香港國際機場 | HONG KONG INTERNATIONAL AIRPORT

# AIRPORT AUTHORITY

*(a statutory body corporate established in Hong Kong under the Airport Authority Ordinance)*

**U.S.$750,000,000 Senior Perpetual Capital Securities (the "Series A Securities")**
**(Stock Code: 40500)**
**and**
**U.S.$750,000,000 Senior Perpetual Capital Securities (the "Series B Securities")**
**(Stock Code: 40501)**
**(together, the "Securities")**

This announcement is issued pursuant to Rule 37.39A of the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**").

Please refer to the offering circular dated 1 December 2020 (the "**Offering Circular**") appended herein in relation to the issuance of the Securities. As disclosed in the Offering Circular, the Securities were intended for purchase by professional investors only (as defined in Chapter 37 of the Listing Rules) and have been listed on the Hong Kong Stock Exchange on that basis.

The Offering Circular does not constitute a prospectus, notice, circular, brochure or advertisement offering to sell any securities to the public in any jurisdiction, nor is it an invitation to the public to make offers to subscribe for or purchase any securities, nor is it circulated to invite offers by the public to subscribe for or purchase any securities.

The Offering Circular must not be regarded as an inducement to subscribe for or purchase any securities of Airport Authority, and no such inducement is intended. No investment decision should be made based on the information contained in the Offering Circular.

Hong Kong, 9 December 2020

*As at the date of this announcement, the Chief Executive Officer of Airport Authority is Mr. Fred Lam Tin-fuk JP, and the executive directors of Airport Authority are Mr. David Au Ho-cheung, Ms. Cissy Chan Ching-sze, Mrs. Vivian Cheung Kar-fay, Ms. Florence Chung Wai-yee, Mr. Julian Lee Pui-hang, Mr. Ricky Leung Wing-kee and Mr. Kevin Poole.*

## IMPORTANT NOTICE

## NOT FOR DISTRIBUTION TO ANY PERSON OR ADDRESS IN THE UNITED STATES

**Important: You must read the following before continuing.** The following applies to the preliminary offering circular following this page (the "**Offering Circular**"), and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Circular. In accessing the Offering Circular, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us.

**NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND, SUBJECT TO CERTAIN EXCEPTIONS, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT ("REGULATION S")).**

THIS OFFERING CIRCULAR MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER, AND IN PARTICULAR, MAY NOT BE FORWARDED TO ANY U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED AND WILL NOT BE ABLE TO PURCHASE ANY OF THE SECURITIES DESCRIBED THEREIN.

**Confirmation of the Representation:** In order to be eligible to view this Offering Circular or make an investment decision with respect to the securities, investors must not be located in the United States. This Offering Circular is being sent at your request and by accepting the electronic mail and accessing this Offering Circular, you shall be deemed to have represented to us that the electronic mail address that you gave us and to which this electronic mail has been delivered is not located in the United States and that you consent to delivery of such Offering Circular by electronic transmission.

The attached document is being furnished in connection with an offering in offshore transactions in compliance with Regulation S under the Securities Act solely for the purpose of enabling a prospective investor to consider the purchase of the securities described herein.

You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person. If you have gained access to this transmission contrary to the foregoing restrictions, you are not allowed to purchase any of the securities described in the attached Offering Circular.

The materials relating to any offering of securities to which this Offering Circular relates do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer (as defined in the Offering Circular) in such jurisdiction.

This Offering Circular has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Issuer or the Joint Lead Managers (as defined in the Offering Circular), any person who controls a Joint Lead Manager, any director, officer, employee or agent of the Issuer or a Joint Lead Manager or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between this Offering Circular distributed to you in electronic format and the hard copy version available to you on request from a Joint Lead Manager.

**You are responsible for protecting against viruses and other destructive items.** Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

**Actions that you may not take:** If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the "**Reply**" function on your e-mail software, will be ignored or rejected.

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# AIRPORT AUTHORITY

*(a statutory body corporate established in Hong Kong under the Airport Authority Ordinance)*

## U.S.$750,000,000 Senior Perpetual Capital Securities (the "Series A Securities")
## U.S.$750,000,000 Senior Perpetual Capital Securities (the "Series B Securities")

## Issue Price for the Series A Securities: 100.00 per cent.
## Issue Price for the Series B Securities: 100.00 per cent.

The senior perpetual capital securities in the aggregate principal amount of U.S.$750,000,000 (the "**Series A Securities**") and the senior perpetual capital securities in the aggregate principal amount of U.S.$750,000,000 (the "**Series B Securities**", and together with the Series A Securities, the "**Securities**").

The Securities confer a right to receive distributions (each a "**Distribution**") for the period from 8 December 2020 (the "**Issue Date**") at the applicable rate of distribution described below (the "**Distribution Rate**") subject to the provisions of the Securities relating to deferral of Distribution (See "*Terms and Conditions of the Series A Securities — Distribution — Distribution Deferral*" and "*Terms and Conditions of the Series B Securities — Distribution — Distribution Deferral*"). Distribution shall be payable semi-annually in equal instalments in arrear on 8 June and 8 December of each year (each a "**Distribution Payment Date**") with the first Distribution Payment Date falling on 8 June 2021.

Subject to the terms and conditions of the Series A Securities (the "**Terms and Conditions of the Series A Securities**"), the Distribution Rate applicable to the Series A Securities shall be: (i) from, and including, the Issue Date to, but excluding, 8 June 2028 (the "**Series A Securities First Reset Date**"), 2.40 per cent. per annum; and (ii) thereafter, in respect of the period from, and including, the Series A Securities First Reset Date and each Reset Date falling hereafter to, but excluding, the immediately following Reset Date (each a "**Series A Reset Period**"), at the relevant Reset Distribution Rate (except expressly provided to the otherwise, capitalised terms used herein shall have the meaning ascribed thereto in "*Terms and Conditions of the Series A Securities*").

Subject to the terms and conditions of the Series B Securities (the "**Terms and Conditions of the Series B Securities**"), the Distribution Rate applicable to the Series B Securities shall be: (i) from, and including, the Issue Date to, but excluding, 8 June 2026 (the "**Series B Securities First Reset Date**"), 2.10 per cent. per annum; and (ii) thereafter, in respect of the period from, and including, the Series B Securities First Reset Date and each Reset Date falling hereafter to, but excluding, the immediately following Reset Date (each a "**Series B Reset Period**"), at the relevant Reset Distribution Rate (except expressly provided to the otherwise, capitalised terms used herein shall have the meaning ascribed thereto in "*Terms and Conditions of the Series B Securities*").

The Issuer may, at its sole discretion, elect to defer a Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by providing holders of the relevant series of Securities ("**Holders**") with not more than ten nor less than five Business Days' (as defined in "*Terms and Conditions of the Series A Securities" and "Terms and Conditions of the Series B Securities*" (together, the "**Terms and Conditions of the Securities**" or the "**Conditions**") notice prior to the scheduled Distribution Payment Date if, during the three months ending on the day before that scheduled Distribution Payment Date an Optional Deferral Event (as defined in "*Terms and Conditions of the Series A Securities — Distribution — Distribution Deferral*" and "*Terms and Conditions of the Series B Securities — Distribution — Distribution Deferral*") has occurred. Any Distribution so deferred shall constitute "**Arrears of Distribution**". Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the applicable Distribution Rate and the amount of such interest with respect to Arrears of Distribution shall be due and payable and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution as described in "*Terms and Conditions of the Series A Securities — Distribution — Cumulative Deferral*" and "*Terms and Conditions of the Series B Securities — Distribution — Cumulative Deferral*". The Issuer may, at its sole discretion, further defer any Arrears of Distribution by complying with the notice requirement set out in the Terms and Conditions of the Series A Securities and the Terms and Conditions of the Series B Securities and is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred. See "*Terms and Conditions of the Series A Securities — Distribution — Distribution Deferral*" and "*Terms and Conditions of the Series B Securities — Distribution — Distribution Deferral*".

The Issuer may redeem in whole, but not in part, (i) the Series A Securities on any business day on or after 8 March 2028 (each, a "**Series A Call Date**") at their principal amount, and (ii) the Series B Securities on any business day on or after 8 March 2026 (each, a "**Series B Call Date**") at their principal amount (in each case, together with Distribution accrued and unpaid to such date (including, with respect to the relevant series of Securities, any Arrears of Distribution and any Additional Distribution Amount) on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders of the relevant series of Securities (which notice shall be irrevocable and shall oblige the Issuer to redeem the relevant series of Securities on the relevant Call Date (except expressly provided to the otherwise, capitalised terms used herein shall have the meaning ascribed thereto in "*Terms and Conditions of the Securities*"). Each series of Securities may also be redeemed in whole, but not in part, at the option of the Issuer, subject to certain provisos, at their principal amount together with Distribution accrued and unpaid (including any Arrears of Distribution and any Additional Distribution Amounts to the date fixed for redemption: (i) upon the occurrence of any change or amendment to the Relevant Accounting Standard (as defined in "*Terms and Conditions of the Series A Securities — Redemption and Purchase — Redemption for accounting reasons*" and "*Terms and Conditions of the Series B Securities — Redemption and Purchase — Redemption for accounting reasons*") such that the relevant series of Securities must not or must no longer be recorded as "equity" of the Issuer on a consolidated basis pursuant to the Relevant Accounting Standard; or (ii) as a result of a change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 1 December 2020 such that the Issuer would be obliged to pay additional amounts as provided or referred to in the Terms and Conditions of the Securities and such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or (iii) if at least 75 per cent. in principal amount of the relevant series of Securities originally issued has been redeemed or purchased and cancelled. Upon the occurrence of a Relevant Event (as defined in "*Terms and Conditions of the Series A Securities — Distribution — Distribution Deferral — Definitions*" and "*Terms and Conditions of the Series B Securities — Distribution — Distribution Deferral — Definitions*"), the Issuer shall give notice to Holders of the relevant series of Securities and the Fiscal Agent (in accordance with the "*Terms and Conditions of the Securities*") by not later than ten days following the first day on which it becomes aware of the occurrence of such Relevant Event, stipulating that a Relevant Event has occurred and whether or not it will redeem the relevant series of Securities at their principal amount together with Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amounts). See "*Terms and Conditions of the Series A Securities — Redemption and Purchase*" and "*Terms and Conditions of the Series B Securities — Redemption and Purchase*". If the Issuer does not give such notice, the Distribution Rate shall increase by 3.00 per cent. per annum with effect from the next Distribution Payment Date or if the date on which a Relevant Event occurs is prior to the most recent preceding Distribution Payment Date, such Distribution Payment Date, provided that the maximum aggregate increase in the Distribution Rate pursuant to the aforementioned situation shall be 3.00 per cent., as set out in "*Terms and Conditions of the Securities*".

Application will be made to The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") for the listing of each series of Securities by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange) ("**Professional Investors**") only. This document is for distribution to Professional Investors only. **Notice to Hong Kong investors: The Issuer confirms that the Securities are intended for purchase by Professional Investors only and will be listed on the Hong Kong Stock Exchange on that basis. Accordingly, the Issuer confirms that the Securities are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.**

**The Hong Kong Stock Exchange has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Securities or the Issuer or quality of disclosure in this document.** Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Investing in the Securities involves certain risks. See "*Risk Factors*" beginning on page 14.

**Investors should be aware that the Securities are perpetual in tenor and that they have no right to require redemption, that Distributions may be deferred in the circumstances set out in "*Terms and Conditions of the Series A Securities — Distribution — Distribution Deferral*"and "*Terms and Conditions of the Series B Securities — Distribution — Distribution Deferral*", that there are limited remedies for default under the Securities and that there are various other risks relating to the Securities, the Issuer and its subsidiaries, their business and their jurisdictions of operations which investors should familiarise themselves with before making an investment in the Securities. See "*Risk Factors*"beginning on page 14.**

The Securities have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")). For a description of these and certain further restrictions on offers and sales of the Securities and the distribution of this Offering Circular, see "*Subscription and Sale*".

Each series of Securities is expected to be assigned a rating of AA by Standard & Poor's Rating Services, a division of McGraw-Hill Companies Inc. ("**Standard & Poor's**"). The rating does not constitute a recommendation to buy, sell or hold the Securities and may be subject to suspension, reduction or withdrawal at any time by Standard & Poor's. A suspension, reduction or withdrawal of the rating assigned to the Securities may adversely affect the market price of the Securities.

The denomination of the Securities shall be U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof,

**PRIIPs REGULATION/PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS** — the Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**") or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or the UK may be unlawful under the PRIIPs Regulation.

**Singapore SFA Product Classification:** In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Each series of Securities will be represented by beneficial interests in a global certificate (each, a "**Global Certificate**" and together, the "**Global Certificates**") in registered form which will be registered in the name of a nominee of, and will be deposited on or about the Issue Date with a common depositary for, Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**" together with Euroclear, the "**Clearing Systems**"). Beneficial interests in a Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, individual certificates for Securities will not be issued in exchange for beneficial interests in such Global Certificate.

*Joint Global Coordinators, Joint Bookrunners and Joint Lead Managers*

**HSBC** | **Standard Chartered Bank** | **UBS**

*Joint Bookrunners and Joint Lead Managers*

**BofA Securities** | **Bank of China** | **Mizuho Securities**

Offering Circular dated 1 December 2020

## IMPORTANT NOTICE

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of giving information with regard to the Issuer and the Securities. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading. If investors are in any doubt about any of the contents of this Offering Circular, they should obtain independent professional advice.

The Issuer having made all reasonable enquiries confirms that (i) this Offering Circular contains all information with respect to the Issuer and the Issuer and its subsidiaries taken as a whole (the "**Group**") and the Securities that is material in the context of the issue and offering of the Securities; (ii) the statements contained in it relating to the Issuer and the Group are in every material particular true and accurate and not misleading; (iii) the opinions and intentions expressed in this Offering Circular with regard to the Issuer and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Issuer, the Group or the Securities, the omission of which would, in the context of the issue and offering of the Securities, make any statement in this Offering Circular misleading in any material respect; and (v) all reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements, and the Issuer accepts responsibility accordingly.

This Offering Circular has been prepared by the Issuer solely for use in connection with the proposed offering of the Securities described in this Offering Circular. The distribution of this Offering Circular and the offering of the Securities in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and the Joint Lead Managers (as defined herein) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Securities or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Securities, and the circulation of documents relating thereto, in certain jurisdictions and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Securities and distribution of this Offering Circular, see "*Subscription and Sale*".

No person has been or is authorised to give any information or to make any representation concerning the Issuer, the Group and the Securities other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Issuer, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, UBS AG Hong Kong Branch, Merrill Lynch (Asia Pacific) Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited and Mizuho Securities Asia Limited (together, the "**Joint Lead Managers**") or the Agents (as defined in the Conditions). Neither the delivery of this Offering Circular nor any offering, sale or delivery made in connection with the issue of the Securities shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Issuer or the Group since the date hereof or create any implication that the information contained herein is correct as at any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Joint Lead Managers or the Agents to subscribe for or purchase any of the Securities and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

No representation or warranty, express or implied, is made or given by the Joint Lead Managers or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty, express or implied, by the Joint Lead Managers or the Agents. The Joint Lead Managers have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Issuer, any member of the Group, the Joint Lead Managers or the Agents that any recipient of this Offering Circular should purchase the Securities. Each potential purchaser of the Securities should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Securities should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

To the fullest extent permitted by law, none of the Joint Lead Managers or the Agents or any of their respective affiliates, directors or advisers accepts any responsibility for the contents of this Offering Circular. The Joint Lead Managers and the Agents and their respective affiliates, directors or advisers accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Offering Circular or any such statement. None of the Joint Lead Managers or the Agents or any of their respective affiliates, directors or advisers undertakes to review the results of operations, financial condition or affairs of the Issuer during the life of the arrangements contemplated by this Offering Circular nor to advise any investor or potential investor in the Securities of any information coming to the attention of the Joint Lead Managers or the Agents.

Hong Kong Exchanges and Clearing Limited and the Hong Kong Stock Exchange take no responsibility for the contents of this Offering Circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Offering Circular. Listing of the Securities on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Group or the Securities. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the Terms and Conditions of the Securities, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Securities. Each person receiving this Offering Circular acknowledges that such person has not relied on any of the Joint Lead Managers or any person affiliated with a Joint Lead Manager in connection with its investigation of the accuracy of such information or its investment decision.

**IN CONNECTION WITH THE ISSUE OF THE SECURITIES, ANY OF THE JOINT LEAD MANAGERS APPOINTED AND ACTING IN ITS CAPACITY AS A STABILISATION MANAGER (THE "STABILISATION MANAGER") (OR PERSONS ACTING ON BEHALF OF THE STABILISATION MANAGER) MAY, TO THE EXTENT PERMITTED BY APPLICABLE LAWS AND DIRECTIVES, OVER-ALLOT SECURITIES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE SECURITIES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE SECURITIES IS MADE IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE SECURITIES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE SECURITIES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offering of the Securities. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

**PRIIPs REGULATION/PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS —** the Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Securities or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Securities or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

**SINGAPORE SFA PRODUCT CLASSIFICATION:** In connection with section 309B of the Securities and Futures Act (Chapter 289) of Singapore (the "**SFA**") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## FORWARD-LOOKING STATEMENTS

Certain statements under "*Risk Factors*", "*The Airport Authority*" and elsewhere in this Offering Circular constitute "**forward-looking statements**". The words including "**believe**", "**expect**", "**plan**", "**anticipate**", "**schedule**", "**estimate**" and similar words or expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditure and investment plans of the Group and the plans and objectives of the Group's management for its future operations (including development plans and objectives relating to the Group's operations), are forward looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. The Issuer and the directors, employees and agents of the Issuer do not assume: (i) any obligation or undertaking to release any updates; or revisions to any forward-looking statements contained herein to reflect any change in the Issuer's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statements were based or (ii) any liability in the event that any of the forward-looking statements does not materialise or turns out to be incorrect. This Offering Circular discloses, under "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Issuer's expectations. All subsequent written and forward-looking statements attributable to the Issuer or persons acting on behalf of the Issuer are expressly qualified in their entirety by such cautionary statements.

## CERTAIN DEFINED TERMS AND CONVENTIONS

This Offering Circular has been prepared using a number of conventions, which investors should consider when reading the information contained here. Unless indicated otherwise, in this Offering Circular all references to (i) to "**Issuer**" are to Airport Authority, and (ii) the "**Group**" are to the Airport Authority and its direct and indirect subsidiaries, taken as a whole unless the context otherwise indicated.

In this Offering Circular, references to the "**Airport**" or the "**HKIA**" are to the airport that is provided, operated, developed and maintained as an airport for civil aviation at and in the vicinity of Chek Lap Kok, Hong Kong together with such facilities, amenities and services as are requisite or expedient for its operation, and includes any part of the airport and its facilities, amenities and services.

In this Offering Circular, unless otherwise specified or the context requires, all references to "**Hong Kong**" are to the Hong Kong Special Administrative Region of the People Republic of China, all references to the "**PRC**" or to "**Mainland China**" are to the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region and Taiwan, all references to "**U.S.**" are to the United States of America, all references to "**Hong Kong dollars**", "**HK dollars**", "**HK$**" or "**cents**" are to the lawful currency of Hong Kong, all references herein to "**U.S. dollars**" or "**U.S.$**" are to the lawful currency of the U.S., all references to "**HKFRS**" are to Hong Kong Financial Reporting Standards. In this Offering Circular, references to "Terms and Conditions of the Series A Securities" and "Terms and Conditions of the Series B Securities" mean the terms and conditions governing the Series A Securities and Series B Securities, as respectively set out in "*Terms and Conditions of the Series A Securities*" and "*Terms and Conditions of the Series B Securities*" (together, the "**Terms and Conditions of the Securities**" or the "**Conditions**").

This Offering Circular contains translations of certain HK dollar amounts into U.S. dollars, and *vice versa,* at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations between HK dollars and U.S. dollars in this Offering Circular were made at the rate of HK$7.80 to U.S.$1.00. Such translations should not be construed as representations that the Hong Kong dollar and U.S. dollar amounts referred to herein could have been, or could be, converted into U.S. dollars or Hong Kong dollars, as the case may be, at that or any other rate or at all.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

## PRESENTATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Issuer for the year ended 31 March 2020 (the "**2019/2020 Audited Financial Statements**"), which are contained in page 99 to page 166 of the 2019/2020 annual report of the Issuer and the unaudited condensed consolidated interim financial statements of the Issuer for the six months ended 30 September 2020 (the "**2020/2021 Interim Financial Statements**"), which are contained in page 4 to page 25 of the 2020/2021 interim financial report of the Issuer, are included elsewhere in this Offering Circular. Copies of the audited consolidated financial statements of the Issuer for the year ended 31 March 2019, 2019/2020 Audited Financial Statements and 2020/2021 Interim Financial Statements are available and may be downloaded free of charge from the Airport Authority's website on the internet at https://www.hongkongairport.com/.

This Offering Circular contains consolidated financial information of the Issuer as at and for the years ended 31 March 2020 and 2019, which has been extracted from the 2019/2020 Audited Financial Statements of the Issuer. The 2019/2020 Audited Financial Statements of the Issuer were prepared in conformity with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

This Offering Circular also contains consolidated financial information of the Issuer as at and for the six months ended 30 September 2020 (the "**2020/2021 Interim Financial Information**"), which has been extracted from the 2020/2021 Interim Financial Statements. The 2020/2021 Interim Financial Statements were prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and the applicable disclosure provisions of the Listing Rules. The 2020/2021 Interim Financial Statements have been reviewed but have not been audited by the Issuer's auditor. Consequently, the 2020/2021 Interim Financial Information should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's financial condition and results of operations. In addition, the 2020/2021 Interim Financial Information should not be taken as an indication of the expected financial condition or results of operations of the Group for the full financial year ending 31 March 2021.

## CONTENTS

## SUMMARY

The Airport Authority is a statutory body corporate owned by the Government of Hong Kong (the "**Government**"). The Airport Authority is established under the Airport Authority Ordinance (Cap. 483) of the laws of Hong Kong (the "**Ordinance**") which provides that its purpose is to provide, operate, develop and maintain an airport for civil aviation in the vicinity of Chek Lap Kok. The Hong Kong International Airport ("**HKIA**"), is one of the busiest airports worldwide in terms of international passenger throughput and international freight throughput.

HKIA is located on a largely man-made island of reclaimed land at Chek Lap Kok, part of Lantau Island, 30 kilometres northwest of Hong Kong Island. It began commercial operations on 6 July 1998 with a single runway. A second runway was added and the passenger terminal was extended a year later.

As at May 2020, the total floor area of Terminal 1, Midfield Concourse, North Satellite Concourse and SkyPier is around 730,000 square metres with 115 passenger stands, 43 cargo stands and 15 passenger and cargo mix-use stands for aircraft.

HKIA can handle 68 aircraft movements an hour at peak hours. For the year ended 31 March 2020, passenger traffic was 60.9 million as compared to 75.1 million for the year ended 31 March 2019, representing a decrease of 18.9 per cent. year-on-year. For the years ended 31 March 2019 and 2020, cargo and airmail throughput was 5.1 million tonnes and 4.7 million tonnes, respectively. In 2019, HKIA was the world's busiest freight airport for the tenth consecutive year and ranked fourth in terms of international passenger throughput.[1]

For the year ended 31 March 2020, HKIA's flight movements were 377,420 which represents a decrease of 12.0 per cent. compared to 428,870 for the same period in 2019.

From April to September 2020, HKIA handled 408,000 passengers and 61,175 flight movements, representing decreases of 99 per cent. and 71 per cent., respectively, compared to the same period in 2019. HKIA recorded around 2.2 million tonnes of cargo throughput from April to September 2020, which dropped about 7 per cent. compared to the same period in 2019.

In view of the long-term global air traffic growth, especially in the Greater Bay Area, the Airport Authority is undertaking a series of expansion and development projects to reinforce HKIA's status as an international aviation hub and transform it from a city airport to an Airport City (the "**Airport City**").

In October 2016, the Airport Authority announced its plan for SKYCITY, a core element of the Airport City. Situated at HKIA and adjacent to the passenger terminals, SKYCITY features retail complexes, entertainment facilities, dining areas, hotels and office towers covering approximately 25 hectares of land at the north of the Island (as further defined below) (the "**SKYCITY**").

In May 2018, the Airport Authority awarded the right to develop and manage two sites of SKYCITY (maximum gross floor area of 350,000 square metres) to Roxy Limited, a subsidiary wholly-owned by New World Development Company Limited for an integrated retail, dining and entertainment development, which is scheduled to open in phases from 2022 to 2025.

The enhancement projects for Terminal 1 will increase HKIA's handling capacity and bring a fresh look to passengers. In June 2018, the Airport Authority awarded the right to manage and develop a premium logistics centre in the South Cargo Precinct of HKIA.

[1] Preliminary airport rankings released by Airports Council International in May 2020.

The Airport Authority is expanding HKIA into a Three-runway System ("**3RS**") to fulfil long-term air traffic demand. The project includes seven core projects and facilities: formation of 650 hectares of land; building a 3,800-metre-long new runway and supporting taxiways; a new passenger building with 63 parking positions and an apron; a 2,600-metre-long new automated people mover system; a new baggage handling system; expansion of Terminal 2 and construction of other associated airport support infrastructure, road network and transportation facilities.

For a more complete description of the Airport Authority, see "*The Airport Authority*".

## SUMMARY OF THE OFFERING

The following is a summary of the Terms and Conditions of the Securities. For a more complete description of the Securities, see "*Terms and Conditions of the Series A Securities" and "Terms and Conditions of the Series B Securities*". Terms used in this summary and not otherwise defined shall have the meanings given to them in "*Terms and Conditions of the Series A Securities" and "Terms and Conditions of the Series B Securities*".

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| Issuer . . . . . . . . . . . . . . . . . . . . | Airport Authority<br>(Legal Entity Identifier code: 254900748HGC4RBR4O84) |
| Issue . . . . . . . . . . . . . . . . . . . . . | U.S.$750,000,000 senior perpetual capital securities (the "**Series A Securities**")<br><br>U.S.$750,000,000 senior perpetual capital securities (the "**Series B Securities**") |
| Status of the Securities. . . . . . . . . | The Securities will constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and at least *pari passu* with all other present and future, unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application. |
| Issue Price of the Series A Securities . . . . . . . . . . . . . . . . | 100.00 per cent. |
| Issue Price of the Series B Securities . . . . . . . . . . . . . . . . | 100.00 per cent. |
| Form and Denomination . . . . . . . . | The Securities will be issued in registered form in the denomination of U.S.$200,000 each and integral multiples of U.S.$1,000 in excess thereof. |
| Distributions. . . . . . . . . . . . . . . . | Subject to Condition 4(d) *(Distribution — Distribution Deferral)*, the Securities confer a right to receive distributions (each a "**Distribution**") from 8 December 2020 (the "**Issue Date**") at the applicable Distribution Rate payable semi-annually in equal instalments in arrear on 8 June and 8 December of each year (each a "**Distribution Payment Date**"), with the first Distribution Payment Date falling on 8 June 2021. |
| Distribution Rate. . . . . . . . . . . . . | In relation to the Series A Securities subject to Condition 4(c) (*Increase in Distribution following a Relevant Event*) of the Terms and Conditions of the Series A Securities, the rate of distribution (the "**Series A Distribution Rate**") applicable to the Series A Securities shall be:<br><br>(i) in respect of each Distribution Payment Date, the period from, and including, the Issue Date to, but excluding, 8 June 2028 (the "**Series A First Reset Date**"), 2.40 per cent. per annum; and |

(ii) thereafter, in respect of the period from, and including, the Series A First Reset Date and each Reset Date (as defined in Condition 4(d)(viii) *(Definitions)*) falling thereafter to, but excluding, the immediately following Reset Date (each a "**Series A Reset Period**"), at the relevant Reset Distribution Rate (as defined in Condition 4(d)(viii) *(Definitions)*).

In relation to the Series B Securities, subject to Condition 4(c) *(Increase in Distribution following a Relevant Event)* of the Terms and Conditions of the Series B Securities, the rate of distribution (the "**Series B Distribution Rate**") applicable to the Series B Securities shall be:

(i) in respect of each Distribution Payment Date, the period from, and including, the Issue Date to, but excluding, 8 June 2026 (the "**Series B First Reset Date**"), 2.10 per cent. per annum; and

(ii) thereafter, in respect of the period from, and including, the Series B First Reset Date and each Reset Date (as defined in Condition 4(d)(viii) *(Definitions)*) falling thereafter to, but excluding, the immediately following Reset Date (each a "**Series B Reset Period**"), at the relevant Reset Distribution Rate (as defined in Condition 4(d)(viii) *(Definitions)*).

Upon the occurrence of a Relevant Event and upon notification to the Holders of the relevant series of Securities and the Fiscal Agent, unless an irrevocable notice to redeem the Securities of the relevant series has been given to Holders of the relevant series of Securities by the Issuer pursuant to Condition 5(e) *(Redemption and Purchase — Redemption for Relevant Event)* by the 30th day following the occurrence of the Relevant Event, the Distribution Rate of the relevant series of Securities will increase by 3.00 per cent. per annum with effect from (i) the next Distribution Payment Date; or (ii) if the date on which a Relevant Event occurs is prior to the most recent preceding Distribution Payment Date, such Distribution Payment Date, provided that the maximum aggregate increase in the Distribution Rate of the relevant series of Securities pursuant to Condition 4(c)(i) *(Increase in Distribution Rate)* shall be 3.00 per cent.

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| | If following an increase in the Distribution Rate of the relevant series of Securities upon the occurrence of a Relevant Event pursuant to Condition 4(c)(i) *(Increase in Distribution Rate)* such Relevant Event is cured, remedied, no longer applicable or no longer continuing, then upon written notification to the Holders of the relevant series and the Fiscal Agent accompanied by a certificate, signed by an authorised officer of the Issuer, stating that the Relevant Event has been cured, remedied, is no longer applicable or is no longer continuing (as the case may be) and setting out the details of such circumstances, the Distribution Rate of the relevant series of Securities will decrease by 3.00 per cent. per annum with effect from the next Distribution Payment Date immediately following the date of the notification referred to in Condition 4(c)(ii) *(Decrease in Distribution Rate)*, provided that the maximum aggregate decrease in the Distribution Rate of the relevant series of Securities pursuant to Condition 4(c)(ii) *(Decrease in Distribution Rate)* shall be 3.00 per cent. |
| Optional Deferral of Distributions . | The Issuer may, at its sole discretion, elect to defer Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice to the Holders of the relevant series of Securities (in accordance with Condition 14 *(Notices)*) not more than ten nor less than five Business Days prior to a scheduled Distribution Payment Date if, during the three months ending on the day before that scheduled Distribution Payment Date no dividend, distribution or other payment has been paid or declared by the Issuer on or in respect of its Junior Securities or its Parity Securities (as defined in Condition 4(d)(viii) *(Definitions)* (except (x) in connection with any benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (y) where required to do so, or as required by any directions and/or orders given, pursuant to the Ordinance) (an "**Optional Deferral Event**"). Any Distribution deferred pursuant to Condition 4(d) *(Distribution Deferral)* shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the notice requirement set out in the Terms and Conditions of the Series A Securities and the Terms and Conditions of the Series B Securities to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution may be deferred pursuant to Condition 4(d) *(Distribution Deferral)* except that Condition 4(d)(v) *(Restrictions in the case of Deferral)* shall be complied with until all outstanding Arrears of Distribution have been paid in full. Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the relevant series of Securities at the applicable Distribution Rate of the relevant series of Securities and the amount of such interest with respect to Arrears of Distribution shall be due and payable pursuant to Condition 4 *(Distribution)* and shall be calculated by applying the applicable Distribution Rate of the relevant series of Securities to the amount of the Arrears of Distribution and otherwise mutatis mutandis as provided in the foregoing provisions of Condition 4 *(Distribution)*. |

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| Arrears of Distribution . . . . . . . . . | Arrears of Distribution (a) may be satisfied by the Issuer (in whole or in part) at any time by giving notice of such election to Holders of the relevant series of Securities (in accordance with Condition 14 *(Notices)* and the Fiscal Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment dates specified in such notice) and (b) must be satisfied in certain other circumstances in accordance with Condition 4(vi)(B). |
| Restrictions in the case of Deferral | If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of Condition 4(d) *(Distribution — Distribution Deferral)*, the Issuer shall not at its discretion:<br><br>(1) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is made on any of its Junior Securities or (except on a *pro-rata* basis) its Parity Securities with respect to the relevant series of Securities **provided that** such restriction shall not apply to (x) payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants or (y) any payments required to be made, or as required by any directions and/or orders given, pursuant to the Ordinance; or<br><br>(2) redeem, reduce, cancel, buy-back or acquire for any consideration any of its Junior Securities or its Parity Securities with respect to the relevant series of Securities, **provided that** such restriction shall not apply to (x) an exchange by the Issuer of any of its Parity Securities for Junior Securities, or in relation to Parity Securities, on a *pro-rata* basis or (y) any reduction of the Issuer's share capital required to be made pursuant to the Ordinance,<br><br>in each case and unless and until (i) the Issuer has satisfied, in full all outstanding Arrears of Distribution with respect to the relevant series of Securities; or (ii) permitted to do so by an Extraordinary Resolution (as defined in the Agency Agreement) of the Holders of the relevant series of Securities. |
| Issue Date . . . . . . . . . . . . . . . . . | 8 December 2020. |
| Maturity Date . . . . . . . . . . . . . . . | There is no maturity date. |

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| Redemption at the Option of the Issuer . . . . . . . . . . . . . . . . . . . | The Series A Securities may be redeemed at the option of the Issuer in whole, but not in part, on any business day on or after 8 March 2028 (each, a "**Series A Call Date**") on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders of the Series A Securities (which notice shall be irrevocable and shall oblige the Issuer to redeem the Series A Securities on the relevant Series A Call Date at their principal amount plus Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amount)).<br><br>The Series B Securities may be redeemed at the option of the Issuer in whole, but not in part, on any business day on or after 8 March 2026 (each, a "**Series B Call Date**") on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders of the Series B Securities (which notice shall be irrevocable and shall oblige the Issuer to redeem the Series B Securities on the relevant Series B Call Date at their principal amount plus Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amount)). |
| Redemption for Relevant Event . . . | Upon the occurrence of a Relevant Event with respect to any series of Securities, the Issuer shall give notice to Holders of the relevant series of Securities and the Fiscal Agent (in accordance with Condition 14 *(Notices)*) by not later than ten days following the first day on which it becomes aware of the occurrence of such Relevant Event, stipulating that a Relevant Event has occurred and whether or not it will redeem the relevant series of Securities pursuant to the Condition 5(e) *(Redemption for Relevant Event)*. A notice given by the Issuer stipulating that it will redeem the relevant series of Securities pursuant to Condition 5(e) *(Redemption for Relevant Event)* shall: (A) stipulate the Relevant Event Early Redemption Date and a brief explanation of the nature of the Relevant Event; (B) be irrevocable; and (C) oblige the Issuer to redeem the relevant series of Securities on the Relevant Event Early Redemption Date in whole but not in part at their principal amount together with Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amount).<br><br>A "**Relevant Event**" occurs when:<br><br>(i) as a result of any action on the part of the Issuer or the Government of Hong Kong or as a result of any new law or regulation of Hong Kong, the Government of Hong Kong either (a) ceases to have power to control the composition of the majority of the Board of the Issuer; or (b) ceases to hold, directly or indirectly, more than half in nominal value of the voting share capital of the Issuer; or |

(ii) the Issuer disposes of all or substantially all of the Restricted Assets other than (A) pursuant to or as part of a privatisation, amalgamation, reconstruction or arrangement, the effect of which is to vest in some other body corporate (having, after such vesting, a similar financial standing to the Issuer or where such vesting will not materially prejudice the interests of the Holders of the relevant series of Securities) all or substantially all of the Restricted Assets, and to impose upon such other body corporate all or substantially all of the obligations and liabilities of the Issuer or, as the case may be, such of them as relate to the Restricted Assets, including all the obligations and liabilities of the Issuer under the Agency Agreement, the relevant series of Securities and the Distributions; or (B) by any sub-lease or licence of the whole or any part of the Restricted Assets which is on arm's length commercial terms and is permitted under the Land Grant; or (C) where that disposal is or constitutes a Permitted Security Interest; or (D) by any sub-lease or licence to the Government for the provision of any accommodation or facilities required to be provided to the Government in connection with the operation of the Airport; or (E) by any sub-lease or licence to MTRC for the provision of facilities for the operation and development of the Airport Railway; or (F) any disposal pursuant to any leasing, sale and leaseback or sale and buyback arrangement relating to any assets of the Issuer; or (G) any disposal made by the Issuer in connection with the NCD Project or the 3RS Project.

The "**Relevant Event Early Redemption Date**" shall be no earlier than 45 days and no later than 60 days after the Relevant Event.

Redemption for tax reasons. . . . . . With respect to any series of Securities, the Issuer may at its option redeem the relevant series of Securities in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders of the relevant series of Securities (which notice shall be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if:

(A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 *(Taxation)* as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 1 December 2020; and

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| | (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it. |
| Redemption for accounting reasons | With respect to any series of Securities, the Issuer may redeem the relevant series of Securities in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders of the relevant series of Securities (which notice shall be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, as a result of any changes or amendments to the Relevant Accounting Standard (as defined in Condition 5(c) *(Redemption and Purchase — Redemption for accounting reasons)*)), the relevant series of Securities must not or must no longer be recorded as "equity" of the Issuer on a consolidated basis pursuant to the Relevant Accounting Standard. |
| Redemption for minimum outstanding amount . . . . . . . . . | The Securities of each series may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Holders of the relevant series of Securities (which notice will be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount) if prior to the date of such notice at least 75 per cent. in principal amount of the relevant series of Securities originally issued (including any further Securities issued pursuant to Condition 13 *(Further Issues)* and consolidated and forming a single series with the Securities) has already been redeemed or purchased and cancelled. |
| Governing Law . . . . . . . . . . . . . . | The Securities and any non-contractual obligations arising out of or in connection with the Securities will be governed by English law. |
| Clearing Systems. . . . . . . . . . . . . | Each series of Securities will be represented by a Global Certificate deposited with and registered in the name of a nominee of a common depositary for, Euroclear and Clearstream. Transfers of interests in each series of Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems. |
| Clearance and Settlement . . . . . . . | The Series A Securities have been accepted for clearance by Euroclear and Clearstream under the following codes:<br><br>ISIN: XS2264055182<br><br>Common Code: 226405518 |

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| | The Series B Securities have been accepted for clearance by Euroclear and Clearstream under the following codes:<br><br>ISIN: XS2264054706<br><br>Common Code: 226405470 |
| Rating . . . . . . . . . . . . . . . . . . . . | Each series of Securities is expected to be assigned a rating of "AA" by Standard & Poor's. |
| Fiscal Agent and Paying Agent . . . | The Bank of New York Mellon, London Branch |
| Calculation Agent . . . . . . . . . . . . | The Bank of New York Mellon, London Branch |
| Registrar and Transfer Agent . . . . | The Bank of New York Mellon SA/NV, Luxembourg Branch |
| Listing . . . . . . . . . . . . . . . . . . . . | Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, each series of Securities by way of debt issues to Professional Investors only. |
| Use of Proceeds . . . . . . . . . . . . . | See "*Use of Proceeds*". |

## SUMMARY FINANCIAL INFORMATION

The following tables present the summary historical financial data of the Group as of and for each of the years ended 31 March 2019 and 31 March 2020 and as of and for the six months ended 30 September 2019 and 2020. The summary financial data are derived from and should be read in conjunction with the 2019/2020 Audited Financial Statements and the 2020/2021 Interim Financial Statements.

The 2019/2020 Audited Financial Statements have been prepared and presented in accordance with HKFRS and have been audited by KPMG, Certified Public Accountants, Hong Kong.

The 2020/2021 Interim Financial Statements were prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and the applicable disclosure provisions of the Listing Rules.

The 2020/2021 Interim Financial Statements of the Issuer as at and for the six months ended 30 September 2020 have been reviewed but have not been audited by the Issuer's auditor. Consequently, the 2020/2021 Interim Financial Information should not be relied upon by potential investors to provide the same quality of information associated with financial statements that have been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Group's financial condition, results of operations and results.

In addition, the 2020/2021 Interim Financial Information should not be taken as an indication of the expected financial condition or result of operations of the Group for the full financial year ending 31 March 2021.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

| | For the year ended 31 March | | For the six months ended 30 September | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | (HK$ million) (Audited) | (HK$ million) (Audited) | (HK$ million) (Unaudited) | (HK$ million) (Unaudited) |
| Airport charges | 4,718 | 5,255 | 813 | 2,652 |
| Security charges | 1,514 | 1,769 | 10 | 913 |
| Aviation security services | 366 | 356 | 232 | 170 |
| Airside support services franchises | 2,510 | 2,786 | 803 | 1,320 |
| Retail licences and advertising revenue | 5,893 | 7,149 | 95 | 3,449 |
| Other terminal commercial revenue | 1,441 | 1,460 | 440 | 758 |
| Real estate revenue | 301 | 301 | 83 | 158 |
| Other income | 363 | 394 | 460 | 93 |
| **Revenue** | 17,106 | 19,470 | 2,936 | 9,513 |
| Staff costs and related expenses | (2,918) | (2,687) | (1,361) | (1,353) |
| Repairs and maintenance | (937) | (864) | (314) | (418) |
| Operational contracted services | (1,323) | (977) | (509) | (607) |
| Government services | (851) | (823) | (398) | (475) |
| Government rent and rates | (173) | (158) | (255) | (93) |
| Occupancy expenses | (317) | (314) | (119) | (183) |
| Other operating expenses | (1,367) | (1,204) | (1,584) | (746) |
| **Operating Expenses before Depreciation and Amortisation** | (7,886) | (7,027) | (4,540) | (3,875) |
| **Operating Profit/(Loss) before Depreciation and Amortisation** | 9,220 | 12,443 | (1,604) | 5,638 |
| Depreciation and amortisation | (2,924) | (3,123) | (1,588) | (1,458) |
| **Operating Profit/(Loss) before Interest and Finance Costs** | 6,296 | 9,320 | (3,192) | 4,180 |
| Interest and finance costs: | | | | |
| Finance costs | (25) | (7) | (17) | (36) |
| Interest income | 486 | 386 | 68 | 305 |
| | 461 | 379 | 51 | 269 |
| Share of results of an associate | (16) | — | 13 | (5) |
| Share of results of joint ventures | 269 | 261 | (84) | 168 |
| **(Loss)/Profit before Taxation** | 7,010 | 9,960 | (3,212) | 4,612 |
| Income tax | (1,112) | (1,558) | 525 | (732) |
| **(Loss)/Profit for the Year/Period** | 5,898 | 8,402 | (2,687) | 3,880 |
| **Attributable to:** | | | | |
| Equity shareholder of the Airport Authority | 5,866 | 8,339 | (2,706) | 3,841 |
| Non-controlling interests | 32 | 63 | 19 | 39 |
| **(Loss)/Profit for the Year/Period** | 5,898 | 8,402 | (2,687) | 3,880 |
| **Other comprehensive income for the year/period** | | | | |
| Item that will not be reclassified to profit or loss: | | | | |
| Remeasurement of net defined benefit retirement obligations of: | | | | |
| — the Airport Authority | (49) | (40) | 104 | (38) |
| Add: deferred tax | 8 | 7 | (17) | 6 |
| | (41) | (33) | 87 | (32) |
| — a subsidiary in the PRC | (2) | (4) | 2 | 1 |
| — a joint venture in the PRC | 48 | (65) | — | 47 |
| | 5 | (102) | 89 | 16 |
| Items that may be reclassified subsequently to profit or loss: | | | | |
| Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC | (341) | (339) | 217 | (327) |
| Cash flow hedge: net movement in the hedging reserve | (22) | — | (72) | — |
| Cash flow hedge: net movement in the cost of hedging reserve | 171 | (56) | (65) | 144 |
| | (192) | (395) | 80 | (183) |
| **Other comprehensive income for the year/period** | (187) | (497) | 169 | (167) |
| **Total comprehensive income for the year/period** | 5,711 | 7,905 | (2,518) | 3,713 |
| **Attributable to:** | | | | |
| Equity shareholder of the Airport Authority | 5,703 | 7,864 | (2,553) | 3,696 |
| Non-controlling interests | 8 | 41 | 35 | 17 |
| **Total comprehensive income for the year/period** | 5,711 | 7,905 | (2,518) | 3,713 |

## Consolidated Statement of Financial Position

| | As at 31 March | | As at 30 September |
|---|---|---|---|
| | 2020 | 2019 | 2020 |
| | (HK$ million) (Audited) | (HK$ million) (Audited) | (HK$ million) (Unaudited) |
| **Non-current Assets** | | | |
| Investment property | 69 | 82 | 48 |
| Interest in leasehold land | 6,299 | 6,528 | 6,184 |
| Other property, plant and equipment | 86,856 | 72,301 | 97,872 |
| | 93,224 | 78,911 | 104,104 |
| Intangible assets | 308 | 350 | 295 |
| Interest in an associate | 589 | 652 | 587 |
| Interests in joint ventures | 4,369 | 4,342 | 4,467 |
| Trade and other receivables | — | 8 | 24 |
| Derivative financial assets | 76 | 29 | 19 |
| | 98,566 | 84,292 | 109,496 |
| **Current Assets** | | | |
| Stores and spares | 104 | 84 | 114 |
| Trade and other receivables | 3,158 | 3,739 | 2,711 |
| Tax recoverable | 201 | — | 304 |
| Derivative financial assets | 1 | — | 5 |
| Cash and bank balances | 12,872 | 21,115 | 22,888 |
| | 16,336 | 24,938 | 26,022 |
| **Current Liabilities** | | | |
| Trade and other payables | (12,834) | (13,572) | (14,782) |
| Interest-bearing borrowings | (600) | (95) | (600) |
| Current taxation | (5) | (73) | (7) |
| Unused airport construction fee | (974) | (1,685) | (482) |
| Deferred income | (564) | (154) | (215) |
| Derivative financial liabilities | — | (2) | (12) |
| | (14,977) | (15,581) | (16,098) |
| **Net Current Assets** | 1,359 | 9,357 | 9,924 |
| **Total Assets Less Current Liabilities** | 99,925 | 93,649 | 119,420 |
| **Non-current Liabilities** | | | |
| Trade and other payables | (1,406) | (1,102) | (1,475) |
| Interest-bearing borrowings | (4,615) | (5,249) | (27,270) |
| Deferred income | (2,312) | (1,567) | (2,185) |
| Derivative financial liabilities | (23) | (89) | (86) |
| Net defined benefit retirement obligations | (336) | (258) | (200) |
| Deferred tax liabilities | (5,048) | (4,910) | (4,537) |
| | (13,740) | (13,175) | (35,753) |
| **Net Assets** | 86,185 | 80,474 | 83,667 |
| **Capital and Reserves** | | | |
| Share capital | 30,648 | 30,648 | 30,648 |
| Reserves | 55,120 | 49,417 | 52,567 |
| Total equity attributable to the equity shareholder of the Airport Authority | 85,768 | 80,065 | 83,215 |
| Non-controlling interests | 417 | 409 | 452 |
| **Total Equity** | 86,185 | 80,474 | 83,667 |

# RISK FACTORS

*Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The Issuer believes that the following factors may affect its ability to fulfil their obligations under any series of Securities. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with any series of Securities are also described below.*

The Issuer believes that the factors described below represent the principal risks inherent in investing in either series of Securities, but the inability of the Issuer to pay principal, distributions or other amounts or fulfil other obligations on or in connection with the relevant series of Securities may occur for other reasons and the Issuer do not represent that the statements below regarding the risks in connection with holding any series of Securities are exhaustive. Terms used in this section and otherwise not defined shall have the meanings given to them in "*Terms and Conditions of the Securities*".

## Risks relating to the Airport Authority and its activities and operations

***The Airport Authority is exposed to pandemic risk and disruptions caused by coronavirus disease ("COVID-19") and it is vulnerable to any future outbreaks of other mass communicable diseases***

Since December 2019, the outbreak of COVID-19 has resulted in a widespread and global health crisis, which has led to restrictions on travel and public transport and prolonged closures of workplaces and has severely impacted the global economy since the beginning of 2020. In particular, COVID-19 has had a significant impact on the aviation and travel industry and accordingly, this has had a material and adverse impact on the Airport Authority's operations and financial condition.

The entry restrictions, travel bans and quarantine measures implemented across the globe since the outbreak of COVID-19 negatively impacted the aviation and travel industry and caused a significant drop in HKIA's passenger traffic and cargo throughput. From April to September 2020, HKIA handled 408,000 passengers and 61,175 flight movements, representing decreases of 99 per cent. and 71 per cent., respectively compared to the same period in 2019. Air travel demand remained weak as a result of the continuation of Hong Kong's entry restrictions for non-residents, as well as immigration restrictions and quarantine measures implemented in different countries and regions. HKIA recorded around 2.2 million tonnes of cargo throughput from April to September 2020, which dropped about 7 per cent. compared to the same period in 2019. The decrease in cargo throughput was mainly due to the number of transshipments remaining low as a result of a shortage of belly capacity on passenger flights. The drop in traffic throughput in HKIA had an adverse impact on the overall business, financial condition and results of operations of the Airport Authority.

The reduced passenger traffic and cargo throughput due to COVID-19 has also affected the aviation support business in HKIA. Businesses including ramp handling, aircraft maintenance, inflight catering and other aviation support business operators have all been severely impacted by the reduced aviation traffic in Hong Kong and globally, which has had an adverse impact on the Airport Authority's business, financial conditions and results of operations.

As of the date of this Offering Circular, the impact of COVID-19 continues to adversely impact HKIA and the aviation and travel industry, and accordingly the Airport Authority business, financial condition and results of operations continue to be adversely affected. There is no assurance that COVID-19 will be controlled or that the COVID-19 outbreak would not become even more severe in the near future and the fear caused by the COVID-19 outbreak may also have a continued adverse impact on the aviation and travel industry even if COVID-19 is controlled. If the current material reduction in demand for air travel globally arising from the COVID-19 were to persist, then slower passenger and air cargo growth rates, or even market contractions within the Asia Pacific region and between the Asia Pacific region and other regions will continue to adversely impact Airport Authority's operations and financial condition.

In addition to the recent outbreak of COVID-19, there were other outbreaks of contagious diseases in the past, such as SARS in 2003, H5N1 virus or "Avian Influenza A" in 2005, H1N1 virus or "Swine Influenza A" in 2009, and measles in Hong Kong in 2019, and these events have had a significant adverse impact on the economies of the affected countries and regions. Any further significant outbreak of a highly contagious disease such as COVID-19 may adversely affect the financial condition and results of operations of the Airport Authority.

***External financing may expose the Airport Authority to interest rate and exchange rate risk which could affect its financial condition and results of operations***

The Airport Authority has borrowed, and expects to continue to borrow, significant amounts at floating interest rates and in foreign currencies. As at 30 September 2020, the Airport Authority had total interest-bearing borrowings of HK$27,870 million, of which variable rate borrowings accounted for 2 per cent., and fixed rate borrowings accounted for 98 per cent. (after taking account of the impact of designated interest rate swaps). Any external financing raised by the Airport Authority may expose it to the impact of interest rate and currency rate fluctuations. As at 30 September 2020, 86 per cent. and 14 per cent. of the Airport Authority's total borrowings were denominated in Hong Kong dollars and U.S. dollars, respectively. In order to reduce its exposure to movements in interest rates and exchange rates, the Airport Authority has typically hedged a portion of such exposure. There can be no assurance, however, that these hedging transactions will reduce or eliminate the impact of interest rate and foreign currency movements. An increase in interest rates or fluctuations in exchange rates between the Hong Kong dollar and other currencies may limit the availability or increase the cost of swaps or hedging instruments when the Airport Authority further enters into such arrangements in the future. This may increase the Airport Authority's borrowing costs or reduce the availability of funding. Moreover, there can be no assurance as to the effectiveness of any such risk management techniques or the availability of such hedging instruments in the future or on acceptable terms.

The majority of the Airport Authority's revenues are generated in Hong Kong dollar. Although the Hong Kong dollar has been linked to the U.S. dollar since 1983, there can be no assurance that such linkage will be maintained in the future. The Government has in the past expressed a commitment to maintain exchange rate stability under the Linked Exchange Rate System (as defined below), an automatic interest rate adjustment mechanism. Although the Airport Authority adopts a prudent currency risk management policy to manage its currency risk, there is no assurance that the Airport Authority's business, financial condition and results of operations would not be adversely affected by the impact on the Hong Kong economy that may arise in the event that the link between the Hong Kong dollar to the U.S. dollar is discontinued or if there is any devaluation or revaluation of the Hong Kong dollar.

***The Airport Authority is exposed to credit risk which could affect its financial condition and the results of its operations***

The Airport Authority's credit risk arises from its trade and other receivables, over-the-counter derivative financial instruments entered into primarily for hedging purposes, cash and cash equivalents and interest-bearing investments. Although the Airport Authority adopts a risk management procedure to manage its credit risk, the Airport Authority's financial condition may be affected by the risk that amounts owing to the Airport Authority may not be recovered in full.

***The Airport Authority will need to refinance some of its debt as it matures***

As at 30 September 2020, the Airport Authority had total interest-bearing borrowings of HK$27,870 million. The Airport Authority's interest payments in respect of notes and bank loans for the six months ended 30 September 2020 amounted to HK$104 million. In June 2020, the Airport Authority established five-year unsecured HK$35 billion term and revolving credit facilities with 21 local and international banks. The facilities comprise a term loan tranche of HK$17.5 billion and a revolving credit facility tranche of the same amount. At the scheduled maturity of term and revolving credit facilities in 2025, and subject to the recovery of traffic in HKIA, the Airport Authority may need to refinance a portion of the term and revolving credit facilities. The availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and, therefore, any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets. No assurance can be given that refinancing or additional financing will be readily available or on attractive or historically comparable terms or that the cost of such refinancing or additional financing will not have a material adverse effect on the Airport Authority's business, financial condition and results of operations.

***Increased competition, such as from other regional airports and high-speed trains, may adversely affect the Airport Authority's operations***

HKIA faces competition from other airports in the region and other forms of transportation. In particular:

- the improvements and expansions of airports in the region will intensify competition in the Greater Bay Area region and this may reduce HKIA's share of passenger volume and cargo throughput in this area; and

- China is planning large-scale railway infrastructure development projects connecting its main cities with high-speed trains. The Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("**XRL**") was opened to the public on 23 September 2018. The XRL is expected to dramatically improve rail service quality and raise train transportation to a competitive level to air travel. These high-speed connections may compete with air transportation and reduce the number of passengers using HKIA.

***The Airport Authority requires significant funding for its business***

The Airport Authority incurs substantial capital expenditure and other expenses each year to provide, operate, develop and maintain HKIA. Substantial portions of the Airport Authority's operating cash flows are used to pay for these capital expenditures and other expenses. The Airport Authority also incurs substantial capital expenditure when it undertakes new projects, including the 3RS, which is estimated at HK$141.5 billion. In addition to operational surplus, the Airport Authority is expected to fund the 3RS through debt and collection of airport construction fee (the "**ACF**"). If the Airport Authority's operating cash flows are significantly reduced, the Airport Authority's leverage may increase significantly.

***The growth of the Airport Authority's business depends on runway capacity that the Airport Authority may not be able to control***

The growth of the Airport Authority's business depends on runway capacity and whether the runway capacity can be increased in a timely and effective manner in order to accommodate more aircraft movements. There is no assurance that HKIA's runway capacity can be increased to meet its future growth.

In April 2016, the Chief Executive in Council granted approval for the draft Chek Lap Kok Outline Zoning Plan ("**Chek Lap Kok OZP**"), as well as authorisation of the reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance (Cap. 127) of the laws of Hong Kong (the "**Foreshore and Sea-bed (Reclamations) Ordinance**") for the expansion of HKIA into a 3RS.

On 1 August 2016, the construction of the 3RS Project (as defined in "*Terms and Conditions of the Securities*") kicked off. The construction of the 3RS Project is expected to be completed in 2024.

In September 2017, the Airport Authority released the report on the detailed funding study for the 3RS Project submitted by its financial advisor. The overall financial arrangements for the 3RS Project are based on the "joint contribution and user-pay" principle, whereby funding will be provided through the Airport Authority's retained operating surplus, the ACF levied on passengers departing from HKIA and borrowings from the market.

The 3RS Project includes seven core projects and facilities: formation of 650 hectares of land; building a 3,800-metre-long new runway and supporting taxiways; a new passenger building with 63 parking positions and an apron; a 2,600-metre-long new automated people mover system; a new baggage handling system; expansion of Terminal 2 and construction of other associated airport support infrastructure, road network and transportation facilities.

Although the 3RS Project is underway, there is no assurance that HKIA's runway capacity can be increased to meet its future growth. If the runway capacity is constrained, it could have material adverse effect on the development of HKIA and its future revenue growth. Additionally, the time taken and the costs involved in completing the 3RS Project may be adversely affected by many factors and unforeseen circumstances. Any of these factors or circumstances could give rise to construction delays and/or cost overruns in the 3RS Project, which could have a material adverse effect on the Airport Authority's ability to expand its runway capacity and grow its business, and in turn on its financial condition and results of operations.

***Investment in new projects related to the Airport Authority's expansion will increase the Airport Authority's overall depreciation charges, which could have a material adverse effect on the Airport Authority's financial condition and results of operations***

Investment in the Airport Authority's infrastructure and facility development, expansion and enhancement (including, without limitation, the 3RS Project) generally involves substantial capital expenditure. These investments may require long periods of time to generate the necessary returns and may lead to increased depreciation expenses in the future, which could have a material adverse effect on the Airport Authority's financial condition and results of operations. Moreover, any failure to generate the necessary returns on these investments could materially reduce the Airport Authority's financial condition and results of operations.

***In certain circumstances, the Government has the power to revoke the Airport Authority's aerodrome licence under the Air Navigation (Hong Kong) Order 1995***

The Chief Executive of Hong Kong SAR or a person authorised by him or her may, if he or she thinks fit, provisionally suspend or vary any licence issued under the Air Navigation (Hong Kong) Order 1995 and may, on sufficient grounds being shown to his or her satisfaction after due inquiry, revoke, suspend or vary any such licence. If the Airport Authority's aerodrome licence were to be suspended or revoked, the Airport Authority would not be able to operate its airport business and, accordingly, will not generate revenues from that business.

***Breach of the Land Grant may affect the Airport Authority's business***

The Government is entitled to re-enter upon and take back possession of the relevant lot of land that it has granted to the Airport Authority and all buildings thereon upon any failure or neglect by the Airport Authority to perform, observe or comply with any of the conditions of the relevant Land Grant (as defined in "*Terms and Conditions of the Securities*"). This is in addition to any rights and claims of the Government in respect of any such breach, non-observance or non-performance. Accordingly, any breach of the Land Grant could have a material adverse effect on Airport Authority's business, financial condition and results of operations.

***The Airport Authority' s ability to raise airport charges is limited***

The scheme of airport charges and any amendment thereof require the approval of the Chief Executive of Hong Kong SAR acting after consultation with the Executive Council of Hong Kong (the "**Chief Executive in Council**"). Although the Chief Executive in Council may refuse to give its approval only in certain circumstances, there is no guarantee that any new scheme or proposed amendment will be approved. Also, any increase in airport charges as approved may not necessarily be able to cover the increase in the costs to be incurred by the Airport Authority. Accordingly, the limited ability of the Airport Authority to raise airport charges may have a material adverse effect on the Airport Authority's business, financial condition and results of operations.

***Accidents, inclement weather, natural disasters and security incidents could lead to decreased revenues and increased expenditure and reduce the Airport Authority's operating flexibility***

The Airport Authority's operations could be affected by accidents, inclement weather, natural disasters and security and cybersecurity incidents resulting in major equipment, facilities, systems and power failures and closure of runways, taxiways and other airport facilities, which in turn may interrupt or prevent the operation of the Airport and lead to decreased revenues, increased expenditure, claims for damages, prolonged interruptions in, or reductions of, aircraft movements, a reduction in the Airport Authority's operating flexibility, increased liabilities for the Airport Authority and pressure for greater regulation. Although the Airport Authority believes that the insurance it has put in place is adequate and consistent with industry practice, the Airport Authority cannot assure investors that such insurance will be sufficient to cover losses or that such insurance will continue to be available on the same terms.

***Climatic or environmental factors within the region or elsewhere in key aviation centres might adversely affect provision of and demand for air travel***

The Airport Authority's operations could be affected by climatic or environmental factors within the region or elsewhere in key aviation centres. Increases in the frequency of super typhoons, amount of rainfall and storm wave heights may cause flooding to the Airport and or other roads and bridges leading to the Airport. This may create disruption to operations and the time required to resolve such disruption may incur significant cost. These may adversely impact the provision of and demand for air travel and could have a material adverse effect on the Airport Authority's business, financial condition and results of operation.

The Government may also adopt new policies or enact new laws, including those in relation to environmental matters, which may increase the operating costs of the Airport Authority or adversely affect the development of HKIA.

**Risks relating to the Airport Authority's relationship with the Government**

***There is no Government guarantee in respect of the Securities***

Although the Airport Authority is wholly-owned by the Government, the Government has not provided, and has not expressed an intention to provide, any such guarantee in respect of the Securities to be issued under it and such ownership by the Government does not necessarily correlate to, or provide any assurance to, the Airport Authority's financial condition. There is no statutory or other requirement for the Government to provide the Airport Authority with direct or indirect financial support to meet the Airport Authority's outstanding debt obligations, including the Securities. As such, the repayment obligations under the Securities remain the sole obligation of the Airport Authority. There can therefore be no assurance that in the event of non-payment under the Securities, the Government will make any payment of principal or distribution thereon in respect of the Securities. The Airport Authority believes that the fact it is wholly-owned by the Government is reflected, amongst other factors, in its credit rating. There can be no assurance that if the Airport Authority ceased to be wholly-owned by the Government, its credit standing would not be adversely affected.

***The Government can exert significant influence on the Airport Authority, and could cause the Airport Authority to make decisions, modify the scope of its activities or its capital structure, or impose new obligations on the Airport Authority that may not be in the best interests of investors***

The Airport Authority is a statutory body corporate governed by the Ordinance. Its business is required to be carried out in accordance with the Ordinance. Furthermore, the Chief Executive in Council may give directions in relation to the performance of the Airport Authority's functions, make regulations in relation to the operation of HKIA and approve scheme of airport charges. The Director-General of Civil Aviation may give directions in relation to international obligations regarding civil aviation. The Airport Authority may have to carry out airport-related activities as the Chief Executive may assign to it by order. By virtue of various control provisions in the Ordinance, the Government is in a position to exert significant influence on the Airport Authority's activities, financial condition and operations.

In addition, the Government can also exert significant influence on the Airport Authority's share capital. The Ordinance states that the Financial Secretary may, after consulting the Airport Authority, increase the capital of the Airport Authority and the Legislative Council may, on the recommendation of the Financial Secretary, by resolution provide for a reduction of the capital of the Airport Authority to a specified amount. The Airport Authority is also not permitted to issue shares otherwise than in accordance with the Ordinance. On 16 June 2004, the Legislative Council passed a resolution to permit a reduction of the share capital of the Airport Authority by HK$6,000 million to HK$30,648 million.

The Airport Authority's decisions and acts may in certain circumstances be subject to judicial review that may be sought by persons aggrieved by such decisions and acts. Court rulings on any such judicial review cases could result in increased capital and operating costs for the Airport Authority and adversely affect the Airport Authority's financial position and results of operations.

### Risks relating to Hong Kong, the PRC and Other Asia Pacific Countries

***Adverse economic developments in Hong Kong, the PRC or other countries in the world could have a material adverse effect on the Airport Authority's financial condition and the results of its operations***

A majority of the Airport Authority's revenues are derived from travellers and economic activities in Hong Kong and the PRC. Due to close business relations between Hong Kong and the PRC and neighbouring Asian countries, Hong Kong's economy is in turn affected, directly and indirectly, by the performance of the economies of these areas and countries. The growth or decline in economic activity directly affects demand for business travel by air and for cargo space in respect to international trade, as well as leisure travel as discretionary income will also be affected. As a result, adverse economic developments in Hong Kong, the PRC or elsewhere in the Asian region, in particular a sustained slowdown in economic activities, could have a material adverse effect on the Airport Authority's financial condition and results of operations. Please also see "*Risks relating to Hong Kong, the PRC and Other Asia Pacific Countries — The Airport Authority is exposed to geopolitical and market risk which affect its financial condition and the results of its operations*".

The Hong Kong economy is also affected, to a significant extent, by the economic conditions of the United States, Europe and other world economies. As a result, the Airport Authority's financial condition and the results of its operations may be adversely affected by a sustained downturn, if any, and market volatility in the United States, Europe or other world economies.

In recent times, the outbreak of COVID-19 in December 2019 has severely impacted the global economy since the beginning of 2020. For example, Hong Kong's economy contracted by 8.9 per cent. in the first quarter of 2020 compared to the same period in 2019, and 9.0 per cent. in the second quarter of 2020 compared to the same period in 2019 and 3.4 per cent. in the third quarter of 2020 compared to the same period in 2019. See "*Risks relating to the Airport Authority and its activities and operations — The Airport Authority is exposed to pandemic risk and disruptions caused by coronavirus disease ("COVID19") and it is vulnerable to any future outbreaks of other mass communicable diseases*".

The global credit markets have also experienced significant volatility, such as that caused in recent years by the global financial and economic crisis and events, including the European debt crisis, the potential withdrawal of countries from the Euro-zone, the United Kingdom's official exit from the European Union following a UK-EU Withdrawal Agreement signed in October 2019, a slump in commodity prices, interest rate hikes, fears of a slowdown in the PRC economy and volatility in the PRC stock market, which have led to less favourable financial and economic conditions.

In addition, there have been recent escalations in the trade tensions between the United States and the PRC. The imposition of tariffs by the United States on products from the PRC from July 2018 and retaliation by the PRC have caused even greater volatility in the global markets. Although the United States and the PRC entered into "phase one" of an economic and trade agreement in January 2020 as an initial step towards resolving the trade disputes between them, the effect of such an agreement and the amicable resolution of such a trade war remains elusive, and the lasting impacts any trade war may have on the global economy and the industries that the Airport Authority operates in remain uncertain. For example, air cargo continues to face strong headwinds from the intensifying trade war between the United States and the PRC and the escalating trade tension have had a negative impact on HKIA's cargo throughput. There remains considerable uncertainty as to the timeline and outcome of the trade negotiations between the United States and PRC. Failure of trade negotiations between the United States and PRC may lead to unexpected consequences on the economies of Hong Kong and other Asia Pacific countries, which could, in turn, harm Airport Authority's business and growth prospects.

Furthermore, the uncertainty of trade discussions between the major economies, in particular the PRC and the United States, as well as the tapering of quantitative easing by the United States Federal Reserve and other central banks globally may lead to volatility or deterioration in the economic conditions in the United States, Europe, the PRC or elsewhere, and thus may have and may continue to have a negative impact on the economies of Hong Kong, the PRC and other Asia Pacific countries which may in turn materially and adversely affect HKIA's business, financial condition and the results of its operations and its ability to access the capital markets.

***Political and legal developments in Hong Kong and the PRC could affect the Airport Authority's financial condition and the results of its operations***

The Airport Authority derives the majority of its revenue from the operation of HKIA. As HKIA is a major international hub for passengers and cargo, the general political and economic environment globally, particularly in Hong Kong, the PRC, Europe and the United States, and any future developments and changes would directly affect the level of air travel and cargo at HKIA.

Civil unrest and an uncertain political environment may impact Hong Kong's economy. From June to December 2019 and in May 2020, there were protests and disruption to businesses and transportation in various parts of Hong Kong, including HKIA. These protests caused a decrease in consumer spending and affected inbound tourism to Hong Kong, which in turn had a negative impact on the Hong Kong economy as well as the Airport Authority's business and operations, particularly as fewer tourists visit Hong Kong. Any instability in Hong Kong may adversely affect the Airport Authority's financial condition and the results of operations. Although the Airport Authority has, in August 2019, obtained interim injunction to restrain protesters from unlawfully and wilfully obstructing or interfering with the proper use of HKIA and implemented access control at the terminal buildings of HKIA to ensure a smooth operation of the HKIA, civil unrest is outside the control of the Airport Authority and there can be no assurance that further large-scale protests will not occur in the future which may affect the stability of the political and economic landscape in Hong Kong.

***Any changes to import duties in Hong Kong could affect the Airport Authority's leasing of retail spaces for duty free shops***

A portion of the Airport Authority's revenue is derived from the leasing of retail spaces for duty free shops at HKIA. Any changes to import duties in Hong Kong may adversely affect the gross sales turnover generated from these retail areas and the overall rental income for the Airport Authority, which could in turn have an adverse impact on the Airport Authority's business, financial condition and results of operations. For more details, please see "*Risks relating to Hong Kong, the PRC and Other Asia Pacific Countries — Adverse economic developments in Hong Kong, the PRC or other countries in the world could have a material adverse effect on the Airport Authority's financial condition and the results of its operations*".

***A devaluation of the Hong Kong dollar may increase costs associated with the Airport Authority's capital obligations and will increase the Hong Kong dollar cost of repaying its indebtedness***

The Hong Kong dollar has been linked to the U.S. dollar at the rate of approximately HK$7.80 to U.S.$1.00 since 17 October 1983. The Government has repeatedly reaffirmed its commitment to this Linked Exchange Rate System (as defined below). However, in the event this policy were to be changed and there were to be a devaluation of the Hong Kong dollar, this would increase the Hong Kong dollar cost of the Airport Authority's future liabilities denominated in foreign currencies. As substantially all of the Airport Authority's revenues are denominated in Hong Kong dollars, a devaluation of the Hong Kong dollar against the U.S. dollar would increase its Hong Kong dollar interest expense on U.S. dollar denominated indebtedness. This would in turn reduce the Airport Authority's net income, and make it more difficult or more expensive for the Airport Authority to repay its U.S. dollar denominated debt obligations in a timely manner.

***Hong Kong is exposed to geopolitical risk which may affect the Airport Authority's financial condition and the results of its operations***

The majority of the Airport Authority's assets are located in, and its revenues are derived from activities in, Hong Kong. Hong Kong became a Special Administrative Region of the PRC on 1 July 1997 and has maintained its role as an international financial centre. Accordingly, the Airport Authority is subject to geopolitical risk, in particular any relationship tension between China and other countries such as the United States. Such tension may result in economic, political and legal developments which may affect the Airport Authority's financial condition and results of operations.

On 30 June 2020, the Standing Committee of the National People's Congress of the PRC passed the Law of the People's Republic of China on Safeguarding National Security in the Hong Kong Special Administrative Region (the "**Hong Kong National Security Law**"). The Hong Kong National Security Law took effect on 30 June 2020. On 14 July 2020, the U.S. President signed into law the Hong Kong Autonomy Act (the "**Autonomy Act**") and issued The President's Executive Order on Hong Kong Normalization ("**EO 13936**"). Under EO 13936, among other things, existing license exceptions and preferential status for Hong Kong under relevant U.S. export control laws and regulations are revoked. As a result, exports to Hong Kong of certain U.S. controlled software, commodities, and technology are subject to the enhanced requirements applicable to exports to the PRC.

On 7 August 2020, the U.S. Department of the Treasury's Office of Foreign Assets Control imposed sanctions on 11 Hong Kong and PRC government officials pursuant to EO 13936, two of whom are members of the board of directors of AVSECO, a subsidiary of the Airport Authority. The sanctions mean that all property and interests in property of these individuals are blocked to the extent that they are in the United States or come into the possession of U.S. persons, who are prohibited from dealing in the property of the blocked individuals. For the avoidance of doubt, the said individuals are not directors or employees of the Airport Authority. Any further economic sanctions imposed by the United States under the Autonomy Act or EO 13936, trade-related restrictions under EO 13936, or sanctions imposed by other governments may have an impact on the Airport Authority's operations, including technological innovation.

There can be no assurance that the political and legal environment in Hong Kong will remain favourable to the Airport Authority's business in future. Future geopolitical or domestic political instability or a sustained slowdown in domestic and global economic activities as a result of such instability may adversely affect the Airport Authority's financial condition and results of operations.

**Risks Relating to the Securities**

***The Airport Authority may be required in certain circumstances to reduce its share capital or to declare or pay dividends under the Ordinance***

The Airport Authority may be required in certain circumstances to reduce its share capital or to declare or pay dividends on shares issued to the Government, pursuant to the relevant provisions in the Ordinance. Pursuant to Section 23(6) of the Ordinance, the Legislative Council may, on the recommendation of the Financial Secretary of Hong Kong (the "**Financial Secretary**") made after he has consulted the Airport Authority, by resolution provide for a reduction of the capital of the Airport Authority in any way to an amount specified in the resolution. Pursuant to Section 26(2) of the Ordinance, the Financial Secretary may, after consultation with the Airport Authority and having had regard to the financial position of the Airport Authority and its subsidiaries (if any) and to such other matters as he considers relevant in the circumstances, direct the Airport Authority to declare a dividend of an amount specified by him and to take such steps as are within the power of the Airport Authority to procure the declaration and payment to the Airport Authority by a subsidiary specified in the direction of a dividend of an amount or rate so specified.

Any such reduction in share capital and/or declaration of dividends as required under Section 23(6) and Section 26(2) of the Ordinance are not at the Airport Authority's discretion and are specifically carved out from the provisions in the Terms and Conditions of the Securities relating to optional deferral of Distributions and restrictions applying to the Airport Authority in the event that Distributions are deferred, which are the provisions disincentivising the Airport Authority from deferring Distributions (see "*Risk Factors — Holders will not receive Distribution payments if the Issuer validly elects to defer Distribution payments*"). As such, even if a reduction in share capital and/or declaration of dividends as required under Section 23(6) and Section 26(2) of the Ordinance has occurred during the three-month period referenced in the definition of "Optional Deferral Event" in the Terms and Conditions of the Securities, the Airport Authority is still entitled to defer Distribution on the Securities pursuant to the Terms and Conditions of the Securities relating to optional deferral of Distributions. Likewise, even in circumstances where Distributions are deferred by the Airport Authority pursuant to Condition 4(d)(i) *(Optional Deferral)*, a reduction in share capital and/or declaration of dividends as required under Section 23(6) and Section 26(2) of the Ordinance would not constitute a breach of Condition 4(d)(v) *(Restrictions in the case of Deferral)*.

***No assurance can be given regarding the ability of investors to institute proceedings for Liquidation against and/or prove and/or claim in proceedings for Liquidation of the Airport Authority***

In the event of non-payment, the only remedy available to Holders of Securities under the Conditions is to (a) institute proceedings for Liquidation (as defined in "*Terms and Conditions of the Securities*") and/or (b) prove and/or claim in the Liquidation (as defined in "*Terms and Conditions of the Securities*") of the Airport Authority (see "*Risk Factors — There are limited remedies for default under the Securities*").

The ability of Holders of Securities to institute proceedings for Liquidation against the Airport Authority is subject to uncertainty due to the nature of the Airport Authority as a statutory body corporate. The Airport Authority is wholly owned by the Government and was established as a statutory body corporate under Section 3(1) of the Ordinance to provide, operate, develop and maintain an airport for civil aviation in Chek Lap Kok, Hong Kong. For companies formed and registered under the Companies Ordinance (Cap. 622) of the laws of Hong Kong, the Companies (Winding-up and Miscellaneous Provisions) Ordinance (Cap. 32) of the laws of Hong Kong provides a statutory framework for winding-up of such companies. However, the Ordinance does not expressly provide for any statutory process for the winding-up of the Airport Authority. No assurance can be given that other potential processes (including other statutory frameworks or pursuant to a court's inherent jurisdiction) are available to Holders of Securities for Liquidation of the Airport Authority and as such, there can be no assurance that a Holder will be able to institute proceedings for Liquidation against the Airport Authority in a timely manner, or at all. In addition, even if the Airport Authority becomes insolvent, there can be no assurance that the Board of the Airport Authority, the Government or the Financial Secretary will take action to institute proceedings for Liquidation with respect to the Airport Authority. Therefore, no assurance can be given regarding the ability of investors to institute proceedings for Liquidation against and/or prove and/or claim in proceedings for Liquidation of the Airport Authority.

***The Securities are perpetual securities and investors have no right to require redemption***

The Securities are perpetual and have no maturity date. The Issuer is under no obligation to redeem the Securities at any time and the Securities can only be disposed of by sale. Holders of any series of Securities who wish to sell their relevant series of Securities may be unable to do so at a price at or above the amount they have paid for them, or at all, if insufficient liquidity exists in the market for the Securities of the relevant series. Therefore, Holders of any series of Securities should be aware that they may be required to bear the financial risks of an investment in the relevant series of Securities for an indefinite period of time.

***The Issuer may raise other capital which affects price of the Securities***

The Issuer may raise additional capital through the issue of other securities or other means. There is no restriction, contractual or otherwise, on the amount of securities or other liabilities which the Issuer may issue or incur and which rank senior to, or *pari passu* with, the Securities. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Holders of any series of Securities on Liquidation of the Issuer and/or may increase the likelihood of a deferral of Distribution under the Securities of any series. The issue of any such securities or the incurrence of any such other liabilities might also have an adverse impact on the trading price of the Securities of any series and/or the ability of Holders of any series of Securities to sell their Securities of any series.

***Holders of any series of Securities will not receive Distribution payments if the Issuer validly elects to defer Distribution payments in respect of the relevant series of Securities***

The Issuer may, at its sole discretion, elect to defer any scheduled Distribution on the Securities of any series for any period of time if, during the three months ending on the day before that scheduled Distribution Payment Date an Optional Deferral Event (as defined in "*Terms and Conditions of the Securities*") has occurred. The Issuer is subject to certain restrictions in relation to the payment of or declaration of dividends and/or other distributions or payments on its Junior Securities or Parity Securities (each as described in "*Terms and Conditions of the Securities*") (except (i) in connection with any employee benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (ii) where required to do so, or as required by any directions and/or orders given pursuant to the Ordinance (as defined in "*Summary*")) and the redemption, reduction, cancellation, buy-back or acquisition for any consideration of its Junior Securities or Parity Securities (except (i) an exchange by the Issuer of any of its Parity Securities or Junior Securities or in relation to Parity Securities, on a *pro-rata* basis or (ii) any reduction of the Issuer's share capital required to be made, pursuant to the Ordinance (as defined in "*Summary*") until all outstanding Arrears of Distribution are satisfied. The Issuer is not subject to any limits as to the number of times Distributions and Arrears of Distribution can be deferred pursuant to the Terms and Conditions of the relevant series of Securities subject to compliance with the foregoing restrictions. Although Distributions are cumulative, the Issuer may defer their payment for an indefinite period of time by delivering the relevant deferral notices to the Holders of a relevant series of Securities, and such Holders have no rights to claim any Distribution, Arrears of Distribution or Additional Distribution Amount if there is such a deferral.

Any deferral of Distribution will likely have an adverse effect on the market price of the Securities. In addition, as a result of the Distribution deferral provision of the Securities, the market price of the Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals.

***With respect to each series of Securities, such series of Securities may be redeemed at the Issuer's option on any business day on or after 8 March 2028 in respect of Series A of the Securities, or on or after 8 March 2026 in respect of the Series B Securities, or the occurrence of certain events***

The Terms and Conditions of the Securities provide that each series of Securities are redeemable at the option of the Issuer in whole, but not in part, on any business day on or after 8 March 2028 in respect of the Series A Securities and on any business day on or after 8 March 2026 in respect of the Series B Securities at their principal amount plus Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amounts).

The Issuer also has the right to redeem the Securities of each series at their principal amount together with Distribution accrued and unpaid (including any outstanding Arrears of Distribution and any additional Distribution Amounts) to the date fixed for redemption if (a) there are any changes or amendments to the Relevant Accounting Standard such that the relevant series of Securities must not or must no longer be recorded as "equity" of the Issuer on a consolidated basis pursuant to the Relevant Accounting Standard, or (b) there are any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 1 December 2020 and such obligation cannot be avoided by the Issuer taking reasonable measures available to it such that the Issuer has or will become obliged to pay additional amounts in respect of tax on the relevant series of Securities as referred to in the Terms and Conditions of the relevant series of Securities. In addition, upon the occurrence of a Relevant Event, the Issuer will give notice to Holders of the relevant series of Securities and the Fiscal Agent (in accordance with "*Terms and Conditions of the Securities*") by not later than ten days following the first day on which it becomes aware of the occurrence of such Relevant Event, stipulating that a Relevant Event has occurred and whether or not it will redeem the relevant series of Securities in whole, but not in part at their principal amount together with Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amounts). The relevant series of Securities may also be redeemed in whole, but not in part, at their principal amount together with Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amounts) in the event that at least 75 per cent. in principal amount of the relevant series of Securities originally issued has already been redeemed or purchased and cancelled.

The date on which the Issuer elects to redeem the Securities of any series may not accord with the preference of individual Holders of the relevant series of Securities. This may be disadvantageous to Holders of that series of Securities in light of market conditions or the individual circumstances of the Holder of that series of Securities. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the Securities.

***There are limited remedies for non-payment under the Securities***

Any scheduled Distribution will not be due if the Issuer elects to defer that Distribution pursuant to the Terms and Conditions of the relevant series. Notwithstanding any of the provisions relating to non-payment defaults, the right to institute proceedings for Liquidation is limited to circumstances where payment has become due and either (i) an order is made or an effective resolution is passed for the Liquidation of the Issuer or (ii) the Issuer fails to make the payment in respect of the Securities of any series for a period of ten days or more after the date on which such payment is due. The only remedy against the Issuer available to any Holder of Securities of any series, for recovery of amounts in respect of the Securities of any series following the occurrence of a payment default after any sum becomes due in respect of the Securities of any series will be instituting proceedings for the Liquidation of the Issuer and/or proving in the Liquidation of the Issuer, and/or claiming in the liquidation of the

Issuer for such payment. In order to exercise such a remedy, Holders of not less than 5 per cent. in aggregate principal amount of the outstanding Securities of any series will be required to take action collectively, and individual Holders of any series of Securities holding less than such amount will not be able to proceed without the support of other Holders of that series.

***The Distribution Rate will be reset on the Series A First Reset Date and each Reset Date thereafter in respect of the Series A Securities, and on the Series B First Reset Date and each Reset Date thereafter in respect of the Series B Securities, which may affect the market value of the Securities***

The Distribution Rate applicable to the Series A Securities and the Series B Securities will initially be 2.40 per cent. per annum and 2.10 per cent. per annum respectively, from, and including, the Issue Date, to, but excluding, the Series A First Reset Date in respect of the Series A Securities or the Series B First Reset Date in respect of the Series B Securities. However, the Distribution Rate will be reset on the Series A First Reset Date in respect of the Series A Securities or the Series B First Reset Date in respect of the Series B Securities, and each Reset Date thereafter, as described in the Terms and Conditions of the relevant series of Securities. In respect of the period from, and including, the Series A First Reset Date in respect of the Series A Securities or the Series B First Reset Date in respect of the Series B Securities, and each Reset Date falling thereafter to, but excluding the immediately following Reset Date, the Distribution Rate shall be equal to the sum of (a) the U.S. Treasury Benchmark Rate (as defined in the Terms and Conditions of the relevant series of Securities), (b) the initial spread of 1.736 per cent. in respect of the Series A Securities and 1.697 per cent. in respect of the Series B Securities and (c) a margin of 3.00 per cent. As a result, the applicable Distribution Rate (as defined in the Terms and Conditions of the relevant series of Securities) following the Series A First Reset Date in respect of the Series A Securities or the Series B First Reset Date in respect of the Series B Securities thereafter could be less than the Distribution Rate that applied previously under the Terms and Conditions of the relevant series of Securities, which could affect the amount of any Distribution payments under the relevant series of Securities and therefore the market value of an investment in the relevant series of Securities.

***The Securities confer Holders of any series with limited rights upon the occurrence of a Relevant Event***

The Securities confer Holders with limited rights upon the occurrence of a Relevant Event. The Issuer may, by the 30th day following the occurrence of the Relevant Event, on giving irrevocable notice to the Holders of the relevant series and the Fiscal Agent, redeem the Securities of the relevant series. The Issuer is, however, not obliged to redeem the Securities upon the occurrence of any Relevant Event under the Securities. If the Issuer elects not to redeem the Securities of the relevant series upon the occurrence of such Relevant Event, the Distribution Rate will increase by 3.00 per cent. per annum pursuant to Condition 4(c)(i) of the Terms and Conditions of that series of Securities.

***The Securities contain provisions regarding modification and waivers which may affect the rights of Holders***

The Terms and Conditions of each series of Securities contain provisions for calling meetings of Holders of the relevant series of Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders of the relevant series of Securities, including Holders of the relevant series of Securities who did not attend and vote at the relevant meeting and Holders of the relevant series of Securities who voted in a manner contrary to the majority. In addition, a resolution in writing signed by or on behalf of not less than 90 per cent. in principal amount of the Securities of the relevant series shall for all purposes be effective as if it were an Extraordinary Resolution passed at a meeting of Holders of the relevant series of Securities duly convened and held.

The Terms and Conditions of each series of Securities also provide that each series of Securities, the Terms and Conditions of each series of Securities, the Deed of Covenant and the Agency Agreement may be amended by the Issuer without the consent of the Holders of the relevant series of Securities to correct a manifest or proven error to comply with mandatory provisions of law or for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained in each series of Securities, the Terms and Conditions of each series of Securities, the Deed of Covenant or the Agency Agreement. Any such modification shall be binding on the Holders of the relevant series of Securities.

***Changes in accounting standards may impact the Issuer's financial condition or the classification of the Securities***

The HKICPA is continuing its policy of issuing HKFRS and interpretations which fully converge with International Financial Reporting Standards. HKICPA has issued and may in the future issue more new and revised standards and interpretations, including those required to conform with standards and interpretations issued from time to time by the International Accounting Standards Board.

Such factors may require adoption of new accounting policies. There can be no assurance that the adoption of new accounting policies or new HKFRS will not have a significant impact on the Issuer's financial condition and results of operations. In addition, the Securities may be redeemed at the option of the Issuer at any time, on giving not less than 30 nor more than 60 days' notice to the Holders of any series of Securities (which notice shall be irrevocable), the Registrar and the Fiscal Agent, if, as a result of any changes or amendments to HKFRS or any other accounting standards that may replace HKFRS for the purposes of the consolidated financial statements of the Issuer, the Securities must not or must no longer be recorded as "equity" of the Issuer on a consolidated basis pursuant to the Relevant Accounting Standard (as defined in "*Terms and Conditions of the Securities*"). See "*Risk Factors — With respect to each series of Securities, such series of Securities may be redeemed at the Issuer's option on any business day on or after 8 March 2028 in respect of Series A of the Securities, or on or after 8 March 2026 in respect of the Series B Securities, or the occurrence of certain events*".

***Certain initial investors or a single initial investor may purchase a significant portion of any series of the Securities and may potentially be able to exercise certain rights and powers on their own***

Certain initial investors or a single initial investor may purchase a significant portion of the aggregate principal amount of any series of Securities. Any Holder of any series of Securities of a significant percentage of the aggregate principal amount of the relevant series of Securities will be able to exercise certain rights and powers and will have significant influence on matters voted on by Holders of that relevant series. For example, two or more Persons (as defined in the Terms and Conditions of the Securities) holding or representing more than half (or at adjourned meetings, two or more Persons (as defined in the Terms and Conditions of the Securities) being or representing Holders of any series of Securities whatever the principal amount of the relevant series of Securities held or represented) of the aggregate principal amount of the outstanding Securities of the relevant series would form quorum for the purposes of passing an Extraordinary Resolution (other than one relating to a Reserved Matter (as defined in the Terms and Conditions of the relevant series of Securities), while at a meeting of Holders of any series of Securities at which two or more Persons (as defined in the Terms and Conditions of the Securities) holding or representing not less than two thirds (or at adjourned meetings not less than one-fifth) of the aggregate principal amount of the outstanding Securities of the relevant series would form quorum for the purposes of voting on Reserved Matters.

***Each series of Securities will be represented by a Global Certificate and holders of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System(s)***

Each series of Securities will be represented by a Global Certificate deposited with and registered in the name of a nominee of a common depositary for Euroclear and Clearstream (each of Euroclear and Clearstream, a "**Clearing System**"). Except in the circumstances described in each Global Certificate, investors will not be entitled to receive the relevant series of definitive Certificates. The relevant Clearing System(s) will maintain records of the beneficial interests in such a Global Certificate. While each series of Securities are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the Clearing Systems.

While each series of Securities are represented by a Global Certificate, the Issuer will discharge its payment obligations under each series of Securities by making payments to the relevant Clearing System for distribution to their account holders.

A holder of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System(s) to receive payments under the relevant series of Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in such a Global Certificate.

Holders of beneficial interests in a Global Certificate will not have a direct right to vote in respect of the relevant series of Securities. Instead, such Holders will be permitted to act only to the extent that they are enabled by the relevant Clearing System(s) to appoint appropriate proxies.

***The Securities may not be a suitable investment for all investors***

Each potential investor in the Securities must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Securities, the merits and risks of investing in the Securities and the information contained or incorporated by reference in this Offering Circular and any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Securities and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Securities, including where principal or distribution is payable in one or more currencies, or where the currency for principal or distribution payments is different from the potential investor's currency;

- understand thoroughly the terms of the Securities and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Securities are complex financial instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of such Securities and the impact this investment will have on the potential investor's overall investment portfolio.

***Change of law***

The Terms and Conditions of the Securities are based on English law in effect as at the date of issue of the Securities. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of issue of the Securities.

***The liquidity and price of the Securities following the offering may be volatile***

If an active trading market for the Securities of any series were to develop, the price and trading volume of the Securities of any series may be highly volatile. The Securities of any series may trade at prices that are higher or lower than the price at which the Securities have been issued. The price at which the Securities of any series trade depends on many factors, including:

- prevailing interest rates and interest rate volatility;
- the Group's results of operations, financial condition and future prospects;
- changes in the real property industry and competition;
- the market conditions for similar securities; and
- general economic conditions.

Any such developments may result in large and sudden changes in the trading volume and price of the Securities of any series. There can be no assurance that these developments will not occur in the future.

The Securities are complex financial instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Securities which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Securities will perform under changing conditions, the resulting effects on the value of such Securities and the impact this investment will have on the potential investor's overall investment portfolio.

***Investors in the Securities may be subject to foreign exchange risk***

The Securities are denominated and payable in U.S. dollars. An investor who measures investment returns by reference to a currency other than U.S. dollars will be subject to foreign exchange risks by virtue of an investment in the Securities of any series, due to, among other things, economic, political and other factors over which the Issuer has no control. Depreciation of the U.S. dollar against such currency could cause a decrease in the effective yield of the Securities of any series for an investor and could result in a loss when the return on the Securities of any series is translated into such currency. Conversely, there may be tax consequences for investors as a result of any foreign currency gains resulting from any investment in the Securities of any series in the event of an appreciation.

**Risks related to the market generally**

Set out below is a brief description of certain market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

***The secondary market generally***

The Securities will be new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular series, such series is to be consolidated with and form a single series with a series of Securities which is already issued). If the Securities of any series are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer. Although an application will be made for the Securities to be admitted to listing on the Hong Kong Stock Exchange, there is no assurance that such application will be accepted, that any particular series of Securities issued will be so admitted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for any particular series of Securities.

***Exchange rate risks and exchange controls***

The Issuer will pay principal and distributions on the Securities in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Inventor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency equivalent yield on the Securities, (2) the Investor's Currency equivalent value of the principal payable on the Securities and (3) the Investor's Currency equivalent market value of the Securities of any series.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less distribution or principal than expected, or no distribution or principal.

***Interest rate risks***

Investment in the Securities involves the risk that subsequent changes in market interest rates may adversely affect the value of the Securities of any series.

***Credit ratings may not reflect all risks***

Each series of Securities are expected to be rated "AA" by Standard & Poor's. The Issuer has a long-term local and foreign currency rating of "AA+" by S&P. The outlook on the Issuer's corporate credit rating is "stable". The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Securities of any series. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

***Legal investment considerations may restrict certain investments***

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Securities are legal investments for it, (2) Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Securities under any applicable risk-based capital or similar rules.

## TERMS AND CONDITIONS OF THE SERIES A SECURITIES

*The following, subject to amendment and save for the paragraphs in italics, are the Terms and Conditions of the Series A Securities, substantially as they will appear on the reverse of each of the definitive certificates evidencing the Series A Securities.*

The U.S.$750,000,000 senior perpetual capital securities (the "**Securities**", which expression includes any further securities issued pursuant to Condition 13 *(Further issues)* and forming a single series therewith) of Airport Authority (the "**Issuer**") are constituted by a deed of covenant dated 8 December 2020 (as amended and/or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of a fiscal agency agreement dated 8 December 2020 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, The Bank of New York Mellon SA/NV, Luxembourg Branch as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Securities), the transfer agent named therein (the "**Transfer Agent**", which expression includes any successor or additional transfer agent appointed from time to time in connection with the Securities), The Bank of New York Mellon, London branch as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Securities), the calculation agent named therein (the "**Calculation Agent**", which expression includes any successor or additional calculation agent appointed from time to time in connection with the Securities) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Securities). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agent, the Calculation Agent and the Paying Agent(s) and any reference to an "**Agent**" is to any one of them. Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Agency Agreement and the Deed of Covenant and subject to their detailed provisions. The Holders (as defined in Condition 3(a) *(Register, Title and Transfers -Register)*) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Holders with prior written notice during normal business hours (being between 9:00 a.m. to 3:00 p.m.) at the principal office for the time being of the Fiscal Agent, being at the date hereof at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

### 1 Form and Denomination

The Securities are in registered form in the denomination of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each, an "**Authorised Denomination**").

### 2 Status of the Securities

The Securities constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which rank *pari passu* and without any preference among themselves and at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

### 3 Register, Title and Transfers

(a) *Title:* The Registrar will maintain a register (the "**Register**") in respect of the Securities in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Security means the person in whose name such Security is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof). A certificate (each, a "**Certificate**") will be issued to each Holder of Securities in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

*Upon issue, the Securities will be represented by a Global Certificate deposited with and registered in the name of a nominee of a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream**"). The Conditions are modified by certain provisions contained in the Global Certificate. See "The Global Certificate".*

(b) *Ownership:* The Holder of each Security shall (except as otherwise required by law) be treated as the absolute owner of such Security for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Securities under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers:* Subject to paragraphs (f) *(Closed periods)* and (g) *(Regulations concerning transfers and registration)* below, a Security may be transferred upon surrender of the relevant Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Security may not be transferred unless the principal amount of Securities transferred and (where not all of the Securities held by a Holder are being transferred) the principal amount of the balance of Securities not transferred are Authorised Denominations. Where not all the Securities represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Securities will be issued to the transferor.

*Transfers of interests in the Securities evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.*

(d) *Registration and delivery of Certificates:* Within five business days of the surrender of a Certificate in accordance with paragraph (c) *(Transfers)* above, the Registrar will register the transfer in question and deliver a new Certificate of a like principal amount to the Securities transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day, excluding a Saturday and a Sunday, on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

*Except in the limited circumstances described herein (see "The Global Certificate"), owners of interests in the Securities will not be entitled to receive physical delivery of Certificates.*

(e) *No charge:* The transfer of a Security will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods:* Holders may not require transfers of their Securities to be registered:

(i) during the period of 15 days ending on the due date for any payment of principal or Distribution (as defined in Condition 4(a) *(Distribution — Accrual of Distribution)*) in respect of the Securities;

(ii) during the period of 15 days ending on any date on which the Securities may be called for redemption by the Issuer at its option pursuant to Condition 5 *(Redemption and Purchase)*.

(g) *Regulations concerning transfers and registration:* All transfers of Securities and entries on the Register are subject to the detailed regulations concerning the transfer of Securities scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be made available by the Registrar to any Holder upon written request and satisfactory proof of holding.

(h) *Definitions:* For the purposes of these Conditions:

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

## 4 Distribution

(a) *Accrual of Distribution:* Subject to Condition 4(d) *(Distribution — Distribution Deferral)*, the Securities confer a right to receive distribution (each a "**Distribution**") from 8 December 2020 (the "**Issue Date**") at the applicable Distribution Rate in accordance with this Condition 4. Subject to Condition 4(d) *(Distribution — Deferral of Distribution)*, Distribution shall be payable on the Securities semi-annually in equal instalments in arrear on 8 June and 8 December of each year (each, a "**Distribution Payment Date**"), with the first Distribution Payment Date falling on 8 June 2021.

Unless otherwise provided for in these Conditions, each Security will cease to confer the right to receive any Distribution from the due date for redemption unless, upon due presentation, payment of the full amount due is improperly withheld or refused. In such latter event, Distribution will continue to accrue at the applicable Distribution Rate (after as well as before any judgment) up to but excluding whichever is the earlier of (a) the date on which all sums due in respect of any Security are received by or on behalf of the relevant Holder and (b) the day which is seven days after the Fiscal Agent has notified the Holders that it has received all sums due in respect of the Securities up to such seventh day (except to the extent that there is a failure in the subsequent payment to the relevant Holders under these Conditions).

Subject to Condition 4(c) *(Increase in Distribution following a Relevant Event)*, the amount of Distribution payable on each Distribution Payment Date shall be calculated by applying the applicable Distribution Rate to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Security divided by the Calculation Amount, where "**Calculation Amount**" means U.S.$1,000 and "**Day Count Fraction**" means, in respect of any period, the number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months).

Distribution payable under this Condition will be paid in accordance with Condition 6 *(Payments)*.

(b) *Rate of Distribution:* Subject to Condition 4(c) *(Increase in Distribution following a Relevant Event)*, the rate of distribution (the "**Distribution Rate**") applicable to the Securities shall be:

(i) from, and including, the Issue Date to, but excluding, 8 June 2028 (the "**First Reset Date**"), 2.40 per cent. per annum; and

(ii) thereafter, in respect of the period from, and including, the First Reset Date and each Reset Date falling thereafter to, but excluding, the immediately following Reset Date (each a "**Reset Period**"), at the relevant Reset Distribution Rate.

(c) *Increase in Distribution following a Relevant Event:*

(i) *Increase in Distribution Rate:* Upon the occurrence of a Relevant Event and upon notification to the Holders and the Fiscal Agent, unless an irrevocable notice to redeem the Securities has been given to Holders by the Issuer pursuant to Condition 5(e) *(Redemption and Purchase — Redemption for Relevant Event)* by the 30th day following the occurrence of the Relevant Event, the Distribution Rate will increase by 3.00 per cent. per annum with effect from (i) the next Distribution Payment Date; or (ii) if the date on which a Relevant Event occurs is prior to the most recent preceding Distribution Payment Date, such Distribution Payment Date, provided that the maximum aggregate increase in the Distribution Rate pursuant to this Condition 4(c)(i) shall be 3.00 per cent..

(ii) *Decrease in Distribution Rate:* If following an increase in the Distribution Rate upon the occurrence of a Relevant Event pursuant to Condition 4(c)(i) *(Increase in Distribution Rate)* such Relevant Event is cured, remedied, no longer applicable or no longer continuing, then upon written notification to the Holders and the Fiscal Agent accompanied by a certificate, signed by an authorised officer of the Issuer, stating that the Relevant Event has been cured, remedied, is no longer applicable or is no longer continuing (as the case may be) and setting out the details of such circumstances, the Distribution Rate will decrease by 3.00 per cent. per annum with effect from the next Distribution Payment Date immediately following the date of the notification referred to in this Condition 4(c)(ii), provided that the maximum aggregate decrease in the Distribution Rate pursuant to this Condition 4(c)(ii) shall be 3.00 per cent..

(d) *Distribution Deferral:*

(i) *Optional Deferral:* The Issuer may, at its sole discretion, elect to defer Distribution which is otherwise scheduled to be paid on a Distribution Payment Date to the next Distribution Payment Date by giving notice (an "**Optional Deferral Notice**") to the Holders (in accordance with Condition 14 *(Notices)*) not more than 10 nor less than 5 Business Days prior to a scheduled Distribution Payment Date if, during the three months ending on the day before that scheduled Distribution Payment Date no dividend, distribution or other payment has been paid or declared by the Issuer on or in respect of its Junior Securities or its Parity Securities (except (x) in connection with any benefit plan or similar arrangements with or for the benefit of employees, officers, directors or consultants or (y) where required to do so, or as required by any directions and/or orders given, pursuant to the Ordinance) (an "**Optional Deferral Event**").

(ii) *No obligation to pay:* The Issuer shall have no obligation to pay any Distribution (including any Arrears of Distribution and any Additional Distribution Amount) on any Distribution Payment Date if it validly elects not to do so in accordance with Condition 4(d)(i) *(Distribution — Distribution Deferral — Optional Deferral)* and any failure to pay Distribution shall not constitute a default of the Issuer in respect of the Securities.

(iii) *Requirements as to Notice:* Each Optional Deferral Notice shall be sent to the Fiscal Agent accompanied by a certificate in the form scheduled to the Agency Agreement signed by an authorised signatory of the Issuer confirming that an Optional Deferral Event has occurred and is continuing. The Fiscal Agent shall be entitled to accept such certificate as sufficient evidence of the occurrence of an Optional Deferral Notice without enquiry or verification in which event it shall be conclusive and binding on the Holders.

(iv) *Cumulative Deferral:* Any Distribution deferred pursuant to this Condition 4(d) shall constitute "**Arrears of Distribution**". The Issuer may, at its sole discretion, elect to further defer any Arrears of Distribution by complying with the foregoing notice requirement applicable to any deferral of an accrued Distribution. The Issuer is not subject to any limit as to the number of times Distributions and Arrears of Distribution may be deferred pursuant to this Condition 4(d) except that Condition 4(d)(v) shall be complied with until all outstanding Arrears of Distribution have been paid in full.

Each amount of Arrears of Distribution shall bear interest as if it constituted the principal of the Securities at the applicable Distribution Rate and the amount of such interest (the "**Additional Distribution Amount**") with respect to Arrears of Distribution shall be due and payable pursuant to this Condition 4 and shall be calculated by applying the applicable Distribution Rate to the amount of the Arrears of Distribution and otherwise *mutatis mutandis* as provided in the foregoing provisions of this Condition 4. The Additional Distribution Amount accrued up to any Distribution Payment Date shall be added for the purpose of calculating the Additional Distribution Amount accruing thereafter, to the amount of Arrears of Distribution remaining unpaid on such Distribution Payment Date so that it will itself become Arrears of Distribution.

(v) *Restrictions in the case of Deferral:* If on any Distribution Payment Date, payment of all Distribution payments scheduled to be made on such date is not made in full by reason of this Condition 4(d), the Issuer shall not at its discretion:

(A) declare or pay any discretionary dividends, distributions or make any other discretionary payment on, and will procure that no discretionary dividend, distribution or other discretionary payment is made on any of its Junior Securities or (except on a pro-rata basis) its Parity Securities *provided that* such restriction shall not apply to (x) payments declared, paid or made in respect of an employee benefit plan or similar arrangement with or for the benefit of employees, officers, directors or consultants or (y) any payments required to be made, or as required by any directions and/or orders given, pursuant to the Ordinance; or

(B) redeem, reduce, cancel, buy-back or acquire for any consideration any of its Junior Securities or its Parity Securities, *provided that* such restriction shall not apply to (x) an exchange by the Issuer of any of its Parity Securities for Junior Securities or in relation to Parity Securities, on a *pro-rata basis* or (y) any reduction of the Issuer's share capital required to be made pursuant to the Ordinance, in each case and unless and until (i) the Issuer has satisfied in full all outstanding Arrears of Distribution; or (ii) permitted to do so by an Extraordinary Resolution (as defined in the Agency Agreement) of the Holders.

(vi) *Satisfaction of Arrears of Distribution by payment:* The Issuer:

(A) may satisfy any Arrears of Distribution (in whole or in part) at any time by giving notice of such election to the Holders (in accordance with Condition 14 *(Notices)*) and the Fiscal Agent not more than 20 nor less than 10 Business Days prior to the relevant payment date specified in such notice (which notice is irrevocable and shall oblige the Issuer to pay the relevant Arrears of Distribution on the payment date specified in such notice); and

(B) in any event must satisfy any outstanding Arrears of Distribution (in whole but not in part) on the earlier of (1) the date of redemption of the Securities in accordance with Condition 5(b) *(Redemption and Purchase — Redemption for tax reasons)*, 5(c) *(Redemption and Purchase — Redemption for accounting reasons)*, 5(d) *(Redemption and Purchase — Redemption at the option of the Issuer)*, 5(e) *(Redemption and Purchase — Redemption for Relevant Event)* or 5(f) *(Redemption and Purchase — Redemption for minimum outstanding amount)*; (2) the next Distribution Payment Date on the occurrence of a breach of Condition 4(d)(v) *(Distribution — Restrictions in the case of Deferral)* and (3) the date such amount becomes due under Condition 8 *(Non-payment)*.

Any partial payment of outstanding Arrears of Distribution by the Issuer shall be shared by the Holders of all outstanding Securities on a pro-rata basis.

(vii) *No default:* Notwithstanding any other provision in these Conditions, the deferral of any Distribution payment in accordance with this Condition 4(d) shall not constitute a default for any purpose (including, without limitation, pursuant to Condition 8 *(Non-payment)*) on the part of the Issuer.

(viii) *Definitions:* For the purposes of these Conditions:

"**3RS Project**" means the expansion of the Airport into a three-runway system;

"**Airport**" means the airport that is provided, operated, developed and maintained as an airport for civil aviation at and in the vicinity of Chek Lap Kok, Hong Kong together with such facilities, amenities and services as are requisite or expedient for its operation, and includes any part of the airport and its facilities, amenities and services;

"**Airport Railway**" means the railway constructed between Hong Kong Island, Lantau Island and the Airport via West Kowloon by MTRC and comprising the Airport Express Line and the Tung Chung Line;

"**Business Day**" means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in Hong Kong, London and New York;

"**Comparable Treasury Issue**" means the U.S. Treasury security selected by the Issuer as having a maturity of 7 years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of 7 years;

"**Comparable Treasury Price**" means:

(i) the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) on the third New York Business Day preceding the relevant Reset Date, as set forth in the daily statistical release (of any successor release) published by the Federal Reserve Bank of New York and designated "Composite 3:30 p.m. Quotations for U.S. Government Securities"; or

(ii) if such release (or any successor release) is not published or does not contain such prices on such New York Business Day:

  (A) the average of the Reference Treasury Dealer Quotations for the relevant Reset Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations; or

  (B) if fewer than three such Reference Treasury Dealer Quotations are available, the average of all such quotations, if the Comparable Treasury Price cannot be determined in accordance with the above provisions, as determined by the Independent Investment Bank;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**HKFRS**" means Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants;

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Independent Investment Bank**" means an independent investment bank of international repute (acting as an expert) selected by the Issuer (at the expense of the Issuer) and notified to the Fiscal Agent and Calculation Agent in writing;

"**Initial Spread**" means 1.736 per cent.;

"**Junior Securities**" means:

(i) any class of the Issuer's share capital (including preference shares) qualifying as equity under HKFRS,

(ii) any instrument or security issued or entered into by or other obligation of the Issuer which ranks, or is expressed to rank, junior to the Issuer's obligations under the Securities, and

(iii) any security or other obligation guaranteed by the Issuer where the Issuer's obligations under the relevant guarantee rank or are expressed to rank junior to the Issuer's obligations under the Securities,

in each case where the terms of which provide that the making of payments thereon or distributions in respect thereof are fully at the discretion of the Issuer;

"**Land Grant**" means New Grant No. 7996 in respect of Chek Lap Kok Lot No. 1 dated 1 December 1995 and New Grant No. 22378 in respect of Chek Lap Kok Lot No. 3 dated 21 September 2016, each as supplemented, modified or replaced from time to time, made between the Government of Hong Kong and the Issuer and any lease created pursuant thereto including any actual or deemed lease;

"**MTRC**" means MTR Corporation Limited of Hong Kong;

"**New York Business Day**" means any day, excluding a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York;

"**NCD Project**" means the proposed developments of Chek Lap Kok Lot No. 3 or any part(s) thereof to be developed by the Issuer as the Airport Operational Development or by the tenant(s) of the Issuer of such part(s) as the Airport Related Development under the New Grant No. 22378 dated 21 September 2016; and the Issuer may specify to such tenant(s) what size and further restrictions, and which particular type of Airport Related Development (such as hotel, office, retail, dining, entertainment or other commercial purposes, and other services and facilities related to the Airport) is required for a particular part of Chek Lap Kok Lot No. 3;

"**Ordinance**" means the Airport Authority Ordinance (Cap. 483) of the Laws of Hong Kong;

"**Parity Securities**" means any instrument or security issued, entered into or guaranteed by the Issuer (i) which ranks or is expressed to rank, by its terms or by operation of law, *pari passu* with the Securities and (ii) the terms of which provide that the making of payments thereon or distributions in respect thereof are fully at the discretion of the Issuer;

"**Permitted Security Interest**" means:

(i) any Security Interest over any interest of the Issuer in land or buildings effected for the purpose of the development (for such purposes and in such manner as the Issuer may think fit) of the Airport Related Development (as defined in the relevant documents under the Land Grant);

(ii) any Security Interest over any assets purchased by the Issuer (or documents of title thereto) as security for all or part of the purchase price thereof or for funds borrowed to finance the purchase price of any such asset;

(iii) any Security Interest over any assets (or documents of title thereto) purchased by the Issuer subject to that Security Interest;

(iv) any leasing, sale and leaseback or sale and repurchase of any assets of the Issuer;

(v) liens arising in the ordinary course of business (including the operation of the Airport and/or the development of all or any of the land or buildings of the Issuer) and not in connection with the borrowing of money, which in the aggregate do not materially and adversely affect or impair the operations or financial condition of the Issuer; and

(vi) any Security Interest created over the present and future assets of the Issuer in connection with the NCD Project or the 3RS Project;

"**Reference Treasury Dealer**" means each of any three investment banks of recognised standing that is a primary U.S. Government securities dealer in New York, selected by the Issuer (at the expense of the Issuer);

"**Reference Treasury Dealer Quotations**" means, with respect to each Reference Treasury Dealer and any Reset Date, the average as determined by the Calculation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Calculation Agent by such Reference Treasury Dealer at 5:00 p.m. on the third business day pursuant to Condition 4 *(Distribution)*) preceding such Reset Date;

"**Relevant Event**" means:

(i) as a result of any action on the part of the Issuer or the Government of Hong Kong or as a result of any new law or regulation of Hong Kong, the Government of Hong Kong either (a) ceases to have power to control the composition of the majority of the Board of the Issuer; or (b) ceases to hold, directly or indirectly, more than half in nominal value of the voting share capital of the Issuer; or

(ii) the Issuer disposes of all or substantially all of the Restricted Assets other than (A) pursuant to or as part of a privatisation, amalgamation, reconstruction or arrangement, the effect of which is to vest in some other body corporate (having, after such vesting, a similar financial standing to the Issuer or where such vesting will not materially prejudice the interests of the Holders) all or substantially all of the Restricted Assets, and to impose upon such other body corporate all or substantially all of the obligations and liabilities of the Issuer or, as the case may be, such of them as relate to the Restricted Assets, including all the obligations and liabilities of the Issuer under the Agency Agreement, the Securities and the Distributions; or (B) by any sub-lease or licence of the whole or any part of the Restricted Assets which is on arm's length commercial terms and is permitted under the Land Grant; or (C) where that disposal is or constitutes a Permitted Security Interest; or (D) by any sub-lease or licence to the Government of Hong Kong for the provision of any accommodation or facilities required to be provided to the Government of Hong Kong in connection with the operation of the Airport; or (E) by any sub-lease or licence to MTRC for the provision of facilities for the operation and development of the Airport Railway; or (F) any disposal pursuant to any leasing, sale and leaseback or sale and buyback arrangement relating to any assets of the Issuer; or (G) any disposal made by the Issuer in connection with the NCD Project or the 3RS Project.

"**Reset Date**" means the First Reset Date and each date that falls 7, or a multiple of 7, calendar years following the First Reset Date;

"**Reset Distribution Rate**" means, in respect of any respective Reset Period, the applicable Distribution Rate per annum as calculated by the sum of (x) the U.S. Treasury Benchmark Rate in relation to that Reset Period, (y) the Initial Spread and (z) the Step-up Margin;

"**Restricted Assets**" means the Airport Operational Development and the Airport Support Development (each as defined in the relevant documents under the Land Grant), together with the Issuer's rights under the Land Grant to the area of land on which they stand;

"**Security Interest**" means any mortgage, charge, pledge, lien, hypothecation or other security interest or security arrangement of any kind, and anything analogous to any of the foregoing under the laws of any jurisdiction;

"**U.S. Treasury Benchmark Rate**" means the rate notified by the Calculation Agent to the Issuer and the Holders (in accordance with Condition 14 *(Notices)*) in per cent. per annum equal to the yield, under the heading that represents the average for the week ending two New York Business Days prior to each Reset Date for calculating the Distribution Rate under sub-paragraph (b)(ii) *(Rate of Distribution)* of Condition 4 *(Distribution)*, appearing in the most recently published statistical release designated "H.15(519)" (weblink: http://www.federalreserve.gov/releases/h15/current/default.htm) or any successor publication that is published weekly by the Board of Governors of the Federal Reserve System and that establishes yields on actively traded US Treasury securities adjusted to constant maturity under the caption "Treasury constant maturities" for the maturity corresponding to the Comparable Treasury Issue. If such release (or any successor release) is not published during the week preceding the relevant date for calculation or does not contain such yields, "**U.S. Treasury Benchmark Rate**" means the rate in per cent. per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for the applicable Reset Date under Condition 4(b) *(Distribution — Rate of Distribution)*; and

"**Step-up Margin**" means 3.00 per cent.

**5 Redemption and Purchase**

(a) *No fixed redemption date:* The Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 2 *(Status of the Securities)* and without prejudice to Condition 8 *(Non-payment)*), only have the right to redeem or purchase them in accordance with the following provisions of this Condition 5.

(b) *Redemption for tax reasons:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 *(Taxation)* as a result of any change in, or amendment to, the laws or regulations of Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 1 December 2020; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

**provided, however, that** no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Securities were then due.

Prior to the publication of any notice of redemption pursuant to this Condition (b), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent (A) a certificate, signed by an authorised officer of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The Fiscal Agent shall be entitled to accept and rely on such evidence (without further investigation or query and without liability to the Holders or any other person) of the satisfaction of the circumstances set out above, in which event they shall be binding and conclusive on Holders.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(b).

(c) *Redemption for accounting reasons:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount), if, as a result of any changes or amendments to HKFRS or any other accounting standards that may replace HKFRS for the purposes of the consolidated financial statements of the Issuer (the "**Relevant Accounting Standard**"), the Securities must not or must no longer be recorded as "**equity**" of the Issuer on a consolidated basis pursuant to the Relevant Accounting Standard (an "**Accounting Event**").

Prior to the publication of any notice of redemption pursuant to this Condition 5(c), the Issuer shall deliver or procure that there is delivered to the Fiscal Agent:

(A) a certificate, signed by an authorised officer of the Issuer, stating that the circumstances referred to above prevail and setting out the details of such circumstances; and

(B) an opinion of the Issuer's independent auditors stating that the circumstances referred to above prevail and the date on which the relevant change or amendment to the Relevant Accounting Standard is due to take effect.

The Fiscal Agent shall be entitled to accept and rely on such evidence (without further investigation or query and without liability to the Holders or any other person) of the satisfaction of the circumstances set out above, in which event they shall be binding and conclusive on Holders.

The period during which the Issuer may notify the redemption of the Securities as a result of the occurrence of an Accounting Event shall start on the date on which the change in the Relevant Accounting Standard (the "**Change**") is officially adopted. For the avoidance of doubt such period shall include any transitional period between the date on which the Change is officially adopted and the date on which it comes into effect.

Upon the expiry of any such notice as is referred to in this Condition 5(c), the Issuer shall be bound to redeem the Securities in accordance with this Condition 5(c) **provided that** such date for redemption shall be no earlier than the last day before the date on which the Securities must not or must no longer be so recorded as "**equity**" of the Issuer on a consolidated basis pursuant to the Relevant Accounting Standard.

(d) *Redemption at the option of the Issuer:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, on any business day on or after 8 March 2028 (each, a "**Call Date**") on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant Call Date at their principal amount plus Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amount)).

(e) *Redemption for Relevant Event:* Upon the occurrence of a Relevant Event, the Issuer shall give notice to Holders and the Fiscal Agent in accordance with Condition 14 *(Notices)* by not later than 10 days following the first day on which it becomes aware of the occurrence of such Relevant Event, stipulating that a Relevant Event has occurred and whether or not it will redeem the Securities pursuant to this Condition 5(e). A notice given by the Issuer stipulating that it will redeem the Securities pursuant to this Condition 5(e) shall: (A) stipulate the Relevant Event Early Redemption Date and a brief explanation of the nature of the Relevant Event; (B) be irrevocable; and (C) oblige the Issuer to redeem the Securities on the Relevant Event Early Redemption Date in whole but not in part at their principal amount together with Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amount).

The "**Relevant Event Early Redemption Date**" shall be no earlier than 45 days and no later than 60 days after the Relevant Event.

The Agents shall not be required to monitor or take any steps to ascertain whether a Relevant Event has occurred or may occur and not be responsible or liable to any Holders or any other person for any loss arising from any failure to do so, and the Agents will be entitled to assume that no event has occurred until it has received written notice from the Issuer to the contrary.

(f) *Redemption for minimum outstanding amount:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 nor more than 60 days' notice to the Holders (which notice will be irrevocable), the Registrar and the Fiscal Agent at their principal amount, together with Distribution accrued and unpaid to the date fixed for redemption (including any Arrears of Distribution and any Additional Distribution Amount) if prior to the date of such notice at least 75 per cent. in principal amount of the Securities originally issued (including any further Securities issued pursuant to Condition 13 *(Further Issues)* and consolidated and forming a single series with the Securities) has already been redeemed or purchased and cancelled.

(g) *No other redemption:* The Issuer shall not be entitled to redeem the Securities and shall have no obligation to make any payment of principal in respect of the Securities otherwise than as provided in Conditions 5(b) *(Redemption for tax reasons)* to 5(f) *(Redemption for minimum outstanding amount)* above.

(h) *Purchase:* The Issuer or any of its Subsidiaries may at any time purchase Securities in the open market or otherwise and at any price. Any Securities purchased pursuant to this Condition 5(h) may be held, reissued or resold, or may be surrendered to the Fiscal Agent for cancellation.

(i) *Cancellation:* All Securities so redeemed or purchased and surrendered for cancellation by the Issuer or any of its Subsidiaries shall be cancelled and may not be reissued or resold.

The Agent shall not be required to take any steps to ascertain whether any event as provided in Conditions 5(b) *(Redemption for tax reasons)* to 5(f) *(Redemption for minimum outstanding amount)* above has occurred.

## 6 Payments

(a) *Principal:* Payments of principal shall be made in U.S. dollars by transfer to a U.S. dollar account (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(b) *Distribution:* Payments of Distribution (including any Arrears of Distribution and any Additional Distribution Amount) shall be made in U.S. dollars by transfer to a U.S. dollar account (in the case of Distribution payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Certificates at the Specified Office of any Paying Agent.

(c) *Payments subject to fiscal laws:* All payments in respect of the Securities are subject in all cases to (i) any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 *(Taxation)* and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 7 *(Taxation)*) any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Holders in respect of such payments.

(d) *Payments on business days:* Where payment is to be made by transfer to a U.S. dollar account, payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and Distribution payable on redemption) on the later of the due date for payment and the day on which the relevant Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of Distribution payable other than on redemption) on the due date for payment. A Holder of a Security shall not be entitled to any Distribution or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph, "**business day**" means any day, other than a Saturday and a Sunday, on which banks are open for general business (including dealings in foreign currencies) in New York City, London, Hong Kong and, in the case of surrender (or, in the case of part payment only, endorsement) of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

*So long as the Securities are represented by the Global Certificate, each payment will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date of payment, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.*

(e) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Security, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Certificate.

(f) *Record date:* Each payment in respect of a Security will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

## 7 Taxation

All payments of principal and Distribution (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Hong Kong or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is as required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Holders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Security:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Security by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Security; or

(b) where (in the case of a payment of principal or Distribution on redemption) the relevant Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts on surrendering the relevant Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in New York City by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders.

Any reference in these Conditions to principal, Distribution, Arrears of Distribution or Additional Distribution Amount shall be deemed to include any additional amounts in respect of principal, Distribution, Arrears of Distribution or Additional Distribution Amount (as the case may be) which may be payable under this Condition 7 *(Taxation)*.

If the Issuer becomes subject at any time to any taxing jurisdiction other than Hong Kong, references in these Conditions to Hong Kong shall be construed as references to Hong Kong and/or such other jurisdiction.

The Agent shall not be responsible for paying any tax, duty, charges, withholding or other payment referred to in this Condition 7 or for determining whether such amounts are payable or the amount thereof, and none of them shall be responsible or liable for any failure by the Issuer, any Holder or any third party to pay such tax, duty, charges, withholding or other payment in any jurisdiction or to provide any notice or information to any Agent that would permit, enable or facilitate the payment of any principal, premium (if any), Distribution or other amount under or in respect of the Securities without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

## 8 Non-payment

(a) *Non-payment when due:* Notwithstanding any of the provisions below in this Condition 8, the right to institute Liquidation (as defined in Condition 8(e) *(Non-payment — Definitions)*) proceedings is limited to circumstances where payment has become due. In the case of any Distribution, such Distribution will not be due if the Issuer has elected to defer that Distribution in accordance with Condition 4(d) *(Distribution — Distribution Deferral)*.

(b) *Proceedings for Liquidation:* If (i) an order is made or an effective resolution is passed for the Liquidation of the Issuer or (ii) the Issuer shall not make payment in respect of the Securities for a period of ten days or more after the date on which such payment is due, the Issuer shall be deemed to be in default under the Securities and Holders holding not less than 5 per cent. of the aggregate principal amount of the outstanding Securities may institute proceedings for the Liquidation of the Issuer and/or prove in the Liquidation of the Issuer, and/or claim in the liquidation of the Issuer for such payment.

Please refer to the risk factor "No assurance can be given regarding the ability of investors to institute proceedings for Liquidation against and/or prove and/or claim in proceedings for Liquidation of the Airport Authority" under "Risk Factors — Risks Relating to the Securities" in page 22 of the Offering Circular.

(c) *Enforcement:* Without prejudice to Condition 8(b) *(Non-payment — Proceedings for Liquidation)*, Holders holding not less than 5 per cent. of the aggregate principal amount of the outstanding Securities may without further notice to the Issuer institute such proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Securities (other than any payment obligation of the Issuer under or arising from the Securities, including, without limitation, payment of any principal or premium or satisfaction of any Distributions (including any Arrears of Distribution and any Additional Distribution Amount) in respect of the Securities, including any damages awarded for breach of any obligations) and in no event shall the Issuer, by virtue of the institution of any such proceedings, be obliged to pay any sum or sums, in cash or otherwise, sooner than the same would otherwise have been payable by it.

(d) *Extent of Holders' remedy:* No remedy against the Issuer, other than as referred to in this Condition 8, shall be available to the Holders, whether for the recovery of amounts owing in respect of the Securities or in respect of any breach by the Issuer of any of its other obligations under or in respect of the Securities.

(e) *Definitions:* In these Conditions, "**Liquidation**" means, with respect to the Issuer, an order is made or an effective resolution is passed or an enactment is passed for the winding up, liquidation or dissolution in respect of the Issuer, other than in the case of a Relevant Event.

## 9 Prescription

Claims for principal and Distribution on redemption shall become void unless the relevant Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

## 10 Replacement of Certificates

If any Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## 11 Agents

In acting under the Agency Agreement and in connection with the Securities, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Holders.

The initial Agents and their initial Specified Offices are listed below. The Issuer reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar, fiscal agent, agent bank and additional or successor paying agent and transfer agent; **provided, however, that** the Issuer shall at all times maintain a fiscal agent and a registrar.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Holders.

## 12 Meetings of Holders; Modification

(a) *Meetings of Holders:* The Agency Agreement contains provisions for convening meetings of Holders to consider matters relating to the Securities, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and shall be convened by them upon the request in writing of Holders holding not less than one-tenth of the aggregate principal amount of the outstanding Securities. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing more than half of the aggregate principal amount of the outstanding Securities or, at any adjourned meeting, two or more Persons being or representing Holders whatever the principal amount of the Securities held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Holders at which two or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one-fifth of the aggregate principal amount of the outstanding Securities form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Holders, whether present or not.

In addition, (i) a resolution in writing signed by or on behalf of Holders of not less than 90 per cent. in principal amount of the Securities who for the time being are entitled to receive notice of a meeting of Holders will take effect as if it were an Extraordinary Resolution, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more Holders (a "**Written Resolution**") and (ii) a resolution passed by way of electronic consents through the clearing systems by or on behalf of Holders of not less than 90 per cent. in aggregate principal amount of Securities for the time being outstanding (an "**Electronic Consent**") will take effect as if it were an Extraordinary Resolution, in each case whether or not relating to a Reserved Matter.

A Written Resolution and/or an Electronic Consent will be binding on all Holders whether or not they participated in such Written Resolution and/or Electronic Consent, as the case may be.

(b) *Modification:* The Issuer may, without the consent of the Holders, make any modification to the Securities, the Conditions, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error to comply with mandatory provisions of law or for the purpose of curing any ambiguity or of curing, correcting or supplementing any defective provision contained in the Securities, the Conditions, the Deed of Covenant or the Agency Agreement. Any such modification shall be binding on the Holders and any such modification shall be notified to the Holders in accordance with Condition 14 *(Notices)* as soon as practicable thereafter.

(c) *Definitions:* For the purposes of these Conditions:

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or Distribution in respect of the Securities, to reduce the amount of principal or Distribution payable on any date in respect of the Securities, to alter the method of calculating the amount of any payment in respect of the Securities or the date for any such payment, to change the currency of any payment under the Securities or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution.

**13 Further Issues**

The Issuer may from time to time, without the consent of the Holders, create and issue further securities having the same terms and conditions as the Securities in all respects (or in all respects except for the first payment of Distribution) so as to form a single series with the Securities.

**14 Notices**

Notices to the Holders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

*So long as the Global Certificate is held in its entirety on behalf of Euroclear and Clearstream any notice to the Holders shall be validly given by the delivery of the relevant notice to Euroclear and Clearstream for communication by the relevant clearing system to entitled accountholders in substitution for notification as required by the Conditions and shall be deemed to have been given on the date of delivery to such clearing system.*

**15 Governing Law and Jurisdiction**

(a) *Governing law:* The Securities and any non-contractual obligations arising out of or in connection with the Securities are governed by English law.

(b) *English courts:* The courts of England have non-exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Securities (including any non-contractual obligation arising out of or in connection with the Securities).

(c) *Process agent:* The Airport Authority agrees that the documents which start any proceedings relating to any Disputes in England ("**Proceedings**") and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Hackwood Secretaries Limited at One Silk Street, London EC2Y 8HQ. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Airport Authority, the Airport Authority shall, on the written demand of any Holder addressed and delivered to the Airport Authority or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Holder shall be entitled to appoint such a person by written notice addressed to the Airport Authority and delivered to the Airport Authority or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Holder to serve process in any other manner permitted by law.

(d) *Consent to enforcement etc.:* The Airport Authority consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(e) *Waiver of immunity:* To the extent that the Airport Authority may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Airport Authority or its assets or revenues, the Airport Authority agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

## TERMS AND CONDITIONS OF THE SERIES B SECURITIES

The terms and conditions of the Series B Securities will be identical to those under "Terms and Conditions of the Series A Securities" except as set out below. References to "Securities" shall be construed as references to the Series B Securities.

(a) The principal amount of the Series B Securities shall be U.S.$750,000,000;

(b) The First Reset Date shall be 8 June 2026;

(c) Limb (i) under Condition 4(b) of the Terms and Conditions of the Series A Securities to be deleted in its entirety and replaced with the following:

"(i) from, and including, the Issue Date to, but excluding, 8 June 2026 (the "**First Reset Date**"), 2.10 per cent. per annum; and"

(d) The definition of "Comparable Treasury Issue", "Reset Date" and "Initial Spread" under Limb (viii) of Condition 4(d) of the Terms and Conditions of the Series A Securities to be deleted in its entirety and replaced with the following:

""**Comparable Treasury Issue**" means the U.S. Treasury security selected by the Issuer as having a maturity of 5 years that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities with a maturity of 5 years;"

""**Reset Date**" means the First Reset Date and each date that falls 5, or a multiple of 5, calendar years following the First Reset Date;"

""**Initial Spread**" means 1.697 per cent.;"

(e) Condition 5(d) of the Terms and Conditions of the Series A Securities to be deleted in its entirety and replaced with the following:

"(d) *Redemption at the option of the Issuer:* The Securities may be redeemed at the option of the Issuer in whole, but not in part, on any business day on or after 8 March 2026 (each, a "**Call Date**") on the Issuer's giving not less than 30 nor more than 60 days' notice to the Holders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Securities on the relevant Call Date at their principal amount plus Distribution accrued and unpaid to such date (including any Arrears of Distribution and any Additional Distribution Amount))."

# SUMMARY OF PROVISIONS RELATING TO EACH SERIES OF SECURITIES IN GLOBAL FORM

*Each Global Certificate contains provisions which apply to the relevant Securities in respect of which the Global Certificate is issued, some of which modify the effect of the Conditions of the relevant series of Securities set out in this Offering Circular. Terms defined in the Terms and Conditions of the Securities have the same meaning in the paragraphs below. The following is a summary of those provisions:*

Each series of Securities will be represented by a Global Certificate which will be registered in the name of The Bank of New York Mellon Depositary (Nominees) Limited as nominee for, and deposited with, a common depositary for Euroclear and Clearstream.

Under each Global Certificate, the Issuer, for value received, promises to pay Distributions (including any Arrears of Distribution and any Additional Distribution Amount) on such principal sum in arrear on the dates and at the rate specified in the Terms and Conditions of the relevant series of Securities, together with any additional amounts payable in accordance with the Terms and Conditions of the relevant series of Securities, all subject to and in accordance with the Terms and Conditions of the relevant series of Securities and to pay such principal amount in the circumstances set out in Condition 5(b) (*Redemption for tax reasons*), Condition 5(c) (*Redemption for accounting reasons*), Condition 5(d) (*Redemption at the option of the Issuer*), Condition 5(e) (*Redemption for Relevant Event*) and Condition 5(f) (*Redemption for minimum outstanding amount*).

Each Global Certificate will become exchangeable in whole, but not in part, for duly authenticated and completed certificates ("**Individual Certificates**") if (a) Euroclear or Clearstream is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) upon a Liquidation (as defined in "*Terms and Conditions of the Securities*") of the Issuer.

Whenever each Global Certificate is to be exchanged for Individual Certificates, such Individual Certificates will be issued in an aggregate principal amount equal to the principal amount of such a Global Certificate within five business days of the delivery, by or on behalf of the registered Holder of such Global Certificate, Euroclear and/or Clearstream, to the Registrar of such information as is required to complete and deliver such Individual Certificates (including, without limitation, the names and addresses of the persons in whose names such Individual Certificates are to be registered and the principal amount of each such person's holding) against the surrender of such Global Certificate at the Specified Office (as defined in "*Terms and Conditions of the Securities*") of the Registrar. Such exchange will be effected in accordance with the provisions of the Agency Agreement and the regulations concerning the transfer and registration of each series of Securities scheduled thereto and, in particular, shall be effected without charge to any Holder of the relevant series of Securities, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

In addition, each Global Certificate will contain provisions which modify the Terms and Conditions of the relevant series of Securities as they apply to each series of Securities evidenced by such a Global Certificate. The following is a summary of certain of those provisions:

**Payment record date:** Notwithstanding Condition 6(f) *(Record date),* so long as a Global Certificate is held on behalf of Euroclear, Clearstream or any other clearing system (an "**Alternative Clearing System**"), each payment in respect of such Global Certificate will be made to the person shown as the Holder of that relevant series of Securities in the Register at the close of business (in the relevant Clearing System) on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a day on which each Clearing System for which such Global Certificate is being held is open for business.

**Notices:** Notwithstanding Condition 14 *(Notices),* so long as a Global Certificate is held on behalf of Euroclear, Clearstream or an Alternative Clearing System, notices to Holders of the relevant series of Securities represented by such Global Certificate may be given by delivery of the relevant notice to Euroclear, Clearstream or (as the case may be) such Alternative Clearing System.

**Determination of entitlement:** A Global Certificate is evidence of entitlement only and is not a document of title. Entitlements are determined in accordance with the Register and only the Holder of the relevant series of Securities is entitled to payment in respect of such Global Certificate.

## USE OF PROCEEDS

The net proceeds from the issue of the Series A Securities and the Series B Securities are expected to be approximately U.S.$748,000,000 and U.S.$748,000,000, respectively. The net proceeds from the issue of the Securities shall be used by the Airport Authority to fund its capital expenditure including the capital expenditure of the 3RS Project and for general corporate purposes.

## CAPITALISATION AND INDEBTEDNESS

### Capitalisation of the Airport Authority

The following table sets out the consolidated capitalisation of the Issuer as at 30 September 2020 and as adjusted to give effect to the issuance of the Securities offered hereby:

| | As at 30 September 2020 | | |
|---|---|---|---|
| | **Actual** | **As Adjusted** | **As Adjusted** |
| | **HK$ million** | **HK$ million** | **US$ million[1]** |
| Interest-bearing borrowings due within one year | 600 | 600 | 77 |
| Interest-bearing borrowings due after one year | 27,270 | 27,270 | 3,496 |
| Total interest-bearing borrowings[2] | 27,870 | 27,870 | 3,573 |
| Share capital[3] | 30,648 | 30,648 | 3,929 |
| Reserves | 52,567 | 52,567 | 6,739 |
| Non-controlling interests | 452 | 452 | 58 |
| Series A perpetual capital securities to be issued[4] | — | 5,850 | 750 |
| Series B perpetual capital securities to be issued[4] | — | 5,850 | 750 |
| Capital and reserves | 83,667 | 95,367 | 12,226 |
| Total capitalisation[5] | 111,537 | 123,237 | 15,799 |

*Notes:*

(1) A rate of HK$7.80 to US$1.00 was adopted for the conversion of Hong Kong dollars to US dollars.

(2) Since 30 September 2020, the Airport Authority has issued a total of HK$2,930 million Hong Kong dollar-denominated notes under its Medium Term Note Programme.

(3) As at 30 September 2020, the Issuer has an authorised share capital of HK$30,648,000,000, divided into 306,480 ordinary shares of HK$100,000 each, and an issued share capital of HK$30,648,000,000 consisting of 306,480 ordinary shares of HK$100,000 each, all of which are fully paid.

(4) Perpetual capital securities to be issued represent the aggregate principal amount of the Securities, before deduction of underwriting fees and commissions, and other estimated transaction expenses payable and the net proceeds from the issue of the Series A Securities and the Series B Securities are expected to be approximately U.S.$748,000,000 and U.S.$748,000,000 respectively.

(5) Total capitalisation represents the sum of total interest-bearing borrowings and capital and reserves.

Other than as stated herein, there has been no material change to the capitalisation and indebtedness of the Airport Authority since 30 September 2020.

## THE AIRPORT AUTHORITY

### Overview

The Airport Authority is a statutory body corporate owned by the Government of Hong Kong (the "**Government**"). The Airport Authority is established under the Airport Authority Ordinance (Cap. 483) of the laws of Hong Kong (the "**Ordinance**") which provides that its purpose is to provide, operate, develop and maintain an airport for civil aviation in the vicinity of Chek Lap Kok. The Hong Kong International Airport ("**HKIA**"), is one of the busiest airports worldwide in terms of international passenger throughput and international freight throughput.

HKIA is located on a largely man-made island of reclaimed land at Chek Lap Kok, part of Lantau Island, 30 kilometres northwest of Hong Kong Island. It began commercial operations on 6 July 1998 with a single runway. A second runway was added and the passenger terminal was extended a year later.

As at May 2020, the total floor area of Terminal 1, Midfield Concourse, North Satellite Concourse and SkyPier is around 730,000 square metres with 115 passenger stands, 43 cargo stands and 15 passenger and cargo mix-use stands for aircraft.

HKIA can handle 68 aircraft movements an hour at peak hours. For the year ended 31 March 2020, passenger traffic was 60.9 million as compared to 75.1 million for the year ended 31 March 2019, representing a decrease of 18.9 per cent. year-on-year. For the years ended 31 March 2019 and 2020, cargo and airmail throughput was 5.1 million tonnes and 4.7 million tonnes, respectively. In 2019, HKIA was the world's busiest freight airport for the tenth consecutive year and ranked fourth in terms of international passenger throughput[1].

For the year ended 31 March 2020, HKIA's flight movements were 377,420 which represents a decrease of 12.0 per cent. compared to 428,870 for the same period in 2019.

From April to September 2020, HKIA handled 408,000 passengers and 61,175 flight movements, representing decreases of 99 per cent. and 71 per cent., respectively, compared to the same period in 2019. HKIA recorded around 2.2 million tonnes of cargo throughput from April to September 2020, which dropped about 7 per cent. compared to the same period in 2019.

In view of the long-term global air traffic growth, especially in the Greater Bay Area, the Airport Authority is undertaking a series of expansion and development projects to reinforce HKIA's status as an international aviation hub and transform it from a city airport to an Airport City (the "**Airport City**").

In October 2016, the Airport Authority announced its plan for SKYCITY, a core element of the Airport City. Situated at HKIA and adjacent to the passenger terminals, SKYCITY features retail complexes, entertainment facilities, dining areas, hotels and office towers covering approximately 25 hectares of land at the north of the Island (as further defined below) (the "**SKYCITY**").

In May 2018, the Airport Authority awarded the right to develop and manage two sites of SKYCITY (maximum gross floor area of 350,000 square metres) to Roxy Limited, a subsidiary wholly-owned by New World Development Company Limited for an integrated retail, dining and entertainment development, which is scheduled to open in phases from 2022 to 2025.

The enhancement projects for Terminal 1 will increase HKIA's handling capacity and bring a fresh look to passengers. In June 2018, the Airport Authority awarded the right to manage and develop a premium logistics centre in the South Cargo Precinct of HKIA.

[1] Preliminary airport rankings released by Airports Council International in May 2020.

The Airport Authority is expanding HKIA into a Three-runway System ("**3RS**") to fulfil long-term air traffic demand. The project includes seven core projects and facilities: formation of 650 hectares of land; building a 3,800-metre-long new runway and supporting taxiways; a new passenger building with 63 parking positions and an apron; a 2,600-metre-long new automated people mover system; a new baggage handling system; expansion of Terminal 2 and construction of other associated airport support infrastructure, road network and transportation facilities.

**History and Constitution**

In April 1990, the Provisional Airport Authority (the "**PAA**") was established by the Provisional Airport Authority Ordinance (Cap. 407) to carry forward the task of planning and building HKIA to replace its predecessor at Kai Tak, pending the establishment of the Airport Authority in its permanent form.

Following the passage of the Ordinance in July 1995 and its commencement of operation in December 1995, the PAA was reconstituted as the Airport Authority on 1 December 1995.

The Airport Authority is a statutory body corporate, whose capital is wholly-owned by the Government. Its primary function is to provide, operate, develop and maintain HKIA, with the objective of maintaining Hong Kong's status as a centre of international and regional aviation. The powers of the Airport Authority and its duty to ensure the safe and efficient operation of HKIA, are set out in the Ordinance.

The board of the Airport Authority (the "**Board**") consists of a Chairman, Chief Executive Officer and other members (including public officers of the Government). The Chief Executive Officer is appointed by the Airport Authority with the approval of the Chief Executive of Hong Kong SAR and all other members of the Board are appointed by the Chief Executive of Hong Kong SAR.

The day-to-day conduct of the business of the Airport Authority is carried out by the executive directors and other employees under the direction and co-ordination of the Chief Executive Officer.

As at 30 September 2020, the Airport Authority does not have any subsidiaries which contribute to more than 10 per cent. of its consolidated net assets or consolidated net loss.

**Members**

The members of the Board are as follows:

| Name | Position | Other Interests |
|---|---|---|
| The Honourable Jack So Chak-kwong GBM GBS OBE JP | Chairman | • Non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development<br>• Independent Non-executive Director of AIA Group Limited and China Resources Power Holdings Company Limited<br>• Senior advisor to Credit Suisse, Greater China |
| Mr Fred Lam Tin-fuk* JP | Member | • Chief Executive Officer of the Airport Authority<br>• Member of the Asia Pacific Regional Board of Airports Council International (ACI) |

| Name | Position | Other Interests |
|---|---|---|
| | | • Member of the ACI World Governing Board<br>• Member of the Aviation Development and Three-runway System Advisory Committee<br>• Member of the Hong Kong Logistics Development Council |
| The Honourable Frank Chan Fan* JP | Member | • Secretary for Transport and Housing<br>• Chairman of the Hong Kong Housing Authority<br>• Chairman of the Hong Kong Maritime and Port Board<br>• Chairman of the Hong Kong Logistics Development Council<br>• Chairman of the Aviation Development and Three-runway System Advisory Committee<br>• Board member of the MTR Corporation Limited<br>• Board member of the Hong Kong Mortgage Corporation Limited<br>• Member of the Council for Sustainable Development<br>• Member of the Youth Development Commission |
| Mr Rock Chen Chung-nin SBS BBS JP | Member | • Chairman of Pacific Falcon Investment Group Limited<br>• Vice Chairman of the Chinese General Chamber of Commerce<br>• Vice Chairman of Hong Kong Council for Accreditation of Academic and Vocational Qualifications<br>• Member of the 12th and 13th National Committee of Chinese People's Political Consultative Conference |
| Ms Irene Chow Man-ling | Member | • Member of the Independent Commission Against Corruption's Advisory Committee on Corruption<br>• Committee member of The Chinese General Chamber of Commerce |

| Name | Position | Other Interests |
| --- | --- | --- |
| | | • Director of DSL Investments Limited, Chow Mun Sum Tong Foundation and The Legal Education Fund |
| Mr Stuart Thomson Gulliver | Member | • Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development<br>• Member of the International Advisory Council of the Stock Exchange of Hong Kong Limited<br>• Non-executive Director of Jardine Matheson Holdings Limited<br>• Non-executive Director of the Saudi British Bank |
| The Honourable Steven Ho Chun-yin BBS | Member | • Member of the Legislative Council representing the Agriculture and Fisheries Functional Constituency<br>• Member of the Legislative Council's House Committee, Finance Committee, Establishment Subcommittee and Public Accounts Committee<br>• Member of the Legislative Council's panels on Constitutional Affairs, Economic Development, Environmental Affairs, Food Safety and Environmental Hygiene, Public Service, Home Affairs, Administration of Justice and Legal Services and Public Service |
| The Honourable Christopher Hui Ching-yu* JP | Member | • Secretary for Financial Services and the Treasury<br>• Chairman of the Managing Board of Kowloon-Canton Railway Corporation<br>• Non-Executive Director of MTR Corporation Limited<br>• Member of the Board of the Mandatory Provident Fund Schemes Authority<br>• Member of the Board of the West Kowloon Cultural District Authority<br>• Member of the Board of the Financial Services Development Council<br>• Director of Hongkong International Theme Parks Limited |

| Name | Position | Other Interests |
|---|---|---|
| Ms Nisa Bernice Leung Wing-yu JP | Member | • Managing Partner of Qiming Venture Partners<br>• Member of the board of Gan & Lee Pharmaceuticals, Zai Lab, Venus MedTech, CanSino Biologics, dMed, New Horizon Bio and Berry Oncology<br>• Visiting lecturer at Harvard Law School<br>• Member of Stanford Graduate School of Business Advisory Council<br>• Board member of Hong Kong Palace Museum |
| Captain Victor Liu Chi-yung* JP | Member | • Director-General of Civil Aviation<br>• Fellow of the Hong Kong Institution of Engineers |
| Ir Dr the Honourable Lo Wai-kwok SBS MH JP | Member | • Member of Legislative Council representing the Engineering Functional Constituency<br>• Chairman of the Legislative Council's Public Works Subcommittee<br>• Chairman of the Business and Professionals Alliance for Hong Kong<br>• Founding Chairman of the Hong Kong Green Strategy Alliance<br>• Member of the Hong Kong Housing Authority, the Hospital Authority, the West Kowloon Cultural District Authority and the 13th National Committee of the Chinese People's Political Consultative Conference<br>• Committee Member of the China Association for Science and Technology |
| Mr Adrian Wong Koon-man BBS MH JP | Member | • Director of VL Asset Management Limited and Abercan Limited<br>• Chairman of the Corruption Prevention Advisory Committee<br>• Member of the Advisory Committee on Corruption of the Independent Commission Against Corruption<br>• Member of the Travel Industry Authority |
| Ir Billy Wong Wing-hoo BBS JP | Member | • Senior Vice President of Henderson (China) Investment Company Limited |

| Name | Position | Other Interests |
| --- | --- | --- |
| | | • General Manager of the Construction Department of Henderson Land Development Company Limited<br>• 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<br>• Director of Hong Kong-Shenzhen Innovation and Technology Park Limited<br>• Permanent Supervisor of the Hong Kong Construction Association<br>• Board member of the Hong Kong Hospital Authority |
| Dr William Wong Ming-fung SC JP | Member | • Senior Counsel of Des Voeux Chambers<br>• Vice Chairman of the Committee on Overseas Lawyers Examination and the Committee of Mainland Affairs of the Hong Kong Bar Council<br>• Advisor to the Hong Kong Middle Temple Society |
| Mr Thomas Jefferson Wu JP | Member | • Member of the 13th National Committee of the Chinese People's Political Consultative Conference<br>• Member of the Hong Kong Tourism Board<br>• Member of the Environment Bureau's Energy Advisory Committee<br>• Member of the Securities and Futures Commission's Committee on Real Estate Investment Trusts |
| The Honourable Frankie Yick Chi-ming SBS JP | Member | • Member of the Legislative Council representing the Transport Functional Constituency<br>• Overseeing Wharf Group's public transport and terminals portfolio<br>• Member of the Property Management Services Authority<br>• Member of the 13th Chinese People's Political Consultative Conference National Committee<br>• Vice Chairman of the Independent Police Complaints Council |

| Name | Position | Other Interests |
|---|---|---|
| | | • Non-executive director of Harbour Centre Development Limited and The "Star" Ferry Company, Limited<br>• Director of Modern Terminals Limited and Hong Kong Air Cargo Terminals Limited |
| Dr the Honourable Allan Zeman GBM GBS JP | Member | • Chairman of Lan Kwai Fong Group and Lan Kwai Fong Association and owner of Paradise Properties Group<br>• Non-executive Chairman of Wynn Macau, Limited<br>• Non-executive Director of Pacific Century Premium Developments Limited<br>• Independent Non-executive Director of Sino Land Company Limited, Tsim Sha Tsui Properties Limited, Global Brands Group Holding Limited, Television Broadcasts Limited and Fosun Tourism Group<br>• Member of the General Committee of the Hong Kong General Chamber of Commerce<br>• Governor of Our Hong Kong Foundation<br>• Member of the Governing Board of the Hong Kong Entrepreneurs Fund of the Alibaba Entrepreneurs Fund<br>• Representative of Hong Kong China to the APEC Business Advisory Council<br>• Honorary Adviser to Ocean Park Hong Kong<br>• Vice Patron of the Community Chest of Hong Kong<br>• Non-official Member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and the Human Resources Planning Commission |

* Member by virtue of being holder of the post

**Management and Organisation**

The Chief Executive Officer and executive directors of the Airport Authority are as follows:

| Name | Office |
|---|---|
| Mr. Fred Lam Tin-fuk JP . . . . . . . . . | Chief Executive Officer |
| Mr. David Au Ho-cheung . . . . . . . . . | Executive Director, Property Development |
| Ms. Cissy Chan Ching-sze . . . . . . . . | Executive Director, Commercial |
| Mrs. Vivian Cheung Kar-fay . . . . . . . | Executive Director, Airport Operations |
| Ms. Florence Chung Wai-yee . . . . . . | Executive Director, Human Resources & Administration |
| Mr. Julian Lee Pui-hang . . . . . . . . . . | Executive Director, Finance |
| Mr. Ricky Leung Wing-kee . . . . . . . | Executive Director, Engineering & Technology |
| Mr. Kevin Poole . . . . . . . . . . . . . . . | Executive Director, Third Runway |

The status and authority of the Airport Authority to undertake the operation of HKIA is underpinned by two key constitutional documents, both of which came into effect on 1 December 1995:

(a) the Ordinance, which establishes the Airport Authority's status as a statutory body corporate with all appropriate powers to carry out its task; and

(b) the Land Grant (defined below), under which the Government has granted to the Airport Authority, up to the year 2066 in relation to Chek Lap Kok Lot No. 3 and up to the year 2047 in relation to the remainder of HKIA site, the entirety of the site of HKIA together with the rights necessary to develop such site for the purposes of its business.

**Competitive Strengths**

The Group believes the competitive strengths which contribute to its success are as follows:

***HKIA is an integral part of the Hong Kong economy and is strategically located in Asia***

Hong Kong is strategically located in Asia and HKIA is the only airport for civil aviation in Hong Kong connecting Hong Kong with Mainland China and the rest of the world. HKIA benefits from the geographical advantages of Hong Kong and connects to approximately 220 destinations worldwide and serves around 120 airlines. HKIA is an integral part of the Hong Kong economy and provides essential infrastructure for the four pillar industries of Hong Kong, namely trading and logistics, financial services, professional and producer services, and tourism, facilitating the efficient flow of people and goods through HKIA's regional and international air networks. For the year ended 31 March 2020, HKIA handled 4.7 million tonnes of total cargo throughput. Additionally, according to Census Department data, in 2018, air transportation facilitated 42 per cent. of Hong Kong's total value of external trade (amounting to HK$3,709 billion) and accounted for 66 per cent. of total international visitors to Hong Kong. HKIA plays an important role in facilitating the flow of business activities and supports Hong Kong's status as a financial and aviation hub.

In addition, HKIA provides an international gateway to the Greater Bay Area, which is a national strategic project of the Central Government of the PRC to develop a world-class city cluster driven by economic reform, innovation, increased connectivity and integration. HKIA intends to leverage its broad connection to international destinations, as well as its connectivity with other locations in the Greater Bay Area through various transportation options that it has developed over the past decade, to further expand its business and operations in the future and to serve as the "Double Gateway" to both the world and the Greater Bay Area.

The Airport Authority is a statutory body solely owned by the Government and is responsible for the operation and development of HKIA. Since many of the Airport Authority's business policies are in line with Government policies, such as greater connectivity with the Greater Bay Area, the Airport Authority receives strong policy support from the Government, allowing it to rapidly develop its business.

***Strong credit rating and resilient track record***

The Airport Authority is rated "AA+" from Standard & Poor's and is the highest rated airport globally by credit rating. The Airport Authority's credit rating is the same as that assigned to the Government.

In 2019, HKIA was the world's busiest cargo airport for the tenth consecutive year, and the busiest passenger airport in the Asia Pacific region for 2019 according to the Airports Council International. Additionally, for the years ended 31 March from 2016 to 2019, the Airport Authority had the highest EBITDA margin amongst major airports in Asia. Since its establishment, the HKIA has a track record of long-term growth in both passenger traffic and cargo throughput levels notwithstanding various economic and health crises, including SARS in 2013 and the global financial crisis in 2007/2008. During the recent outbreak of COVID-19, HKIA's cargo throughput year-on-year decline for the first 9 months of 2020 was only 8.3 per cent. which is lower than comparable international airports. Although the recent outbreak of COVID-19 has had an adverse impact on the Airport Authority's business and operations, particularly passenger throughput, and the situation is still uncertain, the Airport Authority has been positioning and preparing itself, including the construction of the 3RS Project, to meet potential increase in travel and cargo demand once the outbreak subsides.

***Diversified business model with healthy balance sheet***

The Airport Authority has a well-diversified business model. In particular, the HKIA's passenger traffic and cargo throughout is geographically diversified and in the year ended 31 March 2020, approximately 27% of its passenger traffic and 56% of its cargo handled came from outside the Asia Pacific region. In addition, as measured by the last three financial years average, the Airport Authority recorded the largest percentage of non-aeronautical revenue as compared with other listed airport peers in Asia Pacific region. Furthermore, the Airport Authority's strategy of transforming from "City Airport" to "Airport City" is expected to lead to more diversified and stable income sources.

The Airport Authority has historically maintained a relatively low debt/capital ratio, with diversified financing channels and strong long-term relationships with major banks in Hong Kong. The Airport Authority believes that its strong capital structure and resilient business model allow it to withstand the adverse impacts brought about by the outbreak of COVID-19 and to capture the potential increase in travel and cargo demand in the future.

***Strong corporate governance framework***

The Airport Authority is a statutory body corporate governed by the Airport Authority Ordinance which requires the Airport Authority to conduct its business according to prudent commercial principles. At the same time, the Airport Authority has the flexibility to carry out business strategies as is requisite or expedient for the performance of its functions. For example, the Airport Authority has undertaken a number of initiatives including the 3RS Project, SKYCITY development, cargo initiatives and projects in Mainland China.

The Airport Authority has a highly independent board. Other than the Chief Executive Officer, all of the other board members are non-executive members and the majority of the board members are independent. The diversified board composition ensures that the Airport Authority makes informed business decisions which consider the interests of its various stakeholders, including the local community. It also ensures the Airport Authority's values of commitment are upheld.

**Airport Authority Ordinance**

***Functions and Powers***

The Ordinance confers on the Airport Authority the right and duty to provide, operate, develop and maintain HKIA, and to provide any airport-related facilities, amenities and services.

The Airport Authority is given general power to do anything which is requisite or expedient for the performance of this duty, together with a range of specific powers such as to acquire and dispose of all kinds of property, make contracts, carry out works and set the level of, and collect, charges and fees from users of HKIA facilities, franchisees and licensees.

The Ordinance requires the Airport Authority to conduct its business according to prudent commercial principles, to ensure, as far as practicable, its revenue is at least sufficient to meet its expenditure, taking one year with another, and to have regard to safety, security, economy and operational efficiency.

***Financial***

The Airport Authority is given appropriate powers to manage its financial affairs including the right to invest surplus funds, borrow moneys and to enter into financial transactions, including those for the purposes of financial risk management.

The Ordinance states that the initial capital of the Airport Authority is HK$36,648 million, and that the Airport Authority is wholly-owned by the Government. The Airport Authority has the power to declare and pay dividends to the Government. To allow for a more efficient capital structure, in June 2004 the Legislative Council approved an amendment to the Ordinance to permit a reduction of the share capital of the Airport Authority. The Airport Authority repaid an amount of HK$6,000 million to the Government and cancelled shares in relation thereto. As at the date of this Offering Circular, the issued share capital of the Airport Authority is HK$30,648 million.

Pursuant to the Airport Authority (Permitted Airport-Related Activities) Order (Cap. 483E) of the laws of Hong Kong, the Airport Authority shall obtain the approval of the Financial Secretary before undertaking to engage in any airport-related activity in respect of an airport outside Hong Kong if the aggregate of the amount of consideration exceeds 2.5 per cent. of the issued share capital of the Airport Authority.

***Controls***

The Airport Authority's activities are subject to a number of controls laid down in the Ordinance. The nature and extent of these controls reflect the Airport Authority's status as a statutory body corporate in which the Government has a substantial financial interest and which is charged with the management, operation and development of one of Hong Kong's key economic assets.

*Land Grant*

By virtue of the New Grant No. 7996 in respect of Chek Lap Kok Lot No. 1 ("**CLK No. 1**") dated 1 December 1995, the Government granted the Airport Authority the entire island on which HKIA is constructed (the "**Island**"), comprising approximately 1,248 hectares, for the period up to 30 June 2047. CLK No. 1 has since been amended and supplemented from time to time. An area of approximately 24.7 hectares of CLK No. 1 was surrendered by and re-granted to the Airport Authority as Chek Lap Kok Lot No. 3, under the New Grant No. 22378 dated 21 September 2016 for the period up to 20 September 2066 ("**CLK No. 3**"). The SKYCITY development is being undertaken on CLK No. 3 (CLK No. 1 and CLK No. 3 are together referred to as the "**Land Grant**").

The Land Grant gives the Airport Authority the rights necessary to develop the Island for the purposes of its business. Such Land Grant contains controls over land use on the Island. Such controls include the requirement for the Government approval of plans, and compliance with environmental and transport regulations. The Land Grant also reserves rights of the Government as the ultimate owner and grantor of such Land Grant, as is the common practice with such documents.

In April 2016, the Chief Executive-in-Council has granted the approval for the authorisation of reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance (Cap. 127) of the laws of Hong Kong of land not included in such Land Grant for the expansion of HKIA into a 3RS.

The Airport Authority is negotiating with the Government on obtaining additional land grant(s) for the expansion of HKIA into the 3RS. The Airport Authority is also negotiating with the Government on an extension of CLK No. 3 for the related infrastructure and facilities development to connect the proposed Intermodal Transfer Terminal at CLK No. 3 with the Hong Kong-Zhuhai-Macao Bridge Hong Kong Port (the "**HZMB Hong Kong Port**").

**Civil Aviation Regulation and Related Issues**

*Civil Aviation Regulation*

The operation of HKIA is subject to regulation both pursuant to relevant Hong Kong domestic legislation and pursuant to international and bi-lateral civil aviation obligations which apply in Hong Kong.

Domestic legislation principally concerns matters of operational safety and security. For the most part, such legislation is monitored and enforced by the Director-General of Civil Aviation on behalf of the Government.

International civil aviation obligations arise from air services agreements, and treaties such as the Chicago Convention. It is the responsibility of the Government to ensure that the Airport Authority complies with those obligations (to the extent that they apply to Hong Kong) which, in addition to safety and security, cover such matters as standards of facilitation for aircraft, passenger and air cargo movements and the reasonable and non-discriminatory treatment of airlines, especially in the setting of airport charges.

*Air Services Agreements*

Air services agreements ("**ASAs**") are bilateral agreements between governments that establish the terms upon which international civil aviation routes and services may be provided between the contracting parties.

The Ordinance specifically provides that the Airport Authority has no power to make any ASAs.

Consistent with the provisions in the Basic Law that provide for the maintenance of Hong Kong's status as a centre of international and regional aviation, the Government, under specific authorisations of the Central People's Government of the PRC, has the power to renew or amend and negotiate and conclude self-standing ASAs for Hong Kong for scheduled services operating to, from or through Hong Kong, which do not operate to, from or through Mainland China.

The Government also holds regular air services consultations with foreign governments, aviation representatives to review and update traffic arrangements to cope with changing market circumstances.

***Airspace Management***

The provision of air traffic control for HKIA is the responsibility of the Government, under a contract with the Airport Authority under which the Airport Authority pays a fee to the Government for the provision of this service. The Ordinance does not enable the Airport Authority to provide any such service.

***Aviation Security Services***

Aviation Security Company Limited, one of the subsidiaries of the Airport Authority, is engaged in the provision of aviation security services at HKIA.

**Business Operations**

***From City Airport to Airport City***

The Airport Authority is statutorily obliged to conduct its business according to prudent commercial principles while having regard to safety, security, economy and operational efficiency. The vision of the Airport Authority is to strengthen HKIA as the leading international aviation hub and a key engine for the economic growth of Hong Kong. It will develop its business to meet the needs of airport users as efficiently and economically as possible, consistent with achieving agreed levels of service, and at the same time, plan to be financially self-sufficient and to provide a reasonable financial return on the capital invested in it by the Government.

Over the past few years, through rigorous development of various segments of HKIA, including core passenger and cargo services, multimodal regional connectivity, retail and hotels, the Airport Authority plans to transform HKIA from a city airport into an Airport City. To cater for long-term traffic demand growth and fully capture the business potential of the Greater Bay Area for the Airport City vision, the Airport Authority has worked diligently to increase capacity and functionality through a series of development projects, including the 3RS Project, the enhancement of the two-runway system, the development of SKYCITY, and the strengthening of HKIA's cargo leadership by capturing the e-commerce and high-value cargo opportunities. Such projects are all significant components of the Airport City, and are organically related and poised to create synergistic impact not only on the Airport island, but far beyond by contributing to the wider economy in Hong Kong and the Greater Bay Area. In the future, the Airport City will offer even more technology-driven and personalised facilities and services that suit the tastes of a new generation of travellers. The development vision of HKIA echoes the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area promulgated by the Central government of the PRC (the "**Central Government**") for the Greater Bay Area (the "**Outline Development Plan**") which has designated Hong Kong's status as the region's international aviation hub, reaffirming HKIA's overall development direction and its strategic function for the Greater Bay Area and the entire country.

*Capacity Enhancements*

As a HK$50 billion investment, HKIA has been one of the largest engineering and architectural projects in the world.

In March 2016, the Midfield Concourse and its supporting facilities commenced full operations, which include 20 aircraft parking positions, an aviation fuel system and an automated people mover ("**APM**") link to Terminal 1. The Midfield Concourse is expected to increase HKIA's capacity by at least 10 million passengers per year.

In mid-2016, the Airport Authority began to expand Terminal 1 with the construction of the Annex Building. Opened in November 2019, the 18,000-square-metre Annex Building offers additional 48 check-in counters, self bag drop facilities, smart security gates and check-in kiosks. Additional 2 baggage reclaim carousels and a variety of dining outlets will open in phases.

In the restricted area of Terminal 1, a 200-metre long air-conditioned walkway connecting Terminal 1 and the North Satellite Concourse, known as the "Sky Bridge", is under construction. The new walkway will include travelators, an observation deck, and food and beverage outlets. The design and construction contract of the walkway commenced in the financial year ended 31 March 2018 and is targeted to open in 2020.

*Commercial Development*

In June 2018, the Airport Authority awarded the right to develop and manage a premium logistics centre ("**the Centre**") at Kwo Lo Wan in the South Cargo Precinct of HKIA. The Centre is scheduled to commence operation in 2023 and shall become a smart hub in Asia serving the fast-going global e-commerce business in its approximately 5.3 hectares of land. In 2017/18, the International Air Transport Association ("**IATA**") recognized HKIA as a Partner Airport in its Centre of Excellence for Independent Validators in Pharmaceutical Logistics. In 2018/19, HKIA was awarded by IATA as a Partner Airport of IATA's Centre of Excellence for Perishable Logistics.

In October 2016, the Airport Authority announced its plan for SKYCITY, which would feature retail complexes, entertainment facilities, dining space, hotels, and office towers in its approximately 25 hectares of land at the north of the Island. SKYCITY forms a core element of HKIA Airport City. In May 2018, the Airport Authority awarded the right to develop and manage 2 sites of SKYCITY (maximum gross floor area of 350,000 square metres) to Roxy Limited, a subsidiary wholly-owned by New World Development Company Limited for an integrated retail, dining and entertainment development, which is scheduled to open in phases from 2022 to 2025.

On 24 September 2018, the Airport Authority announced that it has acquired from IEC Investments Limited all of its rights and equity interest in Hong Kong IEC Limited and separately acquired the ownership of AsiaWorld-Expo Management Limited (together, the "**Acquisitions**") for a total consideration of HK$900 million. Hong Kong IEC Limited is a joint venture established by the Government, Airport Authority and IEC Investments Limited in 2003 to develop AsiaWorld-Expo, while AsiaWorld-Expo Management Limited manages and operates the facilities of AsiaWorld-Expo. Following the completion of the Acquisitions, the Government continues to own the majority interest in Hong Kong IEC Limited, with the Airport Authority being the sole minority shareholder, whereas the Airport Authority has become the sole owner of AsiaWorld-Expo Management Limited. Phase 1 of AsiaWorld-Expo, which commenced operations in December 2005, occupies 11 hectares of land on the Island and provides over 70,000 square metres of space for conventions and exhibitions, as well as sports and entertainment events. The Airport Authority envisages coordinated land use planning for

AsiaWorld-Expo's future Phase 2 development and the future phases of SKYCITY (a major commercial development that is adjacent to the passenger terminals of HKIA) and the neighbouring site, with a view to enhancing the business potential of both developments.

On 1 August 2020, the Hospital Authority completed the preparation for the community treatment facility at AsiaWorld-Expo and began admitting COVID-19 confirmed patients with clinically suitable condition. AsiaWorld-Expo availed the site and constructed the facilities for the setup of the community treatment facility. On 21 August 2020, the Government announced the setting up of community treatment facility in additional halls of AsiaWorld-Expo and a temporary hospital would be built on a 3.2 hectare piece of land near the AsiaWorld-Expo.

***3RS Project***

In September 2015, the Airport Authority announced the revised financial arrangement plan for the 3RS Project. The financial arrangement plan is based on the "joint contribution" principle, whereby funding for the project will come from the Airport Authority's retained operating surplus, the ACF and funds raised from the market.

In April 2016, the Chief Executive in Council granted the approval for the draft Chek Lap Kok OZP, as well as authorisation of the reclamation under the Foreshore and Sea-bed (Reclamations) Ordinance for the expansion of HKIA into a 3RS. On 1 August 2016, the construction of the 3RS Project kicked off. The construction of 3RS Project is expected to be completed in 2024. In December 2016, the Airport Authority appointed an independent financial consultant to study the detailed funding plan for the 3RS Project. In September 2017, the Airport Authority released the report on the detailed funding study for the 3RS Project submitted by its financial advisor.

The 3RS Project includes seven core projects and facilities: formation of 650 hectares of land; building a 3,800-metre-long new runway and supporting taxiways; a new passenger building with 63 parking positions and an apron; a 2,600-metre-long new automated people mover system; a new baggage handling system; expansion of Terminal 2 and construction of other associated airport support infrastructure, road network and transportation facilities.

Terminal 2 was closed for expansion in November 2019 and will reopen as a full-fledged terminal with the rest of the 3RS Project. As of the date of this Offering Circular, the 3RS Project is well underway and on schedule. The new north runway is expected to be completed in 2022.

The Airport Authority signed entrustment agreements with the Architectural Services Department for some of the Government facilities for HKIA's operations of a three-runway system and construction has begun. The Airport Authority has taken up the design and construction of Government facilities that support the 3RS.

***Connectivity Enhancement***

Mainland China, especially the Greater Bay Area, is a primary source of HKIA's growth. Over the past decade, HKIA has strengthened its multi-modal connectivity by increasing the frequency and number of destinations served by the cross-boundary coaches and ferries. Currently, nine ports in the Greater Bay Area are linked to the SkyPier which provides speedy cross-boundary ferry services. With the introduction of upstream check-in service at some of the ports, SkyPier passengers of the participating airlines can obtain boarding passes and check in baggage at those ports.

In addition to sea transport, as at March 2020, HKIA also provides many road transport options connecting HKIA to over 110 destinations in the Greater Bay Area, and HKIA has also built a network of 18 remote city terminals in various cities in the Greater Bay Area.

To capitalise on business opportunities arising from the development in the Greater Bay Area, as well as the commencement of cross-boundary infrastructures such as the HZMB, the Airport Authority is 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 HZMB Hong Kong Port by a bonded vehicular bridge.

Links with other key PRC airports in the east such as Shanghai and Hangzhou have further been strengthened with the acquisition of 35 per cent. share of Hangzhou Xiaoshan International Airport ("**HXIA**") in late 2006 and the set up of a joint venture with Shanghai Airport Authority to manage the existing and new terminals at Shanghai Hongqiao Airport in late 2009. As the Airport Authority holds 35 per cent. of HXIA, this has resulted in a loss before taxation of approximately HK$84 million of the Airport Authority for the six months ended 30 September 2020.

**Financial Performance Summary**

The international trade dispute and social unrest in Hong Kong since 2019 and the COVID-19 outbreak which started in December 2019 affected the traffic performance of HKIA. The Airport Authority and its subsidiaries recorded weaker financial performance for the financial year ended 31 March 2020 and the six months ended 30 September 2020. For the year ended 31 March 2020 and the six months ended 30 September 2020, net profit attributable to equity shareholder is HK$5,866 million and net loss to equity shareholder is HK$2,706 million respectively. For the year ended 31 March 2020, the return on equity was 7.1 per cent., representing a decrease of 3.9 per cent. from the year ended 31 March 2019. Pursuant to the financial arrangement plan for the 3RS Project, Airport Authority did not declare a dividend for the financial year ended 31 March 2020. Please also see the section "*Recent Developments*" for further information relating to financial performance.

**Revenue**

The Airport Authority generates revenues from the following main sources:

- Airport Charges — Representing charges in connection with the landing and parking of aircraft and usage of passenger terminal building and related facilities and services at HKIA. According to the Ordinance, the Airport Authority has to submit any scheme of airport charges or amendments through the Director-General of Civil Aviation to the Chief Executive in Council for approval. The Airport Authority reduced landing and parking charges by 15 per cent. for all aircraft effective 1 January 2000. On 14 June 2016, the Government approved the Airport Authority's proposal in the revised Scheme of Airport Charges to restore the landing and parking charges to approximately pre-2000 level. The new Scheme of Airport Charges has been gazetted on 17 June 2016 and came into force on 1 September 2016. Under the revised Scheme of Airport Charges, the increase in the parking charge has been implemented, while the increase in the landing charge has started to be implemented in phases and will be spread over three consecutive years beginning from 1 September 2016.

- Security Charges — Revenue in respect of aviation security services provided to passengers.

- Aviation Security Services — Revenue from the provision of security services to airlines, franchisees and licensees.

- Airside Support Services Franchises — Licence fees and other charges payable to the Airport Authority by franchisees for providing airside support services, including air cargo handling, aircraft maintenance, aviation fuel service systems, aircraft catering, aircraft ramp handling, and ground equipment storage and maintenance.

- Retail Licenses and Advertising Revenue — Rents and fees payable to the Airport Authority by licensees in the Terminals providing retail services (primarily duty free shops and general merchandise), food and beverage outlets and advertising.

- Other Terminal Commercial Revenue — Rents and fees payable to the Airport Authority by licensees in the Terminals providing passenger services in addition to rents payable by tenants, primarily the airlines, for offices, passenger lounges, and check-in and ticketing counters.

In addition, the Airport Authority derives income from landside real estate development, consisting of airport related development comprising hotels, freight forwarding centres, car parking, petrol stations, offices and other facilities. Please also see the section "*Recent Developments*" for further information relating to revenue.

Revenue (amounting to HK$17,106 million for the year ended 31 March 2020 and HK$2,936 million for the six months ended 30 September 2020) by source was as follows:

| Source | For the six months ended 30 September 2020 | For the year ended 31 March 2020 |
|---|---|---|
| | Percentage | |
| Airport charges | 28 | 28 |
| Security charges | 0 | 9 |
| Aviation security services | 8 | 2 |
| Airside support services franchises | 27 | 15 |
| Retail licences and advertising revenue | 3 | 34 |
| Other terminal commercial revenue | 15 | 8 |
| Real estate revenue | 3 | 2 |
| Other income | 16 | 2 |
| Total | 100 | 100 |

**Operating Expenses**

The Airport Authority is responsible for operating and maintaining HKIA's airfield, terminal and landside facilities 24 hours a day, in a cost effective manner that provides users with a good level of service, safety and security. As at 31 March 2020, the Airport Authority, excluding its subsidiaries, had a staff of 2,844.

Air traffic control and meteorological services are provided by the Government at a charge to the Airport Authority.

The Government also provides a number of services, which are essential for the safe and efficient operation of HKIA, including without limitation Police, Immigration, Customs and Excise and General Fire Services. The Airport Authority has provided sites to the Government for those facilities while the Government is responsible for their fit-out, repair and operating costs. Operating expenses (amounting to HK$10,810 million for the year ended 31 March 2020 and HK$6,128 million for the six months ended 30 September 2020) by source were as follows:

| **Source** | **For the six months ended 30 September 2020** | **For the year ended 31 March 2020** |
|---|---|---|
| | **Percentage** | |
| Depreciation and amortisation | 26 | 27 |
| Staff costs and related expenses | 22 | 27 |
| Repairs and maintenance | 5 | 9 |
| Operational contracted services | 8 | 12 |
| Government services | 7 | 8 |
| Government rent and rates | 4 | 2 |
| Occupancy expenses | 2 | 3 |
| Other operating expenses | 26 | 12 |
| Total | 100 | 100 |

**Airport Construction Fee**

Airport Construction Fee ("**ACF**") is collected by Airport Authority from passengers exclusively for the purpose of meeting 3RS construction costs. The collection of ACF is on air tickets issued on or after 1 August 2016. 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.

ACF is accrued upon the enplanement of the passenger and is remitted to the Airport Authority by the airlines based on airlines' passenger counts. ACF collected by the Airport Authority, together with the interest generated thereon, is maintained in designated bank accounts and is used exclusively for paying 3RS related projects capital expenditure. During the financial year ended 31 March 2020 and the six months ended 30 September 2020, ACF received or receivable is HK$3,370 million and HK$56 million respectively. Together with the unused ACF of HK$1,685 million as at 31 March 2019 and HK$974 million as at 31 March 2020, a total of HK$4,081 million was used for payment of 3RS capital expenditure during the year ended 31 March 2020 and HK$548 million was used for the six months ended 30 September 2020. As at 31 March 2020 and 30 September 2020, unused ACF which represented the balance of ACF received and receivable that have not yet been used to fund 3RS construction costs amounted to HK$974 million and HK$482 million, respectively.

### Financing

The Airport Authority has to date relied on bank loans and the debt capital markets to meet its working capital and other funding requirements. As at the financial year ended 31 March 2020 and the six months ended 30 September 2020, the Airport Authority's total interest-bearing borrowings amounted to HK$5,215 million and HK$27,870 million, respectively. Such debt comprised medium-term to long-term notes and bonds. Please also see the section "*Recent Developments*" for further information on financing.

In June 2020, the Airport Authority signed a Hong Kong dollar term and credit facility of HK$35 billion. The facility consists of a term loan tranche and a revolving loan tranche of HK$17.5 billion each. As at 30 September 2020, there was no outstanding amount under the revolving loan tranche. The Airport Authority had uncommitted money market line facilities of HK$2,188 million.

As at 31 March 2020 and 30 September 2020, the unsecured interest-bearing borrowings of the Airport Authority were shown in the following table:

| | **As at 30 September 2020** | **As at 31 March 2020** |
|---|---|---|
| | **(in HK$ million)** | |
| Within one year . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 600 | 600 |
| After one year. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . | 27,270 | 4,615 |
| Total interest-bearing borrowings. . . . . . . . . . . . . . . . . . . . . . . | 27,870 | 5,215 |

### Financial Risk Management

The Airport Authority manages its financial risks with a variety of instruments and techniques, including natural hedges achieved by spreading its loan portfolio over different rollover and maturity dates. Financial instruments such as interest rate swaps and cross currency swaps have also been used to hedge the Airport Authority's financial risks. In accordance with approved policy by the Board, the Airport Authority has adopted measures to fix the interest rates of a portion of total borrowings in order to minimise the impact of interest rate fluctuations on earnings.

Since the latter part of 2006, the Airport Authority has been exposed to Renminbi movements mainly as a result of its investment in airports in Mainland China.

The Airport Authority is also exposed to United States dollar movements from cash and bank balances and trade and other receivables, as well as external borrowings denominated in United States dollars. External borrowings in other currencies have been exchanged to Hong Kong dollars wherever possible. The Airport Authority also uses forward exchange contracts to hedge exposure to future transactions denominated in Australian dollars. Revenue and costs of the Airport Authority are largely denominated in Hong Kong dollars.

### Credit Rating

The Airport Authority has a long-term local and foreign currency rating of "AA+" by Standard & Poor's. The outlook on the Airport Authority's corporate credit rating is "stable". This credit rating is the same as that assigned to the Government.

**Recent Developments**

The international trade dispute and social unrest in Hong Kong since 2019 reduced passenger and cargo throughput at HKIA. The outbreak of COVID-19 since December 2019 and the introduction of quarantine and travel restrictions by most major destinations and Hong Kong since March 2020 have significantly reduced the number of air passengers, air traffic movements and the revenue of the Airport Authority. As at the date of this Offering Circular, the circumstances of COVID-19 are still evolving and the outcome of this pandemic outbreak is unpredictable, and it is impracticable for the Airport Authority to estimate the potential impact of COVID-19 on its financial performance.

In response to COVID-19, in March 2020, the Government announced the suspension of all transit/transfer services at HKIA and all non-Hong Kong residents coming from overseas countries/regions by plane will be denied entry to Hong Kong. Non-Hong Kong residents coming from Mainland China, Macau and Taiwan will be denied entry to Hong Kong if they have been to any overseas countries/regions in the 14 days prior to arrival in Hong Kong. The effective period of the entry suspension have been extended since March 2020 and is still in effect as at the date of this Offering Circular, except for gradual relaxation of measures relating to transit/transfer services in HKIA since June 2020. The operations of passenger services at HKIA has substantially scaled down in response to the Government's anti-epidemic measures and the operations of most shops and restaurants in HKIA's terminal buildings have been suspended since March 2020. In addition, the Airport Authority extended the rental relief for retail and catering tenants announced in June 2020, which was initially scheduled to end in October 2020, for a further two months to the end of December 2020. Most of the shops and restaurants in the terminal have suspended business and their rental was waived. For those shops and restaurants remaining open to provide essential services to passengers, their base rent was waived.

Since early 2020, the Airport Authority has worked closely with the Government and business partners to ensure the safety of passengers, staff and airport users and fully supported and facilitated all health and quarantine measures imposed by the Government, including providing dedicated areas in Terminal 1 to process passengers and assisting in the implementation of various port health measures. In addition to facilitating the health and quarantine measures imposed by the Government, the Airport Authority has extended temperature checks to all departing, arriving and transit passengers. Thermal cameras have been set up in all entry points in Terminal 1 and cleaning and disinfection activities have been enhanced in HKIA.

Furthermore, the Airport Authority has also introduced various relief measures to help the airport community. These relief measures include the purchase of air tickets from Hong Kong-based carriers to be used as giveaways to global visitors and Hong Kong residents in its future business recovery programme and providing rental concessions to its tenants. In April 2020, the Airport Authority announced its provision of HK$2 billion relief measures to airlines and aviation support services operators and provided an option for aviation support services operators at HKIA to sell their ground services equipment to the Airport Authority. The Airport Authority also extended the waiver and reduction of various fees for the aviation industry which initially ended in October 2020 for another two months until end of December 2020, which included a full waiver of parking and airbridge fees for idle aircraft, reduction of passenger aircraft landing charges, fees related to ramp handling, maintenance and airside vehicles, rental reduction for terminal tenants covering lounges and offices, fee waivers for terminal licencees including commercial counters and cross-border transport operators, and concessions on franchise fees for aviation support services such as into-plane fuelling. Full waivers on fixed charges for inflight catering services and fees in relation to aircraft maintenance charges effective from June, would continue until end of December 2020.

Since July 2020, some workers at the HKIA have tested positive for COVID-19. The Airport Authority and its relevant business partners have conducted cleaning and disinfection in the affected areas.

While taking appropriate measures to control expenditure during the outbreak of COVID-19, the Airport Authority continues to invest for long-term development purposes, for example, the 3RS Project and the upgrade of existing facilities. Furthermore, the Airport Authority is developing a 5G network which has been launched in phases since 2020.

Since 30 September 2020, the Airport Authority has issued a total of HK$2,930 million Hong Kong dollar notes under its Medium Term Note Programme.

On 25 November 2020, the Chief Executive announced the following key measures by the Government in the 2020 policy address in relation to consolidating and enhancing Hong Kong's status as an international aviation hub:

**(1)** ***3RS development***

The Outline Development Plan explicitly mentions Hong Kong's status as an international aviation hub. The Airport Authority will commission the third runway in 2022 and the entire 3RS Project in 2024 as planned.

**(2)** ***Hong Kong-Zhuhai airport co-operation***

The commissioning of the HZMB provides an opportunity for further co-operation between HKIA and the Zhuhai airport (the "**Zhuhai Airport**"). The Central Government supports the Government's recommendations on consolidating and enhancing Hong Kong's status as an international aviation hub, which include allowing the Airport Authority to inject equity in the Zhuhai Airport on the basis of market principles for achieving greater synergy between the two airports. The Civil Aviation Administration of the PRC has also agreed to commence preparation for the provision of cross-boundary commercial helicopter services between Guangdong and Hong Kong.

**(3)** ***Airport City***

The Government has accepted several proposals put forward by the Airport Authority:

(a) to develop automated car parks on the HKBCF Island of the Hong Kong-Zhuhai-Macao Bridge (the "**HZMB**") where self-drive visitors from Guangdong and Macau driving their cars via the HZMB and fly out from the HKIA or visit Hong Kong can park their cars there. "Land-to-air" transfer passengers, after parking their private cars in the automated car parks, may proceed to the boarding gates directly through the ITT located within the restricted area of the HKIA without the need to go through Hong Kong's immigration clearance;

(b) to take forward the project connecting the SKYCITY and the HKBCF Island by constructing a bridge system (the "**Airport City Link**") which applies the autonomous transportation system to strengthen the overall transportation network and capacity, thereby connecting the SKYCITY, the HZMB Hong Kong Port and the HKIA as one. The Airport Authority also plans to extend the autonomous transportation system to Tung Chung town centre and optimise the roads along the eastern coasts of the Airport island so as to provide a comprehensive and environmentally friendly transport link connecting Tung Chung town centre, the Airport island, and the HKBCF Island;

(c) to construct the Hong Kong International Aviation Academy campus and student dormitories on the HKBCF Island; and

(d) to reserve part of the land parcels on the HKBCF Island for the development of air cargo logistics and related supporting facilities for the airport community.

## EXCHANGE RATES

The HK dollar is freely convertible into the U.S. dollar. Since 1983, the HK dollar has been linked to the U.S. dollar. Under existing Hong Kong law, there are no foreign exchange controls or other laws, decrees or regulations that affect the remittance of payments to U.S. residents. The Basic Law of the Hong Kong Special Administrative Region of the PRC, which came into effect on 1 July 1997, provides that no foreign exchange control policies may be applied in Hong Kong. Although the market exchange rate of the HK dollar against the U.S. dollar was and continues to be determined by forces of supply and demand in the foreign exchange markets, between 1983 and May 2005 Hong Kong maintained a fixed rate system which sets the rate of exchange at HK$7.80 per U.S. dollar (the "**Linked Exchange Rate System**"). However, in May 2005, the Hong Kong Monetary Authority broadened the 22-year trading band from the original rate of HK$7.80 per U.S. dollar to a new range varying between HK$7.75 and HK$7.85 per U.S. dollar. The Government has indicated its intention to maintain the Linked Exchange Rate System. The Government has also stated that it has no intention of imposing exchange controls and that the HK dollar will remain freely convertible into other currencies, including the U.S. dollar. However, no assurance can be given that the Government will maintain the trading band at HK$7.75 to HK$7.85 per U.S. dollar or at all. As a result of the Linked Exchange Rate System, exchange rates between the HK dollar and other currencies are influenced by the value of the U.S. dollar.

The following tables sets forth, for the periods indicated, certain information concerning the exchange rates between HK dollars and U.S. dollars. The exchange rates reflect the exchange rates as set forth in the H.10 statistical release of the Federal Reserve Board.

| | Exchange Rate | | | |
|---|---|---|---|---|
| **Period** | **Period End** | **Average**[(1)] | **High** | **Low** |
| | (HK$ per U.S.$1.00) | | | |
| 2014 | 7.7531 | 7.7554 | 7.7669 | 7.7495 |
| 2015 | 7.7507 | 7.7519 | 7.7686 | 7.7495 |
| 2016 | 7.7534 | 7.7618 | 7.8270 | 7.7505 |
| 2017 | 7.8128 | 7.7950 | 7.8267 | 7.7540 |
| 2018 | 7.8305 | 7.8376 | 7.8499 | 7.8043 |
| 2019 | 7.7894 | 7.8335 | 7.8499 | 7.7850 |
| 2020 | | | | |
| May | 7.7513 | 7.7519 | 7.7561 | 7.7500 |
| June | 7.7501 | 7.7501 | 7.7514 | 7.7498 |
| July | 7.7500 | 7.7509 | 7.7538 | 7.7499 |
| August | 7.7501 | 7.7502 | 7.7506 | 7.7498 |
| September | 7.7500 | 7.7500 | 7.7504 | 7.7499 |
| October | 7.7548 | 7.7503 | 7.7548 | 7.7498 |
| November (through 20 November) | 7.7525 | 7.7529 | 7.7552 | 7.7505 |

*Note:*

(1) Determined by averaging the rates on the last business day of each month during the relevant year, except for monthly average rates, which are determined by averaging the daily rates during the respective months.

## TAXATION

*The following is a general description of certain tax considerations relating to the Securities. It is based on law and relevant interpretations thereof in effect as at the date of this Offering Circular, all of which are subject to change, and does not constitute legal or taxation advice. It does not purport to be a complete analysis of all tax considerations relating to the Securities. Prospective holders of Securities who are in any doubt as to their tax position or who may be subject to tax in any jurisdiction are advised to consult their own professional advisers.*

### Hong Kong

***Withholding tax***

No withholding tax is payable in Hong Kong in respect of payments of principal or distributions on the Securities or in respect of any capital gains arising from the sale of the Securities.

***Profits tax***

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Distribution on the Securities may be deemed to be profits arising in or derived from Hong Kong from a trade, professional or business carried on in Hong Kong in the following circumstances:

(i) distribution on the Securities is derived from Hong Kong and is received by or accrues to a company carrying on a trade, profession or business in Hong Kong;

(ii) distribution on the Securities is derived from Hong Kong and is received by or accrues to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business;

(iii) distribution on the Securities is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of the laws of Hong Kong (the "**IRO**")) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(iv) distribution on the Securities is received by or accrues to a corporation, other than a financial institution, and arises through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Securities will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of Securities will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Securities will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Securities are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

***Stamp duty***

No stamp duty is payable on the issue or transfer of the Securities.

## SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, UBS AG Hong Kong Branch, Merrill Lynch (Asia Pacific) Limited, Bank of China (Hong Kong) Limited, BOCI Asia Limited and Mizuho Securities Asia Limited as the Joint Lead Managers dated 1 December 2020 (the "**Subscription Agreement**") pursuant to which, and subject to certain conditions contained in the Subscription Agreement, the Issuer has agreed to sell to the Joint Lead Managers, and the Joint Lead Managers have agreed to severally, but not jointly, subscribe and pay for, or procure subscribers to subscribe and pay for, the aggregate principal amount of each series of Securities set forth opposite its name below.

| **Joint Lead Manager** | **Principal amount of the Series A Securities to be subscribed** | **Principal amount of the Series B Securities to be subscribed** |
|---|---|---|
| The Hongkong and Shanghai Banking Corporation Limited | U.S.$125,000,000 | U.S.$125,000,000 |
| Standard Chartered Bank | U.S.$125,000,000 | U.S.$125,000,000 |
| UBS AG Hong Kong Branch | U.S.$125,000,000 | U.S.$125,000,000 |
| Merrill Lynch (Asia Pacific) Limited | U.S.$125,000,000 | U.S.$125,000,000 |
| Bank of China (Hong Kong) Limited | U.S.$62,500,000 | U.S.$62,500,000 |
| BOCI Asia Limited | U.S.$62,500,000 | U.S.$62,500,000 |
| Mizuho Securities Asia Limited | U.S.$125,000,000 | U.S.$125,000,000 |
| **Total** | U.S.$750,000,000 | U.S.$750,000,000 |

The Subscription Agreement provides that the Issuer will indemnify the Joint Lead Managers and any of their respective affiliates, or any of their respective officers, directors, employees or agents, or any such affiliates or any person by whom any of them is controlled (where the words "affiliate" and "controlled" have the meaning given to them by the Securities Act and the regulations thereunder) against certain liabilities in connection with the offer and sale of the Securities. The Subscription Agreement provides that the obligations of the Joint Lead Managers are subject to certain conditions precedent and entitles the Joint Lead Managers to terminate it in certain circumstances prior to payment of the gross subscription moneys for the Securities being made to the Issuer.

In connection with the issue of the Securities, the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) may, to the extent permitted by applicable laws and directives, over-allot Securities or effect transactions with a view to supporting the price of the Securities at a level higher than that which might otherwise prevail, but in so doing, the Stabilisation Manager shall act as principal and not as agent of the Issuer. However, there is no assurance that the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the Securities is made in accordance with all applicable laws and regulations and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Securities. Any loss resulting from over-allotment and stabilisation will be borne, and any profit arising therefrom shall be beneficially retained, by the Stabilisation Managers in the manner agreed by them.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). The Joint Lead Managers and their respective affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Issuer for which they have received, or will receive, fees and expenses.

In connection with the offering of the Securities, the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer, may act as investors and place orders, receive allocations and trade the Securities for their own account and such orders, allocations or trading of the Securities may be material. Such entities may hold or sell such Securities or purchase further Securities for their own account in the secondary market or deal in any other securities of the Issuer, and therefore, they may offer or sell the Securities or other securities otherwise than in connection with the offering of the Securities. Accordingly, references herein to the offering of the Securities should be read as including any offering of the Securities to the Joint Lead Managers and/or their respective affiliates, or affiliates of the Issuer as investors for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any applicable legal or regulatory requirements. If such transactions occur, the trading price and liquidity of the Securities may be impacted.

Furthermore, it is possible that a significant proportion of the Securities may be initially allocated to, and subsequently held by, a limited number of investors. If this is the case, the trading price and liquidity of trading in the Securities may be constrained. The Issuer and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Securities amongst individual investors, otherwise than in accordance with any applicable legal or regulatory requirements.

In the ordinary course of their various business activities, the Joint Lead Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer, including the Securities and could adversely affect the trading price and liquidity of the Securities. The Joint Lead Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Securities or other financial instruments of the Issuer, and may recommend to their clients that they acquire long and/or short positions in the Securities or other financial instruments of the Issuer.

***General***

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Securities is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised. No action has been or will be taken in any jurisdiction by the Issuer or the Joint Lead Managers that would permit a public offering of the Securities, or possession or distribution of this Offering Circular or any other offering or publicity material relating to the Securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that such offering be made by a licensed broker or dealer and the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, such offering shall be deemed to be made by the Joint Lead Managers or such affiliate on behalf of the Issuer in such jurisdiction.

**United States**

The Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Manager has represented, warranted and agreed that, except as permitted by the Subscription Agreement, it will not offer or sell the Securities (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, within the United States or to, or for the account or benefit of, U.S. persons, and it will have sent to each dealer to which it sells Securities during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Securities within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S.

The Securities are being offered and sold outside of the United States to non-U.S. persons in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Securities, an offer or sale of Securities within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

**Prohibition of Sales to EEA and UK Retail Investors**

Each Joint Lead Manager has represented, warranted and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Securities to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision, the expression "retail investor" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(b) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II.

**United Kingdom**

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Securities in, from or otherwise involving the United Kingdom.

**Hong Kong**

Each Joint Lead Manager has represented, warranted and agreed that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document or otherwise, any Securities other than:

    (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of the laws of Hong Kong (the "**SFO**") and any rules made under the SFO; or

(ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of the laws of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong, any elsewhere, any advertisement, invitation or document relating to the Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Securities which are or are intended to be disposed of only to "professional investors" as defined in the SFO and any rules made under the SFO.

**Singapore**

Each Joint Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Securities or caused the Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Securities or cause the Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Securities, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**")) pursuant to Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

**Singapore SFA Product Classification:** In connection with Section 309B of the SFA and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "**CMP Regulations 2018**"), the Issuer has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Securities are 'prescribed capital markets products' (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

**Japan**

The Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**"). Accordingly, each Joint Lead Manager has represented, warranted and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Securities in Japan or to, or for the benefit of, any resident of Japan (which terms as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and other relevant laws, regulations and ministerial guidelines of Japan.

**The Netherlands**

Each Joint Lead Manager has represented, warranted and agreed that the Securities (or any interest therein) are not and may not, directly or indirectly, be offered, sold, pledged, delivered or transferred in the Netherlands, on their issue date or at any time thereafter, and neither the Offering Circular nor any other document in relation to any offering of the Securities (or any interest therein) may be distributed or circulated in the Netherlands, other than to qualified investors as defined in Regulation (EU) 2017/1129, provided that these parties acquire the Securities for their own account or that of another qualified investor. However, the Securities may be offered free of any restrictions in the Netherlands provided that each such Securities has a minimum denomination in excess of EUR100,000 (or the equivalent thereof in non-Euro currency) and subject to compliance with the relevant requirements under Regulation (EU) No 1286/2014.

**The People's Republic of China**

Each Joint Lead Manager has represented, warranted and agreed that the Securities are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

**Canada**

The Securities may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45–106 *Prospectus Exemptions* or subsection 73.3(1) of the *Securities Act* (Ontario), and are permitted clients, as defined in National Instrument 31–103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the Securities must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Offering Circular (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

## GENERAL INFORMATION

1. **Clearing Systems:** The Securities have been accepted for clearance through Euroclear and Clearstream for the Series A Securities under Common Code number 226405518 and the International Securities Identification Number ("**ISIN**") XS2264055182 and for the Series B Securities under Common Code number 226405470 and the ISIN XS2264054706.

2. **Listing of Securities:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, each series of Securities by way of debt issues to Professional Investors only. It is expected that dealing in, and listing of, each series of Securities on the Hong Kong Stock Exchange will commence on or around 9 December 2020.

3. **Authorisations:** The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of and performance of its obligations under each series of Securities. The issue of each series of Securities was authorised by resolutions of the directors of the Issuer dated 2 November 2020.

4. **No Material Adverse Change:** Except as disclosed in this Offering Circular, there has been no material adverse change in the financial or trading position or prospects of the Issuer and the Group since 30 September 2020.

5. **Litigation:** Neither the Issuer nor any of the subsidiaries of the Issuer is involved in any litigation or arbitration proceedings that the Issuer believes are material in the context of the Securities nor is the Issuer aware that any such proceedings are pending or threatened.

6. **Available Documents:** A copy of the Issuer's annual report for the year ended 31 March 2020, a copy of the Issuer's 2020/2021 interim financial report, and copies of the Agency Agreement and the Deed of Covenant will be available for inspection by the Holders of the relevant series of Securities from the Issue Date, at the specified office of the Paying Agent during normal business hours (being between 9:00 am to 3:00 pm), so long as any of the each series of Securities is outstanding upon prior written request and satisfactory proof of holding.

7. **Auditor:** The consolidated financial statements of the Issuer for the year ended 31 March 2020 have been audited by KPMG, Certified Public Accountants, Hong Kong. The consolidated interim financial statements of the Issuer for the six months ended 30 September 2020 have been reviewed but have not been audited by KPMG, Certified Public Accountants, Hong Kong.

8. **Legal Entity Identifier:** The Legal Entity Identifier of the Issuer is 254900748HGC4RBR4O84.

## INDEX TO FINANCIAL STATEMENTS



*Note:* The audited consolidated financial statements as at and for the year ended 31 March 2020 and the unaudited consolidated financial statements for the six months ended 30 September 2020 set out herein have been reproduced from the Airport Authority's published annual reports for the year ended 31 March 2020 and published interim financial report for the six months ended 30 September 2020 respectively and page references are to pages set forth in such reports respectively.

# INDEPENDENT AUDITOR'S REPORT

To the Airport Authority
(Incorporated in Hong Kong under the Airport Authority Ordinance)

## OPINION

We have audited the consolidated financial statements of the Airport Authority ("the Authority") and its subsidiaries (together "the group") set out on pages 99 to 166, which comprise the consolidated statement of financial position as at 31 March 2020, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 March 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Airport Authority Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (CONTINUED)

**Recognition of revenue from airport and security charges, airside support services franchises, retail licences and advertising**

*Refer to note 29(t) to the consolidated financial statements for the relevant accounting policies*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| Revenue from airport and security charges, airside support services franchises, retail licences and advertising accounted for approximately 86% of the Authority's total revenue for the year ended 31 March 2020.<br><br>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.<br><br>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.<br><br>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.<br><br>We identified the recognition of revenue from airport and security charges and franchise and licence operations as a key audit matter because of its significance to the consolidated financial statements and because the determination of airport and security charges involves complex information technology systems. | Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following:<br><br>• 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;<br><br>• 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;<br><br>• 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<br><br>• 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**

*Refer to note 27(b)(ii) to the consolidated financial statements and notes 29(g)(vi) and 29(s) for the relevant accounting policies*

| The Key Audit Matter | How the matter was addressed in our audit |
|---|---|
| The Authority undertakes a number of capital works projects at Hong Kong International Airport. These projects may take several years to complete and the contractual arrangements can be complex.<br><br>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.<br><br>We identified assessing project provisions for capital works projects as a key audit matter because the assessment of project claims and the determination of project provisions involves the exercise of significant management judgement and estimation which can be inherently uncertain. | Our audit procedures to assess project provisions for capital works projects included the following:<br><br>• assessing the design and implementation of management's key internal controls over the assessment of project claims;<br><br>• 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;<br><br>• 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;<br><br>• performing a retrospective review, on a sample basis, of capital works projects completed or claims finalised during the current year by comparing the actual settlement of costs during the current year, including project claims, with estimates made as at 31 March 2019 to assess the reliability of management's assessment process and evaluating significant variances identified; and<br><br>• in respect of projects which were undergoing dispute resolution procedures, holding discussions with management and the Authority's internal legal counsel to assess the Authority's legal obligations and financial exposure in connection with these claims. |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Wai Shun, Wilson.

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

25 May 2020

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

Note:

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

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

| *$ million* | **2020** | 2019 (Note) |
|---|---|---|
| **Profit for the year** | **5,898** | 8,402 |
| **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 | **(49)** | (40) |
| Add: deferred tax | **8** | 7 |
| | **(41)** | (33) |
| – a subsidiary in the People's Republic of China ("the PRC") | **(2)** | (4) |
| – a joint venture in the PRC | **48** | (65) |
| | **5** | (102) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC | **(341)** | (339) |
| Cash flow hedge: net movement in the hedging reserve | **(22)** | – |
| Cash flow hedge: net movement in the cost of hedging reserve | **171** | (56) |
| | **(192)** | (395) |
| **Other comprehensive income for the year** | **(187)** | (497) |
| **Total comprehensive income for the year** | **5,711** | 7,905 |
| **Attributable to:** | | |
| Equity shareholder of the Authority | **5,703** | 7,864 |
| Non-controlling interests | **8** | 41 |
| **Total comprehensive income for the year** | **5,711** | 7,905 |

Note:

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

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020 (Expressed in Hong Kong dollars)

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

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

| **The Hon Jack So Chak-kwong** | **Mr Fred Lam** | **Mr Thomas Chau Chiu-leung** |
|---|---|---|
| *Chairman* | *Chief Executive Officer* | *Financial Controller* |

Note:

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

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

| | | Attributable to the equity shareholder of the Authority | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *$ million* | Note | Share capital | Exchange reserve | Capital reserve | Hedging reserve | Cost of hedging reserve | Retained profits (Note) | Total | Non-controlling interests | Total equity |
| **At 1 April 2018** | | 30,648 | 712 | 1,025 | – | – | 39,816 | 72,201 | 368 | 72,569 |
| **Changes in equity for the year:** | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 8,339 | 8,339 | 63 | 8,402 |
| Other comprehensive income | | – | (319) | – | – | (56) | (100) | (475) | (22) | (497) |
| Total comprehensive income | | – | (319) | – | – | (56) | 8,239 | 7,864 | 41 | 7,905 |
| Transfer from retained profits to capital reserve | 21(c)(ii) | – | – | 15 | – | – | (15) | – | – | – |
| **At 31 March 2019 and 1 April 2019** | | 30,648 | 393 | 1,040 | – | (56) | 48,040 | 80,065 | 409 | 80,474 |
| **Changes in equity for the year:** | | | | | | | | | | |
| Profit for the year | | – | – | – | – | – | 5,866 | 5,866 | 32 | 5,898 |
| Other comprehensive income | | – | (318) | – | (22) | 171 | 6 | (163) | (24) | (187) |
| Total comprehensive income | | – | (318) | – | (22) | 171 | 5,872 | 5,703 | 8 | 5,711 |
| Transfer from retained profits to capital reserve | 21(c)(ii) | – | – | 22 | – | – | (22) | – | – | – |
| **At 31 March 2020** | | 30,648 | 75 | 1,062 | (22) | 115 | 53,890 | 85,768 | 417 | 86,185 |

Note:

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

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

# CONSOLIDATED CASH FLOW STATEMENT

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

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

# CONSOLIDATED CASH FLOW STATEMENT

| *$ million* | Note | 2020 | 2019 (Note) |
|---|---|---|---|
| **Financing activities** | | | |
| Interest paid on notes | 15(b) | **(189)** | (54) |
| Interest element of lease rentals paid | 15(b) | **(1)** | – |
| Other borrowing costs and interest expense paid | 15(b) | **(31)** | (25) |
| Capital element of lease rentals paid | 15(b) | **(13)** | – |
| Airport construction fee received | 15(b) | **3,661** | 3,816 |
| Receipts from issue of notes | 15(b) | **–** | 3,918 |
| Repayment of note | 15(b) | **(100)** | – |
| Net interest income received on interest rate swaps | 15(b) | **14** | 30 |
| **Net cash generated from financing activities** | | **3,341** | 7,685 |
| **Net increase in cash and cash equivalents** | | **1,271** | 4,149 |
| **Cash and cash equivalents at beginning of year** | | **4,937** | 810 |
| Effect of foreign exchange rate changes | | **(20)** | (22) |
| **Cash and cash equivalents at end of year** | 15(a) | **6,188** | 4,937 |

Note:

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

The notes on pages 105 to 166 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 29.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the group and the Authority. Note 29(a) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these consolidated financial statements. The group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 30).

### (b) Basis of preparation of the consolidated financial statements

The consolidated financial statements comprise the financial statements of the group as well as the group's interests in an associate and joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for certain financial instruments which are adjusted for or stated at their fair values as explained in the accounting policies set out in notes 29(e), (f) and (n).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### (b) Basis of preparation of the consolidated financial statements (continued)

The preparation of consolidated financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 27.

## 3. OPERATING PROFIT BEFORE INTEREST AND FINANCE COSTS

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

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

## 4. STAFF COSTS AND RELATED EXPENSES

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

## 5. FINANCE COSTS

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. TAXATION

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

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

The provisions for Hong Kong Profits Tax for both years are calculated at 8.25% of the estimated assessable profits for the year up to $2 million and 16.5% on any part of the estimated assessable profits for the year over $2 million.

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

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

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

## 6. TAXATION (CONTINUED)

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

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

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

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

| *$ million*<br>**Deferred tax arising from:** | **Depreciation allowances in excess of the related depreciation and other expenses** | **Deferred income, defined benefit retirement plan liability and others** | **Undistributed profits of a PRC joint venture** | **Total** |
|---|---|---|---|---|
| At 1 April 2018 | 4,648 | (76) | 29 | 4,601 |
| Charged/(credited) to profit or loss | 380 | (73) | 9 | 316 |
| Credited to other comprehensive income | – | (7) | – | (7) |
| At 31 March 2019 | 5,028 | (156) | 38 | 4,910 |
| At 1 April 2019 | 5,028 | (156) | 38 | 4,910 |
| Charged/(credited) to profit or loss | 199 | (61) | 8 | 146 |
| Credited to other comprehensive income | – | (8) | – | (8) |
| **At 31 March 2020** | 5,227 | (225) | 46 | 5,048 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. TAXATION (CONTINUED)

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

The group has not recognised deferred tax assets in respect of subsidiaries' cumulative tax losses and other temporary differences of $66 million (2019: $59 million) and $5 million (2019: $6 million) respectively as it is not probable that sufficient future taxable profits against which the cumulative tax losses and other temporary differences can be utilised. Tax losses relating to subsidiaries in Hong Kong do not expire under the current tax legislation.

## 7. EMOLUMENTS OF THE MEMBERS OF THE BOARD AND EXECUTIVE DIRECTORS

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

**Basic compensation**

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

**Performance-related compensation**

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

**Retirement benefits**

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

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

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

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

| **2020**<br>*$'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] | – | – | – | – | – |
| Stuart Thomson Gulliver (appointed in June 2019) | 92 | – | – | – | 92 |
| Steven Ho Chun-yin | 110 | – | – | – | 110 |
| Franklin Lam Fan-keung | 110 | – | – | – | 110 |
| Lo Wai-kwok (appointed in June 2019) | 92 | – | – | – | 92 |
| Peter To | 110 | – | – | – | 110 |
| Carlson Tong | 110 | – | – | – | 110 |
| Adrian Wong Koon-man | 110 | – | – | – | 110 |
| Billy Wong Wing-hoo | 110 | – | – | – | 110 |
| Thomas Jefferson Wu (appointed in June 2019) | 92 | – | – | – | 92 |
| Frankie Yick Chi-ming | 110 | – | – | – | 110 |
| Allan Zeman | 110 | – | – | – | 110 |
| Secretary for Financial Services and the Treasury[2] | 110 | – | – | – | 110 |
| Secretary for Transport and Housing[2] | 110 | – | – | – | 110 |
| Director-General of Civil Aviation[2] | 110 | – | – | – | 110 |
| Linda Chan Ching-fan (resigned in Dec 2019) | 78 | – | – | – | 78 |
| Anita Fung Yuen-mei (retired in May 2019) | 18 | – | – | – | 18 |
| Jeffrey Lam Kin-fung (retired in May 2019) | 18 | – | – | – | 18 |
| Lee Shing-see (retired in May 2019) | 18 | – | – | – | 18 |
| **Executive Member** | | | | | |
| Fred Lam (Chief Executive Officer) | – | 6,689 | 3,290 | 890 | 10,869 |
| | 1,618 | 6,689 | 3,290 | 890 | 12,487 |

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)

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

| 2019 *$'000* | Board Member's fee | Basic compensation | Performance-related compensation | Retirement benefits | Total |
|---|---|---|---|---|---|
| **Members of the Board** | | | | | |
| **Non-executive Members** | | | | | |
| Jack So Chak-kwong[1] | – | – | – | – | – |
| Linda Chan Ching-fan (appointed in June 2018) | 92 | – | – | – | 92 |
| Anita Fung Yuen-mei | 110 | – | – | – | 110 |
| Steven Ho Chun-yin | 110 | – | – | – | 110 |
| Franklin Lam Fan-keung | 110 | – | – | – | 110 |
| Jeffrey Lam Kin-fung | 110 | – | – | – | 110 |
| Lee Shing-see | 110 | – | – | – | 110 |
| Peter To | 110 | – | – | – | 110 |
| Carlson Tong | 110 | – | – | – | 110 |
| Adrian Wong Koon-man (appointed in June 2018) | 92 | – | – | – | 92 |
| Billy Wong Wing-hoo | 110 | – | – | – | 110 |
| Frankie Yick Chi-ming | 110 | – | – | – | 110 |
| Allan Zeman | 110 | – | – | – | 110 |
| Secretary for Financial Services and the Treasury[2] | 110 | – | – | – | 110 |
| Secretary for Transport and Housing[2] | 110 | – | – | – | 110 |
| Director-General of Civil Aviation[2] | 110 | – | – | – | 110 |
| Andrew Fung Hau-chung (retired in May 2018) | 18 | – | – | – | 18 |
| **Executive Member** | | | | | |
| Fred Lam (Chief Executive Officer) | – | 6,500 | 3,197 | 865 | 10,562 |
| | 1,632 | 6,500 | 3,197 | 865 | 12,194 |

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

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

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

### (b) Emoluments of Executive Directors

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

| *$'000* | **2020** | 2019 |
|---|---|---|
| Basic compensation | **26,786** | 27,745 |
| Performance-related compensation | **9,945** | 11,253 |
| Retirement benefits | **3,065** | 3,161 |
| | **39,796** | 42,159 |

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

| | **Number of individuals** | |
|---|---|---|
| *$* | **2020** | 2019 |
| 1,000,001 – 1,500,000 | **1** | – |
| 1,500,001 – 2,000,000 | **1** | – |
| 2,500,001 – 3,000,000 | **–** | 1 |
| 4,000,001 – 4,500,000 | **3** | 1 |
| 5,000,001 – 5,500,000 | **1** | 3 |
| 5,500,001 – 6,000,000 | **1** | 1 |
| 6,000,001 – 6,500,000 | **1** | 1 |
| 6,500,001 – 7,000,000 | **1** | 1 |
| | **9** | 8 |

During the year, the five individuals with the highest emoluments comprise the Chief Executive Officer and four Executive Directors (2019: five comprise the Chief Executive Officer and four Executive Directors), whose emoluments are disclosed under note 7(a) and above, respectively.

## 8. SEGMENTAL INFORMATION

### Services from which reportable segments derive their revenue

Information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of performance is focused on the group as a whole, as all of the group's activities are considered to be primarily dependent on the airport traffic and are highly integrated and interdependent on each other. Resources are allocated based on what is beneficial for the group in enhancing the airport experience as a whole rather than any specific department. Performance assessment is based on the results of the group as a whole with operating parameters set out for each department. Consequently, management considers there to be only one operating segment under the requirements of HKFRS 8, "*Operating segments*", and believes that this presentation provides more relevant information.

Reconciliation of segmental information to the information presented in the consolidated financial statements has not been presented, as the reconciling items net of consolidation adjustments are considered to be immaterial to the group.

Information provided to management in respect of the group's revenues, expenses, assets and liabilities is materially similar to that reported in these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 8. SEGMENTAL INFORMATION (CONTINUED)

### Revenue from major services

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

### Disaggregation of revenue

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

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

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

### Geographical information

No geographical information is shown as the revenue and operating profit of the group is substantially derived from activities in Hong Kong, other than its investments in certain subsidiaries and interests in joint ventures in the PRC, details of which are disclosed under notes 11 and 13 to the consolidated financial statements respectively.

### Information about major customers

The group's customer base is diversified and includes one customer (2019: one customer) with whom transactions have exceeded 10% of the group's revenue.

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

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

## (a) Reconciliation of carrying amount

| | Other property, plant and equipment | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| *$ million* | **Airfields** | **Terminal complexes & ground transportation centre** | **Access, utilities, other buildings & support facilities** | **Systems, installations, plant & equipment** | **Furniture, fixtures & equipment** | **Right-of-use assets** | **Construction in progress** | **Sub-total** | **Investment property** | **Interest in leasehold land** | **Total** |
| **Cost** | | | | | | | | | | | |
| At 1 April 2018 | 12,955 | 30,046 | 16,679 | 12,134 | 2,209 | – | 14,811 | 88,834 | 154 | 11,309 | 100,297 |
| Exchange adjustments | – | (8) | – | (8) | (4) | – | (6) | (26) | – | – | (26) |
| Additions | – | 1 | 3 | 395 | 272 | – | 19,713 | 20,384 | – | – | 20,384 |
| Reclassifications | 1,247 | 251 | 206 | 143 | 98 | – | (1,953) | (8) | 8 | – | – |
| Disposals | (94) | (44) | (353) | (222) | (70) | – | – | (783) | – | – | (783) |
| At 31 March 2019 | 14,108 | 30,246 | 16,535 | 12,442 | 2,505 | – | 32,565 | 108,401 | 162 | 11,309 | 119,872 |
| Effect of adoption of HKFRS 16 (Note) | – | – | – | – | – | 37 | – | 37 | – | – | 37 |
| At 1 April 2019 | 14,108 | 30,246 | 16,535 | 12,442 | 2,505 | 37 | 32,565 | 108,438 | 162 | 11,309 | 119,909 |
| Exchange adjustments | – | (9) | – | (11) | (7) | – | (4) | (31) | – | – | (31) |
| Additions | 15 | 42 | – | 335 | 367 | – | 16,442 | 17,201 | – | – | 17,201 |
| Reclassifications | 545 | 448 | 267 | 3,515 | 60 | – | (4,819) | 16 | (16) | – | – |
| Disposals | (92) | (13) | (9) | (516) | (49) | – | – | (679) | – | – | (679) |
| **At 31 March 2020** | 14,576 | 30,714 | 16,793 | 15,765 | 2,876 | 37 | 44,184 | 124,945 | 146 | 11,309 | 136,400 |
| **Accumulated depreciation, amortisation and impairment** | | | | | | | | | | | |
| At 1 April 2018 | 4,584 | 13,163 | 7,704 | 6,882 | 1,687 | – | – | 34,020 | 71 | 4,552 | 38,643 |
| Exchange adjustments | – | (2) | – | (3) | (1) | – | – | (6) | – | – | (6) |
| Charge for the year | 437 | 1,107 | 557 | 600 | 161 | – | – | 2,862 | 6 | 229 | 3,097 |
| Reclassifications | – | – | (3) | – | – | – | – | (3) | 3 | – | – |
| Written back on disposals | (92) | (39) | (353) | (219) | (70) | – | – | (773) | – | – | (773) |
| At 31 March 2019 | 4,929 | 14,229 | 7,905 | 7,260 | 1,777 | – | – | 36,100 | 80 | 4,781 | 40,961 |
| At 1 April 2019 | 4,929 | 14,229 | 7,905 | 7,260 | 1,777 | – | – | 36,100 | 80 | 4,781 | 40,961 |
| Exchange adjustments | – | (3) | – | (3) | (2) | – | – | (8) | – | – | (8) |
| Charge for the year | 464 | 892 | 516 | 572 | 197 | 14 | – | 2,655 | 5 | 229 | 2,889 |
| Reclassifications | – | – | 6 | 1 | 1 | – | – | 8 | (8) | – | – |
| Written back on disposals | (89) | (8) | (8) | (512) | (49) | – | – | (666) | – | – | (666) |
| **At 31 March 2020** | 5,304 | 15,110 | 8,419 | 7,318 | 1,924 | 14 | – | 38,089 | 77 | 5,010 | 43,176 |
| **Net book value** | | | | | | | | | | | |
| **At 31 March 2020** | 9,272 | 15,604 | 8,374 | 8,447 | 952 | 23 | 44,184 | 86,856 | 69 | 6,299 | 93,224 |
| At 31 March 2019 | 9,179 | 16,017 | 8,630 | 5,182 | 728 | – | 32,565 | 72,301 | 82 | 6,528 | 78,911 |

Note:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Under the Private Treaty Land Grant issued by the Government for the period from 1 December 1995 to 30 June 2047 ("the Land Grant"), the Government has granted to the Authority up to the year 2047 the legal rights to the entire airport site at Chek Lap Kok together with the rights necessary to develop such site for the purposes of its business. In September 2016, the Government approved that the North Commercial District ("NCD") area be carved out from the original land lease and put under a new lease with a 50-year term granted to the Authority up to the year 2066 to support NCD development. The net land formation cost of $11,309 million (2019: $11,309 million) and the land premium of $4,000 have been classified as interest in leasehold land. The costs of interest in leasehold land do not include future land premium, if any.

(c) Fair value measurement of investment property

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

The group engaged an independent firm of surveyors, Knight Frank Petty Limited ("the valuer"), who have among their staff Fellow members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, to value its investment property for disclosure purposes. The valuer has considered the assignment restrictions on the investment property in the valuation. The fair value of the group's investment property as at 31 March 2020 calculated by reference to net rental income allowing for reversionary income potential amounted to $541 million (2019: $639 million), which falls under Level 3 of the fair value hierarchy (note 22(e)).

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

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

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

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

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

| *$ million* | **2020** | 2019 |
|---|---|---|
| Within one year | **3,726** | 4,391 |
| After one but within five years | **11,092** | 12,304 |
| After five years | **12,058** | 14,629 |
| | **26,876** | 31,324 |

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

During the year, $9,595 million (2019: $10,913 million) was recognised as income in profit or loss in respect of the operating leases and franchise/sub-lease agreements, which included contingent rentals of $6,463 million (2019: $7,912 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) (continued)

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

The cost less accumulated depreciation of other property, plant and equipment leased to third parties under non-cancellable operating leases for the group as at 31 March 2020 was $2,116 million (2019: $2,225 million) with annual depreciation amounting to $130 million (2019: $169 million).

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

## 10. INTANGIBLE ASSETS

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

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

## 11. INVESTMENTS IN SUBSIDIARIES

| | The Authority | |
|---|---|---|
| *$ million* | **2020** | 2019 |
| Unlisted shares, at cost | **253** | 253 |

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

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

* A sino-foreign equity joint venture

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) HKZAM

The following table lists out the information relating to HKZAM, the only subsidiary of the group which has material non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

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

(b) AWEM

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

## 12. INTEREST IN AN ASSOCIATE

| *$ million* | **2020** | 2019 |
|---|---|---|
| Share of net assets | **136** | 150 |
| Amount due from an associate | **225** | 214 |
| Preference shares premium | **228** | 288 |
| | **589** | 652 |

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

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

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

The group is entitled to the equity return from HKIEC and the return arising from the preference shares in form of preferred dividend. The settlement of the preferred dividend is subject to the availability of the distributable profits or cash surplus of HKIEC. The share of results from HKIEC for the year is $16 million (2019: $nil). During the year, preferred dividend of $47 million was received in cash (2019: $nil).

## 13. INTERESTS IN JOINT VENTURES

| *$ million* | **2020** | 2019 |
|---|---|---|
| Share of net assets | **4,159** | 4,118 |
| Goodwill | **210** | 224 |
| | **4,369** | 4,342 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. INTERESTS IN JOINT VENTURES (CONTINUED)

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

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

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

(a) HXIA

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

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

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

## 13. INTERESTS IN JOINT VENTURES (CONTINUED)

(a) HXIA (continued)

| *$ million* | 2020 | 2019 |
|---|---|---|
| Income | 4,319 | 4,236 |
| Expenses | (3,328) | (3,250) |
| Profit before taxation | 991 | 986 |
| Income tax | (226) | (244) |
| Profit after taxation | 765 | 742 |
| Other comprehensive income | 137 | (185) |

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

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

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

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

| *$ million* | 2020 | 2019 |
|---|---|---|
| At 1 April | 979 | 966 |
| Transfer from retained profits | 19 | 13 |
| At 31 March | 998 | 979 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. INTERESTS IN JOINT VENTURES (CONTINUED)

(a) HXIA (continued)

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

| *$ million* | 2020 | 2019 |
|---|---|---|
| Contracted for | 11,087 | 2,515 |
| Authorised but not contracted for | 15,310 | 30,634 |
| | 26,397 | 33,149 |

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

(b) SHKAM

SHKAM, an unlisted sino-foreign equity joint venture, manages and operates the terminals at HIA, under a management contract signed for 20 years commencing from December 2009 in return for a management fee to be paid by Shanghai Airport (Group) Co. Ltd. Hongqiao International Airport Company.

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

| *$ million* | 2020 | 2019 |
|---|---|---|
| **Gross amounts of SHKAM** | | |
| Current assets | 126 | 131 |
| Current liabilities | (9) | (9) |
| Net assets/equity | 117 | 122 |

| *$ million* | 2020 | 2019 |
|---|---|---|
| Income | 12 | 13 |
| Expenses | (9) | (11) |
| Net profit and other comprehensive income | 3 | 2 |

| *$ million* | 2020 | 2019 |
|---|---|---|
| **Reconciled to the group's interest in SHKAM** | | |
| Gross amounts of SHKAM's net assets | 117 | 122 |
| Group's effective interest | 49% | 49% |
| Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements | 57 | 60 |

## 14. TRADE AND OTHER RECEIVABLES

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

As at 31 March 2020, all of the trade and other receivables under current assets are expected to be recovered or recognised as an expense within one year except for $16 million (2019: $17 million), which is expected to be recovered after more than one year.

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

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

Trade debtors are generally due within 14 to 30 days from the date of billing. The group's credit policy is set out in note 22(a). The group holds cash deposits and bank guarantees of $2,370 million (2019: $3,280 million) as collateral over the trade debtors.

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the group considers that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (note 29(l)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

| *$ million* | 2020 | 2019 |
|---|---|---|
| At 1 April | 515 | 75 |
| Impairment losses recognised in other operating expenses | 413 | 440 |
| Uncollectible amounts written off | (1) | – |
| At 31 March | 927 | 515 |

### (c) Credit risk arising from trade debtors

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

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

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

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

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

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

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

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

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

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

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

Note:

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

| *$ million* | Interest-bearing borrowings | Interest and other borrowing costs payables and deferred finance charges | Lease liabilities | Airport construction fee receivable | Net derivative financial liabilities | Total |
|---|---|---|---|---|---|---|
| | (Note 17) | | (Note 16) | | (Note 22(e)) | |
| At 1 April 2018 | 1,415 | (19) | – | (1,038) | 20 | 378 |
| **Changes from financing cash flows:** | | | | | | |
| Interest paid on notes | – | (54) | – | – | – | (54) |
| Other borrowing costs and interest expense paid | – | (25) | – | – | – | (25) |
| Airport construction fee received | – | – | – | 3,816 | – | 3,816 |
| Receipts from issue of notes | 3,918 | – | – | – | – | 3,918 |
| Net interest income received on interest rate swaps | – | 30 | – | – | – | 30 |
| Total changes from financing cash flows | 3,918 | (49) | – | 3,816 | – | 7,685 |
| **Non-cash changes:** | | | | | | |
| Interest on notes (note 5) | – | 69 | – | – | – | 69 |
| Other borrowing costs (note 5) | – | 21 | – | – | – | 21 |
| Other interest expense (note 5) | – | 7 | – | – | – | 7 |
| Airport construction fee | – | – | – | (4,029) | – | (4,029) |
| Other non-cash movements | 11 | (31) | – | – | 42 | 22 |
| Total other changes | 11 | 66 | – | (4,029) | 42 | (3,910) |
| At 31 March 2019 | 5,344 | (2) | – | (1,251) | 62 | 4,153 |

## 16. TRADE AND OTHER PAYABLES

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

## 16. TRADE AND OTHER PAYABLES (CONTINUED)

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

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

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

## 17. INTEREST-BEARING BORROWINGS

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

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

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

As at 31 March 2020, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 2.25% to 4.85% (2019: 2.25% to 4.85%). The fixed rate notes are unsecured and repayable in full upon maturity.

(b) In December 2015, the Authority signed a five-year unsecured Hong Kong dollar revolving credit facility of $5,000 million. Interest is payable on amounts drawn down at a rate related to Hong Kong Interbank Offered Rate (“HIBOR”). As at 31 March 2020, there was no outstanding amount under this facility (2019: $nil).

(c) The Authority has uncommitted money market line facilities of $2,188 million (2019: $2,192 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2020, there was no outstanding amount under these facilities (2019: $nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. INTEREST-BEARING BORROWINGS (CONTINUED)

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

| *$ million* | 2020 | 2019 |
|---|---|---|
| Within one year or on demand | 600 | 95 |
| After one year but within two years | – | 600 |
| After two years but within five years | 556 | 542 |
| After five years | 4,059 | 4,107 |
| | 4,615 | 5,249 |
| | 5,215 | 5,344 |

(e) None of the interest-bearing borrowings is subject to any financial covenants imposed by the lenders. Interest-bearing borrowings are carried at amortised cost. The carrying amount of those Hong Kong dollar fixed rate notes hedged for fair value risks are adjusted for the change in fair value attributable to the risk being hedged. Further details of the group's management of liquidity risk are set out in note 22(b).

## 18. UNUSED AIRPORT CONSTRUCTION FEE ("ACF")

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

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

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

## 19. DEFERRED INCOME

Deferred income mainly represents amounts received in respect of sub-leases of interest in leasehold land of the airport site and subsidy from the Government. During the year, the Authority has received up-front payment of $800 million for the SKYCITY (2019: $1,560 million for the SKYCITY and premium logistics centre developments) and subsidy from the Government of $670 million for the Authority's additional relief measures for providing more support and financial aids to the aviation industry. They are accounted for in accordance with the accounting policies detailed in notes 29(t)(vi) and 29(t)(x) respectively.

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

## 20. EMPLOYEE RETIREMENT BENEFITS

### (a) Defined benefit retirement plans

The Authority makes contributions to a defined benefit retirement plan ("the Hong Kong plan") registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), which covers 11% (2019: 13%) of the Authority's employees. The plan is administered by independent trustees with its assets held separately from those of the Authority. The trustees are required by the Trust Deed to act in the best interests of the plan participants and are responsible for setting the investment policies of the plan. Under the plan, an employee is entitled to a lump sum payment upon termination of membership, which is calculated with reference to the final scheme salary and the eligible number of years of service that the employee had.

The plan is funded by contributions from the Authority in accordance with an independent actuary's recommendation based on periodic actuarial valuations (at least every three years).

Based on an independent actuarial valuation of the plan as at 31 March 2020 according to HKAS 19, "*Employee benefits*" prepared by qualified staff of Mercer (Hong Kong) Limited (2019: Mercer (Hong Kong) Limited) using the "projected unit credit" actuarial method and a set of actuarial assumptions, the Authority's obligation under the plan is 70% (2019: 79%) covered by the plan assets held by the trustees. The signing actuaries are either Fellow members of the Society of Actuaries of the United States of America or an equivalent in another actuarial body.

HKZAM established a defined benefit retirement plan ("the HKZAM plan") for its eligible employees, which is unfunded and covers 29% (2019: 35%) of HKZAM's employees. Under the plan, a retired employee is entitled to a monthly fixed payment over a period upon retirement. An independent actuarial valuation of this plan according to HKAS 19, "*Employee benefits*", as at 31 March 2020 was also prepared by qualified staff of Mercer (Hong Kong) Limited using the projected unit credit method.

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

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

| *$ million* | **2020** | 2019 |
|---|---|---|
| **The Hong Kong plan** | | |
| Present value of funded obligations | **931** | 958 |
| Fair value of plan assets | **(652)** | (754) |
| | **279** | 204 |
| **The HKZAM plan** | | |
| Present value of unfunded obligations | **57** | 54 |
| Net defined benefit retirement obligations | **336** | 258 |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (a) Defined benefit retirement plans (continued)

(ii) Plan assets consist of the following:

| *$ million* | 2020 | 2019 |
|---|---|---|
| Equity securities | 298 | 364 |
| Corporate bonds | 317 | 329 |
| Cash | 37 | 61 |
| | 652 | 754 |

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

An asset-liability modelling study is performed periodically to analyse the strategic investment policies of the Hong Kong plan. Based on the latest review, the strategic asset allocation of the Hong Kong plan is 50% in equities and 50% in bonds and cash.

The HKZAM plan is unfunded and without any plan assets.

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

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

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

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

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

## 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (a) Defined benefit retirement plans (continued)

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

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

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

| *$ million* | 2020 | 2019 |
|---|---|---|
| Staff costs and related expenses | 54 | 51 |

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

| | 2020 | 2019 |
|---|---|---|
| **The Hong Kong plan** | | |
| Discount rate | 0.7% | 1.5% |
| Future long term salary increases | 3.5% | 4.5% |
| **The HKZAM plan** | | |
| Discount rate | 2.6% | 3.1% |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (a) Defined benefit retirement plans (continued)

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

The below analysis shows how the defined benefit obligations as at 31 March 2020 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

| *$ million* | Increase by 0.5% | Decrease by 0.5% |
|---|---|---|
| **The Hong Kong plan** | | |
| Discount rate | (27) | 29 |
| Future long term salary increases | 33 | (31) |
| **The HKZAM plan** | | |
| Discount rate | (3) | 3 |

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

### (b) Defined contribution retirement plans

(i) The group also operates Mandatory Provident Fund Schemes ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance") for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Ordinance, the employer and its employees are each required to make minimum statutory contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of $30,000. However, under the MPF schemes, contributions by the group range from 5% to 15% of employees' relevant income and have been charged to profit or loss. While statutory contributions to the plan vest immediately, voluntary contributions to the plan vest over a period of two to ten years.

(ii) As stipulated by the regulations of the PRC, the subsidiary in the PRC participates in a basic defined contribution pension plan administered by the Municipal Government under which it is governed. The group has no other material obligation for payment of basic retirement benefits beyond the annual contributions which are calculated at a rate based on the salaries, bonuses and certain allowances of its employees.

# 21. CAPITAL AND RESERVES

## (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity on page 102.

## (b) Share capital

| | The Authority | |
|---|---|---|
| *$ million* | **2020** | 2019 |
| Authorised, issued, allotted and fully paid: 306,480 ordinary shares of $100,000 each (2019: 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 entities outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 29(u).

(ii) Capital reserve

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

(iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow dealt with in accordance with the accounting policy adopted for cash flow hedges set out in note 29(f).

(iv) Cost of hedging reserve

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

(v) Distributability of reserves

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. CAPITAL AND RESERVES (CONTINUED)

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

#### (vi) Capital management

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

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

The group monitors its capital structure on the basis of a total debt/capital ratio. The total debt/capital ratios of the group at the end of the reporting periods are as follows:

| *$ million* | Note | **2020** | 2019 |
|---|---|---|---|
| Total debt[1] | 17 | **5,215** | 5,344 |
| Total equity | | **86,185** | 80,474 |
| Total capital[2] | | **91,400** | 85,818 |
| Total debt/capital ratio | | **6%** | 6% |

[1] Total debt represents interest-bearing borrowings.

[2] Total capital represents total debt plus total equity.

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

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

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

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

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to trade and other receivables, over-the-counter derivative financial instruments entered into for hedging purposes and cash and bank balances. Management has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

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

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

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, the group has a certain concentration of credit risk as 13% (2019: 15%) and 55% (2019: 43%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

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

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

### (b) Liquidity risk

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (b) Liquidity risk (continued)

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

| | | Contractual undiscounted cash flow | | | | |
|---|---|---|---|---|---|---|
| *$ million* | **Carrying amount at 31 March** | **Total** | **Within 1 year or on demand** | **More than 1 year but less than 2 years** | **More than 2 years but less than 5 years** | **More than 5 years** |
| **2020** | | | | | | |
| Interest-bearing borrowings | 5,215 | 6,735 | 784 | 155 | 982 | 4,814 |
| Trade and other payables | 13,240 | 13,330 | 11,909 | 83 | 1,200 | 138 |
| Interest rate swaps (net settled) | (6) | 7 | 3 | 3 | 1 | – |
| Cross currency swaps (net settled) | (71) | (133) | (15) | (15) | (44) | (59) |
| Forward exchange contracts | 23 | 160 | – | – | 29 | 131 |
| | 18,401 | 20,099 | 12,681 | 226 | 2,168 | 5,024 |
| 2019 | | | | | | |
| Interest-bearing borrowings | 5,344 | 7,041 | 290 | 786 | 1,000 | 4,965 |
| Trade and other payables | 10,474 | 10,536 | 9,377 | 93 | 960 | 106 |
| Interest rate swaps (net settled) | 8 | 3 | (1) | 2 | 2 | – |
| Cross currency swaps (net settled) | 54 | (164) | (16) | (16) | (50) | (82) |
| Forward exchange contracts | – | – | – | – | – | – |
| | 15,880 | 17,416 | 9,650 | 865 | 1,912 | 4,989 |

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

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

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. For the previous years, the group adopted a policy of ensuring that between 40% and 60% of its borrowings are effectively on a fixed rate basis in general, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. In view of increasing future external borrowings in the coming years, the group has revised the ratio of fixed rate basis borrowings to between 70% and 100% in May 2019. The group's interest rate profile as monitored by management is set out in (ii) below.

(i) Hedges of interest rate risk

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

The group classifies interest rate swaps into fair value hedges and states them at their fair values in accordance with the policy set out in note 29(f).

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

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

(ii) Interest rate profile

The following table details the interest rate profile of the group's borrowings at the end of the reporting periods, after taking into account the effect of interest rate swaps designated as fair value hedging instruments ((i) above).

| *$ million* | **2020** | 2019 |
|---|---|---|
| **Fixed rate borrowings** | | |
| Fixed rate notes | **4,659** | 4,707 |
| **Variable rate borrowings** | | |
| Fixed rate notes[1] | **556** | 637 |
| Total borrowings | **5,215** | 5,344 |
| Fixed rate borrowings as a percentage of total borrowings | **89%** | 88% |

1 Swapped to floating rate

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(iii) Sensitivity analysis

As at 31 March 2020, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after taxation and retained profits by approximately $2 million (2019: $2 million). The effect of interest-bearing bank deposits is expected to be not significant and is not taken into account in the analysis.

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

### (d) Foreign currency risk

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

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

As at 31 March 2020, the group is exposed to US dollar currency risk in respect of the US dollar bond issued of US$500 million (2019: US$500 million) and cash and bank balances of US$350 million (2019: US$344 million).

Although the US dollar currency risk is substantially mitigated by the peg between Hong Kong dollar and US dollar, the group further reduces this risk by the use of cross currency swaps to hedge all payment of the US dollar bond into Hong Kong dollar. The group designates these cross currency swaps as cash flow hedges. Details of the notional amounts, maturity period and fair values of cross currency swaps entered into by the group at the end of the reporting periods are set out in note 22(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

The group uses forward exchange contracts to manage its Australian dollar currency risk until the settlement date of foreign currency payables. The group designates those forward exchange contracts as hedging instruments in cash flow hedges and separate the forward and spot element of a forward exchange contract and designates the change in value of the spot element as hedging instrument. Correspondingly, the hedged item is measured based on the forward exchange rate.

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

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

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

(i) the cross currency swaps and the US dollar bond; and

(ii) the forward exchange contracts and the highly probable forecast transactions, based on their currency amounts and the timing of their respective cash flows.

The main sources of ineffectiveness in these hedging relationships are due to the different day count and day adjustments in each of the deals.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

As at 31 March 2020, the group's borrowings denominated in US dollar were swapped into Hong Kong dollar by entering the cross currency swaps. As the Hong Kong dollar is pegged to US dollar at a range between 7.75 to 7.85, management considers that the foreign currency risk associated with the unhedged US dollar exposure is also not material to the group. Accordingly, no sensitivity analysis is considered necessary.

As at 31 March 2020, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB142 million (2019: RMB134 million). If Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables held constant, the group's profit after taxation and retained earnings would have been $7 million (2019: $7 million) lower/higher. The analysis is performed on the same basis for 2018/19.

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

### (e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

*Fair value hierarchy*

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

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

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

As at 31 March 2019 and 2020, the group's derivative financial instruments are carried at fair value. These instruments fall under Level 2 of the fair value hierarchy described above.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: $nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

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

*Fair value hierarchy (continued)*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

*Fair value hierarchy (continued)*

Derivative financial instruments qualifying as cash flow hedges as at 31 March 2020 have a maturity of 2.3 to 9.4 years (2019: 10 years) from the end of the reporting period.

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

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

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

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

The carrying amounts of the group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2020 and 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

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

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

## 23. OUTSTANDING COMMITMENTS

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

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

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

## 24. MATERIAL RELATED PARTY TRANSACTIONS

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

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

During the year, other than disclosed elsewhere in the consolidated financial statements, the Authority has had the following material related party transactions:

(a) The Authority has entered into agreements with the Government under which the Government provides maintenance services in respect of sewage pumping system, waste water treatment plant and airfield ground lighting at the airport. The amounts incurred for these services for the year amounted to $76 million (2019: $68 million). As at 31 March 2020, the amounts due to the Government with respect to the above services amounted to $50 million (2019: $51 million).

(b) The Authority has also entered into service agreements with the Government under which the Government is to provide aviation meteorological and air traffic control services and aircraft rescue and fire fighting services at the airport. The amounts incurred for the year amounted to $847 million (2019: $819 million) and the amounts due to the Government as at 31 March 2020 with respect to the above services amounted to $0.4 million (2019: $0.4 million).

(c) The Authority and HKIA Staff Services Limited ("HKIASS"), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 24(b)) at nil consideration.

(d) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC"), in which the Government is the majority shareholder, under which MTRC provides maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2, SkyPier and Midfield Concourse. The amounts incurred by the Authority for these services for the year amounted to $129 million (2019: $109 million). As at 31 March 2020, the amounts due to MTRC with respect to the maintenance services amounted to $129 million (2019: $89 million).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 24. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

(e) The Authority has leased certain areas at the airport to Hongkong International Theme Parks Ltd. ("HKITP"), in which the Government is the majority shareholder. The aggregate amounts received for the year amounted to $64 million (2019: $70 million). As at 31 March 2020, there was no amount due from HKITP (2019: $nil).

(f) AVSECO, a subsidiary of the Authority, has provided security-related services to various Government departments, agencies and Government controlled entities other than the Authority. The aggregate amounts received for the year amounted to $52 million (2019: $41 million). As at 31 March 2020, the aggregate amounts due from these departments, agencies or entities amounted to $26 million (2019: $5 million).

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

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

## 25. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

(a) In April 2020, the Authority announced to provide additional $2 billion relief measures to airlines and aviation support services operators due to worsening impact of coronavirus disease ("COVID-19"). The Authority will offer to purchase around 500,000 air tickets in advance from four home-based airlines and provide an option for aviation support services operators at Hong Kong International Airport to sell their ground services equipment to the Authority.

(b) The outbreak of COVID-19 and, since March, the introduction of quarantine and travel restrictions by most major destinations, including Hong Kong, has significantly reduced the number of air passengers, air traffic movements and the revenue of the Authority. The Authority has been closely monitoring the impact of these developments on its operations and has put in place the necessary measures. While the circumstances of the COVID-19 outbreak are evolving rapidly, the unpredictable outcome of this outbreak makes it impractical for the Authority to estimate the likely financial impact.

(c) In April and May 2020, the Authority issued under the Medium Term Note programme a total of $2,949 million fixed rate notes with maturity of 7 and 10 years and annual coupon rates ranging between 1.935% and 2.33%. The fixed rate notes are unsecured and repayable in full upon maturity.

## 26. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

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

## 27. ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

(i) Interest in leasehold land

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

(ii) Sub-lease of leasehold land

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

(iii) Interests in joint ventures

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### (b) Major sources of estimation uncertainty

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

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

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

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

(ii) Project provisions

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

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

The Authority has a donation box fund-raising programme under Public Subscription Permit (Permit No.: 2019/048/1) from Social Welfare Department to support the services of certain charitable organisations. After deducting handling fees charged by a service provider not related to the Authority, the net donations received during the period from 1 April 2019 to 31 March 2020 amounted to $0.43 million (2019: $0.51 million) and were equally allocated among The Community Chest of Hong Kong, Changing Young Lives Foundation, Friends of the Earth (HK) Charity Limited, Green Power Limited, Hong Kong Sheng Kung Hui Tung Chung Integrated Services, OIWA Limited and The Neighbourhood Advice-Action Council Tung Chung Integrated Services Centre.

# 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## (a) Changes in accounting policies

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

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

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

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

### (1) HKFRS 16, "*Leases*"

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (note 29(c)).

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

### (c) Associate and joint ventures

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

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

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the group's share of the investee's net assets and any impairment losses relating to the investment (notes 29(d) and (j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (d) Goodwill

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

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

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

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

### (e) Derivative financial instruments

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

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

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

#### (i) Fair value hedges

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

#### (ii) Cash flow hedges

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

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

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

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

(ii) Cash flow hedges (continued)

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

(iii) Derivatives that do not qualify for hedge accounting

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

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

(i) The Authority was responsible for all of the costs of the formation of the airport site. The land formation cost and the land premium have been classified as interest in leasehold land. Interest in leasehold land is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 29(j)).

(ii) Investment property

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

Investment property is stated in the consolidated statement of financial position at cost net of accumulated depreciation and impairment losses (note 29(j)). Investment property is depreciated over its estimated useful life or the unexpired term of the lease, whichever is shorter. Rental income from investment property is accounted for as described in note 29(t).

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

(vi) Construction in progress

Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 29(n)) capitalised during the period of construction or installation and testing. Capitalised costs also included provision amount assessed by the group that may be required for the settlement of contractual claims from contractors. Capitalisation of these costs ceases and the asset concerned is transferred to investment property, interest in leasehold land, other property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the policy detailed in note 29(h).

(vii) Leased assets

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

(1) As a Lessee

(A) Policy applicable from 1 April 2019

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

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

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

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

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

(vii) Leased assets (continued)

(1) As a Lessee (continued)

(B) Policy applicable prior to 1 April 2019

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

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

(2) As a Lessor

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

When the group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and are depreciated in accordance with the group's depreciation policies set out in note 29(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 29(t) below.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (h) Depreciation

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

The estimated useful lives are:

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

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

### (i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 29(j)).

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

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

### (j) Impairment of assets

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

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

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

(ii) Interim financial reporting and impairment

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

### (k) Stores and spares

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (l) Trade and other receivables

Trade and other receivables are recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

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

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

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

*Measurement of ECLs*

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

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

*Significant increases in credit risk*

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

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

*Write-off policy*

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

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

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

### (m) ACF

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

### (n) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the unhedged portion of interest-bearing borrowings is stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest rate method. Subsequent to initial recognition, the carrying amount of the portion of interest-bearing borrowings, which is the subject of a fair value hedge, is remeasured and the change in fair value attributable to the risk being hedged is recognised in profit or loss to offset the effect of the gain or loss on the related hedging instrument.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (q) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, performance annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Authority and its subsidiaries in Hong Kong are required to make contributions to Mandatory Provident Funds under the MPF Ordinance. Such contributions are recognised as an expense in profit or loss as incurred.

The employees of the subsidiary in the PRC participate in a defined contribution retirement plan managed by the local governmental authorities whereby the subsidiary is required to contribute to the plan at fixed rates of the employees' salary costs.

(ii) Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations. If there is no sufficiently deep market in such bonds, the market yield of government bonds is used.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

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

### (r) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (r) Income tax (continued)

(iii) (continued)

Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

### (s) Provisions and contingent liabilities

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

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

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

### (t) Revenue recognition

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

(i) Airport charges, representing landing charges, parking charges and terminal building charges, are recognised when the airport facilities are utilised.

(ii) Security charges in respect of aviation security services to passengers are recognised when the airport facilities are utilised.

(iii) Aviation security services revenue from the provision of security services to airlines, franchisees and licensees is recognised when the services are rendered.

(iv) Franchise revenue from awarded airside support services, retail revenue from awarded retail licences, advertising revenue from awarded advertising licences, other terminal commercial revenue from leasing of check-in counters and airline lounges and office rental and other service revenue and recoveries, are recognised on an accruals basis in accordance with the related agreements.

(v) The consideration received in respect of the sale of a portion of the income from the aviation fuel system is accounted for as income over the period to which the future income relates and on the basis of the estimated future quantum of income for each period after allowing for the implicit financing cost therein. The amount received not yet recognised as income is included in the consolidated statement of financial position as deferred income.

(vi) Real estate revenue arising from sub-leases of interest in leasehold land and office buildings is recognised in profit or loss on a straight-line basis over the periods of the operating leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned. Amounts received in advance in respect of sub-leases of interest in leasehold land granted are accounted for as deferred income and are recognised in profit or loss on a straight-line basis over the periods of the respective sub-leases.

(vii) Income arising from finance leases of interest in leasehold land is recognised at the inception of such leases, when substantially all the risks and rewards incidental to ownership are transferred to the lessees.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (t) Revenue recognition (continued)

(viii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(ix) Interest income is recognised as it accrues using the effective interest rate method.

(x) Subsidy from the Government is recognised in profit or loss on a systematic basis over the periods in which the Authority recognises the relevant relief measures as expenses.

### (u) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

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

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

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

### (v) Related parties

(i) A person, or a close member of that person's family, is related to the group if that person:

a) has control or joint control over the group;

b) has significant influence over the group; or

c) is a member of the key management personnel of the group or the group's parent.

(ii) An entity is related to the group if any of the following conditions applies:

a) The entity and the group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

c) Both entities are joint ventures of the same third party.

d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

e) The entity is a post-employment benefit plan for the benefit of employees of either the group or an entity related to the group.

f) The entity is controlled or jointly controlled by a person identified in note (v)(i).

g) A person identified in note (v)(i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

h) The entity, or any member of a group of which it is a part, provides key management personnel services to the group or to the group's parent.

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

### (w) Segment reporting

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 17, "*Insurance contracts*" | 1 January 2020 |
| Amendments to HKFRS 3, "*Definition of a business*" | 1 January 2020 |
| Amendments to HKAS 1 and HKAS 8, "*Definition of material*" | 1 January 2020 |

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

## Auditor's independent review report

## Review report to the Members of the Board of the Airport Authority
## (Incorporated in Hong Kong under the Airport Authority Ordinance)

### Introduction

We have reviewed the interim financial report set out on pages 4 to 25 which comprises the consolidated statement of financial position of the Airport Authority (the "Authority") as of 30 September 2020 and the related consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the six months period then ended and explanatory notes. The Authority has prepared the interim financial report to be in compliance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34, "*Interim financial reporting*" issued by the Hong Kong Institute of Certified Public Accountants. The Members of the Board are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2020 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, "*Interim financial reporting*".

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

2 November 2020

**AIRPORT AUTHORITY**
**Consolidated statement of profit or loss**
**For the six months ended 30 September 2020 - Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | Note | **Six months ended 30 September 2020** | 2019 |
|---|---|---|---|
| Airport charges | | **813** | 2,652 |
| Security charges | | **10** | 913 |
| Aviation security services | | **232** | 170 |
| Airside support services franchises | | **803** | 1,320 |
| Retail licences and advertising revenue | | **95** | 3,449 |
| Other terminal commercial revenue | | **440** | 758 |
| Real estate revenue | | **83** | 158 |
| Other income | 16 | **460** | 93 |
| **Revenue** | | **2,936** | 9,513 |
| Staff costs and related expenses | | **(1,361)** | (1,353) |
| Repairs and maintenance | | **(314)** | (418) |
| Operational contracted services | | **(509)** | (607) |
| Government services | | **(398)** | (475) |
| Government rent and rates | | **(255)** | (93) |
| Occupancy expenses | | **(119)** | (183) |
| Other operating expenses | 4 | **(1,584)** | (746) |
| **Operating expenses before depreciation and amortisation** | | **(4,540)** | (3,875) |
| **Operating (loss)/profit before depreciation and amortisation** | | **(1,604)** | 5,638 |
| Depreciation and amortisation | | **(1,588)** | (1,458) |
| **Operating (loss)/profit before interest and finance costs** | 3(a) | **(3,192)** | 4,180 |
| Interest and finance costs: | | | |
| Finance costs | 3(b) | **(17)** | (36) |
| Interest income | | **68** | 305 |
| | | **51** | 269 |
| Share of results of an associate | | **13** | (5) |
| Share of results of joint ventures | | **(84)** | 168 |
| **(Loss)/profit before taxation** | | **(3,212)** | 4,612 |
| Income tax | 5 | **525** | (732) |
| **(Loss)/profit for the period** | | **(2,687)** | 3,880 |
| **Attributable to:** | | | |
| Equity shareholder of the Authority | | **(2,706)** | 3,841 |
| Non-controlling interests | | **19** | 39 |
| **(Loss)/profit for the period** | | **(2,687)** | 3,880 |

The notes on pages 11 to 25 form part of this interim financial report.

**AIRPORT AUTHORITY**
**Consolidated statement of profit or loss and other comprehensive income**
**For the six months ended 30 September 2020 - Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | **Six months ended 30 September 2020** | 2019 |
|---|---|---|
| **(Loss)/profit for the period** | **(2,687)** | 3,880 |
| **Other comprehensive income for the period** | | |
| Item that will not be reclassified to profit or loss: | | |
| Remeasurement of net defined benefit retirement obligations of: | | |
| - the Authority | **104** | (38) |
| Add: deferred tax | **(17)** | 6 |
| | **87** | (32) |
| - a subsidiary in the People's Republic of China (the "PRC") | **2** | 1 |
| - a joint venture in the PRC | **-** | 47 |
| | **89** | 16 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC | **217** | (327) |
| Cash flow hedge: net movement in the hedging reserve | **(72)** | - |
| Cash flow hedge: net movement in the cost of hedging reserve | **(65)** | 144 |
| | **80** | (183) |
| **Other comprehensive income for the period** | **169** | (167) |
| **Total comprehensive income for the period** | **(2,518)** | 3,713 |
| **Attributable to:** | | |
| Equity shareholder of the Authority | **(2,553)** | 3,696 |
| Non-controlling interests | **35** | 17 |
| **Total comprehensive income for the period** | **(2,518)** | 3,713 |

The notes on pages 11 to 25 form part of this interim financial report.

**AIRPORT AUTHORITY**
**Consolidated statement of financial position**
**At 30 September 2020 – Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | Note | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment property | 7 | **48** | 69 |
| Interest in leasehold land | 7 | **6,184** | 6,299 |
| Other property, plant and equipment | 7 | **97,872** | 86,856 |
| | | **104,104** | 93,224 |
| Intangible assets | 8 | **295** | 308 |
| Interest in an associate | 9 | **587** | 589 |
| Interests in joint ventures | 10 | **4,467** | 4,369 |
| Trade and other receivables | 11 | **24** | - |
| Derivative financial assets | 18(a) | **19** | 76 |
| | | **109,496** | 98,566 |
| **Current assets** | | | |
| Stores and spares | | **114** | 104 |
| Trade and other receivables | 11 | **2,711** | 3,158 |
| Tax recoverable | | **304** | 201 |
| Derivative financial assets | 18(a) | **5** | 1 |
| Cash and bank balances | 12 | **22,888** | 12,872 |
| | | **26,022** | 16,336 |
| **Current liabilities** | | | |
| Trade and other payables | 13 | **(14,782)** | (12,834) |
| Interest-bearing borrowings | 14 | **(600)** | (600) |
| Current taxation | | **(7)** | (5) |
| Unused airport construction fee | 15 | **(482)** | (974) |
| Deferred income | 16 | **(215)** | (564) |
| Derivative financial liabilities | 18(a) | **(12)** | - |
| | | **(16,098)** | (14,977) |
| **Net current assets** | | **9,924** | 1,359 |
| **Total assets less current liabilities** | | **119,420** | 99,925 |

**AIRPORT AUTHORITY**
**Consolidated statement of financial position (continued)**
**At 30 September 2020 – Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | Note | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Trade and other payables | 13 | **(1,475)** | (1,406) |
| Interest-bearing borrowings | 14 | **(27,270)** | (4,615) |
| Deferred income | 16 | **(2,185)** | (2,312) |
| Derivative financial liabilities | 18(a) | **(86)** | (23) |
| Net defined benefit retirement obligations | 17 | **(200)** | (336) |
| Deferred tax liabilities | | **(4,537)** | (5,048) |
| | | **(35,753)** | (13,740) |
| **Net assets** | | **83,667** | 86,185 |
| **Capital and reserves** | | | |
| Share capital | | **30,648** | 30,648 |
| Reserves | | **52,567** | 55,120 |
| Total equity attributable to the equity shareholder of the Authority | | **83,215** | 85,768 |
| Non-controlling interests | | **452** | 417 |
| **Total equity** | | **83,667** | 86,185 |

Approved and authorised for issue on behalf of the Members of the Board on 2 November 2020.

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

**Mr Fred Lam**
*Chief Executive Officer*

**Mr Julian Lee Pui-hang**
*Executive Director, Finance*

The notes on pages 11 to 25 form part of this interim financial report.

**AIRPORT AUTHORITY**
**Consolidated statement of changes in equity**
**For the six months ended 30 September 2020 - Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | Attributable to the equity shareholder of the Authority | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Exchange reserve | Capital reserve | Hedging reserve | Cost of hedging reserve | Retained profits | Total | Non-controlling interests | Total equity |
| **At 1 April 2019** | 30,648 | 393 | 1,040 | - | (56) | 48,040 | 80,065 | 409 | 80,474 |
| **Changes in equity for the six months ended 30 September 2019:** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | 3,841 | 3,841 | 39 | 3,880 |
| Other comprehensive income | - | (305) | - | - | 144 | 16 | (145) | (22) | (167) |
| Total comprehensive income | - | (305) | - | - | 144 | 3,857 | 3,696 | 17 | 3,713 |
| Transfer from retained profits to capital reserve | - | - | 14 | - | - | (14) | - | - | - |
| **At 30 September 2019 and 1 October 2019** | 30,648 | 88 | 1,054 | - | 88 | 51,883 | 83,761 | 426 | 84,187 |
| **Changes in equity for the six months ended 31 March 2020:** | | | | | | | | | |
| Profit for the period | - | - | - | - | - | 2,025 | 2,025 | (7) | 2,018 |
| Other comprehensive income | - | (13) | - | (22) | 27 | (10) | (18) | (2) | (20) |
| Total comprehensive income | - | (13) | - | (22) | 27 | 2,015 | 2,007 | (9) | 1,998 |
| Transfer from retained profits to capital reserve | - | - | 8 | - | - | (8) | - | - | - |
| **At 31 March 2020** | 30,648 | 75 | 1,062 | (22) | 115 | 53,890 | 85,768 | 417 | 86,185 |
| **At 1 April 2020** | **30,648** | **75** | **1,062** | **(22)** | **115** | **53,890** | **85,768** | **417** | **86,185** |
| **Changes in equity for the six months ended 30 September 2020:** | | | | | | | | | |
| (Loss)/profit for the period | **-** | **-** | **-** | **-** | **-** | **(2,706)** | **(2,706)** | **19** | **(2,687)** |
| Other comprehensive income | **-** | **202** | **-** | **(72)** | **(65)** | **88** | **153** | **16** | **169** |
| Total comprehensive income | **-** | **202** | **-** | **(72)** | **(65)** | **(2,618)** | **(2,553)** | **35** | **(2,518)** |
| Transfer from retained profits to capital reserve | **-** | **-** | **21** | **-** | **-** | **(21)** | **-** | **-** | **-** |
| **At 30 September 2020** | **30,648** | **277** | **1,083** | **(94)** | **50** | **51,251** | **83,215** | **452** | **83,667** |

The notes on pages 11 to 25 form part of this interim financial report.

**AIRPORT AUTHORITY**
**Consolidated cash flow statement**
**For the six months ended 30 September 2020 - Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | Note | **Six months ended 30 September 2020** | Six months ended 30 September 2019 |
|---|---|---|---|
| **Operating activities** | | | |
| (Loss)/profit before taxation | | **(3,212)** | 4,612 |
| Adjustments for: | | | |
| Depreciation | | **1,456** | 1,326 |
| Amortisation of interest in leasehold land | | **115** | 115 |
| Amortisation of intangible assets | | **17** | 17 |
| Interest on notes and bank loans | | **161** | 94 |
| Interest on lease liabilities | | **1** | - |
| Other borrowing costs and interest expense | | **45** | 36 |
| Borrowing costs capitalised into assets under construction | | **(187)** | (97) |
| Interest income | | **(68)** | (305) |
| Fair value gain on derivative financial instruments in fair value hedges | | **(5)** | (2) |
| Net gain on derivative financial instruments in cash flow hedges | | **(9)** | (4) |
| Net loss on underlying hedged interest-bearing borrowings in fair value hedges | | **11** | 9 |
| Share of results of an associate | | **(13)** | 5 |
| Share of results of joint ventures | | **84** | (168) |
| Impairment losses on trade and other receivables | | **106** | 400 |
| Net loss on disposal of other property, plant and equipment | | **13** | 3 |
| Amortisation of deferred income | | **(439)** | (81) |
| Expenses recognised in respect of defined benefit retirement plans | | **23** | 26 |
| **Operating (loss)/profit before changes in working capital** | | **(1,901)** | 5,986 |
| Increase in stores and spares | | **(10)** | (14) |
| Increase in trade and other receivables | | **(180)** | (240) |
| (Decrease)/increase in trade and other payables | | **(644)** | 73 |
| (Decrease)/increase in deferred income | | **(37)** | 800 |
| Decrease in net defined benefit retirement obligations | | **(54)** | (11) |
| **Cash (used in)/generated from operations** | | **(2,826)** | 6,594 |
| Hong Kong Profits Tax paid | | **(103)** | (380) |
| PRC Corporate Income Tax paid | | **(1)** | (24) |
| **Net cash (used in)/generated from operating activities** | | **(2,930)** | 6,190 |

**AIRPORT AUTHORITY**
**Consolidated cash flow statement (continued)**
**For the six months ended 30 September 2020 - Unaudited**
*(Expressed in Hong Kong dollars)*

| *$ million* | Note | **Six months ended 30 September** **2020** | 2019 |
|---|---|---|---|
| **Investing activities** | | | |
| Net placement of deposits with banks with over three months of maturity when placed | | **(6,699)** | (775) |
| Interest received | | **185** | 268 |
| Dividend received from an associate | | **15** | 47 |
| Dividend received from a joint venture | | **1** | - |
| Advance payments to contractors | | **(24)** | - |
| Payments for the purchase of other property, plant and equipment | | **(10,195)** | (8,643) |
| Receipts from disposal of other property, plant and equipment | | **2** | - |
| Payment of annual franchise fee for a PRC subsidiary | | **(27)** | (26) |
| **Net cash used in investing activities** | | **(16,742)** | (9,129) |
| **Financing activities** | | | |
| Interest paid on notes and bank loans | | **(104)** | (82) |
| Interest element of lease rentals paid | | **(1)** | - |
| Other borrowing costs and interest expense paid | | **(213)** | (15) |
| Capital element of lease rentals paid | | **(7)** | - |
| Airport construction fee received | | **540** | 1,912 |
| Drawdown of new bank loans | | **17,500** | - |
| Receipts from issue of notes | | **5,249** | - |
| Repayment of note | | **-** | (100) |
| Net interest income received on interest rate swaps | | **7** | 6 |
| **Net cash generated from financing activities** | | **22,971** | 1,721 |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,299** | (1,218) |
| **Cash and cash equivalents at beginning of period** | | **6,188** | 4,937 |
| Effect of foreign exchange rate changes | | **18** | (20) |
| **Cash and cash equivalents at end of period** | 12 | **9,505** | 3,699 |

The notes on pages 11 to 25 form part of this interim financial report.

## 1. Summary of significant accounting policies and basis of preparation

This interim financial report has been prepared so as to comply with Hong Kong Accounting Standard ("HKAS") 34, "*Interim financial reporting*" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This interim financial report also complies 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 Airport Authority ("the Authority") as the Authority's shares are not publicly traded. It was authorised for issue on 2 November 2020.

For the purposes of this interim financial report, the Authority and its subsidiaries are collectively referred to as the group.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019/20 annual consolidated financial statements, except for the accounting policy changes that are expected to be reflected in the 2020/21 annual consolidated financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2019/20 annual consolidated financial statements. The condensed consolidated financial statements and explanatory notes thereon do not include all of the information required for a full set of consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*", issued by the HKICPA. KPMG's independent review report to the Members of the Board is included on page 3.

The financial information relating to the financial year ended 31 March 2020 that is included in the interim financial report as comparative information does not constitute the Authority's statutory annual consolidated financial statements for that financial year but is derived from those consolidated financial statements. Statutory annual consolidated financial statements for the year ended 31 March 2020 are available from the Authority's office. The auditors have expressed an unqualified opinion on those consolidated financial statements in their report dated 25 May 2020.

## 2. Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the group.

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

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

## 3. (a) Operating (loss)/profit before interest and finance costs

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

| | Six months ended 30 September | |
|---|---|---|
| *$ million* | **2020** | 2019 |
| Auditors' remuneration: | | |
| - audit services | **1** | 1 |
| - other services | **-** | 1 |
| Stores and spares expensed | **29** | 40 |
| Net loss on disposal of other property, plant and equipment (note 7) | **13** | 3 |
| Impairment losses on trade and other receivables (note 11) | **106** | 400 |
| Depreciation: | | |
| - owned assets leased out under operating leases | **74** | 69 |
| - right-of-use assets | **8** | 7 |
| - other assets | **1,374** | 1,250 |
| Amortisation: | | |
| - interest in leasehold land | | |
| - leased out under operating leases | **9** | 9 |
| - others | **106** | 106 |
| - intangible assets (note 8) | **17** | 17 |
| Rentals from investment property less direct outgoings of $14 million (2019: $9 million) | **(1)** | (20) |

## 3. (b) Finance costs

| *$ million* | Six months ended 30 September **2020** | 2019 |
|---|---|---|
| Interest on bank loans | **32** | - |
| Interest on notes | **129** | 94 |
| Interest on lease liabilities | **1** | - |
| Other borrowing costs | **28** | 11 |
| Other interest expense | **17** | 25 |
| Total interest expense | **207** | 130 |
| Less: borrowing costs capitalised into assets under construction | **(187)** | (97) |
| | **20** | 33 |
| Fair value gain on derivative financial instruments in fair value hedges* | **(5)** | (2) |
| Net gain on derivative financial instruments in cash flow hedges | **(9)** | (4) |
| Net loss on underlying hedged interest-bearing borrowings in fair value hedges | **11** | 9 |
| | **17** | 36 |

* Includes net interest income of $1 million (six months ended 30 September 2019: net interest expense $1 million) in respect of interest rate swaps under fair value hedging arrangements.

## 4. Other operating expenses

Other operating expenses primarily represent the impairment losses on trade and other receivables (note 11) and the purchases of air tickets from four home-based airlines to provide liquidity to the airlines.

## 5. Taxation

**Taxation in the consolidated statement of profit or loss represents:**

| *$ million* | Six months ended 30 September **2020** | 2019 |
|---|---|---|
| Current tax - Hong Kong Profits Tax | | |
| - provision for the period | **7** | 573 |
| Current tax - PRC Corporate Income Tax | | |
| - other provision for the period | **(4)** | 22 |
| Deferred tax | | |
| - origination and reversal of temporary differences | **(528)** | 137 |
| | **(525)** | 732 |

The provisions for Hong Kong Profits Tax for both periods are calculated at 8.25% of the estimated assessable profits for the period up to $2 million and 16.5% on any part of the estimated assessable profits for the period over $2 million.

The provision for PRC Corporate Income Tax for the six months ended 30 September 2020 is calculated at 25% (six months ended 30 September 2019: 25%).

## 6. 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 interim financial report 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 the interim financial report.

### Revenue from major services

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

### Disaggregation of revenue

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

| | Six months ended 30 September | |
|---|---|---|
| *$ million* | **2020** | 2019 |
| **Revenue from contracts with customers within the scope of HKFRS 15** | | |
| Airport charges | **813** | 2,652 |
| Security charges | **10** | 913 |
| Aviation security services | **232** | 170 |
| Others | **188** | 336 |
| | **1,243** | 4,071 |
| **Revenue from other sources** | | |
| Airside support services franchises | **671** | 1,086 |
| Retail licences and advertising revenue | **95** | 3,449 |
| Other terminal commercial revenue | **440** | 758 |
| Others | **487** | 149 |
| | **1,693** | 5,442 |
| | **2,936** | 9,513 |

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

**Geographical Information**

No geographical information is shown as the revenue and operating profit of the group is substantially derived from activities in Hong Kong, other than its investments in certain subsidiaries and interests in joint ventures in the PRC. Details of its interests in joint ventures are disclosed under note 10 to the interim financial report.

**Information about major customers**

The group's customer base is diversified and includes only two customers (six months ended 30 September 2019: one customer) with whom transactions have exceeded 10% of the group's revenue.

Included in the revenue for the period are aggregate revenues of approximately $805 million which arose from these two customers (six months ended 30 September 2019: $1,856 million from one customer). This includes only revenue arising from those entities which are known to the group to be under common control of these customers.

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

During the six months ended 30 September 2020, the group acquired owned assets with a cost of $12,451 million (six months ended 30 September 2019: $10,497 million), and disposed of items of civil works and plant and machinery with a net book value of $15 million (six months ended 30 September 2019: items of civil works and plant and machinery with a net book value of $3 million), resulting in a net loss on disposal of $13 million (six months ended 30 September 2019: $3 million). The costs of interest in leasehold land do not include future land premium, if any.

## 8. Intangible assets

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| **Cost** | | |
| Balance brought forward | **540** | 561 |
| Exchange adjustments | **13** | (21) |
| Balance carried forward | **553** | 540 |
| **Accumulated amortisation** | | |
| Balance brought forward | **232** | 211 |
| Exchange adjustments | **9** | (14) |
| Charge for the period/year | **17** | 35 |
| Balance carried forward | **258** | 232 |
| **Net book value** | | |
| Balance carried forward | **295** | 308 |

Intangible assets as at 30 September 2020 represent the rights to operate and manage Zhuhai Airport and AsiaWorld-Expo which are being amortised over 20 years and 12.5 years on a straight line basis respectively.

## 9. Interest in an associate

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Share of net assets | **148** | 136 |
| Amount due from an associate | **212** | 225 |
| Preference shares premium | **227** | 228 |
| | **587** | 589 |

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

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

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

The group is entitled to the equity return from HKIEC and the return arising from the preference shares in form of preferred dividend. The settlement of the preferred dividend is subject to the availability of the distributable profits or cash surplus of HKIEC. The share of profit from HKIEC for the six months ended 30 September 2020 is $13 million (six months ended 30 September 2019: share of loss of $5 million). During the six months ended 30 September 2020, preferred dividend of $15 million was received in cash (six months ended 30 September 2019: $47 million).

## 10. Interests in joint ventures

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Share of net assets | **4,248** | 4,159 |
| Goodwill | **219** | 210 |
| | **4,467** | 4,369 |

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 | Group's effective interest | Principal activity |
|---|---|---|---|---|---|
| Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIA") | Incorporated | PRC | RMB5,686 million | 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% | 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 ended 31 December, and for the interim financial report ended 30 September to incorporate the results and net assets based on their management accounts for the six months ended 30 June. The financial information accounted for has been adjusted to comply with the Authority's accounting policies.

**(a) HXIA**

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

Summary of financial information of HXIA, adjusted for any differences in accounting policies – group's effective interest is as follows:

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

| *$ million* | **Six months ended 30 September 2020** | 2019 |
|---|---|---|
| Share of (loss)/profit after taxation | **(84)** | 168 |
| Share of other comprehensive income | **-** | 47 |
| Less: transfer to capital reserve | **(8)** | (12) |
| Share of (loss)/profit and other comprehensive income to be retained | **(92)** | 203 |
| Share of retained profits brought forward from previous periods | **1,271** | 974 |
| Share of retained profits carried forward to next period | **1,179** | 1,177 |

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

| *$ million* | Capital reserve |
|---|---|
| At 1 April 2019 | 979 |
| Transfer from retained profits | 12 |
| At 30 September 2019 and 1 October 2019 | 991 |
| Transfer from retained profits | 7 |
| At 31 March 2020 and 1 April 2020 | **998** |
| Transfer from retained profits | **8** |
| At 30 September 2020 | **1,006** |

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

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Contracted for | **10,059** | 11,087 |
| Authorised but not contracted for | **14,004** | 15,310 |
| | **24,063** | 26,397 |

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

**(b) SHKAM**

SHKAM, an unlisted sino-foreign equity joint venture, manages and operates the terminals at HIA, under a management contract signed for 20 years commencing from December 2009 in return for a management fee to be paid by Shanghai Airport (Group) Co. Ltd. Hongqiao International Airport Company.

## 11. Trade and other receivables

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Trade debtors | **3,305** | 3,556 |
| Less: loss allowance | **(1,027)** | (927) |
| | **2,278** | 2,629 |
| Other debtors | **46** | 347 |
| | **2,324** | 2,976 |
| Advance payments to contractors | **24** | - |
| Prepayments | **363** | 160 |
| Deposits and debentures | **24** | 22 |
| | **2,735** | 3,158 |
| Classified in the consolidated statement of financial position as: | | |
| Current assets | **2,711** | 3,158 |
| Non-current assets | **24** | - |
| | **2,735** | 3,158 |

As at 30 September 2020, all of the trade and other receivables under current assets are expected to be recovered or recognised as an expense within one year except for $18 million (31 March 2020: $16 million), which is expected to be recovered after more than one year.

The ageing analysis of trade debtors based on overdue days and net of loss allowance, included above is as follows:

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Amounts not yet due | **1,333** | 1,443 |
| Less than one month past due | **201** | 333 |
| One to three months past due | **56** | 279 |
| More than three months past due | **688** | 574 |
| | **2,278** | 2,629 |

Trade debtors are generally due within 14 to 30 days from the date of billing. 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. During the six months ended 30 September 2020, impairment losses on trade and other receivables of $106 million (six months ended 30 September 2019: $400 million) was recognised as expense and included in other operating expenses (note 4).

## 12. Cash and bank balances

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Deposits with banks within three months of maturity when placed | **6,557** | 4,351 |
| Cash at bank and in hand | **2,948** | 1,837 |
| Cash and cash equivalents in the consolidated cash flow statement | **9,505** | 6,188 |
| Deposits with banks with over three months of maturity when placed | **13,383** | 6,684 |
| Cash and bank balances in the consolidated statement of financial position | **22,888** | 12,872 |

As at 30 September 2020, cash and bank balances of $434 million (31 March 2020: $478 million) held by a subsidiary are subject to currency exchange restrictions in the PRC.

## 13. Trade and other payables

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Creditors and accrued charges | **13,798** | 11,515 |
| Deposits received | **1,083** | 1,342 |
| Contract retentions | **1,339** | 1,359 |
| Lease liabilities | **37** | 24 |
| | **16,257** | 14,240 |
| Classified in the consolidated statement of financial position as: | | |
| Current liabilities | **14,782** | 12,834 |
| Non-current liabilities | **1,475** | 1,406 |
| | **16,257** | 14,240 |

As at 30 September 2020, all of the trade and other payables are expected to be settled or recognised as income within one year except for $1,475 million (31 March 2020: $1,406 million), which are expected to be settled after more than one year and mainly relate to licence deposits received from retail licensees and contract retentions.

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

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Due within 30 days or on demand | **3,721** | 4,051 |
| Due after 30 days but within 60 days | **3,023** | 3,163 |
| Due after 60 days but within 90 days | **1,133** | 609 |
| Due after 90 days | **5,921** | 3,692 |
| | **13,798** | 11,515 |

## 14. Interest-bearing borrowings

All of the interest-bearing borrowings are unsecured and are not 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.

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

During the period, the Authority has issued a total of $5,249 million notes under the US$8 billion Medium Term Note programme. Out of these notes issued, $4,749 million are fixed rate notes with maturity between 5 and 10 years and annual coupon rates ranging between 1.62% and 2.33%. The remaining $500 million are floating rate note with maturity of 7 years and carrying an annual coupon rate relating to Hong Kong Interbank Offered Rate ("HIBOR"). In prior period, the Authority repaid $100 million fixed rate note in full with an annual coupon rate of 3.85%.

As at 30 September 2020, the Authority's outstanding fixed rate notes have annual coupon rates ranging from 1.62% to 4.85% (31 March 2020: 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. In July 2020, this facility was voluntarily cancelled.

**(c)** In June 2020, the Authority signed a five-year unsecured Hong Kong dollar term and revolving credit facility of $35 billion. The facility consists of a term loan tranche and a revolving loan tranche of $17.5 billion each. Interest is payable on amounts drawn down at a rate related to HIBOR. During the period, $17.5 billion was drawn down from the term loan tranche and the amount was swapped from floating rate to fixed rate through use of interest rate swaps. As at 30 September 2020, there was no outstanding amount under the revolving loan tranche.

**(d)** The Authority has uncommitted money market line facilities of $2,188 million (31 March 2020: $2,188 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 30 September 2020, there was no outstanding amount under the facilities (31 March 2020: $nil).

## 15. Unused airport construction fee ("ACF")

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| Balance brought forward | **974** | 1,685 |
| Add: ACF received or receivable for the period/year | **56** | 3,370 |
| Less: payment of three-runway system ("3RS") capital expenditure | **(548)** | (4,081) |
| Balance carried forward | **482** | 974 |

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.

## 16. Deferred income

Deferred income mainly represents amounts received in respect of sub-leases of interest in leasehold land of the airport site and subsidy from the Government.

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.

Income recognised in respect of subsidy from the Government is included in other income.

## 17. Defined benefit retirement plans

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

| *$ million* | **At 30 September 2020** | At 31 March 2020 |
|---|---|---|
| **The Hong Kong plan** | | |
| Present value of funded obligations | **923** | 931 |
| Fair value of plan assets | **(782)** | (652) |
| | **141** | 279 |
| **The Hong Kong-Zhuhai Airport Management Co., Ltd.'s plan** | | |
| Present value of unfunded obligations | **59** | 57 |
| Net defined benefit retirement obligations | **200** | 336 |

## 18. Fair value measurement of financial instruments

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

(i) Fair value hierarchy

As at 31 March 2020 and 30 September 2020, the group's derivative financial instruments are carried at fair value. These instruments fall under Level 2 of the fair value hierarchy. Under Level 2 of the fair value hierarchy, fair values are measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

During the six months ended 30 September 2020, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (six months ended 30 September 2019: $nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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)** | | | | | |
|---|---|---|---|---|---|---|
| | **30 September 2020** | | | 31 March 2020 | | |
| *$ million* | **Notional amount** | **Financial assets** | **Financial liabilities** | Notional amount | Financial assets | Financial liabilities |
| Cash flow hedges | | | | | | |
| Interest rate swaps | **$18,000** | **1** | **(97)** | Nil | - | - |
| Cross currency swaps | **US$500** | **12** | **-** | US$500 | 71 | - |
| Forward exchange contracts | **AUD29** | **1** | **(1)** | AUD29 | - | (23) |
| Fair value hedges | | | | | | |
| Interest rate swaps | **$550** | **10** | **-** | $650 | 6 | - |
| Total | | **24** | **(98)** | | 77 | (23) |
| Less: portion to be recovered/(settled) within one year | | | | | | |
| Cash flow hedges | | | | | | |
| Interest rate swaps | **$18,000** | **-** | **(12)** | Nil | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| Fair value hedges | | | | | | |
| Interest rate swaps | **$550** | **5** | **-** | $650 | 1 | - |
| | | **5** | **(12)** | | 1 | - |
| Portion to be recovered/(settled) after one year | | **19** | **(86)** | | 76 | (23) |

Derivative financial instruments qualifying as cash flow hedges as at 30 September 2020 have a maturity of 1.8 to 8.9 years (31 March 2020: 2.3 to 9.4 years) from the end of the reporting period.

Derivative financial instruments qualifying as fair value hedges as at 30 September 2020 have a maturity of 1.5 to 2 years (31 March 2020: 2 to 2.5 years) from the end of the reporting period.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

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

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

The carrying amounts of the group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2020 and 30 September 2020 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

| | | | | **Fair value measurements categorised into** | | |
|---|---|---|---|---|---|---|
| *$ million* | **Notional amount** | **Carrying amount** | **Fair value** | **Level 1** | **Level 2** | **Level 3** |
| **30 September 2020** | | | | | | |
| Fixed rate notes | **US$500 and $6,099** | **9,952** | **10,634** | **4,365** | **6,269** | **-** |
| 31 March 2020 | | | | | | |
| Fixed rate notes | US$500 and $1,350 | 5,215 | 5,661 | 4,239 | 1,422 | - |

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.

## 19. Outstanding commitments

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

| | **30 September 2020** | | | 31 March 2020 | | |
|---|---|---|---|---|---|---|
| *$ million* | **3RS** | **Others** | **Total** | 3RS | Others | Total |
| Contracted for | **38,252** | **7,482** | **45,734** | 27,944 | 6,864 | 34,808 |
| Authorised but not contracted for | **44,704** | **21,361** | **66,065** | 64,999 | 25,193 | 90,192 |
| | **82,956** | **28,843** | **111,799** | 92,943 | 32,057 | 125,000 |

The outstanding commitments of the group's joint venture, HXIA, are separately disclosed in note 10(a).

## 20. 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 this interim financial report.

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.

During the period, other than disclosed elsewhere in the interim financial report, 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 six months ended 30 September 2020 amounted to $33 million (six months ended 30 September 2019: $36 million). As at 30 September 2020, the amounts due to the Government with respect to the above services amounted to $37 million (31 March 2020: $50 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 six months ended 30 September 2020 amounted to $396 million (six months ended 30 September 2019: $474 million) and the amounts due to the Government as at 30 September 2020 with respect to the above services amounted to $0.4 million (31 March 2020: $0.4 million).

**(c)** The Authority and HKIA Staff Services Limited ("HKIASS"), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 20(b)) at nil consideration (six months ended 30 September 2019: $nil).

**(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 six months ended 30 September 2020 amounted to $13 million (six months ended 30 September 2019: $48 million). As at 30 September 2020, the amounts due to MTRC with respect to the maintenance services amounted to $78 million (31 March 2020: $129 million).

**(e)** The Authority has leased certain areas at the airport to Hongkong International Theme Parks Ltd. ("HKITP"), in which the Government is the majority shareholder. The net amounts refunded in the six months ended 30 September 2020 with respect to retail charge adjustment amounted to $10 million (aggregate amounts received for six months ended 30 September 2019: $34 million). As at 30 September 2020, the amounts due to HKITP amounted to $10 million (31 March 2020: $nil).

**(f)** Aviation Security Company Limited ("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 six months ended 30 September 2020 amounted to $116 million (six months ended 30 September 2019: $16 million). As at 30 September 2020, the aggregate amounts due from these departments, agencies or entities amounted to $35 million (31 March 2020: $26 million).

**(g)** AsiaWorld-Expo Management Limited, a subsidiary of the Authority, has entered into a management and operating agreement with HKIEC, in which the Government is the majority shareholder, to manage, promote, operate and maintain the AsiaWorld-Expo exhibition centre (note 9).

**(h)** The Authority and AVSECO have provided quarantine-related services to a Government department and various Government controlled entities. The aggregate amounts received and receivable for the six months ended 30 September 2020 amounted to $148 million (six months ended 30 September 2019: $nil). As at 30 September 2020, the aggregate amounts due from this department or these entities amounted to $80 million (31 March 2020: $nil).

## 21. Non-adjusting events after the reporting period

**(a)** In October 2020, the Authority issued under the Medium Term Note programme a $1 billion floating rate note with maturity of 7 years and carrying an annual coupon rate relating to HIBOR. The floating rate note is unsecured and repayable in full upon maturity.

**(b)** In October 2020, the Authority further agreed to issue under the Medium Term Note programme a $600 million fixed rate note with maturity of 7 years and carrying an annual coupon rate of 1.55%. The fixed rate note is unsecured and repayable in full upon maturity.

## 22. Impacts of COVID-19 pandemic

The outbreak of COVID-19, and the introduction of quarantine and travel restrictions by most major destinations, including Hong Kong, has significantly reduced the number of air passengers and air traffic movements. The effect of COVID-19 outbreak on the Authority's revenue combined with the relief measures offered by the Authority to the aviation industry community resulted in a loss for the six months ended 30 September 2020.

The Authority has been closely monitoring the impact of these developments on its operations and finances and has taken measures. In particular, the Authority has procured liquidity through its internal resources and available financial facilities to satisfy upcoming working capital requirements.

While the circumstances of the COVID-19 outbreak are still evolving, the impact of COVID-19 on the operations and financial position will be reassessed at the year end.

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