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*This announcement is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.*

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*The securities have not been, and will not be, registered under the United States Securities Act of 1993 (the “U.S. Securities Act”), or the securities laws of any state of the United States or other jurisdiction and the securities may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state or local securities law. There will be no public offering of securities in the United States.*

*This announcement and the listing document referred to herein have been published for information purposes only as required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and do not constitute an offer to sell nor a solicitation of an offer to buy any securities. Neither this announcement nor anything referred to herein (including the listing document) forms the basis for any contract or commitment whatsoever. For the avoidance of doubt, the publication of this announcement and the listing document referred to herein shall not be deemed to be an offer of securities made pursuant to a prospectus issued by or on behalf of the issuer for the purposes of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong nor shall it constitute an advertisement, invitation or document containing an invitation to the public to enter into or offer to enter into an agreement to acquire, dispose of, subscribe for or underwrite securities for the purposes of the Securities and Futures Ordinance (Cap. 571) of Hong Kong.*

*Notice to Hong Kong investors: The Issuer confirms that the Notes are intended for purchase by professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) only and have been listed on The Stock Exchange of Hong Kong Limited on that basis. Accordingly, the Issuer confirms that the Notes are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.*



## **AIRPORT AUTHORITY (the “Issuer”)**

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

**U.S.\$900,000,000 1.625 per cent. Notes due 2031 (the “2031 Notes”)  
(Stock Code: 40581)**

**and**

**U.S.\$600,000,000 2.625 per cent. Notes due 2051 (the “2051 Notes”)  
(Stock Code: 40582)  
(together, the “Notes”)**

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 memorandum dated 28 January 2021 (the “**Offering Memorandum**”) appended herein in relation to the issuance of the Notes. As disclosed in the Offering Memorandum, the Notes 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 Memorandum 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 Memorandum 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 Memorandum.

Hong Kong, 5 February 2021

*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

### THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS UNDER RULE 144A OR (2) OUTSIDE OF THE UNITED STATES.

**Important: You must read the following before continuing.** The following applies to the offering memorandum following this page (the “Offering Memorandum”), and you are therefore advised to read this carefully before reading, accessing or making any other use of this Offering Memorandum. In accessing the Offering Memorandum, 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.**

THIS OFFERING MEMORANDUM 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 Memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers (“QIBs”) (as defined in Rule 144A under the Securities Act) or (2) outside of the United States. This offering memorandum is being sent at your request and by accepting the e-mail and accessing this offering memorandum, you shall be deemed to have represented to us that you and any customers you are acting on behalf of (a) are QIBs or (b) are not located in the United States and (3) you consent to delivery of this offering memorandum by electronic transmission

You are reminded that this Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum 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 Memorandum 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 Memorandum.

The materials relating to any offering of securities to which this Offering Memorandum 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 Memorandum) in such jurisdiction.

This Offering Memorandum 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 Memorandum), 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 Memorandum distributed to you in electronic format and the hard copy version available to you on request from a Joint Lead Manager.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL AND BUSINESS RELATED MATTERS CONCERNING THE PURCHASE OF THE NOTES.

**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.

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## AIRPORT AUTHORITY

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

**U.S.\$900,000,000 1.625 per cent. Notes Due 2031 (the “2031 Notes”)**

**U.S.\$600,000,000 2.625 per cent. Notes Due 2051 (the “2051 Notes”)**

**Issue Price for the 2031 Notes: 99.140 per cent.**

**Issue Price for the 2051 Notes: 99.711 per cent.**

Airport Authority (the “**Issuer**”) proposes to issue the U.S.\$900,000,000 1.625 per cent. Notes due 2031 (the “**2031 Notes**”) and the U.S.\$600,000,000 2.625 per cent. Notes due 2051 (the “**2051 Notes**”), and together with the 2031 Notes, the “**Notes**”). The Notes will be direct, unconditional and unsubordinated and (subject to the provision of Condition 4 of the Terms and Conditions of the Notes) unsecured obligations of the Issuer.

The 2031 Notes bear interest from and including 4 February 2021 (the “**Closing Date**”) at the rate of 1.625 per cent. per annum. The 2051 Notes bear interest from and including Closing Date at the rate of 2.625 per cent. per annum. Interests will be payable semi-annually in arrear on 4 February and 4 August in each year (each an “**Interest Payment Date**”). Payments on each series of Notes will be made without deduction or withholding for or on account of taxes of any Relevant Jurisdiction (as defined herein) to the extent described under “**Terms and Conditions of the 2031 Notes — Taxation**” and “**Terms and Conditions of the 2051 Notes — Taxation**”.

Unless previously redeemed, purchased or cancelled, the 2031 Notes will mature on 4 February 2031 at their principal amount and the 2051 Notes will mature on 4 February 2051 at their principal amount. Each series of Notes are subject to redemption in whole, but not in part, at their principal amount, together with accrued interest, at the option of the Issuer at any time in the event of certain changes affecting taxes of any Relevant Jurisdiction at any time upon giving not less than 30 nor more than 60 days’ notice. See “**Terms and Conditions of the 2031 Notes — Redemption and Purchase — Redemption for Tax Reasons**” and “**Terms and Conditions of the 2051 Notes — Redemption and Purchase — Redemption for Tax Reasons**”. The Issuer may redeem the 2031 Notes at its option in whole but not in part, at a redemption price equal to (i) (in the case of an Optional Redemption Date of the 2031 Notes falling before 4 November 2030 (being three months before the Maturity Date of the 2031 Notes)) the Make Whole Redemption Price of the 2031 Notes (as defined in the Terms and Conditions of the 2031 Notes) as of the Optional Redemption Date, and unpaid interest, if any, accrued to but excluding such Optional Redemption Date; or (ii) (in the case of an Optional Redemption Date falling on or after 4 November 2030 (being three months before the Maturity Date of the 2031 Notes)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date. See “**Terms and Conditions of the 2031 Notes — Redemption and Purchase — Redemption at the option of the Issuer**”. The Issuer may redeem the 2051 Notes at its option in whole but not in part, at a redemption price equal to (i) (in the case of an Optional Redemption Date of the 2051 Notes falling before 4 August 2050 (being six months before the Maturity Date of the 2051 Notes)) the Make Whole Redemption Price of the 2051 Notes (as defined in the Terms and Conditions of the 2051 Notes) as of the Optional Redemption Date, and unpaid interest, if any, accrued to but excluding such Optional Redemption Date; or (ii) (in the case of an Optional Redemption Date falling on or after 4 August 2050 (being six months before the Maturity Date of the 2051 Notes)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date. See “**Terms and Conditions of the 2051 Notes — Redemption and Purchase — Redemption at the option of the Issuer**”. In addition, the Issuer will, at the option of the Holder of any Note of any series of Notes, redeem the Notes held by that Noteholder on the Relevant Event Early Redemption Date (as defined in the Terms and Conditions of the 2031 Notes and Terms and Conditions of the 2051 Notes, respectively) in respect of that series of Notes, at their principal amount, together with interest accrued (if any) to (but excluding) the date fixed for redemption, on the occurrence of a Relevant Event (as defined in the Terms and Conditions of the 2031 Notes and Terms and Conditions of the 2051 Notes, respectively). See “**Terms and Conditions of the 2031 Notes — Redemption and Purchase — Redemption upon a Relevant Event**” and “**Terms and Conditions of the 2051 Notes — Redemption and Purchase — Redemption upon a Relevant Event**”.

Application will be made to The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) for the listing of the Notes 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 Notes 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 Notes 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 Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the commercial merits or credit quality of the Notes 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 Notes involves certain risks. See “**Risk Factors**” beginning on page 9.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the “**Securities Act**”) or the securities laws of any state or other jurisdiction of the United States. The Notes are only being offered to “qualified institutional buyers” in reliance on Rule 144A under the Securities Act and outside the United States in reliance on Regulation S under the Securities Act. For further details about eligible offerees and resale restrictions, see “**Subscription and Sale**” and “**Transfer Restrictions**”.

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** — The Notes 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**”). 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 Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** — The Notes 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 United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

Each series of Notes are expected to be assigned a rating of AA+ by S&P Global Ratings, a division of S&P Global, Inc. (“**S&P**”). The rating does not constitute a recommendation to buy, sell or hold the Notes and may be subject to suspension, reduction or withdrawal at any time by S&P. A suspension, reduction or withdrawal of the rating assigned to the Notes may adversely affect the market price of the Notes.

The denomination of each series of Notes shall be U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

**MiFID II product governance/Professional investors and ECPs only target market** — Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, “**MiFID II**”); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

**UK MiFIR product governance/Professional investors and ECPs only target market** — Solely for the purposes of the manufacturer’s product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook (**COBS**), and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**UK MiFIR**); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a “**distributor**”) should take into consideration the manufacturer’s target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the **UK MiFIR Product Governance Rules**) is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer’s target market assessment) and determining appropriate distribution channels.

**Singapore SFA Product Classification:** In connection with Section 309B of the Notes and Futures Act (Chapter 289) of Singapore (the “**SFA**”) and the Notes 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 Notes 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 Notes will be represented by one or more global certificates in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of, Cede & Co. as nominee for The Depository Trust Company (the “**DTC**”).

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

**BofA Securities**

**HSBC**

**Standard Chartered Bank**

**UBS**

*Joint Bookrunners and Joint Lead Managers*

**BOC International**

**Citigroup**

**Deutsche Bank**

**Mizuho Securities**

Offering Memorandum dated 28 January 2021

## IMPORTANT NOTICE

This Offering Memorandum 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 Notes. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Memorandum 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 Memorandum, they should obtain independent professional advice.

The Issuer having made all reasonable enquiries confirms that (i) this Offering Memorandum contains all information with respect to the Issuer and the Issuer and its subsidiaries taken as a whole (the “**Group**”) and the Notes that is material in the context of the issue and offering of the Notes; (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 Memorandum 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 Notes, the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Offering Memorandum 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 Memorandum has been prepared by the Issuer solely for use in connection with the proposed offering of the Notes described in this Offering Memorandum. The distribution of this Offering Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum 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 Notes 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 Notes, 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 Notes and distribution of this Offering Memorandum, 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 Notes 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, Merrill Lynch (Asia Pacific) Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, UBS AG Hong Kong Branch, BOCI Asia Limited, Citigroup Global Markets Inc., Deutsche Bank AG, Hong Kong Branch, Mizuho Securities Asia Limited, Australia and New Zealand Banking Group Limited, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., J.P. Morgan Securities plc, Nomura International (Hong Kong) Limited, Scotia Capital (USA) Inc. and SMBC Nikko Capital Markets Limited (together, the “**Joint Lead Managers**”) or the Agents (as defined in the Conditions). Neither the delivery of this Offering Memorandum nor any offering, sale or delivery made in connection with the issue of the Notes 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 Memorandum 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 Notes 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 Memorandum, and nothing contained in this Offering Memorandum 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 and the Agents have not independently verified any of the information contained in this Offering Memorandum and can give no assurance that this information is accurate, truthful or complete. This Offering Memorandum 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 Memorandum should purchase the Notes. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Memorandum and its purchase of the Notes 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 Memorandum. 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 Memorandum 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 Memorandum nor to advise any investor or potential investor in the Notes 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 Memorandum, 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 Memorandum. Listing of the Notes on the Hong Kong Stock Exchange is not to be taken as an indication of the merits of the Issuer, the Group or the Notes. In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the Terms and Conditions of the Notes, 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 Notes. Each person receiving this Offering Memorandum 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 NOTES, 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 NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE PRICE OF THE NOTES 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 NOTES 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 NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES. ANY STABILISATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.**

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

**PROHIBITION OF SALES TO EEA RETAIL INVESTORS** — the Notes 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**”). 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 Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

**PROHIBITION OF SALES TO UK RETAIL INVESTORS** — The Notes 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 United Kingdom (“**UK**”). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the “**UK PRIIPs Regulation**”) for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK 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 Notes 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).

## U.S. INFORMATION

This Offering Memorandum is being submitted on a confidential basis in the United States to a limited number of qualified institutional buyers (“**QIBs**”) (as defined in Rule 144A under the Securities Act) for informational use solely in connection with the consideration of the purchase of the Notes. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Notes may be offered or sold within the United States only to QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A or any other applicable exemption. Each U.S. purchaser of Notes is hereby notified that the offer and sale of any Registered Certificate to it may be being made in reliance upon the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Certificate or any Notes issued in registered form in exchange or substitution therefor (together “**Legended Notes**”) will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in “*Subscription and Sale*” and “*Transfer Restrictions*”. Unless otherwise stated, terms used in this paragraph have the meanings given to them in “*Summary of Provision relating to Notes in Global Form*”.

The Notes have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Offering Memorandum or confirmed the accuracy or determined the adequacy of the information contained in this Offering Memorandum. Any representation to the contrary is unlawful.

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are “restricted securities” within the meaning of the Securities Act, the Issuer has undertaken to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as “restricted securities” within the meaning of Rule 144(a)(3) of the Securities Act and the Issuer is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the **Exchange Act**) nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

#### **SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES**

The Issuer is a statutory body corporate established in Hong Kong under the Airport Authority Ordinance. All of the officers and members of the Board of the Issuer named herein reside outside the United States and all or a substantial portion of the assets of the Issuer and of such officers and directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Hong Kong upon the Issuer or such persons, or to enforce judgments against them obtained in courts outside Hong Kong predicated upon civil liabilities of the Issuer or such directors and officers under laws other than Hong Kong law, including any judgment predicated upon United States federal securities laws. The Issuer has been advised by Linklaters, its counsel, that there is doubt as to the enforceability in Hong Kong in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.



## FORWARD-LOOKING STATEMENTS

Certain statements under “*Risk Factors*”, “*The Airport Authority*” and elsewhere in this Offering Memorandum 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 Memorandum, 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 Memorandum 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 Memorandum has been prepared using a number of conventions, which investors should consider when reading the information contained here. Unless indicated otherwise, in this Offering Memorandum all references to (i) to “**Issuer**” are to the 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 Memorandum, 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 Memorandum, unless otherwise specified or the context requires, all references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the People’s 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 Memorandum, references to “Terms and Conditions of the 2031 Notes” and “Terms and Conditions of the 2051 Notes” mean the terms and conditions governing the 2031 Notes and 2051 Notes, as respectively set out in “*Terms and Conditions of the 2031 Notes*” and “*Terms and Conditions of the 2051 Notes*” (together, the “**Terms and Conditions of the Notes**” or the “**Conditions**”).

This Offering Memorandum 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 Memorandum were made at the rate of HK\$7.75 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 Memorandum, 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 2019 (the “**2018/2019 Audited Financial Statements**”), which are contained in page 99 to page 158 of the 2018/2019 annual report of the Issuer, 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 Memorandum. Copies of the 2018/2019 Audited Financial Statements, 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 Memorandum contains consolidated financial information of the Issuer as at and for the years ended 31 March 2018, 2019 and 2020, which has been extracted from the 2018/2019 Audited Financial Statements and the 2019/2020 Audited Financial Statements of the Issuer. The 2018/2019 Audited Financial Statements and 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 Memorandum 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.

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## SUMMARY

The Airport Authority is a statutory body corporate owned by the Hong Kong SAR Government (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. Pursuant to the Ordinance, the Airport Authority operates the Hong Kong International Airport (“**HKIA**”), 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 at Chek Lap Kok on 6 July 1998 with a single runway. A second runway was added and the passenger terminal was extended a year later.

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

HKIA can handle 68 aircraft movements an hour at peak hours. HKIA became the world’s busiest airport in terms of international cargo throughput in 1996 before relocation from Kai Tak to Chek Lap Kok in 1998. In 2019, HKIA was the world’s busiest freight airport for the tenth consecutive year and ranked fourth in terms of international passenger throughput. The following tables set forth passenger traffic, cargo and airmail throughput and aircraft movements of HKIA for the periods indicated.

	<b>For the six months ended</b>		<b>For the years ended</b>		
	<b>30 September</b>		<b>31 March</b>		
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Passenger traffic					
(in millions of passengers).	0.4	36.5	60.9	75.1	73.6
Cargo and airmail throughput					
(in millions of tonnes) . . .	2.2	2.3	4.7	5.1	5.1
Aircraft Movements					
(in thousands) . . . . .	61	213	377	429	423

For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the consolidated revenue of the Group amounted to HK\$21,994 million, HK\$19,470 million, HK\$17,106 million, HK\$9,513 million and HK\$2,936 million, respectively. The revenue streams of the Group can be divided into aeronautical and non-aeronautical. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, aeronautical revenue of the Group amounted to HK\$6,989 million, HK\$7,380 million, HK\$6,598 million, HK\$3,735 million and HK\$1,055 million, representing approximately 32%, 38%, 39%, 39% and 36%, respectively, of the Group’s revenue. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, non-aeronautical revenue of the Group amounted to HK\$15,005 million, HK\$12,090 million, HK\$10,508 million, HK\$5,778 million and HK\$1,881 million, representing approximately 68%, 62%, 61%, 61% and 64%, respectively, of the Group’s revenue. For a further description of our revenue streams, see “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Components of Income and Expenditures*”.

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 each series of Notes. For a more complete description of the relevant series of Notes, see “*Terms and Conditions of the 2031 Notes*” and “*Terms and Conditions of the 2051 Notes*”. Terms used in this summary and not otherwise defined shall have the meanings given to them in “*Terms and Conditions of the 2031 Notes*” and “*Terms and Conditions of the 2051 Notes*”.

Issuer . . . . .	Airport Authority (Legal Entity Identifier code: 254900748HGC4RBR4O84)
Issue . . . . .	U.S.\$900,000,000 1.625 per cent. Notes Due 2031 (the “ <b>2031 Notes</b> ”)  U.S.\$600,000,000 2.625 per cent. Notes Due 2051 (the “ <b>2051 Notes</b> ”)
Status of the Notes . . . . .	The Notes constitute direct, general, unsecured, unconditional and unsubordinated obligations of the Issuer which rank <i>pari passu</i> and without any preference among themselves and at least <i>pari passu</i> 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.
Coupon Rate of the 2031 Notes. . .	1.625 per cent.
Coupon Rate of the 2051 Notes. . .	2.625 per cent.
Issue Price of the 2031 Notes . . . .	99.140 per cent.
Issue Price of the 2051 Notes . . . .	99.711 per cent.
Form and Denomination . . . . .	The Notes 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.
Issue Date . . . . .	4 February 2021.
Interest Payment Date of the 2031 Notes . . . . .	4 February and 4 August in each year.
Interest Payment Date of the 2051 Notes . . . . .	4 February and 4 August in each year.
Maturity Date of the 2031 Notes . .	4 February 2031.
Maturity Date of the 2051 Notes . .	4 February 2051.

Redemption at the Option of the  
Issuer . . . . .

The Issuer may redeem the 2031 Notes at its option in whole but not in part, on giving not less than 30 nor more than 60 days' irrevocable notice (in accordance with Condition 15 (*Notices*)) to the Holders of the 2031 Notes, the Fiscal Agent and the Paying Agent at a redemption price equal to (i) (in the case of an Optional Redemption Date of the 2031 Notes (as defined in the Terms and Conditions of the 2031 Notes) falling before 4 November 2030 (being three months before the Maturity Date of the 2031 Notes)) the Make Whole Redemption Price of the 2031 Notes (as defined in the Terms and Conditions of the 2031 Notes) as of the Optional Redemption Date, and unpaid interest, if any, accrued to but excluding such Optional Redemption Date; or (ii) (in the case of an Optional Redemption Date falling on or after 4 November 2030 (being three months before the Maturity Date of the 2031 Notes)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date.

The Issuer may redeem the 2051 Notes at its option in whole but not in part, on giving not less than 30 nor more than 60 days' irrevocable notice (in accordance with Condition 15 (*Notices*)) to the Holders of the 2051 Notes, the Fiscal Agent and the Paying Agent at a redemption price equal to (i) (in the case of an Optional Redemption Date of the 2051 Notes (as defined in the Terms and Conditions of the 2051 Notes) falling before 4 August 2050 (being six months before the Maturity Date of the 2051 Notes)) the Make Whole Redemption Price of the 2051 Notes (as defined in the Terms and Conditions of the 2051 Notes) as of the Optional Redemption Date, and unpaid interest, if any, accrued to but excluding such Optional Redemption Date; or (ii) (in the case of an Optional Redemption Date falling on or after 4 August 2050 (being six months before the Maturity Date of the 2051 Notes)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date.

Redemption upon a Relevant Event

The Issuer will, at the option of the Holder of any Note of any series of Notes, redeem the Notes held by that Noteholder on the Relevant Event Early Redemption Date in respect of that series of Notes, at their principal amount, together with interest accrued (if any) to (but excluding) the date fixed for redemption, on the occurrence of a Relevant Event.

The Issuer shall give notice to Noteholders in accordance with Condition 15 (*Notices*) no later than 10 days following a Relevant Event, giving a brief explanation of the nature of the Relevant Event and specifying the Relevant Event Early Redemption Date.

A “**Relevant Event**” occurs when:

- (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 and the Notes; 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.

“**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 Notes, the Issuer may at its option 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 Notes, the Registrar and the Fiscal Agent (which notice shall be irrevocable) at their principal amount, together with interest accrued and unpaid to (but excluding) the date fixed for redemption, if (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*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 28 January 2021; 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 Notes were then due.

Governing Law . . . . . The Notes will be governed by English law.

Clearing Systems. . . . . Each series of Notes will be represented by one or more global certificates in registered form, without interest coupons attached, which will be deposited on or about the Closing Date with a custodian for, and registered in the name of, Cede & Co. as nominee for the DTC.

Clearance and Settlement . . . . .		<b>2031 Notes</b>	<b>2051 Notes</b>
	Common code for Rule 144A Global Certificate	229156012	229156195
	Common Code for Regulation S Global Certificate	229156187	229156209
	CUSIP Number for Rule 144A Global Certificate	00946A AA2	00946A AB0
	CUSIP Number for Regulation S Global Certificate	Y00284 AW2	Y00284 AX0
	ISIN for Rule 144A Global Certificate	US00946AAA25	US00946AAB08
	ISIN for Regulation S Global Certificate	USY00284AW20	USY00284AX03

Rating . . . . . Each series of Notes is expected to be assigned a rating of “AA+” by S&P.

Fiscal Agent, Paying Agent,  
Registrar and Transfer Agent . . . . . The Bank of New York Mellon

Listing. . . . . Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, each series of Notes 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 2018, 2019 and 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 2018/2019 Audited Financial Statements, 2019/2020 Audited Financial Statements and the 2020/2021 Interim Financial Statements.

The 2018/2019 Audited Financial Statements and 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 six months ended 30 September			For the years ended 31 March			
	2020		2019	2020		2019	2018
	(US\$ million)	(HK\$ million)	(HK\$ million)	(US\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
Airport charges . . . . .	105	813	2,652	609	4,718	5,255	4,990
Security charges . . . . .	1	10	913	195	1,514	1,769	1,655
Aviation security services . . . . .	30	232	170	47	366	356	344
Airside support services franchises . . . . .	104	803	1,320	324	2,510	2,786	3,054
Retail licences and advertising revenue . . . . .	12	95	3,449	760	5,893	7,149	7,909
Other terminal commercial revenue . . . . .	57	440	758	186	1,441	1,460	1,404
Real estate revenue . . . . .	11	83	158	39	301	301	310
Other income . . . . .	59	460	93	47	363	394	2,328
<b>Revenue . . . . .</b>	<b>379</b>	<b>2,936</b>	<b>9,513</b>	<b>2,207</b>	<b>17,106</b>	<b>19,470</b>	<b>21,994</b>
Staff costs and related expenses . . . . .	(176)	(1,361)	(1,353)	(377)	(2,918)	(2,687)	(2,492)
Repairs and maintenance . . . . .	(41)	(314)	(418)	(121)	(937)	(864)	(834)
Operational contracted services . . . . .	(66)	(509)	(607)	(171)	(1,323)	(977)	(767)
Government services . . . . .	(51)	(398)	(475)	(110)	(851)	(823)	(788)
Government rent and rates . . . . .	(33)	(255)	(93)	(22)	(173)	(158)	(154)
Occupancy expenses . . . . .	(15)	(119)	(183)	(41)	(317)	(314)	(288)
Other operating expenses . . . . .	(204)	(1,584)	(746)	(176)	(1,367)	(1,204)	(735)
<b>Operating Expenses before Depreciation and Amortisation . . . . .</b>	<b>(586)</b>	<b>(4,540)</b>	<b>(3,875)</b>	<b>(1,018)</b>	<b>(7,886)</b>	<b>(7,027)</b>	<b>(6,058)</b>
<b>Operating (Loss)/Profit before Depreciation and Amortisation . . . . .</b>	<b>(207)</b>	<b>(1,604)</b>	<b>5,638</b>	<b>1,189</b>	<b>9,220</b>	<b>12,443</b>	<b>15,936</b>
Depreciation and amortisation . . . . .	(205)	(1,588)	(1,458)	(377)	(2,924)	(3,123)	(3,097)
<b>Operating (Loss)/Profit before Interest and Finance Costs . . . . .</b>	<b>(412)</b>	<b>(3,192)</b>	<b>4,180</b>	<b>812</b>	<b>6,296</b>	<b>9,320</b>	<b>12,839</b>
Interest and finance costs:							
Finance costs . . . . .	(2)	(17)	(36)	(3)	(25)	(7)	(2)
Interest income . . . . .	9	68	305	63	486	386	277
	7	51	269	60	461	379	275
Share of results of an associate . . . . .	2	13	(5)	(2)	(16)	—	—
Share of results of joint ventures . . . . .	(11)	(84)	168	35	269	261	201
<b>(Loss)/Profit before Taxation . . . . .</b>	<b>(414)</b>	<b>(3,212)</b>	<b>4,612</b>	<b>905</b>	<b>7,010</b>	<b>9,960</b>	<b>13,315</b>
Income tax . . . . .	68	525	(732)	(144)	(1,112)	(1,558)	(1,829)
<b>(Loss)/Profit for the Period/Year . . . . .</b>	<b>(346)</b>	<b>(2,687)</b>	<b>3,880</b>	<b>761</b>	<b>5,898</b>	<b>8,402</b>	<b>11,486</b>
<b>Attributable to:</b>							
Equity shareholder of the Airport Authority	(349)	(2,706)	3,841	757	5,866	8,339	11,416
Non-controlling interests . . . . .	3	19	39	4	32	63	70
<b>(Loss)/Profit for the Period/Year . . . . .</b>	<b>(346)</b>	<b>(2,687)</b>	<b>3,880</b>	<b>761</b>	<b>5,898</b>	<b>8,402</b>	<b>11,486</b>
<b>Other Comprehensive Income for the Period/Year</b>							
Item that will not be reclassified to profit or loss:							
Remeasurement of net defined benefit retirement obligations of:							
— the Airport Authority . . . . .	13	104	(38)	(6)	(49)	(40)	(9)
Add: deferred tax . . . . .	(2)	(17)	6	1	8	7	2
	11	87	(32)	(5)	(41)	(33)	(7)
— a subsidiary in the PRC . . . . .	0	2	1	(0)	(2)	(4)	6
— a joint venture in the PRC . . . . .	—	—	47	6	48	(65)	26
	11	89	16	1	5	(102)	25
Items that may be reclassified subsequently to profit or loss:							
Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC . . . . .	28	217	(327)	(44)	(341)	(339)	495
Cash flow hedge: net movement in the hedging reserve . . . . .	(9)	(72)	—	(3)	(22)	—	—
Cash flow hedge: net movement in the cost of hedging reserve . . . . .	(9)	(65)	144	22	171	(56)	—
	10	80	(183)	(25)	(192)	(395)	495
<b>Other Comprehensive Income for the Period/Year . . . . .</b>	<b>21</b>	<b>169</b>	<b>(167)</b>	<b>(24)</b>	<b>(187)</b>	<b>(497)</b>	<b>520</b>
<b>Total Comprehensive Income for the Period/Year . . . . .</b>	<b>(325)</b>	<b>(2,518)</b>	<b>3,713</b>	<b>737</b>	<b>5,711</b>	<b>7,905</b>	<b>12,006</b>
<b>Attributable to:</b>							
Equity shareholder of the Airport Authority	(329)	(2,553)	3,696	736	5,703	7,864	11,906
Non-controlling interests . . . . .	4	35	17	1	8	41	100
<b>Total Comprehensive Income for the Period/Year . . . . .</b>	<b>(325)</b>	<b>(2,518)</b>	<b>3,713</b>	<b>737</b>	<b>5,711</b>	<b>7,905</b>	<b>12,006</b>

## Consolidated Statement of Financial Position

	As at 30 September		As at 31 March			
	2020		2020		2019	2018
	(US\$ million)	(HK\$ million)	(US\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
<b>Non-current Assets</b>						
Investment property . . . . .	6	48	9	69	82	83
Interest in leasehold land . . . . .	798	6,184	813	6,299	6,528	6,757
Other property, plant and equipment	12,629	97,872	11,207	86,856	72,301	54,814
	13,433	104,104	12,029	93,224	78,911	61,654
Intangible assets . . . . .	38	295	40	308	350	146
Interest in an associate . . . . .	76	587	76	589	652	—
Interests in joint ventures . . . . .	576	4,467	563	4,369	4,342	4,482
Trade and other receivables . . . . .	3	24	—	—	8	776
Derivative financial assets . . . . .	2	19	10	76	29	2
	14,128	109,496	12,718	98,566	84,292	67,060
<b>Current Assets</b>						
Stores and spares . . . . .	15	114	13	104	84	59
Trade and other receivables . . . . .	350	2,711	407	3,158	3,739	3,117
Tax recoverable . . . . .	39	304	26	201	—	—
Derivative financial assets . . . . .	1	5	0	1	—	—
Cash and bank balances . . . . .	2,953	22,888	1,661	12,872	21,115	18,694
	3,358	26,022	2,107	16,336	24,938	21,870
<b>Current Liabilities</b>						
Trade and other payables . . . . .	(1,907)	(14,782)	(1,656)	(12,834)	(13,572)	(7,097)
Interest-bearing borrowings . . . . .	(77)	(600)	(77)	(600)	(95)	—
Current taxation . . . . .	(1)	(7)	(1)	(5)	(73)	(381)
Unused airport construction fee . . . . .	(62)	(482)	(126)	(974)	(1,685)	(1,103)
Deferred income . . . . .	(28)	(215)	(72)	(564)	(154)	(69)
Derivative financial liabilities . . . . .	(2)	(12)	—	—	(2)	(2)
	(2,077)	(16,098)	(1,932)	(14,977)	(15,581)	(8,652)
<b>Net Current Assets</b> . . . . .	<b>1,281</b>	<b>9,924</b>	<b>175</b>	<b>1,359</b>	<b>9,357</b>	<b>13,218</b>
<b>Total Assets Less Current Liabilities</b>						
	15,409	119,420	12,893	99,925	93,649	80,278
<b>Non-current Liabilities</b>						
Trade and other payables . . . . .	(190)	(1,475)	(182)	(1,406)	(1,102)	(1,219)
Interest-bearing borrowings . . . . .	(3,519)	(27,270)	(595)	(4,615)	(5,249)	(1,415)
Deferred income . . . . .	(282)	(2,185)	(298)	(2,312)	(1,567)	(263)
Derivative financial liabilities . . . . .	(11)	(86)	(3)	(23)	(89)	(20)
Net defined benefit retirement obligations . . . . .	(26)	(200)	(43)	(336)	(258)	(191)
Deferred tax liabilities . . . . .	(585)	(4,537)	(651)	(5,048)	(4,910)	(4,601)
	(4,613)	(35,753)	(1,772)	(13,740)	(13,175)	(7,709)
<b>Net Assets</b> . . . . .	<b>10,796</b>	<b>83,667</b>	<b>11,121</b>	<b>86,185</b>	<b>80,474</b>	<b>72,569</b>
<b>Capital and Reserves</b>						
Share capital . . . . .	3,955	30,648	3,955	30,648	30,648	30,648
Reserves . . . . .	6,783	52,567	7,112	55,120	49,417	41,553
Total equity attributable to the equity shareholder of the Airport						
Authority . . . . .	10,738	83,215	11,067	85,768	80,065	72,201
Non-controlling interests . . . . .	58	452	54	417	409	368
<b>Total Equity</b> . . . . .	<b>10,796</b>	<b>83,667</b>	<b>11,121</b>	<b>86,185</b>	<b>80,474</b>	<b>72,569</b>

## RISK FACTORS

*Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Memorandum, 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 Notes. 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 Notes are also described below.*

The Issuer believes that the factors described below represent the principal risks inherent in investing in either series of Notes, but the inability of the Issuer to pay principal, interest or other amounts or fulfil other obligations on or in connection with the relevant series of Notes 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 Notes are exhaustive. Terms used in this section and otherwise not defined shall have the meanings given to them in “*Terms and Conditions of the 2031 Notes*” and “*Terms and Conditions of the 2051 Notes*”.

### **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 0.4 million passengers and 61 thousand flight movements, representing decreases of 99% and 71%, 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 and airmail throughput from April to September 2020, which dropped about 7% compared to the same period in 2019. The decrease in cargo throughput was mainly due to the number of trans-shipments 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 drop in passenger traffic has exerted an adverse impact on the retail revenue 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.

Furthermore, the Airport Authority has provided relief measures, which will continue until the end of March 2021, including (i) full waiver of parking charge for idle passenger aircraft and air-bridge fees, (ii) reduction of passenger aircraft landing charges, (iii) fees reduction related to ramp handling,

maintenance and airside vehicles; as well as rental reduction for terminal tenants covering lounges and offices, (iv) fees waiver for terminal licencees including ancillary passenger services, commercial services counters and cross-border transport operators, and (v) concessions on franchise fees for aviation support services such as into-plane fuelling. Separately, the Group has announced multiple rounds of relief measures to airlines and aviation support services operators, including offer to purchase around 500,000 air tickets in advance from home-based airlines and providing an option for aviation support services operators at HKIA to sell their ground services equipment to the Airport Authority. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors Affecting the Results of Operations — COVID-19*”. Such relief measures may have a material and adverse impact on the financial condition and results of operation of the Airport Authority.

As of the date of this Offering Memorandum, 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%, and fixed rate borrowings accounted for 98%. (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% and 14% of the Airport Authority’s total borrowings were denominated in Hong Kong dollars and U.S. dollars, respectively. Since 30 September 2020, the Group has issued a total of HK\$2,930 million Hong Kong dollar-denominated-notes under its Medium Term Note Programme and a total of US\$1,500 million U.S. dollar-denominated senior perpetual capital securities. 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 dollars. 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 such amounts owed to the Airport Authority may not be recovered in full.

In particular, a large majority of the Airport Authority's counterparties operate in sectors of the economy that have been most severely impacted by the COVID-19 pandemic — namely aviation and retail. While cargo services have been relatively less affected, passenger traffic has been severely impacted by the pandemic, and airlines around the globe have experienced liquidity and other stresses on their businesses. This trend has a trickle-down effect on other industries that service the aviation sector, including ramp handling, catering, aviation fuel system, ground support, aircraft maintenance and other services, all of which are major counterparties of the Airport Authority. The Airport Authority's trade debtors are generally due within 14 to 30 days from the date of billing; however, during this extraordinary time, the Airport Authority has relaxed certain credit terms and undertaken other measures to help its counterparties weather the storm.

As a result of the foregoing, as of 30 September 2020, the Airport Authority has recognized a loss allowance in respect of trade debtors of HK\$1.0 billion, and during the six months ended 30 September 2020, the Airport Authority recognised impairment losses on trade and other receivables of HK\$106 million in other operating expenses. There can be no assurance that the Airport Authority's counterparties will not experience significant financial distress and that, in such an event, the Airport Authority will be able to collect its trade and other receivables in a timely manner or at all.

***The Airport Authority relies on numerous franchisees and other business counterparties to operate the HKIA***

Of the approximately 78,000 airport workforce as of 31 March 2020 before the height of the pandemic, only 2,844 or less than 4% of the total workforce were directly employed by the Airport Authority. This reflects the significant scope of operations at the HKIA that are conducted by franchisees and other business counterparties. For example, the Airport Authority's franchisees provide key aviation logistics services, namely air cargo, ramp handling, aircraft catering, aviation fuel system, aircraft maintenance, airside vehicle fuel filling services and ground support equipment maintenance, all of which are essential to airlines and airport operators for safe and efficient flows of passengers, cargo and aircraft. Additionally, all passenger airlines, cargo operations and retail and dining options at the airport are provided by third parties.

There can be no assurance that the Airport Authority's franchisees and other business counterparties will be able to continue to provide services at HKIA in the manner they have in the past or at all. In particular, many of the Airport Authority's counterparties have experienced financial

difficulty during the COVID-19 pandemic. See “— *The Airport Authority is exposed to credit risk which could affect its financial condition and the results of its operations*”. In the event that one of the Airport Authority’s franchisees or other business counterparties is unable or unwilling to continue to provide the services it has provided in the past, it could cause a disruption to the operations of the HKIA, which could have a material adverse effect on the Airport Authority’s business, financial condition and results of operations.

***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. In addition, the geopolitical risks and the ongoing COVID-19 pandemic may adversely affect market confidence, which in turn, affects the cost and availability of funding. 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. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures*”. 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 Project, which is estimated to cost HK\$141.5 billion at money-of-the-day prices. 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 in order to meet these capital expenditure commitments.

In addition, the Airport Authority’s budgeted amounts for capital expenditure may prove to be inaccurate, necessitating an increase in leverage in the short to medium term to meet the shortfall. In particular, the Airport Authority is currently undertaking a number of significant expansion projects, which may be subject to delays and cost overruns. There can be no assurance that the Airport Authority will not experience delays or cost overruns in the future, which may increase the funding costs for its business and have an adverse effect on the business, financial condition and results of operations of the Airport Authority.

***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 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.

***The Airport Authority relies on information technology systems for its business and any information technology system limitations or failures could adversely affect its business, financial condition and results of operations***

The business operations of the Airport Authority rely on a number of information technology systems, applications and business processes utilised in the delivery of business functions. The business operations of the Airport Authority depend on the continued operation of the relevant computer systems and network infrastructure for many of their critical functions. System interruptions may result from occurrences such as the replacement of systems, equipment failure, human error, natural disasters, sabotage (including hacking) and power outages. Such interruptions may result in the unavailability of services, erroneous processing of third party instructions and may reduce the relevant businesses' ability to maintain efficient operations. In turn, interruptions of the information technology systems may adversely influence the revenues of the Airport Authority and impair the relations with its customers.

In addition, the Airport Authority may be subject to cyberattacks, computer viruses, malicious code, phishing attacks or information security breaches that could result in the unauthorised release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the Airport Authority, its employees or customers, or otherwise disrupt its or its customers' or other third parties' business operations. Although the Airport Authority's systems have not experienced any major system failures and delays in the past, there can be no assurance that its systems would not experience future system failures and delays, or the measures taken by the Airport Authority to reduce the risk of system disruptions are effective or adequate.

***The Airport Authority faces litigation risks in the course of its business***

In the ordinary course of the Airport Authority's business, claims involving project contractors, sub-contractors, joint venture partners, customers and other parties may be brought against it or by it from time to time, including commercial claims, contractual claims, customer claims, injury claims, environmental claims and prosecutions, occupational health and safety claims, employee claims, and regulatory disputes. Even if the Airport Authority is ultimately successful in defending claims against it (or in pursuing claims made by it), reputational harm may be inflicted and substantial legal and associated costs may be incurred that may not be recoverable from other parties.

***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 or non-renewal 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 Notes*"). 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.

Moreover, under the current Land Grant (as defined in "*The Airport Authority — Land Grant*"), 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 site of HKIA together with the rights necessary to develop such site for the purposes of its business. The 2051 Notes will mature on 4 February 2051, which is after the expiry of the current Land Grant in respect of the HKIA site excluding Chek Lap Kok Lot No. 3. Although the Airport Authority currently has no reason to believe that it would be unable to renew the Land Grant or obtain land grant for the 3RS, there can be no assurance that it will be able to do so in a timely manner or at all. Any failure to renew the Land Grant or obtain land grant for the 3RS would have a material adverse effect on the Airport Authority's business, financial condition and results of operations and on its ability to repay the Notes.

***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 Notes***

Although the Airport Authority is wholly-owned by the Government, the Government has not provided, and has not expressed an intention to provide, any guarantee in respect of the Notes 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 Notes. As such, the repayment obligations under the Notes remain the sole obligation of the Airport Authority. There can therefore be no assurance that in the event of non-payment under the Notes, the Government will make any payment of principal or distribution thereon in respect of the Notes. 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, 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 Asia, 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% in the first quarter of 2020 compared to the same period in 2019, 9.0% in the second quarter of 2020 compared to the same period in 2019 and 3.5% 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, 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, hikes in interest rate, fears of a slowdown in the PRC economy and volatility of the PRC stock market, all of 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. This 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.

Social 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 an 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, social 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 of 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. 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 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 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.

Pursuant to EO 13936, the U.S. Department of the Treasury's Office of Foreign Assets Control has imposed sanctions on 17 Hong Kong and PRC government officials to date, 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. The Airport Authority also has construction and other contracts with certain contractors that have been, or are subsidiaries or affiliates of companies that have been, included in a list of "Communist Chinese military companies" issued by the U.S. Department of Defense and/or the Entity List issued by the U.S. Department of Commerce. These contractors or their affiliates or parents may be subject to restrictions imposed by the U.S. government, although such restrictions currently do not affect their ability to perform their contracts with the Airport Authority.

Any further sanctions imposed by the United States, including 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 and contractor relationships.

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 Notes**

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

The ability of a creditor 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 creditors for the liquidation of the Airport Authority and as such, there can be no assurance that a creditor 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 creditors to institute proceedings for liquidation against and/or prove and/or claim in proceedings for liquidation of the Airport Authority.

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

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 Notes. The issue of any such securities or the incurrence of any such other liabilities may reduce the amount (if any) recoverable by Noteholders on liquidation of the Issuer. 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 Notes of any series and/or the ability of Holders of any series of Notes to sell their Notes.

### ***Certain initial investors or a single initial investor may purchase a significant portion any series of Notes 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 Notes. Any Noteholder of a significant percentage of the aggregate principal amount of any series of Notes will be able to exercise certain rights and powers and will have significant influence on matters voted on by Holders of the relevant series. For example, two or more Persons (as defined in the Terms and Conditions of the Notes) holding or representing more than half (or at adjourned meetings, two or more Persons (as defined in the Terms and Conditions of the Notes) being or representing the Holders of any series of Notes whatever the principal amount of the relevant series of Notes held or represented) of the aggregate principal amount of the outstanding Notes 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 Notes), while at a meeting of Noteholders of the relevant series at which two or more Persons (as defined in the Terms and Conditions of the Notes) 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 Notes of the relevant series would form quorum for the purposes of voting on Reserved Matters.



***Each series of Notes will be represented by one or more Global Certificates and holders of a beneficial interest in a Global Certificate must rely on the procedures of the relevant Clearing System***

Each series of Notes will be represented by one or more Global Certificates deposited with and registered in the name of a nominee of DTC (the “**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 Clearing System will maintain records of the beneficial interests in such a Global Certificate. While each series of Notes are represented by a Global Certificate, investors will be able to trade their beneficial interests only through the Clearing System.

While each series of Notes are represented by a Global Certificate, the Issuer will discharge its payment obligations under each series of Notes by making payments to the 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 Clearing System to receive payments under the relevant series of Notes. 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 Notes. Instead, such Holders will be permitted to act only to the extent that they are enabled by the Clearing System to appoint appropriate proxies.

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

Each potential investor in the Notes 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 Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Memorandum 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 Notes 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 Notes, 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 Notes 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 Notes are complex financial instruments which 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 Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor’s overall investment portfolio.

### ***Modification and waivers***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

### ***Change of law***

The Terms and Conditions of the Notes are based on English law in effect as at the date of issue of the Notes. 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 Notes.

### ***Notes issued with a minimum denomination***

The Notes will be issued with a minimum denomination of U.S.\$200,000. For so long as the relevant series Notes are represented by a Global Certificate and the Clearing System so permits, the relevant series of Notes will be tradable in nominal amounts (a) equal to, or integral multiples of, the minimum denomination, and (b) the minimum denomination plus integral multiples of an amount lower than the minimum denomination.

Definitive Notes will only be issued if (a) DTC (or other relevant clearing system) 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) any of the circumstances described in Condition 9 (Events of Default) occurs. If definitive Notes are issued, such Notes will be issued in respect of all holdings of the relevant series of Notes equal to or greater than the minimum denomination. However, Noteholders should be aware that definitive Notes that have a denomination that is not an integral multiple of the minimum denomination may be illiquid and difficult to trade. Definitive Notes will in no circumstances be issued to any person holding any series of Notes in an amount lower than the minimum denomination and such Notes will be cancelled and holders will have no rights against the Airport Authority (including rights to receive principal or interest or to vote) in respect of such Notes.

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

If an active trading market for the Notes of any series were to develop, the price and trading volume of the Notes may be highly volatile. The Notes of any series may trade at prices that are higher or lower than the price at which such Notes have been issued. The price at which the Notes 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 Notes; and
- general economic conditions.

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

The Notes are complex financial instruments which 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 Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

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

The Notes 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 Notes 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 Notes of any series for an investor and could result in a loss when the return on the Notes 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 Notes of any series in the event of an appreciation.

***The Notes are subject to optional redemption by the Airport Authority.***

In the event that the Airport Authority would be obliged to increase the amounts payable in respect of any Notes due to any 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, the Airport Authority may redeem all outstanding Notes of the relevant series in accordance with the Conditions.

An optional redemption feature is likely to limit the market value of Notes of the relevant series. During any period when the Airport Authority may elect to redeem Notes of any series, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Airport Authority may be expected to redeem the Notes of any series when its cost of borrowing is lower than the interest rate on the Notes of the relevant series. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the relevant series of Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

**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 Notes will be new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes 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 each series of Notes 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 Notes 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 Notes.

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

The Issuer will pay principal and interests on the Notes 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 Investor's Currency relative to U.S. dollars would decrease (1) the Investor's Currency equivalent yield on the Notes, (2) the Investor's Currency equivalent value of the principal payable on the Notes and (3) the Investor's Currency equivalent market value of the Notes 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 interest or principal than expected, or no interest or principal.

#### ***Interest rate risks***

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

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

Each series of Notes are expected to be rated "AA+" by S&P. 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 Notes 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) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## USE OF PROCEEDS

The gross proceeds from the issue of the 2031 Notes are expected to be approximately U.S.\$892,260,000. The gross proceeds from the issue of the 2051 Notes are expected to be approximately U.S.\$598,266,000. The gross proceeds from the issue of the Notes 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.

## 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.

Period	Exchange Rate			
	Period End	Average <sup>(1)</sup>	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 .....	7.7534	7.7559	7.7951	7.7498
2021				
January (through to 8 January) .....	7.7555	7.7538	7.7555	7.7532

*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.

## 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 Notes offered hereby, two series of perpetual capital securities issued on 8 December 2020 and Hong Kong dollar-denominated notes under its Medium Term Note Programme:

	As at 30 September 2020					
	Actual	Actual	As Adjusted <sup>(7)</sup>	As Adjusted <sup>(7)</sup>	As Further Adjusted <sup>(8)</sup>	As Further Adjusted <sup>(8)</sup>
	HK\$ million	US\$ million <sup>(1)</sup>	HK\$ million	US\$ million <sup>(1)</sup>	HK\$ million	US\$ million <sup>(1)</sup>
Interest-bearing borrowings due within one year . . . . .	600	77	600	77	600	77
Interest-bearing borrowings due after one year . . . . .	27,270	3,519	27,270	3,519	27,270	3,519
Hong Kong dollar-denominated notes under Medium Term Note Programme <sup>(3)</sup> . . . . .	—	—	2,930	378	2,930	378
2031 Notes to be issued <sup>(2)</sup> . . . . .	—	—	—	—	6,975	900
2051 Notes to be issued <sup>(2)</sup> . . . . .	—	—	—	—	4,650	600
Total interest-bearing borrowing <sup>(3)</sup> . . . . .	<u>27,870</u>	<u>3,596</u>	<u>30,800</u>	<u>3,974</u>	<u>42,425</u>	<u>5,474</u>
Share capital <sup>(4)</sup> . . . . .	30,648	3,955	30,648	3,955	30,648	3,955
Reserves . . . . .	52,567	6,783	52,567	6,783	52,567	6,783
Non-controlling interests . . . . .	452	58	452	58	452	58
Series A perpetual capital securities issued <sup>(5)</sup> . . . . .	—	—	5,813	750	5,813	750
Series B perpetual capital securities issued <sup>(5)</sup> . . . . .	—	—	5,813	750	5,813	750
Capital and reserves . . . . .	<u>83,667</u>	<u>10,796</u>	<u>95,293</u>	<u>12,296</u>	<u>95,293</u>	<u>12,296</u>
Total capitalisation <sup>(6)</sup> . . . . .	<u><u>111,537</u></u>	<u><u>14,392</u></u>	<u><u>126,093</u></u>	<u><u>16,270</u></u>	<u><u>137,718</u></u>	<u><u>17,770</u></u>

*Notes:*

- (1) A rate of HK\$7.75 to US\$1.00 was adopted for the conversion of Hong Kong dollars to U.S. dollars.
- (2) Notes to be issued which represent the aggregate principal amount of the 2031 Notes and the 2051 Notes, before deduction of underwriting fees and commissions, and other estimated transaction expenses payable are expected to be approximately U.S.\$900,000,000 and U.S.\$600,000,000, respectively.
- (3) Since 30 September 2020, other than the Notes offered hereby and the perpetual capital securities issued on 8 December 2020, the Airport Authority has issued a total of HK\$2,930 million Hong Kong dollar-denominated notes under its Medium Term Note Programme, of which included HK\$1,600 million disclosed in note 21 (nonadjusting events after the reporting period) of the Airport Authority's interim financial report for the six months period ended 30 September 2020.
- (4) As at 30 September 2020, the Issuer has 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.
- (5) On 8 December 2020, the Airport Authority has issued a total of U.S.\$1,500,000,000 senior perpetual capital securities.
- (6) Total capitalisation represents the sum of total interest-bearing borrowings and capital and reserves.
- (7) The "As Adjusted" column represents the consolidated capitalisation of the Issuer as at 30 September 2020 as adjusted to give effect to the Issuer's Hong Kong dollar-denominated notes under its Medium Term Note Programme and Series A and Series B perpetual capital securities issued since 30 September 2020, but not the issuance of the Notes offered hereby.

- (8) The “As Further Adjusted” column represents the consolidated capitalisation of the Issuer as at 30 September 2020 as adjusted to give effect to the Issuer’s Hong Kong dollar-denominated notes under its Medium Term Note Programme and Series A and Series B perpetual capital securities issued since 30 September 2020 and the issuance of the Notes offered hereby.

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



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Investors should read the following discussion and analysis of the financial condition, cash flows and results of operations of the Group together with the financial statements and related Notes thereto appearing elsewhere in this Offering Memorandum, as well as “Presentation of Financial Information” and “Summary Financial Information”. The consolidated financial statements of the Group as at and for the years ended 31 March 2018, 2019 and 2020 have been prepared in conformity with HKFRS issued by HKICPA, and the consolidated interim financial statements of the Group as at and for the six months ended 30 September 2019 and 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the HKICPA.*

*The following discussion contains forward-looking statements that involve risks and uncertainties. The Group’s actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set forth under “Forward-Looking Statements”, “Risk Factors” and this Offer Circular generally.*

### OVERVIEW

The Airport Authority is a statutory body corporate owned by the Hong Kong SAR Government (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. Pursuant to the Ordinance, the Airport Authority operates the Hong Kong International Airport (“**HKIA**”), 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 at Chek Lap Kok on 6 July 1998 with a single runway. A second runway was added and the passenger terminal was extended a year later.

Strategically located in Asia, HKIA is an integral part of the Hong Kong economy, which connects Hong Kong to over 200 destinations worldwide by around 120 airlines. Leveraging the rights of the Government to independently negotiate flight routes and air services agreements, HKIA, as the only airport for civil aviation in Hong Kong, is well-positioned to capitalise on the opportunities that arise in the aviation industry.

HKIA can handle 68 aircraft movements an hour at peak hours. HKIA became the world’s busiest airport in terms of international cargo throughput in 1996 before relocation from Kai Tak to Chek Lap Kok in 1998. In 2019, HKIA was the world’s busiest freight airport for the tenth consecutive year and ranked fourth in terms of international passenger throughput. The following tables set forth passenger traffic, cargo and airmail throughput and aircraft movements of the Group for the periods indicated.

	For the six months ended		For the years ended		
	30 September		31 March		
	2020	2019	2020	2019	2018
Passenger traffic (in millions of passengers) . . . . .	0.4	36.5	60.9	75.1	73.6
Cargo and airmail throughput (in millions of tonnes) . . . . .	2.2	2.3	4.7	5.1	5.1
Aircraft Movements (in thousands) . . . . .	61	213	377	429	423

For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the consolidated revenue of the Group amounted to HK\$21,994 million, HK\$19,470 million, HK\$17,106 million, HK\$9,513 million and HK\$2,936 million, respectively. The revenue streams of the Group can be divided into aeronautical and non-aeronautical.

Aeronautical revenue consists of airport charges, security charges and aviation security services. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, aeronautical revenue of the Group amounted to HK\$6,989 million, HK\$7,380 million, HK\$6,598 million, HK\$3,735 million and HK\$1,055 million, representing approximately 32%, 38%, 39%, 39% and 36%, respectively, of the Group's revenue.

Non-aeronautical revenue consists of airside support services franchises, retail licences and advertising revenue, other terminal commercial revenue, real estate revenue and other income. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, non-aeronautical revenue of the Group amounted to HK\$15,005 million, HK\$12,090 million, HK\$10,508 million, HK\$5,778 million and HK\$1,881 million, representing approximately 68%, 62%, 61%, 61% and 64%, respectively, of the Group's revenue.

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, including the Three-runway System Project to fulfil long-term air traffic demand.

## **FACTORS AFFECTING THE RESULTS OF OPERATIONS**

### **Passenger Traffic, Cargo Throughput and Aircraft Movements**

Passenger traffic, cargo throughput and aircraft movements at the HKIA have a significant impact on the results of operations and financial condition of the Group.

The number of passengers accommodated by HKIA is primarily dependent on the level of tourism and business travel involving Hong Kong. The total passenger traffic is dependent on a number of factors which may be beyond the control of the Group, including but not limited to:

- developments in, and the level of economic growth achieved in Hong Kong, the PRC and other countries serviced by airlines at HKIA;
- demographic changes in Hong Kong, the PRC and other countries serviced by airlines at HKIA;
- the level of competition and financial health of operators within the aviation industry;
- the price of air traffic tickets;
- airline seat supply and routes offered by airlines to and from HKIA;
- currency exchange rates;
- airline accidents;
- travel regulations and policies;
- acts of terrorism, wars and associated security issues and political disruptions; and

- outbreak of pandemic or other mass communicable diseases.

Passenger traffic directly impacts the aeronautical revenue of the Group, as terminal building charge and security charge are charged based on per passenger amounts. Other fees that the Group charges in connection with its aeronautical revenue, such as landing and parking fees, are charged based on per aircraft amounts, thereby indirectly affected by passenger traffic. In relation to the non-aeronautical revenue of the Group, passenger traffic is a principal factor affecting the turnover of retail licences of the Group who pay the higher of a base rent and a turnover rent to the Group, which indirectly affects the retail licences and advertising revenue of the Group.

Similarly, a number of factors have significant impacts on cargo throughput handled at the HKIA, which may be beyond the control of the Group, including but not limited to:

- developments in, and the level of economic growth achieved in Hong Kong, the PRC and other countries serviced by airlines at HKIA;
- trade flow involving Hong Kong, the PRC and other countries serviced by airlines at HKIA;
- outbreak of trade war or other matters affecting the macroeconomic and political conditions;
- trade regulations and policies;
- flight network and routes coverage; and
- frequency of flights.

Cargo throughput impacts the aeronautical revenue of the Group as more aircraft movements bring in increasing airport charges revenue. In addition, cargo throughput directly affects the revenue from airside support services franchises, which in turn affects the non-aeronautical revenue of the Group.

### **Macroeconomic and Political Conditions Affecting Hong Kong, the PRC and the Globe**

The results of operations and financial condition of the Group are linked closely to macroeconomic and political conditions prevailing from time to time in Hong Kong and globally. As the Group relies to a significant extent on business and tourist passenger traffic, economic conditions, risks affecting or reducing air-travel and adverse political conditions could materially and adversely impact passenger traffic in the HKIA and, in turn, revenues and profitability of the Group. From June to December 2019, 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. The revenue of the Group decreased by 12% to HK\$17,106 million for the year ended 31 March 2020 from HK\$19,470 million for the year ended 31 March 2019. In August 2019, the Airport Authority obtained an 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. The protest activities at HKIA have stopped. However, as social unrest is outside the control of the Airport Authority, 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 sustained decrease in macroeconomic conditions or political conditions could have an adverse impact on the Group's business and results of operations going forward. See *“Risk Factors — Risks relating to Hong Kong, the PRC and Other Asia Pacific Countries — Political and legal developments in Hong Kong and the PRC could affect the Airport Authority's financial condition and the results of its operations”*.

## COVID-19

Since December 2019, the outbreak of COVID-19 has resulted in a widespread and global health crisis. On 11 March 2020, the World Health Organization declared the COVID-19 virus outbreak a pandemic. 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. See *“The Airport Authority — Recent Developments”*.

The ongoing COVID-19 pandemic has led to restrictions on travel and public transport and prolonged closures of workplaces. In particular, the entry restrictions, travel bans and quarantine measures implemented across the globe since the outbreak of 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 operations and financial condition of the Group. From April to September 2020, HKIA handled 0.4 million of passengers, 2.2 million tonnes of cargo and airmail throughput and 61 thousand of flight movements, representing decreases of 99%, 7% and 71%, respectively compared to the same period in 2019, which in turn resulted in a significant decrease in both the aeronautical revenue and the non-aeronautical revenue of the Group. In particular, the Group has waived or reduced various fees as part of its relief package for the aviation industry. The relief measures, which will continue until the end of March 2021, include (i) full waiver of parking charge for idle passenger aircraft and air-bridge fees, (ii) reduction of passenger aircraft landing charges, (iii) fees reduction related to ramp handling, maintenance and airside vehicles; as well as rental reduction for terminal tenants covering lounges and offices, (iv) fees waiver for terminal licencees including ancillary passenger services, commercial services counters and cross-border transport operators, and (v) concessions on franchise fees for aviation support services such as into-plane fuelling. The full waiver on fees in relation to aircraft maintenance charges and fixed charges for inflight catering services will continue until the end of March 2021. In addition, the Group also expects to continue the rental relief for retail and catering tenants. As at the date of this Offering Memorandum, most of the shops and restaurants in the terminal have suspended business and their rent is waived, and for those shops and restaurants remaining open to provide essential services to passengers, the base rent is waived. Separately, the Group has announced multiple rounds of relief measures to airlines and aviation support services operators, including offer to purchase around 500,000 air tickets in advance from home-based airlines and providing an option for aviation support services operators at HKIA to sell their ground services equipment to the Airport Authority.

As the circumstances of COVID-19 are still evolving and the outcome of this pandemic outbreak is unpredictable, it is impracticable for the Group to estimate the potential impact of COVID-19 on its financial performance. See *“The Airport Authority — Recent Developments”* and *“Risk Factors — 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”*.

### **Airport Shops and Restaurants Portfolio**

In addition to the level of passenger traffic at HKIA, the airport shops and restaurants portfolio has important consequences, particularly in relation to the Group’s non-aeronautical revenue. A balanced portfolio of shops and restaurants catering for diverse demands and spending patterns of the passengers attracts more spending in the airport, which has a significant impact on the results of operations of the Group. As the retail and catering tenants of the Group pay a turnover cut if the turnover rent is higher than the base rent for such retail and catering tenants, the Group benefits from higher turnover of the airport shops and restaurants through the retail licences that the Group charges its retail and catering tenants. Before the outbreak of COVID-19, retail licences had consistently contributed a significant proportion of the total revenue of the Group. For the years ended 31 March 2018, 2019 and 2020, retail licences and advertising revenue were HK\$7,909 million, HK\$7,149 million and HK\$5,893 million, respectively, representing 36%, 37% and 34%, of the total revenue of the Group during the same period,

respectively. Notwithstanding the current suspension of business of most shops and restaurants in the terminal, the Group expects to continue evaluating the portfolio of shops and restaurants at HKIA to better serve the passenger demands.

### **Liquidity and Access to Funding**

The Group has to date relied on its operating surplus, collection of airport construction fee, bank loans and the debt capital markets to meet its capital expenditure and other funding requirements. As at 30 September 2020, the Group has a cash balance of approximately HK\$23 billion and undrawn committed bank facilities of approximately HK\$18 billion. As at the same date, the Group's interest-bearing borrowings (including interest) amounting to HK\$1,120 million were due to be repaid in the upcoming 12 months after 30 September 2020 or on demand.

As at 30 September 2020, the Group's total interest-bearing borrowings amounted to HK\$27,870 million, of which variable rate borrowings accounted for 2%, and fixed rate borrowings accounted for 98% (after taking account of the impact of designated interest rate swaps). Since 30 September 2020, the Group has issued a total of HK\$2,930 million Hong Kong dollar-denominated-notes under its Medium Term Note Programme and a total of US\$1,500 million U.S. dollar-denominated senior perpetual capital securities. See "*Capitalisation and Indebtedness*". Such external financing raised by the Group may expose it to the impact of interest rate and currency rate fluctuations.

### **Development and Expansion Projects**

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. See "*The Airport Authority*".

Investment in new projects related to the expansion and development projects involves substantial capital expenditures. For example, total capital expenditure for the 3RS Project is estimated at HK\$141.5 billion at money-of-the-day prices and the overall financial arrangements for the 3RS Project are based on the "joint contribution and user-pay" principle, whereby the Group is expected to fund through operating surplus, debt and collection of airport construction fee. During the current downward trend in passenger numbers, airport construction fee collection is expected to reduce in line with traffic. Notwithstanding the impact of COVID-19, the Group plans to maintain the same level of airport construction fee throughout the collection period and cease collecting airport construction fee only when all 3RS Project-related debts are fully repaid. Separately, investment in new projects will increase the overall depreciation charges of the Group, which may affect the financial condition and results of operations of the Group.

### **CRITICAL ACCOUNTING POLICIES**

The consolidated financial statements of the Group as at and for the years ended 31 March 2018, 2019 and 2020 have been prepared in conformity with HKFRS issued by HKICPA, and the consolidated interim financial statements of the Group as at and for the six months ended 30 September 2019 and 2020 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA. The preparation of the Group's financial statements and related notes requires the management to make judgments, estimates and assumptions that affect reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities. Although these judgments, estimates and assumptions are based on the management's best knowledge of current events and actions, uncertainty about these judgments, estimates and assumptions could result in the outcomes requiring a material adjustment to the carrying amounts of assets or liabilities in future periods.

An accounting policy is considered to be critical if it requires accounting judgments, estimates and assumptions to be made about matters that are uncertain at the time such judgments, estimates and assumptions are made. Investors should read the following descriptions of critical accounting policies in conjunction with the financial statements of the Group and related notes appearing elsewhere in this Offering Memorandum.

### **Airport Construction Fee**

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

The airport construction fee is accrued upon the enplanement of the passenger and is remitted to the Group by the airlines based on airlines' passenger counts. Airport construction fee collected by the Group, together with the interest generated thereon, is maintained in designated bank accounts and is used exclusively for paying the capital expenditure of the 3RS Project. The airport construction fee received by the Group is reflected under financing activities in the Group's consolidated cash flow statement. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the Group recorded airport construction fee received of HK\$3,821 million, HK\$3,816 million, HK\$3,661 million, HK\$1,912 million and HK\$540 million, respectively. In addition, the Group accounts for the unused airport construction as current liabilities in the Group's consolidated statement of financial statement. As at 30 September 2020, the Group had a balance of unused airport construction fee of HK\$482 million. Going forward, the Group expects to continue charging the airport construction fee until all 3RS Project-related debts are fully repaid.

### **Interest in Leasehold Land**

In connection with the airport site at Chek Lap Kok, the Group has classified a land premium of HK\$2,000 on 1 December 1995 and land formation costs of HK\$11,571 million as interest in leasehold land on the basis that such costs are considered to have been incurred to obtain the benefits of a leasehold land which has all the characteristics of land in Hong Kong and will revert to the lessor at the end of the Land Grant. 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.

### **Sub-lease of Leasehold Land**

The Group 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. Such sub-leases continue to be treated as interest in leasehold land in the financial statements of the Group and are not derecognised on the basis that these sub-leases are for the sole benefit of the Group for enhancing services at the airport and that they are in substance held for the full and exclusive benefit of the Group.

## Interests in Joint Ventures

Hangzhou Xiaoshan International Airport Co., Ltd. (“**HXIA**”), is an unlisted sino-foreign equity joint venture of the Group in which the Group holds 35% of effective interest. 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 consolidated financial statements of the Group, 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.

The Group has recognised its share of the CADF over the useful life of the subsidised assets since June 2016, 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) which are similar to those imposed on government grants related to assets. 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.

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.

## COMPONENTS OF THE INCOME AND EXPENDITURES

### Revenue

The Group generates revenues from airport charges, security charges, aviation security services, airside support services franchises, retail licences and advertising revenue, other terminal commercial revenue, real estate revenue and other income. The following table sets forth a breakdown of the Group’s revenue in these categories for the periods indicated.

(in HK\$ million)	For the six months ended 30 September				For the years ended 31 March					
	2020		2019		2020		2019		2018	
	Unaudited	%	Unaudited	%	Audited	%	Audited	%	Audited	%
<i>Aeronautical</i>										
Airport charges . . . . .	813	28	2,652	28	4,718	28	5,255	27	4,990	23
Security charges . . . . .	10	0.3	913	9	1,514	9	1,769	9	1,655	7
Aviation security services . . . . .	232	8	170	2	366	2	356	2	344	2
<i>Non-aeronautical</i>										
Airside support services franchises . . . . .	803	27	1,320	14	2,510	15	2,786	14	3,054	14
Retail licences and advertising revenue . . . . .	95	3	3,449	36	5,893	34	7,149	37	7,909	36
Other terminal commercial revenue	440	15	758	8	1,441	8	1,460	7	1,404	6
Real estate revenue . . . . .	83	3	158	2	301	2	301	2	310	1
Other income . . . . .	460	16	93	1	363	2	394	2	2,328	11
<b>Revenue</b> . . . . .	<b>2,936</b>	<b>100</b>	<b>9,513</b>	<b>100</b>	<b>17,106</b>	<b>100</b>	<b>19,470</b>	<b>100</b>	<b>21,994</b>	<b>100</b>

### *Aeronautical revenue*

Aeronautical revenue consists of airport charges, security charges and aviation security services. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, aeronautical revenue of the Group amounted to HK\$6,989 million, HK\$7,380 million, HK\$6,598 million, HK\$3,735 million and HK\$1,055 million, representing approximately 32%, 38%, 39%, 39% and 36%, respectively, of the Group’s revenue.

### *Airport Charges*

Airport charges primarily consist of 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. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, airport charges accounted for approximately 23%, 27%, 28%, 28% and 28%, respectively, of the Group's revenue.

### *Security Charges*

Security charges are primarily charges in respect of aviation security services provided to passengers. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, security charges accounted for approximately 7%, 9%, 9%, 9% and 0.3%, respectively, of the Group's revenue.

### *Aviation Security Services*

Aviation security services are primarily revenue from the provision of security services to airlines, franchisees and licencees. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, aviation security services accounted for approximately 2%, 2%, 2%, 2% and 8%, respectively, of the Group's revenue.

### ***Non-aeronautical Revenue***

Non-aeronautical revenue consists of airside support services franchises, retail licences and advertising revenue, other terminal commercial revenue, real estate revenue and other income. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, non-aeronautical revenue of the Group amounted to HK\$15,005 million, HK\$12,090 million, HK\$10,508 million, HK\$5,778 million and HK\$1,881 million, representing approximately 68%, 62%, 61%, 61% and 64%, respectively, of the Group's revenue.

### *Airside Support Services Franchises*

Airside support services franchises primarily represent 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 system, aircraft catering, aircraft ramp handling, and ground equipment storage and maintenance. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, airside support services franchises accounted for approximately 14%, 14%, 15%, 14% and 27%, respectively, of the Group's revenue.

### *Retail Licences and Advertising Revenue*

Retail licences and advertising revenue are rents and fees payable to the Airport Authority by licencees in the Terminals providing retail services (primarily duty free shops and general merchandise), food and beverage outlets and advertising. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, retail licences and advertising revenue accounted for approximately 36%, 37%, 34%, 36% and 3%, respectively, of the Group's revenue.



### Other Terminal Commercial Revenue

Other terminal commercial revenue are rents and fees payable to the Airport Authority by licencees in the Terminals providing passenger services in addition to rents payable by tenants, primarily the airlines, offices, passenger lounges, and check-in and ticketing counters. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, other terminal commercial revenue accounted for approximately 6%, 7%, 8%, 8% and 15%, respectively, of the Group's revenue.

### Real Estate Revenue

Real estate revenue primarily represents income from landside real estate development, consisting of airport related development comprising hotels, freight forwarding centres, car parking, petrol stations, offices and other facilities. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, real estate revenue accounted for approximately 1%, 2%, 2%, 2% and 3%, respectively, of the Group's revenue.

### Other Income

Other income primarily consists of amortisation of the subsidy from the Government, gain from the sublease of land and compensation received in respect of the compensation claims relating to Hong Kong-Zhuhai-Macao Bridge related facilities. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, other income accounted for approximately 11%, 2%, 2%, 1% and 16%, respectively, of the Group's revenue.

## Operating Expenses

The operating expenses of the Group primarily consist of staff costs and related expenses, repairs and maintenance, operational contracted services, government services, other operating expenses, and depreciation and amortisation, which accounted for approximately 95%, 96%, 95%, 94% and 94%, respectively, of total operating expenses for the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020.

	For the six months ended				For the years ended					
	30 September				31 March					
	2020		2019		2020		2019		2018	
(in HK\$ million)	Unaudited	%	Unaudited	%	Audited	%	Audited	%	Audited	%
Staff costs and related expenses . . .	1,361	22	1,353	25	2,918	27	2,687	26	2,492	27
Repairs and maintenance . . . . .	314	5	418	8	937	9	864	9	834	9
Operational contracted services . . .	509	8	607	11	1,323	12	977	10	767	8
Government services . . . . .	398	7	475	9	851	8	823	8	788	9
Government rent and rates . . . . .	255	4	93	2	173	2	158	1	154	2
Occupancy expenses . . . . .	119	2	183	4	317	3	314	3	288	3
Other operating expenses . . . . .	1,584	26	746	14	1,367	12	1,204	12	735	8
Depreciation and amortisation . . . .	1,588	26	1,458	27	2,924	27	3,123	31	3,097	34
<b>Total operating expenses . . . . .</b>	<b>6,128</b>	<b>100</b>	<b>5,333</b>	<b>100</b>	<b>10,810</b>	<b>100</b>	<b>10,150</b>	<b>100</b>	<b>9,155</b>	<b>100</b>

### Staff costs and related expenses

Staff costs and related expenses consist primarily of salaries, wages and other benefits and, to a lesser extent, other costs such as retirement costs and contributions to defined contribution retirement plans. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, staff costs and related expenses accounted for approximately 27%, 26%, 27%, 25% and 22%, respectively, of the Group's total operating expenses.

### ***Repairs and maintenance***

Repairs and maintenance consist primarily of plant and equipment maintenance expenses, refurbishment expenses, and consumables and supplies maintenance expenses. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, repairs and maintenance accounted for approximately 9%, 9%, 9%, 8% and 5%, respectively, of the Group's total operating expenses.

### ***Operational contracted services***

Operational contracted services primarily represent costs for operations outsourced to third-party contractors. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, operational contracted services accounted for approximately 8%, 10%, 12%, 11% and 8%, respectively, of the Group's total operating expenses.

### ***Government services***

Government services primarily consist of air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, government services accounted for approximately 9%, 8%, 8%, 9% and 7%, respectively, of the Group's total operating expenses.

### ***Government rent and rates***

Government rent and rates relate to the taxes levied on properties. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, government rent and rates accounted for approximately 2%, 1%, 2%, 2% and 4%, respectively, of the Group's total operating expenses.

### ***Occupancy expenses***

Occupancy expenses primarily represent electricity expenses, water expenses and other occupancy expenses. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, occupancy expenses accounted for approximately 3%, 3%, 3%, 4% and 2%, respectively, of the Group's total operating expenses.

### ***Other operating expenses***

Other operating expenses consist primarily of the corporate promotional activities, loss allowance for trade debtors and the purchases of air tickets from four home-based airlines to provide liquidity to the airlines. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, other operating expenses accounted for approximately 8%, 12%, 12%, 14% and 26%, respectively, of the Group's total operating expenses.

### ***Depreciation and Amortisation Expense***

Depreciation and amortization expense relates to the depreciation of the tangible assets and amortization of intangible assets of the Group. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, depreciation and amortisation expense accounted for approximately 34%, 31%, 27%, 27% and 26%, respectively, of the Group's total operating expenses.

## Interest and Finance Costs

The Group's interest income consists primarily of short term deposit interest income and the Group's finance costs consists primarily of interest on notes, other borrowing costs and other interest expenses. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the Group recorded net interest income of HK\$275 million, HK\$379 million, HK\$461 million, HK\$269 million, and HK\$51 million, respectively.

## RESULTS OF OPERATIONS

### Summary Historical Results of Operations

The following table sets forth a summary of the Group's results of operations for the years ended 31 March 2018, 2019 and 2020 and the six months ended 30 September 2019 and 2020.

	For the six months ended 30 September			For the years ended 31 March			
	2020		2019	2020		2019	2018
	(US\$ million)	(HK\$ million)	(HK\$ million)	(US\$ million)	(HK\$ million)	(HK\$ million)	(HK\$ million)
Airport charges . . . . .	105	813	2,652	609	4,718	5,255	4,990
Security charges . . . . .	1	10	913	195	1,514	1,769	1,655
Aviation security services . . . . .	30	232	170	47	366	356	344
Airside support services franchises . . . . .	104	803	1,320	324	2,510	2,786	3,054
Retail licences and advertising revenue . . . . .	12	95	3,449	760	5,893	7,149	7,909
Other terminal commercial revenue . . . . .	57	440	758	186	1,441	1,460	1,404
Real estate revenue . . . . .	11	83	158	39	301	301	310
Other income . . . . .	59	460	93	47	363	394	2,328
<b>Revenue . . . . .</b>	<b>379</b>	<b>2,936</b>	<b>9,513</b>	<b>2,207</b>	<b>17,106</b>	<b>19,470</b>	<b>21,994</b>
Staff costs and related expenses . . .	(176)	(1,361)	(1,353)	(377)	(2,918)	(2,687)	(2,492)
Repairs and maintenance . . . . .	(41)	(314)	(418)	(121)	(937)	(864)	(834)
Operational contracted services . . .	(66)	(509)	(607)	(171)	(1,323)	(977)	(767)
Government services . . . . .	(51)	(398)	(475)	(110)	(851)	(823)	(788)
Government rent and rates . . . . .	(33)	(255)	(93)	(22)	(173)	(158)	(154)
Occupancy expenses . . . . .	(15)	(119)	(183)	(41)	(317)	(314)	(288)
Other operating expenses . . . . .	(204)	(1,584)	(746)	(176)	(1,367)	(1,204)	(735)
<b>Operating Expenses before Depreciation and Amortisation . . . . .</b>	<b>(586)</b>	<b>(4,540)</b>	<b>(3,875)</b>	<b>(1,018)</b>	<b>(7,886)</b>	<b>(7,027)</b>	<b>(6,058)</b>
<b>Operating (Loss)/Profit before Depreciation and Amortisation . . . . .</b>	<b>(207)</b>	<b>(1,604)</b>	<b>5,638</b>	<b>1,189</b>	<b>9,220</b>	<b>12,443</b>	<b>15,936</b>
Depreciation and amortisation . . .	(205)	(1,588)	(1,458)	(377)	(2,924)	(3,123)	(3,097)
<b>Operating (Loss)/Profit before Interest and Finance Costs . . .</b>	<b>(412)</b>	<b>(3,192)</b>	<b>4,180</b>	<b>812</b>	<b>6,296</b>	<b>9,320</b>	<b>12,839</b>
Interest and finance costs:							
Finance costs . . . . .	(2)	(17)	(36)	(3)	(25)	(7)	(2)
Interest income . . . . .	9	68	305	63	486	386	277
	7	51	269	60	461	379	275
Share of results of an associate . . .	2	13	(5)	(2)	(16)	—	—
Share of results of joint ventures . .	(11)	(84)	168	35	269	261	201
<b>(Loss)/Profit before Taxation . . .</b>	<b>(414)</b>	<b>(3,212)</b>	<b>4,612</b>	<b>905</b>	<b>7,010</b>	<b>9,960</b>	<b>13,315</b>
Income tax . . . . .	68	525	(732)	(144)	(1,112)	(1,558)	(1,829)
<b>(Loss)/Profit for the Period/Year</b>	<b>(346)</b>	<b>(2,687)</b>	<b>3,880</b>	<b>761</b>	<b>5,898</b>	<b>8,402</b>	<b>11,486</b>

## Results of Operations

### *Six months ended 30 September 2020 compared to the six months ended 30 September 2019*

#### *Aeronautical Revenue*

##### Airport Charges

Airport charges were HK\$813 million for the six months ended 30 September 2020, representing 69% decrease from HK\$2,652 million for the six months ended 30 September 2019. The decrease was primarily due to reductions in passenger traffic and flight movements resulted from the COVID-19 pandemic, and the relief measures provided to airlines.

##### Security Charges

Security charges were HK\$10 million for the six months ended 30 September 2020, representing 99% decrease from HK\$913 million for the six months ended 30 September 2019. The decrease was primarily due to reductions in passenger traffic resulted from the travel restrictions and quarantine measures implemented in different countries and regions.

##### Aviation Security Services

Aviation security services were HK\$232 million for the six months ended 30 September 2020, representing 36% increase from HK\$170 million for the six months ended 30 September 2019. The increase was primarily due to the COVID-19 quarantine-related security services provided to Department of Health.

As a result of the foregoing factors, aeronautical revenue was HK\$1,055 million for the six months ended 30 September 2020, representing a 72% decrease from HK\$3,735 million for the six months ended 30 September 2019.

#### *Non-aeronautical Revenue*

##### Airside support services franchises

Airside support services franchises revenue was HK\$803 million for the six months ended 30 September 2020, representing 39% decrease from HK\$1,320 million for the six months ended 30 September 2019. The decrease was primarily due to (i) lower franchise fees from aircraft catering, ramp handling and maintenance, due to decreased flight movements during the period, (ii) lower franchise fees from the aviation fuel system as a result of the decrease in aviation fuel throughput, (iii) relief measures for aviation support services including aircraft catering, into-plane fueling, ramp handling, maintenance as well as airside vehicle, and (iv) lower ground handling services and cargo revenues at Zhuhai Airport in line with lower traffic resulted from the COVID-19 pandemic.

##### Retail licences and advertising revenue

Retail licences and advertising revenue was HK\$95 million for the six months ended 30 September 2020, representing 97% decrease from HK\$3,449 million for the six months ended 30 September 2019. The decrease was primarily due to the decrease in passenger numbers and the temporary closure of airport shops and restaurants due to the COVID-19 pandemic.

#### Other terminal commercial revenue

Other terminal commercial revenue was HK\$440 million for the six months ended 30 September 2020, representing 42% decrease from HK\$758 million for the six months ended 30 September 2019. The decrease was primarily due to rental relief for offices and lounges in the terminals.

#### Real estate revenue

Real estate revenue was HK\$83 million for the six months ended 30 September 2020, representing 47% decrease from HK\$158 million for the six months ended 30 September 2019. The decrease was primarily due to the decrease in passenger numbers and the rental relief to tenants.

#### Other income

Other income was HK\$460 million for the six months ended 30 September 2020, representing 395% increase from HK\$93 million for the six months ended 30 September 2019. The increase was primarily due to amortisation of the subsidy from the Government to support relief measures.

As a result of the foregoing factors, non-aeronautical revenue was HK\$1,881 million for the six months ended 30 September 2020, representing a 67% decrease from HK\$5,778 million for the six months ended 30 September 2019.

#### *Staff costs and related expenses*

Staff costs and related expenses remained relatively stable and amounted to HK\$1,361 million and HK\$1,353 million for the six months ended 30 September 2020 and 2019, respectively.

#### *Repairs and maintenance*

Repairs and maintenance were HK\$314 million for the six months ended 30 September 2020, representing 25% decrease from HK\$418 million for the six months ended 30 September 2019. The decrease was primarily due to scaled down maintenance work on the airfield and terminals as well as temporary suspension of some facilities resulted from the decrease in passenger level amid the COVID-19 pandemic.

#### *Operational contracted services*

Operational contracted services were HK\$509 million for the six months ended 30 September 2020, representing 16% decrease from HK\$607 million for the six months ended 30 September 2019. The decrease was primarily due to lower spending on outsourced operations resulted from the decrease in passenger level amid the COVID-19 pandemic.

#### *Government services*

Government services were HK\$398 million for the six months ended 30 September 2020, representing 16% decrease from HK\$475 million for the six months ended 30 September 2019. The decrease was primarily due to the lower final adjustment on 2019/20 air traffic control fees.

#### *Government rent and rates*

Government rent and rates were HK\$255 million for the six months ended 30 September 2020, representing 174% increase from HK\$93 million for the six months ended 30 September 2019. The increase was primarily due to the government rent and rates paid on behalf of retail and catering licencees during the temporary closure amid the COVID-19 pandemic.

### *Occupancy expenses*

Occupancy expenses were HK\$119 million for the six months ended 30 September 2020, representing 35% decrease from HK\$183 million for the six months ended 30 September 2019. The decrease was primarily due to lower electricity consumption resulted from the temporary suspension of some facilities amid the COVID-19 pandemic and the impact of closure for Terminal 2.

### *Other operating expenses*

Other operating expenses were HK\$1,584 million for the six months ended 30 September 2020, representing 112% increase from HK\$746 million for the six months ended 30 September 2019. The increase was primarily due to financial relief measures including purchase of air tickets from home-based airlines as well as Airport Training Allowance to airport staff.

### *Depreciation and amortization*

Depreciation and amortisation were HK\$1,588 million for the six months ended 30 September 2020, representing 9% increase from HK\$1,458 million for the six months ended 30 September 2019. The increase was primarily due to the completion of certain expansion and improvement projects for facilities and systems during the period.

### *Interest and finance cost*

Net interest income was HK\$51 million for the six months ended 30 September 2020, representing 81% decrease from HK\$269 million for the six months ended 30 September 2019. The decrease was primarily due to a decrease in interest income as a result of the decrease in average cash and deposit balance as well as lower deposit rate.

### *(Loss)/Profit for the period*

As a result of the factors described above, the Group recorded a loss of HK\$2,687 million for the six months ended 30 September 2020, as compared to a profit of HK\$3,880 million for the six months ended 30 September 2019.

## ***Year ended 31 March 2020 compared to the year ended 31 March 2019***

### *Aeronautical Revenue*

#### *Airport Charges*

Airport charges were HK\$4,718 million for the year ended 31 March 2020, representing 10% decrease from HK\$5,255 million for the year ended 31 March 2019. The decrease was primarily due to reductions in passenger traffic and flight movements and the relief measures provided to airlines, partially offset by the full-year effect of increase in landing charges which took effect on 1 September 2018.

#### *Security Charges*

Security charges were HK\$1,514 million for the year ended 31 March 2020, representing 14% decrease from HK\$1,769 million for the year ended 31 March 2019. The decrease was primarily due to reductions in passenger traffic, partially offset by the full-year effect of increase in security charges which took effect on 1 October 2018.

### Aviation Security Services

Aviation security services remained relatively stable at HK\$366 million for the year ended 31 March 2020, representing a slight increase from HK\$356 million for the year ended 31 March 2019.

As a result of the foregoing factors, aeronautical revenue was HK\$6,598 million for the year ended 31 March 2020, representing an 11% decrease from HK\$7,380 million for the year ended 31 March 2019.

### Non-aeronautical Revenue

#### Airside support services franchises

Airside support services franchises revenue was HK\$2,510 million for the year ended 31 March 2020, representing 10% decrease from HK\$2,786 million for the year ended 31 March 2019. The decrease was primarily due to (i) the expiry of the aviation fuel system facility payment in July 2018, (ii) lower franchise fees from aircraft catering, ramp handling and maintenance, due to decreased flight movements during the year, (iii) lower franchise fees from the aviation fuel system as a result of the drop in aviation fuel throughput, (iv) relief measures for aviation support services including aircraft catering, into-plane fuelling, maintenance as well as cargo terminal services, (v) relief measures for airlines, covering ramp handling, maintenance and airside vehicle-related fees, and (vi) lower ground handling service and cargo revenues at Zhuhai Airport that accompanied decreases in flight movements and cargo throughput after the COVID-19 outbreak.

#### Retail licences and advertising revenue

Retail licences and advertising revenue was HK\$5,893 million for the year ended 31 March 2020, representing 18% decrease from HK\$7,149 million for the year ended 31 March 2019. The decrease was primarily due to (i) the drop in passenger numbers, (ii) rental relief provided to airport shops and restaurants, and (iii) the temporary closure of airport shops and restaurants due to the COVID-19 pandemic.

#### Other terminal commercial revenue

Other terminal commercial revenue was HK\$1,441 million for the year ended 31 March 2020, representing 1% decrease from HK\$1,460 million for the year ended 31 March 2019. The decrease was primarily due to the rental relief for offices and lounges in the terminals.

#### Real estate revenue

Real estate revenue remained stable at HK\$301 million for the years ended 31 March 2020 and 2019.

#### Other income

Other income was HK\$363 million for the year ended 31 March 2020, representing 8% decrease from HK\$394 million for the year ended 31 March 2019. The decrease was primarily due to a one-off compensation in 2018/19 for land resumption relating to Hong Kong Zhuhai-Macao Bridge, partially offset by amortisation of subsidy from the Government.

As a result of the foregoing factors, non-aeronautical revenue was HK\$10,508 million for the year ended 31 March 2020, representing a 13% decrease from HK\$12,090 million for the year ended 31 March 2019.

### *Staff costs and related expenses*

Staff costs and related expenses were HK\$2,918 million for the year ended 31 March 2020, representing 9% increase from HK\$2,687 million for the year ended 31 March 2019. The increase was primarily due to adjustments to ensure the market competitiveness of employees' remuneration and an increase in staff numbers to cope with business development.

### *Repairs and maintenance*

Repairs and maintenance were HK\$937 million for the year ended 31 March 2020, representing 8% increase from HK\$864 million for the year ended 31 March 2019. The increase was primarily due to additional work on the airfield and terminals to ensure safe and reliable operations. Wage increases due to labour shortages in 2019 and inflationary pressures on material costs also contributed to the increase.

### *Operational contracted services*

Operational contracted services were HK\$1,323 million for the year ended 31 March 2020, representing 35% increase from HK\$977 million for the year ended 31 March 2019. The increase was primarily due to newly outsourced operations, higher costs as a result of contract renewals and ad hoc security costs during the year.

### *Government services*

Government services were HK\$851 million for the year ended 31 March 2020, representing 3% increase from HK\$823 million for the year ended 31 March 2019. The increase was primarily due to a higher final adjustment on 2018/19 air traffic control fees.

### *Government rent and rates*

Government rent and rates remained relatively stable at HK\$173 million for the year ended 31 March 2020, representing a slight increase from HK\$158 million for the year ended 31 March 2019.

### *Occupancy expenses*

Occupancy expenses remained relatively stable at HK\$317 million for the year ended 31 March 2020, representing a slight increase from HK\$314 million for the year ended 31 March 2019.

### *Other operating expenses*

Other operating expenses were HK\$1,367 million for the year ended 31 March 2020, representing 14% increase from HK\$1,204 million for the year ended 31 March 2019. The increase was primarily due to (i) additional retail promotional activities to offset the impact brought by social unrest, (ii) various consultancy studies carried out during the year, and (iii) an increase in unrealised exchange loss in relation to the revaluation of short-term foreign currency deposits.

### *Depreciation and amortization*

Depreciation and amortisation were HK\$2,924 million for the year ended 31 March 2020, representing 6% decrease from HK\$3,123 million for the year ended 31 March 2019. The decrease was primarily due to certain fully depreciated fixed assets despite the completion of expansion and improvement projects for facilities and systems during the year ended 31 March 2020.



### *Interest and finance cost*

Net interest income was HK\$461 million for the year ended 31 March 2020, representing 22% increase from HK\$379 million for the year ended 31 March 2019. The increase was primarily due to an increase in interest income as a result of a higher average interest rate for the short-term deposits.

### *Profit for the year*

As a result of the factors described above, the Group recorded a profit of HK\$5,898 million for the year ended 31 March 2020, as compared to a profit of HK\$8,402 million for the year ended 31 March 2019.

### ***Year ended 31 March 2019 compared to the year ended 31 March 2018***

#### *Aeronautical Revenue*

##### *Airport Charges*

Airport charges were HK\$5,255 million for the year ended 31 March 2019, representing 5% increase from HK\$4,990 million for the year ended 31 March 2018. The increase was primarily due to growth in flight movements and passenger traffic, and increases in landing charges, which took effect on 1 September 2018.

##### *Security Charges*

Security charges were HK\$1,769 million for the year ended 31 March 2019, representing 7% increase from HK\$1,655 million for the year ended 31 March 2018. The increase was primarily due to growth in passenger traffic, and increases in security charges, which took effect on 1 October 2018.

##### *Aviation Security Services*

Aviation security services remained relatively stable at HK\$356 million for the year ended 31 March 2019, representing a slight increase from HK\$344 million for the year ended 31 March 2018.

As a result of the foregoing factors, aeronautical revenue was HK\$7,380 million for the year ended 31 March 2019, representing a 6% increase from HK\$6,989 million for the year ended 31 March 2018.

#### *Non-aeronautical Revenue*

##### *Airside support services franchises*

Airside support services franchises revenue was HK\$2,786 million for the year ended 31 March 2019, representing 9% decrease from HK\$3,054 million for the year ended 31 March 2018. The decrease was primarily due to the expiry of the aviation fuel system facility payment in July 2018, which was partially offset by (i) higher franchise fees from air cargo, ramp handling due to improved terms when contracts were renewed during the year, (ii) amortisation of upfront payments for the premium logistics centre, and (iii) higher ground handling service and cargo revenues at Zhuhai Airport that accompanied increases in flight movements and cargo throughput.

#### Retail licences and advertising revenue

Retail licences and advertising revenue was HK\$7,149 million for the year ended 31 March 2019, representing 10% decrease from HK\$7,909 million for the year ended 31 March 2018. The decrease was primarily due to the full-year effect of the new anchor and money exchange licences awarded in the second half of 2017/18.

#### Other terminal commercial revenue

Other terminal commercial revenue was HK\$1,460 million for the year ended 31 March 2019, representing 4% increase from HK\$1,404 million for the year ended 31 March 2018. The increase was primarily due to the revised licence fee structure for commercial pay-in lounges.

#### Real estate revenue

Real estate revenue remained relatively stable at HK\$301 million for the year ended 31 March 2019, representing a slight decrease from HK\$310 million for the year ended 31 March 2018.

#### Other income

Other income was HK\$394 million for the year ended 31 March 2019, representing 83% decrease from HK\$2,328 million for the year ended 31 March 2018. The decrease was primarily due to a one-off gain in the year ended 31 March 2018 of HK\$2,185 million from the sublease of land at HKIA to Regal Hotels Group for the development and management of the SKYCITY hotel.

As a result of the foregoing factors, non-aeronautical revenue was HK\$12,090 million for the year ended 31 March 2019, representing a 19% decrease from HK\$15,005 million for the year ended 31 March 2018.

#### Staff costs and related expenses

Staff costs and related expenses were HK\$2,687 million for the year ended 31 March 2019, representing 8% increase from HK\$2,492 million for the year ended 31 March 2018. The increase was primarily due to adjustments to ensure the market competitiveness of employees' remuneration and the increase in staff numbers to cope with traffic growth.

#### Repairs and maintenance

Repairs and maintenance were HK\$864 million for the year ended 31 March 2019, representing 4% increase from HK\$834 million for the year ended 31 March 2018. The increase was primarily due to additional works on the airfield and terminals to ensure safe and reliable operations amidst increased traffic. Wage increases due to labour shortages and inflationary pressures on material costs also contributed to the increase.

#### Operational contracted services

Operational contracted services were HK\$977 million for the year ended 31 March 2019, representing 27% increase from HK\$767 million for the year ended 31 March 2018. The increase was primarily due to traffic growth, newly outsourced operations and higher costs as a result of contract renewals and wage increases due to labour shortages during the year

#### *Government services*

Government services were HK\$823 million for the year ended 31 March 2019, representing 4% increase from HK\$788 million for the year ended 31 March 2018. The increase was primarily due to higher air traffic control fees as a result of increased flight movements.

#### *Government rent and rates*

Government rent and rates remained relatively stable at HK\$158 million for the year ended 31 March 2019, representing a slight increase from HK\$154 million for the year ended 31 March 2018.

#### *Occupancy expenses*

Occupancy expenses were HK\$314 million for the year ended 31 March 2019, representing 9% increase from HK\$288 million for the year ended 31 March 2018. The increase was primarily due to higher electricity and other occupancy expenses.

#### *Other operating expenses*

Other operating expenses were HK\$1,204 million for the year ended 31 March 2019, representing 64% increase from HK\$735 million for the year ended 31 March 2018. The increase was primarily due to (i) an increase in the loss allowance for trade debtors, (ii) promotional activities for the 20th anniversary of HKIA, and (iii) an increase in the unrealised exchange loss from the depreciation of the Renminbi.

#### *Depreciation and amortization*

Depreciation and amortisation were HK\$3,123 million for the year ended 31 March 2019, representing 1% increase from HK\$3,097 million for the year ended 31 March 2018. The increase was primarily due to the completion of expansion and improvement projects for facilities and systems during the year ended 31 March 2019, which was partially offset by certain fully depreciated fixed assets.

#### *Interest and finance cost*

Net interest income was HK\$379 million for the year ended 31 March 2019, representing 38% increase from HK\$275 million for the year ended 31 March 2018. The increase was primarily due to an increase in net interest income as a result of an increase in deposit balance and a higher average interest rate for the short-term deposits.

#### *Profit for the year*

As a result of the factors described above, the Group recorded a profit of HK\$8,402 million for the year ended 31 March 2019, as compared to a profit of HK\$11,486 million for the year ended 31 March 2018.

## LIQUIDITY AND CAPITAL RESOURCES

The financial condition and liquidity of the Group has been and will continue to be influenced by a variety of factors, including:

- ability to generate cash flows from operating activities;
- level of outstanding indebtedness and the interest that the Authority is obligated to pay on the indebtedness, which together affects the overall finance costs;
- prevailing domestic and international interest rates, which affect the debt service requirements;
- impact of the COVID-19 pandemic; and
- investment commitment and capital expenditure under the expansion and development plan, including the 3RS Project.

The principal cash requirements of the Group consist of the following:

- operating and working capital requirements;
- the servicing of indebtedness of the Group; and
- investment commitments under the expansion and development plan, including the 3RS Project, as well as additional capital expenditures.

The principal sources of the Group's liquidity have been cash flow from operation and indebtedness. As at 30 September 2020, the Group has a cash balance of approximately HK\$23 billion and undrawn committed bank facilities of approximately HK\$18 billion. In addition, the Group expects to continue charging the airport construction fee until all 3RS Project-related debts are fully repaid. As at 30 September 2020, the outstanding commitments in respect of capital expenditure not provided for in the consolidated financial statements amounted to about HK\$83 billion in relation of 3RS Project and about HK\$29 billion in relation of other projects. As a result, the Group is expected to fund the expansion, including the 3RS Project, through operating surplus, debt and (only for 3RS Project) collection of airport construction fee going forward.

### **Working Capital**

Current liabilities primarily arise from trade and other payables, interest-bearing borrowings and unused airport construction fee. As at 30 September 2020, the net current assets of the Group amounted to HK\$9,924 million. The management believes that the Group has adequate working capital for the present requirements of the Group, and it is expected that if current market conditions prevail, the cash flows from operations and available cash on hand will be sufficient to fund the operating needs, capital expenditures and debt service obligations of the Group for the foreseeable future. The Group may, however, incur additional indebtedness to finance all or a portion of any capital expenditures. See "*Risk Factors — Risks relating to the Airport Authority and its activities and operations — The Airport Authority requires significant funding for its business*".

## Cash Flows

The following table sets forth the Group's cash flows for the periods indicated.

	For the six months ended 30 September		For the years ended 31 March		
	2020	2019	2020	2019	2018
	Unaudited	Unaudited	Audited	Audited	Audited
	(in HK\$ million)				
Net cash (used in)/generated from operating activities . . . . .	(2,930)	6,190	9,983	12,119	12,274
Net cash (used in)/generated from investing activities . . . . .	(16,742)	(9,129)	(12,053)	(15,655)	(17,265)
Net cash generated from financing activities . . . . .	22,971	1,721	3,341	7,685	3,750
Cash and cash equivalents at beginning of period/year . . . . .	6,188	4,937	4,937	810	2,022
Cash and cash equivalents at end of period/year . . . . .	9,505	3,699	6,188	4,937	810

### *Cash Flows from Operating Activities*

For the six months ended 30 September 2020, the net cash flows used in operating activities were HK\$2,930 million, primarily as a result of loss before taxation of HK\$3,212 million, adjusted by depreciation of HK\$1,456 million and decrease in trade and other payables of HK\$644 million.

For the year ended 31 March 2020, the net cash flows generated from operating activities were HK\$9,983 million, primarily as a result of profit before taxation of HK\$7,010 million, adjusted by depreciation of HK\$2,660 million, increase in deferred income of HK\$1,470 million and Hong Kong profits tax paid of HK\$1,195 million.

For the year ended 31 March 2019, the net cash flows generated from operating activities were HK\$12,119 million, primarily as a result of profit before taxation of HK\$9,960 million, adjusted by depreciation of HK\$2,868 million, increase in deferred income of HK\$1,560 million and Hong Kong profits tax paid of HK\$1,498 million.

For the year ended 31 March 2018, the net cash flows generated from operating activities were HK\$12,274 million, primarily as a result of profit before taxation of HK\$13,315 million, adjusted by depreciation of HK\$2,852 million, net gain on disposal of interest in leasehold land and other property, plant and equipment of HK\$2,171 million and Hong Kong profits tax paid of HK\$1,810 million.

### *Cash Flows from Investing Activities*

For the six months ended 30 September 2020, the net cash flows used in investing activities were HK\$16,742 million, primarily consisting of net placement of deposits with banks with over three months of maturity when placed of HK\$6,699 million and payments for the purchase of other property, plant and equipment of HK\$10,195 million.

For the year ended 31 March 2020, the net cash flows used in investing activities were HK\$12,053 million, primarily consisting of payments for the purchase of other property, plant and equipment of HK\$21,986 million, partially offset by net maturity of deposits with banks with over three months of maturity when placed of HK\$9,494 million.

For the year ended 31 March 2019, the net cash flows used in investing activities were HK\$15,655 million, primarily consisting of payments for the purchase of other property, plant and equipment of HK\$17,496 million, partially offset by net maturity of deposits with banks with over three months of maturity when placed of HK\$2,142 million.

For the year ended 31 March 2018, the net cash flows used in investing activities were HK\$17,265 million, primarily consisting of net placement of deposits with banks with over three months of maturity when placed of HK\$6,089 million and payments for the purchase of other property, plant and equipment of HK\$13,624 million, partially offset by receipts from disposal of interest in leasehold land and other property, plant and equipment of HK\$2,189 million.

### **Cash Flows from Financing Activities**

For the six months ended 30 September 2020, the net cash flows generated from financing activities were HK\$22,971 million, primarily consisting of airport construction fee received of HK\$540 million, drawdown of new bank loans of HK\$17,500 million and receipts from issue of notes of HK\$5,249 million, partially offset by interest paid on notes and bank loans of HK\$104 million.

For the year ended 31 March 2020, the net cash flows generated from financing activities were HK\$3,341 million, primarily consisting of airport construction fee received of HK\$3,661 million, partially offset by interest paid on notes of HK\$189 million.

For the year ended 31 March 2019, the net cash flows generated from financing activities were HK\$7,685 million, primarily consisting of airport construction fee received of HK\$3,816 million and receipts from issue of notes of HK\$3,918 million.

For the year ended 31 March 2018, the net cash flows generated from financing activities were HK\$3,750 million, primarily consisting of airport construction fee received of HK\$3,821 million.

### **Contractual Obligations**

The following table summarises the Group's contractual obligations as at 30 September 2020.

	Carrying amount at 30 September 2020	Contractual undiscounted cash flow				
		Total	Within 1 year or on demand	1–2 years	2–5 years	More than 5 years
			(in HK\$ million)			
Interest-bearing borrowings . . .	27,870	31,363	1,120	1,040	19,632	9,571
Trade and other payables . . .	15,257	15,437	13,809	669	906	53
Interest rate swaps						
(net settled) . . . . .	86	58	9	9	37	3
Cross currency swaps						
(net settled) . . . . .	(12)	(125)	(15)	(15)	(44)	(51)
Forward exchange contracts . . .	—	159	—	9	30	120
<b>Total</b> . . . . .	<b>43,201</b>	<b>46,892</b>	<b>14,923</b>	<b>1,712</b>	<b>20,561</b>	<b>9,696</b>

### **Contingent Liabilities**

As at 30 September 2020, the Group did not have any material contingent liabilities.

## Capital Expenditures

For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the capital expenditures of the Group capitalised as assets amounted to HK\$16,314 million, HK\$23,831 million, HK\$21,282 million, HK\$12,818 million and HK\$12,999 million, respectively. Going forward, the Group expects to incur capital expenditures of HK\$27,038 million, HK\$31,540 million, HK\$28,939 million and HK\$28,772 million in the years ended 31 March 2021, 2022, 2023 and 2024, respectively. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the large majority of the Group's capital expenditure has comprised expenditure associated with the 3RS Project, with a comparatively smaller portion incurred in connection with the Terminal 1 capacity enhancement, the Carpark 4 expansion, the Midfield Apron development, transformation of the Passenger Terminal Buildings, the elevated passenger corridor connecting North Satellite Concourse with Terminal 1 and other expenditures. See "*Risk Factors — Risks relating to the Airport Authority and its activities and operations — The Airport Authority requires significant funding for its business*".

The construction of the 3RS Project is expected to be completed in 2024. As at the date of this Offering Memorandum, the 3RS Project is well underway and on schedule and the new north runway is expected to be completed in 2022. As at 30 September 2020, the Group has incurred approximately HK\$58,544 million in connection with the 3RS Project. The total capital expenditure for the 3RS Project is estimated at HK\$141.5 billion at money-of-the-day prices and the Group is expected to fund through retained operating surplus, debt and collection of airport construction fee. These capital expenditures and the composition of the 3RS Project are based on the preliminary estimates of the Group and are thus subject to change as a result of detailed construction plans. See "*The Airport Authority — Business Operations — 3RS Project*".

## OFF-BALANCE SHEET TRANSACTIONS

As at 30 September 2020, apart from the capital expenditures mentioned above, the Group did not have any material off-balance sheet arrangements, which are assets or debts or financing activities that are not reflected on the balance sheet of the Group.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Group is exposed to financial and market risks arising from its normal business activities. These financial and market risks principally involve (i) credit risk, (ii) liquidity risk, (iii) interest rate risk and (iv) foreign currency risk, which may affect the cash flow and financial conditions of the Group.

### 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. In respect of trade and other receivables, the Group has 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. Transactions involving derivative financial instruments are with counterparties with sound credit ratings and with whom the group has signed netting agreements. In addition, cash and bank balances are placed with financial institutions with sound credit ratings to minimise credit exposure.

## **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 Airport Authority except Aviation Security Company Limited, AsiaWorld-Expo Management Limited and Hong Kong — Zhuhai Airport Management Co., Ltd. which handle their own cash management. The Group'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.

As at 30 September 2020, the Group's interest-bearing borrowings amounting to HK\$600 million were due to be repaid in the upcoming 12 months after 30 September 2020 or on demand. The short term liquidity risk inherent in the contractual maturity will be addressed by internal sources of funds and new external financing.

## **Interest Rate Risk**

The Group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. 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. 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.

As at 30 September 2020, the Group's total interest-bearing borrowings amounted to HK\$27,870 million, of which variable rate borrowings accounted for 2%, and fixed rate borrowings accounted for 98% (after taking account of the impact of designated interest rate swaps).

## **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 U.S. dollars and Australian dollars.

Although the U.S. dollar currency risk is substantially mitigated by the peg between Hong Kong dollar and U.S. dollar, the Group further reduces this risk by the use of cross currency swaps to hedge all payment of the U.S. dollar bond into Hong Kong dollar. The Group uses forward exchange contracts to manage its Australian dollar currency risk until the settlement date of foreign currency payables.

As at the date of this Offering Memorandum, the Group was exposed to U.S. dollar currency risk in respect of the U.S. dollar-denominated borrowings of US\$2,000 million. As at 31 March 2020, the Group was exposed to U.S. dollar currency risk in respect of cash and bank balances of US\$350 million, which remained relatively stable to date.



## THE AIRPORT AUTHORITY

### Overview

The Airport Authority is a statutory body corporate owned by the Hong Kong SAR Government (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. Pursuant to the Ordinance, the Airport Authority operates the Hong Kong International Airport (“**HKIA**”), 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 at Chek Lap Kok on 6 July 1998 with a single runway. A second runway was added and the passenger terminal was extended a year later.

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

HKIA can handle 68 aircraft movements an hour at peak hours. HKIA became the world’s busiest airport in terms of international cargo throughput in 1996 before relocation from Kai Tak to Chek Lap Kok in 1998. In 2019, HKIA was the world’s busiest freight airport for the tenth consecutive year and ranked fourth in terms of international passenger throughput. The following tables set forth passenger traffic, cargo and airmail throughput and aircraft movements of HKIA for the periods indicated.

	For the six months ended		For the years ended		
	30 September		31 March		
	2020	2019	2020	2019	2018
Passenger traffic (in millions of passengers) . . . . .	0.4	36.5	60.9	75.1	73.6
Cargo and airmail throughput (in millions of tonnes) . . . . .	2.2	2.3	4.7	5.1	5.1
Aircraft Movements (in thousands) . . . . .	61	213	377	429	423

For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, the consolidated revenue of the Group amounted to HK\$21,994 million, HK\$19,470 million, HK\$17,106 million, HK\$9,513 million and HK\$2,936 million, respectively. The revenue streams of the Group can be divided into aeronautical and non-aeronautical. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, aeronautical revenue of the Group amounted to HK\$6,989 million, HK\$7,380 million, HK\$6,598 million, HK\$3,735 million and HK\$1,055 million, representing approximately 32%, 38%, 39%, 39% and 36%, respectively, of the Group’s revenue. For the years ended 31 March 2018, 2019 and 2020, and the six months ended 30 September 2019 and 2020, non-aeronautical revenue of the Group amounted to HK\$15,005 million, HK\$12,090 million, HK\$10,508 million, HK\$5,778 million and HK\$1,881 million, representing approximately 68%, 62%, 61%, 61% and 64%, respectively, of the Group’s revenue. For a further description of our revenue streams, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Components of Income and Expenditures”.

## Recent Developments

To convey the scope and scale of the HKIA's operations, unless otherwise indicated, this section provides data prior to COVID-19 pandemic. These data should not be considered as indicative of the current scale of the HKIA's operations during the COVID-19 pandemic. 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 Memorandum, 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 operational or 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 has been extended since March 2020. Starting from 25 December 2020, all persons arriving in Hong Kong from other countries outside China are mandated to undergo 21-day compulsory quarantine at the designated quarantine hotels. At the same time, they must provide to their airlines confirmation of room reservation in a designated quarantine hotel before boarding the flight, or else they will be refused to board the flight. This is still in effect as at the date of this Offering Memorandum.

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. AsiaWorld-Expo provided the site which was turned into a community treatment facility. On 21 August 2020, the Government announced that a temporary hospital would be built on a 3.2 hectare piece of land near the AsiaWorld-Expo.

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 period until the end of March 2021. Most of the shops and restaurants in the terminal have suspended business and their rent was waived. For those shops and restaurants remaining open to provide essential services to passengers, their base rent was waived.

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 a further period of time until the end of March 2021, which included a full waiver of parking and air-bridge fees

for idle passenger 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 services 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 2020, would continue until end of March 2021.

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. The Airport Authority has stringent guidelines for airport service providers and contractors to ensure the public health safety of airport staff and passengers. In response to COVID-19, the Airport Authority has stepped up measures with a view to enhancing protection for staff and passengers. Department of Health has provided free COVID-19 tests for airport staff. Meanwhile, enhanced measures have been adopted to separate airport staff and passengers in the terminal. Designated dining zones and queuing areas have been set up at the food court for airport staff and passengers respectively. Airport staff are also advised to dine at staff canteens and maintain social distancing with each other and the passengers.

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.

### **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. Before the outbreak of COVID-19, HKIA connected to over 200 destinations worldwide and served around 120 airlines, operating as a global “Super Hub”. Located within a four hour flight to Asia’s key markets, including Singapore, Tokyo, Shenzhen and Shanghai, and within a five hour flight to approximately half of the world’s population, HKIA hosted flights serving around 140 destinations in Mainland China and Asia, 31 destinations in Europe, 28 destinations in North America, 14 destinations in Australia and five destinations in Africa before the outbreak of COVID-19.

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, which represented 57% of Hong Kong’s GDP and 46% of Hong Kong’s employment for the year ended 31 December 2018 according to the Census and Statistics Department. In doing so, HKIA facilitates the efficient flow of people and goods through HKIA’s regional and international air networks. For the year ended 31 March 2020 and the six months ended 30 September 2020, HKIA handled 4.7 million tonnes and 2.2 million tonnes of total cargo and airmail throughput, respectively. Additionally, according to the Census and Statistics Department, for the year ended 31 December 2018, air transportation facilitated 42% of Hong Kong’s total value of external trade (amounting to HK\$3,709 billion as measured by total external merchandise value transported by air in and out of Hong Kong) and accounted for 66% 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 strategies 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.

### ***Resilient track record and operational excellence supporting a strong credit rating***

The Airport Authority is rated “AA+” from S&P and is among the highest rated airports 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 international passenger airport in the Asia Pacific region according to preliminary airport rankings released by the Airports Council International in May 2020. Additionally, the Airport Authority had the highest average EBITDA margin for the three years ended 31 March 2019 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 2003 and the global financial crisis in 2007/2008. Although HKIA’s cargo and airmail throughput declined by 8.4% for the nine months ended 30 September 2020 as compared to the nine months ended 30 September 2019, this was a significantly smaller decline than that experienced by other comparable international airports. HKIA’s track record is underpinned by its operational excellence, having been named the Top Asian Airport Efficiency Excellence for five consecutive years by the Air Transport Research Society from 2016 to 2020 and the Best Airport in China for 10 consecutive years by Business Traveller China Awards from 2010 to 2019. 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 enhancement of facilities and services and 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 throughput 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 one of the largest percentages of non-aeronautical revenue among airports in the 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 to capital ratio, with diversified financing channels and strong long-term relationships with major banks in Hong Kong. The Airport Authority’s total debt to capital ratio stood at 5.7% and 25.0% as of 31 March 2020 and 30 September 2020, respectively, and its net debt to capital ratio stood at nil and 4.5% as of 31 March 2020

and 30 September 2020, respectively. The Airport Authority believes that its strong capital structure and resilient business model position it well 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 required 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, creativity, collaboration, continuous improvement and caring are upheld.

### **Strategies**

The Group intends to seek to increase revenues and improve efficiencies through the following key measures:

#### ***Enhance Airport City development and airport facilities***

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**"). The total Airport City blueprint entails an investment of over HK\$40 billion for the 10 years until 2030 by the Airport Authority in enhancing the airport's capacity and functionality, while transforming into a new landmark and propelling the economic development of Hong Kong and the region.

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 will feature 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 ("**NWD**") for an integrated retail, dining and entertainment development, which is scheduled to open in phases from 2022 to 2025. Subsequently, in November 2020, NWD announced its HK\$20 billion mixed-use development project at SKYCITY. Named 11 SKIES, NWD's development will be Hong Kong's largest hub for retail, dining and entertainment, and the first to combine wealth management and wellness services, providing unique connectivity across the region, and redefining the traveler and consumer experience in the Greater Bay Area. 11 SKIES is planned to feature a gross floor area of 3.8 million square feet, including 2.66 million square feet dedicated to dining and retail outlets, 570,000 square feet for experiential entertainment facilities and 570,000 square feet for grade A office space. NWD has planned over 800 shops including more than 120 dining concepts, entertainment never seen before in the region, and access to world-class financial and medical services, all under one roof.

The enhancement projects for Terminal 1 will increase HKIA's handling capacity and bring a fresh look to passengers. The Airport Authority is planning to set up a HKIA Logistics Park in Dongguan and an airside intermodal cargo handling facility at HKIA, with a view to creating a brand new mode of cargo business, increasing cargo handling volume at HKIA and serving as a growth engine for the industry. With the new facilities in operation, customs clearance, security screening, palletization, cargo acceptance and other services for Mainland China exports could be completed in Dongguan before shipping the goods to the cargo handling facility in the restricted area of HKIA by sea, for air trans-shipment to worldwide destinations. For imports to Mainland China, the goods could be directly shipped from the HKIA restricted area to Dongguan. The procedures will comply with Hong Kong's air cargo security regulations. In 2021 a pilot scheme will trial the operations between Hong Kong and Dongguan.

Meanwhile, in June 2018, the Airport Authority awarded the right to manage and develop a Smart Logistics Hub (the “**Hub**”) in the South Cargo Precinct of HKIA to Cainiao Network, the logistics arm of Alibaba Group. The Hub is being established with a view to developing it into a world-class digital logistics centre in Asia, serving the fast growing global cross border e-commerce trade and strengthening Hong Kong's international competitiveness. It will occupy a site of about 5.3 hectares, with an estimated gross floor area of 380,000 square meters, and is scheduled to commence operations in 2023. It is expected to add 1.7 million tonnes of cargo volume to HKIA each year.

Future phase II development of AsiaWorld-Expo will house the largest indoor performance venue in Hong Kong, which accommodates 20,000 people. Upon completion, the total gross floor area of AsiaWorld-Expo's exhibition facilities will increase to 100,000 sq. m. The Airport Authority aims to capture a synergy between AsiaWorld-Expo and SKYCITY in order to transform the airport into a new landmark for both visitors and local residents.

The Airport Authority is also 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 further details, see “— Business Operations” below.

### *Create a seamless travel experience*

The Airport Authority is working to create a touchless airport journey by developing a biometric system to enable passengers to check in at a self-service kiosk and then use their biometric features to clear multiple pre-boarding checkpoints. When this service commences, travelers will no longer need to present their passport and boarding pass for manual validation at each checkpoint.

In preparation for the launch of the new system, the Airport Authority has integrated biometric modules into various passenger checkpoints, including smart check-in kiosks, self-bag drop facilities and e-Security Gates. It has also begun operating e-boarding gate, which automate pre-boarding identity checks, on certain flights along the central concourse.

Transfer passengers will soon enjoy the same touchless journey, as e-Security Gates, which electronically validate travelers' identity and flight information, are being installed at transfer checkpoints in the passenger terminals. The gates will help to expedite passenger flow. The Airport Authority is also studying the introduction of self-service transfer kiosks.

To meet increasing passenger demand for mobile connectivity, the Airport Authority has increased the number of high-speed Wi-Fi zones. It has also introduced advanced Wi-Fi technology that improves data transmission rates and connection stability in environments with many connected devices. It has also established 5G infrastructure and digital apron management system to further improve operational efficiency.

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

### ***Provide an excellent dining and shopping experience***

The Airport Authority has in the past and will continue to undertake efforts to upgrade HKIA's retail and dining offers in order to provide an excellent dining and shopping experience. In the year ended 31 March 2020, the Airport Authority completed a revamp of the East Hall food court, which now features a vibrant design echoing Hong Kong's hills and peaks. In March 2020, it introduced a convenient service that helps diners avoid queuing by ordering meals via their mobile device or self-service kiosks located in the food court. To enrich the shopping experience at HKIA, the Airport Authority is also focused on refreshing HKIA's retail offering and will be carefully monitoring the recovery in the retail sector after the COVID-19 pandemic to realign the retail portfolio in line with prevailing market trends.

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

The Airport Authority has also enhanced HKairportShop.com, an online platform through which travellers can order goods for collection at HKIA or local delivery. In November 2019, it made shopping at HKairportShop.com even more convenient by launching it on Alipay.

In the year ended 31 March 2020, these efforts to continuously upgrade HKIA's retail and dining offers were rewarded with the "Airport Operator of the Year" honour at the DFNI Frontier Awards.

### ***Expand cross-boundary connections***

The Airport Authority will continue to focus on developing cross-boundary connectivity to strengthen HKIA's status as the preferred aviation hub of the Greater Bay Area. In the year ended 31 March 2020, cross-boundary land transport at HKIA served 1.5 million passengers. SkyPier, which provides ferry services between HKIA and nine ports in the Greater Bay Area, handled 1.9 million passengers.

HKIA's Mainland coach network, which served more than 110 destinations, further expanded with the addition of Zhuhai Chimelong, Heyuan and the Macao Port at the Hong Kong-Zhuhai-Macao Bridge ("HZMB"), and HKIA has also opened a 24-hour city terminal at HZMB's Macao Port where airlines can offer check-in services and smart check-in kiosks are available. After checking in at the Macao Port, passengers can take an airport shuttle bus to the Hong Kong Boundary Crossing Facilities ("HKBCF"), where they complete immigration and customs formalities. Passengers then rejoin the bus, which takes them to HKIA. The journey from the Macao Port to HKIA takes about 55 minutes.

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

As part of its Airport City initiative, the Airport Authority has proposed the development of automated car parks on the HKBCF Island that will provide around 6,000 parking spaces in phases. The "Park and Fly" and "Park and Visit" carparks will cater to air transfer passengers and visitors respectively. "Park and Fly" passengers will transfer to HKIA boarding gates directly from the HKBCF restricted area, facilitated by a bonded vehicular bridge connected to the airport's Intermodal Transfer Terminal, without having to go through immigration procedures in Hong Kong. "Park and Visit" visitors may go from HKBCF to SKYCITY or to other parts of Hong Kong on "Airport City Link," a vehicular and pedestrian bridge. The Airport Authority plans to introduce an autonomous transportation system on the Airport City Link to connect HKBCF Island and SKYCITY, and extend the system to Tung Chung town centre.

In addition, the Airport Authority will continue to promote HKIA's upstream check-in service ("UCI"), which lets passengers complete check-in procedures at locations in the Greater Bay Area before taking a ferry or coach directly to HKIA for their flight. The Airport Authority seeks to expand UCI service coverage so as to benefit as many passengers as possible.

### ***Ensure safety and security***

The Airport Authority's first priority is always the safety and security of passengers, staff and business partners. To that end, the Airport Authority aims to introduce the latest passenger screening technology at HKIA in the coming years. The Airport Authority has conducted a four-month live trial of "Smartlane". This new equipment has two components: a computed tomography X-ray system that provides enhanced screening of passengers' hand baggage and an automatic tray return system that is integrated with the X-ray machine to speed up passenger processing at security checkpoints.

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

As HKIA becomes a data-driven airport, the Airport Authority will continue to focus on cybersecurity by using an array of advanced technologies to monitor, analyse and prevent security threats and to protect airport systems and data. In the year ended 31 March 2020, the airport's cyber-resilience was strengthened by introducing systems that monitor users' credentials on the network, prevent data leaks, and protect physical assets and mobile devices from attack.

### **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.

The Airport Authority does not have any subsidiaries which contribute more than 10% of its consolidated net assets as at 30 September 2020 or consolidated net loss for the six months ended 30 September 2020.

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 site of HKIA together with the rights necessary to develop such site for the purposes of its business.

## **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 Memorandum, 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% 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. The Airport Authority is negotiating with the Government to continue the rights held under CLK No.1 beyond 30 June 2047.

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 provides that it does not enable the Airport Authority 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 or provisionally 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 provides that it 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.

### **Passenger Operations**

HKIA opened in July 1998 with one terminal, while Terminal 2 officially opened in 2007. At the end of 2019, the expansion works for Terminal 2 commenced, thus it is currently closed to passenger traffic. HKIA benefits from air, road and sea transport links to the Pearl River Delta and other regions of Mainland China. For connections with local destinations, the Airport Express Line arrives at Central

downtown in 24 minutes or at AsiaWorld-Expo in two minutes. Franchised bus companies also operated about 82 routes as of 31 March 2020. Prior to the COVID-19 pandemic, for connections with the Pearl River Delta, coaches made approximately 550 daily trips between HKIA and more than 110 Mainland cities and towns. Ferries at SkyPier arrive at nine ports in the Pearl River Delta and Macau in 30 to 90 minutes, and SkyLimo operates a fleet of approximately 300 vehicles serving HKIA and the Pearl River Delta cities every day.

At present, HKIA can handle 68 flights per hour at peak hours. It features two runways — a north runway and a south runway — which are each 3,800 meters in length and 60 meters in width. The airport benefits from a large number of aircraft parking bays, including 115 passenger stands, 45 cargo stands, 21 long term and maintenance stands, 12 temporary stands and 15 passenger and cargo mix-use stands.

As of May 2020, the total floor area of HKIA is currently approximately 730,000 sq. m., including Terminal 1, the Midfield Concourse, the North Satellite Concourse and SkyPier. The Midfield Concourse, featuring 105,000 sq. m. of floor area, has 19 frontal parking stands and one remote parking stands. It includes 19 retail and four catering outlets. The North Satellite Concourse features 20,000 sq. m. of floor area, nine bridge-served stands and five retail and two catering outlets.

Prior to the COVID-19 pandemic, HKIA offered 369 passenger check-in counters servicing around 120 operating airlines. In addition, HKIA offered 13 customer service counters. Passenger facilities within the airport include an airport lost and found, banking services, a beauty salon, children play area, drinking fountains, a medical centre, nursing rooms, a prayer room, telecom and business centre, over 60 catering outlets and over 220 retail shops (mostly in the restricted area). Finally, the airport offers car parks 1, 4, 5 and SkyCity car park, which collectively provide about 3,000 parking spaces. As of the date of this Offering Memorandum, public parking service at SkyCity Car Park and Car Park 5 have been suspended to facilitate the latest works in AsiaWorld-Expo.

## **Cargo Operations**

HKIA's location in close proximity to the world's manufacturing centre makes it a leading international aviation hub for cargo services. As a result, HKIA has been the world's busiest airport for 10 consecutive years since 2010. In 2019, HKIA handled 4.8 million tonnes of total cargo throughput, which accounted for 42%, or HK\$3,550 billion, of the total value of Hong Kong's external trade. As of May 2020, HKIA provides 43 parking stands for cargo aircraft. HKIA provides highly reliable, internationally recognized and award-winning air cargo services as well as state-of-the-art air cargo handling facilities.

Two tiers of cargo handling services are available at HKIA. The first tier services involve immediate handling of air cargo for loading/unloading onto/from aircraft. The second tier services include multi-modal logistics and freight forwarding services to facilitate value added logistics services as well as efficient distribution and last mile consolidation of air cargo.

HKIA's cargo terminals are operated by third parties. Asia Airfreight Terminal Co. Ltd. operates the Asia Airfreight Terminal (“**AAT**”) with a design capacity of 1.5 million tonnes per annum. It covers a land area of about eight hectares and features a state-of-the-art fully automated cargo handling system, and RFID truck control system with information accessibility over web and mobile apps. Hong Kong Air Cargo Terminals Ltd. operate Hong Kong Air Cargo Terminals (“**Hactl**”) with an aggregate design capacity of 2.6 million tonnes per annum. They cover a land area of about 17 hectares and also feature state-of-the-art fully automated cargo handling systems. Cathay Pacific Services Limited (“**CPSL**”) operates the Cathay Pacific Cargo Terminal with a design capacity of 2.6 million tonnes per annum. It covers a land area of about 11 hectares and features a state-of-the-art materials handling system.

DHL Aviation (Hong Kong) Ltd. operates the DHL Central Asia Hub. Built as the first large scale automated express hub in Asia Pacific, it handles over 35,000 parcels and 40,000 documents per hour. It occupies a land area of about 3.5 hectares.

In addition, the Hong Kong Post operates an air mail centre at HKIA, occupying approximately two hectares and handling 700,000 mail items per day. The Airport Freight Forwarding Centre Ltd operates the Airport Freight Forwarding Centre, providing warehouse and office space to freight forwarders for consolidation and distribution. It occupies a land area of about six hectares with a gross floor area of about 133,000 sq. m. Finally, Tradeport Hong Kong Ltd. operates the Tradeport Logistics Centre, providing custom-designed logistics services such as inventory management, order processing and postponement assembly. It occupies a land area of approximately 1.4 hectares with a gross floor area of 31,000 sq. m.

To facilitate the sustainable growth of air cargo, the Airport Authority has been working closely with the air cargo community to further enhance its services in meeting customers' needs. The Airport Authority is a member of the Cargo Facilitation Committee, alongside the Hong Kong Customs & Excise Department, AAT, Hactl, DHL, CPSL, Carrier Liaison Group and the Hongkong Association of Freight Forwarding and Logistics Ltd. The committee holds quarterly meetings to review air cargo handling operations and performance and features a working group to review air cargo process and e-freight.

The Airport Authority has worked to streamline the customs process in Hong Kong in order to expedite clearance by providing integrated EDI linkage between the Hong Kong Customs and Excise Department and the air cargo operators and integrators — AAT, Hactl, CPCT, DHL, FedEx, UPS and TNT. The streamlined process allows pre-arrival customs clearance, covering all types of cargo down to 'house' air waybill level. It provides 'priority consignments' facility, assigns default constraint codes automatically and facilitates authorized providers to provide cross-boundary bonded truck service to and from Mainland China.

### **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 extension of Terminal 1 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**”, has been constructed. The new walkway includes 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 2021.

### **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 Memorandum, 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.

The Airport Authority has helped manage the Zhuhai Airport since 2006. In light of the strong air traffic growth of Zhuhai Airport and the commissioning of the HZMB which has significantly shortened the distance between HKIA and Zhuhai Airport, the two airports have agreed to explore deeper collaboration and formulate long-term development plans to complement each other's strengths. The Airport Authority's proposed injection of equity into Zhuhai Airport is expected to pave the way for long-term and extensive collaboration between the two airports.

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.

### **Franchisees**

Key aviation logistics services, namely air cargo, ramp handling, aircraft catering, aviation fuel service, aircraft maintenance, business aviation centre, airside vehicle fuel filling services and ground support equipment maintenance, are essential to airlines and airport operators for safe and efficient flows of passengers, cargo and aircraft. To ensure the best-value aviation logistics services are provided at HKIA, the Airport Authority has granted franchises for the provision of these service to third party business partners through a fair and transparent open tender process. The Airport Authority has implemented a comprehensive monitoring scheme to ensure that the franchisees fulfil the requirements of the airlines and stakeholders while excelling international and industry standards.

### ***Ramp Handling***

There are three licensed operators at HKIA to provide aircraft ramp handling services — Hong Kong Airport Services Limited, Jardine Air Terminal Services Limited and SATS HK Limited. These operators are committed to providing efficient and high quality service to airlines, including operation of aerobridge, provision of passenger boarding stairs, loading and unloading of cargo from aircraft, baggage make-up, baggage sorting, baggage delivery and mail handling.

## ***Catering***

The airport has three aircraft caterers — Cathay Pacific Catering Services (HK) Ltd., LSG Lufthansa Service Hong Kong Ltd. and Gate Gourmet Hong Kong Ltd. They place an emphasis on providing customer satisfaction by enforcing the highest hygiene standards and consistent product and service quality.

## ***Business Aviation Centre***

Hong Kong Business Aviation Centre Ltd operates a well-equipped and self-sufficient business aviation centre in an area of 16,000 sq. m. and provides a full range of quality services, including ramp and passenger handling, flight planning and administration, into-plane fueling, line maintenance and catering and CIQ facilitation with three hangars.

## ***Aviation Fuel System***

HKIA hosts a secure and reliable aviation fuel system which served around 1,100 flights per day prior to the COVID-19 pandemic. This system comprises two components — the on-airport system and the Permanent Aviation Fuel Facility (the “PAFF”).

The on-airport fuel system is owned by the Airport Authority but operated by franchisee AFSC Operations Ltd. Its components consist of a tank farm with 12 storage tanks with a total capacity of 220,000 cubic metres, a twin-berth receiving facility at Sha Chau Island capable of accommodating barges up to 6,000 dwt (the facility has been turned into an emergency back-up after the commencement of PAFF), a twin horizontal directional drilling pipelines connecting the receiving facility at Sha Chau Island and the Airport island, a hydrant distribution system at apron and a refueller calibration area.

Located at Tuen Mun, PAFF has been developed to support the continuous growth of HKIA. The facility was developed by phases, with operations commencing with the opening of Phase 1a and 1b in March and December 2010, respectively. The operations of PAFF have been franchised to ECO Aviation Fuel Services Ltd. PAFF’s key components include eight fuel tanks with a total capacity of 264,000 cubic metres, a twin-berth jetty capable to accommodate ocean-going oil tankers from 10,000 to 80,000 dwt and twin submarine pipelines connected to the receiving facility at Sha Chau Island.

Unlike other major international airports, HKIA has adopted an open access policy on the supply of aviation fuel. Under this policy, any fuel supplier can supply aviation fuel to the airport as long as it has a term fuel supply contract with an airline and meets relevant technical and quality requirements. Airlines themselves can also bring fuel for their own need. Currently, there are a total of 10 active fuel suppliers at HKIA.

In addition to the fuel systems, there is also into-plane fuelling services, which refers to the delivery of fuel to aircraft by hydrant dispensers/bowsers and the fuelling/de-fuelling of fuel to/from aircraft through hawser. Currently there are three Franchisees, namely AFSC Refuelling Ltd., CNAF Hong Kong Refuelling Ltd. and Worldwide Flight Services Fueling (HK) Ltd., providing the services at HKIA.

## ***Ground Support Equipment Maintenance***

To maintain safe and efficient operation of the airport, there are two service providers at HKIA to carry out repair, maintenance, engineering and modification services for all types of ULDs, ground support equipment and vehicle — Ground Support Engineering Ltd and Dah Chong Hong — Dragonair Airport GSE Service Ltd.



## ***Aircraft Maintenance***

Aircraft base maintenance services provide heavy maintenance, modification, repair and overhaul of commercial aircraft and their components. Hong Kong Aircraft Engineering Company Limited (“**HAECO**”) and China Aircraft Services Limited (“**CASL**”) are the base maintenance service providers at HKIA.

HAECO has a total of three hangars with 22 maintenance positions capable of accommodating a wide range of commercial aircraft types on its 150,000 square-metre facility.

CASL has one hangar occupying a land area of 10,000 sq. m.

In addition to aircraft base maintenance, at HKIA, three franchisees provide line maintenance service — HAECO, CASL and Pan Asia Pacific Aviation Services Limited (“**PAPAS**”). These three aircraft line maintenance franchisees provide service during normal transit periods, routine turnaround periods and regularly scheduled layover periods. The highly skilled workforce, equipped with advanced technology and proven maintenance procedures, delivers quick, quality and cost-effective solutions for their customers around the clock. In addition to technical services, the franchisees also provide services such as aircraft towing, potable water and toileting servicing, aircraft exterior cleaning/waxing, cabin cleaning and ground equipment support.

## **Joint Ventures**

### ***Hangzhou Xiaoshan International Airport***

In 2006, the Airport Authority acquired a 35% interest in Hangzhou Xiaoshan International Airport Co. Ltd. (“**HXIA**”). In December of that year, the Airport Authority formed a Chinese-foreign joint venture company with HXIA tasked with making HXIA a world-class airport by enhancing operational efficiency, improving service quality and management standards and carrying out expansion projects. The Airport Authority’s investment in HXIA represented the first foreign investment in a civilian airport in Mainland China.

In calendar year 2019, HXIA experienced passenger numbers of 40.1 million, the first time it has exceeded 40 million annual passengers, cargo volumes of 690,000 tonnes and 291,000 flight movements, making HXIA Mainland China’s 10th busiest passenger airport and fifth busiest cargo airport. As of 31 March 2020, 71 carriers connected HXIA to 128 domestic and 56 international destinations. Construction of a fourth terminal and an integrated transportation centre are ongoing, and HXIA expects to eventually be able to handle 60 flight movements per hour.

### ***Shanghai Hongqiao International Airport***

In October 2003, the Shanghai Airport Authority and the Airport Authority signed a letter of intent regarding closer cooperation under the Shanghai Municipal People’s Government’s call for enhancing Shanghai-Hong Kong collaboration in eight areas, including airports, marine logistics and the World Expo. Under the letter of intent signed in Hong Kong, a series of cooperation initiatives, from training and development to business consultation, were launched.

In October 2009, the Shanghai Airport Authority and the Airport Authority signed a cooperation agreement and established Shanghai Hong Kong Airport Management Co., Ltd., a joint-venture company that enhances collaboration between and further develops strengths of the Shanghai Hongqiao International Airport (“**SHIA**”) and the HKIA. Today, the joint venture manages the terminal operations and retail businesses at SHIA.

In calendar year 2019, SHIA experienced passenger numbers of 45.6 million and 273,000 flight movements. SHIA was named the “Best Airport in China” in the 2019 Skytrax survey and received the “CAPSE Best Airport Award 2019” from the Civil Aviation Resource Net of China.

### ***Zhuhai Airport***

In 2006, the Airport Authority established a joint venture with the Zhuhai Municipal Government to manage Zhuhai Airport. The Airport Authority currently owns a 55% stake in the Hong Kong-Zhuhai Airport Management Company Limited but has announced plans to increase its stake in Zhuhai Airport to capture the region’s growth potential in passenger and cargo throughput in the long run. The joint venture pays a franchise fee for the exclusive right to manage and operate the Zhuhai Airport for 20 years.

In calendar year 2019, the Zhuhai Airport experienced passenger numbers of 12.3 million, cargo volumes of 50,989 tonnes and 86,836 flight movements. As of 31 March 2020, the Zhuhai Airport had a total of 86 domestic destinations in Mainland China.

### **Other Operations**

#### ***AsiaWorld-Expo***

On 24 September 2018, the Airport Authority 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, at a total price of HK\$900 million. While also committed to AsiaWorld-Expo’s success in its own right, the Airport Authority also believes there are synergies between the SKYCITY project and AsiaWorld-Expo due to their proximity to each other and complementary businesses.

AsiaWorld-Expo’s Phase 1, opened since December 2005, occupies 11 hectares of land on the airport island, providing over 70,000 square metres of space for conventions and exhibitions, as well as sports and entertainment events. Featuring 10 state-of-the-art, ground-level and column-free exhibition halls including the Arena — the biggest indoor seated venue in Hong Kong with a maximum capacity of 14,000, AsiaWorld-Expo is strategically located at the heart of a multi-modal transportation hub and adjacent to the HKIA and Hong Kong-Zhuhai-Macao Bridge. AsiaWorld-Expo, with a convenient and in-venue MTR station, enjoys efficient transport connection to Guangdong-Hong Kong-Macao Greater Bay Area and other global regions.

With a proven track record of successes, AWE has received a number of accolades, namely the “Outstanding Venue Award” presented by the Asian Federation of Exhibition and Convention Associations (AFECA), and the “Best Convention Centre — North Asia” in the M&C Asia Stella Awards hosted by Northstar Travel Group. The Airport Authority envisages coordinated land use planning for the future phases of SKYCITY and the neighbouring site for AsiaWorld-Expo’s future Phase 2, with a view to enhancing the business potential of both developments.

#### ***Hong Kong International Aviation Academy***

The Hong Kong International Aviation Academy, the first civil aviation academy in Hong Kong, was established by the Airport Authority in 2016 with a view to nurturing young talent for the continuous development of Hong Kong’s and regional aviation industry, and establishing Hong Kong as a world’s leading civil aviation training hub.

Partnering with local and overseas educational bodies, professional global organisations and industry practitioners, the Academy offers a comprehensive aviation-related curriculum — including aviation summer day camps, placement programmes, professional certificate courses and other academic programmes.

### ***HKIA Consultancy***

HKIA has been a major international and regional aviation hub since 1998. HKIA has won over 80 awards as the “world’s best airport” in recognition of its excellence in airport management and operations. Over the years, HKIA has provided professional services on subjects relating to airport planning, operations and development to many airports, particularly those in Mainland China as described above.

Backed by its extensive track record as managing one of the best and busiest airports in the world, Airport Authority has established HKIA Consultancy which provides dedicated, holistic and tailor-made solutions to its clients. The team comprises experts who have all-round airport experience and comprehensive knowledge of airport functions as well as the specific requirements of airport customers and operators.

### **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. In accordance with approved policy by the Board, the Airport Authority has adopted measures to convert a portion of total borrowings in non-Hong Kong dollars in order to minimize the impact of foreign currency fluctuations on earnings. 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 S&P. The outlook on the Airport Authority’s corporate credit rating is “stable”. This credit rating is the same as that assigned to the Government.

### **Competition**

Passengers traveling to, from or through the Greater Bay Area have a choice of five international airports — the HKIA, the Guangzhou Baiyun International Airport, the Shenzhen Bao’an International Airport, the Macau International Airport and the Zhuhai Jinwan Airport. The airport a passenger chooses depends upon a number of factors, including the destinations serviced by that airport, the airlines traveling from that airport and attractiveness of the airport itself. Although the capacity of some of these neighbouring airports are increasing, the HKIA continues to benefit from its comprehensive air network

and a favourable regulatory environment in Hong Kong, including the ability of 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 or provisionally 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.

### **Employees**

As at 31 March 2020, we employed approximately 2,844 employees across a variety of positions. Including staff directly employed by the Airport Authority, the total airport workforce (including contractors) as of 31 March 2020 was approximately 78,000.

### **Legal and other proceedings**

From time to time, the Airport Authority is involved in claims and litigation arising in the ordinary course of business, such as contractual disputes, property damage, health and safety and personal injury claims. Individually and in the aggregate, these claims are not expected to have a material adverse effect on the financial position of the Airport Authority.

## MANAGEMENT

The following table sets forth certain information with respect to our Members of the Board as of the date of this Offering Memorandum.

Name	Age	Position
The Honourable Jack So Chak-kwong GBM GBS OBE JP	75	Chairman
Mr. Fred Lam Tin-fuk* JP	62	Member
The Honourable Frank Chan Fan* JP	62	Member
Mr. Rock Chen Chung-nin SBS BBS JP	54	Member
Ms. Irene Chow Man-ling	51	Member
Mr. Stuart Thomson Gulliver	61	Member
The Honourable Steven Ho Chun-yin BBS	41	Member
The Honourable Christopher Hui Ching-yu* JP	44	Member
Ms. Nisa Bernice Leung Wing-yu JP	50	Member
Captain Victor Liu Chi-yung* JP	54	Member
Ir Dr. the Honourable Lo Wai-kwok SBS MH JP	68	Member
Mr. Adrian Wong Koon-man BBS MH JP	56	Member
Ir Billy Wong Wing-hoo BBS JP	63	Member
Dr. William Wong Ming-fung SC JP	49	Member
Mr. Thomas Jefferson Wu JP	48	Member
The Honourable Frankie Yick Chi-ming SBS JP	67	Member
Dr. the Honourable Allan Zeman GBM GBS JP	72	Member

\* Member by virtue of being holder of the post

The following table sets forth certain information with respect to our Chief Executive Officer and executive directors as of the date of this Offering Memorandum.

Name	Age	Position
Mr. Fred Lam Tin-fuk JP	62	Chief Executive Officer
Mr. David Au Ho-cheung	63	Executive Director, Property Development
Ms. Cissy Chan Ching-sze	55	Executive Director, Commercial
Mrs. Vivian Cheung Kar-fay	59	Executive Director, Airport Operations
Ms. Florence Chung Wai-yee	57	Executive Director, Human Resources & Administration
Mr. Julian Lee Pui-hang	45	Executive Director, Finance
Mr. Ricky Leung Wing-kee	60	Executive Director, Engineering & Technology
Mr. Kevin Poole	63	Executive Director, Third Runway

#### **Members of the Board**

Our Board consists of a Chairman, Chief Executive Officer and other members (including public officers of the Government). Our Board consists of 17 Members. The three public officers serving on the Board are the Secretary for Financial Services and the Treasury, the Secretary for Transport and Housing, and the Director-General of Civil Aviation. The Members of the Board are as follows.

***The Honourable Jack So Chak-kwong GBM GBS OBE JP***, was appointed Chairman of the Board in June 2015 and reappointed in June 2018. Mr. So is the former Chairman of the Hong Kong Trade Development Council. He is a non-official member of the Chief Executive’s Council of Advisers on Innovation and Strategic Development. He is also an independent non-executive Director of AIA Group Limited and China Resources Power Holdings Company Limited and a Senior Advisor to Credit Suisse, Greater China. Previously, Mr. So has acted as Chairman and Chief Executive of the MTR Corporation Limited from 1995 to 2003, Deputy Chairman and Group Managing Director of PCCW from 2003 to 2007, Independent Director of HSBC from 2000 to 2007, non-executive Director of Cathay Pacific Airways Limited from 2002 to 2015, International Business Adviser to the Mayor of Beijing from 2007 to 2015 and member of the National Committee of the Chinese People’s Political Consultative Conference from 2008 to 2018.

***Mr. Fred Lam Tin-fuk JP***, was appointed Chief Executive Officer in October 2014. Mr. Lam is a former Executive Director of the Hong Kong Trade Development Council. Mr. Lam is a Member of the Asia Pacific Regional Board and the World Governing Board of Airports Council International, the Aviation Development and Three-runway System Advisory Committee and the Hong Kong Logistics Development Council. In 2007, Mr Lam was named “Director of the Year” by the Hong Kong Institute of Directors in the category of statutory and non-profit-distributing organisations. In 2011, he was given the Peace through Commerce Medal from the United States Government in recognition of his leadership role in boosting US exports to, and through, Hong Kong. In 2019, he was elected a Chartered Fellow of the Chartered Institute of Logistics and Transport in Hong Kong and received the “Executive Award” in the DHL/SCMP Hong Kong Business Awards.

***The Honourable Frank Chan Fan JP***, became a Board Member in July 2017 upon his appointment as Secretary for Transport and Housing. As the Secretary for Transport and Housing, Mr. Chan is the Chairman of the Hong Kong Housing Authority, the Hong Kong Maritime and Port Board, the Hong Kong Logistics Development Council and the Aviation Development and Three-runway System Advisory Committee. He is also a Board Member of the MTR Corporation Limited and the Hong Kong Mortgage Corporation Limited, as well as a Member of the Council for Sustainable Development and the Youth Development Commission.

***Mr. Rock Chen Chung-nin SBS BBS JP***, was appointed to the Board in June 2020. Mr. Chen is the Chairman of Pacific Falcon Investment Group Limited with over 30 years of experience in the financial industry and has been licensed as a Responsible Officer by the Hong Kong Securities and Futures Commission since 2004. Mr. Chen is Vice Chairman of the Chinese General Chamber of Commerce and Vice Chairman of Hong Kong Council for Accreditation of Academic and Vocational Qualifications. He is also a member of the 12th and 13th National Committee of Chinese People's Political Consultative Conference. Previously, Mr. Chen was the Chairman of the Hong Kong Examinations and Assessment Authority from 2012 till 2018 and the Chairman of the Hong Kong Award for Young People from 2010 till 2016. Mr. Chen holds a Bachelor degree in Economics from The Wharton School, University of Pennsylvania and a Master degree in Business Administration from J.L. Kellogg Graduate School of Management, Northwestern University.

***Ms. Irene Chow Man-ling***, was appointed to the Board in June 2020. Ms. Chow is a Chartered Financial Analyst and had served on The Hong Kong Polytechnic University's Council for six years, mostly involved in its Investment Committee. She is a member of the Independent Commission Against Corruption's Advisory Committee on Corruption and a Committee Member of The Chinese General Chamber of Commerce. She is also a Director of DSL Investments Limited, Chow Mun Sum Tong Foundation and The Legal Education Fund.

***Mr. Stuart Thomson Gulliver***, was appointed to the Board in June 2019. Mr. Gulliver joined HSBC in 1980 and retired in 2018. He is the former Group CEO and Executive Director of HSBC Holdings plc and former Chairman and Executive Director of the Hongkong and Shanghai Banking Corporation Limited. Mr. Gulliver is a member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and the International Advisory Council of The Stock Exchange of Hong Kong Limited. He is also a non-executive Director of Jardine Matheson Holdings Limited and The Saudi British Bank. He holds a law degree from the University of Oxford.

***The Honourable Steven Ho Chun-yin BBS***, was appointed to the Board in January 2016 and reappointed in January 2018. Mr. Ho is a member of the Legislative Council representing the Agriculture and Fisheries Functional Constituency. He is also a member of the Legislative Council's House Committee, Finance Committee, Establishment Subcommittee and Public Accounts Committee. Additionally, Mr. Ho is a member of the Legislative Council's panels on Constitutional Affairs, Economic Development, Environmental Affairs, Food Safety and Environmental Hygiene, Home Affairs, Administration of Justice and Legal Services, and Public Service.

***The Honourable Christopher Hui Ching-yu JP***, became a Board Member in April 2020 upon his appointment as Secretary for Financial Services and the Treasury. Mr. Hui is the former Executive Director of the Financial Services Development Council. He is the Chairman of the Managing Board of Kowloon-Canton Railway Corporation and a non-executive Director of MTR Corporation Limited. He is also a Member of the Board of the Mandatory Provident Fund Schemes Authority, the Board of the West Kowloon Cultural District Authority and the Board of the Financial Services Development Council. Additionally, Mr. Hui is a Director of Hongkong International Theme Parks Limited.

**Ms. Nisa Bernice Leung Wing-yu JP**, was appointed to the Board in October 2020. Ms. Leung is Managing Partner of Qiming Venture Partners. She currently sits on the board of Gan & Lee Pharmaceuticals, Zai Lab, Venus MedTech, CanSino Biologics, dMed, New Horizon Bio and Berry Oncology. Ms. Leung is a visiting lecturer at Harvard Law School, member of Stanford Graduate School of Business Advisory Council and Board Member of Hong Kong Palace Museum. Ms. Leung has been recognized by the Forbes Global 100 VC Midas List in 2019 and 2020 and named Top 3 Best Female Venture Capitalist in China by Forbes in 2018. She holds a Master degree in Business Administration from Stanford Graduate School of Business and a Bachelor of Science degree from Cornell University.

**Captain Victor Liu Chi-yung JP**, became a Board Member in April 2020 upon his appointment as Director-General of Civil Aviation. Mr. Liu is a licensed professional pilot and a Fellow of the Hong Kong Institution of Engineers. Mr. Liu is currently the Chairman of the International Civil Aviation Organisation's Asia Pacific Regional Aviation Safety Group and was previously the Vice President (Asia) of the International Federation of Airworthiness.

**Ir Dr the Honourable Lo Wai- kwok SBS MH JP**, was appointed to the Board in June 2019. He is a member of the Legislative Council representing the Engineering Functional Constituency and the Chairman of the Legislative Council's Public Works Subcommittee and the Business and Professionals Alliance for Hong Kong. He is also the Founding Chairman of the Hong Kong Green Strategy Alliance. Dr. Lo is a 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. He is also a Committee Member of the China Association for Science and Technology.

**Mr. Adrian Wong Koon-man BBS MH JP**, was appointed to the Board in June 2018. He is a Director of VL Asset Management Limited and Abercan Limited, Chairman of the Corruption Prevention Advisory Committee and Member of the Advisory Committee on Corruption of the Independent Commission Against Corruption, and a Member of the Travel Industry Authority. Previously, Mr. Wong was a member of the Listing Committee of The Stock Exchange of Hong Kong Limited from May 2006 to April 2012, a Member of the Communications Authority from April 2012 to March 2018 and a Member of the Air Transport Licensing Authority from August 2012 to July 2018.

**Ir Billy Wong Wing-hoo BBS JP**, was appointed to the Board in June 2015 and reappointed in June 2018. Mr. Wong is the Senior Vice President of Henderson (China) Investment Company Limited and General Manager of the Construction Department of Henderson Land Development Company Limited. He is a Fellow Member of the Institution of Civil Engineers, Hong Kong Institution of Engineers, Chartered Institution of Highways and Transportation (UK) and Hong Kong Institution of Highways and Transportation. He is also a Registered Professional Engineer under the Engineers Registration Ordinance (Cap. 409). He is a Director of Hong Kong-Shenzhen Innovation and Technology Park Limited, a Permanent Supervisor of the Hong Kong Construction Association and a Board Member of the Hospital Authority.

**Dr. William Wong Ming-fung SC JP**, was appointed to the Board in October 2020. He is a Senior Counsel of Des Voeux Chambers. Dr. Wong's practice covers a wide spectrum of contentious commercial litigation and has a special focus and substantial experience in the areas of company, insolvency and securities law. He is Vice Chairman of the Committee on Overseas Lawyers Examination and the Committee of Mainland Affairs of the Hong Kong Bar Council. He is also an Advisor to The Hong Kong Middle Temple Society. Dr. Wong graduated from the Business Faculty of the Chinese University of Hong Kong in 1994 as the Rhodes Scholar of the year. In 1996, he obtained his degree in Jurisprudence from Wadham College, Oxford. In 2004, he also obtained his LL.M degree from the Peking University. In 2012, he was awarded the Doctoral Degree from the Peking University with a dissertation on corporate insolvency laws.



**Mr. Thomas Jefferson Wu JP**, was appointed to the Board in June 2019. He had served in various senior management roles with the Hopewell Holdings group from 1999 to 2019, including group Deputy Chairman and Managing Director. He has held senior executive positions in the property and infrastructure sector for almost 20 years. Mr. Wu is a member of the 13th National Committee of the Chinese People's Political Consultative Conference, the Hong Kong Tourism Board, the Environment Bureau's Energy Advisory Committee, and the Securities and Futures Commission's Committee on Real Estate Investment Trusts.

**The Honourable Frankie Yick Chi-ming SBS JP**, was appointed to the Board in June 2014 and reappointed in June 2017. Mr. Yick is a Chartered Engineer. He joined the Wharf Group in 1994, and is now overseeing, *inter alia*, the Wharf Group's public transport and terminals portfolio. He is a member of the Legislative Council representing the Transport Functional Constituency, the Property Management Services Authority and the 13th Chinese People's Political Consultative Conference National Committee. Mr. Yick is Vice Chairman of the Independent Police Complaints Council. He is also a Non-executive Director of Harbour Centre Development Limited (stock code: 51) and The "Star" Ferry Company, Limited and a Director of Modern Terminals Limited and Hong Kong Air Cargo Terminals Limited.

**Dr. the Honourable Allan Zeman GBM GBS JP**, was appointed to the Board in June 2015 and reappointed in June 2018. Dr. Zeman is the Chairman of Lan Kwai Fong Group and Lan Kwai Fong Association and owner of Paradise Properties Group. He is the non-executive Chairman of Wynn Macau, Limited. Dr. Zeman is a non-executive Director of Pacific Century Premium Developments Limited. He is also an Independent non-executive Director of Sino Land Company Limited, Tsim Sha Tsui Properties Limited, Global Brands Group Holding Limited, Television Broadcasts Limited and Fosun Tourism Group. member of the General Committee of the Hong Kong General Chamber of Commerce. Additionally, Dr. Zeman is the Governor of Our Hong Kong Foundation and a Member of the Governing Board of the Hong Kong Entrepreneurs Fund of the Alibaba Entrepreneurs Fund. He is also a representative of Hong Kong China to the APEC Business Advisory Council, an Honorary Adviser to Ocean Park Hong Kong, and a Vice Patron of the Community Chest of Hong Kong. Dr. Zeman is a non-official member of the Chief Executive's Council of Advisers on Innovation and Strategic Development and the Human Resources Planning Commission.

## **Executive Directors**

Our Chief Executive Officer and executive directors are as follows:

**Mr. Fred Lam Tin-fuk JP**, was appointed Chief Executive Officer in October 2014. Mr. Lam is a former Executive Director of the Hong Kong Trade Development Council. Mr. Lam is a Member of the Asia Pacific Regional Board and the World Governing Board of Airports Council International, the Aviation Development and Three-runway System Advisory Committee and the Hong Kong Logistics Development Council. In 2007, Mr. Lam was named "Director of the Year" by the Hong Kong Institute of Directors in the category of statutory and non-profit-distributing organisations. In 2011, he was given the Peace through Commerce Medal from the United States Government in recognition of his leadership role in boosting US exports to, and through, Hong Kong. In 2019, he was elected a Chartered Fellow of the Chartered Institute of Logistics and Transport in Hong Kong and received the "Executive Award" in the DHL/SCMP Hong Kong Business Awards.

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

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

**Mrs. Vivian Cheung Kar-fay**, holds a Master of Business Administration degree from Southern Illinois University and a Bachelor of Computer Science degree from The State University of New York. Mrs. Cheung is an alumna of Stanford University's Stanford Executive Programme. She was appointed Executive Director, Airport Operations in December 2019. Mrs. Cheung worked for the General Electric Company and a high-technology start-up in Silicon Valley for many years before joining the Airport Authority Hong Kong (AAHK) in 1992. With more than 27 years of experience in airport management, she has held a number of senior management positions in AAHK. Mrs. Cheung is currently a Director of the Hong Kong-Zhuhai Airport Management Company Limited and Vice Chairman of the Shanghai Hong Kong Airport Management Company Limited. Active in community service, she is a member of the Liaison Panel for Accreditation of Vocational and Professional Education and Training of the Hong Kong Council for Accreditation of Academic and Vocational Qualifications, and a Member of the Board of Directors of Support! International Foundation.

**Ms. Florence Chung Wai-ye**, holds a Master of Science degree from the Chaminade University of Honolulu and a Bachelor of Social Science degree from the Chinese University of Hong Kong. Ms. Chung was appointed in October 2014. Before joining the Airport Authority Hong Kong, Ms. Chung was the General Manager of Group Human Resources at HKR International Limited. Ms Chung has 30 years of experience in general and human resources management and has held senior positions in sizeable commercial companies and public utilities in Hong Kong, including Hutchison Port Holdings Limited and CLP Group. Areas of expertise include organisational development as well as leadership, talent and change management.

**Mr. Julian Lee Pui-hang**, holds a Bachelor of Science degree in Chemical Engineering from Massachusetts Institute of Technology. Mr. Lee was appointed in July 2020. Before joining the Airport Authority Hong Kong, Mr. Lee was a Managing Director of Everbright Sun Hung Kai Co. Ltd. Mr. Lee also served at Standard Chartered Bank (Hong Kong) Ltd. and Merrill Lynch (Asia Pacific) Ltd. in senior management positions.

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

**Mr. Kevin Poole**, holds a Bachelor Degree in Civil Engineering from the United Kingdom. Mr. Poole was appointed Executive Director, Third Runway in February 2016. Mr. Poole has more than 35 years of experience in the building and civil engineering field, specialising in the planning, design and project management of major multidisciplinary development projects, ranging from airports and buildings

to tunnels, bridges and roads. Mr. Poole is active in the Hong Kong engineering community, having been a member of the Construction Industry Council and Chairman of its Committee on Environment from 2012 to 2018.

## **Board Committees**

### ***Audit Committee and Finance Committee***

The Audit Committee and Finance Committee (ACFC) is responsible for reviewing the Airport Authority's interim and audited annual financial statements; considering matters relating to internal and external audits as well as the Airport Authority's internal control and risk management systems; and reviewing annual budgets, financial plans, financing strategies and charging policies. The ACFC comprises of Mr. Adrian Wong Koon-man BBS MH JP as the chairman, as well as Mr. Rock Chen Chung-nin SBS BBS JP, Ms. Irene Chow Man-ling, Mr. Stuart Thomson Gulliver, The Honourable Steven Ho Chun-yin BBS, the Honourable Christopher Hui Ching-yu JP and Dr. William Wong Ming-fung SC JP as Members.

### ***3RS & Works Committee***

The 3RS and Works Committee (3RSWC) is responsible for overseeing the 3RS project and other capital works projects from planning, project implementation to successful completion of the projects on time and within budget by advising and making recommendations to the Board on all key works-related matters, reviewing the policies and strategies pertaining to the procurement of 3RS and other works contracts and consultancy agreements and making recommendations to the Board on subsequent tender award; reviewing and making recommendations to the Board on contract variations; monitoring the progress and implementation of mitigation directions/measures and other commitments as undertaken in the 3RS EIA Report and advising on AA's execution plan and ensuring smooth implementation of works projects. The 3RSWC comprises of Ir Dr. the Honourable Lo Wai-kiok SBS MH JP as the Chairman, as well as Mr. Fred Lam Tin-fuk JP, The Honourable Frank Chan Fan JP, Mr. Rock Chen Chung-nin SBS BBS JP, The Honourable Steven Ho Chun-yin BBS, Ms. Nisa Bernice Leung Wing-yu JP, Captain Victor Liu Chi-yung JP, Ir Billy Wong Wing-hoo BBS JP, Dr William Wong Ming-fung SC JP and Mr. Thomas Jefferson Wu JP as Members.

### ***Business Development Committee***

The Business Development Committee (BDC) is responsible for looking after all commercial and business development (excluding 3RSC) and public relations matters. The BDC comprises of Dr. the Honourable Allan Zeman GBM GBS JP as the Chairman, as well as Mr. Fred Lam Tin-fuk JP, The Honourable Frank Chan Fan JP, Ms. Irene Chow Man-ling, Ms. Nisa Bernice Leung Wing-yu JP, Captain Victor Liu Chi-yung JP, Mr. Thomas Jefferson Wu JP and The Honourable Frankie Yick Chi-ming SBS JPas Members.

### ***Human Resources & Remuneration Committee***

The Human Resources and Remuneration Committee (HRRC) is responsible for reviewing the Airport Authority's staffing, remuneration and employment policies, as well as terms and conditions of employment. It also makes recommendations to the Board on issues such as annual corporate goals and performance measures, variable compensation and salary review. The HRRC comprises of Ir. Billy Wong Ming-hoo BBS JP as Chairman, as well as Mr. Fred Lam Tin-fuk JP, the Honourable Frank Chan Fan JP, Ir Dr. the Honourable Lo Wai-kiok SBS MH JP and Mr. Adrian Wong Koon-man BBS MH JP as Members.

## **Compensation of Members and Directors**

Our 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. Firstly, there is basic compensation, which consists of base salary, housing and other allowances and benefits in kind. Secondly, there is performance-related compensation, which represents discretionary payments depending on individual performance and the performance of the group. Thirdly, there are retirement benefits, which relate to the group's contribution to retirement funds or gratuities in lieu of retirement plan contributions accrued.

The aggregate amount of salaries and other allowances and benefits in kind paid by us to our Members of the Board for the years ended 31 March 2018, 2019 and 2020 were approximately HK\$11.8 million, HK\$12.2 million and HK\$12.5 million, respectively. The aggregate amount of salaries and other allowances and benefits in kind paid by us to our Executive Directors for the years ended 31 March 2018, 2019 and 2020 were approximately HK\$43.1 million, HK\$42.2 million and HK\$39.8 million, respectively.

## TERMS AND CONDITIONS OF THE 2031 NOTES

*The following (subject to amendment, and other than the words in italics) is the text of the terms and conditions of the 2031 Notes which will appear on the reverse of each of the definitive certificates evidencing the 2031 Notes:*

The U.S.\$900,000,000 1.625 per cent. Senior Notes due 2031 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Airport Authority (the “**Issuer**”) are constituted by a deed of covenant dated 4 February 2021 (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 4 February 2021 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, The Bank of New York Mellon as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), as transfer agent (the “**Transfer Agent**”, which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes), as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) 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 Notes). References herein to the “**Agents**” are to the Registrar, the Fiscal Agent, the Transfer 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 — Title*)) 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 Notes 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 Notes

The Notes 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 Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Notes means the person in whose name such Note 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 Notes in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

- (b) *Ownership:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note 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 Notes 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 Note 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 Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.
- (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 Notes 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.
- (e) *No charge:* The transfer of a Note 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 Notes to be registered:
- (i) during the period of 15 days ending on the due date for any payment of principal, premium or interest in respect of the Notes; and
  - (ii) during the period of 15 days ending on any date on which the Notes may be called for redemption by the Issuer at its option pursuant to Condition 6 (*Redemption and Purchase*).
- (g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes 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.

#### 4 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not create or permit to be outstanding any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking or assets in order to secure any existing or future Securities (or Guarantees in respect thereof granted by it) unless in any case at the same time the Notes are equally and rateably secured so as to rank *pari passu* with such Securities or Guarantees or other security is granted in respect of the Notes as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Holders.

For 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;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**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;

“**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;

“**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;

“**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;

“**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; and

“**Securities**” means any Indebtedness in the form of or represented by bonds, notes, debentures or other similar securities, or by bills of exchange drawn or accepted for the purpose of raising money, which are, or are at the time of issue or acceptance intended to be, quoted, listed or ordinarily traded on any stock exchange or over-the-counter securities market or traded through any clearing system between financial institutions or institutional investors.



## 5 Interest

The Notes bear interest on their outstanding principal amount from and including 4 February 2021 at the rate of 1.625 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.\$8.125 per Calculation Amount (as defined below) on 4 February and 4 August in each year (each an “**Interest Payment Date**”). Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day falling seven days after the Fiscal Agent has notified Holders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 4 February 2021 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Note shall be calculated per U.S.\$1,000 in principal amount of the Notes (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where the Calculation Amount changes during an Interest Period, the amount of interest payable shall be calculated by applying the day-count fraction to each Calculation Amount for the period during which such Calculation Amount was applicable in such Interest Period and aggregating the results for the entire such Interest Period.

## 6 Redemption and Purchase

- (a) *Redemption date*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 4 February 2031 (the “**Maturity Date**”). The Notes may not be redeemed at the option of the Issuer other than in accordance with Condition 6 (*Redemption and Purchase*).
- (b) *Redemption for tax reasons*: The Notes 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, the Registrar and the Fiscal Agent (which notice shall be irrevocable) at their principal amount, together with interest accrued and unpaid to (but excluding) the date fixed for redemption, if (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*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 28 January 2021; 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 Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(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 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole but not in part, on giving not less than 30 nor more than 60 days' irrevocable notice (in the case of (i) below, a "**Make Whole Redemption Notice**" or in the case of (ii) below, an "**Optional Redemption Notice**") (in accordance with Condition 15 (*Notices*)) to the Holders, the Fiscal Agent and the Paying Agent at a redemption price equal to:

(i) (in the case of an Optional Redemption Date falling before 4 November 2030 (being three months before the Maturity Date)) the Make Whole Redemption Price as of the Optional Redemption Date, and unpaid interest, if any, accrued to but excluding such Optional Redemption Date; or

(ii) (in the case of an Optional Redemption Date falling on or after 4 November 2030 (being three months before the Maturity Date)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date.

For the purpose of this Condition 6(c):

"**Adjusted U.S. Treasury Rate**" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date;

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

"**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to such remaining term of the Notes;

"**Comparable Treasury Price**" means, with respect to any redemption date: (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 Business Day preceding such redemption

date, as set forth in the daily statistical release (or 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 Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption 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;

“**Independent Investment Bank**” means an independent investment bank of international repute (acting as an expert) selected by the Issuer;

“**Make Whole Redemption Price**” means, with respect of each Note at any redemption date, the greater of (i) 100% of the principal amount of such Note and (ii) the amount equal to the sum of the present value at such redemption date of the principal amount of such Note, together with the present values of the interest payable for the relevant Interest Periods from the relevant date fixed for redemption to 4 November 2030 (being three months before the Maturity Date), in each case, discounted to such redemption date on a semi-annual compounded basis at the Adjusted U.S. Treasury Rate plus 0.10 per cent.;

“**Optional Redemption Date**” means the date on which the Notes shall be redeemed at the option of the Issuer as specified in the Optional Redemption Notice or the Make Whole Redemption Notice (as the case may be);

“**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 City, selected by the Issuer in good faith; and

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by an Independent Investment Bank, 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 Independent Investment Bank by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

- (d) *Redemption upon a Relevant Event*: The Issuer will, at the option of the Holder of any Note, redeem the Notes held by that Holder on the Relevant Event Early Redemption Date at their principal amount, together with interest accrued (if any) to (but excluding) the date fixed for redemption, on the occurrence of a Relevant Event.

The Issuer shall give notice to Holders in accordance with Condition 15 (*Notices*) no later than 10 days following a Relevant Event, giving a brief explanation of the nature of the Relevant Event and specifying the Relevant Event Early Redemption Date.

In order to exercise the option contained in this Condition 6(d), the Holder of a Note must, not less than 14 days before the Relevant Event Early Redemption Date, deposit with any Paying Agent such Note and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 6(d), may be withdrawn; *provided, however*, that if, prior to the Relevant Event Early Redemption Date, any such Note becomes immediately due and payable or, upon due presentation of any such Note on the Relevant Event Early Redemption Date, payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the

depositing Holder at such address as may have been given by such Holder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Holder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 6(d), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

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.

For the purpose of these Conditions:

“**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;

“**MTRC**” means MTR Corporation Limited of Hong Kong;

“**Put Option Notice**” means a notice which must be delivered to a Paying Agent by any Holder wanting to exercise a right to redeem a Note at the option of the Holder in accordance with Condition 6(e) (*Redemption and Purchase — Redemption upon a Relevant Event*);

“**Put Option Receipt**” means a receipt issued by a Paying Agent to a depositing Holder upon deposit of a Note with such Paying Agent by any Holder wanting to exercise a right to redeem a Note at the option of the Holder in accordance with Condition 6(e) (*Redemption and Purchase — Redemption upon a Relevant Event*);

“**Relevant Event**” means:

- (iii) 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
- (iv) 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 and the Notes; 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;

“**Relevant Event Early Redemption Date**” means the date specified as such by the Issuer in accordance with Condition 6(e) (*Redemption and Purchase — Redemption upon a Relevant Event*) which date shall fall no earlier than 45 days and no later than 60 days after the Relevant Event; and

“**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.

- (e) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes purchased pursuant to this Condition 6(f) may be held, reissued or resold, or may be surrendered to the Fiscal Agent for cancellation.
- (f) *Cancellation*: All Notes 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 6(b) (*Redemption for tax reasons*) to 6(d) (*Redemption upon a Relevant Event*) above has occurred.

## 7 Payments

- (a) *Principal and premium*: Payments of principal and premium (if any) 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) *Interest*: Payments of interest shall be made in U.S. dollars by transfer to a U.S. dollar account (in the case of interest 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 Notes 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 8 (*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 8 (*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, premium (if any) and interest 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 interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day.

- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, 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 Note 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**").

In this Condition 7:

"**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).

## **8 Taxation**

All payments of principal, premium (if any) and interest in respect of the Notes 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 Note:

- (a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note 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 Note; or
- (b) where (in the case of a payment of principal, premium (if any) or interest 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, premium and interest shall be deemed to include any additional amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 8.

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 8 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), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

## **9 Events of Default**

If any of the following events occurs and is continuing:

- (a) *Payment default*: there is a default for more than 14 days in the payment of any principal, premium (if any), interest or other amount due in respect of any Note; or
- (b) *Cross default*: (i) the Issuer shall default in the payment of any principal of or interest on any Borrowed Money beyond any period of grace provided in respect thereof, or (ii) the Issuer shall fail to honour when due and called upon any guarantee of any Borrowed Money, or (iii) any Borrowed Money of the Issuer shall become due and payable prior to its specified maturity by reason of any default or event of default (howsoever described), in each case in an aggregate principal amount of at least U.S.\$50,000,000 or the equivalent thereof in another currency or currencies, or (iv) a general moratorium shall be declared on the payment of the debts of the Issuer; or
- (c) *Other default*: the Issuer shall default in the performance or observance of any other obligation contained in the Notes (or to the extent it relates to the Notes) and such default shall not have been remedied within 60 days after written notice shall have been given to the Fiscal Agent at its Specified Office by any Holder; or
- (d) *Proceedings for liquidation*: an order is made or an effective resolution or enactment is passed for the winding up, liquidation or dissolution of the Issuer, other than in the case of a Relevant Event (as defined in Condition 6(d) (*Redemption and Purchase — Redemption upon a Relevant Event*)); or
- (e) *Enforcement of security*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer or a distress or execution shall be levied or enforced upon *or* sued out against any substantial part of the undertaking, assets and revenues of the Issuer and is not discharged within 60 days of being levied or enforced,

then any Note may, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest (if any) without further formality.

For the purposes of these Conditions:

“**Borrowed Money**” means indebtedness for borrowed money, acceptances and the principal amount of any notes, debentures, bonds, bills of exchange, promissory notes or similar instruments drawn, made, accepted, issued, endorsed or guaranteed by the Issuer for the purpose of raising money but shall exclude bills of exchange drawn under or in respect of letters of credit or contracts for the provision of goods or services for the purpose of effecting payment and not in connection with the raising of money.

## 10 Prescription

Claims for principal, premium (if any) and interest on redemption shall become void unless the relevant Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

## 11 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.

## 12 Agents

In acting under the Agency Agreement and in connection with the Notes, 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.

## 13 Meetings of Holders; Modification

- (a) *Meetings of Holders:* The Agency Agreement contains provisions for convening meetings of Holders to consider matters relating to the Notes, 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 Notes. 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 Notes or, at any adjourned meeting, two or more Persons being or representing Holders whatever the principal amount of the Notes 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 Notes 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 Notes 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 Notes 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 Notes, 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 Notes, 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 15 (*Notices*) as soon as practicable thereafter.

For the purposes of these Conditions:

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

## 14 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 Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## 15 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.

## 16 Governing Law and Jurisdiction

- (a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes 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 Notes (including any non-contractual obligation arising out of or in connection with the Notes).

- (c) *Process agent:* The Issuer 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 Issuer, the Issuer shall, on the written demand of any Holder addressed and delivered to the Issuer 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 Issuer and delivered to the Issuer 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 Issuer 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 Issuer 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 Issuer or its assets or revenues, the Issuer 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 2051 NOTES

*The following (subject to amendment, and other than the words in italics) is the text of the terms and conditions of the 2051 Notes which will appear on the reverse of each of the definitive certificates evidencing the 2051 Notes:*

The U.S.\$600,000,000 2.625 per cent. Senior Notes due 2051 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of Airport Authority (the “**Issuer**”) are constituted by a deed of covenant dated 4 February 2021 (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 4 February 2021 (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, The Bank of New York Mellon as registrar (the “**Registrar**”, which expression includes any successor registrar appointed from time to time in connection with the Notes), as transfer agent (the “**Transfer Agent**”, which expression includes any successor or additional transfer agent appointed from time to time in connection with the Notes), as fiscal agent (the “**Fiscal Agent**”, which expression includes any successor fiscal agent appointed from time to time in connection with the Notes) 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 Notes). References herein to the “**Agents**” are to the Registrar, the Fiscal Agent, the Transfer 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 — Title*)) 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 Notes 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 Notes

The Notes 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 Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the “**Holder**” of a Notes means the person in whose name such Note 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 Notes in respect of its registered holding. Each Certificate will be numbered serially with an identifying number which will be recorded in the Register.

- (b) *Ownership:* The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note 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 Notes 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 Note 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 Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Certificate are the subject of the transfer, a new Certificate in respect of the balance of the Notes will be issued to the transferor.
- (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 Notes 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.
- (e) *No charge:* The transfer of a Note 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 Notes to be registered:
- (i) during the period of 15 days ending on the due date for any payment of principal, premium or interest in respect of the Notes; and
  - (ii) during the period of 15 days ending on any date on which the Notes may be called for redemption by the Issuer at its option pursuant to Condition 6 (*Redemption and Purchase*).
- (g) *Regulations concerning transfers and registration:* All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes 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.

#### 4 Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not create or permit to be outstanding any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its present or future undertaking or assets in order to secure any existing or future Securities (or Guarantees in respect thereof granted by it) unless in any case at the same time the Notes are equally and rateably secured so as to rank *pari passu* with such Securities or Guarantees or other security is granted in respect of the Notes as shall be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Holders.

For 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;

“**Guarantee**” means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

- (a) any obligation to purchase such Indebtedness;
- (b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
- (c) any indemnity against the consequences of a default in the payment of such Indebtedness; and
- (d) any other agreement to be responsible for such Indebtedness;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China;

“**Indebtedness**” means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

- (a) amounts raised by acceptance under any acceptance credit facility;
- (b) amounts raised under any note purchase facility;
- (c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;
- (d) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and
- (e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

“**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;

“**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;

“**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;

“**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;

“**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; and

“**Securities**” means any Indebtedness in the form of or represented by bonds, notes, debentures or other similar securities, or by bills of exchange drawn or accepted for the purpose of raising money, which are, or are at the time of issue or acceptance intended to be, quoted, listed or ordinarily traded on any stock exchange or over-the-counter securities market or traded through any clearing system between financial institutions or institutional investors.

## 5 Interest

The Notes bear interest on their outstanding principal amount from and including 4 February 2021 at the rate of 2.625 per cent. per annum, payable semi-annually in arrear in equal instalments of U.S.\$13.125 per Calculation Amount (as defined below) on 4 February and 4 August in each year (each an “**Interest Payment Date**”). Each Note will cease to bear interest from the due date for redemption unless, upon surrender of the Certificate representing such Note, payment of principal or premium (if any) is improperly withheld or refused. In such event it shall continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant holder, and (b) the day falling seven days after the Fiscal Agent has notified Holders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

If interest is required to be calculated for a period of less than a complete Interest Period (as defined below), the relevant day-count fraction will be determined on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

In these Conditions, the period beginning on and including 4 February 2021 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an “**Interest Period**”.

Interest in respect of any Note shall be calculated per U.S.\$1,000 in principal amount of the Notes (the “**Calculation Amount**”). The amount of interest payable per Calculation Amount for any period shall, save as provided above in relation to equal instalments, be equal to the product of the rate of interest specified above, the Calculation Amount and the day-count fraction for the relevant period, rounding the resulting figure to the nearest cent (half a cent being rounded upwards). Where the Calculation Amount changes during an Interest Period, the amount of interest payable shall be calculated by applying the day-count fraction to each Calculation Amount for the period during which such Calculation Amount was applicable in such Interest Period and aggregating the results for the entire such Interest Period.

## 6 Redemption and Purchase

- (a) *Redemption date*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 4 February 2051 (the “**Maturity Date**”). The Notes may not be redeemed at the option of the Issuer other than in accordance with Condition 6 (*Redemption and Purchase*).
- (b) *Redemption for tax reasons*: The Notes 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, the Registrar and the Fiscal Agent (which notice shall be irrevocable) at their principal amount, together with interest accrued and unpaid to (but excluding) the date fixed for redemption, if (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8 (*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 28 January 2021; 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 Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6(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 6(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 6(b).

(c) *Redemption at the option of the Issuer:* The Notes may be redeemed at the option of the Issuer in whole but not in part, on giving not less than 30 nor more than 60 days' irrevocable notice (in the case of (i) below, a "**Make Whole Redemption Notice**" or in the case of (ii) below, an "**Optional Redemption Notice**") (in accordance with Condition 15 (*Notices*)) to the Holders, the Fiscal Agent and the Paying Agent at a redemption price equal to:

- (i) (in the case of an Optional Redemption Date falling before 4 August 2050 (being six months before the Maturity Date)) the Make Whole Redemption Price as of the Optional Redemption Date, and unpaid interest, if any, accrued to but excluding such Optional Redemption Date; or
- (ii) (in the case of an Optional Redemption Date falling on or after 4 August 2050 (being six months before the Maturity Date)) their principal amount, plus unpaid interest, if any, accrued to but excluding such Optional Redemption Date.

For the purpose of this Condition 6(c):

"**Adjusted U.S. Treasury Rate**" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield in maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date;

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

"**Comparable Treasury Issue**" means the U.S. Treasury security having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilised, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to such remaining term of the Notes;

"**Comparable Treasury Price**" means, with respect to any redemption date: (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 Business Day preceding such redemption



date, as set forth in the daily statistical release (or 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 Business Day, (a) the average of the Reference Treasury Dealer Quotations for such redemption 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;

“**Independent Investment Bank**” means an independent investment bank of international repute (acting as an expert) selected by the Issuer;

“**Make Whole Redemption Price**” means, with respect of each Note at any redemption date, the greater of (i) 100% of the principal amount of such Note and (ii) the amount equal to the sum of the present value at such redemption date of the principal amount of such Note, together with the present values of the interest payable for the relevant Interest Periods from the relevant date fixed for redemption to 4 August 2050 (being six months before the Maturity Date), in each case, discounted to such redemption date on a semi-annual compounded basis at the Adjusted U.S. Treasury Rate plus 0.15 per cent.;

“**Optional Redemption Date**” means the date on which the Notes shall be redeemed at the option of the Issuer as specified in the Optional Redemption Notice or the Make Whole Redemption Notice (as the case may be);

“**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 City, selected by the Issuer in good faith; and

“**Reference Treasury Dealer Quotations**” means, with respect to each Reference Treasury Dealer and any redemption date, the average as determined by an Independent Investment Bank, 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 Independent Investment Bank by such Reference Treasury Dealer at 5:00 p.m. on the third Business Day preceding such redemption date.

- (d) *Redemption upon a Relevant Event*: The Issuer will, at the option of the Holder of any Note, redeem the Notes held by that Holder on the Relevant Event Early Redemption Date at their principal amount, together with interest accrued (if any) to (but excluding) the date fixed for redemption, on the occurrence of a Relevant Event.

The Issuer shall give notice to Holders in accordance with Condition 15 (*Notices*) no later than 10 days following a Relevant Event, giving a brief explanation of the nature of the Relevant Event and specifying the Relevant Event Early Redemption Date.

In order to exercise the option contained in this Condition 6(d), the Holder of a Note must, not less than 14 days before the Relevant Event Early Redemption Date, deposit with any Paying Agent such Note and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 6(d), may be withdrawn; *provided, however*, that if, prior to the Relevant Event Early Redemption Date, any such Note becomes immediately due and payable or, upon due presentation of any such Note on the Relevant Event Early Redemption Date, payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the

depositing Holder at such address as may have been given by such Holder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Holder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 6(d), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

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.

For the purpose of these Conditions:

“**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;

“**MTRC**” means MTR Corporation Limited of Hong Kong;

“**Put Option Notice**” means a notice which must be delivered to a Paying Agent by any Holder wanting to exercise a right to redeem a Note at the option of the Holder in accordance with Condition 6(e) (*Redemption and Purchase — Redemption upon a Relevant Event*);

“**Put Option Receipt**” means a receipt issued by a Paying Agent to a depositing Holder upon deposit of a Note with such Paying Agent by any Holder wanting to exercise a right to redeem a Note at the option of the Holder in accordance with Condition 6(e) (*Redemption and Purchase — Redemption upon a Relevant Event*);

“**Relevant Event**” means:

- (iii) 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
- (iv) 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 and the Notes; 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;

“**Relevant Event Early Redemption Date**” means the date specified as such by the Issuer in accordance with Condition 6(e) (*Redemption and Purchase — Redemption upon a Relevant Event*) which date shall fall no earlier than 45 days and no later than 60 days after the Relevant Event; and

“**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.

- (e) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise and at any price. Any Notes purchased pursuant to this Condition 6(f) may be held, reissued or resold, or may be surrendered to the Fiscal Agent for cancellation.
- (f) *Cancellation*: All Notes 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 6(b) (*Redemption for tax reasons*) to 6(d) (*Redemption upon a Relevant Event*) above has occurred.

## 7 Payments

- (a) *Principal and premium*: Payments of principal and premium (if any) 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) *Interest*: Payments of interest shall be made in U.S. dollars by transfer to a U.S. dollar account (in the case of interest 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 Notes 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 8 (*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 8 (*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, premium (if any) and interest 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 interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day.

- (e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, 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 Note 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**").

In this Condition 7:

"**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).

## 8 Taxation

All payments of principal, premium (if any) and interest in respect of the Notes 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 Note:

- (a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note 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 Note; or
- (b) where (in the case of a payment of principal, premium (if any) or interest 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, premium and interest shall be deemed to include any additional amounts in respect of principal, premium or interest (as the case may be) which may be payable under this Condition 8.

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 8 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), interest or other amount under or in respect of the Notes without deduction or withholding for or on account of any tax, duty, charge, withholding or other payment imposed by or in any jurisdiction.

## **9 Events of Default**

If any of the following events occurs and is continuing:

- (a) *Payment default*: there is a default for more than 14 days in the payment of any principal, premium (if any), interest or other amount due in respect of any Note; or
- (b) *Cross default*: (i) the Issuer shall default in the payment of any principal of or interest on any Borrowed Money beyond any period of grace provided in respect thereof, or (ii) the Issuer shall fail to honour when due and called upon any guarantee of any Borrowed Money, or (iii) any Borrowed Money of the Issuer shall become due and payable prior to its specified maturity by reason of any default or event of default (howsoever described), in each case in an aggregate principal amount of at least U.S.\$50,000,000 or the equivalent thereof in another currency or currencies, or (iv) a general moratorium shall be declared on the payment of the debts of the Issuer; or
- (c) *Other default*: the Issuer shall default in the performance or observance of any other obligation contained in the Notes (or to the extent it relates to the Notes) and such default shall not have been remedied within 60 days after written notice shall have been given to the Fiscal Agent at its Specified Office by any Holder; or
- (d) *Proceedings for liquidation*: an order is made or an effective resolution or enactment is passed for the winding up, liquidation or dissolution of the Issuer, other than in the case of a Relevant Event (as defined in Condition 6(d) (*Redemption and Purchase — Redemption upon a Relevant Event*)); or
- (e) *Enforcement of security*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer or a distress or execution shall be levied or enforced upon *or* sued out against any substantial part of the undertaking, assets and revenues of the Issuer and is not discharged within 60 days of being levied or enforced,

then any Note may, by written notice addressed by the Holder thereof to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest (if any) without further formality.

For the purposes of these Conditions:

“**Borrowed Money**” means indebtedness for borrowed money, acceptances and the principal amount of any notes, debentures, bonds, bills of exchange, promissory notes or similar instruments drawn, made, accepted, issued, endorsed or guaranteed by the Issuer for the purpose of raising money but shall exclude bills of exchange drawn under or in respect of letters of credit or contracts for the provision of goods or services for the purpose of effecting payment and not in connection with the raising of money.

## 10 Prescription

Claims for principal, premium (if any) and interest on redemption shall become void unless the relevant Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

## 11 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.

## 12 Agents

In acting under the Agency Agreement and in connection with the Notes, 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.

## 13 Meetings of Holders; Modification

- (a) *Meetings of Holders:* The Agency Agreement contains provisions for convening meetings of Holders to consider matters relating to the Notes, 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 Notes. 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 Notes or, at any adjourned meeting, two or more Persons being or representing Holders whatever the principal amount of the Notes 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 Notes 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 Notes 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 Notes 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 Notes, 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 Notes, 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 15 (*Notices*) as soon as practicable thereafter.

For the purposes of these Conditions:

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

## 14 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 Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## 15 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.

## 16 Governing Law and Jurisdiction

- (a) *Governing law*: The Notes and any non-contractual obligations arising out of or in connection with the Notes 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 Notes (including any non-contractual obligation arising out of or in connection with the Notes).

- (c) *Process agent:* The Issuer 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 Issuer, the Issuer shall, on the written demand of any Holder addressed and delivered to the Issuer 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 Issuer and delivered to the Issuer 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 Issuer 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 Issuer 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 Issuer or its assets or revenues, the Issuer agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.



## FORM OF THE NOTES

*Each Global Certificate contains provisions which apply to the relevant series of Notes in respect of which it is issued while they are represented by the relevant Global Certificate, some of which modify the effect of the Conditions set out in this Offering Memorandum. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning below.*

### General

#### *Denominations*

The Notes will have a minimum authorized denomination of \$200,000 principal amount and integral multiples of \$1,000 in excess thereof.

#### *Form and Registration*

The Notes will be sold (i) in offshore transactions in reliance on Regulation S and will be issued in the form of one or more permanent global certificates in fully registered form without interest coupons (each a “**Regulation S Global Certificate**”) and (ii) to persons that are Qualified Institutional Buyers and will be issued in the form of one or more permanent global certificates in fully registered form without interest coupons (each a “**144A Global Certificate**”, and together with the Regulation S Global Certificate, the “**Global Certificates**”).

Each initial investor in the Notes and subsequent transferee of an interest in a Global Certificate (except, in the case of a Joint Lead Manager, as may be expressly agreed in writing between such Joint Lead Manager and the Issuer) will be deemed to represent, among other matters, as to its status under the Securities Act and the Investment Company Act and Employee Retirement Income Security Act of 1974 (**ERISA**), as applicable.

The Global Certificates will be deposited with a custodian for DTC and registered in the name of Cede & Co., as nominee of DTC. The CUSIPs, ISINs and Common Code for each series of Notes are set out elsewhere in this Offering Memorandum.

A beneficial interest in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in the corresponding global certificates representing the Rule 144A Global Certificates only upon, in accordance with the applicable procedures of the Clearing System, receipt by the Transfer Agent of a written certification from the transferor in the form required by the Agency Agreement to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, and is in accordance with any applicable securities laws of any state of the United States. Beneficial interests in a Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate only upon receipt by the Transfer Agent of a written certification from the transferor in the form required by the Agency Agreement to the effect that such transfer is being made in accordance with Regulation S and a written certification from the transferee in the form required by the Agency Agreement to the effect, *inter alia*, that such transferee is purchasing such beneficial interest in such Regulation S Global Certificate in an offshore transaction pursuant to Regulation S. Any beneficial interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of an interest in another Global Certificate will, upon transfer, cease to be an interest in such Global Certificate, and become an interest in such other Global Certificate, and accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Certificates for as long as it remains such an interest.

No service charge will be made for any registration of transfer or exchange of Notes but the Issuer, the Registrar or the Transfer Agent may require payment of a sum sufficient to cover any transfer, tax or other governmental charge payable in connection therewith. The Registrar or the Transfer Agent will be permitted to request such evidence reasonably satisfactory to it documenting the identity and/or signatures of the transferor and transferee.

The registered owner of the relevant Global Certificate will be the only person entitled to receive payments in respect of the Notes represented thereby, and the Issuer will be discharged by payment to the registered owner of such Global Certificate or in respect of each amount so paid. No person other than the registered owner of the relevant Global Certificate will have any claim against the Issuer in respect of any payment due on that Global Certificate. Account holders or participants in DTC shall have no rights with respect to Global Certificates held on their behalf by DTC, and DTC may be treated by the Issuer, the Agents and any agent of the Issuer as the holder of Global Certificates for all purposes whatsoever.

Global Certificates will be exchangeable by the Issuer for Definitive Notes if: (i) DTC notifies the Issuer that it is unwilling or unable to continue to act as depository for the Global Certificates and a successor depository is not appointed by the Issuer within 120 days after receiving such notice; or (ii) an Event of Default occurs.

Upon the occurrence of any of the preceding events in clauses (i) through (ii) above, the Issuer shall issue or cause to be issued Definitive Notes in such name or names and issued in any approved denominations as DTC shall instruct the Issuer based on the instructions received by DTC from the holders of beneficial interests in such Global Certificates.

In the event that Definitive Notes are not so issued by the Issuer to such beneficial owners of interests in Global Certificates, the Issuer expressly acknowledges that such beneficial owners acquire Direct Rights against the Issuer pursuant to the Deed of Covenant. In the event that Definitive Notes are issued in exchange for Global Certificates as described above, the applicable Global Certificate will be surrendered to the Registrar by DTC and the Issuer will execute and the Registrar will authenticate and deliver an equal aggregate outstanding principal amount of Definitive Notes.

The Notes will be subject to certain restrictions on transfer set forth therein and in the Agency Agreement and the Notes will bear the restrictive legend set forth in “*Transfer Restrictions*”.

## CLEARANCE PROCEDURES

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of the Clearing Systems currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Issuer believe to be reliable, but neither the Issuer, nor the Joint Lead Managers, nor the Agents takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. Neither the Issuer nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the relevant series of Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

### **Book-Entry Ownership**

The book-entry interests will not be held in definitive form. Instead, DTC will credit on their respective book-entry registration and transfer systems a participant's account with the interest beneficially owned by such participant. The laws of some jurisdictions, including certain states of the U.S., may require that certain purchasers of securities take physical delivery of such securities in definitive form. The foregoing limitations may impair the ability to own, transfer or pledge book-entry interests. In addition, while the Notes are in global form, "holders" of book-entry interests will not be considered the owners of Notes for any purpose. Only the registered holder of a Note will be treated as the owner of such Note.

So long as the Notes are held in global form, DTC (or its nominees), will be considered the holders of the Global Certificates for all purposes under the Agency Agreement. As such, participants must rely on the procedures of DTC and indirect participants must rely on the procedures of DTC and the participants through which they own book- entry interests in order to exercise any rights of holders under the Agency Agreement.

Neither the Issuer nor the Agents will have any responsibility or be liable for any aspect of the records in relation to the book-entry interests.

### ***Redemption of Global Certificates***

In the event that any Global Certificate, or any portion thereof, is redeemed, DTC will distribute the amount received by it in respect of the Global Certificate so redeemed to the Beneficial Owner of book-entry interests in such Global Certificate, subject to any applicable withholding taxes. The redemption price payable in connection with the redemption of such book-entry interests will be equal to the amount received by DTC in connection with the redemption of such Global Certificate (or any portion thereof), subject to any applicable withholding taxes. The Issuer understands that under existing practices of DTC, if fewer than all of the Notes are to be redeemed at any time, DTC will credit their respective participants' accounts on a proportionate basis (with adjustments to prevent fractions) or by lot or on any other basis that they deem fair and appropriate; provided, however, that no book- entry interest of less than \$200,000 in principal amount may be redeemed in part.

### ***Payments on Global Certificates***

Payments of any amounts owing in respect of the Global Certificates (including principal, premium, interest, additional interest and additional amounts) will be made by the Issuer to the Paying Agent. The Paying Agent will, in turn, make such payments to DTC (or its nominee), which will distribute such payments to participants in accordance with their respective procedures.

Under the terms of the Agency Agreement, the Issuer, the Fiscal Agent, the Registrar, the Transfer Agent and the Paying Agent will treat the registered holder of the Global Certificates (for example Euroclear or Clearstream) as the owner thereof for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Fiscal Agent, the Registrar, the Transfer Agent nor the Paying Agents or any of their respective agents has or will have any responsibility or liability for:

- any aspects of the records of DTC or any participant or indirect participant relating to or payments made on account of a book-entry interest, for any such payments made by DTC or any participant or indirect participant, or for maintaining, supervising or reviewing the records of DTC or any participant or indirect participant relating to a book-entry interest or payments made on account of a book-entry interest, or
- payments made by DTC, or for maintaining, supervising or reviewing the records of DTC or payments made on account of a book-entry interest.

Payments made by participants to owners of book-entry interests held through participants are the responsibility of such participants, as is now the case with securities held for the accounts of subscribers registered in “street name”.

#### ***Currency and Payment for the Global Certificates***

The principal of, premium, if any, and interest on, and all other amounts payable in respect of the Global Certificates will be paid through DTC in U.S. dollars.

#### ***Action by Owners of Book-Entry Interests***

DTC have advised the Issuer that they will take any action permitted to be taken by a Noteholder only at the direction of one or more participants to whose account book-entry interests in the Global Certificates are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. DTC will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Certificates. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Certificates for Definitive Registered Certificates (as defined below) in certificated form, and to distribute such Definitive Registered Certificates to their respective participants.

#### **Issuance of Definitive Registered Certificates**

Owners of book-entry interests will receive definitive certificates in registered form (“**Definitive Registered Certificates**”):

- if DTC notifies us that it is unwilling or unable to continue to act and a successor is not appointed by us within 120 days; or
- following an Event of Default.

In such an event, the Issuer will issue Definitive Registered Certificates, registered in the name or names and issued in any approved denominations, requested by or on behalf of DTC (in accordance with their respective customary procedures and based upon directions received from participants reflecting the beneficial ownership of book-entry interests), and such Definitive Registered Certificates will bear the restrictive legend referred to in “*Transfer Restrictions*,” unless that legend is not required by the Agency Agreement or applicable law.

The Issuer, the Fiscal Agent, the paying agent and the registrar shall treat the registered holder of any Global Note as the absolute owner thereof and no person will be liable for treating the registered holder as such. Ownership of the Global Certificates will be evidenced through registration from time to time at the registered office of the Issuer or the registrar on its behalf, and such registration is a means of evidencing title to the Notes.

The Issuer shall not impose any fees or other charges in respect of the Notes; however, owners of the book entry interests may incur fees normally payable in respect of the maintenance and operation of accounts in DTC.

## **Transfers**

Transfers between participants in DTC will be done in accordance with DTC rules and will be settled in immediately available funds. If a holder requires physical delivery of Definitive Registered Certificates for any reason, including to sell the Notes to persons in states which require physical delivery of such securities or to pledge such securities, such holder must transfer its interest in the Global Certificates in accordance with the normal procedures of DTC and in accordance with the provisions of the Agency Agreement and will not be entitled to Definitive Registered Certificates except as provided in “*Clearance Procedures — Issuance of Definitive Registered Certificates*”.

The Global Certificates will bear a legend to the effect set forth in “*Transfer Restrictions*”. Book-entry interests in the Global Certificates will be subject to the restrictions on transfer discussed in “*Transfer Restrictions*”.

During the Resale Restriction Period, beneficial interests in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificate denominated in the same currency only if such transfer is made pursuant to Rule 144A and the transferor first delivers to the Fiscal Agent a certificate (in the form provided in the Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is a QIB within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A or otherwise in accordance with the transfer restrictions described under “*Transfer Restrictions*” and in accordance with all applicable securities laws of the states of the U.S. and other jurisdictions.

After the expiration of the Resale Restriction Period, beneficial interests in a Regulation S Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificate denominated in the same currency without compliance with these certification requirements.

Beneficial interests in a Rule 144A Global Certificate may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificate denominated in the same currency only upon receipt by the Fiscal Agent of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that such transfer is being made in accordance with Regulation S or Rule 144A (if available).

Subject to the foregoing, and as set forth in “*Transfer Restrictions*,” book-entry interests may be transferred and exchanged as described under “*Form of the Notes — General — Form and Registration*”.

Any book-entry interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of a book-entry interest in the other Global Certificate of the same denomination will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Certificate and become a book-entry interest in the other Global Certificate, and accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Certificate for as long as it retains such a book-entry interest.

Definitive Registered Certificates may be transferred and exchanged for book-entry interests in a Global Certificate only as described under “*Form of the Notes — General — Form and Registration*” and, if required, only if the transferor first delivers to the Fiscal Agent a written certificate (in the form provided in the Agency Agreement) to the effect that such transfer will comply with the appropriate transfer restrictions applicable to such Definitive Registered Certificates. See “*Transfer Restrictions*”.

Transfers involving an exchange of a Regulation S book-entry interest for Rule 144A book-entry interest in a Global Certificate will be done by DTC by means of an instruction originating from the registrar through the DTC Deposit/Withdrawal at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect a decrease in the principal amount of the relevant Regulation S Global Certificate and a corresponding increase in the principal amount of the corresponding Rule 144A Global Certificate. The policies and practices of DTC may prohibit transfers of unrestricted book-entry interests in the Regulation S Global Certificate prior to the expiration of the Resale Restriction Period. Any book-entry interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of a book-entry interest in any other global certificate will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Certificate and become a book-entry interest in such other Global Certificate, and accordingly will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to book-entry interests in such other Global Certificate for as long as it remains such a book- entry interest.

### **Information Concerning DTC**

All book-entry interests will be subject to the operations and procedures of DTC. We provide the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of DTC are controlled by DTC and may be changed at any time. Neither the Issuer nor the Joint Lead Managers are responsible for those operations or procedures.

DTC has advised us that it is:

- a limited purpose trust company organized under New York Banking Law;
- a “banking organization” under New York Banking Law;
- a member of the Federal Reserve System;
- a “clearing corporation” within the meaning of the New York Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of transactions among its participants. It does this through electronic book-entry changes in the accounts of securities participants, eliminating the need for physical movement of securities certificates. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC’s owners are the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. and a number of its direct participants. Others, such as banks, brokers and dealers and trust companies that clear through or maintain a custodial relationship with a direct participant also have access to the DTC system and are known as indirect participants.

Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of an owner of a beneficial interest to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be limited by the lack of a definite certificate for that interest. The laws of some

jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests to such persons may be limited. In addition, owners of beneficial interests through the DTC system will receive distributions attributable to the Global Certificates only through DTC.

### **Initial Settlement**

Initial settlement for the Notes will be made in U.S. dollars. Book-entry interests owned through DTC accounts will follow the settlement procedures applicable to conventional bonds in registered form. Book-entry interests will be credited to the securities custody accounts of DTC holders on the business day following the settlement date against payment for value on the settlement date.

### **Secondary Market Trading, Global Clearance and Settlement under the Book-Entry System**

The Issuer will make an application to have the Notes admitted to listing on the Hong Kong Stock Exchange, and interests in the Global Certificates will trade in DTC's Same Day Funds Settlement System, and we expect any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. Subject to compliance with the transfer restrictions applicable to the Global Certificates, cross market transfers of interests in the Global Certificates between participants in Euroclear or Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures. Cross-market transfers with respect to interests in Global Certificates between participants in DTC, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be done through DTC in accordance with DTC's rules on behalf of each of Euroclear or Clearstream by the common depository; however, such cross market transactions will require delivery of instructions to Euroclear or Clearstream by the counterparty in such system in accordance with the rules and regulations and within the established deadlines of such system (Brussels time). Euroclear or Clearstream will, if the transaction meets its settlement requirements, deliver instructions to the common depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Certificates from DTC, and making and receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the common depository.

Because of time-zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Certificate from a DTC participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream) immediately following the settlement date of DTC. Cash received in Euroclear and Clearstream as a result of a sale of an interest in a Global Certificate by or through a Euroclear or Clearstream participant to a participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Although DTC, Euroclear and Clearstream currently follow the foregoing procedures in order to facilitate transfers of interests in the Global Certificates among participants in DTC, Euroclear and Clearstream, as the case may be, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or modified at any time. None of the Issuer, the Fiscal Agent or the paying agent will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

The book-entry interests will trade through participants of DTC and will settle in same-day funds. Since the purchaser determines the place of delivery, it is important to establish at the time of trading of any book-entry interests where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

## TAXATION

*The following is a general description of certain tax considerations relating to the Notes. It is based on law and relevant interpretations thereof in effect as at the date of this Offering Memorandum, 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 Notes. Prospective holders of Notes 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 interests on the Notes or in respect of any capital gains arising from the sale of the Notes.

#### ***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).

Interests on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) interest on the Notes 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 that trade, profession or business;
- (iii) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) 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) interest on the Notes 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 Notes 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 Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Notes 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 Notes 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 Hong Kong stamp duty is chargeable upon the issue or transfer of a Note.

### **United States Federal Income Taxation**

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Notes at the “issue price” (the first price at which a substantial amount of Notes are sold for money, excluding sales to underwriters, placement agents or wholesalers) in the initial offering that are U.S. Holders that will hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This summary also does not address tax considerations applicable to investors that own (directly, or indirectly or by attribution) 5% or more of the shares of the Issuer by vote or value, nor does this summary discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, U.S. Holders that are required to take certain amounts into income no later than the time such amounts are reflected on an applicable financial statement, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Notes in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term “U.S. Holder” means a beneficial owner of Notes that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States, or any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity or arrangement treated as a partnership for U.S. federal income tax purposes that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities or arrangements treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Notes by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

**THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.**

### ***Payments of Interest***

We expect, and this discussion assumes, that the Notes will not be considered as issued with original issue discount (“OID”) for U.S. federal income tax purposes. The Notes will be treated as issued without OID if the difference between their principal amount and their issue price is less than the product of one-fourth of one percent (0.25 percent) of their principal amount multiplied by the number of full years to their maturity. In general, however, if the Notes are issued with OID for U.S. federal income tax purposes, a U.S. Holder will be required to include OID in gross income, as ordinary income, under a “constant-yield method” before the receipt of cash attributable to such income, regardless of the U.S. Holder’s regular method of accounting for U.S. federal income tax purposes.

Interest on a Note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on such holder’s method of accounting for U.S. federal income tax purposes. Interest paid by the Issuer on the Notes constitutes income from sources outside the United States. Prospective purchasers should consult their tax advisers concerning the applicability of the foreign tax credit and source of income rules to income attributable to the Notes.

### ***Sale and Retirement of the Notes***

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Note equal to the difference between the amount realised on the sale or retirement and the U.S. Holder’s adjusted tax basis of the Note. A U.S. Holder’s adjusted tax basis in a Note generally will be its U.S. dollar cost reduced by the amount of any principal paid on the Note. The amount realised does not include the amount attributable to accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income.

Gain or loss recognised by a U.S. Holder on the sale or retirement of a Note will be capital gain or loss and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year. Long-term capital gains of non-corporate U.S. Holders (including individuals) generally are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Gain or loss realised by a U.S. Holder on the sale or retirement of a Note generally will be U.S. source. Prospective purchasers should consult their tax advisers as to the foreign tax credit implications of the sale or retirement of Notes.

### ***Backup Withholding and Information Reporting***

Payments of principal and interest, and the proceeds of sale or other disposition of Notes, by a U.S. paying agent or other U.S. intermediary will be reported to the U.S. Internal Revenue Service and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Notes, including requirements related to the holding of certain foreign financial assets.

## SUBSCRIPTION AND SALE

The Issuer has entered into a subscription agreement with Merrill Lynch (Asia Pacific) Limited, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank, UBS AG Hong Kong Branch, BOCI Asia Limited, Citigroup Global Markets Inc., Deutsche Bank AG, Hong Kong Branch, Mizuho Securities Asia Limited, Australia and New Zealand Banking Group Limited, Crédit Agricole Corporate and Investment Bank, DBS Bank Ltd., J.P. Morgan Securities plc, Nomura International (Hong Kong) Limited, Scotia Capital (USA) Inc. and SMBC Nikko Capital Markets Limited as the Joint Lead Managers dated 28 January 2021 (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, purchase and pay for, or procure purchasers to purchase and pay for, the aggregate principal amount of each series of Notes set forth opposite its name below.

<u>Joint Lead Manager</u>	<u>Principal amount of the 2031 Notes to be subscribed</u>	<u>Principal amount of the 2051 Notes to be subscribed</u>
Merrill Lynch (Asia Pacific) Limited . . . . .	U.S.\$180,000,000	U.S.\$120,000,000
The Hongkong and Shanghai Banking Corporation Limited. . . . .	U.S.\$180,000,000	U.S.\$120,000,000
Standard Chartered Bank . . . . .	U.S.\$180,000,000	U.S.\$120,000,000
UBS AG Hong Kong Branch . . . . .	U.S.\$180,000,000	U.S.\$120,000,000
BOCI Asia Limited . . . . .	U.S.\$45,000,000	U.S.\$30,000,000
Citigroup Global Markets Inc. . . . .	U.S.\$45,000,000	U.S.\$30,000,000
Deutsche Bank AG, Hong Kong Branch . . . . .	U.S.\$45,000,000	U.S.\$30,000,000
Mizuho Securities Asia Limited. . . . .	<u>U.S.\$45,000,000</u>	<u>U.S.\$30,000,000</u>
<b>Total</b> . . . . .	<u><u>U.S.\$900,000,000</u></u>	<u><u>U.S.\$600,000,000</u></u>

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 Notes. 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 Notes being made to the Issuer.

In connection with the issue of the Notes, the Stabilisation Manager (or persons acting on behalf of the Stabilisation Manager) may, to the extent permitted by applicable laws and directives, over-allot Notes or effect transactions with a view to supporting the price of the Notes 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 Notes 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 Notes. 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 Notes, 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 Notes for their own account and such orders, allocations or trading of the Notes may be material. Such entities may hold or sell such Notes or purchase further Notes 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 Notes or other securities otherwise than in connection with the offering of the Notes. Accordingly, references herein to the offering of the Notes should be read as including any offering of the Notes 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 Notes may be impacted.

Furthermore, it is possible that a significant proportion of the Notes 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 Notes may be constrained. The Issuer and the Joint Lead Managers are under no obligation to disclose the extent of the distribution of the Notes 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 Notes and could adversely affect the trading price and liquidity of the Notes. 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 Notes or other financial instruments of the Issuer, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments of the Issuer.

### ***General***

The distribution of this Offering Memorandum or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Memorandum 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 Memorandum 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 Notes, or possession or distribution of this Offering Memorandum or any other offering or publicity material relating to the Notes, 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

Each of the Joint Lead Managers proposes to offer the Notes in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A and Regulation S. Each of the Joint Lead Managers has represented and warranted, and agrees, that it has not offered or sold and will not offer or sell the Notes except:

- through its respective U.S. selling agents to persons in the United States it reasonably believes to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act in transactions meeting the requirements of Rule 144A under the Securities Act; or
- pursuant to offers and sales that occur outside the United States in offshore transactions in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of Notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

### *Prohibition of Sales to EEA 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 Notes to any retail investor in the European Economic Area. For the purposes of this provision, the expression “retail investor” means a person who is one (or more) of the following:

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

### *Prohibition of sales to UK Retail Investors*

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor 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:

- (d) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (**EUWA**); or
- (e) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

### ***Other regulatory restrictions***

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 Notes 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 Notes 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 Notes 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 Notes, 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 Notes 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 Memorandum 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 Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes 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 Memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, 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 Notes 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 Notes 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 Notes 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 Notes 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 Notes in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)) 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.

## Republic of Italy

The offering of the Notes has not been registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Offering Memorandum or of any other document relating to the Notes be distributed in the Republic of Italy, except:

- (i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 2 of the Prospectus Regulation and any applicable provision of Legislative Decree No. 58 of 24 February 1998, as amended (the “**Financial Services Act**”) and/or Italian CONSOB regulations; or
- (ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 1 of the Prospectus Regulation, Article 34-ter of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time, and the applicable Italian laws.

Any offer, sale or delivery of the Notes or distribution of copies of this Offering Memorandum or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

- (a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 20307 of 15 February 2018 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the “**Banking Act**”); and
- (b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time to time) and/or any other Italian authority.

## Switzerland

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (“**FinSA**”) and no application has or will be made to admit the Notes to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Notes constitute a prospectus compliant with the requirements of the FinSA for a public offering of the Notes in Switzerland and no such prospectus has been or will be prepared for or in connection with the offering of the Notes in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the offering of the Notes have been or will be filed with or approved by a Swiss review body (*Prüfstelle*) and none of these shall be publicly distributed or otherwise made publicly available in Switzerland.

## Taiwan

The Notes have not been and will not be registered or filed with, or approved by, the Financial Supervisory Commission of Taiwan and/or other regulatory authority or agency of Taiwan pursuant to relevant securities laws and regulations of Taiwan and may not be issued, offered or sold within Taiwan through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Act of Taiwan that requires a registration, filing or approval of the Financial Supervisory Commission of Taiwan and/or other regulatory authority or agency of Taiwan. No person or entity in Taiwan has been authorised to offer or sell the Notes in Taiwan. The Notes may be made available outside Taiwan for purchase outside Taiwan by Taiwan resident investors, but may not be offered or sold in Taiwan.



## **Canada**

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 Notes to purchasers in Canada except 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 Notes 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 Memorandum (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.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* ("NI 33-105"), the Joint Lead Managers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

## **The Netherlands**

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 the Notes in the Netherlands other than to qualified investors as defined in the Regulation (EU) 2017/1129.

## **The People's Republic of China**

Each Joint Lead Manager has represented, warranted and agreed that the Notes 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.

## TRANSFER RESTRICTIONS

As the following restrictions will apply to the Notes, investors should consult legal counsel prior to making any offer, resale, pledge or transfer of the Notes.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the Notes are being offered and sold only:

- within the United States to “qualified institutional buyers” in compliance with Rule 144A; and
- outside the United States in reliance upon Regulation S.

### Rule 144A Notes

Each purchaser of the Notes of the relevant series pursuant to Rule 144A, by accepting delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged that:

1. It is (a) a qualified institutional buyer within the meaning of Rule 144A (a “**QIB**”), (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
2. It understands and acknowledges that the Notes of the relevant series are being offered only in a transaction not involving any public offering in the United States, within the meaning of the Securities Act, and that such Notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and (a) may not be offered, sold, pledged or otherwise transferred except (i) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States; (b) the purchaser will, and each subsequent purchaser is required to, notify any subsequent purchaser of such Notes from it of the resale restrictions referred to in (a) above; and (c) no representation can be made as to the availability of the exemption provided by Rule 144 under the Securities Act for resale of the Notes of the relevant series.
3. It understands that such Notes, unless otherwise agreed between the Issuer and the Fiscal Agent in accordance with applicable law, will bear a legend to the following effect:

“THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE “**SECURITIES ACT**”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT (“**RULE 144A**”) TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL

BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY SUBSEQUENT PURCHASER OF THESE NOTES FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.”

4. The Issuer, the Registrars, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes of any series are no longer accurate, it agrees to promptly notify us. If it is acquiring any Notes of any series for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.
5. It understands that the Notes of the relevant series offered in reliance on Rule 144A will be represented by the relevant Rule 144A Global Certificate. Before any interest in any Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the corresponding Regulation S Global Certificate, it will be required to provide the relevant Registrar with a written certification (in the form provided in the Terms and Conditions of the Notes) as to compliance with applicable securities laws.

**Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.**

#### **Regulation S Notes**

Each purchaser of the Notes of the relevant series outside the United States pursuant to Regulation S, by accepting delivery of this Offering Memorandum and the Notes of the relevant series, will be deemed to have represented, agreed and acknowledged that:

1. It is, or at the time such Notes are purchased will be, the beneficial owner of such Notes and (a) it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.
2. It understands that such Notes have not been and will not be registered under the Securities Act.
3. The Issuer, the Registrars, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and, if any such acknowledgments, representations or agreements deemed to have been made by virtue of its purchase of the Notes of the relevant series are no longer accurate, it agrees to promptly notify us.

## **LEGAL MATTERS**

Linklaters will pass upon certain legal matters in connection with this Offering for the Issuer with respect to U.S. federal, English and Hong Kong law. Allen & Overy will pass upon certain legal matters in connection with this Offering for the Joint Lead Managers with respect to U.S. federal and English law.

## INDEPENDENT AUDITOR

The 2018/2019 Audited Financial Statements, which are contained in page 99 to page 158 of the 2018/2019 annual report of the Issuer included in this Offering Memorandum have been audited by KPMG, Certified Public Accountants, Hong Kong, as stated in their independent audit report dated 3 June 2019.

The 2019/2020 Audited Financial Statements, which are contained in page 99 to page 166 of the 2019/2020 annual report of the Issuer included in this Offering Memorandum have been audited by KPMG, Certified Public Accountants, Hong Kong, as stated in their independent audit report dated 25 May 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 Memorandum, have been reviewed by KPMG, Certified Public Accountants, Hong Kong, as stated in their independent review report dated 2 November 2020.

## GENERAL INFORMATION

1. **Clearing Systems:** The CUSIP Numbers and the Common Codes for each series Notes represented by Rule 144A global certificates and each series of Notes represented by Regulation S global certificates and the International Security Identification Numbers (“ISIN”) for each series of Notes represented by Rule 144A global certificates and each series of Notes represented by Regulation S global certificates are as follows:

	2031 Notes	2051 Notes
Common code for Rule 144A Global Certificate . . . . .	229156012	229156195
Common Code for Regulation S Global Certificate . . . . .	229156187	229156209
CUSIP Number for Rule 144A Global Certificate . . . . .	00946A AA2	00946A AB0
CUSIP Number for Regulation S Global Certificate . . . . .	Y00284 AW2	Y00284 AX0
ISIN for Rule 144A Global Certificate . . . . .	US00946AAA25	US00946AAB08
ISIN for Regulation S Global Certificate. . . . .	USY00284AW20	USY00284AX03

2. **Listing of Notes:** Application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, each series of Notes by way of debt issues to Professional Investors only. It is expected that dealing in, and listing of, each series of Notes on the Hong Kong Stock Exchange will commence on or around 5 February 2021.
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 Notes. The issue of each series of Notes was authorised by resolutions of the Board of the Issuer dated 2 November 2020.
4. **No Material Adverse Change:** Except as disclosed in this Offering Memorandum, 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 Notes nor is the Issuer aware that any such proceedings are pending or threatened.
6. **Available Documents:** Copies of the Issuer’s 2018/2019 annual report, 2019/2020 annual report and 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 Notes 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 Notes of the relevant series is outstanding upon prior written request and satisfactory proof of holding.
7. **Auditor:** The consolidated financial statements of the Issuer for the years ended 31 March 2019 and 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.

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*Note:* The audited consolidated financial statements as at and for the years ended 31 March 2019 and 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 years ended 31 March 2019 and 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 158, which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the group as at 31 March 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the Airport Authority Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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



## KEY AUDIT MATTERS (CONTINUED)

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

Refer to note 28(t) to the consolidated financial statements for the relevant accounting policies

The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue from airport and security charges, airside support services franchises, retail licences and advertising accounted for approximately 87% of the Authority's total revenue for the year ended 31 March 2019.</p> <p>Airport and security charges are recognised when the airport facilities are utilised. Revenue is determined based on aircraft movements and passenger traffic captured by the Authority's information technology systems which are complex and involve multiple interfaces.</p> <p>Revenue from airside support services franchises, retail licences and advertising (collectively "franchise and licence operations") is generally charged at the higher of (1) a minimum fee based on throughput, passenger numbers, rental indices or areas occupied, and (2) amounts calculated based on pre-determined percentages of gross revenue earned by the franchisees and licensees ("royalties"). For certain franchisees, franchise revenue is charged based on a minimum fee and royalties.</p> <p>Revenue from franchise and licence operations is recognised in instalments over the accounting periods covered by the franchise and licence agreements, taking into account adjustments to the minimum fee due to changes in throughput, passenger numbers, rental indices or areas occupied and adjustments for any royalties payable by the franchisees and licensees during the billing period.</p> <p>We identified the recognition of revenue from airport and security charges and franchise and licence operations as a key audit matter because of its significance to the consolidated financial statements and because the determination of airport and security charges involves complex information technology systems.</p>	<p>Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following:</p> <ul style="list-style-type: none"> <li>• evaluating the design, implementation and operating effectiveness of key internal controls over the recording of revenue, which included engaging our internal information technology specialists to assess the operating effectiveness of key automated controls and interfaces over the capturing of aircraft movements and passenger traffic and the processing of revenue transactions and to assess the completeness and accuracy of the transaction details contained within the Authority's information technology systems;</li> <li>• performing analytical procedures on the Authority's airport and security charges recognised during the current year by developing expectations with reference to figures for aircraft movements and passenger traffic extracted from government statistics, agreements on security charges with airlines and the Scheme of Airport Charges published in the Government Gazette and comparing our expectations with the revenue recorded by the Authority;</li> <li>• for franchise and licence operations, comparing the minimum fees received and receivable with underlying franchise/licence information, including the monthly payments and the franchise/licence periods as set out in the signed franchise/licence agreements, on a sample basis, re-performing the calculation of minimum fees and assessing whether the minimum fees or the royalties, whichever was higher, had been recorded in the appropriate accounting period; and</li> <li>• re-performing the calculation of royalties received and receivable with reference to turnover reports submitted by the franchisees and licensees and the bases of calculation thereof as set out in the signed franchise/licence agreements, on a sample basis, and assessing whether the royalties had been recorded and accounted for in the appropriate accounting period.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT

## KEY AUDIT MATTERS (CONTINUED)

<b>Assessing project provisions for capital works projects</b>	
<i>Refer to note 26(b)(ii) to the consolidated financial statements and notes 28(g)(vi) and 28(s) for the relevant accounting policies</i>	
<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audit</b>
<p>The Authority undertakes a number of capital works projects at Hong Kong International Airport. These projects may take several years to complete and the contractual arrangements can be complex.</p> <p>The Authority establishes project provisions for the estimated amounts which will be required to settle claims from contractors which may arise due to time delays, additional costs or other unforeseen circumstances. The assessment of the required project provisions involves the exercise of significant management judgement which can be inherently uncertain because the amounts eventually payable may be different from the recorded project provisions.</p> <p>We identified assessing project provisions for capital works projects as a key audit matter because the assessment of project claims and the determination of project provisions involves the exercise of significant management judgement and estimation which can be inherently uncertain.</p>	<p>Our audit procedures to assess project provisions for capital works projects included the following:</p> <ul style="list-style-type: none"> <li>• assessing the design and implementation of management's key internal controls over the assessment of project claims;</li> <li>• inspecting the minutes of the relevant Board sub-committees responsible for overseeing the progress of capital works projects and discussing with management the project status, including the costs incurred to date, the remaining critical milestones and contract claims, and assessing the financial implications for the group;</li> <li>• obtaining the project claim status report as at the reporting date, comparing the claims amount recorded in this report with claim submissions from contractors, discussing with the Project Accounting and Control Team of Finance Division and the projects departments the projects' current status and the project provisions made, on a sample basis, and challenging the assumptions and critical judgements made by management which impacted their estimation of project provisions by comparing these assumptions, on a sample basis, with key contract terms and correspondence with the contractors;</li> <li>• performing a retrospective review, on a sample basis, of capital works projects completed or claims finalised during the current year by comparing the actual settlement of costs during the current year, including project claims, with estimates made as at 31 March 2018 to assess the reliability of management's assessment process and evaluating significant variances identified; and</li> <li>• in respect of projects which were undergoing dispute resolution procedures, holding discussions with management and the Authority's internal legal counsel to assess the Authority's legal obligations and financial exposure in connection with these claims.</li> </ul>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yue Tat Wai.

### **KPMG**

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

3 June 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

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

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

<i>\$ million</i>	2019	2018
<b>Profit for the year</b>	<b>8,402</b>	<b>11,486</b>
<b>Other comprehensive income for the year</b>		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
– the Authority	(40)	(9)
Add: deferred tax	7	2
	(33)	(7)
– a subsidiary in the People’s Republic of China (“the PRC”)	(4)	6
– a joint venture in the PRC	(65)	26
	(102)	25
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of a subsidiary and joint ventures in the PRC	(339)	495
Cash flow hedge: net movement in the cost of hedging reserve	(56)	–
	(395)	495
<b>Other comprehensive income for the year</b>	<b>(497)</b>	<b>520</b>
<b>Total comprehensive income for the year</b>	<b>7,905</b>	<b>12,006</b>
<b>Attributable to:</b>		
Equity shareholder of the Authority	7,864	11,906
Non-controlling interests	41	100
<b>Total comprehensive income for the year</b>	<b>7,905</b>	<b>12,006</b>

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019 (Expressed in Hong Kong dollars)

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

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

**The Hon Jack So Chak-kwong**

*Chairman*

**Mr Fred Lam**

*Chief Executive Officer*

**Mr William Lo Chi-chung**

*Executive Director, Finance*

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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



# CONSOLIDATED CASH FLOW STATEMENT

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

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

## CONSOLIDATED CASH FLOW STATEMENT

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

The notes on pages 105 to 158 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 28.

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

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

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

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except for certain financial instruments which are adjusted for or stated at their fair values as explained in the accounting policies set out in notes 28(e), (f) and (n).

## 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 26.

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

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

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

#### 4. STAFF COSTS AND RELATED EXPENSES

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

#### 5. FINANCE COSTS

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

<sup>1</sup> Includes net interest income of \$1 million (2018: \$5 million) in respect of interest rate swaps under fair value hedging arrangements.

The borrowing costs have been capitalised at the average cost of funds to the group calculated on a monthly basis. The average interest rate used for capitalisation for the year was 4.94% (2018: 4.66%) per annum.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 6. TAXATION

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

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

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

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

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

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

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

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

## 6. TAXATION (CONTINUED)

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

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

<i>\$ million</i>	<b>Depreciation allowances in excess of the related depreciation and other expenses</b>	<b>Deferred income, defined benefit retirement plan liability and others</b>	<b>Undistributed profits of a PRC joint venture</b>	<b>Total</b>
<b>Deferred tax arising from:</b>				
At 1 April 2017	4,429	(97)	19	4,351
Charged to profit or loss	219	23	10	252
Credited to other comprehensive income	–	(2)	–	(2)
At 31 March 2018	4,648	(76)	29	4,601
At 1 April 2018	<b>4,648</b>	<b>(76)</b>	<b>29</b>	<b>4,601</b>
Charged/(credited) to profit or loss	<b>380</b>	<b>(73)</b>	<b>9</b>	<b>316</b>
Credited to other comprehensive income	–	(7)	–	(7)
<b>At 31 March 2019</b>	<b>5,028</b>	<b>(156)</b>	<b>38</b>	<b>4,910</b>

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

The group has not recognised deferred tax assets in respect of subsidiaries' cumulative tax losses and other temporary differences of \$59 million (2018: \$61 million) and \$6 million (2018: \$9 million) respectively as it is not probable that sufficient future taxable profits against which the cumulative tax losses and other temporary differences can be utilised will be available. Tax losses relating to subsidiaries in Hong Kong do not expire under the current tax legislation.

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

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

### Basic compensation

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

### Performance-related compensation

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

### Retirement benefits

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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



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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (b) Emoluments of Executive Directors

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

\$'000	2019	2018
Basic compensation	27,745	27,557
Performance-related compensation	11,253	12,295
Retirement benefits	3,161	3,205
	42,159	43,057

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

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

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

### 8. SEGMENTAL INFORMATION

#### Services from which reportable segments derive their revenue

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

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

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

## 8. SEGMENTAL INFORMATION (CONTINUED)

### Revenue from major services

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

### Disaggregation of revenue

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

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

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

### Geographical information

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

### Information about major customers

The group's customer base is diversified and includes only one customer (2018: two customers) with whom transactions have exceeded 10% of the group's revenue.

Included in the revenue for the year are aggregate revenues of approximately \$4,218 million which arose from this customer (2018: \$6,642 million from two customers). This includes only revenue arising from those entities which are known to the group to be under common control of these customers.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (a) Reconciliation of carrying amount

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

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

(b) Under the Private Treaty Land Grant issued by the Government for the period from 1 December 1995 to 30 June 2047 (“the Land Grant”), the Government has granted to the Authority up to the year 2047 the legal rights to the entire airport site at Chek Lap Kok together with the rights necessary to develop such site for the purposes of its business. In September 2016, the Government approved that the North Commercial District (“NCD”) area be carved out from the original land lease and put under a new lease with a 50-year term granted to the Authority up to the year 2066 to support NCD development. The net land formation cost of \$11,309 million (2018: \$11,309 million) and the land premium of \$4,000 have been classified as interest in leasehold land.

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

The group engaged an independent firm of surveyors, Knight Frank Petty Limited (“the valuer”), who have among their staff Fellow members of the Hong Kong Institute of Surveyors with recent experience in the location and category of properties being valued, to value its investment property for disclosure purposes. The valuer has considered the assignment restrictions on the investment property in the valuation. The fair value of the group’s investment property as at 31 March 2019 calculated by reference to net rental income allowing for reversionary income potential amounted to \$639 million (2018: \$560 million), which falls under Level 3 of the fair value hierarchy (note 22(e)).

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) (continued)

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

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

The cost less accumulated amortisation of the interest in leasehold land for airport related development and the provision of airside support services sub-leased to third parties under non-cancellable franchise/sub-lease agreements for the group as at 31 March 2019 was \$502 million (2018: \$447 million) with annual amortisation amounting to \$18 million (2018: \$15 million).

The cost less accumulated depreciation of other property, plant and equipment leased to third parties under non-cancellable operating leases for the group as at 31 March 2019 was \$2,225 million (2018: \$2,372 million) with annual depreciation amounting to \$169 million (2018: \$179 million).

- (e) A review of the useful life of investment property and other property, plant and equipment is undertaken by the Authority periodically. During the year, the estimated useful lives of certain other property, plant and equipment were revised, resulting in a net increase in the group's annual depreciation charge of \$2 million. A similar review undertaken during the previous year resulted in a net increase in the group's annual depreciation charge of \$24 million.
- (f) The gain of \$2,185 million on disposal of interest in leasehold land for the SKYCITY hotel development at a consideration of \$2,189 million was included in other income in the prior year.

### 10. INTANGIBLE ASSETS

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

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

## 11. INVESTMENTS IN SUBSIDIARIES

<i>\$ million</i>	<b>The Authority</b>	
	2019	2018
Unlisted shares, at cost	253	5

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

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

\* A sino-foreign equity joint venture

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

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

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

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

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

- (ii) Revenue and profit contribution

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



## 12. INTEREST IN AN ASSOCIATE

<i>\$ million</i>	2019	2018
Share of net assets	150	–
Amount due from an associate	214	–
Preference shares premium	288	–
	652	–

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

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

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

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

## 13. INTERESTS IN JOINT VENTURES

<i>\$ million</i>	2019	2018
Share of net assets	4,118	4,242
Goodwill	224	240
	4,342	4,482

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 13. INTERESTS IN JOINT VENTURES (CONTINUED)

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

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

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

### (a) HXIA

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

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

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

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

(a) HXIA (continued)

<i>\$ million</i>	2019	2018
Income	4,236	3,707
Expenses	(3,250)	(2,923)
Profit before taxation	986	784
Income tax	(244)	(211)
Profit after taxation	742	573
Other comprehensive income	185	74
Total comprehensive income	927	647
<i>\$ million</i>	2019	2018
<b>Reconciled to the group's interest in HXIA</b>		
Gross amounts of HXIA's net assets	11,594	11,939
Group's effective interest	35%	35%
Group's share of HXIA's net assets	4,058	4,179
Goodwill	224	240
Carrying amount in the consolidated financial statements	4,282	4,419

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

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

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

<i>\$ million</i>	2019	2018
At 1 April	966	952
Transfer from retained profits	13	14
At 31 March	979	966

# 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 as at 31 March 2019 are as follows:

<i>\$ million</i>	2019
Contracted for	2,515
Authorised but not contracted for	30,634
	33,149

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

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

### (b) SHKAM

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

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

<i>\$ million</i>	2019	2018
<b>Gross amounts of SHKAM</b>		
Current assets	131	138
Current liabilities	(9)	(10)
Net assets/equity	122	128
<i>\$ million</i>	2019	2018
Income	13	12
Expenses	(11)	(10)
Net profit and other comprehensive income	2	2
<i>\$ million</i>	2019	2018
<b>Reconciled to the group's interest in SHKAM</b>		
Gross amounts of SHKAM's net assets	122	128
Group's effective interest	49%	49%
Group's share of SHKAM's net assets and carrying amount in the consolidated financial statements	60	63

## 14. TRADE AND OTHER RECEIVABLES

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

As at 31 March 2019, all of the trade and other receivables under current assets are expected to be recovered or recognised as an expense within one year except for \$17 million (2018: \$20 million), which is expected to be recovered after more than one year.

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

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

Trade debtors are generally due within 14 to 30 days from the date of billing. The group's credit policy is set out in note 22(a). The group holds cash deposits and bank guarantees of \$3,280 million (2018: \$2,719 million) as collateral over the trade debtors.

- (b) Impairment of trade debtors

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

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

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

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

Comparative information under HKAS 39

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

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

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

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

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

(a) Cash and bank balances comprise:

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(CONTINUED)

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

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

## 16. TRADE AND OTHER PAYABLES

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



## 16. TRADE AND OTHER PAYABLES (CONTINUED)

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

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

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

## 17. INTEREST-BEARING BORROWINGS

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

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

As at 31 March 2019, the Authority’s outstanding fixed rate notes have annual coupon rates ranging from 2.25% to 4.85% (2018: 2.25% to 4.85%). The fixed rate notes are unsecured and repayable in full upon maturity.

- (b) In December 2015, the Authority signed a five-year unsecured Hong Kong dollar revolving credit facility of \$5,000 million. Interest is payable on amounts drawn down at a rate related to Hong Kong Interbank Offered Rate (“HIBOR”). As at 31 March 2019, there was no outstanding amount under this facility (2018: \$nil).
- (c) The Authority has uncommitted money market line facilities of \$2,192 million (2018: \$2,192 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2019, there was no outstanding amount under these facilities (2018: \$nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

<i>\$ million</i>	2019	2018
Within one year or on demand	95	-
After one year but within two years	600	97
After two years but within five years	542	1,128
After five years	4,107	190
	5,249	1,415
	5,344	1,415

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

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

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

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

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

### 19. DEFERRED INCOME

Deferred income mainly represents amounts received in respect of sub-leases of interest in leasehold land of the airport site. During the year, the Authority has received up-front payments of \$1,560 million for the SKYCITY and premium logistics centre developments. They are accounted for in accordance with the accounting policies detailed in notes 28(t)(v) and 28(t)(vi) respectively.

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

## 20. EMPLOYEE RETIREMENT BENEFITS

### (a) Defined benefit retirement plans

The Authority makes contributions to a defined benefit retirement plan (“the Hong Kong plan”) registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), which covers 13% (2018: 16%) of the Authority’s employees. The plan is administered by independent trustees with its assets held separately from those of the Authority. The trustees are required by the Trust Deed to act in the best interests of the plan participants and are responsible for setting the investment policies of the plan. Under the plan, an employee is entitled to a lump sum payment upon termination of membership, which is calculated with reference to the final scheme salary and the eligible number of years of service that the employee had.

The plan is funded by contributions from the Authority in accordance with an independent actuary’s recommendation based on periodic actuarial valuations (at least every three years).

Based on an independent actuarial valuation of the plan as at 31 March 2019 according to HKAS 19, “*Employee benefits*” prepared by qualified staff of Mercer (Hong Kong) Limited (2018: Mercer (Hong Kong) Limited) using the “projected unit credit” actuarial method and a set of actuarial assumptions, the Authority’s obligation under the plan is 79% (2018: 85%) covered by the plan assets held by the trustees. The signing actuaries are either Fellow members of the Society of Actuaries of the United States of America or an equivalent in another actuarial body.

HKZAM established a defined benefit retirement plan (“the HKZAM plan”) for its eligible employees, which is unfunded and covers 35% (2018: 49%) of HKZAM’s employees. Under the plan, a retired employee is entitled to a monthly fixed payment over a period upon retirement. An independent actuarial valuation of this plan according to HKAS 19, “*Employee benefits*”, as at 31 March 2019 was also prepared by qualified staff of Mercer (Hong Kong) Limited using the projected unit credit method.

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

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

<i>\$ million</i>	2019	2018
<b>The Hong Kong plan</b>		
Present value of funded obligations	958	907
Fair value of plan assets	(754)	(767)
	204	140
<b>The HKZAM plan</b>		
Present value of unfunded obligations	54	51
Net defined benefit retirement obligations	258	191

A portion of the above liabilities is expected to be settled after more than one year. The Authority expects to pay \$23 million in contributions to the Hong Kong defined benefit retirement plan for the year ending 31 March 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (a) Defined benefit retirement plans (continued)

#### (ii) Plan assets consist of the following:

<i>\$ million</i>	2019	2018
Equity securities	364	380
Corporate bonds	329	349
Cash	61	38
	754	767

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

An asset-liability modelling study is performed periodically to analyse the strategic investment policies of the Hong Kong plan. Based on the latest review, the strategic asset allocation of the Hong Kong plan is 50% in equities and 50% in bonds and cash.

The HKZAM plan is unfunded and without any plan assets.

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

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

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

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

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

## 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

### (a) Defined benefit retirement plans (continued)

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

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

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

<i>\$ million</i>	2019	2018
Staff costs and related expenses	51	51

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

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

## 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 2019 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

<i>\$ million</i>	Increase by 0.5%	Decrease by 0.5%
<b>The Hong Kong plan</b>		
Discount rate	(30)	32
Future long term salary increases	35	(34)
<b>The HKZAM plan</b>		
Discount rate	(3)	3

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

#### (b) Defined contribution retirement plans

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

### 21. CAPITAL AND RESERVES

#### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group’s consolidated equity is set out in the consolidated statement of changes in equity on page 102.

#### (b) Share capital

<i>\$ million</i>	<b>The Authority</b>	
	2019	2018
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of \$100,000 each (2018: 306,480 ordinary shares)	30,648	30,648

## 21. CAPITAL AND RESERVES (CONTINUED)

### (c) Nature and purpose of reserves

#### (i) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 28(u).

#### (ii) Capital reserve

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

#### (iii) Hedging reserve

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

#### (iv) Cost of hedging reserve

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

#### (v) Distributability of reserves

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

#### (vi) Capital management

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

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

The group monitors its capital structure on the basis of a total debt/capital ratio. The total debt/capital ratios of the group at the end of the reporting periods are as follows:

<i>\$ million</i>	Note	2019	2018
Total debt <sup>1</sup>	17	5,344	1,415
Total equity		80,474	72,569
Total capital <sup>2</sup>		85,818	73,984
Total debt/capital ratio		6%	2%

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to trade and other receivables, over-the-counter derivative financial instruments entered into for hedging purposes and cash and bank balances. Management has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

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

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

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, the group has a certain concentration of credit risk as 15% (2018: 17%) and 43% (2018: 39%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

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

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

### (b) Liquidity risk

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



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

### (b) Liquidity risk (continued)

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

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

As shown above, interest-bearing borrowings (including interest) of the group amounting to \$290 million (2018: \$54 million) are due to be repaid in the upcoming 12 months after 31 March 2019. The short term liquidity risk inherent in this contractual maturity will be addressed by internal sources of funds and new external borrowings.

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. The group adopts a policy of ensuring that between 40% and 60% of its borrowings are effectively on a fixed rate basis in general, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. At the time of issuance of the US\$500 million bond, it was considered prudent to maintain the bond on a fixed rate basis. As such the fixed rate borrowings are higher than the adopted policy ratio. The group is now reviewing the ratio given the likely increase in external borrowings in the coming years. The group's interest rate profile as monitored by management is set out in (ii) below.

#### (i) Hedges of interest rate risk

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

The group classifies interest rate swaps into fair value hedges and states them at their fair values in accordance with the policy set out in note 28(f).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### (i) Hedges of interest rate risk (continued)

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

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

#### (ii) Interest rate profile

The following table details the interest rate profile of the group's borrowings at the end of the reporting periods, after taking into account the effect of interest rate swaps designated as fair value hedging instruments ((i) above).

<i>\$ million</i>	2019	2018
<b>Fixed rate borrowings</b>		
Fixed rate notes	4,707	790
<b>Variable rate borrowings</b>		
Fixed rate notes <sup>1</sup>	637	625
<b>Total borrowings</b>	<b>5,344</b>	<b>1,415</b>
Fixed rate borrowings as a percentage of total borrowings	88%	56%

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

#### (iii) Sensitivity analysis

As at 31 March 2019, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after taxation and retained profits by approximately \$2 million (2018: \$2 million). There was no material increase/decrease in other components of consolidated equity (2018: \$nil) in response to the general increase/decrease in interest rates. The effect of interest-bearing bank deposits is expected to be not significant and is not taken into account in the analysis.

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

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

### (d) Foreign currency risk

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

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

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

Although the US dollar currency risk is substantially mitigated by the peg between Hong Kong dollar and US dollar, the group further reduces this risk by the use of cross currency swaps to hedge all payment of the US dollar bond into Hong Kong dollar. The group designates these cross currency swaps as cash flow hedges. Details of the notional amounts, maturity period and fair values of cross currency swaps entered into by the group at the end of the reporting periods are set out in note 22(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

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

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

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

As at 31 March 2019, the group's borrowings denominated in US dollar were swapped into Hong Kong dollar by entering the cross currency swaps. As the Hong Kong dollar is pegged to US dollar at a range between 7.75 to 7.85, management considers that the foreign currency risk associated with the unhedged US dollar exposure is also not material to the group. Accordingly, no sensitivity analysis is considered necessary.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (e) Fair value measurement

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

##### *Fair value hierarchy*

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

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

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

As at 31 March 2018 and 2019, the group's derivative financial instruments are carried at fair value. These instruments fall under Level 2 of the fair value hierarchy described above.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: \$nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

<i>\$ million</i>	<b>Recurring fair value measurement using significant other observable inputs (Level 2)</b>					
	<b>2019</b>			<b>2018</b>		
	<b>Notional amount</b>	<b>Financial assets</b>	<b>Financial liabilities</b>	<b>Notional amount</b>	<b>Financial assets</b>	<b>Financial liabilities</b>
Cash flow hedges						
Cross currency swaps	<b>US\$500</b>	<b>29</b>	<b>(83)</b>	Nil	-	-
Fair value hedges						
Interest rate swaps	<b>\$650</b>	-	<b>(8)</b>	\$650	2	(22)
<b>Total</b>		<b>29</b>	<b>(91)</b>		<b>2</b>	<b>(22)</b>
Less: portion to be recovered/ (settled) within one year						
Cash flow hedges						
Cross currency swaps	<b>US\$500</b>	-	-	Nil	-	-
Fair value hedges						
Interest rate swaps	<b>\$650</b>	-	<b>(2)</b>	\$650	-	(2)
		-	<b>(2)</b>		-	(2)
<b>Portion to be recovered/(settled) after one year</b>		<b>29</b>	<b>(89)</b>		<b>2</b>	<b>(20)</b>

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

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

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

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

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

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

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 23. OUTSTANDING COMMITMENTS

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

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

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

## 24. MATERIAL RELATED PARTY TRANSACTIONS

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

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

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

- (a) The Authority has entered into agreements with the Government under which the Government provides maintenance services in respect of sewage pumping system, waste water treatment plant and airfield ground lighting at the airport. The amounts incurred for these services for the year amounted to \$68 million (2018: \$64 million). As at 31 March 2019, the amounts due to the Government with respect to the above services amounted to \$51 million (2018: \$42 million).
- (b) The Authority has also entered into service agreements with the Government under which the Government is to provide aviation meteorological and air traffic control services and aircraft rescue and fire fighting services at the airport. The amounts incurred for the year amounted to \$819 million (2018: \$785 million) and the amounts due to the Government as at 31 March 2019 with respect to the above services amounted to \$0.4 million (2018: \$1.6 million).
- (c) The Authority and HKIA Staff Services Limited ("HKIASS"), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 24(b)) at nil consideration.
- (d) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC"), in which the Government is the majority shareholder, under which MTRC provides maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2, SkyPier and Midfield Concourse. The amounts incurred by the Authority for these services for the year amounted to \$109 million (2018: \$102 million). As at 31 March 2019, the amounts due to MTRC with respect to the maintenance services amounted to \$89 million (2018: \$69 million).

## 24. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (e) The Authority has leased certain areas at the airport to Hongkong International Theme Parks Ltd. (“HKITP”), in which the Government is the majority shareholder. The aggregate amounts received for the year amounted to \$70 million (2018: \$72 million). As at 31 March 2019, there was no outstanding amount due from HKITP (2018: \$nil).
- (f) AVSECO, a subsidiary of the Authority, has provided security-related services to various Government departments, agencies and Government controlled entities other than the Authority. The aggregate amounts received for the year amounted to \$41 million (2018: \$68 million). As at 31 March 2019, the aggregate amounts due from these departments, agencies or entities amounted to \$5 million (2018: \$7 million).
- (g) In mid-2018, the Authority has received compensation amounting to \$221 million in respect of the compensation claims relating to Hong Kong-Zhuhai-Macao Bridge related facilities submitted to the Government on 22 July 2013.
- (h) AWEM has entered into a management and operating agreement with HKIEC, in which the Government is the majority shareholder, to manage, promote, operate and maintain the AsiaWorld-Expo exhibition centre (note 11).

## 25. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

As at 31 March 2019, the immediate parent and ultimate controlling party of the group is the Government.

## 26. ACCOUNTING JUDGEMENTS AND ESTIMATES

- (a) Critical accounting judgements in applying the group’s accounting policies  
In applying the group’s accounting policies, management has made the following accounting judgements:
  - (i) Interest in leasehold land  
On 1 December 1995, the Authority was granted the rights to the airport site at Chek Lap Kok for a nominal land premium of \$2,000. The Authority was responsible for all of the costs for the formation of the airport site, with respect to which \$11,571 million was initially incurred. The land formed is considered to have all the characteristics of land in Hong Kong and will revert to the lessor at the end of the Land Grant. Such cost is considered to have been incurred to obtain the benefits of a leasehold land. Accordingly, the land premium and the land formation costs have been classified as interest in leasehold land. Upon the granting of finance leases of portions of the land concerned, the cost of leasehold land excluded from the consolidated statement of financial position is based on an apportionment of the overall land cost.
  - (ii) Sub-lease of leasehold land  
The Authority sub-leases part of its interest in leasehold land to various Government departments, agencies or Government controlled entities at ‘nil’ rental for substantially the full period of the Land Grant, to provide services for the sole benefit of the airport and its users. As it is considered that these sub-leases are for the sole benefit of the Authority for enhancing services at the airport, they are in substance held for the full and exclusive benefit of the Authority and accordingly such sub-leases continue to be treated as interest in leasehold land in the financial statements of the Authority and are not derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 26. ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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

#### (iii) Interests in joint ventures

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

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

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

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

### (b) Major sources of estimation uncertainty

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

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

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

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

#### (ii) Project provisions

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



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

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

## 28. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Changes in accounting policies

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

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

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

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

#### (1) HKFRS 9, “*Financial instruments*”

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

##### (i) Classification of financial assets and financial liabilities

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (a) Changes in accounting policies (continued)

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

##### (ii) Credit losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (note 28(c)).

### (c) Associate and joint ventures

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

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

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the group's share of the investee's net assets and any impairment losses relating to the investment (notes 28(d) and (j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (c) Associate and joint ventures (continued)

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

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

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

### (d) Goodwill

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

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

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

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

### (e) Derivative financial instruments

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

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

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

#### (i) Fair value hedges

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

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

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

#### (ii) Cash flow hedges

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

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

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

#### (iii) Derivatives that do not qualify for hedge accounting

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

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

(i) The Authority was responsible for all of the costs of the formation of the airport site. The land formation cost and the land premium have been classified as interest in leasehold land. Interest in leasehold land is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 28(j)).

#### (ii) Investment property

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

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

(iii) Other property, plant and equipment are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (note 28(j)).

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

#### (vi) Construction in progress

Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 28(n)) capitalised during the period of construction or installation and testing. Capitalised costs also included provision amount assessed by the group that may be required for the settlement of contractual claims from contractors. Capitalisation of these costs ceases and the asset concerned is transferred to investment property, interest in leasehold land, other property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the policy detailed in note 28(h).

#### (vii) Leased assets

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

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

When the group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and are depreciated in accordance with the group's depreciation policies set out in note 28(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 28(t) below.

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

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

### (h) Depreciation

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

The estimated useful lives are:

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

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

### (i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 28(j)).

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (j) Impairment of assets

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

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

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

(ii) Interim financial reporting and impairment

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

### (k) Stores and spares

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

### (l) Trade and other receivables

Trade and other receivables are recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

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



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

### (l) Trade and other receivables (continued)

#### (i) Policy applicable from 1 April 2018

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

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

#### *Measurement of ECLs*

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

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

#### *Significant increases in credit risk*

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

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

#### *Write-off policy*

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

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

#### (ii) Policy applicable prior to 1 April 2018

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (m) ACF

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

### (n) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the unhedged portion of interest-bearing borrowings is stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest rate method. Subsequent to initial recognition, the carrying amount of the portion of interest-bearing borrowings, which is the subject of a fair value hedge, is remeasured and the change in fair value attributable to the risk being hedged is recognised in profit or loss to offset the effect of the gain or loss on the related hedging instrument.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

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

### (q) Employee benefits

#### (i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, performance annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Authority and its subsidiaries in Hong Kong are required to make contributions to Mandatory Provident Funds under the MPF Ordinance. Such contributions are recognised as an expense in profit or loss as incurred.

The employees of the subsidiary in the PRC participate in a defined contribution retirement plan managed by the local governmental authorities whereby the subsidiary is required to contribute to the plan at fixed rates of the employees' salary costs.

#### (ii) Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations. If there is no sufficiently deep market in such bonds, the market yield of government bonds is used.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (r) Income tax

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

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

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

Deferred tax assets and liabilities are not discounted.

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

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

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

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

### (r) Income tax (continued)

#### (iii) (continued)

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

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

### (s) Provisions and contingent liabilities

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

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

### (t) Revenue recognition

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

- (i) Airport charges, representing landing charges, parking charges and terminal building charges, are recognised when the airport facilities are utilised.
- (ii) Security charges in respect of aviation security services to passengers are recognised when the airport facilities are utilised.
- (iii) Aviation security services revenue from the provision of security services to airlines, franchisees and licensees is recognised when the services are rendered.
- (iv) Franchise revenue from awarded airside support services, retail revenue from awarded retail licences, advertising revenue from awarded advertising licences, other terminal commercial revenue from leasing of check-in counters and airline lounges and office rental and other service revenue and recoveries, are recognised on an accruals basis in accordance with the related agreements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

### (t) Revenue recognition (continued)

- (v) The consideration received in respect of the sale of a portion of the income from the aviation fuel system is accounted for as income over the period to which the future income relates and on the basis of the estimated future quantum of income for each period after allowing for the implicit financing cost therein. The amount received not recognised as income is included in the consolidated statement of financial position as deferred income.
- (vi) Real estate revenue arising from sub-leases of interest in leasehold land and office buildings is recognised in profit or loss on a straight-line basis over the periods of the operating leases, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned. Amounts received in advance in respect of sub-leases of interest in leasehold land granted are accounted for as deferred income and are recognised in profit or loss on a straight-line basis over the periods of the respective sub-leases.
- (vii) Income arising from finance leases of interest in leasehold land is recognised at the inception of such leases, when substantially all the risks and rewards incidental to ownership are transferred to the lessees.
- (viii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- (ix) Interest income is recognised as it accrues using the effective interest rate method.

### (u) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

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

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

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

### (v) Related parties

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

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

### (w) Segment reporting

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Up to the date of issue of these consolidated financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these consolidated financial statements. These include the following which may be relevant to the group.

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 16, " <i>Leases</i> "	1 January 2019
HK(IFRIC) 23, " <i>Uncertainty over income tax treatments</i> "	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, " <i>Long-term interest in associates and joint ventures</i> "	1 January 2019

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



# INDEPENDENT AUDITOR'S REPORT

To the Airport Authority

(Incorporated in Hong Kong under the Airport Authority Ordinance)

## OPINION

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

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (CONTINUED)

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

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

The Key Audit Matter	How the matter was addressed in our audit
<p>Revenue from airport and security charges, airside support services franchises, retail licences and advertising accounted for approximately 86% of the Authority's total revenue for the year ended 31 March 2020.</p> <p>Airport and security charges are recognised when the airport facilities are utilised. Revenue is determined based on aircraft movements and passenger traffic captured by the Authority's information technology systems which are complex and involve multiple interfaces.</p> <p>Revenue from airside support services franchises, retail licences and advertising (collectively "franchise and licence operations") is generally charged at the higher of (1) a minimum fee based on throughput, passenger numbers, rental indices or areas occupied, and (2) amounts calculated based on pre-determined percentages of gross revenue earned by the franchisees and licensees ("royalties"). For certain franchisees, franchise revenue is charged based on a minimum fee and royalties.</p> <p>Revenue from franchise and licence operations is recognised in instalments over the accounting periods covered by the franchise and licence agreements, taking into account adjustments to the minimum fee due to changes in throughput, passenger numbers, rental indices or areas occupied and adjustments for any royalties payable by the franchisees and licensees during the billing period.</p> <p>We identified the recognition of revenue from airport and security charges and franchise and licence operations as a key audit matter because of its significance to the consolidated financial statements and because the determination of airport and security charges involves complex information technology systems.</p>	<p>Our audit procedures to assess the recognition of revenue from airport and security charges and franchise and licence operations included the following:</p> <ul style="list-style-type: none"> <li>• evaluating the design, implementation and operating effectiveness of key internal controls over the recording of revenue, which included engaging our internal information technology specialists to assess the operating effectiveness of key automated controls and interfaces over the capturing of aircraft movements and passenger traffic and the processing of revenue transactions and to assess the completeness and accuracy of the transaction details contained within the Authority's information technology systems;</li> <li>• performing analytical procedures on the Authority's airport and security charges recognised during the current year by developing expectations with reference to figures for aircraft movements and passenger traffic extracted from government statistics, agreements on security charges with airlines and the Scheme of Airport Charges published in the Government Gazette and comparing our expectations with the revenue recorded by the Authority;</li> <li>• for franchise and licence operations, comparing the minimum fees received and receivable with underlying franchise/licence information, including the monthly payments and the franchise/licence periods as set out in the signed franchise/licence agreements, on a sample basis, re-performing the calculation of minimum fees and assessing whether the minimum fees or the royalties, whichever was higher, had been recorded in the appropriate accounting period; and</li> <li>• re-performing the calculation of royalties received and receivable with reference to turnover reports submitted by the franchisees and licensees and the bases of calculation thereof as set out in the signed franchise/licence agreements, on a sample basis, and assessing whether the royalties had been recorded and accounted for in the appropriate accounting period.</li> </ul>

## INDEPENDENT AUDITOR'S REPORT

### KEY AUDIT MATTERS (CONTINUED)

#### 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
<p>The Authority undertakes a number of capital works projects at Hong Kong International Airport. These projects may take several years to complete and the contractual arrangements can be complex.</p> <p>The Authority establishes project provisions for the estimated amounts which will be required to settle claims from contractors which may arise due to time delays, additional costs or other unforeseen circumstances. The assessment of the required project provisions involves the exercise of significant management judgement which can be inherently uncertain because the amounts eventually payable may be different from the recorded project provisions.</p> <p>We identified assessing project provisions for capital works projects as a key audit matter because the assessment of project claims and the determination of project provisions involves the exercise of significant management judgement and estimation which can be inherently uncertain.</p>	<p>Our audit procedures to assess project provisions for capital works projects included the following:</p> <ul style="list-style-type: none"> <li>• assessing the design and implementation of management's key internal controls over the assessment of project claims;</li> <li>• inspecting the minutes of the relevant Board sub-committees responsible for overseeing the progress of capital works projects and discussing with management the project status, including the costs incurred to date, the remaining critical milestones and contract claims, and assessing the financial implications for the group;</li> <li>• obtaining the project claim status report as at the reporting date, comparing the claims amount recorded in this report with claim submissions from contractors, discussing with the Project Accounting and Control Team of Finance Division and the projects departments the projects' current status and the project provisions made, on a sample basis, and challenging the assumptions and critical judgements made by management which impacted their estimation of project provisions by comparing these assumptions, on a sample basis, with key contract terms and correspondence with the contractors;</li> <li>• performing a retrospective review, on a sample basis, of capital works projects completed or claims finalised during the current year by comparing the actual settlement of costs during the current year, including project claims, with estimates made as at 31 March 2019 to assess the reliability of management's assessment process and evaluating significant variances identified; and</li> <li>• in respect of projects which were undergoing dispute resolution procedures, holding discussions with management and the Authority's internal legal counsel to assess the Authority's legal obligations and financial exposure in connection with these claims.</li> </ul>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

#### **KPMG**

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

25 May 2020

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

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

Note:

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

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

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

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

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

**Note:**

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

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020 (Expressed in Hong Kong dollars)

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

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

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

**Mr Fred Lam**  
Chief Executive Officer

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

Note:

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

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

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

## CONSOLIDATED CASH FLOW STATEMENT

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

Note:

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

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):

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

#### 4. STAFF COSTS AND RELATED EXPENSES

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

#### 5. FINANCE COSTS

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. TAXATION

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

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

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

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

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

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

## 6. TAXATION (CONTINUED)

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

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6. TAXATION (CONTINUED)

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

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

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

#### **Basic compensation**

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

#### **Performance-related compensation**

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

#### **Retirement benefits**

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

### (b) Emoluments of Executive Directors

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

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

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

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

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

## 8. SEGMENTAL INFORMATION

Services from which reportable segments derive their revenue

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8. SEGMENTAL INFORMATION (CONTINUED)

Revenue from major services

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

Disaggregation of revenue

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

<i>\$ million</i>	2020	2019
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Airport charges	4,718	5,255
Security charges	1,514	1,769
Aviation security services	366	356
Others	670	623
	<b>7,268</b>	<b>8,003</b>
<b>Revenue from other sources</b>		
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
	<b>9,838</b>	<b>11,467</b>
	<b>17,106</b>	<b>19,470</b>

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

Geographical information

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

Information about major customers

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

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

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

### (a) Reconciliation of carrying amount

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

Note:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) (continued)

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

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

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

### 10. INTANGIBLE ASSETS

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

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

## 11. INVESTMENTS IN SUBSIDIARIES

<i>\$ million</i>	<b>The Authority</b>	
	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.

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

\* A sino-foreign equity joint venture

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

(a) HKZAM

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

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

(b) AWEM

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

## 12. INTEREST IN AN ASSOCIATE

<i>\$ million</i>	2020	2019
Share of net assets	136	150
Amount due from an associate	225	214
Preference shares premium	228	288
	589	652

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

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

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

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

## 13. INTERESTS IN JOINT VENTURES

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

(a) HXIA

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

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

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

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

(a) HXIA (continued)

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(a) HXIA (continued)

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

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

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

(b) SHKAM

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

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

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

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

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

## 14. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

- (b) Impairment of trade debtors

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Impairment of trade debtors (continued)

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

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

(c) Credit risk arising from trade debtors

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

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

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

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

(a) Cash and bank balances comprise:

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

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

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

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

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

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

Note:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

### 16. TRADE AND OTHER PAYABLES

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

## 16. TRADE AND OTHER PAYABLES (CONTINUED)

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

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

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

## 17. INTEREST-BEARING BORROWINGS

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

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

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

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

- (b) In December 2015, the Authority signed a five-year unsecured Hong Kong dollar revolving credit facility of \$5,000 million. Interest is payable on amounts drawn down at a rate related to Hong Kong Interbank Offered Rate (“HIBOR”). As at 31 March 2020, there was no outstanding amount under this facility (2019: \$nil).
- (c) The Authority has uncommitted money market line facilities of \$2,188 million (2019: \$2,192 million). Interest is payable on amounts drawn down at a rate related to HIBOR. As at 31 March 2020, there was no outstanding amount under these facilities (2019: \$nil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

### 18. UNUSED AIRPORT CONSTRUCTION FEE (“ACF”)

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

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

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

### 19. DEFERRED INCOME

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

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

## 20. EMPLOYEE RETIREMENT BENEFITS

### (a) Defined benefit retirement plans

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

The plan is funded by contributions from the Authority in accordance with an independent actuary’s recommendation based on periodic actuarial valuations (at least every three years).

Based on an independent actuarial valuation of the plan as at 31 March 2020 according to HKAS 19, “*Employee benefits*” prepared by qualified staff of Mercer (Hong Kong) Limited (2019: Mercer (Hong Kong) Limited) using the “projected unit credit” actuarial method and a set of actuarial assumptions, the Authority’s obligation under the plan is 70% (2019: 79%) covered by the plan assets held by the trustees. The signing actuaries are either Fellow members of the Society of Actuaries of the United States of America or an equivalent in another actuarial body.

HKZAM established a defined benefit retirement plan (“the HKZAM plan”) for its eligible employees, which is unfunded and covers 29% (2019: 35%) of HKZAM’s employees. Under the plan, a retired employee is entitled to a monthly fixed payment over a period upon retirement. An independent actuarial valuation of this plan according to HKAS 19, “*Employee benefits*”, as at 31 March 2020 was also prepared by qualified staff of Mercer (Hong Kong) Limited using the projected unit credit method.

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

(ii) Plan assets consist of the following:

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

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

An asset-liability modelling study is performed periodically to analyse the strategic investment policies of the Hong Kong plan. Based on the latest review, the strategic asset allocation of the Hong Kong plan is 50% in equities and 50% in bonds and cash.

The HKZAM plan is unfunded and without any plan assets.

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

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

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

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

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

## 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

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

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

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20. EMPLOYEE RETIREMENT BENEFITS (CONTINUED)

(a) Defined benefit retirement plans (continued)

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

The below analysis shows how the defined benefit obligations as at 31 March 2020 would have increased/(decreased) as a result of a 0.5% change in the significant actuarial assumptions:

<i>\$ million</i>	Increase by 0.5%	Decrease by 0.5%
<b>The Hong Kong plan</b>		
Discount rate	(27)	29
Future long term salary increases	33	(31)
<b>The HKZAM plan</b>		
Discount rate	(3)	3

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

(b) Defined contribution retirement plans

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

## 21. CAPITAL AND RESERVES

### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated equity is set out in the consolidated statement of changes in equity on page 102.

### (b) Share capital

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

### (c) Nature and purpose of reserves

#### (i) Exchange reserve

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

#### (ii) Capital reserve

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

#### (iii) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow dealt with in accordance with the accounting policy adopted for cash flow hedges set out in note 29(f).

#### (iv) Cost of hedging reserve

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

#### (v) Distributability of reserves

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. CAPITAL AND RESERVES (CONTINUED)

(c) Nature and purpose of reserves (continued)

(vi) Capital management

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

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

The group monitors its capital structure on the basis of a total debt/capital ratio. The total debt/capital ratios of the group at the end of the reporting periods are as follows:

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

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

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

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

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

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

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

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the group. The group's credit risk is primarily attributable to trade and other receivables, over-the-counter derivative financial instruments entered into for hedging purposes and cash and bank balances. Management has credit policies in place and the exposures to these credit risks are monitored on an ongoing basis.

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

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

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. At the end of the reporting period, the group has a certain concentration of credit risk as 13% (2019: 15%) and 55% (2019: 43%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

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

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

### (b) Liquidity risk

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Liquidity risk (continued)

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

<i>\$ million</i>	Carrying amount at 31 March	Contractual undiscounted cash flow				
		Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
<b>2020</b>						
Interest-bearing borrowings	5,215	6,735	784	155	982	4,814
Trade and other payables	13,240	13,330	11,909	83	1,200	138
Interest rate swaps (net settled)	(6)	7	3	3	1	-
Cross currency swaps (net settled)	(71)	(133)	(15)	(15)	(44)	(59)
Forward exchange contracts	23	160	-	-	29	131
	<b>18,401</b>	<b>20,099</b>	<b>12,681</b>	<b>226</b>	<b>2,168</b>	<b>5,024</b>
<b>2019</b>						
Interest-bearing borrowings	5,344	7,041	290	786	1,000	4,965
Trade and other payables	10,474	10,536	9,377	93	960	106
Interest rate swaps (net settled)	8	3	(1)	2	2	-
Cross currency swaps (net settled)	54	(164)	(16)	(16)	(50)	(82)
Forward exchange contracts	-	-	-	-	-	-
	<b>15,880</b>	<b>17,416</b>	<b>9,650</b>	<b>865</b>	<b>1,912</b>	<b>4,989</b>

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

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

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings at variable rates and at fixed rates expose the group to cash flow interest rate risk and fair value interest rate risk respectively. For the previous years, the group adopted a policy of ensuring that between 40% and 60% of its borrowings are effectively on a fixed rate basis in general, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. In view of increasing future external borrowings in the coming years, the group has revised the ratio of fixed rate basis borrowings to between 70% and 100% in May 2019. The group's interest rate profile as monitored by management is set out in (ii) below.

#### (i) Hedges of interest rate risk

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

The group classifies interest rate swaps into fair value hedges and states them at their fair values in accordance with the policy set out in note 29(f).

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

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

#### (ii) Interest rate profile

The following table details the interest rate profile of the group's borrowings at the end of the reporting periods, after taking into account the effect of interest rate swaps designated as fair value hedging instruments ((i) above).

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(c) Interest rate risk (continued)

(iii) Sensitivity analysis

As at 31 March 2020, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have decreased/increased the group's profit after taxation and retained profits by approximately \$2 million (2019: \$2 million). The effect of interest-bearing bank deposits is expected to be not significant and is not taken into account in the analysis.

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

(d) Foreign currency risk

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

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

As at 31 March 2020, the group is exposed to US dollar currency risk in respect of the US dollar bond issued of US\$500 million (2019: US\$500 million) and cash and bank balances of US\$350 million (2019: US\$344 million).

Although the US dollar currency risk is substantially mitigated by the peg between Hong Kong dollar and US dollar, the group further reduces this risk by the use of cross currency swaps to hedge all payment of the US dollar bond into Hong Kong dollar. The group designates these cross currency swaps as cash flow hedges. Details of the notional amounts, maturity period and fair values of cross currency swaps entered into by the group at the end of the reporting periods are set out in note 22(e). These amounts are recognised as derivative financial instruments in the consolidated statement of financial position.

The group uses forward exchange contracts to manage its Australian dollar currency risk until the settlement date of foreign currency payables. The group designates those forward exchange contracts as hedging instruments in cash flow hedges and separate the forward and spot element of a forward exchange contract and designates the change in value of the spot element as hedging instrument. Correspondingly, the hedged item is measured based on the forward exchange rate.

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

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

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

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

The main sources of ineffectiveness in these hedging relationships are due to the different day count and day adjustments in each of the deals.

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) Foreign currency risk (continued)

As at 31 March 2020, the group's borrowings denominated in US dollar were swapped into Hong Kong dollar by entering the cross currency swaps. As the Hong Kong dollar is pegged to US dollar at a range between 7.75 to 7.85, management considers that the foreign currency risk associated with the unhedged US dollar exposure is also not material to the group. Accordingly, no sensitivity analysis is considered necessary.

As at 31 March 2020, the group is exposed to Renminbi currency risk arising from cash and bank balances of RMB142 million (2019: RMB134 million). If Hong Kong dollars had strengthened/weakened by 5% against Renminbi with all other variables held constant, the group's profit after taxation and retained earnings would have been \$7 million (2019: \$7 million) lower/higher. The analysis is performed on the same basis for 2018/19.

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

(e) Fair value measurement

(i) Financial assets and liabilities measured at fair value

*Fair value hierarchy*

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

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

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

As at 31 March 2019 and 2020, the group's derivative financial instruments are carried at fair value. These instruments fall under Level 2 of the fair value hierarchy described above.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2019: \$nil). The group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

(e) Fair value measurement (continued)

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

*Fair value hierarchy (continued)*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(e) Fair value measurement (continued)

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

*Fair value hierarchy (continued)*

Derivative financial instruments qualifying as cash flow hedges as at 31 March 2020 have a maturity of 2.3 to 9.4 years (2019: 10 years) from the end of the reporting period.

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

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

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

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

The carrying amounts of the group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 March 2020 and 2019 except for the following financial instruments, for which their carrying amounts and fair value and the level of fair value hierarchy are disclosed below:

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

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

## 23. OUTSTANDING COMMITMENTS

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

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

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

## 24. MATERIAL RELATED PARTY TRANSACTIONS

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

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

During the year, other than disclosed elsewhere in the consolidated financial statements, the Authority has had the following material related party transactions:

- (a) The Authority has entered into agreements with the Government under which the Government provides maintenance services in respect of sewage pumping system, waste water treatment plant and airfield ground lighting at the airport. The amounts incurred for these services for the year amounted to \$76 million (2019: \$68 million). As at 31 March 2020, the amounts due to the Government with respect to the above services amounted to \$50 million (2019: \$51 million).
- (b) The Authority has also entered into service agreements with the Government under which the Government is to provide aviation meteorological and air traffic control services and aircraft rescue and fire fighting services at the airport. The amounts incurred for the year amounted to \$847 million (2019: \$819 million) and the amounts due to the Government as at 31 March 2020 with respect to the above services amounted to \$0.4 million (2019: \$0.4 million).
- (c) The Authority and HKIA Staff Services Limited ("HKIASS"), a subsidiary of the Authority, have entered into a service agreement with the Government under which the Authority agreed through HKIASS, to provide additional manpower to the Government to meet foreseeable human resources demand in rendering air traffic control services at the airport (note 24(b)) at nil consideration.
- (d) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC"), in which the Government is the majority shareholder, under which MTRC provides maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2, SkyPier and Midfield Concourse. The amounts incurred by the Authority for these services for the year amounted to \$129 million (2019: \$109 million). As at 31 March 2020, the amounts due to MTRC with respect to the maintenance services amounted to \$129 million (2019: \$89 million).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 24. MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

- (e) The Authority has leased certain areas at the airport to Hongkong International Theme Parks Ltd. (“HKITP”), in which the Government is the majority shareholder. The aggregate amounts received for the year amounted to \$64 million (2019: \$70 million). As at 31 March 2020, there was no amount due from HKITP (2019: \$nil).
- (f) AVSECO, a subsidiary of the Authority, has provided security-related services to various Government departments, agencies and Government controlled entities other than the Authority. The aggregate amounts received for the year amounted to \$52 million (2019: \$41 million). As at 31 March 2020, the aggregate amounts due from these departments, agencies or entities amounted to \$26 million (2019: \$5 million).
- (g) In mid-2018, the Authority has received compensation amounting to \$221 million in respect of the compensation claims relating to Hong Kong-Zhuhai-Macao Bridge related facilities submitted to the Government on 22 July 2013.
- (h) AWEM has entered into a management and operating agreement with HKIEC, in which the Government is the majority shareholder, to manage, promote, operate and maintain the AsiaWorld-Expo exhibition centre (note 11).

### 25. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

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

### 26. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

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

## 27. ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

#### (i) Interest in leasehold land

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

#### (ii) Sub-lease of leasehold land

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

#### (iii) Interests in joint ventures

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(b) Major sources of estimation uncertainty

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

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

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

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

(ii) Project provisions

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

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

The Authority has a donation box fund-raising programme under Public Subscription Permit (Permit No.: 2019/048/1) from Social Welfare Department to support the services of certain charitable organisations. After deducting handling fees charged by a service provider not related to the Authority, the net donations received during the period from 1 April 2019 to 31 March 2020 amounted to \$0.43 million (2019: \$0.51 million) and were equally allocated among The Community Chest of Hong Kong, Changing Young Lives Foundation, Friends of the Earth (HK) Charity Limited, Green Power Limited, Hong Kong Sheng Kung Hui Tung Chung Integrated Services, OIWA Limited and The Neighbourhood Advice-Action Council Tung Chung Integrated Services Centre.

## 29. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Changes in accounting policies

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

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

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

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

#### (1) HKFRS 16, “Leases”

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

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

When the group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (note 29(c)).

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

### (c) Associate and joint ventures

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

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

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the group's equity investment. Thereafter, the investment is adjusted for the post-acquisition change in the group's share of the investee's net assets and any impairment losses relating to the investment (notes 29(d) and (j)). Any acquisition-date excess over cost, the group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(d) Goodwill

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

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

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

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

(e) Derivative financial instruments

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

(f) Accounting for derivative financial instruments and hedging activities

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

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

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

- (f) Accounting for derivative financial instruments and hedging activities (continued)
- (ii) Cash flow hedges (continued)
- The foreign currency basis spread and forward element of derivatives, which have been separated and excluded from the designation as cash flow hedges, are recognised directly in other comprehensive income and accumulated separately in equity in the cost of hedging reserve. Amounts accumulated in equity are amortised and reclassified from equity to profit or loss over the term of derivatives.
- (iii) Derivatives that do not qualify for hedge accounting
- Changes in the fair value of any derivative financial instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.
- (g) Investment property, interest in leasehold land, other property, plant and equipment
- (i) The Authority was responsible for all of the costs of the formation of the airport site. The land formation cost and the land premium have been classified as interest in leasehold land. Interest in leasehold land is stated in the consolidated statement of financial position at cost less accumulated amortisation and impairment losses (note 29(j)).
- (ii) Investment property
- Investment property includes leasehold land and its related improvements and/or buildings held to earn rental income. This includes land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.
- Investment property is stated in the consolidated statement of financial position at cost net of accumulated depreciation and impairment losses (note 29(j)). Investment property is depreciated over its estimated useful life or the unexpired term of the lease, whichever is shorter. Rental income from investment property is accounted for as described in note 29(t).
- (iii) Other property, plant and equipment, including right-of-use assets arising from leases of underlying property, plant and equipment, are stated in the consolidated statement of financial position at cost less accumulated depreciation and impairment losses (note 29(j)).
- (iv) Repairs and maintenance expenditure in respect of investment property, and other property, plant and equipment is charged to profit or loss as and when incurred.
- (v) Gains or losses arising from the retirement or disposal of investment property, interest in leasehold land, and an item of other property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of investment property, interest in leasehold land, and the item and are recognised in profit or loss on the date of retirement or disposal.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

- (vi) Construction in progress

Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 29(n)) capitalised during the period of construction or installation and testing. Capitalised costs also included provision amount assessed by the group that may be required for the settlement of contractual claims from contractors. Capitalisation of these costs ceases and the asset concerned is transferred to investment property, interest in leasehold land, other property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the policy detailed in note 29(h).

- (vii) Leased assets

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

- (1) As a Lessee

- (A) Policy applicable from 1 April 2019

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

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

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

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

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

(vii) Leased assets (continued)

(1) As a Lessee (continued)

(B) Policy applicable prior to 1 April 2019

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

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

(2) As a Lessor

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

When the group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature and are depreciated in accordance with the group's depreciation policies set out in note 29(h) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 29(t) below.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (h) Depreciation

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

The estimated useful lives are:

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

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

#### (i) Intangible assets (other than goodwill)

Intangible assets that are acquired by the group are stated in the consolidated statement of financial position at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (note 29(j)).

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

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

### (j) Impairment of assets

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

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

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

(ii) Interim financial reporting and impairment

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

### (k) Stores and spares

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(l) Trade and other receivables

Trade and other receivables are recognised when the group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due.

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

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

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

*Measurement of ECLs*

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

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

*Significant increases in credit risk*

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

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

*Write-off policy*

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

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

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

### (m) ACF

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

### (n) Interest-bearing borrowings and borrowing costs

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, the unhedged portion of interest-bearing borrowings is stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest rate method. Subsequent to initial recognition, the carrying amount of the portion of interest-bearing borrowings, which is the subject of a fair value hedge, is remeasured and the change in fair value attributable to the risk being hedged is recognised in profit or loss to offset the effect of the gain or loss on the related hedging instrument.

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of the asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are interrupted or complete.

### (o) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### (p) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (q) Employee benefits

- (i) Short term employee benefits and contributions to defined contribution retirement plans
- Salaries, performance annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

The Authority and its subsidiaries in Hong Kong are required to make contributions to Mandatory Provident Funds under the MPF Ordinance. Such contributions are recognised as an expense in profit or loss as incurred.

The employees of the subsidiary in the PRC participate in a defined contribution retirement plan managed by the local governmental authorities whereby the subsidiary is required to contribute to the plan at fixed rates of the employees' salary costs.

- (ii) Defined benefit retirement plan obligations

The group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense/(income) on the net defined benefit liability/(asset) are recognised in profit or loss and allocated as part of "staff costs and related expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense/(income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability/(asset). The discount rate is the yield at the end of the reporting period on high quality corporate bonds that have maturity dates approximating the terms of the group's obligations. If there is no sufficiently deep market in such bonds, the market yield of government bonds is used.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability/(asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability/(asset)).

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

### (r) Income tax

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(r) Income tax (continued)

(iii) (continued)

Deferred tax assets and liabilities are not discounted.

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

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

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

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

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

(s) Provisions and contingent liabilities

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

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

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

### (t) Revenue recognition

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

- (t) Revenue recognition (continued)
  - (viii) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
  - (ix) Interest income is recognised as it accrues using the effective interest rate method.
  - (x) Subsidy from the Government is recognised in profit or loss on a systematic basis over the periods in which the Authority recognises the relevant relief measures as expenses.

- (u) Translation of foreign currencies

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

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the company initially recognises such non-monetary assets or liabilities.

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

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

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

### (v) Related parties

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

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

### (w) Segment reporting

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

## **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  
8<sup>th</sup> 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)*

<i>\$ million</i>	Note	<b>Six months ended</b>	
		<b>30 September</b>	
		<u>2020</u>	<u>2019</u>
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
<b>Revenue</b>		<u>2,936</u>	<u>9,513</u>
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)
<b>Operating expenses before depreciation and amortisation</b>		<u>(4,540)</u>	<u>(3,875)</u>
<b>Operating (loss)/profit before depreciation and amortisation</b>		(1,604)	5,638
Depreciation and amortisation		(1,588)	(1,458)
<b>Operating (loss)/profit before interest and finance costs</b>	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
<b>(Loss)/profit before taxation</b>		(3,212)	4,612
Income tax	5	525	(732)
<b>(Loss)/profit for the period</b>		<u>(2,687)</u>	<u>3,880</u>
<b>Attributable to:</b>			
Equity shareholder of the Authority		(2,706)	3,841
Non-controlling interests		19	39
<b>(Loss)/profit for the period</b>		<u>(2,687)</u>	<u>3,880</u>

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)*

<i>\$ million</i>	<b>Six months ended</b>	
	<b>30 September</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
<b>(Loss)/profit for the period</b>	<b><u>(2,687)</u></b>	<b><u>3,880</u></b>
<b>Other comprehensive income for the period</b>		
Item that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit retirement obligations of:		
- the Authority	<b>104</b>	(38)
Add: deferred tax	<b><u>(17)</u></b>	<u>6</u>
	<b>87</b>	(32)
- a subsidiary in the People's Republic of China (the "PRC")	<b>2</b>	1
- a joint venture in the PRC	<b><u>-</u></b>	<u>47</u>
	<b><u>89</u></b>	<u>16</u>
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	<b>217</b>	(327)
Cash flow hedge: net movement in the hedging reserve	<b><u>(72)</u></b>	<u>-</u>
Cash flow hedge: net movement in the cost of hedging reserve	<b><u>(65)</u></b>	<u>144</u>
	<b>80</b>	(183)
<b>Other comprehensive income for the period</b>	<b><u>169</u></b>	<u>(167)</u>
<b>Total comprehensive income for the period</b>	<b><u>(2,518)</u></b>	<b><u>3,713</u></b>
<b>Attributable to:</b>		
Equity shareholder of the Authority	<b>(2,553)</b>	3,696
Non-controlling interests	<b>35</b>	17
<b>Total comprehensive income for the period</b>	<b><u>(2,518)</u></b>	<b><u>3,713</u></b>

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)*

<i>\$ million</i>	Note	At 30 September <u>2020</u>	At 31 March <u>2020</u>
<b>Non-current assets</b>			
Investment property	7	48	69
Interest in leasehold land	7	6,184	6,299
Other property, plant and equipment	7	97,872	86,856
		<u>104,104</u>	<u>93,224</u>
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
		<u>109,496</u>	<u>98,566</u>
<b>Current assets</b>			
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
		<u>26,022</u>	<u>16,336</u>
<b>Current liabilities</b>			
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)	-
		<u>(16,098)</u>	<u>(14,977)</u>
<b>Net current assets</b>		<u>9,924</u>	<u>1,359</u>
<b>Total assets less current liabilities</b>		<u>119,420</u>	<u>99,925</u>

**AIRPORT AUTHORITY**  
**Consolidated statement of financial position (continued)**  
**At 30 September 2020 – Unaudited**  
*(Expressed in Hong Kong dollars)*

<i>\$ million</i>	Note	<b>At 30 September 2020</b>	At 31 March 2020
<b>Non-current liabilities</b>			
Trade and other payables	13	<b>(1,475)</b>	(1,406)
Interest-bearing borrowings	14	<b>(27,270)</b>	(4,615)
Deferred income	16	<b>(2,185)</b>	(2,312)
Derivative financial liabilities	18(a)	<b>(86)</b>	(23)
Net defined benefit retirement obligations	17	<b>(200)</b>	(336)
Deferred tax liabilities		<b>(4,537)</b>	(5,048)
		<u><b>(35,753)</b></u>	<u>(13,740)</u>
<b>Net assets</b>		<u><b>83,667</b></u>	<u>86,185</u>
<b>Capital and reserves</b>			
Share capital		<b>30,648</b>	30,648
Reserves		<b>52,567</b>	55,120
Total equity attributable to the equity shareholder of the Authority		<b>83,215</b>	85,768
Non-controlling interests		<b>452</b>	417
<b>Total equity</b>		<u><b>83,667</b></u>	<u>86,185</u>

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)*

	Attributable to the equity shareholder of the Authority							Non- controlling interests	Total equity
	Share capital	Exchange reserve	Capital reserve	Hedging reserve	Cost of hedging reserve	Retained profits	Total		
<b>At 1 April 2019</b>	30,648	393	1,040	-	(56)	48,040	80,065	409	80,474
<b>Changes in equity for the six months ended 30 September 2019:</b>									
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)	-	-	-
<b>At 30 September 2019 and 1 October 2019</b>	30,648	88	1,054	-	88	51,883	83,761	426	84,187
<b>Changes in equity for the six months ended 31 March 2020:</b>									
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)	-	-	-
<b>At 31 March 2020</b>	30,648	75	1,062	(22)	115	53,890	85,768	417	86,185
<b>At 1 April 2020</b>	30,648	75	1,062	(22)	115	53,890	85,768	417	86,185
<b>Changes in equity for the six months ended 30 September 2020:</b>									
(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)	-	-	-
<b>At 30 September 2020</b>	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)*

<i>\$ million</i>	Note	<b>Six months ended</b>	
		<b>30 September</b>	
		<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Operating activities</b>			
(Loss)/profit before taxation		<b>(3,212)</b>	4,612
Adjustments for:			
Depreciation		<b>1,456</b>	1,326
Amortisation of interest in leasehold land		<b>115</b>	115
Amortisation of intangible assets		<b>17</b>	17
Interest on notes and bank loans		<b>161</b>	94
Interest on lease liabilities		<b>1</b>	-
Other borrowing costs and interest expense		<b>45</b>	36
Borrowing costs capitalised into assets under construction		<b>(187)</b>	(97)
Interest income		<b>(68)</b>	(305)
Fair value gain on derivative financial instruments			
in fair value hedges		<b>(5)</b>	(2)
Net gain on derivative financial instruments in cash flow hedges		<b>(9)</b>	(4)
Net loss on underlying hedged interest-bearing borrowings			
in fair value hedges		<b>11</b>	9
Share of results of an associate		<b>(13)</b>	5
Share of results of joint ventures		<b>84</b>	(168)
Impairment losses on trade and other receivables		<b>106</b>	400
Net loss on disposal of other property, plant and equipment		<b>13</b>	3
Amortisation of deferred income		<b>(439)</b>	(81)
Expenses recognised in respect of defined benefit retirement plans		<b>23</b>	26
<b>Operating (loss)/profit before changes in working capital</b>		<b><u>(1,901)</u></b>	<b><u>5,986</u></b>
Increase in stores and spares		<b>(10)</b>	(14)
Increase in trade and other receivables		<b>(180)</b>	(240)
(Decrease)/increase in trade and other payables		<b>(644)</b>	73
(Decrease)/increase in deferred income		<b>(37)</b>	800
Decrease in net defined benefit retirement obligations		<b>(54)</b>	(11)
<b>Cash (used in)/generated from operations</b>		<b><u>(2,826)</u></b>	<b><u>6,594</u></b>
Hong Kong Profits Tax paid		<b>(103)</b>	(380)
PRC Corporate Income Tax paid		<b>(1)</b>	(24)
<b>Net cash (used in)/generated from operating activities</b>		<b><u>(2,930)</u></b>	<b><u>6,190</u></b>



**AIRPORT AUTHORITY**  
**Consolidated cash flow statement (continued)**  
**For the six months ended 30 September 2020 - Unaudited**  
*(Expressed in Hong Kong dollars)*

<i>\$ million</i>	Note	<b>Six months ended 30 September</b>	
		<b><u>2020</u></b>	<b><u>2019</u></b>
<b>Investing activities</b>			
Net placement of deposits with banks with over three months of maturity when placed		<b>(6,699)</b>	(775)
Interest received		<b>185</b>	268
Dividend received from an associate		<b>15</b>	47
Dividend received from a joint venture		<b>1</b>	-
Advance payments to contractors		<b>(24)</b>	-
Payments for the purchase of other property, plant and equipment		<b>(10,195)</b>	(8,643)
Receipts from disposal of other property, plant and equipment		<b>2</b>	-
Payment of annual franchise fee for a PRC subsidiary		<b>(27)</b>	(26)
<b>Net cash used in investing activities</b>		<b><u>(16,742)</u></b>	<b><u>(9,129)</u></b>
<b>Financing activities</b>			
Interest paid on notes and bank loans		<b>(104)</b>	(82)
Interest element of lease rentals paid		<b>(1)</b>	-
Other borrowing costs and interest expense paid		<b>(213)</b>	(15)
Capital element of lease rentals paid		<b>(7)</b>	-
Airport construction fee received		<b>540</b>	1,912
Drawdown of new bank loans		<b>17,500</b>	-
Receipts from issue of notes		<b>5,249</b>	-
Repayment of note		<b>-</b>	(100)
Net interest income received on interest rate swaps		<b>7</b>	6
<b>Net cash generated from financing activities</b>		<b><u>22,971</u></b>	<b><u>1,721</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>3,299</b>	(1,218)
<b>Cash and cash equivalents at beginning of period</b>		<b>6,188</b>	4,937
Effect of foreign exchange rate changes		<b>18</b>	(20)
<b>Cash and cash equivalents at end of period</b>	12	<b><u><u>9,505</u></u></b>	<b><u><u>3,699</u></u></b>

The notes on pages 11 to 25 form part of this interim financial report.

**AIRPORT AUTHORITY**  
**Notes to the unaudited interim financial report**  
(Expressed in Hong Kong dollars)

**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):

<i>\$ million</i>	Six months ended	
	30 September <u>2020</u>	<u>2019</u>
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	
	<u>2020</u>	<u>2019</u>
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	<u>207</u>	<u>130</u>
Less: borrowing costs capitalised into assets under construction	<u>(187)</u>	<u>(97)</u>
	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
	<u>17</u>	<u>36</u>

\* 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	
	<u>2020</u>	<u>2019</u>
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
	<u>(525)</u>	<u>732</u>

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:

\$ million	Six months ended	
	30 September <u>2020</u>	<u>2019</u>
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Airport charges	813	2,652
Security charges	10	913
Aviation security services	232	170
Others	188	336
	<u>1,243</u>	<u>4,071</u>
<b>Revenue from other sources</b>		
Airside support services franchises	671	1,086
Retail licences and advertising revenue	95	3,449
Other terminal commercial revenue	440	758
Others	487	149
	<u>1,693</u>	<u>5,442</u>
	<u>2,936</u>	<u>9,513</u>

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

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
<b>Cost</b>		
Balance brought forward	540	561
Exchange adjustments	13	(21)
Balance carried forward	<u>553</u>	<u>540</u>
<b>Accumulated amortisation</b>		
Balance brought forward	232	211
Exchange adjustments	9	(14)
Charge for the period/year	17	35
Balance carried forward	<u>258</u>	<u>232</u>
<b>Net book value</b>		
Balance carried forward	<u>295</u>	<u>308</u>

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

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
Share of net assets	148	136
Amount due from an associate	212	225
Preference shares premium	227	228
	<b>587</b>	<b>589</b>

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:

<u>Name of associate</u>	<u>Place of incorporation and operation</u>	<u>Particulars of issued and paid up capital</u>	<u>Group's effective interest</u>	<u>Proportion of ownership interest</u> <u>Held by a subsidiary</u>	<u>Principal activity</u>
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

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
Share of net assets	4,248	4,159
Goodwill	219	210
	<b>4,467</b>	<b>4,369</b>

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:

<u>Name of joint venture</u>	<u>Form of business structure</u>	<u>Place of incorporation and operation</u>	<u>Particulars of issued and paid up registered capital</u>	<u>Group's effective interest</u>	<u>Principal activity</u>
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:

<i>\$ million</i>	<b>Six months ended</b>	
	<b><u>2020</u></b>	<b><u>2019</u></b>
Share of (loss)/profit after taxation	<b>(84)</b>	168
Share of other comprehensive income	-	47
Less: transfer to capital reserve	<b>(8)</b>	(12)
Share of (loss)/profit and other comprehensive income to be retained	<b>(92)</b>	203
Share of retained profits brought forward from previous periods	<b>1,271</b>	974
Share of retained profits carried forward to next period	<b>1,179</b>	1,177



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

<i>\$ million</i>	<u>Capital reserve</u>
At 1 April 2019	979
Transfer from retained profits	12
At 30 September 2019 and 1 October 2019	<u>991</u>
Transfer from retained profits	7
At 31 March 2020 and 1 April 2020	<b>998</b>
Transfer from retained profits	8
At 30 September 2020	<b><u>1,006</u></b>

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

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
Contracted for	<b>10,059</b>	11,087
Authorised but not contracted for	<b>14,004</b>	15,310
	<b><u>24,063</u></b>	<u>26,397</u>

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**

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
Trade debtors	<b>3,305</b>	3,556
Less: loss allowance	<b>(1,027)</b>	(927)
	<b>2,278</b>	2,629
Other debtors	<b>46</b>	347
	<b>2,324</b>	2,976
Advance payments to contractors	<b>24</b>	-
Prepayments	<b>363</b>	160
Deposits and debentures	<b>24</b>	22
	<b><u>2,735</u></b>	<u>3,158</u>
Classified in the consolidated statement of financial position as:		
Current assets	<b>2,711</b>	3,158
Non-current assets	<b>24</b>	-
	<b><u>2,735</u></b>	<u>3,158</u>

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:

<i>\$ million</i>	<b>At 30 September 2020</b>	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
	<u>2,278</u>	<u>2,629</u>

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

<i>\$ million</i>	<b>At 30 September 2020</b>	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	<u>22,888</u>	<u>12,872</u>

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

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
Creditors and accrued charges	<b>13,798</b>	11,515
Deposits received	<b>1,083</b>	1,342
Contract retentions	<b>1,339</b>	1,359
Lease liabilities	<b>37</b>	24
	<b><u>16,257</u></b>	<u>14,240</u>
Classified in the consolidated statement of financial position as:		
Current liabilities	<b>14,782</b>	12,834
Non-current liabilities	<b>1,475</b>	1,406
	<b><u>16,257</u></b>	<u>14,240</u>

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:

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
Due within 30 days or on demand	<b>3,721</b>	4,051
Due after 30 days but within 60 days	<b>3,023</b>	3,163
Due after 60 days but within 90 days	<b>1,133</b>	609
Due after 90 days	<b>5,921</b>	3,692
	<b><u>13,798</u></b>	<u>11,515</u>

### 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")

<i>\$ million</i>	<b>At 30 September <u>2020</u></b>	At 31 March <u>2020</u>
Balance brought forward	<b>974</b>	1,685
Add: ACF received or receivable for the period/year	<b>56</b>	3,370
Less: payment of three-runway system ("3RS") capital expenditure	<b>(548)</b>	(4,081)
Balance carried forward	<b><u>482</u></b>	<u>974</u>

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:

<i>\$ million</i>	<b>At 30 September 2020</b>	At 31 March 2020
<b>The Hong Kong plan</b>		
Present value of funded obligations	<b>923</b>	931
Fair value of plan assets	<b>(782)</b>	(652)
	<b>141</b>	279
<b>The Hong Kong-Zhuhai Airport Management Co., Ltd.'s plan</b>		
Present value of unfunded obligations	<b>59</b>	57
Net defined benefit retirement obligations	<b>200</b>	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:

<i>\$ million</i>	Recurring fair value measurement using significant other observable inputs (Level 2)					
	30 September 2020			31 March 2020		
	Notional amount	Financial assets	Financial liabilities	Notional amount	Financial assets	Financial liabilities
Cash flow hedges						
Interest rate swaps	<b>\$18,000</b>	1	(97)	Nil	-	-
Cross currency swaps	<b>US\$500</b>	12	-	US\$500	71	-
Forward exchange contracts	<b>AUD29</b>	1	(1)	AUD29	-	(23)
Fair value hedges						
Interest rate swaps	<b>\$550</b>	10	-	\$650	6	-
Total		<b>24</b>	(98)		77	(23)
Less: portion to be recovered/(settled) within one year						
Cash flow hedges						
Interest rate swaps	<b>\$18,000</b>	-	(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:

\$ million	Notional amount	Carrying amount	Fair value	Fair value measurements categorised into		
				Level 1	Level 2	Level 3
<b>30 September 2020</b>						
	<b>US\$500 and \$6,099</b>					
Fixed rate notes		<b>9,952</b>	<b>10,634</b>	<b>4,365</b>	<b>6,269</b>	-
31 March 2020						
	US\$500 and \$1,350					
Fixed rate notes		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:

\$ million	30 September 2020			31 March 2020		
	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
	<u>82,956</u>	<u>28,843</u>	<u>111,799</u>	<u>92,943</u>	<u>32,057</u>	<u>125,000</u>

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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