

**THE AIRPORT AUTHORITY HONG KONG
INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2006**

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AUDITORS' INDEPENDENT REVIEW REPORT

TO THE MEMBERS OF THE BOARD OF THE AIRPORT AUTHORITY HONG KONG (INCORPORATED IN HONG KONG UNDER THE AIRPORT AUTHORITY ORDINANCE)

We have been instructed by The Airport Authority Hong Kong (“the Authority”) to review the interim financial report set out on pages 4 to 16.

Respective Responsibilities of the Members of the Board of the Airport Authority and Auditors

The Airport Authority Hong Kong has prepared the interim financial report to be in compliance with the relevant provisions of Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the Members of the Board.

It is our responsibility to form an independent 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.

Review Work Performed

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review Conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 September 2006.

KPMG
Certified Public Accountants
Hong Kong, 28 November 2006

THE AIRPORT AUTHORITY HONG KONG
CONSOLIDATED INCOME STATEMENT
For the six months ended 30 September 2006 - Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2006	2005
	Note	\$ million	\$ million
Airport charges		1,419	1,321
Security charges		366	334
Aviation security services		60	54
Airside support services franchises		613	576
Retail licences revenue		1,020	923
Other terminal commercial revenue		246	200
Real estate revenue		63	59
Other income		27	25
Turnover		3,814	3,492
Staff costs and related expenses		(472)	(455)
Repairs and maintenance		(147)	(139)
Operational contracted services		(143)	(121)
Government services	16	(353)	(359)
Government rent and rates		(81)	(70)
Occupancy expenses		(82)	(77)
Other operating expenses		(142)	(87)
Operating expenses before depreciation		(1,420)	(1,308)
Operating profit before depreciation		2,394	2,184
Depreciation of fixed assets		(956)	(966)
Operating profit before interest and finance charges	3	1,438	1,218
Interest and finance charges:			
Finance costs	4	(203)	(140)
Interest income		3	2
		(200)	(138)
Profit before taxation		1,238	1,080
Income tax	5	(243)	(201)
Profit after taxation		995	879
Attributable to:			
Equity shareholder of the Authority		993	877
Minority interests		2	2
Profit after taxation		995	879
Dividends:			
Dividend declared and paid during the period	14	1,300	1,000

The notes on pages 8 to 16 form part of this interim financial report.

THE AIRPORT AUTHORITY HONG KONG
CONSOLIDATED BALANCE SHEET
At 30 September 2006 - Unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 September 2006 \$ million	At 31 March 2006 \$ million
Non-current assets			
Fixed assets			
- Interest in leasehold land		9,450	9,566
- Other property, plant and equipment		37,546	37,400
	6	46,996	46,966
Intangible asset	7	271	-
Other investments	8	261	261
Net defined benefit retirement asset		80	81
Derivative financial instruments		23	44
		47,631	47,352
Current assets			
Stores and spares		52	56
Trade and other receivables	9	766	655
Cash and cash equivalents	10	433	285
		1,251	996
Current liabilities			
Interest-bearing borrowings	11	(1,684)	(634)
Trade and other payables	12	(1,473)	(1,298)
Deferred income		(102)	(99)
		(3,259)	(2,031)
Net current liabilities		(2,008)	(1,035)
Total assets less current liabilities		45,623	46,317
Non-current liabilities			
Interest-bearing borrowings	11	(8,548)	(9,320)
Trade and other payables	12	(221)	(193)
Deferred income		(1,795)	(1,838)
Derivative financial instruments		(41)	(36)
Deferred taxation		(1,484)	(1,243)
		(12,089)	(12,630)
Net assets		33,534	33,687
Capital and reserves			
Share capital		30,648	30,648
Reserves	13	2,693	3,006
Total equity attributable to equity shareholder of the Authority		33,341	33,654
Minority interests		193	33
Total Equity		33,534	33,687

Approved and authorised for issue on behalf of the Members of the Board on 28 November 2006

Dr Victor Fung Kwok-king
Chairman

Dr David J Pang
Chief Executive Officer

Mr Raymond W C Lai
Finance Director

The notes on pages 8 to 16 form part of this interim financial report.

THE AIRPORT AUTHORITY HONG KONG
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 September 2006 - Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	Note	2006 \$ million	2005 \$ million
Shareholder's equity at 1 April			
- attributable to equity shareholder of the Authority		33,654	33,037
- minority interests		33	30
		<u>33,687</u>	<u>33,067</u>
Net (loss) / profit recognised directly in equity:			
Exchange difference on translation of:			
- financial statements of overseas subsidiary	13	4	-
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	13	<u>(31)</u>	<u>6</u>
Net (loss) / profit for the period recognised directly in equity		<u>(27)</u>	<u>6</u>
Cash flow hedge: transfer from equity			
- to profit and loss, net of deferred tax	13	<u>21</u>	<u>(6)</u>
		<u>(6)</u>	<u>-</u>
Net profit for the period		<u>995</u>	<u>879</u>
Total recognised income and expense for the period		<u>989</u>	<u>879</u>
Dividend paid during the period	14	(1,300)	(1,000)
Movements in equity arising from capital transaction:			
- Issue of shares by a subsidiary to minority shareholder	7	<u>158</u>	<u>-</u>
Total equity at 30 September		<u>33,534</u>	<u>32,946</u>
Total recognised income and expense for the period attributable to:			
- equity shareholder of the Authority		987	877
- minority interests		2	2
		<u>989</u>	<u>879</u>

The notes on pages 8 to 16 form part of this interim financial report.

THE AIRPORT AUTHORITY HONG KONG
CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 September 2006 - Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 September	
	Note	2006 \$ million	2005 \$ million
Operating activities			
Profit before taxation		1,238	1,080
Adjustments for:			
Depreciation		956	966
Interest on notes and bank loans		187	155
Other borrowing costs		3	1
Interest income		(3)	(2)
Loss on disposal of fixed assets		25	15
Exchange (gain) / loss on revaluation		13	(16)
Amortisation of deferred income		(49)	(47)
Operating profit before changes in working capital		<u>2,370</u>	<u>2,152</u>
Decrease in stores and spares		4	3
Increase in trade and other receivables		(108)	(77)
Decrease in trade and other payables		(12)	(78)
Net cash generated from operating activities		<u>2,254</u>	<u>2,000</u>
Investing activities			
Interest received		4	2
Net payment in respect of fixed assets		(929)	(1,072)
Receipts from disposal of fixed assets		-	1
Payment of upfront franchise fee		(89)	-
Net cash used in investing activities		<u>(1,014)</u>	<u>(1,069)</u>
Financing activities			
Interest paid on notes and bank loans		(199)	(157)
Other borrowing costs paid		(3)	(1)
Drawdown of new loans		1,550	850
Repayment of loans		(1,200)	(267)
Receipts from issue of notes		400	-
Repayment of notes		(500)	(625)
Proceeds from shares issued by a subsidiary to minority shareholder		158	-
Dividend paid		(1,300)	(1,000)
Net cash used in financing activities		<u>(1,094)</u>	<u>(1,200)</u>
Net increase/(decrease) in cash and cash equivalents		146	(269)
Cash and cash equivalents at 1 April	10	285	384
Effect of foreign exchanges rates changes		<u>2</u>	<u>-</u>
Cash and cash equivalents at 30 September	10	<u>433</u>	<u>115</u>

The notes on pages 8 to 16 form part of this interim financial report.

THE AIRPORT AUTHORITY HONG KONG
NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT
(Expressed in Hong Kong dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

This interim financial report has been prepared so as to 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 on Earnings Per Share which is not relevant to The Airport Authority Hong Kong (“the Authority”) as the Authority’s shares are not publicly traded. This interim financial report also complies with Hong Kong Accounting Standard (HKAS) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issuance on 28 November 2006.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005/06 annual financial statements except for accounting policy on intangible assets which has been adopted during the six months ended 30 September 2006 (see note 1b).

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgments, 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 2005/06 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, 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 2006 that is included in the interim financial report as being previously reported information does not constitute the Authority’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2006 are available from the Authority’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 May 2006.

(b) Intangible assets

Intangible assets that are acquired by the group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is other than indefinite) and impairment losses.

Amortisation of intangible assets is charged to profit or loss on a straight-line basis over the assets’ estimated useful lives unless such lives are indefinite. A franchise with a finite useful life is amortised from the date it is available for use over the franchise period of 20 years.

Both the period and method of amortisation are reviewed annually.

2. SEGMENTAL INFORMATION

Business segment information is chosen as the primary reporting format because this is most relevant to the group.

Business segments

The group comprises the following main business segments:

Aeronautical business	Management of airfield activities, terminal operations, facilitation for airlines and passengers and aviation security services. Major sources of revenue include landing and parking charges, terminal building charges and security charges derived from airfield and passenger terminal building activities.
Non-aeronautical Business	Planning, management and facilitation of non-aeronautical services including retail and advertising concessions, airside support services franchises, and property development in the commercial districts at the airport. Primary sources of income are retail revenue from awarded retail and advertising licences, franchise revenue from airside support services and real estate revenue.
Others	Includes aviation fuel supply franchise, the development and implementation of China strategies and sub-lease of interest in leasehold land under operating leases where the Authority has no active continuing involvement.

\$ million	<u>Aeronautical Business</u>		<u>Non-aeronautical Business</u>		<u>Others</u>		<u>Inter-segmental Elimination</u>		<u>Consolidated</u>	
	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005	30 Sep 2006	30 Sep 2005
Revenue from external customers	2,233	2,034	1,393	1,273	188	185	-	-	3,814	3,492
Inter-segment revenue	2	2	3	2	-	-	(5)	(4)	-	-
Total Revenue	2,235	2,036	1,396	1,275	188	185	(5)	(4)	3,814	3,492
Operating expenses before depreciation	(1,088)	(1,018)	(269)	(233)	(28)	(17)	-	-	(1,385)	(1,268)
Inter-segment expenses	(3)	(2)	(2)	(2)	-	-	5	4	-	-
Total expenses	(1,091)	(1,020)	(271)	(235)	(28)	(17)	5	4	(1,385)	(1,268)
Operating profit before depreciation	1,144	1,016	1,125	1,040	160	168	-	-	2,429	2,224
Depreciation	(668)	(709)	(243)	(212)	(45)	(45)	-	-	(956)	(966)
Segment results	476	307	882	828	115	123	-	-	1,473	1,258
Unallocated corporate expenses									(35)	(40)
Interest and finance charges									(200)	(138)
Profit before taxation									1,238	1,080

3. OPERATING PROFIT BEFORE INTEREST AND FINANCE CHARGES

Operating profit before interest and finance charges is after charging:

\$ million	Six months ended 30 September	
	<u>2006</u>	<u>2005</u>
Auditors' remuneration – audit services	1	-
Stores and spares expensed	23	20
Loss on disposal of fixed assets	25	15

4. FINANCE COSTS

\$ million	Six months ended 30 September	
	<u>2006</u>	<u>2005</u>
Interest on notes and bank loans	221	177
Other borrowing costs	3	1
Foreign exchange loss/(gain)	13	(16)
Derivative financial instruments		
- Cash flow hedges:		
transfer from hedging reserve	21	(6)
Net gain on derivatives not qualified as hedges	-	(2)
	<u>258</u>	<u>154</u>
Less: Borrowing costs capitalised into construction in progress	<u>(55)</u>	<u>(14)</u>
	<u>203</u>	<u>140</u>

5. TAXATION

Taxation in the consolidated income statement represents:

\$ million	Six months ended 30 September	
	<u>2006</u>	<u>2005</u>
Current tax - Provision for Hong Kong profits tax for the period	-	1
Deferred taxation		
- Net increase in temporary differences	<u>243</u>	<u>200</u>
	<u>243</u>	<u>201</u>

No provision for Hong Kong profits tax has been made in the interim financial report in respect of the Authority as the current period taxable income has been offset against carried forward tax losses. Provision for Hong Kong profits tax is in respect of a subsidiary calculated at 17.5% of its estimated assessable profit.

6. FIXED ASSETS

During the six months ended 30 September 2006, the group acquired or commissioned assets with a cost of \$1,011 million (six months ended 30 September 2005: \$1,152 million). Items of civil works and plant and machinery with a net book value of \$25 million were disposed of during the six months ended 30 September 2006 (six months ended 30 September 2005: \$16 million), resulting in a loss on disposal of \$25 million (six months ended 30 September 2005: \$15 million).

7. INTANGIBLE ASSET

In August 2005, the Authority signed a framework agreement and a cooperation agreement with Zhuhai Airport Group Limited (ZHGL), owner of the Zhuhai Airport (ZHU) at Zhuhai, China and Zhuhai Headway Transportation Investment Co., Ltd (ZHTICL) for the management of ZHU. Both ZHGL and ZHTICL are state enterprises, wholly owned by the Zhuhai City Government. Under these agreements, HKIA (China) Limited (HKIACL), a wholly owned subsidiary of the Authority, formed the Hong Kong-Zhuhai Airport Management Company Limited ("the Company") with ZHTICL to operate and manage ZHU. In July 2006, HKIACL made a cash capital contribution of RMB198 million (\$193 million) for a 55% equity interest in the Company and ZHTICL contributed RMB162 million (\$158 million) in cash for the remaining 45% equity interest. In return for the payment of an upfront franchise fee of RMB250 million (\$246 million) in addition to the annual minimum franchise fee of RMB 3 million (\$3 million) payable to ZHGL by the Company, the Company has been given the management right to ZHU and its operating assets for a period up to 20 years. The lump sum management fee was paid in two instalments in the amount of RMB 90 million (\$89 million) and RMB 160 million (\$158 million) in September and October 2006 respectively. The present value of the minimum annual franchise fees payable and the contractual upfront franchise fee are regarded as an intangible asset and will be amortised over the franchise period of 20 years on a straight line basis, with effect from 1 October 2006 when the Company took over management of ZHU.

8. OTHER INVESTMENTS

Other investments represent the Authority's 11.6% equity interest in IEC Holdings Limited, a company set up by the Authority and the Government, which holds an equity interest of 86.5% in a joint venture company set up to procure the development and operation of the AsiaWorld-Expo exhibition centre. The remaining 13.5% of the equity interest in the joint venture company is held by a third party consortium. As consideration for the shares in IEC Holdings Limited, the Authority has granted a sub-lease of land to IEC Holdings Limited to 2047. As the land sub-leased to IEC Holdings Limited is for substantially the full period of the Land Grant, the lease is considered to be in the nature of a finance lease and the related cost of land has been derecognised accordingly.

IEC Holdings Limited has granted an under-lease of the land to 2031 to the joint venture company to construct and operate the exhibition centre over the period, at the end of which the land and the exhibition facilities will revert to IEC Holdings Limited.

9. TRADE AND OTHER RECEIVABLES

\$ million	<u>At 30 September</u> <u>2006</u>	<u>At 31 March</u> <u>2006</u>
Trade debtors	714	622
Prepayments and other debtors	43	25
Deposits and debentures	9	8
	<u>766</u>	<u>655</u>

All of the trade and other receivables are expected to be recovered within one year.

The ageing analysis of trade debtors included above is as follows:

\$ million	<u>At 30 September</u> <u>2006</u>	<u>At 31 March</u> <u>2006</u>
Amounts not yet due	648	591
Overdue by 30 days	62	31
Overdue by 60 days	4	-
	<u>714</u>	<u>622</u>

Management has a credit policy 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. In respect of the group's rental income from operating leases, sufficient rental deposits are held to cover any potential exposure to credit risk.

10. CASH AND CASH EQUIVALENTS

\$ million	<u>At 30 September</u> <u>2006</u>	<u>At 31 March</u> <u>2006</u>
Deposits with banks	404	281
Cash at bank and in hand	29	4
Cash and cash equivalents	<u>433</u>	<u>285</u>

11. INTEREST-BEARING BORROWINGS

- (a) In April 2006, the Authority issued HKD fixed rate notes with principal amount of \$400 million through private placement. These fixed rate notes were issued at par with a coupon rate of 5.1% per annum and maturity of ten years.
- (b) In 2001, the Authority issued a \$500 million note with coupon and tenor of 5.6% per annum and 5 years respectively under the Notes Issuance Programme arranged with the Hong Kong Monetary Authority. The note was fully repaid in July 2006.
- (c) In October 2004, the Authority signed a credit agreement for a \$6,000 million unsecured syndicated bank loan. The facility consists of a 3-year revolving credit tranche and a 5-year term/revolving credit tranche of \$3,000 million each with repayment commencing from the end of the third anniversary of the credit agreement. Interest is payable on amounts drawn down at a rate relating to HIBOR. As at 31 March 2006, \$2,300 million and \$3,000 million had been drawn down from the 3-year revolving credit tranche and the 5-year term/revolving credit tranche respectively. During the period, \$1,200 million drawn down from the 3-year revolving credit tranche was repaid.

During the period, the Authority also drew down from uncommitted money market line facilities of \$3,290 million (31 March 2006: \$2,500 million) to meet working capital requirements. Interest is payable on amounts drawn down at a rate relating to HIBOR. An amount of \$1,550 million (31 March 2006: \$nil) was outstanding at the period end.

12. TRADE AND OTHER PAYABLES

\$ million	<u>At 30 September</u> <u>2006</u>	<u>At 31 March</u> <u>2006</u>
Creditors and accrued charges	1,403	1,209
Deposits received	177	152
Contract retentions	114	130
	<u>1,694</u>	<u>1,491</u>
Classified in the balance sheet as :		
Current liabilities	1,473	1,298
Non-current liabilities	221	193
	<u>1,694</u>	<u>1,491</u>

As at 30 September 2006, all trade and other payables are expected to be settled within one year except for \$221 million (31 March 2006: \$193 million), which is expected to be settled after one year. The amounts due after one year are mainly related to licence deposits received from retail licencees and contract retentions, the majority of which are due to be repaid within three years. The Authority considers the effect of discounting these deposits would be immaterial.

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

\$ million	<u>At 30 September</u> <u>2006</u>	<u>At 31 March</u> <u>2006</u>
Due within 30 days or on demand	449	241
Due after 30 days but within 60 days	208	234
Due after 60 days but within 90 days	284	153
Due after 90 days	462	581
Total	<u>1,403</u>	<u>1,209</u>

13. RESERVES

\$ million	<u>Exchange reserve</u>	<u>Hedging reserve</u>	<u>Retained profits</u>	<u>Total</u>
At 1 April 2005	-	27	2,362	2,389
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	-	6	-	6
Cash flow hedge: transfer from equity to profit and loss, net of deferred tax	-	(6)	-	(6)
Profit for the period	-	-	877	877
Dividend approved in respect of the previous year	-	-	(1,000)	(1,000)
At 30 September 2005	-	27	2,239	2,266
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	-	(7)	-	(7)
Cash flow hedge: transfer from equity to profit and loss, net of deferred tax	-	9	-	9
Profit for the period	-	-	738	738
At 31 March 2006	-	29	2,977	3,006
Exchange difference on translation of:				
-financial statements of overseas subsidiary	4	-	-	4
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	-	(31)	-	(31)
Cash flow hedge: transfer from equity to profit and loss, net of deferred tax	-	21	-	21
Profit for the period	-	-	993	993
Dividend approved in respect of the previous year	-	-	(1,300)	(1,300)
At 30 September 2006	4	19	2,670	2,693

14. DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the interim period to equity shareholder of the Authority:

\$ million	<u>Six months ended 30 September</u>	
	<u>2006</u>	<u>2005</u>
Final dividend in respect of the previous financial year ended 31 March 2006, approved and paid during the following interim period of \$4,241.71 per share (2005: \$3,262.85 per share)	1,300	1,000

15. OUTSTANDING COMMITMENTS

\$ million	<u>At 30 September 2006</u>	<u>At 31 March 2006</u>
Commitments outstanding for the group in respect of capital expenditure not provided for in the interim financial report are as follows:		
Authorised and contracted for:	836	945
Authorised but not contracted for:	4,720	3,662
	5,556	4,607

In addition, the group has a commitment in respect of the Authority's proposed equity investment of 35% in Hangzhou Xiaoshan International Airport Co. Ltd amounting to RMB1,990 million (\$1,962 million). According to the Supplementary Agreement to the Capital Increase and Subscription Agreement signed on 16 September 2006, the Authority had paid RMB 398 million (\$394 million), being 20% of the capital contribution to HXIACO on 8 November 2006. The finalisation of the transaction and capital contribution is subject to the final approval of the Zhejiang Administration for Industry & Commerce.

16. MATERIAL RELATED PARTY TRANSACTIONS

The Authority is wholly-owned by the Government. Transactions between the Authority and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the Government and the Authority, 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 the Executive Directors, and parties related to them, are also considered to be related parties of the Authority. Material transactions with these parties are separately disclosed.

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

- (a) The Authority has 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 amounted to \$353 million (six months ended 30 September 2005: \$359 million) and the amounts due to the Government as at 30 September 2006 with respect to the above services amounted to \$nil (31 March 2006: \$8 million).
- (b) In addition, the Authority has also entered into agreements with the Government under which the Government provides electrical and mechanical maintenance services at the airport. The amounts incurred for these services for the six months amounted to \$89 million (six months ended 30 September 2005: \$67 million). As at 30 September 2006, the amount due to the Government with respect to the above services amounted to \$24 million (31 March 2006: \$49 million).
- (c) The Authority has entered into an agreement with AVSECO, a subsidiary in which the Government is the other shareholder, for the provision of airport related security services to the Authority on a cost reimbursement basis. The amount incurred by the Authority for these services for the six months amounted to \$164 million (six months ended 30 September 2005: \$168 million). In addition, the Authority licensed certain areas to AVSECO for a total fee of \$5 million (six months ended 30 September 2005: \$4 million) during the half-year.
- (d) Pursuant to a shareholders agreement dated 21 August 2003, the Authority and the Government have formed a company, IEC Holdings Limited, in which the Authority holds an 11.6% equity interest, to participate and co-operate with a third party consortium in the development, funding and operation of the AsiaWorld-Expo exhibition centre. The Authority has sub-leased to IEC Holdings Limited to 2047 the leasehold land on which the exhibition centre has been built.

17. CONTINGENT LIABILITIES

The group is currently under discussion with a contractor regarding claims relating to construction of the SkyPlaza project. Detailed documentation for these claims is not yet available to the Authority. The group has internally assessed and provided for the likely amount that is required for the settlement of these claims that have arisen due to time delays, additional costs and other unforeseen circumstances. The claims provision is estimated based on an assessment of the group's likely liability by in-house professionally qualified personnel, and may differ from the actual claims settlement. The amount of the claims received and the likely liability assessed by the group have not been disclosed as the management is of the view that such information is commercially sensitive and may prejudice the group's position during negotiations.