

Report of the Members of the Board

Financial year ended 31 March 2010

The Members of the Board have pleasure in submitting the annual report of the Airport Authority ("AA") together with the audited financial statements for the year ended 31 March 2010.

Principal Activities

Pursuant to the Airport Authority Ordinance (Cap. 483) ("the Ordinance") and the objective of maintaining Hong Kong's status as a centre of international and regional aviation, the AA is responsible for the provision, operation, development and maintenance of the Hong Kong International Airport ("HKIA") situated at Chek Lap Kok, Lantau, Hong Kong and the provision of facilities, amenities and services at, as regards or in relation to the HKIA. The AA may also engage in airport-related activities in trade, commerce and industry at or from any places in the airport island, and the airport-related activities as permitted by the Airport Authority (Permitted Airport-related Activities) Order (Cap. 483E). The AA is required under the Ordinance to conduct its business according to prudent commercial principles.

The principal activities and other particulars of the AA's subsidiaries are set out in note 12 to the financial statements.

Financial Statements

The profit of the group and the AA for the year ended 31 March 2010 and the state of the group's and the AA's affairs as at that date are set out in the financial statements on pages 66 to 122.

Dividend

The Ordinance provides that the AA may pay dividends on its shares and that the Financial Secretary may, after taking into account the financial position of the AA and its subsidiaries, direct the AA to pay dividends out of the distributable profits of the AA. A dividend of HK\$2,200 million or HK\$7,178.28 per share was declared and paid for the year 2008/09. The Board now recommends the payment of a final dividend of HK\$2,300 million or HK\$7,504.57 per share and a special dividend of HK\$2,200 million or HK\$7,178.28 per share for the year ended 31 March 2010.

Transfer to Reserves

The group's profit attributable to equity shareholder of HK\$2,844 million (2008/09: HK\$2,588 million) has been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

Fixed Assets

Movements in fixed assets during the year are set out in note 10 to the financial statements.

Capitalised Interest

Interest amounting to HK\$59 million (2008/09: HK\$59 million) was capitalised by the group during the year as set out in note 8 to the financial statements.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the group and the AA as at 31 March 2010 are set out in note 19 to the financial statements.

Financial Summary

A summary of the financial results and the assets and liabilities of the group for the last five financial years is set out on page 123 of the annual report.

Share Capital

Under the terms of the Ordinance, the AA may only issue shares to the Government of the Hong Kong Special Administrative Region of the People's Republic of China ("the Hong Kong SAR Government") on behalf of which all shares are held by the Financial Secretary Incorporated. No shares were issued or cancelled during the year ended 31 March 2010.

Donations

Donations made during the year amounted to HK\$820,000 (2008/09: HK\$1,288,000) which were funded partly from the sales of "lost & found" items at the airport.

Major Customers and Suppliers

The information in respect of the group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the group's total	
	Sales	Purchases
The largest customer	25%	
Top five customers	48%	
The largest supplier		45%
Top five suppliers		54%

The largest supplier is the Hong Kong SAR Government which is the sole shareholder of the AA.

Purchases are exclusive of supplies of capital nature.

Going Concern

The financial statements on pages 66 to 122 have been prepared on a going concern basis. The Board has approved the AA's budget for 2010/11 and the business plan and financial plan for 2010/11 to 2014/15 and is satisfied that the AA has sufficient resources to continue as a going concern for the foreseeable future.

Retirement Schemes

Details with regard to the AA's retirement schemes are set out in note 15 to the financial statements. The administration of the retirement schemes and the AA's contributions thereto are reviewed periodically with reference to reports of the investment manager of the schemes and independent actuaries.

Corporate Governance

Principal corporate governance practices adopted by the AA are set out in the Corporate Governance section on pages 18 to 25 of the annual report.

Employees

As of 31 March 2010, the AA, excluding its subsidiaries, had a staff force of 1,088 (31 March 2009: 1,116). The AA has developed human resources policies to ensure that the pay level of its employees are competitive and that employees are rewarded according to their performance within the framework of the AA's salary and performance awards system. To further strengthen the underlying principle of pay-for-performance, a Variable Compensation Scheme was introduced in April 2002. The Scheme was finetuned in 2008.



Members of the Board and Executive Directors

Members of the Board and Executive Directors at the date of this report are set out on pages 14 to 16 of the annual report.

The Hon Chan Kam-lam, the Hon Albert Ho Chun-yan, Dr Allan Wong Chi-yun were appointed to the Board on 1 January 2010 for a term of three years. Dr Lo Ka-shui was re-appointed to the Board for a term of one year from 1 June 2010 to 31 May 2011. Ms Anita Fung will join the Board on 1 June 2010. Her term of appointment is three years. Mr He Guangbei, who has been a member of the Board since 27 June 2003, retired on 31 May 2010.

Mr Raymond W C Lai, Executive Director, Finance and Investment, retired on 31 May 2010. Mr William Lo has been appointed as Executive Director, Finance with effect from 9 July 2010. Mr Wilson Fung has been appointed as Executive Director, Corporate Development. Mr Fung will join the AA in the third quarter of 2010.

Interest of Members of the Board and Executive Directors in Contracts

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

Related Party Transactions

Details of material related party transactions entered into or were ongoing during the year are set out in note 25 to the financial statements.

Members' Responsibilities for the Financial Statements

The Members of the Board are responsible for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the group and of the results and cash flows for the period. In preparing the financial statements for the year ended 31 March 2010, the Members of the Board have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the financial statements on a going-concern basis. The Members of the Board are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group.

Auditors

In accordance with Section 32 of the Ordinance, the Chief Executive of the HKSAR approved the appointment of KPMG as auditors and they remain in office.

By order of the Board

H Y Shu

Secretary to the Board

Hong Kong, 31 May 2010

