansion of Terminal 1 and construction of Sky Bridge, that will increase HKIA's capacity and enhance its ambience.

HKIA is named "Best Global Airport" at the 2017 Asian Freight, Logistics and Supply Chain Awards organised by *Asia Cargo News*.



AAHK signs a memorandum of understanding for sponsoring civil aviation staff from six South East Asian countries to participate in the Advanced Master in Air Transport Management Programme, which is jointly organised by HKIAA and École Nationale de l'Aviation Civile.

"HKG My Flight" is recognised at the Hong Kong Digital Brand Award 2017.

APR

MAY

JUN

JUL

AUG

SEP

2017



For the third time, AAHK takes gold in the public services category at the Hong Kong Awards for Environmental Excellence.



President Xi Jinping visits HKIA and expresses his support for the three-runway system project.

HKairport Shop, an online shopping platform, opens.



The Hong Kong Police Force's Airport Security Unit celebrates its 40th anniversary.

AAHK establishes the International Airports Benchmarking Programme with London Heathrow and Toronto Pearson to facilitate the exchange of airport management experience.

More than 80 students complete HKIAA's first Certificate Course in Airport Services and Operations and begin 12-month internships.



The Immigration Department introduces Smart Departure—a system that uses facial recognition technology to automate the travel document inspection process—at HKIA.

AAHK wins gold under the “Excellence in Employee Work-Life Balance” category of the HR Innovation Awards 2017 for establishing the Airport Preschool.



The Midfield Concourse receives the certificate for the “Final Gold” rating in the Hong Kong Green Building Council’s BEAM Plus New Buildings V1.1 scheme.

AAHK publishes its first children’s book, *Little Adventure at the Big Airport*, to stimulate children’s interest in the airport.



AAHK receives a certificate from the International Air Transport Association, recognising HKIA as a Partner Airport of the Centre of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV Pharma).

HKIA is named “Airport of the Year” by *Air Transport World* for the second time.

HKIA unveils a new website with a fresh design and more user-friendly interface.

OCT

NOV

DEC

JAN

FEB

MAR

2018



AAHK and DHL Express announce a partnership to expand the capacity of DHL’s Central Asia Hub by 50%.

HKIA captures the “North and East Asia - Best Airport” award at the 2017 Future Travel Experience Asia Awards.

AAHK organises the first Work Improvement Team Convention to promote a culture of continuous improvement in the airport community.



AAHK launches “EXTRA MILE”, a community investment project that attracts and nurtures talent for Hong Kong’s aviation industry.



The HKIA Gift Donation Campaign collects 12,783 items for underprivileged children and families.

PASSENGER SERVICES



Clinching over 70 “best airport” awards over the past two decades, Hong Kong International Airport (HKIA) is widely regarded as one of the world’s finest airports. Today, we continue to win travellers’ hearts with a combination of friendly service, modern facilities and innovative technologies.

A MORE PLEASANT JOURNEY

In 2017/18, we undertook several projects to enhance HKIA’s ambience and increase the comfort and convenience of departing, arriving and transit passengers.

In December 2017, for example, we completed phase one of a programme to replace the seats around boarding gates in Terminal 1 (T1). About 1,360 new seats with vibrant colours and integrated electrical outlets were installed. Artwork and decorative plants were placed nearby to create a relaxing,



restful environment. In parallel with our plan to revamp T1’s boarding gates, which will be transformed into

themed zones, approximately 11,000 seats in the terminal will be upgraded in phases by 2020/21.

PASSENGERS BY MARKET

(year ended 31 March 2018)



SOUTH EAST ASIA
25%

MAINLAND
20%

TAIWAN
12%

JAPAN
12%

EUROPE
7%

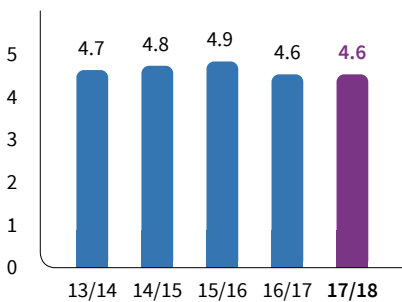
USA & CANADA
7%

AUSTRALASIA
5%

OTHERS
12%



PASSENGERS USING HKIA'S CROSS-BOUNDARY LAND AND SEA TRANSPORT (millions of passengers)



During the year, we also replaced the carpet in T1 and installed granite tiles in some high-traffic areas. A total of 55,000 square metres of carpet and granite tiles were fitted. Moreover, two washrooms with new, modern designs opened in T1. Passengers' feedback on the two washrooms will be taken into consideration when we design new washrooms in the future. In March 2018, we added a tranquil new rest area near Gate 35 on the Departures Level, where transit passengers can relax between flights.

Today's travellers demand fast, reliable internet connectivity. At the end of 2017, we concluded a major upgrade to HKIA's free Wi-Fi service, boosting the airport's overall internet bandwidth tenfold and increasing the number of Wi-Fi access points in the passenger terminals from 800 to 1,100. For travellers using data-intensive applications, we created 15 high-speed Wi-Fi zones with download speeds of up to 400 megabits per second.



Passengers can enjoy download speeds of up to 400 megabits per second in the high-speed Wi-Fi zones.



In July 2017, we introduced courtesy channels that provide dedicated access and security screening for departing passengers with special needs, such as those with reduced mobility, the elderly, pregnant women, as well as passengers invited by airlines based on the airlines' operational needs. The channels help passengers requiring additional assistance to enjoy a smoother journey.

For the comfort of arriving passengers, in September 2017 we opened complimentary showers, which offer free soap and shampoo, on the Arrivals Level of T1. About 100 people use the showers each day and feedback has been very positive.



The newly designed washrooms are part of a programme to enhance the terminal ambience.

PASSENGER SERVICES

CREATING THE AIRPORT OF THE FUTURE

At HKIA, we embrace new technologies to create a better, more personalised passenger experience. In 2017/18, we continued to build new functions into “HKG My Flight”, our free mobile app. For travellers who cannot read the airport’s English

and Chinese signs, this year we launched signage translation into nine languages, including French, Japanese, Korean and Spanish. The app’s new wayfinding service gathers location data from 10,000 iBeacon transmitters in the terminals and assists passengers with turn-by-turn navigation using augmented reality technology.

This year we added a service that allows the reservation of parking space at HKIA using the app or our website. “HKG My Flight” also works with MyTAG, our newly launched baggage tag, to tell passengers arriving at HKIA when their luggage is ready to be reclaimed.

We plan to bring food ordering and real-time information about waiting times at HKIA’s checkpoints to “HKG My Flight” next year.

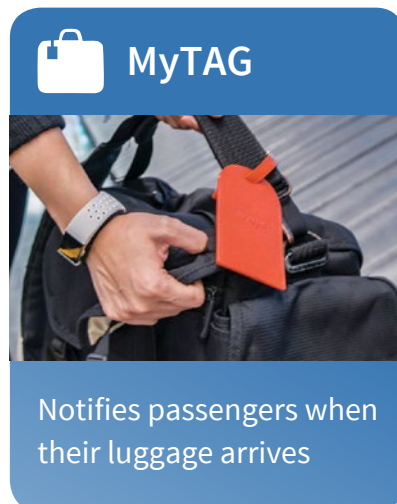
In 2017/18, we introduced an advanced, self-service check-in kiosk. Enabling passengers to check in and print boarding passes and luggage tags, the internet-based kiosk can be located outside the airport. We have obtained a patent for the new device in Hong Kong and Japan.



SIGNAGE TRANSLATION

Signage available in nine languages

The graphic shows a hand holding a smartphone displaying a translation of airport signage. The phone screen shows 'Portes 20' and 'Portes 201' with arrows pointing left. The background shows blurred airport signage with Chinese characters and the number '20'.



MyTAG

Notifies passengers when their luggage arrives

The graphic features the MyTAG logo (a white suitcase icon) and the text 'MyTAG'. Below is a photo of a person's hands attaching a red MyTAG tag to a black suitcase.



PARKING RESERVATION

Pre-book airport parking

The graphic features the 'P' parking icon and the text 'PARKING RESERVATION'. Below is a photo of several cars parked in an airport parking lot.



We also installed 21 personalised flight information display systems—which allow passengers to check their flight status by scanning a boarding pass or entering a flight number—throughout the passenger terminals.

In conjunction with the Immigration Department, in October 2017 we launched Smart Departure, which uses facial recognition technology to automate the travel document inspection usually performed by an immigration officer. We are now examining the use of biometric technologies to facilitate passenger flow and enhance security in other parts of the airport.

HKIA's use of advanced technology was recognised with the "North and East Asia - Best Airport" accolade at the 2017 Future Travel Experience Asia Awards.



The advanced self-service check-in kiosk enables passengers to check in, print boarding passes and luggage tags at once.

SERVICE PERFORMANCE IN 2017/18

96.1% Baggage Delivery (First Bag)¹

96.3% Baggage Delivery (Last Bag)²

91.3% Passenger Embarkation & Disembarkation by Air Bridge

99.7% Departures Security Screening Under Normal Circumstances³

98.9% Transfer Security Screening Under Normal Circumstances³

¹ The target for delivery of the first bag to baggage reclaim is 20 minutes. The target for bags from aircraft at the Midfield and remote parking bays is 25 minutes owing to the distance.

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

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



A FRESH DINING AND SHOPPING EXPERIENCE

Dining and shopping are an important part of the airport experience, and we strive to deliver a retail and food and beverage mix that is fresh and enticing.

In July 2017, we launched “HKairport Shop”, an online platform where passengers order goods and pick them up at HKIA. Passengers can buy over 1,500 products, including packaged food, beauty and skincare



The new anchor shops give passengers a fun and engaging retail experience by offering services such as wine tastings.

AIRPORT SERVICE QUALITY (ASQ) SURVEY OVERALL SATISFACTION SCORE



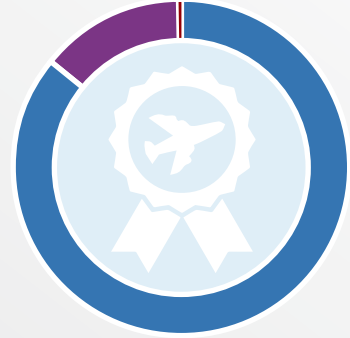
86.5%
EXCELLENT



13.4%
VERY GOOD



0.1%*
GOOD



* There were 4 cases of Overall Satisfaction scoring 3 (Good) in 2017.

Source: ASQ Official Report 2017

items, wine and electronics, around the clock. Goods can be picked up at the airport as soon as three hours after purchase or delivered to addresses in Hong Kong.

During the year, we welcomed new perfume and cosmetics, fashion accessories, and liquor and tobacco concessions to HKIA. The new anchor outlets offer an innovative, engaging customer experience, with “magic mirrors” for virtual make-up, a “new generation” zone featuring emerging Japanese and Korean beauty brands, a whisky-tasting bar and an in-store VIP lounge.



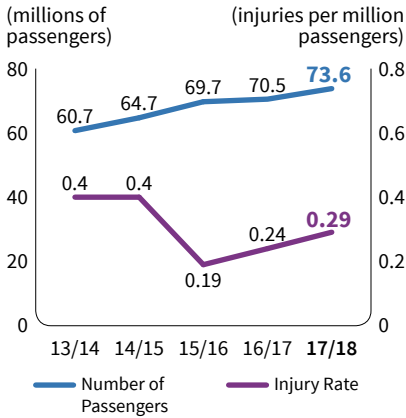
Operating 24 hours a day, the new East Hall food court will offer additional catering outlets and seats.

We also broadened HKIA’s retail mix with children’s wear, entertainment and lifestyle products. Our free delivery service grew to 15 markets, including long-haul destinations such as Australia, Canada and the United States.

In October 2017, we began advance works for the renovation of the East Hall food court, which will become a 24-hour gourmet hub with an iconic design, 300 additional seats and nine new food kiosks. We also widened the airport’s culinary mix, introducing hybrid shops that combine retail and food and beverage outlets.

PASSENGER SERVICES

PASSENGER TRAFFIC AND INJURY RATE



A SAFER ENVIRONMENT

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

In 2017/18, we tested new full-body scanners that use advanced imaging technology to enhance detection of banned items carried by passengers. We are now evaluating the test results and planning the installation of the scanners.

To strengthen HKIA's safety performance, we complemented our regular schedule of drills and training sessions with several new initiatives. For example, we reviewed and updated our corporate safety policy and safety management system manual, and increased the frequency and scope of ramp safety audits, ramp surveillance and inspections.

We also stepped up inspections of kitchens, lounges and other areas with a higher risk of fire. Training programmes were organised to strengthen knowledge of first-aid, firefighting and fire prevention techniques among airport staff.

In addition, we rolled out the Airport Safety Ambassador Programme to promote the safe use of lifts and escalators by passengers.

With a continuous focus on improvement, we achieved an Airport Composite Safety Index score of 3.25, exceeding the target of 3.86 by 15.8%. This index measures the injury rate among passengers and staff at HKIA.

Airport Authority Hong Kong's (AAHK) efforts in bolstering its safety culture were recognised with several accolades from the Occupational Safety and Health Council, including

AAHK collaborates with business partners to conduct drills stimulating different scenarios to test the airport community's emergency preparedness.





The opening of Hong Kong-Zhuhai-Macao Bridge will strengthen HKIA’s connections with the PRD and Macao and help expand the airport’s catchment area.

a “Gold Award” for our safety management system, a “Bronze Award” for our safety promotion campaigns and a “Safety Performance Award” for our safe behaviours at work. During the year, AAHK also won an “International Safety Award” from the British Safety Council.

CROSS-BOUNDARY CONNECTIVITY

As a multi-modal transport hub, HKIA serves not only Hong Kong but the entire Pearl River Delta (PRD).

In 2017/18, land-based cross-boundary traffic reached 2.03 million passengers. SkyPier, which provides ferry services between HKIA and nine ports in the PRD and Macao, served 2.54 million passengers.

During the year, we continued to enhance our cross-boundary services. To increase passenger comfort, 10 new vessels were deployed on routes

serving SkyPier, while larger, more luxurious vehicles were introduced on routes served by SkyLimo, the cross-boundary limousine service. We also launched SkyLink, an app for sharing the latest operational information with upstream staff for better communication and efficiency.

The number of locations and airlines participating in our cross-boundary services grew in 2017/18. The number of airlines operating at SkyPier increased to 86, while new remote city terminals opened at Yitai Square and the Guangdong Yingbin Hotel in Guangzhou. To capitalise on passenger flows from the Hong Kong-Zhuhai-Macao Bridge, we will open remote city terminals at the Macao and Zhuhai boundary crossing facilities, in addition to off-airport check-in counters at the Hong Kong Boundary Crossing Facilities.

In 2017/18, two carriers, Air France and KLM Royal Dutch Airlines, started providing upstream check-in (UCI)

service, bringing the total number of participating airlines to 22. UCI lets passengers check in at ferry ports and land points in the PRD and Macao prior to taking a coach or ferry directly to HKIA for their flight. With service extended to Nansha Port in November 2017, UCI service is now available at all nine ferry ports served from SkyPier.

During the year, we developed new intermodal products, which bundle flights and cross-boundary ferry and land transportation into a single ticket, to cover more airlines and destinations in the PRD and Macao. We also increased the distribution channels for these intermodal products to include all global distribution systems as well as online travel agents and portals. Meanwhile, we increased these products’ exposure in the corporate sector by promoting them to travel agents and multinational corporations.

CARGO AND AVIATION SERVICES



To reinforce our leading position, we are positioning Hong Kong International Airport (HKIA) as a high-value cargo hub and expanding our capacity to capture the potential of rapidly growing business segments.

TEMPERATURE-SENSITIVE AIR CARGO

In 2017/18, the International Air Transport Association (IATA) recognised HKIA as a Partner Airport in its Centre of Excellence for Independent Validators in Pharmaceutical Logistics (CEIV Pharma) programme. HKIA is one of a few airports in the world to receive this airport-wide certification, which acknowledges our competency and preparedness in handling pharmaceutical airfreight that requires stringent temperature control at a globally recognised standard. To achieve this certification, three cargo terminals, three ramp handling operators and a Hong Kong-based carrier passed IATA's CEIV Pharma assessment by mid-2017.



Maintaining the integrity of HKIA's cold chain, AAHK is investing in cool dollies that help preserve goods against the ambient temperature during ramp transportation.

During the year, we also joined Pharma.Aero, an international group of pharmaceutical shippers, CEIV Pharma-certified cargo communities, airport operators and other industry stakeholders. Through this platform, we work with the industry to establish pharma corridors connecting fellow Pharma.Aero airports. This allows us to provide

seamless, secure airfreight trade lanes for pharmaceutical products.

As growth in pharmaceutical air cargo volumes continues to outperform the total airfreight market, we are investing in HKIA's cold chain by building apron shelters and purchasing 21 new cool dollies.

CARGO THROUGHPUT BY MARKET*

(year ended 31 March 2018)



* Airmail is excluded.

CARGO AND AVIATION SERVICES

AIRMAIL TONNAGE (year ended 31 March 2018)

Total airmail*

+12%



111
THOUSAND
TONNES

* Includes airmail from Hongkong Post and transit mail from the airlines.

HIGH-GROWTH SEGMENTS

E-commerce shipments are growing exponentially, creating demand for premium warehouse space. We are catering to this segment with a new logistics centre in the airport island's Kwo Lo Wan area. With warehouse space of around 380,000 square metres, the centre will be one of the largest logistics facilities in Hong Kong. It will be equipped with innovative features to serve the e-commerce, temperature-controlled airfreight and transshipment segments. An invitation to tender for developing and operating the logistics centre was issued during the year.

Meanwhile, Airport Authority Hong Kong (AAHK) is exploring collaboration opportunities with Hongkong Post and other postal authorities to expand the Air Mail Centre and enhance its capacity and efficiency.

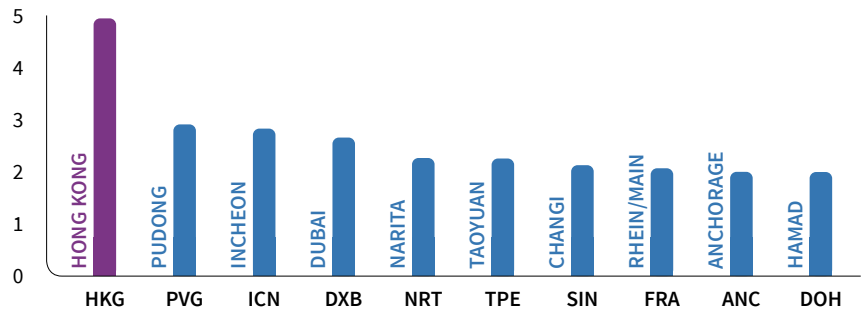
In November 2017, we announced a partnership with DHL Express to enlarge their Central Asia Hub (CAH) at HKIA. When the expansion programme is completed in 2022, the CAH's annual capacity will increase 50%, to 1.06 million tonnes.



HIGHER SECURITY STANDARDS

The International Civil Aviation Organisation is introducing new policies to strengthen air cargo security. We are in discussions with the Civil Aviation Department and the industry to find ways to cope with additional screening while maintaining the efficiency of our cargo services.

10 BUSIEST AIRPORTS IN 2017 – INTERNATIONAL FREIGHT THROUGHPUT* (millions of tonnes)



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

Source: Preliminary figures from Airports Council International in April 2018



NEW AIRLINES AND DESTINATIONS

In 2017/18, 13 new airlines began serving HKIA: Air Cargo Global, Air Japan, Air Seoul, CargoLogicAir, Hong Kong Air Cargo, JC (Cambodia) International Airlines, Lanmei Airlines (Cambodia), National Air Cargo, Shandong Airlines, Sky Gates Cargo Airlines, Small Planet Airlines, Virgin Australia International Airlines and Western Global Airlines.

We also added nine destinations to our network: Christchurch, Prague, Sendai, Sihanoukville, Tokushima, Verona, Warsaw, Yuncheng and Zhangjiajie.



AIRFIELD AND SYSTEMS



Despite being one of the busiest airports in the world, Hong Kong International Airport (HKIA) enjoys a reputation for delivering safe, reliable services. To retain our competitive edge amidst growing traffic, we continue to add infrastructure, upgrade our facilities and employ new technologies.

OPTIMISING RUNWAY USE

In 2017/18, we achieved a record 423,390 flight movements while maintaining the airport's safety standards and noise footprint.

We did this by boosting runway maintenance efficiency with advanced technologies, thus allowing us to reduce the night-time maintenance period by 15 minutes and open up more takeoff and landing slots, without compromising safety. We also launched a pilot programme that encourages airlines to deploy quieter aircraft late at night and early in the morning, thereby maximising runway utilisation while controlling the total noise level of aircraft operation at HKIA.

To meet medium-term demand before the three-runway system enters service, Airport Authority Hong Kong (AAHK) and the Civil Aviation Department (CAD) are studying the latest aviation and air traffic management technologies. This will further enhance HKIA's efficiency.

COLLABORATIVE DECISION MAKING

Effective information sharing is essential in HKIA's busy operating environment. The Airport Collaborative Decision Making (A-CDM) system is a real-time information-sharing platform for AAHK and its business partners to

exchange accurate, high-quality data. It enhances the airport's efficiency and capacity utilisation by improving flight punctuality and reducing taxiing time.

First developed in 2015/16, the A-CDM system was implemented and upgraded to 24-hour operation in 2017/18.





LEVERAGING NEW TECHNOLOGIES

We are increasing the use of automation and robotics to enhance safety and efficiency at HKIA.

In August 2017, we completed the installation of an automated foreign object debris detection system on both runways. This electro-optical system complements manual inspections and offers round-the-clock runway surveillance with a recording function for post-event analysis and investigation.

Many types of vehicles and ground service equipment (GSE) travel along and across HKIA's taxiways. In 2018/19, we will begin developing a ground traffic alert system that

uses the real-time aircraft ground movement information in the A-CDM system to signal predicted aircraft movements to drivers and GSE operators. Scheduled for implementation in 2020, the new system will enhance airfield safety and the efficiency of vehicles and GSE on the apron.

We are also studying the use of autonomous vehicles on the airfield and putting in place appropriate safety measures. Trials are planned for the second quarter of 2018.

Digital image analysis is another promising technology. We are exploring two new schemes for detecting cracks in airfield pavement. The first scheme uses a three-dimensional laser scanner and a

camera mounted on a vehicle. A trial of this scheme was successfully conducted in March 2018. The second scheme, which was tested with the CAD's support in February 2018, uses a drone-mounted, high-resolution camera to capture images for subsequent automatic data analysis. Both schemes are now under evaluation.

In 2017/18, we completed a feasibility study for creating a digital twin of HKIA, with the aim of virtually replicating the airport's terminal infrastructure and systems. The digital model will simulate scenarios, enabling us to make predictions and identify solutions without disrupting actual airport operations. We plan to build a digital model of Terminal 1 (T1) in 2018/19.



ENHANCING ASSETS

To increase operational efficiency, we began building a high-speed baggage transport system between the Midfield Concourse and T1 in 2017/18. The new system is scheduled for commissioning in 2019/20.

Currently, GSE at HKIA are owned by individual ramp operators. To serve client airlines, operators must move their GSE from one parking stand to another, which causes extra traffic on the apron and can result in congestion and flight delays when equipment arrives late. In response, we started developing a pooling scheme, where operators can rent GSE from AAHK. Critical equipment—such as conveyor belt loaders, main and lower deck loaders, and passenger stairs—will be placed on parking stands. The scheme will initially be implemented in mid-2018 at the Midfield Concourse and in the Midfield area. The equipment can also be made available elsewhere, on request.

This year, we also launched the Airfield Operations Training Centre, which uses virtual reality (VR) technology to train equipment operators. The centre lets staff experience different operating conditions in a safe environment and provides more flexible training schedules. Training using the first VR module, which was created for aircraft loading bridge operators, will begin in mid-2018.

The Airfield Operations Training Centre uses new technology to boost the efficiency and flexibility of airport staff training.

STRENGTHENING RELATIONSHIPS

In September 2017, AAHK formed the International Airports Benchmarking Programme, with the operators of London Heathrow and Toronto Pearson as founding members. Los Angeles, Munich and San Francisco airports joined the programme in 2017/18.

The programme's objective is to improve safety, security, productivity and environmental performance by sharing knowledge and key performance indicator (KPI) data among hub airports. With this data, members can prioritise areas for improvement and support effective decision making. Initial KPIs were agreed and preliminary benchmarking was completed in 2017/18.



MAINLAND PROJECTS



Airport Authority Hong Kong's (AAHK) collaboration with airports in Hangzhou, Shanghai and Zhuhai enables the exchange of management expertise that strengthens the competitiveness of Hong Kong International Airport and our Mainland partners.

HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

Since 2006, AAHK has held a 35% interest in Hangzhou Xiaoshan International Airport (HXIA).

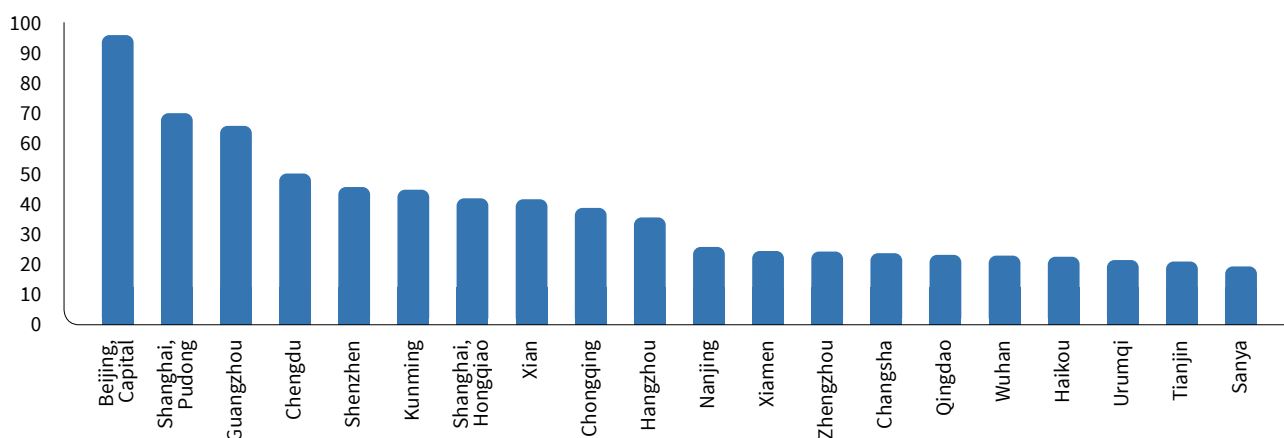
Traffic at HXIA continued to grow in 2017. Passenger throughput rose 12.6% from 2016, to 35.6 million, cargo volume soared 20.8%, to 589,500 tonnes, while flight movements increased 8%, to 271,100.

This strong performance made HXIA the 10th busiest passenger airport and the sixth busiest cargo airport on the Mainland. Among the top 10 Mainland airports, HXIA ranked second for passenger growth and first for cargo growth.

In 2017, HXIA added eight cities to its international network, bringing the total to 43. New international passenger services to Lisbon, Melbourne and Saipan began, and direct cargo flights to Chicago and Novosibirsk were launched. Meanwhile, domestic destinations increased 12, to 113.

Several important projects at HXIA reached milestones in 2017. For example, the preliminary design for Terminal 4 and the Integrated Transportation Centre was completed. Development of HXIA's ground transportation network proceeded according to schedule. In the future, the airport will be accessible by mass transit and high-speed rail lines, as well as an airport express line serving the greater Hangzhou area. Many of these projects will be completed by 2022 to prepare the city for the Asian Games.

TOP 20 AIRPORTS ON THE MAINLAND IN 2017 – PASSENGER THROUGHPUT (millions of passengers)

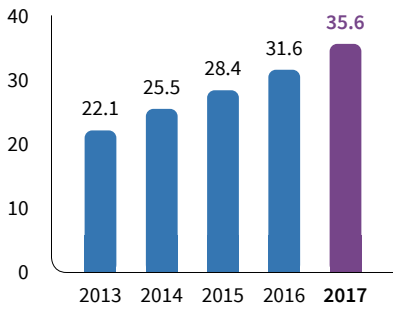


Source: Civil Aviation Administration of China (CAAC)

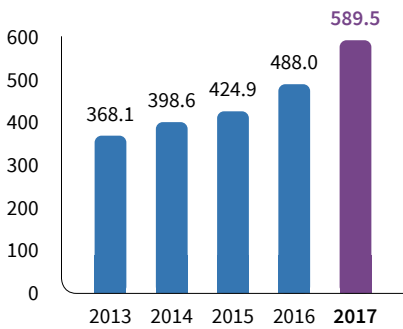
MAINLAND PROJECTS

THROUGHPUT AT HANGZHOU XIAOSHAN INTERNATIONAL AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China (CAAC)

The master planning for HXIA’s long-term development is also under way. It is planned to ultimately enlarge HXIA to 30 square kilometres and increase its annual capacity to 100 million passengers.

SHANGHAI HONGQIAO INTERNATIONAL AIRPORT

A joint venture between AAHK and Shanghai Airport Authority was established in 2009 to manage the terminal operations and retail business at Shanghai Hongqiao International Airport. The third phase of the joint venture—which will see strengthened co-operation on flight movement management, service benchmarking and sharing of smart airport initiatives—started in 2018.

In 2017, passenger throughput at Hongqiao airport increased 3.5%, to 41.9 million, while flight movements rose 0.6%, to 264,000.

Hongqiao airport was named the Mainland’s best airport in the 2017 Skytrax survey. It also received a “Gold Certificate” from the International Air Transport Association’s Fast Travel programme for proactively introducing self-service facilities.

To sustain Hongqiao airport’s high service standards, Terminal 1 (T1) is being renovated. Enhancement works to Building B in T1 are progressing well and are expected to be completed in the third quarter of 2018.

To offer passengers a better airport experience, Building B in Terminal 1 at Hongqiao airport is undergoing a major renovation.



ZHUHAI AIRPORT

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

Zhuhai Airport enjoyed another record-breaking year in 2017. Passenger throughput surged 50.3%, to 9.2 million, domestic cargo volume grew 18.6%, to 37,379 tonnes, while flight movements jumped 40.3%, to 69,720. Nine domestic destinations were added to the airport's network, bringing the total to 55.

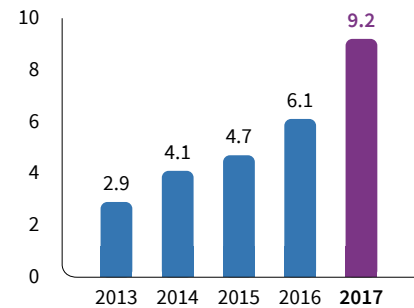
In 2017, Zhuhai Airport launched the Airport Collaborative Decision Making system, an information-sharing platform for the airport and its business partners. By the first quarter of 2018, the system had helped improve the airport's on-time flight departure rate by about 10%, to over 80%.

During 2017, renovations to the airport's eastern wing were completed and upgraded departure gates and baggage carousels were put into service. In 2018, new check-in counters will be installed and modifications to the departures hall will start. In the meantime, design work continues on a new annex for international and premium passengers. Scheduled for completion in 2020, the entire expansion programme will increase the terminal's annual capacity to 12–15 million passengers.

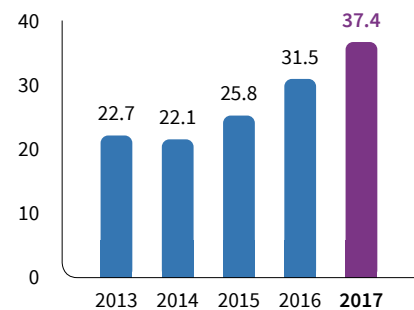
With the imminent commissioning of the Hong Kong-Zhuhai-Macao Bridge, the airport is fitting out a lounge on the bridge's artificial island in Zhuhai. The lounge is expected to enter service when the bridge commences operation.

THROUGHPUT AT ZHUHAI AIRPORT

(millions of passengers)



(cargo in thousands of tonnes)



Source: Civil Aviation Administration of China (CAAC)



The new Terminal 4 and Integrated Transportation Centre will help HXIA cope with increasing traffic.

SUSTAINABILITY AND PEOPLE



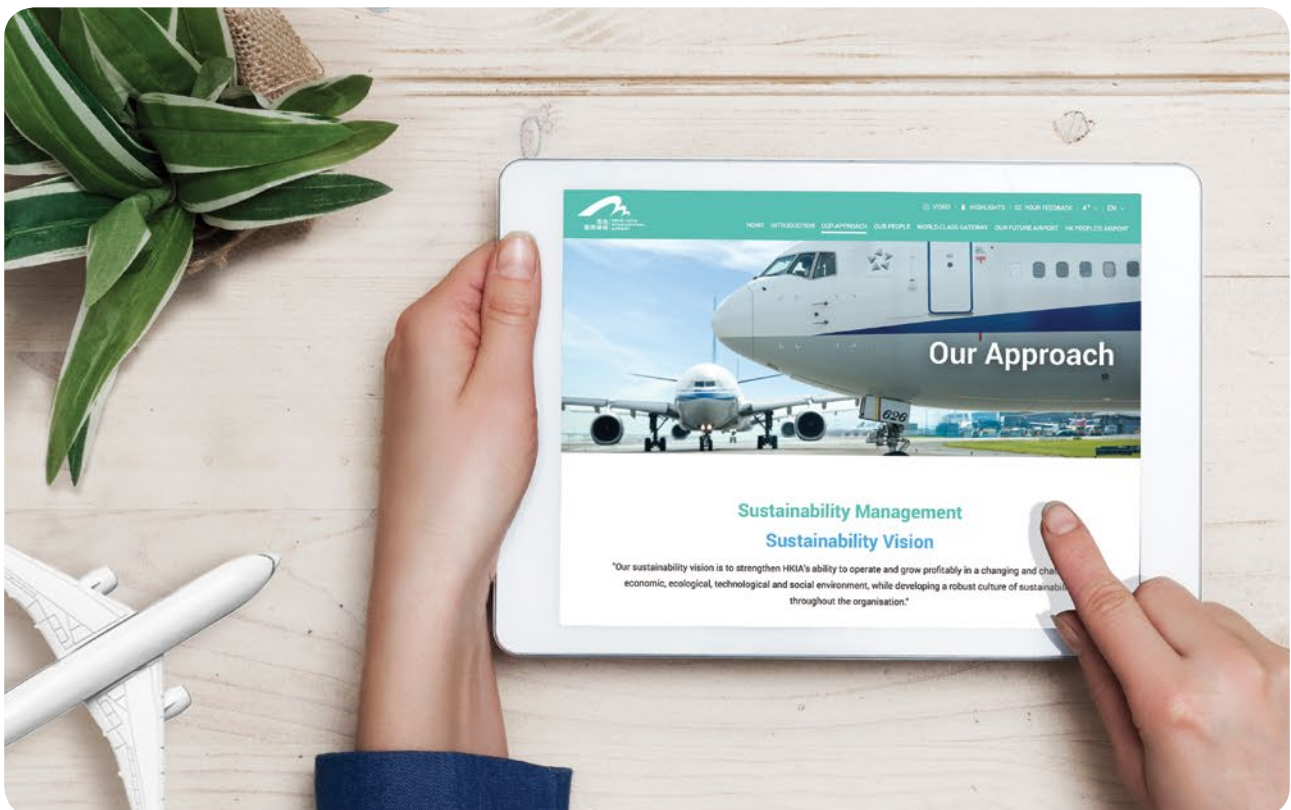
Airport Authority Hong Kong (AAHK) is committed to the sustainable development of both the airport and the community we serve. We constantly seek new opportunities to enhance the way we operate Hong Kong International Airport (HKIA), collaborate with our business partners and support the people of Hong Kong.

SUSTAINABILITY REPORT 2016/17

In January 2018, we published our fifth sustainability report, which provides a comprehensive account of AAHK's management approach to sustainability and key initiatives in different aspects of our operations.

This was our first entirely web-based report. A range of features, such as dynamic graphics, video and interactive charts, were adopted to increase the report's accessibility and enhance the reader experience.

The report was prepared with reference to the Global Reporting Initiative standards: Core option and Airport Operators Sector Disclosures.



SUSTAINABILITY AND PEOPLE

TAKING GREENER STRIDES

In March 2018, we received ISO 14001:2015 certification, which specifies the requirements for the environmental management system that we use to manage, measure and enhance our performance across a range of environmental categories.

We take an airport-wide approach to managing our environmental impact. In November 2016—along with our business partners, we pledged that by 2020, we would reduce the airport’s carbon intensity by 10%, relative to 2015 levels. We are working closely with our business partners to help them reduce their carbon intensity. For example, we host round-table discussions with

senior executives from the airport community. We also created a carbon reduction benchmarking scheme, established technical working groups to share new technologies and introduced an award programme that recognises top performers.

In incorporating more environmentally-friendly practices in our daily operations, we are promoting wider use of electric vehicles in the airside areas of HKIA. With the support of our business partners, by July 2017 all airside saloon cars had been replaced with electric models. We are planning the second phase of this programme, which will require the replacement of all airside private cars with a gross vehicle weight of less than 3 tonnes with electric models. This year, we

also conducted a trial of airside electric passenger buses. We plan to begin replacing all 40 of our airside buses with electric models next year.

To enhance our energy efficiency, in 2017/18 we applied building analytics to the North Satellite Concourse. This technology uses big data and real-time analysis of the building’s operational performance to identify energy-saving opportunities. We also connected the chillers in Terminal 1 to a cloud-based analytic platform, ensuring they are running properly and optimising their energy consumption.

To help the airport community prepare for the municipal solid waste (MSW) charging scheme that the Hong Kong SAR Government will soon introduce, in June 2017 we launched an airport-



wide pilot programme that tests three charging mechanisms. The 20-month programme helps tenants measure the quantity of their waste and estimate the future cost of waste disposal under the MSW scheme, thereby encouraging them to reduce waste.

During the year, we completed a feasibility study for a small waste-to-energy facility at HKIA. The study recommended a waste treatment technology and identified the facility's engineering and environmental requirements and estimated cost. We are proceeding with preliminary design work.

INVESTING IN THE COMMUNITY

In 2017/18, we launched EXTRA MILE, a community investment project based on the concept of creating shared value. Supported by 18 business partners and four non-governmental organisations and social enterprises, EXTRA MILE comprises three pilot programmes that are designed to retain and attract talent for HKIA.

Two programmes, "Working Holiday@Lantau" and "The Pioneer", provide career opportunities at HKIA for working youths and non-Chinese speakers. The third programme, "EduCare", is an AAHK-subsidised after-school service for primary students studying in Tung Chung whose parents work at HKIA. "EduCare" targets workers who would otherwise have to take care of their children at home during the day.



The EXTRA MILE project provides work placement opportunities at HKIA to help participants unleash their potential.



SUSTAINABILITY AND PEOPLE



From publishing a children's book to elderly visits, AAHK's community engagement programmes cover various stakeholders.

We also developed HKIA's talent pool with district-level job fairs and a large career expo at the Hong Kong Convention and Exhibition Centre. In 2017/18, job fairs were held in locations such as Sham Shui Po and Tin Shui Wai.

In addition to employment-related initiatives, we build connections with stakeholders throughout our community. For example, we supported the "Taking Off • Inspiring @ Tung Chung" Community Caring Partnership Project organised by Tung Chung Safe and Healthy City to promote love and happiness in the community. The project showcased the work of young Hong Kong artists and musicians and gave them opportunities to perform in public.

In March 2018, we published our first children's book, *Little Adventure at the Big Airport*, a bilingual educational tour of HKIA for readers aged 3–6. Featuring animated drawings, inspiring content and interactive pages, the book takes children behind the scenes and helps them discover interesting facts about the airport at various stages of their journey.

Meanwhile, we engage with elderly residents in nearby communities through an ongoing programme of spring dinners and festive activities. In September 2017, 35 AAHK staff visited elderly people in Tai O, a district where homes were damaged by a typhoon during the year.

GROOMING OUR TALENT

Recognising the importance of people in supporting the long-term development of HKIA, we strive to develop talent within both AAHK and the airport community.

In 2017/18, reinforcing AAHK's corporate culture and developing talent at all levels remained our key focus. We continued to promote AAHK's "5Cs" core values—Caring, Commitment, Creativity, Collaboration and Continuous Improvement—through a range of culture promotion initiatives.

To cultivate stronger bonds among staff, we initiated a corporate-wide team-building programme starting with senior management in September 2017. The programme was cascaded to middle management in early 2018, covering all together 170 staff. We also hosted mingling sessions where senior management met junior and mid-level staff.

Riding on the success of the Work Improvement Team (WIT) programme launched in 2016/17, which provides front-line staff with a platform to practise AAHK's core values and generate new ideas for value creation, the WIT programme was extended across all divisions of AAHK this year and a total of 55 teams comprising 270 staff were formed. In November 2017, we organised the first AAHK WIT Convention where outstanding WITs showcased their achievements and received awards for their contributions. We plan to further promote the WIT programme to our business partners in the broader airport community.

During the year, we strengthened our human capital by expanding the annual talent review and succession planning process to include middle managers. We also linked our summer internship programme to management trainee recruitment to expand the sourcing of high-calibre talent. In addition, a development centre was established to identify the development needs of our high potential staff. New leadership and supervisory training programmes were launched to equip middle managers and junior supervisors, especially those who have been newly promoted, with the necessary skills, knowledge and mindset to excel in their leadership roles.

In 2017/18, our employees received a total of around 53,600 hours of training covering both technical and soft skills aspects, representing an increase of 8% over 2016/17. Recognising our endeavours for employee training and development, we have been awarded the "Manpower Developer" status by the Employees Retraining Board's Manpower Developer Award Scheme since 2015/16.

Established to nurture aviation talent, the Hong Kong International Aviation Academy (HKIAA) opened in April 2017. In 2017/18, it delivered over 100 courses to over 5,500 students and provided more than 60 training courses to some 23,000 airport staff.

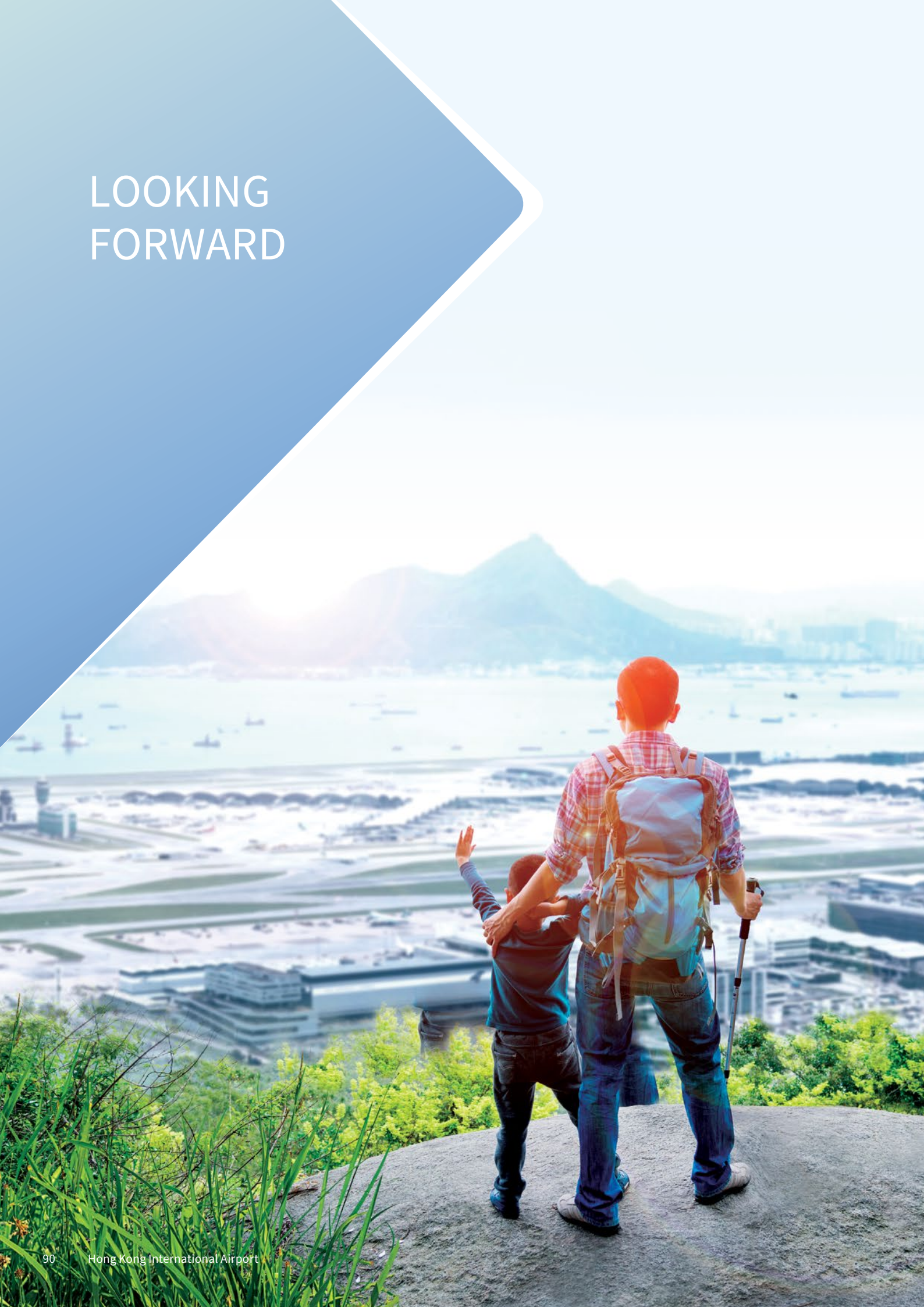
HKIAA also facilitates the development of aviation talent outside Hong Kong. During the year, HKIAA partnered with the world-renowned École Nationale

de l'Aviation Civile to organise an advanced master's degree programme in air transport management. In addition to local students, the programme targeted regional participants. As a part of the International Civil Aviation Organisation's (ICAO) "No Country Left Behind" initiative, which intends to provide aviation training to countries looking for capacity building in aviation, sponsorship from civil aviation authorities and aviation-related companies in Hong Kong and France was arranged for civil aviation staff from six South East Asian countries to encourage their participation in the programme.

In October 2017, HKIAA became an associate member in the ICAO's TRAINAIR PLUS programme. In 2018/19, HKIAA will gain full TRAINAIR PLUS membership and commence the development of ICAO courses.



LOOKING FORWARD



With global air traffic consistently rising, we continually increase our capacity to meet growing needs and strengthen the status of Hong Kong International Airport (HKIA) as an international aviation hub. Several expansion programmes are now under way, including the three-runway system (3RS).

THE THREE-RUNWAY SYSTEM

The 3RS project involves the reclamation of approximately 650 hectares of land north of the airport island and the construction of a third runway, a supporting taxiway system, a third runway passenger building and associated infrastructure. Terminal 2 (T2) will also be expanded to provide full-fledged passenger services.

Reclamation works for the 3RS are progressing as planned. Deep cement mixing (DCM), a non-dredge technique that helps minimise environmental impact, is being used. In 2017/18, DCM works for critical reclamation and sea wall areas were substantially completed. Construction of the sea wall began with mass filling started in May 2018. Having diverted the undersea power cables connected to HKIA, construction works associated with the diversion of the airport's aviation fuel pipelines were substantially completed in the first quarter of 2018. The pipelines will be commissioned after a series of tests to be conducted in the second quarter of 2018.

Other elements of the 3RS project also made good progress. Advance works for the expansion of T2 commenced and detailed design for the terminal have been substantially completed. Construction of the North Runway crossover taxiway is ongoing, as are detailed designs for the airfield infrastructure and third runway passenger building.

The design and build contracts for the Automated People Mover and high-speed Baggage Handling System for the 3RS have started, as well as the construction of the associated tunnels on the existing airport island.

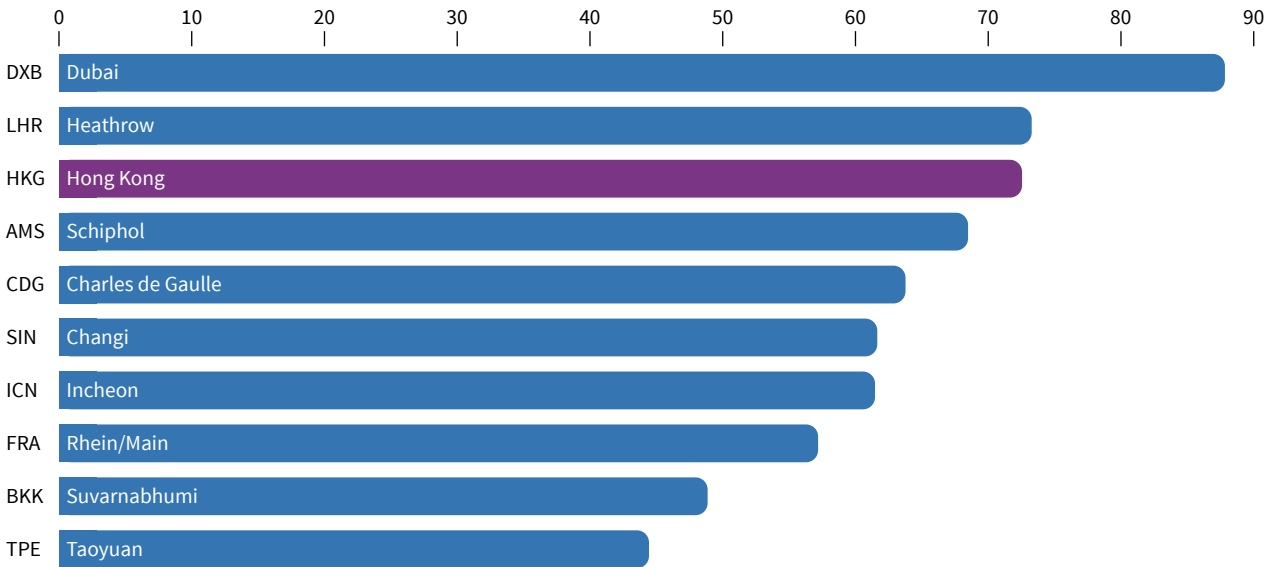
Overall, the 3RS project is on track to meet the target commissioning by the end of 2024 and the budget of HK\$141.5 billion.

Prior to the commencement of construction of the 3RS project in August 2016, Airport Authority Hong Kong (AAHK) has already implemented a comprehensive environmental monitoring and audit programme. We also established a Marine Ecology Enhancement Fund and a Fisheries Enhancement Fund. In 2017/18, the funds approved more than HK\$8 million in support for 10 projects proposed by tertiary educational institutions, research groups and fisheries industry associations. Applications for financing 2018/19 projects are now under review and results will be announced in the third quarter of 2018.



LOOKING FORWARD

10 Busiest Airports In 2017 – International Passenger Throughput* (millions of passengers)



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

Source: Preliminary figures from Airports Council International in April 2018



In addition to regular meetings with our Community Liaison Groups and Professional Liaison Group, we have communicated 3RS project news and environmental information to a wide spectrum of stakeholders and listened closely to their opinions and concerns throughout the design and construction process. In 2017/18, we organised and participated in more than 280 events, including briefings, seminars, exhibitions and airport tours.

TERMINAL 1 CAPACITY ENHANCEMENT

We have started expanding Terminal 1 (T1) to increase capacity before the commissioning of the

3RS. During the year, advance works for construction of the T1 Annex Building and Car Park 4 extension were completed.

When this project is finished, T1 will have 48 new check-in counters with self-bag drop facilities and two additional baggage reclaim carousels. New shops and food and beverage outlets will be added to the landside Arrivals Hall.

T1's East Hall restricted area will be enlarged to provide more recreational facilities, including a two-storey children's play area and a dedicated recreational zone featuring new technologies for travellers. Passengers will also be able to relax in a new outdoor garden.

The Car Park 4 building will be expanded to provide about 1,400 public parking spaces and premises for the Hong Kong International Aviation Academy and Airport Preschool. This building will also house other staff-related facilities, including a community centre, a multipurpose sports hall and fitness centre, and staff canteens.

Meanwhile, a 200-metre-long, air-conditioned walkway between T1 and the North Satellite Concourse (NSC), known as the "Sky Bridge", will be built. Including travelators, an observation deck, and food and beverage outlets, the 28-metre-tall Sky Bridge is slated to open in 2020 and will reduce passengers' travel time to gates in the NSC. The design and construction contract for the Sky Bridge commenced in 2017/18.



The expanded T1 (*left*) and Sky Bridge (*right*) will create a more comfortable, pleasant environment for passengers at HKIA.

SKYCITY

Comprising hotels, offices, and retail, dining and entertainment (RDE) facilities, the 25-hectare SKYCITY will be the largest commercial development in Hong Kong and will make the airport a destination in itself.

An agreement to develop and manage the SKYCITY hotel was awarded to Regal Hotels Group and construction began in September 2017. With a gross floor area of about 33,700 square metres, the hotel will have over 1,000 guest rooms.

A tender to develop and manage a 350,000-square-metre RDE complex in SKYCITY was awarded to Roxy Limited, a subsidiary wholly-owned by New World Development Company Limited, in May 2018.

INTERMODAL TRANSFER TERMINAL

The enhanced connectivity brought by the up and coming Hong Kong-Zhuhai-Macao Bridge (HZMB) will further strengthen HKIA's role as a regional aviation hub. To capture these opportunities and offer passengers a seamless travel experience between HKIA and the western Pearl River Delta and Macao, we are building a five-storey, 22,000-square-metre Intermodal Transfer Terminal (ITT) adjacent to SkyPier.

Scheduled for completion in 2022, the ITT will be linked to the Hong Kong Boundary Crossing Facilities by a 360-metre bonded vehicular bridge that will eliminate the need for air passengers arriving or departing via the HZMB to clear immigration in Hong Kong.

The statutory Environmental Impact Assessment for the vehicular bridge is now in progress and a detailed design of the ITT is now under development.

The RDE facilities at SKYCITY will cater for visitors and local residents of different ages.



FINANCIAL REVIEW

FINANCIAL SUMMARY

(in HK\$ million)	2017/18	2016/17	+/-% ¹
Revenue	21,994	18,627	+18.1%
Operating expenses before depreciation and amortisation	6,058	5,796	+4.5%
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	15,936	12,831	+24.2%
Depreciation and amortisation	3,097	3,079	+0.6%
Net interest and finance income	275	131	+109.9%
Share of results of joint ventures	201	83	+142.2%
Profit before taxation	13,315	9,966	+33.6%
Income tax	1,829	1,656	+10.4%
Profit for the year	11,486	8,310	+38.2%
Profit attributable to the equity shareholder	11,416	8,276	+37.9%
Dividend declared	-	-	-
Key financial ratios			
Return on equity	17.3%	14.7%	
Total debt/capital ratio	2%	2%	
Key traffic summary²			
Passenger traffic ³ (millions of passengers)	73.6	70.5	+4.5%
Cargo and airmail throughput ⁴ (millions of tonnes)	5.1	4.7	+7.6%
Aircraft movements (thousands)	423	410	+3.2%

¹ Subject to rounding differences.

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

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

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

OVERVIEW

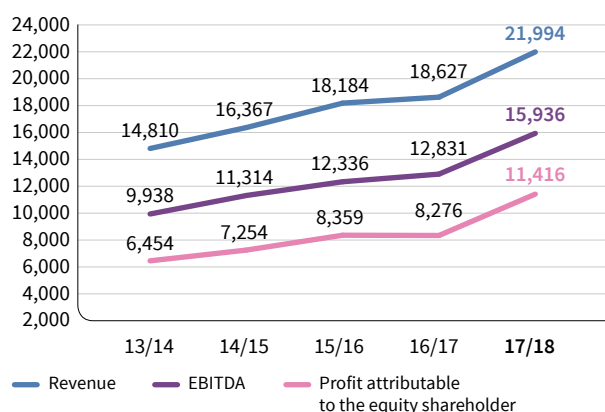
Airport Authority Hong Kong (AAHK) enjoyed a record-breaking year in fiscal 2017/18, ended 31 March 2018.

All three traffic categories—passenger volume, cargo and airmail throughput and flight movements—set new records in 2017/18. During the year, Hong Kong International Airport (HKIA) welcomed 73.6 million passengers and handled 423,390 flight movements, representing annual increases of 4.5% and 3.2%, respectively. Cargo and airmail throughput rose 7.6%, to 5.1 million tonnes, exceeding 5 million tonnes for the first time.

These results, coupled with higher revenues from airport charges, airside support services franchises and retail concessions, as well as a gain from the sublease of land at HKIA for SKYCITY's hotel development, helped AAHK and its subsidiaries (the Group) deliver an outstanding financial

FINANCIAL RESULTS

(in HK\$ million)

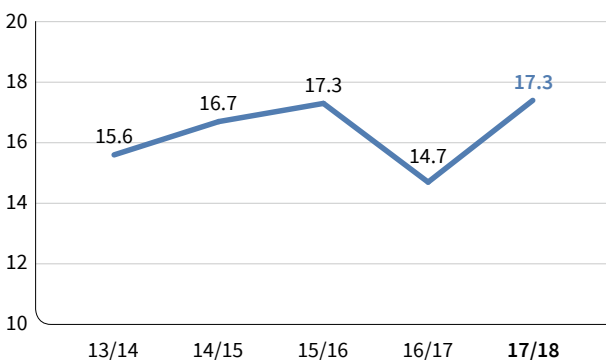


FINANCIAL REVIEW

performance in 2017/18. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK\$15,936 million and profit attributable to the equity shareholder of HK\$11,416 million, representing an improvement of 24.2% and 37.9%, respectively, from the previous fiscal year. As a result, the Group's return on equity increased to 17.3%. No dividend was declared for the year.

RETURN ON EQUITY

(in percent)



REVENUE

Total revenue grew 18.1%, to HK\$21,994 million, largely as a result of increased passenger traffic, flight movements and cargo throughput; strong retail performance; and a one-off gain from the sublease of land at HKIA for SKYCITY's hotel development. Airport and security charges; revenues from airside support services franchises, retail licences and advertising; other terminal commercial revenue; and other income, collectively comprised 97.0% of total revenue.

Airport and security charges, representing 30.2% of total revenue, rose 10.1%, to HK\$6,645 million, primarily due to increases in flight movements and passenger traffic, and higher landing charges, which took effect on 1 September 2017.

Revenues from airside support services franchises grew 12.3%, to HK\$3,054 million. This increase was mainly attributable to higher franchise fees received from the aviation fuel system as a result of a rise in aviation fuel throughput and higher tariffs; higher franchise fees from air cargo due to index adjustments in rental rates during the fiscal year; and higher ground handling service and cargo revenues at Zhuhai Airport as a result of increases in flight movements and cargo throughput.

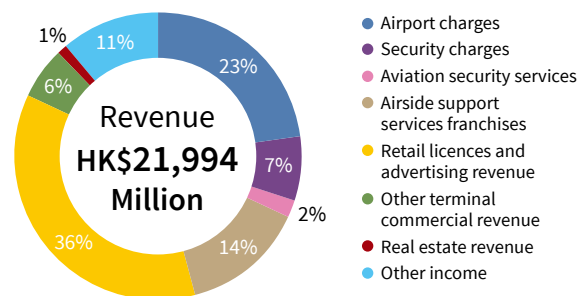
Retail licences and advertising revenue, representing 36.0% of total revenue, rose 1.4%, to HK\$7,909 million. This increase was mainly a result of the passenger growth at HKIA.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 5.1%, to HK\$1,404 million, largely due to the opening of new commercial lounges and an index adjustment in rental rates during the year.

Other income grew significantly to HK\$2,328 million. This increase was attributable to a one-off gain from the sublease of land at HKIA to Regal Hotels Group to develop and manage the SKYCITY hotel in 2017/18.

REVENUE BY SOURCE

(for the year ended 31 March 2018)



OPERATING EXPENSES

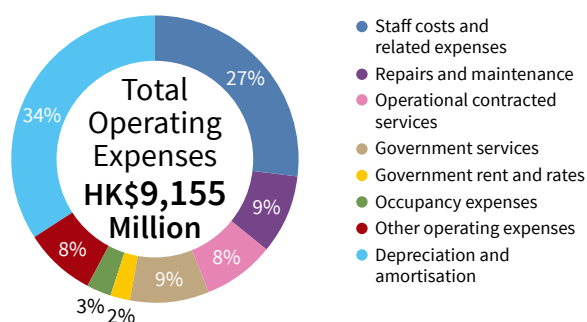
The Group continues to exercise stringent financial discipline to control its operating expenses while expanding its operations and maintaining the highest standards of safety, security, service and sustainability. Total operating expenses before depreciation and amortisation increased 4.5%, to HK\$6,058 million, mainly due to inflationary pressures and strong traffic growth during the fiscal year.

The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, other operating expenses, and depreciation and amortisation, which accounted for approximately 95.2% of total operating expenses. Almost half of the Group's total operating expenses relate to depreciation and amortisation, government services and government rent and rates. These are costs over which the Group has limited control.

Staff costs and related expenses, representing 27.2% of total operating expenses, increased 11.2%, to HK\$2,492 million, mainly due to adjustments to ensure the market competitiveness of employees' remuneration and an increase in staff numbers to cope with traffic growth.

OPERATING EXPENSES BY CATEGORY

(for the year ended 31 March 2018)



Repairs and maintenance costs grew 1.7%, to HK\$834 million, largely due to additional work on the airfield and in the terminals to ensure safe and reliable operation amidst increased traffic. Wage increases due to labour shortages and inflationary pressures on material costs also contributed to the increase.

Operational contracted services represents costs for operations outsourced to third-party contractors. This category rose 11.0%, to HK\$767 million, largely due to traffic growth and higher costs as a result of contracts renewal and wage increases due to labour shortages during the year.

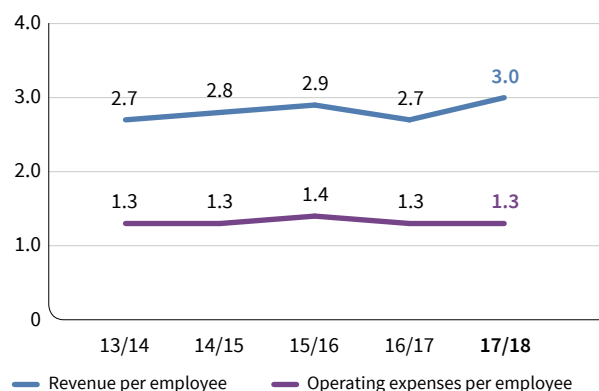
Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. This category decreased 14.1%, to HK\$788 million, mainly due to a decrease in air traffic control fees.

Other operating expenses increased 4.1%, to HK\$735 million, mainly attributable to an increase in the allowance for doubtful debts induced by the rise in trade debtors.

Despite the completion of expansion and improvement projects for facilities and systems during the fiscal year, depreciation and amortisation increased only by 0.6%, to HK\$3,097 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

During the year, the Mainland airports in which AAHK has an investment continued to benefit from China's economic expansion and experienced strong growth in passenger traffic and cargo throughput.

In calendar 2017, passenger traffic and flight movements at Hangzhou Xiaoshan International Airport (HXIA) grew 12.6% and 8.0%, respectively, to 35.6 million and 271,100. Cargo throughput rose 20.8%, to 589,500 tonnes. AAHK's share of HXIA's profits increased twofold, to HK\$200 million, in 2017/18, largely due to solid traffic growth, airport charges increase and an one-off special income.

In calendar 2017, passenger traffic at Zhuhai Airport grew 50.3%, to a record 9.2 million, flight movements jumped 40.3%, to 69,720, while domestic cargo throughput increased 18.6%, to 37,379 tonnes. AAHK's share of Zhuhai Airport's profits increased twofold, to HK\$83 million, in 2017/18, largely due to strong traffic growth and higher non-aeronautical revenue.

FINANCIAL POSITION

The Group's financial position remains strong and well capitalised. The Group's total equity as at 31 March 2018 reached HK\$72,569 million, an increase of 19.8% over the previous year, mainly due to the net profit achieved in 2017/18 and nonpayment of a dividend for 2016/17.

Investment property, interest in leasehold land, and other property, plant and equipment amounted to HK\$61,654 million, which accounted for 69.3% of total assets. The Group incurred capital expenditures of HK\$16,314 million during 2017/18, mainly related to

the three-runway system (3RS), the Midfield apron development, the Automated People Mover depot, the capacity enhancement of Terminal 1 (T1), the expansion of Car Park 4 and the enlargement and improvement of other facilities and systems.

Intangible asset of HK\$146 million represented the unamortised cost of the right to operate and manage Zhuhai Airport for a period of 20 years, starting in 2006.

Interests in joint ventures of HK\$4,482 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 8.5%, to HK\$3,893 million, primarily due to lower advance payments to certain contractors, despite the rise in trade debtors.

Total trade and other payables increased 45.0%, to HK\$8,316 million, mainly attributable to the increase in construction costs payable and contract retentions in relation to the 3RS.

Unused airport construction fee (ACF) of HK\$1,103 million represented the balance of ACF received and receivable that have not yet been used to fund 3RS construction costs.

DIVIDEND

Pursuant to the financial arrangement plan for the 3RS, the Board did not declare a dividend for 2017/18.

CASH FLOW

Net cash generated from operating activities increased from HK\$11,534 million in 2016/17 to HK\$12,274 million this year, mainly due to the increase in profit for the year.

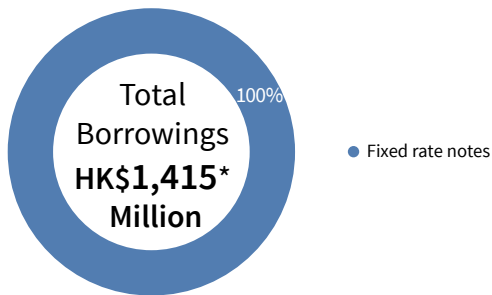
FINANCING

AAHK's total borrowings as at 31 March 2018 amounted to HK\$1,415 million (2016/17: HK\$1,423 million). Total borrowings comprised seven unsecured notes. AAHK upsized the Medium Term Note programme to US\$8 billion in 2017/18 as recommended by the financial advisor of the detailed funding study for 3RS. 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

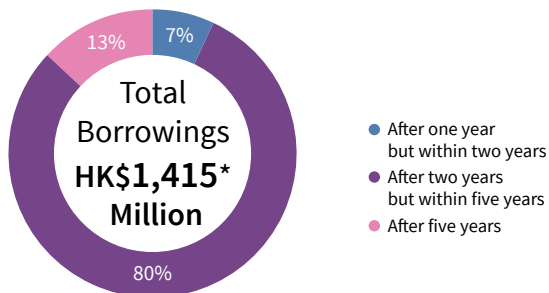
(as at 31 March 2018)



* After unamortised finance costs of HK\$11 million.

LOAN MATURITY PROFILE

(as at 31 March 2018)



* After unamortised finance costs of HK\$11 million.

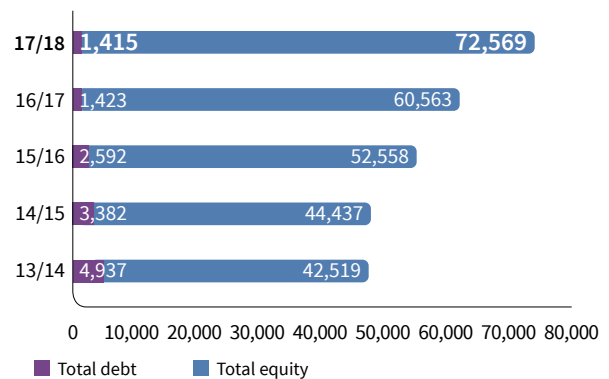
FINANCIAL RISK MANAGEMENT

AAHK manages its financial risks with a variety of instruments and techniques, including spreading its borrowings over different rollover and maturity dates. Financial instruments, such as interest rate swaps, are also used to hedge AAHK's financial risks. In accordance with approved policy, we have adopted measures to fix the interest rate of a portion of total borrowings in order to reduce the impact of interest rate fluctuations on earnings.

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

CAPITAL STRUCTURE

(in HK\$ million)



FINANCIAL REVIEW

OUTLOOK

We project passenger and cargo traffic will grow moderately until the commissioning of the 3RS. In light of growing traffic demand, we will carry out a series of enhancement projects to ensure the airport has sufficient capacity and maintains high service standards before the 3RS enters service.

The expansion of T1, which includes such new passenger facilities as check-in counters, a kid-friendly zone and an open-air garden, is ongoing. We are also carrying out renovation works in T1, including a major revamp of the East Hall food court, transformation of boarding gates into themed zones and refurbishment of public seating areas, to create a more attractive, comfortable environment for passengers. We will continue to deploy new technologies and carry out other enhancement projects to optimise the use of existing facilities.

The construction of the 3RS is the long-term solution to HKIA's capacity constraints and will maintain Hong Kong's status as an international aviation hub. The 3RS has been progressing well since construction started in August 2016 and reclamation works are now at their peak. We will closely monitor the project to ensure its timely completion, thereby maintaining HKIA's competitiveness and reinforcing our position as a leading international aviation hub.

To enhance our services and our reputation for operational efficiency, we will continue our customer service, safety and security initiatives. New technologies will be adopted to meet travellers' needs for more convenient and efficient services. We are now exploring the use of a single travel token to identify passengers at checkpoints throughout the airport and make journeys through HKIA even faster and smoother. We will also introduce more advanced, new self-service and mobile platforms. More passenger service features including food ordering and real-time queuing information are being developed for our "HKG My Flight" mobile app.

In the near term, we project profits will grow at a slower pace until the 3RS starts service. We will enhance non-aeronautical revenue by introducing innovative retail concepts, and new retail categories and brands. With these initiatives and our "HKairport Shop" online platform, we are redefining airport shopping. The SKYCITY development, which comprises hotels as well as retail, dining and entertainment (RDE) facilities, is proceeding as planned. It is set to become a new tourism and business hub on the airport island. The construction of a hotel is under way and the construction of RDE facilities is expected to start soon after the tender award. We will collaborate closely with the developers of the hotel and RDE facilities to ensure their timely business commencement.

The completion of several major infrastructure projects, including the Hong Kong-Zhuhai-Macao Bridge and the Express Rail Link, will expand HKIA's catchment area and we are making developments to capture the opportunities that these projects provide. We will continue to provide extensive intermodal connections and expand HKIA's catchment area by enhancing cross-boundary land and sea connectivity.

We will also 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.

With timely investment, innovative ideas and financial discipline, HKIA will continue to create value for our stakeholders, fulfil our customers' expectations and bring benefits to Hong Kong's economy and the Pearl River Delta.

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REPORT OF THE MEMBERS OF THE BOARD

Financial year ended 31 March 2018

The Members of the Board have pleasure in submitting the annual report of Airport Authority Hong Kong (AAHK) together with the audited consolidated financial statements for the year ended 31 March 2018.

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 the Group for the year ended 31 March 2018 and the Group's financial position as at that date are set out in the Financial Statements on pages 111 to 162.

Dividend

The Ordinance provides that AAHK may pay dividends on its shares and that the Financial Secretary may, after taking into account the financial position of AAHK and its subsidiaries, direct AAHK to pay dividends out of the distributable profits of AAHK. No dividend has been declared since the year ended 31 March 2015, in order to preserve capital for the purpose of funding the three-runway system project.

Transfer to Reserves

The Group's profit attributable to equity shareholder of HK\$11,416 million (2016/17: HK\$8,276 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\$66 million (2016/17: HK\$55 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 2018 are set out in Note 16 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 163 of the annual report.

Share Capital

Under the terms of the Ordinance, AAHK may only issue shares to the Government of the Hong Kong Special Administrative Region (HKSAR) of the People's Republic of China on behalf of which all shares are held by the Financial Secretary Incorporated. No shares were issued or cancelled during the year ended 31 March 2018.

Donations

Donations made during the year amounted to HK\$3,528,000 (2016/17: HK\$4,611,000), which were funded partly from the sales of "lost and found" items at the airport.

Major Customers and Suppliers

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	20%	
Top five customers	42%	
The largest supplier		27%
Top five suppliers		39%

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

Purchases are exclusive of supplies of a capital nature.

Going Concern

The financial statements on pages 111 to 162 have been prepared on a going concern basis. The Board has approved AAHK's budget for 2018/19 and the business plan and financial plan for 2018/19 to 2022/23 and is satisfied that AAHK has sufficient resources to continue as a going concern for the foreseeable future.

Retirement Schemes

Details with regard to AAHK's retirement schemes are set out in Note 19 to the Financial Statements. The administration of the retirement schemes and AAHK's contributions thereto are reviewed periodically with reference to reports of the investment manager of the schemes and independent actuaries.

REPORT OF THE MEMBERS OF THE BOARD

Corporate Governance

Principal corporate governance practices adopted by AAHK are set out in the Corporate Governance Report on pages 31 to 55 of the annual report.

Employees

As of 31 March 2018, AAHK, excluding its subsidiaries, had a total of 2,314 staff (31 March 2017: 1,941). AAHK has developed human resources policies to ensure that employees' remuneration is competitive and that employees are rewarded according to their performance within the framework of AAHK's performance management and reward system. To further strengthen the pay-for-performance culture, a variable compensation scheme has been in place since 2002. Regular reviews are conducted to ensure AAHK's remuneration package is competitive in the market.

Members of the Board and Executive Directors

Biographies of the Members of the Board and Executive Directors as at the date of this report are set out on pages 26 to 29 of the annual report. Changes of the Board Members from the beginning of the financial year to the date of this report are as follows:

- Mr Edward Cheng Wai-sun, after serving the Board for six years, retired on 31 May 2017.
- Mr Andrew Fung Hau-chung, after serving the Board for three years, retired on 31 May 2018.
- Ms Anita Fung Yuen-mei was reappointed as a Member for a one-year term, from 1 June 2017 to 31 May 2018 and she was further reappointed for a one-year term, from 1 June 2018 to 31 May 2019.
- The Hon Jeffrey Lam Kin-fung and Ir Lee Shing-see were reappointed for a two-year term, from 1 June 2017 to 31 May 2019. Mr Franklin Lam Fan-keung, Mr Peter To, the Hon Frankie Yick Chi-ming, the Secretary for Transport and Housing, the Secretary for Financial Services and the Treasury and the Director-General of Civil Aviation were reappointed as Members for a term of three years, from 1 June 2017 to 31 May 2020.
- Mr Lin Jing-zhen and Mr Carlson Tong were appointed to the Board of AAHK for a term of three years, from 1 June 2017 to 31 May 2020. Mr Lin resigned on 5 February 2018.
- The Hon Steven Ho Chun-yin was reappointed for a term of two years and 5 months, from 1 January 2018 to 31 May 2020.
- Mr Jack So Chak-kwong was reappointed as the Chairman of AAHK for a term of three years, from 1 June 2018 to 31 May 2021.
- Ir Billy Wong Wing-hoo and Dr the Hon Allan Zeman were reappointed as Members of AAHK for a term of three years, from 1 June 2018 to 31 May 2021.
- Ms Linda Chan Ching-fan and Mr Adrian Wong Koon-man were appointed to the Board of AAHK for a term of three years, from 1 June 2018 to 31 May 2021.

Interest of Members of the Board and Executive Directors in Contracts

No contracts of significance to which AAHK or any of its subsidiaries was a party and in which a Member of the Board or an Executive Director had a material interest subsisted at the end of the year or at any time during the year. At no time during the year was AAHK or any of its subsidiaries a party to any arrangements to enable any Member of the Board or Executive Director to acquire benefits by means of acquisition of shares of AAHK or of any body corporate.

Related-party Transactions

Details of material related-party transactions entered into or ongoing during the year are set out in Note 23 to the Financial Statements.

Members' Responsibilities for the Financial Statements

The Members of the Board are responsible for the preparation of financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Group's financial performance and cash flows for the period. In preparing the financial statements for the year ended 31 March 2018, 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

HY Shu
Secretary to the Board
Hong Kong, 4 June 2018

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 111 to 162, which comprise the consolidated statement of financial position as at 31 March 2018, 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 2018 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 (“HKSA”) 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	
<i>Refer to note 27(t) to the consolidated financial statements for the relevant accounting policies</i>	
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 80% of the Authority's total revenue for the year ended 31 March 2018.</p> <p>Airport and security charges are recognised when the airport facilities are utilised. Revenue is determined based on aircraft movements and passenger traffic captured by the Authority's information technology systems which are complex and involve multiple interfaces.</p> <p>Revenue from airside support services franchises, retail licences and advertising (collectively "franchise and licence operations") is generally charged at the higher of (1) a minimum fee based on throughput, passenger numbers, rental indices or areas occupied, and (2) amounts calculated based on pre-determined percentages of gross revenue earned by the franchisees and licensees ("royalties"). For certain franchisees, franchise revenue is charged based on a minimum fee and royalties.</p> <p>Revenue from franchise and licence operations is recognised in instalments over the accounting periods covered by the franchise and licence agreements, taking into account adjustments to the minimum fee due to changes in throughput, passenger numbers, rental indices or areas occupied and adjustments for any royalties payable by the franchisees and licensees during the billing period.</p> <p>We identified the recognition of revenue from airport and security charges and franchise and licence operations as a key audit matter because of its significance to the consolidated financial statements and because the determination of airport and security charges involves complex information technology systems.</p>	<p>Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following:</p> <ul style="list-style-type: none"> evaluating the design, implementation and operating effectiveness of key internal controls over the recording of revenue, which included engaging our internal information technology specialists to assess the operating effectiveness of key automated controls and interfaces over the capturing of aircraft movements and passenger traffic and the processing of revenue transactions and to assess the completeness and accuracy of the transaction details contained within the Authority's information technology systems; performing analytical procedures on the Authority's airport and security charges recognised during the current year by developing expectations with reference to figures for aircraft movements and passenger traffic extracted from government statistics, agreements on security charges with airlines and the Scheme of Airport Charges published in the Government Gazette and comparing our expectations with the revenue recorded by the Authority; for franchise and licence operations, comparing the minimum fees received and receivable with underlying franchise/licence information, including the monthly payments and the franchise/licence periods as set out in the signed franchise/licence agreements, on a sample basis, re-performing the calculation of minimum fees and assessing whether the minimum fees or the royalties, whichever was higher, had been recorded in the appropriate accounting period; and re-performing the calculation of royalties received and receivable with reference to turnover reports submitted by the franchisees and licensees and the bases of calculation thereof as set out in the signed franchise/licence agreements, on a sample basis, and assessing whether the royalties had been recorded and accounted for in the appropriate accounting period.

INDEPENDENT AUDITOR’S REPORT

Key audit matters (continued)

Assessing project provisions for capital works projects	
<i>Refer to notes 9(g) and 25(b)(ii) to the consolidated financial statements and note 27(s) for the relevant accounting policies</i>	
The Key Audit Matter	How the matter was addressed in our audit
<p>The Authority undertakes a number of capital works projects at Hong Kong International Airport. These projects may take several years to complete and the contractual arrangements can be complex.</p> <p>The Authority establishes project provisions for the estimated amounts which will be required to settle claims from contractors which may arise due to time delays, additional costs or other unforeseen circumstances. The assessment of the required project provisions involves the exercise of significant management judgement which can be inherently uncertain because the amounts eventually payable may be different from the recorded project provisions.</p> <p>We identified assessing project provisions for capital works projects as a key audit matter because the assessment of project claims and the determination of project provisions involves the exercise of significant management judgement and estimation which can be inherently uncertain.</p>	<p>Our audit procedures to assess project provisions for capital works projects included the following:</p> <ul style="list-style-type: none"> • assessing the design and implementation of management’s key internal controls over the assessment of project claims; • inspecting the minutes of the relevant Board sub-committees responsible for overseeing the progress of capital works projects and discussing with management the project status, including the costs incurred to date, the remaining critical milestones and contract claims, and assessing the financial implications for the group; • obtaining the project claim status report as at the reporting date, comparing the claims amount recorded in this report with claim submissions from contractors, discussing with the Project Accounting and Control Team of Finance Division and the projects departments the projects’ current status and the project provisions made, on a sample basis, and challenging the assumptions and critical judgements made by management which impacted their estimation of project provisions by comparing these assumptions, on a sample basis, with key contract terms and correspondence with the contractors; • performing a retrospective review, on a sample basis, of capital works projects completed or claims finalised during the current year by comparing the actual settlement of costs during the current year, including project claims, with estimates made as at 31 March 2017 to assess the reliability of management’s assessment process and evaluating significant variances identified; and • in respect of projects which were undergoing dispute resolution procedures, holding discussions with management and the Authority’s internal legal counsel to assess the Authority’s legal obligations and financial exposure in connection with these claims.

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

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

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

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

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

Responsibilities of the Board Members for the consolidated financial statements

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

- 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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board Members.
- Conclude on the appropriateness of the Board Members' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

KPMG

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

4 June 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2018	2017
Airport charges		4,990	4,462
Security charges		1,655	1,571
Aviation security services		344	309
Airside support services franchises		3,054	2,719
Retail licences and advertising revenue		7,909	7,803
Other terminal commercial revenue		1,404	1,336
Real estate revenue		310	300
Other income	9(f)	2,328	127
Revenue		21,994	18,627
Staff costs and related expenses	4	(2,492)	(2,241)
Repairs and maintenance		(834)	(820)
Operational contracted services		(767)	(691)
Government services		(788)	(917)
Government rent and rates		(154)	(136)
Occupancy expenses		(288)	(285)
Other operating expenses		(735)	(706)
Operating expenses before depreciation and amortisation		(6,058)	(5,796)
Operating profit before depreciation and amortisation		15,936	12,831
Depreciation and amortisation		(3,097)	(3,079)
Operating profit before interest and finance costs	3	12,839	9,752
Interest and finance costs:			
Finance costs	5	(2)	(19)
Interest income		277	150
		275	131
Share of results of joint ventures	12	201	83
Profit before taxation		13,315	9,966
Income tax	6(a)	(1,829)	(1,656)
Profit for the year		11,486	8,310
Attributable to:			
Equity shareholder of the Authority		11,416	8,276
Non-controlling interests		70	34
Profit for the year		11,486	8,310

The notes on pages 117 to 162 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

<i>\$ million</i>	2018	2017
Profit for the year	11,486	8,310
Other comprehensive income for the year		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
– the Authority	(9)	32
Add/(less): deferred tax	2	(5)
	(7)	27
– a subsidiary in the People’s Republic of China (“the PRC”)	6	(5)
– a joint venture in the PRC	26	(48)
	25	(26)
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC	495	(279)
Other comprehensive income for the year	520	(305)
Total comprehensive income for the year	12,006	8,005
Attributable to:		
Equity shareholder of the Authority	11,906	7,985
Non-controlling interests	100	20
Total comprehensive income for the year	12,006	8,005

The notes on pages 117 to 162 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018 (Expressed in Hong Kong dollars)

<i>\$ million</i>	Note	2018	2017
Non-current assets			
Investment property	9	83	88
Interest in leasehold land	9	6,757	6,990
Other property, plant and equipment	9	54,814	45,109
		61,654	52,187
Intangible asset	10	146	148
Interests in joint ventures	12	4,482	3,859
Trade and other receivables	13	776	1,374
Derivative financial assets	21(e)	2	4
		67,060	57,572
Current assets			
Stores and spares		59	49
Trade and other receivables	13	3,117	2,881
Derivative financial assets	21(e)	-	1
Cash and bank balances	14	18,694	13,817
		21,870	16,748
Current liabilities			
Trade and other payables	15	(7,097)	(4,996)
Current taxation	6(c)	(381)	(663)
Unused airport construction fee	17	(1,103)	(893)
Deferred income	18	(69)	(188)
Derivative financial liabilities	21(e)	(2)	-
		(8,652)	(6,740)
Net current assets			
		13,218	10,008
Total assets less current liabilities			
		80,278	67,580
Non-current liabilities			
Trade and other payables	15	(1,219)	(738)
Interest-bearing borrowings	16	(1,415)	(1,423)
Deferred income	18	(263)	(332)
Derivative financial liabilities	21(e)	(20)	(17)
Net defined benefit retirement obligations	19	(191)	(156)
Deferred tax liabilities	6(d)	(4,601)	(4,351)
		(7,709)	(7,017)
Net assets			
		72,569	60,563
Capital and reserves			
	20		
Share capital		30,648	30,648
Reserves		41,553	29,647
Total equity attributable to the equity shareholder of the Authority		72,201	60,295
Non-controlling interests		368	268
Total equity		72,569	60,563

Approved and authorised for issue on behalf of the Members of the Board on 4 June 2018.

The Hon Jack So Chak-kwong
Chairman

Mr Fred Lam
Chief Executive Officer

Mr William Lo Chi-chung
Executive Director, Finance

The notes on pages 117 to 162 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

\$ million	Note	Attributable to the equity shareholder of the Authority					Non-controlling interests	Total equity
		Share capital	Exchange reserve	Capital reserve	Retained profits	Total		
At 1 April 2016		30,648	511	1,001	20,150	52,310	248	52,558
Changes in equity for the year:								
Profit for the year		-	-	-	8,276	8,276	34	8,310
Other comprehensive income		-	(267)	-	(24)	(291)	(14)	(305)
Total comprehensive income		-	(267)	-	8,252	7,985	20	8,005
Transfer from retained profits to capital reserve	20(c)(ii)	-	-	6	(6)	-	-	-
At 31 March 2017 and 1 April 2017		30,648	244	1,007	28,396	60,295	268	60,563
Changes in equity for the year:								
Profit for the year		-	-	-	11,416	11,416	70	11,486
Other comprehensive income		-	468	-	22	490	30	520
Total comprehensive income		-	468	-	11,438	11,906	100	12,006
Transfer from retained profits to capital reserve	20(c)(ii)	-	-	18	(18)	-	-	-
At 31 March 2018		30,648	712	1,025	39,816	72,201	368	72,569

The notes on pages 117 to 162 form part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2018 (Expressed in Hong Kong dollars)

\$ million	Note	2018	2017
Operating activities			
Profit before taxation		13,315	9,966
Adjustments for:			
Depreciation		2,852	2,833
Amortisation of interest in leasehold land		229	230
Amortisation of intangible asset		16	16
Interest on notes		54	60
Other borrowing costs and interest expense		20	21
Borrowing costs capitalised into assets under construction		(66)	(55)
Interest income		(277)	(150)
Fair value loss on derivative financial instruments in fair value hedges		3	13
Net gain on underlying hedged interest-bearing borrowings in fair value hedges		(9)	(20)
Share of results of joint ventures		(201)	(83)
Impairment losses/(reversal of impairment losses) on trade and other receivables		31	(10)
Net (gain)/loss on disposal of interest in leasehold land and other property, plant and equipment	9(f)	(2,171)	22
Amortisation of deferred income		(188)	(175)
Expenses recognised in respect of defined benefit retirement plans		51	50
Operating profit before changes in working capital		13,659	12,718
(Increase)/decrease in stores and spares		(10)	1
Increase in trade and other receivables		(72)	(911)
Increase in trade and other payables		579	960
Decrease in net defined benefit retirement obligations		(23)	(122)
Cash generated from operations		14,133	12,646
Hong Kong Profits Tax paid		(1,810)	(1,093)
PRC Corporate Income Tax paid:			
– dividend received from a joint venture		(2)	(2)
– others		(47)	(17)
Net cash generated from operating activities		12,274	11,534
Investing activities			
Net placement of deposits with banks with over three months of maturity when placed		(6,089)	(6,914)
Interest received		235	126
Dividend received from a joint venture		40	41
Advance payments to contractors		–	(1,374)
Payments for the purchase of other property, plant and equipment		(13,624)	(4,898)
Receipts from disposal of interest in leasehold land and other property, plant and equipment	9(f)	2,189	–
Payment of annual franchise fee for a PRC subsidiary		(16)	(21)
Net cash used in investing activities		(17,265)	(13,040)

CONSOLIDATED CASH FLOW STATEMENT

<i>\$ million</i>	Note	2018	2017
Financing activities			
Interest paid on notes	14(b)	(55)	(79)
Other borrowing costs and interest expense paid	14(b)	(20)	(59)
Airport construction fee received	14(b)	3,821	1,059
Repayment of notes	14(b)	-	(1,150)
Net interest income received on interest rate swaps	14(b)	4	8
Net cash generated from/(used in) financing activities		3,750	(221)
Net decrease in cash and cash equivalents		(1,241)	(1,727)
Cash and cash equivalents at beginning of year		2,022	3,764
Effect of foreign exchange rate changes		29	(15)
Cash and cash equivalents at end of year		810	2,022

The notes on pages 117 to 162 form part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. Principal activities of the Authority

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

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

The Authority’s principal subsidiaries and their principal activities are set out in note 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 27.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the Authority. Note 27(a) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these consolidated financial statements. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 28).

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements comprise the financial statements of the group as well as the group’s interests in joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for certain financial instruments which are adjusted for or stated at their fair values as explained in the accounting policies set out in notes 27(e), (f) and (n).

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 25.

3. Operating profit before interest and finance costs

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

<i>\$ million</i>	2018	2017
Auditors' remuneration:		
– audit services	6	6
– tax services	1	1
– other services	–	1
Stores and spares expensed	84	93
Net (gain)/loss on disposal of interest in leasehold land and other property, plant and equipment (note 9(f))	(2,171)	22
Impairment losses/(reversal of impairment losses) on trade and other receivables (note 13(b))	31	(10)
Depreciation:		
– assets held for use under operating leases (note 9(d))	179	174
– other assets	2,673	2,659
Amortisation:		
– interest in leasehold land		
– leased out under operating leases (note 9(d))	15	15
– others	214	215
– intangible asset (note 10)	16	16
Operating lease charges: minimum lease payments		
– hire of plant and machinery	–	1
– hire of other assets (including property rentals)	13	8
Rentals from investment property less direct outgoings of \$15 million (2017: \$15 million)	(44)	(43)

4. Staff costs and related expenses

<i>\$ million</i>	2018	2017
Contributions to defined contribution retirement plans	118	103
Expenses recognised in respect of defined benefit retirement plans (note 19)	51	50
Total retirement costs	169	153
Salaries, wages and other benefits	2,656	2,207
Total staff costs and related expenses	2,825	2,360
Less: staff costs and related expenses capitalised into assets under construction	(333)	(119)
	2,492	2,241

5. Finance costs

<i>\$ million</i>	2018	2017
Interest on notes	54	60
Other borrowing costs	18	16
Other interest expense	2	5
Total interest expense	74	81
Less: borrowing costs capitalised into assets under construction	(66)	(55)
	8	26
Fair value loss on derivative financial instruments in fair value hedges ¹	3	13
Net gain on underlying hedged interest-bearing borrowings in fair value hedges	(9)	(20)
	2	19

¹ Includes net interest income of \$5 million (2017: \$8 million) in respect of interest rate swaps under fair value hedging arrangements.

The borrowing costs have been capitalised at the average cost of funds to the group calculated on a monthly basis. The average interest rate used for capitalisation for the year was 4.66% (2017: 3.86%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Taxation

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

<i>\$ million</i>	2018	2017
Current tax – Hong Kong Profits Tax		
– provision for the year	1,525	1,545
– over-provision in respect of prior years	–	(2)
Current tax – PRC Corporate Income Tax		
– provision for the year	50	24
– provision on dividend received from a joint venture for the year	2	2
Deferred tax (note 6(d))		
– origination and reversal of temporary differences	252	87
	1,829	1,656

The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

The provision for PRC Corporate Income Tax is calculated at 25% (2017: 25%) of the estimated assessable profits for the year, while the provision for PRC withholding tax on dividend received from a joint venture is calculated at 5% (2017: 5%) of the dividend received from a joint venture for the year.

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

<i>\$ million</i>	2018	2017
Profit before taxation	13,315	9,966
Notional tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned	2,215	1,651
Tax effect of non-deductible expenses	33	33
Tax effect of non-taxable income	(419)	(26)
Over-provision in respect of prior years	–	(2)
Actual tax expense	1,829	1,656

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

<i>\$ million</i>	2018	2017
Provision for the year (note 6(a))		
– Hong Kong Profits Tax	1,525	1,545
– PRC Corporate Income Tax	52	26
Provisional Hong Kong Profits Tax paid	(1,160)	(896)
PRC Corporate Income Tax paid	(49)	(18)
Balance of profits tax provision relating to prior years	13	6
Current taxation	381	663

6. Taxation (continued)

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

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

<i>\$ million</i>	Depreciation allowances in excess of the related depreciation and other expenses	Deferred income, defined benefit retirement plan liability and others	Undistributed profits of a PRC joint venture	Total
Deferred tax arising from:				
At 1 April 2016	4,366	(125)	18	4,259
Charged to profit or loss	63	23	1	87
Charged to other comprehensive income	-	5	-	5
At 31 March 2017	4,429	(97)	19	4,351
At 1 April 2017	4,429	(97)	19	4,351
Charged to profit or loss	219	23	10	252
Credited to other comprehensive income	-	(2)	-	(2)
At 31 March 2018	4,648	(76)	29	4,601

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

The group has not recognised deferred tax assets in respect of subsidiaries' cumulative tax losses and other temporary differences of \$61 million (2017: \$61 million) and \$9 million (2017: \$8 million) respectively as it is not probable that sufficient future taxable profits against which the cumulative tax losses and other temporary differences can be utilised will be available. Tax losses relating to subsidiaries in Hong Kong do not expire under the current tax legislation.

7. Emoluments of the Members of the Board and Executive Directors

Members of the Board, the Chief Executive Officer and Executive Directors are considered to be key management personnel of the Authority. There are three components of emoluments paid to the Chief Executive Officer and Executive Directors.

Basic compensation

Basic compensation consists of base salary, housing and other allowances and benefits in kind.

Performance-related compensation

This represents discretionary payments depending on individual performance and the performance of the group.

Retirement benefits

Retirement benefits relate to the group's contribution to retirement funds or gratuities in lieu of retirement plan contributions accrued.

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

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

2018 \$'000	Board Member's fee	Basic compensation	Performance- related compensation	Retirement benefits	Total
Members of the Board					
Non-executive Members					
Jack So Chak-kwong ¹	-	-	-	-	-
Andrew Fung Hau-chung	110	-	-	-	110
Anita Fung Yuen-mei	110	-	-	-	110
Steven Ho Chun-yin	110	-	-	-	110
Franklin Lam Fan-keung	110	-	-	-	110
Jeffrey Lam Kin-fung	110	-	-	-	110
Lee Shing-see	110	-	-	-	110
Peter To	110	-	-	-	110
Carlson Tong (appointed in June 2017)	92	-	-	-	92
Billy Wong Wing-hoo	110	-	-	-	110
Frankie Yick Chi-ming	110	-	-	-	110
Allan Zeman	110	-	-	-	110
Secretary for Financial Services and the Treasury ²	110	-	-	-	110
Secretary for Transport and Housing ²	110	-	-	-	110
Director-General of Civil Aviation ²	110	-	-	-	110
Edward Cheng Wai-sun (retired in May 2017)	18	-	-	-	18
Lin Jing-zhen (appointed in June 2017 and resigned in February 2018)	75	-	-	-	75
Executive Member					
Fred Lam (Chief Executive Officer)	-	6,276	3,066	835	10,177
	1,615	6,276	3,066	835	11,792

¹ Jack So Chak-kwong has donated his Chairman's Fee as "Jack So Scholarship" to children of Airport Authority employees and therefore no payment has been made to him.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Emoluments of Executive Directors (continued)

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

\$	Number of individuals	
	2018	2017
500,001 – 1,000,000	-	1
3,500,001 – 4,000,000	-	1
4,000,001 – 4,500,000	1	-
4,500,001 – 5,000,000	1	2
5,000,001 – 5,500,000	3	3
5,500,001 – 6,000,000	1	1
6,000,001 – 6,500,000	2	1
	8	9

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2017: 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.

Revenue from major services

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

Geographical information

No geographical information is shown as the revenue and operating profit of the group is substantially derived from activities in Hong Kong, other than its investments in certain subsidiaries and interests in joint ventures in the PRC, details of which are disclosed under notes 11 and 12 to the consolidated financial statements respectively.

Information about major customers

The group's customer base is diversified and includes only two customers (2017: two customers) with whom transactions have exceeded 10% of the group's revenue.

Included in the revenue for the year are aggregate revenues of approximately \$6,642 million which arose from these two customers (2017: \$7,181 million from two customers). This includes only revenue arising from those entities which are known to the group to be under common control of these customers.

9. Investment property, interest in leasehold land, other property, plant and equipment

(a) Reconciliation of carrying amount

\$ million	Other property, plant and equipment									Total
	Airfields	Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Construction in progress	Sub-total	Investment property	Interest in leasehold land	
Cost										
At 1 April 2016	11,112	29,244	16,344	11,558	1,938	1,526	71,722	168	11,315	83,205
Exchange adjustments	-	(4)	-	(5)	(1)	(1)	(11)	-	-	(11)
Additions	103	1	11	184	125	4,965	5,389	-	-	5,389
Reclassifications	151	203	88	6	35	(468)	15	(15)	-	-
Disposals	(88)	(88)	(31)	(105)	(70)	-	(382)	-	-	(382)
At 31 March 2017	11,278	29,356	16,412	11,638	2,027	6,022	76,733	153	11,315	88,201
At 1 April 2017	11,278	29,356	16,412	11,638	2,027	6,022	76,733	153	11,315	88,201
Exchange adjustments	-	9	-	10	4	2	25	-	-	25
Additions	76	367	175	450	189	11,292	12,549	1	-	12,550
Reclassifications	1,666	353	96	357	33	(2,505)	-	-	-	-
Disposals	(65)	(39)	(4)	(321)	(44)	-	(473)	-	(6)	(479)
At 31 March 2018	12,955	30,046	16,679	12,134	2,209	14,811	88,834	154	11,309	100,297
Accumulated depreciation, amortisation and impairment										
At 1 April 2016	3,842	11,064	6,528	6,143	1,579	-	29,156	64	4,095	33,315
Exchange adjustments	-	(1)	-	(2)	(1)	-	(4)	-	-	(4)
Charge for the year	410	1,101	659	560	102	-	2,832	1	230	3,063
Written back on disposals	(86)	(80)	(30)	(95)	(69)	-	(360)	-	-	(360)
At 31 March 2017	4,166	12,084	7,157	6,606	1,611	-	31,624	65	4,325	36,014
At 1 April 2017	4,166	12,084	7,157	6,606	1,611	-	31,624	65	4,325	36,014
Exchange adjustments	-	3	-	4	2	-	9	-	-	9
Charge for the year	479	1,111	550	590	116	-	2,846	6	229	3,081
Written back on disposals	(61)	(35)	(3)	(318)	(42)	-	(459)	-	(2)	(461)
At 31 March 2018	4,584	13,163	7,704	6,882	1,687	-	34,020	71	4,552	38,643
Net book value										
At 31 March 2018	8,371	16,883	8,975	5,252	522	14,811	54,814	83	6,757	61,654
At 31 March 2017	7,112	17,272	9,255	5,032	416	6,022	45,109	88	6,990	52,187

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 (2017: \$11,315 million) and the land premium of \$4,000 have been classified as interest in leasehold land.

(c) Fair value measurement of investment property

The group engaged an independent firm of surveyors, Knight Frank Petty Limited (“the valuer”), who have among their staff Fellow members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, to value its investment property for disclosure purposes. The valuer has considered the assignment restrictions on the investment property in the valuation. The fair value of the group’s investment property as at 31 March 2018 calculated by reference to net rental income allowing for reversionary income potential amounted to \$560 million (2017: \$535 million), which falls under Level 3 of the fair value hierarchy (note 21(e)).

The fair value of the group’s investment property is determined by the income approach. Under the income approach, the existing rental income from all lettable space of the investment property is capitalised for their respective unexpired terms of contractual tenancies. Upon reversion, i.e. the expiry of an existing tenancy, each office space is assumed to be let at the market rent at the reporting date, which in turn is capitalised at the market yield as expected by investors for this type of property and due consideration has been made of the market expectation of the renewal of Government leases upon expiry. Vacant units, if any, are assumed to be let at their respective market rents at the reporting date. The summation of the capitalised value of the term income and the capitalised value of the reversion income as appropriately deferred provide the market value of the investment property.

(d) The group has granted sub-leases of its interest in leasehold land for airport related development and the provision of airside support services under franchise agreements for periods ranging from 5 to 49 years. Under the franchise agreements, the franchisees are granted sub-leases of interest in leasehold land for the periods of the respective franchises. The group also leases out part of the terminal complexes and related assets under operating leases for periods generally ranging from two to five years. All terms are renegotiated on renewal.

Where the sub-leases are for substantially the full period of the Land Grant, they are considered to be in the nature of finance leases and accordingly the carrying value of the related interest in leasehold land is derecognised.

Payments receivable under the above mentioned operating leases and franchise arrangements are either adjusted periodically to reflect prevailing market indices or contain contingent rentals based on passenger flow and revenue of tenants and franchisees.

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

(d) (continued)

The total future minimum payments (excluding contingent rentals) under non-cancellable operating leases and franchise agreements receivable by the group are as follows:

<i>\$ million</i>	2018	2017
Within one year	2,815	1,658
After one but within five years	5,791	5,632
After five years	7,109	7,554
	15,715	14,844

During the year, \$11,238 million (2017: \$10,975 million) was recognised as income in profit or loss in respect of the operating leases and franchise agreements, which included contingent rentals of \$8,458 million (2017: \$8,401 million).

The cost less accumulated amortisation of the interest in leasehold land for airport related development and the provision of airside support services under franchise agreements sub-leased to third parties under non-cancellable sub-lease agreements for the group as at 31 March 2018 was \$447 million (2017: \$462 million) with annual amortisation amounting to \$15 million (2017: \$15 million).

The cost less accumulated depreciation of other property, plant and equipment leased to third parties under non-cancellable operating leases for the group as at 31 March 2018 was \$2,372 million (2017: \$2,415 million) with annual depreciation amounting to \$179 million (2017: \$174 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 \$24 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of \$20 million.
- (f) Included in other income of \$2,328 million, net gain on disposal of interest in leasehold land and other property, plant and equipment of \$2,171 million mainly represents the gain of \$2,185 million on disposal of interest in leasehold land for the SKYCITY hotel development at a consideration of \$2,189 million.
- (g) The group is currently in the process of assessing claims from contractors relating to several construction projects for which detailed documentation is not yet fully available to the Authority. The group has made provisions, where appropriate, for what may be required for the settlement of these claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. Intangible asset

<i>\$ million</i>	2018	2017
Cost		
At 1 April	311	331
Exchange adjustments	33	(20)
At 31 March	344	311
Accumulated amortisation		
At 1 April	163	157
Exchange adjustments	19	(10)
Charge for the year	16	16
At 31 March	198	163
Net book value		
At 31 March	146	148

Intangible asset represents the right to operate and manage Zhuhai Airport and is being amortised over 20 years on a straight line basis.

11. Investments in subsidiaries

<i>\$ million</i>	The Authority	
	2018	2017
Unlisted shares, at cost	5	5

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

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

* A sino-foreign equity joint venture

11. Investments in subsidiaries (continued)

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>	2018	2017
NCI percentage	45%	45%
Non-current assets	376	266
Current assets	526	380
Non-current liabilities	(73)	(70)
Current liabilities	(155)	(118)
Net assets	674	458
Carrying amount of NCI	303	206
Revenue	567	352
Profit for the year	150	63
Total comprehensive income for the year	156	59
Profit for the year allocated to NCI	67	28
Total comprehensive income for the year allocated to NCI	70	26

12. Interests in joint ventures

<i>\$ million</i>	2018	2017
Share of net assets	4,242	3,643
Goodwill	240	216
	4,482	3,859

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. Interests in joint ventures (continued)

(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>	2018	2017
Gross amounts of HXIA		
Non-current assets	15,559	15,101
Current assets	4,420	3,600
Non-current liabilities	(2,789)	(4,030)
Current liabilities	(5,251)	(4,423)
Net assets/equity	11,939	10,248
Income statement		
<i>\$ million</i>	2018	2017
Income	3,707	3,102
Expenses	(2,923)	(2,797)
Profit before taxation	784	305
Income tax	(211)	(68)
Profit after taxation	573	237
Other comprehensive income	74	(138)
Total comprehensive income	647	99
Reconciliation to carrying amount		
<i>\$ million</i>	2018	2017
Reconciled to the group's interest in HXIA		
Gross amounts of HXIA's net assets	11,939	10,248
Group's effective interest	35%	35%
Group's share of HXIA's net assets	4,179	3,587
Goodwill	240	216
Carrying amount in the consolidated financial statements	4,419	3,803

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

<i>\$ million</i>	2018	2017
Share of profit after taxation	200	83
Share of other comprehensive income	26	(48)
Less: transfer to capital reserve	(14)	-
Share of profit and other comprehensive income to be retained	212	35
Share of retained profits brought forward from previous years	660	666
Dividend received	(40)	(41)
Share of retained profits carried forward to next year	832	660

12. Interests in joint ventures (continued)

(a) HXIA (continued)

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

<i>\$ million</i>	2018	2017
At 1 April	952	952
Transfer from retained profits	14	–
At 31 March	966	952

HXIA's board has approved a preliminary estimation of \$31,919 million (2017: \$3,046 million) for HXIA's Phase 3 Development. Other than the Phase 3 Development, HXIA has capital commitments for other capital works of \$1,549 million (2017: \$1,038 million).

These are to be financed independently by HXIA through its internal resources or borrowings. No commitment has been made by the group to contribute by way of equity, loans or guarantees thereof for this purpose.

(b) SHKAM

SHKAM, an unlisted sino-foreign equity joint venture, manages and operates the terminals at HIA, under a management contract signed for 20 years in return for a management fee to be paid by Shanghai Airport (Group) Co. Ltd. Hongqiao International Airport Company.

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

<i>\$ million</i>	2018	2017
Gross amounts of SHKAM		
Current assets	138	123
Current liabilities	(10)	(9)
Net assets/equity	128	114
<i>\$ million</i>	2018	2017
Income	12	12
Expenses	(10)	(11)
Net profit and other comprehensive income	2	1
<i>\$ million</i>	2018	2017
Reconciled to the group's interest in SHKAM		
Gross amounts of SHKAM's net assets	128	114
Group's effective interest	49%	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	63	56

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. Trade and other receivables

<i>\$ million</i>	2018	2017
Trade debtors	3,009	2,786
Less: allowance for doubtful debts (note 13(b))	(75)	(44)
	2,934	2,742
Other debtors	82	40
	3,016	2,782
Advance payments to contractors	776	1,374
Prepayments	79	77
Deposits and debentures	22	22
	3,893	4,255
Classified in the consolidated statement of financial position as:		
Current assets	3,117	2,881
Non-current assets	776	1,374
	3,893	4,255

As at 31 March 2018, all of the trade and other receivables under current assets are expected to be recovered or recognised as an expense within one year except for \$20 million (2017: \$20 million), which is expected to be recovered after more than one year.

- (a) The ageing analysis of trade debtors based on overdue days and net of allowance for doubtful debts, included above is as follows:

<i>\$ million</i>	2018	2017
Amounts not yet due	2,629	2,582
Less than one month past due	205	128
One to three months past due	77	23
More than three months past due	23	9
	2,934	2,742

Trade debtors are generally due within 14 to 30 days from the date of billing. The group's credit policy is set out in note 21(a).

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the group considers that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (note 27(l)).

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

<i>\$ million</i>	2018	2017
At 1 April	44	54
Impairment loss recognised/(reversed)	31	(10)
At 31 March	75	44

As at 31 March 2018, the group's trade debtors of \$54 million (2017: \$29 million) were individually determined to be impaired. The individually impaired trade debtors related to customers that were in financial difficulties or have unsatisfactory payment history and management consequently recognised specific allowances for doubtful debts of \$45 million (2017: \$26 million) for the group. The group holds cash deposits and bank guarantees of \$3 million (2017: \$3 million) as collateral over the remaining for which no provision has been made.

13. Trade and other receivables (continued)

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

<i>\$ million</i>	2018	2017
Neither past due nor impaired	2,629	2,582
Less than one month past due	161	105
One to three months past due	52	3
More than three months past due	9	2
	222	110
	2,851	2,692

Trade debtors that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The group holds cash deposits and bank guarantees of \$7 million (2017: \$9 million) as collateral over certain past due but not impaired trade debtors totalling \$222 million (2017: \$110 million).

14. Cash and bank balances and other cash flow information

(a) Cash and bank balances comprise:

<i>\$ million</i>	2018	2017
Deposits with banks within three months of maturity when placed	231	990
Cash at bank and in hand	579	1,032
Cash and cash equivalents in the consolidated cash flow statement	810	2,022
Deposits with banks with over three months of maturity when placed	17,884	11,795
Cash and bank balances in the consolidated statement of financial position	18,694	13,817

As at 31 March 2018, cash and bank balances of \$339 million (2017: \$266 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. 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	Airport construction fee receivable	Net derivative financial liabilities	Total
	(Note 16)			(Note 21(e))	
At 1 April 2017	1,423	(17)	(885)	12	533
Changes from financing cash flows:					
Interest paid on notes	-	(55)	-	-	(55)
Other borrowing costs and interest expense paid	-	(20)	-	-	(20)
Airport construction fee received	-	-	3,821	-	3,821
Net interest income received on interest rate swaps	-	4	-	-	4
Total changes from financing cash flows	-	(71)	3,821	-	3,750
Non-cash changes:					
Interest on notes (note 5)	-	54	-	-	54
Other borrowing costs (note 5)	-	18	-	-	18
Other interest expense (note 5)	-	2	-	-	2
Airport construction fee	-	-	(3,974)	-	(3,974)
Other non-cash movements	(8)	(5)	-	8	(5)
Total other changes	(8)	69	(3,974)	8	(3,905)
At 31 March 2018	1,415	(19)	(1,038)	20	378

15. Trade and other payables

<i>\$ million</i>	2018	2017
Creditors and accrued charges	5,738	4,307
Deposits received	1,514	1,004
Contract retentions	1,064	423
	8,316	5,734
Classified in the consolidated statement of financial position as:		
Current liabilities	7,097	4,996
Non-current liabilities	1,219	738
	8,316	5,734

15. Trade and other payables (continued)

As at 31 March 2018, all of the trade and other payables are expected to be settled or recognised as income within one year except for \$1,219 million (2017: \$738 million), which are expected to be settled after more than one year and mainly relate to licence deposits received from retail licencees and contract retentions.

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

<i>\$ million</i>	2018	2017
Due within 30 days or on demand	1,648	727
Due after 30 days but within 60 days	1,823	1,283
Due after 60 days but within 90 days	389	239
Due after 90 days	1,878	2,058
	5,738	4,307

16. Interest-bearing borrowings

<i>\$ million</i>	2018	2017
Notes payable		
HK dollar fixed rate notes due 2019 to 2043 (a)	1,426	1,435
Less: unamortised finance costs	(11)	(12)
	1,415	1,423

- (a) The Authority established the United States (“US”) \$1 billion Medium Term Note programme in 2010. The programme is increased to US\$8 billion in 2017. Prior to that, the Authority’s Hong Kong dollar notes were issued through private placement.

As at 31 March 2018, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 2.25% to 4.85% (2017: 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 HIBOR. As at 31 March 2018, there was no outstanding amount under this facility (2017: \$nil).
- (c) The Authority has uncommitted money market line facilities of \$2,192 million (2017: \$2,189 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2018, there was no outstanding amount under these facilities (2017: \$nil).
- (d) As at 31 March 2018, the unsecured interest-bearing borrowings were repayable as follows:

<i>\$ million</i>	2018	2017
Within one year or on demand	-	-
After one year but within two years	97	-
After two years but within five years	1,128	699
After five years	190	724
	1,415	1,423
	1,415	1,423

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. Interest-bearing borrowings (continued)

- (e) None of the interest-bearing borrowings is subject to any financial covenants imposed by the lenders. Interest-bearing borrowings are carried at amortised cost. The carrying amount of those hedged for fair value risks are adjusted for the change in fair value attributable to the risk being hedged. Further details of the group's management of liquidity risk are set out in note 21(b).

17. Unused airport construction fee ("ACF")

\$ million	2018	2017
At 1 April	893	-
Add: ACF received or receivable for the year	3,974	1,944
Less: payment of three-runway system ("3RS") capital expenditure	(3,764)	(1,051)
At 31 March	1,103	893

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

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

18. Deferred income

Deferred income mainly represents consideration received for the sale of a portion of the income from the aviation fuel system for a period up to 2018 and amounts received in respect of sub-leases of interest in leasehold land of the airport site. They are accounted for in accordance with the accounting policies detailed in notes 27(t)(v) and 27(t)(vi) respectively.

The amount expected to be recognised as income more than one year after the end of the reporting period is included in non-current liabilities.

19. Employee retirement benefits

(a) Defined benefit retirement plans

The Authority makes contributions to a defined benefit retirement plan ("the Hong Kong plan") registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), which covers 16% (2017: 20%) 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 2018 according to HKAS 19, "Employee benefits" prepared by qualified staff of Mercer (Hong Kong) Limited (2017: 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 85% (2017: 87%) 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.

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

HKZAM established a defined benefit retirement plan (“the HKZAM plan”) for its eligible employees, which is unfunded and covers 49% (2017: 67%) 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 2018 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>	2018	2017
The Hong Kong plan		
Present value of funded obligations	907	855
Fair value of plan assets	(767)	(747)
	140	108
The HKZAM plan		
Present value of unfunded obligations	51	48
Net defined benefit retirement obligations	191	156

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay \$23 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2019.

- (ii) Plan assets consist of the following:

<i>\$ million</i>	2018	2017
Equity securities	380	–
Corporate bonds	349	10
Cash	38	737
	767	747

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

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

<i>\$ million</i>	2018	2017
The Hong Kong plan		
At 1 April	855	820
Remeasurements:	55	18
– Actuarial losses arising from changes in demographic assumptions	8	–
– Actuarial losses/(gains) arising from changes in financial assumptions	39	(12)
– Experience adjustments	8	30
Benefits paid by the plans	(57)	(35)
Current service cost	42	42
Interest cost	12	10
At 31 March	907	855
The HKZAM plan	51	48
At 31 March	958	903

The weighted average durations of the defined benefit obligations for the Hong Kong and the HKZAM plans are 7.1 years (2017: 7.2 years) and 9.7 years (2017: 10.8 years) respectively.

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

<i>\$ million</i>	2018	2017
At 1 April	747	603
Group's contributions paid to the plans	23	122
Benefits paid by the plans	(57)	(35)
Actual return on plan assets	54	57
– Interest income	10	8
– Return on plan assets, excluding interest income	46	50
– Administrative expenses paid from plan assets	(2)	(1)
At 31 March	767	747

19. 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>	2018	2017
The Hong Kong plan		
Current service cost	42	42
Administrative expenses paid from plan assets	2	1
Net interest on net defined benefit liability	2	2
	46	45
The HKZAM plan	5	5
Total amounts recognised in profit or loss	51	50
The Hong Kong plan		
Remeasurements:		
– Actuarial losses arising from changes in demographic assumptions	8	–
– Actuarial losses/(gains) arising from changes in financial assumptions	39	(12)
– Experience adjustments	8	30
Return on plan assets, excluding interest income	(46)	(50)
	9	(32)
The HKZAM plan	(6)	5
Total amounts recognised in other comprehensive income	3	(27)
Total defined benefit debits	54	23

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>	2018	2017
Staff costs and related expenses	51	50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. Employee retirement benefits (continued)

(a) Defined benefit retirement plans (continued)

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

	2018	2017
The Hong Kong plan		
Discount rate	1.8%	1.4%
Future long term salary increases	4.5%	3.5%
The HKZAM plan		
Discount rate	3.9%	3.6%

The below analysis shows how the defined benefit obligations as at 31 March 2018 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

<i>\$ million</i>	Increase by 0.5%	Decrease by 0.5%
The Hong Kong plan		
Discount rate	(31)	33
Future long term salary increases	36	(34)
The HKZAM plan		
Discount rate	(2)	3

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plans

- (i) The group also operates Mandatory Provident Fund Schemes (“the MPF scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance (“the MPF Ordinance”) for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Ordinance, the employer and its employees are each required to make minimum statutory contributions to the plan at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of \$30,000 (\$25,000 prior to June 2014). However, under the MPF schemes, contributions by the group range from 5% to 15% of employees’ relevant income and have been charged to profit or loss. While statutory contributions to the plan vest immediately, voluntary contributions to the plan vest over a period of two to ten years.
- (ii) As stipulated by the regulations of the PRC, the subsidiary in the PRC participates in a basic defined contribution pension plan administered by the Municipal Government under which it is governed. The group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees.

20. 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 114.

(b) Share capital

\$ million	The Authority	
	2018	2017
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of \$100,000 each (2017: 306,480 ordinary shares)	30,648	30,648

(c) Nature and purpose of reserves

(i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 27(u).

(ii) Capital reserve

The capital reserve primarily comprises the share of results of a joint venture in the PRC which are not distributable as required by the relevant PRC government regulations and the retained profits of AVSECO which according to its memorandum of association and the shareholders' agreement cannot be distributed.

(iii) Distributability of reserves

As at 31 March 2018, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was \$38,895 million (2017: \$27,721 million). The Board did not propose any final dividend for the year ended 31 March 2018 (2017: \$nil).

(iv) Capital management

The primary objectives of the group when managing capital are to safeguard the group's ability to continue as a going concern, maintain a strong credit rating and a healthy capital ratio to support the business and to enhance shareholder value.

The group manages its capital structure by taking into consideration its future capital requirements, capital efficiency and projected cash flow. To adjust its capital structure, the group may raise or reduce its outstanding debt. The group is also empowered by the Ordinance to either increase or reduce its share capital under the direction of the Financial Secretary and the Legislative Council. The Ordinance provides that these directions be made following consultation with the Authority.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Capital and reserves (continued)

(c) Nature and purpose of reserves (continued)

(iv) Capital management (continued)

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	2018	2017
Total debt ¹	16	1,415	1,423
Total equity		72,569	60,563
Total capital ²		73,984	61,986
Total debt/capital ratio		2%	2%

¹ Total debt represents interest-bearing borrowings.

² Total capital represents total debt plus total equity.

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

21. Financial risk management and fair values of financial instruments

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

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables, over-the-counter derivative financial instruments entered into for hedging purposes and cash and bank balances. Management has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, there are procedures in place to closely monitor the payment performance. Individual credit evaluations are performed on customers requiring credit over a certain amount or customers with long overdue history, which focus on their payment history, ability to pay, as well as information specific to the customers and the economic environment in which they operate. Trade receivables are generally due within 14 to 30 days from the date of billing. In respect of the group's rental and franchise income from operating leases and franchise arrangements respectively, sufficient deposits are held to cover potential exposure to credit risk. In respect of the advance payments to contractors at the end of the reporting period, sufficient guarantees in the form of advance payment bonds are received from the respective contractor's banks to cover potential exposure to credit risk.

Cash and bank balances are placed with financial institutions with sound credit ratings to minimise credit exposure. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the group has signed netting agreements. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

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

(a) Credit risk (continued)

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 17% (2017: 15%) and 39% (2017: 44%) 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 13.

(b) Liquidity risk

All cash management of the group, including the short term investment of cash surpluses and raising of loans and other borrowings to cover expected cash demands, are managed centrally by the Authority except AVSECO and HKZAM which handle their own cash management. The Authority's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate credit facilities from major financial institutions to meet its liquidity requirements in the short and longer term.

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:

	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
<i>\$ million</i>						
2018						
Interest-bearing borrowings	1,415	1,816	54	154	1,236	372
Trade and other payables	8,316	8,381	7,101	674	549	57
Interest rate swaps (net settled)	20	(12)	(4)	(5)	(3)	-
	9,751	10,185	7,151	823	1,782	429
2017						
Interest-bearing borrowings	1,423	1,870	54	54	826	936
Trade and other payables	5,734	5,799	5,000	280	399	120
Interest rate swaps (net settled)	12	(23)	(5)	(5)	(12)	(1)
	7,169	7,646	5,049	329	1,213	1,055

As shown above, interest-bearing borrowings (including interest) of the group amounting to \$54 million (2017: \$54 million) are due to be repaid in the upcoming 12 months after 31 March 2018. The short term liquidity risk inherent in this contractual maturity will be addressed by internal sources of funds and new external borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Interest rate risk

The group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group adopts a policy of ensuring that between 40% and 60% of its borrowings are effectively on a fixed rate basis in general, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. The group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedging

Interest rate swaps, denominated in Hong Kong dollars, have been entered into to achieve an appropriate mix of fixed and floating interest rate exposure within the group's policy.

The group classifies interest rate swaps into fair value hedges and states them at their fair values in accordance with the policy set out in note 27(f).

Details of the notional amounts, maturity period and fair values of swaps entered into by the group at the end of the reporting periods are set out in note 21(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

(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>	2018	2017
Fixed rate borrowings		
Fixed rate notes	790	790
Variable rate borrowings		
Fixed rate notes ¹	625	633
Total borrowings	1,415	1,423
Fixed rate borrowings as a percentage of total borrowings	56%	56%

¹ Swapped to floating rate

(iii) Sensitivity analysis

As at 31 March 2018, 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 (2017: \$2 million). There was no increase/decrease in other components of consolidated equity (2017: \$nil) in response to the general increase/decrease in interest rates. The effect of interest-bearing bank deposits is expected to be not significant and is not taken into account in the analysis.

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

(c) Interest rate risk (continued)

(iii) Sensitivity analysis (continued)

The sensitivity analysis above indicates the instantaneous change in the group's profit after taxation (and retained profits) and other components of consolidated equity that would have arisen assuming that the change in interest rates had occurred at the end of the reporting periods and had been applied to re-measure those financial instruments held by the group which expose the group to fair value interest rate risk at the end of the reporting periods. In respect of the exposure to cash flow interest rate risk arising from floating interest rate non-derivative instruments held by the group at the end of the reporting period, the impact on the group's profit after taxation (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as for prior years.

(d) Foreign currency risk

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

As at 31 March 2018, the group is exposed to US dollar currency risk in respect of cash and bank balances of US\$314 million (2017: US\$309 million) and trade and other receivables of US\$9 million (2017: US\$11 million).

As Hong Kong dollar is pegged to US dollar at a range between 7.75 to 7.85, management considers that the foreign currency risk associated with the US dollar exposure is not material to the group. Accordingly, no sensitivity analysis is considered necessary.

As at 31 March 2018, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB90 million (2017: RMB165 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 \$5 million (2017: \$8 million) lower/higher. The analysis is performed on the same basis for 2016/17.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Fair value measurement (continued)

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

Fair value hierarchy (continued)

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

As at 31 March 2017 and 2018, 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 (2017: \$nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

	Recurring fair value measurement using significant other observable inputs (Level 2)					
	2018			2017		
<i>\$ million</i>	Notional amount	Financial assets	Financial liabilities	Notional amount	Financial assets	Financial liabilities
Fair value hedges						
Interest rate swaps	650	2	(22)	650	5	(17)
Less: portion to be recovered within one year		-	(2)		1	-
Portion to be recovered/ (settled) after one year		2	(20)		4	(17)

Derivative financial instruments qualifying as fair value hedges as at 31 March 2018 have a maturity of 1 year to 4.5 years (2017: 2 years to 5.5 years) from the end of the reporting period.

Valuation techniques and inputs used in Level 2 fair value measurements

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

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

As at 31 March 2018, the carrying value and fair value of fixed rate notes of notional amount of \$1,450 million (2017: \$1,450 million), amounted to \$1,415 million and \$1,559 million (2017: \$1,423 million and \$1,575 million) respectively, which fall under Level 2 of the fair value hierarchy described above.

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

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

22. Outstanding commitments

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

\$ million	2018			2017		
	3RS	Others	Total	3RS	Others	Total
Contracted for	27,777	6,679	34,456	28,885	3,976	32,861
Authorised but not contracted for	98,047	16,231	114,278	108,376	15,636	124,012
	125,824	22,910	148,734	137,261	19,612	156,873

The outstanding commitments of the group's joint venture, HXIA, are separately disclosed in note 12(a).

23. Material related party transactions

The Authority is wholly owned by the Government. Transactions between the group and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, rent and rates, etc. that arise in the normal dealings between the Government and the group, are considered to be related party transactions pursuant to HKAS 24, "Related party disclosures" and are identified separately in these consolidated financial statements.

Members of the Board and Executive Directors, and parties related to them, are also considered to be related parties of the Authority. Material transactions with these parties, if any, are separately disclosed. Emoluments paid to Members of the Board and Executive Directors is disclosed in note 7.

During the year, the Authority has had the following material related party transactions:

- (a) The Authority has entered into agreements with the Government under which the Government provides maintenance services in respect of sewage pumping system, waste water treatment plant and airfield ground lighting at the airport. The amounts incurred for these services for the year amounted to \$64 million (2017: \$57 million). As at 31 March 2018, the amounts due to the Government with respect to the above services amounted to \$42 million (2017: \$44 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 \$785 million (2017: \$912 million) and the amounts due to the Government as at 31 March 2018 with respect to the above services amounted to \$1.6 million (2017: \$0.3 million).
- (c) The Authority and HKIA Staff Services Limited ("HKIASS"), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 23(b)) at nil consideration.
- (d) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC"), in which the Government is the majority shareholder, under which MTRC provides 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 \$102 million (2017: \$83 million). As at 31 March 2018, the amounts due to MTRC with respect to the maintenance services amounted to \$69 million (2017: \$36 million).

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23. 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 \$72 million (2017: \$60 million). As at 31 March 2018, there was nil outstanding amount due from HKITP (2017: \$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 \$68 million (2017: \$60 million). As at 31 March 2018, the aggregate amounts due from these departments, agencies or entities amounted to \$7 million (2017: \$8 million).

24. Immediate and ultimate controlling party

As at 31 March 2018, the immediate parent and ultimate controlling party of the group is the Government.

25. Accounting judgements and estimates

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

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

(i) Interest in leasehold land

On 1 December 1995, the Authority was granted the rights to the airport site at Chek Lap Kok for a nominal land premium of \$2,000. The Authority was responsible for all of the costs for the formation of the airport site, with respect to which \$11,571 million was initially incurred. The land formed is considered to have all the characteristics of land in Hong Kong and will revert to the lessor at the end of the Land Grant. Such cost is considered to have been incurred to obtain the benefits of a leasehold land. Accordingly, the land premium and the land formation costs have been classified as interest in leasehold land. Upon the granting of finance leases of portions of the land concerned, the cost of leasehold land excluded from the consolidated statement of financial position is based on an apportionment of the overall land cost.

(ii) Sub-lease of leasehold land

The Authority sub-leases part of its interest in leasehold land to various Government departments, agencies or Government controlled entities at ‘nil’ rental for substantially the full period of the Land Grant, to provide services for the sole benefit of the airport and its users. As it is considered that as these sub-leases are for the sole benefit of the Authority for enhancing services at the airport, they are in substance held for the full and exclusive benefit of the Authority and accordingly such sub-leases continue to be treated as interest in leasehold land in the financial statements of the Authority and are not derecognised.

25. Accounting judgements and estimates (continued)

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

(iii) Interests in joint ventures

HXIA receives Civil Aviation Development Fund subsidies, airport construction fee subsidies and certain other subsidies (collectively known as "CADF") for airport development purposes from the PRC government which are required to be treated as a capital contribution in HXIA's PRC statutory financial statements.

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

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

As the CADF may only be used for restricted purposes and are not distributable, the group transfers such amounts from retained profits to the capital reserve.

(b) Major sources of estimation uncertainty

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

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

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

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

(ii) Project provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

26. 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.: 2017/089/1) 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 2017 to 31 March 2018 amounted to \$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.

27. Summary of significant accounting policies

(a) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the group. None of these impact on the accounting policies of the group. However, additional disclosure has been included in note 14(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, “*Statement of cash flows Disclosure initiative*”, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

(b) Subsidiaries and non-controlling interests

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

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

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

27. Summary of significant accounting policies (continued)

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

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholder of the Authority. Non-controlling interests in the results of the group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholder of the Authority. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 27(n) or (o) depending on the nature of the liability.

Changes in the group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (note 27(c)).

(c) Joint ventures

A joint venture is an arrangement whereby the group or the Authority and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the group's share of the investee's net assets and any impairment losses relating to the investment (notes 27(d) and (j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the group's share of losses exceeds its interest in the joint venture, the group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the joint venture. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interests that in substance form part of the group's net investment in the joint venture.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Summary of significant accounting policies (continued)

(c) Joint ventures (continued)

When the group ceases to have joint control over a joint venture, it is accounted for as a disposal of the entire interest in that joint venture, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former joint venture at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate.

(d) Goodwill

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

In respect of an investment in a joint venture, the carrying amount of goodwill is included in the carrying amount of the interest in the joint venture and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 27(j)).

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

On disposal of a joint venture, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(e) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

(f) Accounting for derivative financial instruments and hedging activities

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

(i) Fair value hedges

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

(ii) Derivatives that do not qualify for hedge accounting

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

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

(i) The Authority was responsible for all of the costs of the formation of the airport site. The land formation cost and the land premium have been classified as interest in leasehold land. Interest in leasehold land is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 27(j)).

27. Summary of significant accounting policies (continued)

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

(ii) Investment property

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

Investment property is stated in the consolidated statement of financial position at cost net of accumulated depreciation and impairment losses (note 27(j)). Investment property is depreciated over its estimated useful life or the unexpired term of the lease, whichever is shorter. Rental income from investment property is accounted for as described in note 27(t).

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

(iv) Repairs and maintenance expenditure in respect of investment property, and other property, plant and equipment is charged to profit or loss as and when incurred.

(v) Gains or losses arising from the retirement or disposal of investment property, interest in leasehold land, and an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of investment property, interest in leasehold land, and the item and are recognised in profit or loss on the date of retirement or disposal.

(vi) Construction in progress

Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 27(n)) capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to investment property, interest in leasehold land, other property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the policy detailed in note 27(h).

(vii) Leased assets

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Summary of significant accounting policies (continued)

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

(vii) Leased assets (continued)

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

When the group leases out its interest in leasehold land up to substantially the full period of the underlying Land Grant and the related risks and rewards are substantially transferred to the lessees, such leases are accounted for as finance leases. The interest in leasehold land is derecognised and the differences between the carrying amount of the interest in leasehold land and net proceeds received for such arrangements are recognised in profit or loss from the commencement dates of such finance leases.

(h) Depreciation

Depreciation is calculated to write off the cost of items of investment property, interest in leasehold land, and other property, plant and equipment less their estimated residual value, if any, using the straight-line method over their estimated useful lives.

The estimated useful lives are:

Interest in leasehold land	Unexpired term of lease
Airfields:	
Runway base courses, taxiways and road non-asphalt layers, aprons and tunnels	10 years to unexpired term of lease
Runway wearing courses, taxiways and road asphalt layers, lighting and other airfield facilities	5 to 25 years
Terminal complexes and ground transportation centre:	
Building structure and road non-asphalt layers	Unexpired term of lease
Road asphalt layers, building services and fit-outs	3 to 25 years
Access, utilities, other buildings and support facilities:	
Road and bridge non-asphalt layers	20 years to unexpired term of lease
Road and bridge asphalt layers, other building and support facilities	5 years to unexpired term of lease
Utility supply equipment	5 to 25 years
Systems, installations, plant and equipment	3 years to unexpired term of lease
Furniture, fixtures and equipment	3 to 15 years
Investment property:	
Building structure	Unexpired term of lease
Building services and fit-outs	5 to 25 years
Furniture, fixtures and equipment	3 to 15 years

Where parts of an item of investment property, interest in leasehold land, and other property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

27. Summary of significant accounting policies (continued)

(i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 27(j)).

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

(j) Impairment of assets

(i) Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired, or an impairment loss previously recognised no longer exists or may have decreased:

- interest in leasehold land;
- investment property;
- other property, plant and equipment;
- intangible assets; and
- interests in joint ventures.

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

(ii) Interim financial reporting and impairment

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

(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

27. Summary of significant accounting policies (continued)

(l) Trade and other receivables

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

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

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

(m) 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.

27. Summary of significant accounting policies (continued)

(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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Summary of significant accounting policies (continued)

(q) Employee benefits (continued)

(ii) Defined benefit retirement plan obligations (continued)

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)).

(r) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which that asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

Deferred tax assets and liabilities are not discounted.

27. Summary of significant accounting policies (continued)

(r) Income tax (continued)

(iii) (continued)

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

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

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

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

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

(s) Provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Summary of significant accounting policies (continued)

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

- (i) Airport charges, representing landing charges, parking charges and terminal building charges, are recognised when the airport facilities are utilised.
- (ii) Security charges in respect of aviation security services to passengers are recognised when the airport facilities are utilised.
- (iii) Aviation security services revenue from the provision of security services to airlines, franchisees and licensees is recognised when the services are rendered.
- (iv) Franchise revenue from awarded airside support services, retail revenue from awarded retail licences, advertising revenue from awarded advertising licences, other terminal commercial revenue from leasing of check-in counters and airline lounges and office rental and other service revenue and recoveries, are recognised on an accruals basis in accordance with the related agreements.
- (v) The consideration received in respect of the sale of a portion of the income from the aviation fuel system is accounted for as income over the period to which the future income relates and on the basis of the estimated future quantum of income for each period after allowing for the implicit financing cost therein. The amount received not recognised as income is included in the consolidated statement of financial position as deferred income.
- (vi) Real estate revenue arising from sub-leases of interest in leasehold land and office buildings is recognised in profit or loss on a straight-line basis over the periods of the operating leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned. Amounts received in advance in respect of sub-leases of interest in leasehold land granted are accounted for as deferred income and are recognised in profit or loss on a straight-line basis over the periods of the respective sub-leases.
- (vii) Income arising from finance leases of interest in leasehold land is recognised at the inception of such leases, when substantially all the risks and rewards incidental to ownership are transferred to the lessees.
- (viii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (ix) Interest income is recognised as it accrues using the effective interest rate method.

27. Summary of significant accounting policies (continued)

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities and non-monetary assets and liabilities that are stated at fair value and are denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Consolidated statement of financial position items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(v) Related parties

- (i) A person, or a close member of that person's family, is related to the group if that person:
 - a) has control or joint control over the group;
 - b) has significant influence over the group; or
 - c) is a member of the key management personnel of the group or the group's parent.
- (ii) An entity is related to the group if any of the following conditions applies:
 - a) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - c) Both entities are joint ventures of the same third party.
 - d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - e) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.
 - f) The entity is controlled or jointly controlled by a person identified in note (v)(i).
 - g) A person identified in note (v)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - h) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. Summary of significant accounting policies (continued)

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

28. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 March 2018

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2018 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the group.

	Effective for accounting periods beginning on or after
HKFRS 9, "Financial instruments"	1 January 2018
HKFRS 15, "Revenue from contracts with customers"	1 January 2018
Amendments to HKAS 40, "Investment property: Transfers of investment property"	1 January 2018
HK(IFRIC) 22, "Foreign currency transactions and advance consideration"	1 January 2018
Annual Improvements to HKFRSs 2014-2016 Cycle	1 January 2018
HKFRS 16, "Leases"	1 January 2019
HK(IFRIC) 23, "Uncertainty over income tax treatments"	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019

The group considers that the adoption of the amendments, new standards and interpretations which will be effective for accounting periods beginning on 1 January 2018 is unlikely to have a significant impact on the group's consolidated financial statements.

For those amendments, new standards and interpretations which will be effective for accounting periods beginning on or after 1 January 2019, the group is still in the process of making an assessment of what the impact of them is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE-YEAR FINANCIAL AND OPERATIONAL SUMMARY

<i>(in HK\$ million)</i>	13/14	14/15	15/16	16/17	17/18
Consolidated statement of profit or loss					
Revenue	14,810	16,367	18,184	18,627	21,994
Operating expenses before depreciation and amortisation	(4,872)	(5,053)	(5,848)	(5,796)	(6,058)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	9,938	11,314	12,336	12,831	15,936
Depreciation and amortisation	(2,248)	(2,420)	(2,813)	(3,079)	(3,097)
Net interest and finance (costs)/income	(13)	33	28	131	275
Share of results of joint ventures	77	137	189	83	201
Profit before taxation	7,754	9,064	9,740	9,966	13,315
Income tax	(1,306)	(1,794)	(1,366)	(1,656)	(1,829)
Profit for the year	6,448	7,270	8,374	8,310	11,486
Attributable to:					
Equity shareholder of the Authority	6,454	7,254	8,359	8,276	11,416
Non-controlling interests	(6)	16	15	34	70
Consolidated statement of financial position					
Non-current assets	51,482	53,474	54,192	57,572	67,060
Current assets	5,394	4,587	10,800	16,748	21,870
Current liabilities	(4,776)	(5,813)	(5,428)	(6,740)	(8,652)
Net current assets/(liabilities)	618	(1,226)	5,372	10,008	13,218
Total assets less current liabilities	52,100	52,248	59,564	67,580	80,278
Non-current liabilities	(9,581)	(7,811)	(7,006)	(7,017)	(7,709)
Net assets	42,519	44,437	52,558	60,563	72,569
Share capital	30,648	30,648	30,648	30,648	30,648
Reserves	11,642	13,546	21,662	29,647	41,553
Non-controlling interests	229	243	248	268	368
Total equity	42,519	44,437	52,558	60,563	72,569
Key financial and operational statistics					
Dividend declared <i>(HK\$ million)</i>	5,300	–	–	–	–
Return on equity	15.6%	16.7%	17.3%	14.7%	17.3%
Total debt/capital ratio	10%	7%	5%	2%	2%
Passenger traffic ^{1,2} <i>(millions of passengers)</i>	60.7	64.7	69.7	70.5	73.6
Cargo and airmail throughput ^{1,3} <i>(millions of tonnes)</i>	4.2	4.5	4.4	4.7	5.1
Aircraft movements ¹ <i>(thousands)</i>	377	396	410	410	423

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

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

³ Cargo throughput includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail throughput includes airmail from Hongkong Post and transit mail from the airlines.

AIRLINES OPERATING AT HKIA AS AT MARCH 2018

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

* Freighter services only

DESTINATIONS SERVED FROM HKIA AS AT MARCH 2018

North Asia

Baotou
Beijing
Busan
Changchun
Changsha
Cheju
Chengdu
Chongqing
Daegu
Dalian
Dunhuang
Fukuoka
Fuzhou
Guangzhou
Guilin
Guiyang
Haikou
Hangzhou
Harbin
Hiroshima
Hualien
Huangshan
Irkutsk
Ishigaki
Jieyang
Jinan
Jinjiang
Kagoshima
Kaohsiung
Khabarovsk*
Komatsu
Krasnoyarsk*
Kumamoto
Kunming
Lanzhou
Meixian
Miyazaki
Nagoya
Nanchang
Nanjing
Nanning
Ningbo
Okayama
Okinawa
Osaka/Kansai
Qingdao
Sanya

Sapporo
Sendai
Seoul/Incheon
Shanghai/Hongqiao
Shanghai/Pudong
Shenyang
Shijiazhuang
Taichung
Tainan
Taipei
Taitung
Taiyuan
Takamatsu
Tianjin
Tokushima
Tokyo/Haneda
Tokyo/Narita
Ulan Bator
Vladivostok
Wenzhou
Wuhan
Wuxi
Wuyishan
Xiamen
Xian
Xining
Xuzhou
Yantai
Yiwu
Yonago
Yuncheng
Zhangjiajie
Zhanjiang
Zhengzhou

South East Asia

B S Begawan
Bangkok/Don Muang
Bangkok/Suvarnabhumi
Cebu
Chiang Mai
Chiang Rai
Clark
Da Nang
Denpasar
Hanoi
Ho Chi Minh
Iloilo

Jakarta
Kalibo
Koh Samui
Kota Kinabalu
Kuala Lumpur
Kuala Lumpur/Subang*
Kuching*
Mandalay
Manila
Nha Trang/Cam Ranh
Penang
Phnom Penh
Phuket
Siem Reap
Sihanoukville
Singapore
Surabaya
Udon Thani*
Yangon

Middle East/Central Asia/South Asia

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

Riyadh*
Sharjah*
Tashkent*
Tel Aviv
Turkmenbashi

Europe

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

Australasia/Pacific Islands

Adelaide
Auckland
Brisbane
Cairns
Christchurch
Gold Coast
Guam

Melbourne
Nadi
Perth
Port Moresby
Sydney
Toowoomba/Wellcamp*

Africa

Addis Ababa
Johannesburg
Mauritius
Nairobi

North America

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

Central and South America

Guadalajara*
Mexico City*

* Freighter services only

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