Income Statement

For the year ended 31 March 2010 (Expressed in Hong Kong dollars)

		The group		The Authority	
$ million	**Note**	**2010**	2009	**2010**	2009
Airport charges		**2,671**	3,048	**2,652**	3,026
Security charges		**758**	765	**758**	765
Aviation security services		**149**	135	**–**	–
Airside support services franchises		**1,432**	1,374	**1,383**	1,334
Retail licences and advertising revenue		**2,918**	2,587	**2,912**	2,582
Other terminal commercial revenue		**830**	738	**839**	744
Real estate revenue		**182**	170	**190**	179
Other income		**75**	69	**59**	98
Turnover		**9,015**	8,886	**8,793**	8,728
Staff costs and related expenses	7	**(1,158)**	(1,149)	**(629)**	(643)
Repairs and maintenance	25(b)	**(442)**	(414)	**(435)**	(408)
Operational contracted services		**(340)**	(332)	**(737)**	(715)
Government services	25(a)	**(735)**	(722)	**(734)**	(722)
Government rent and rates		**(154)**	(128)	**(151)**	(128)
Occupancy expenses		**(195)**	(192)	**(184)**	(181)
Other operating expenses		**(378)**	(560)	**(332)**	(514)
Operating Expenses before Depreciation and Amortisation		**(3,402)**	(3,497)	**(3,202)**	(3,311)
Operating Profit before Depreciation and Amortisation		**5,613**	5,389	**5,591**	5,417
Depreciation and amortisation		**(2,191)**	(2,234)	**(2,157)**	(2,201)
Operating Profit before Interest and Finance Costs	5	**3,422**	3,155	**3,434**	3,216
Interest and finance costs:					
Finance costs	8	**(196)**	(252)	**(193)**	(249)
Interest income		**18**	19	**16**	15
		(178)	(233)	**(177)**	(234)
Share of profits less losses of jointly controlled entities	13	**177**	193	**–**	–
Profit before Taxation		**3,421**	3,115	**3,257**	2,982
Income tax	9(a)	**(580)**	(532)	**(578)**	(530)
Profit for the Year		**2,841**	2,583	**2,679**	2,452
Attributable to:					
Equity shareholder of the Authority		**2,844**	2,588	**2,679**	2,452
Minority interests		**(3)**	(5)	**–**	–
Profit for the Year		**2,841**	2,583	**2,679**	2,452

The notes on pages 73 to 122 form part of these financial statements. Details of dividend payable to equity shareholder of the Authority attributable to the profit for the year are set out in note 22(b).

Statement of Comprehensive Income

For the year ended 31 March 2010 (Expressed in Hong Kong dollars)

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Profit for the Year	**2,841**	2,583	**2,679**	2,452
Other Comprehensive Income for the Year				
Exchange difference on translation of financial statements of:				
– a subsidiary in the People's Republic of China ("PRC")	**1**	10	**–**	–
– jointly controlled entities in the PRC	**8**	51	**–**	–
	9	61	**–**	–
Cash flow hedge: effective portion of changes in fair value	**11**	32	**11**	32
Less: Deferred tax	**2**	2	**2**	2
	13	34	**13**	34
Cash flow hedge: transfer from equity to profit or loss	**(10)**	(31)	**(10)**	(31)
Less: Deferred tax	**(2)**	(2)	**(2)**	(2)
	(12)	(33)	**(12)**	(33)
	10	62	**1**	1
Total Comprehensive Income for the Year	**2,851**	2,645	**2,680**	2,453
Attributable to:				
Equity shareholder of the Authority	**2,854**	2,646	**2,680**	2,453
Minority interests	**(3)**	(1)	**–**	–
Total Comprehensive Income for the Year	**2,851**	2,645	**2,680**	2,453

The notes on pages 73 to 122 form part of these financial statements.

Balance Sheet

At 31 March 2010 (Expressed in Hong Kong dollars)

		The group		The Authority	
$ million	**Note**	**2010**	2009	**2010**	2009
Non-current Assets					
Fixed assets					
– Investment properties	10	**268**	279	**349**	364
– Interest in leasehold land	10	**8,638**	9,032	**8,638**	9,032
– Other property, plant and equipment	10	**37,173**	37,817	**37,020**	37,652
		46,079	47,128	**46,007**	47,048
Intangible asset	11	**259**	273	**–**	–
Investments in subsidiaries	12	**–**	–	**5**	5
Interests in jointly controlled entities	13	**2,808**	2,606	**1,994**	1,977
Other investments	14	**136**	191	**136**	191
Net defined benefit retirement plan asset	15	**73**	63	**73**	63
Derivative financial assets	16(e)	**76**	95	**76**	95
		49,431	50,356	**48,291**	49,379
Current Assets					
Stores and spares		**48**	51	**46**	50
Trade and other receivables	17	**1,180**	1,010	**1,339**	1,170
Derivative financial assets	16(e)	**53**	37	**53**	37
Cash and bank balances	18	**658**	410	**470**	230
		1,939	1,508	**1,908**	1,487
Current Liabilities					
Interest-bearing borrowings	19	**(2,480)**	(1,453)	**(2,480)**	(1,453)
Trade and other payables	20	**(1,534)**	(1,970)	**(1,438)**	(1,876)
Deferred income	21	**(121)**	(113)	**(121)**	(113)
Derivative financial liabilities	16(e)	**(3)**	(5)	**(3)**	(5)
		(4,138)	(3,541)	**(4,042)**	(3,447)
Net Current Liabilities		**(2,199)**	(2,033)	**(2,134)**	(1,960)
Total Assets Less Current Liabilities		**47,232**	48,323	**46,157**	47,419
Non-current Liabilities					
Interest-bearing borrowings	19	**(5,713)**	(7,924)	**(5,713)**	(7,924)
Trade and other payables	20	**(257)**	(237)	**(228)**	(208)
Deferred income	21	**(1,422)**	(1,544)	**(1,422)**	(1,544)
Derivative financial liabilities	16(e)	**(5)**	(12)	**(5)**	(12)
Deferred tax liabilities	9(d)	**(3,146)**	(2,568)	**(3,146)**	(2,568)
		(10,543)	(12,285)	**(10,514)**	(12,256)
Net Assets		**36,689**	36,038	**35,643**	35,163
Capital and Reserves	22				
Share capital		**30,648**	30,648	**30,648**	30,648
Reserves		**5,839**	5,185	**4,995**	4,515
Total equity attributable to equity shareholder of the Authority		**36,487**	35,833	**35,643**	35,163
Minority interests		**202**	205	**–**	–
Total Equity		**36,689**	36,038	**35,643**	35,163

Approved and authorised for issue on behalf of the Members of the Board on 31 May 2010.

Dr the Hon Marvin Cheung Kin-tung
Chairman

Mr Stanley Hui Hon-chung
Chief Executive Officer

Mr Raymond W C Lai
Executive Director, Finance and Investment

The notes on pages 73 to 122 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2010 (Expressed in Hong Kong dollars)

		Attributable to Equity Shareholder of the Authority							
$ million	Note	Share capital	Exchange reserve	Capital reserve	Hedging reserve	Retained profits	Total	Minority interests	Total equity
At 1 April 2008		30,648	274	41	(5)	4,229	35,187	206	35,393
Changes in equity for the year:									
Dividend approved in respect of the previous year	22(b)	–	–	–	–	(2,000)	(2,000)	–	(2,000)
Transfer from retained profits to capital reserve	22(d)(ii)	–	–	109	–	(109)	–	–	–
Total comprehensive income for the year		–	57	–	1	2,588	2,646	(1)	2,645
At 31 March 2009 and 1 April 2009		**30,648**	**331**	**150**	**(4)**	**4,708**	**35,833**	**205**	**36,038**
Changes in equity for the year:									
Dividend approved in respect of the previous year	22(b)	**–**	**–**	**–**	**–**	**(2,200)**	**(2,200)**	**–**	**(2,200)**
Transfer from retained profits to capital reserve	22(d)(ii)	**–**	**–**	**83**	**–**	**(83)**	**–**	**–**	**–**
Total comprehensive income for the year		**–**	**9**	**–**	**1**	**2,844**	**2,854**	**(3)**	**2,851**
At 31 March 2010		**30,648**	**340**	**233**	**(3)**	**5,269**	**36,487**	**202**	**36,689**

The notes on pages 73 to 122 form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 March 2010 (Expressed in Hong Kong dollars)

$ million	Note	Share capital	Hedging reserve	Retained profits	Total
At 1 April 2008		30,648	(5)	4,067	34,710
Changes in equity for the year:					
Dividend approved in respect of the previous year	22(b)	–	–	(2,000)	(2,000)
Total comprehensive income for the year		–	1	2,452	2,453
At 31 March 2009 and 1 April 2009		**30,648**	**(4)**	**4,519**	**35,163**
Changes in equity for the year:					
Dividend approved in respect of the previous year	22(b)	**–**	**–**	**(2,200)**	**(2,200)**
Total comprehensive income for the year		**–**	**1**	**2,679**	**2,680**
At 31 March 2010		**30,648**	**(3)**	**4,998**	**35,643**

The notes on pages 73 to 122 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2010 (Expressed in Hong Kong dollars)

$ million	Note	2010	2009
Operating Activities			
Profit before taxation		**3,421**	3,115
Adjustments for:			
Depreciation		**1,943**	1,986
Amortisation of interest in leasehold land		**232**	232
Amortisation of intangible asset		**16**	16
Interest on notes and bank loans		**243**	300
Other borrowing costs and interest expense		**19**	17
Interest income		**(18)**	(19)
Cash flow hedges:			
– net gain on forward foreign exchange contracts, reclassified from equity		**(23)**	(36)
– net loss on interest rate swaps, reclassified from equity		**13**	5
Fair value hedges:			
– net gain on fair value hedging instruments (interest rate swaps)		**(42)**	(99)
– net (gain)/loss on underlying hedged interest-bearing borrowings		**(19)**	76
Share of profits less losses of jointly controlled entities		**(177)**	(193)
Impairment loss on trade and other receivables		**4**	38
Impairment loss on other investments		**55**	70
Net loss on disposal of other property, plant and equipment		**9**	19
Loss in respect of the early termination of a lease arrangement		**–**	5
Net foreign exchange loss/(gain)		**5**	(11)
Amortisation of deferred income		**(114)**	(109)
Expenses recognised in respect of defined benefit retirement plan		**37**	36
Operating Profit before Changes in Working Capital		**5,604**	5,448
Decrease in stores and spares		**3**	10
(Increase)/decrease in trade and other receivables		**(168)**	115
Increase in trade and other payables		**41**	138
Cash Generated from Operations		**5,480**	5,711
Hong Kong Profits tax paid		**(3)**	–
Net Cash Generated from Operating Activities		**5,477**	5,711
Investing Activities			
Receipts on maturity/(placement) of term deposits		**40**	(67)
Interest received		**18**	19
Payment for the purchase of other property, plant and equipment		**(1,572)**	(2,050)
Payment for the purchase of interest in leasehold land		**–**	(162)
Receipts from disposal of other property, plant and equipment		**3**	2
Payment of annual franchise fee for a PRC subsidiary		**(3)**	(3)
Payment to acquire interest in a jointly controlled entity		**(17)**	–
Net Cash Used in Investing Activities		**(1,531)**	(2,261)

Consolidated Cash Flow Statement (continued)

For the year ended 31 March 2010 (Expressed in Hong Kong dollars)

$ million	**Note**	**2010**	2009
Financing Activities			
Interest paid on notes and bank loans		**(314)**	(358)
Other borrowing costs and interest expenses paid		**(25)**	(19)
Receipts from new bank loans		**80**	200
Repayment of bank loans		**(1,500)**	(2,020)
Receipts from issue of notes		**900**	800
Repayment of notes		**(653)**	–
Net interest income received on interest rate swaps		**54**	19
Net payment in respect of the early termination of a lease arrangement		**–**	(64)
Dividend paid		**(2,200)**	(2,000)
Net Cash Used in Financing Activities		**(3,658)**	(3,442)
Net Increase in Cash and Cash Equivalents		**288**	8
Cash and Cash Equivalents at Beginning of Year		**343**	331
Effect of foreign exchange rate changes		**–**	4
Cash and Cash Equivalents at End of Year	18	**631**	343

The notes on pages 73 to 122 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. Establishment of the Authority

The Airport Authority ("the Authority") is a statutory corporation wholly owned by the Hong Kong SAR Government ("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.

2. Principal Activities of the Authority

The Authority's principal activities are the management, operation, planning and development of the Hong Kong International Airport ("HKIA") at Chek Lap Kok. It also engages in airport-related commercial and industrial activities at the above airport.

The Authority's principal subsidiaries and their principal activities are set out in note 12.

3. Summary of Significant Accounting Policies

(a) Statement of compliance

These 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 disclosure requirements of the Hong Kong Companies Ordinance. These 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 on 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 Authority and its subsidiaries (together referred to as the "group") is set out below.

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 3(c) provides information on any changes in accounting policies and note 3(d) to (y) summarises the accounting policies of the group after the adoption of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements. The adoption of these amendments does not have a significant impact on the group's results of operations and financial position for the financial years 2009 and 2010.

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 financial statements

The group's financial statements include the financial statements of the group as well as the group's interests in jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain derivative financial instruments which are stated at their fair values as explained in the accounting policies set out below (notes 3(h) and (p) respectively).

The preparation of 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.

3. Summary of Significant Accounting Policies (continued)

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

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 financial statements and major sources of estimation uncertainty are discussed in note 27.

(c) Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the group and the Authority. Of these, the following developments are relevant to the group's financial statements:

- HKFRS 8, "*Operating segments*"
- HKAS 23 (revised 2007), "*Borrowing costs*"
- HKAS 1 (revised 2007), "*Presentation of financial statements*"
- Amendments to HKAS 27, "*Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate*"
- Amendments to HKFRS 7, "*Financial instruments: Disclosures – improving disclosures about financial instruments*"
- Improvements to HKFRSs (2008)

The group early adopted the provisions of HKFRS 8 which is effective for annual periods beginning on or after 1 April 2009 in the 2008/09 annual financial statements of the group. Management considers there to be only one operating segment under the requirements of HKFRS 8. The amendment to HKAS 23 has no material impact on the group's financial statements as the amendment is consistent with policy already adopted by the group. The impact of the remainder of these developments on the group's financial statements is as follows:

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with the equity shareholder in its capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in these financial statements and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The amendments to HKAS 27 have removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 April 2009, all dividends receivable from subsidiaries and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognised in the Authority's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising dividend income in profit or loss, the Authority would recognise an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated. This change in requirement has no impact on reported profit or loss, total income and expense or net assets for the current year.

3. Summary of Significant Accounting Policies (continued)

(c) Changes in accounting policies (continued)

- As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in note 16(e) about the fair value measurement of the group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

- The "*Improvements to HKFRSs (2008)*" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following amendment has resulted in changes to the group's accounting policies:

  As a result of amendments to HKAS 28, "*Investments in associates*", impairment losses recognised in respect of the associates and jointly controlled entities carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider such losses to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

(d) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 and transactions 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.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Authority, whether directly or indirectly through subsidiaries, 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. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholder of the Authority. Minority interests in the results of the group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between minority interests and the equity shareholder of the Authority.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. All subsequent profits of the subsidiary are allocated to the group until the minority's share of losses previously absorbed by the group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with note 3(p) or (q) depending on the nature of the liability.

In the Authority's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (note 3(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

3. Summary of Significant Accounting Policies (continued)

(e) Jointly controlled entities

A jointly controlled entity is an entity which operates under a contractual arrangement between the group or the Authority and other parties, where the contractual arrangement establishes that the group or the Authority and one or more of the other parties share joint control over the economic activity of the entity.

An investment in a jointly controlled entity is accounted for in the group's 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 and adjusted thereafter for the post acquisition change in the group's share of the jointly controlled entity's net assets and any impairment loss relating to the investment (notes 3(f) and (m)). The group's share of the post-acquisition, post-tax results of the jointly controlled entity and any impairment losses for the year are recognised in the consolidated income statement, whereas the group's share of the post-acquisition post-tax items of the jointly controlled entity's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the group's share of losses exceeds its interest in the jointly controlled entity, 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 jointly controlled entity. For this purpose, the group's interest is the carrying amount of the investment under the equity method together with the group's long-term interest that in substance form part of the group's net investment in the jointly controlled entity.

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

In the Authority's balance sheet, its investments in jointly controlled entities are stated at cost less impairment losses (note 3(m)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(f) Goodwill

Goodwill represents the excess of the cost of an investment in a jointly controlled entity over the group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. In respect of investment in jointly controlled entity, the carrying amount of goodwill is included in the carrying amount of the interest in the joint controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (note 3(m)).

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 jointly controlled entity is recognised immediately in profit or loss.

On disposal of a jointly controlled entity during the year, any attributable amount of goodwill is included in the calculation of the profit or loss on disposal.

(g) Other investments

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are classified as other investments and recognised in the balance sheet at cost (which includes the transaction price and attributable transaction costs) less impairment losses at each balance sheet date.

Impairment losses are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

3. Summary of Significant Accounting Policies (continued)

(h) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting (note 3(i)).

(i) 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. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts accumulated in equity are reclassified from equity to profit or loss in the periods when the hedged forecast item affects profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (such as when interest income or expense is recognised).

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 the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transactions occurs and it is recognised in accordance with the above policy. If the hedged forecast transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to profit or loss immediately.

(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.

(j) Fixed assets

(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 under fixed assets. Interest in leasehold land is stated in the balance sheet at cost less accumulated amortisation and impairment losses (note 3(m)).

3. Summary of Significant Accounting Policies (continued)

(j) Fixed assets (continued)

(ii) Investment property

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

Investment properties are stated in the balance sheet at cost net of accumulated depreciation and impairment losses (note 3(m)). Investment properties are depreciated over their estimated useful lives or unexpired term of the lease, whichever is shorter. Rental income from investment properties is accounted for as described in note 3(vi).

(iii) The following items of other property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (note 3(m)):

- buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (note 3(j)(vii)); and
- other items of plant and equipment.

(iv) Repairs and maintenance expenditure in respect of fixed assets is charged to profit or loss as and when incurred.

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

(vi) Construction in progress

Assets under construction and capital works are stated at cost. Costs comprise direct costs of construction, such as materials, direct staff costs, an appropriate proportion of production overheads, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and net borrowing costs (note 3(p)) capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to fixed assets 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 3(k).

(vii) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

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.

3. Summary of Significant Accounting Policies (continued)

(j) Fixed assets (continued)

(vii) Leased assets (continued)

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

When the group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and are depreciated in accordance with the group's depreciation policies set out in note 3(k) below. Revenue arising from operating leases is recognised in accordance with the group's revenue recognition policies set out in note 3(vi) 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.

(k) Depreciation

Depreciation is calculated to write off the cost of items of fixed assets 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	15 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	7 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 to unexpired term of lease
Utility supply equipment	5 to 25 years
Systems, installations, plant and equipment	3 to 30 years
Furniture, fixtures and equipment	3 to 15 years
Investment properties:	
Building structure	Unexpired term of lease
Building services and fit-outs	7 to 25 years
Furniture, fixtures and equipment	5 to 15 years

Where parts of an item of 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.

3. Summary of Significant Accounting Policies (continued)

(l) Intangible assets (other than goodwill)

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 finite) and impairment losses (note 3(m)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

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

Both the period and method of amortisation are reviewed annually.

(m) Impairment of assets

(i) Internal and external sources of information are reviewed at each balance sheet date 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 properties;
- other property, plant and equipment;
- intangible assets; and
- investments in subsidiaries and jointly controlled entities.

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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

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**

To comply with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the group prepares an interim financial report in compliance with HKAS 34, "*Interim financial reporting*", in respect of the first six months of the financial year. 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. Impairment losses recognised in an interim period in respect of unquoted equity securities carried at cost are not reversed in a subsequent period.

3. Summary of Significant Accounting Policies (continued)

(n) Stores and spares

Stores and spares are carried at the lower of cost and net realisable value. Stores and spares are stated at cost and comprise 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. When stores and spares are consumed, the carrying amount of these stores and spares is recognised as an expense in the year in which the consumption occurs. 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 the profit or loss.

(o) Trade and other receivables

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

Impairment losses for bad and doubtful debts are recognised when there is objective evidence of impairment and are measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the asset's original effective interest rate where the effect of discounting is material. Objective evidence of impairment includes observable data that comes to the attention of the group about events that have an impact on the asset's estimated future cash flows such as significant financial difficulty of the debtor.

Impairment losses for trade debtors included within trade and other receivables whose recovery is considered doubtful but not remote are recorded using an allowance account. When the group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(p) 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.

(q) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

3. Summary of Significant Accounting Policies (continued)

(r) 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. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(s) 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 Hong Kong Mandatory Provident Fund Schemes 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 defined benefit retirement cost and the present value of defined benefit obligations in respect of the group's defined benefit retirement plan is calculated annually by the plan's actuary using the projected unit credit method.

The net charge to profit or loss mainly comprises the current service cost, plus the unwinding of the discount on the present value of the plan liabilities less the expected return on plan assets, and is presented in staff costs and related expenses.

The amount recognised in the balance sheet represents the group's net exposure to the plan. It is calculated as the present value of defined benefit obligations less the fair value of the plan assets adjusted to exclude any cumulative unrecognised actuarial gains and losses. Where the fair value of the plan assets exceeds the present value of the defined benefit obligations, the asset recognised by the group is limited to the total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The present value of the defined benefit obligations and the cumulative unrecognised actuarial gains and losses are computed as follows:

The group's present value of defined benefit obligations is determined by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods allowing for future salary increases until the date of termination of employment and that benefit is discounted to determine the present value of the obligation. The discount rate is the yield at the balance sheet date 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 in government bonds is used.

When the benefits of a plan are improved, the portion of the increased benefits relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

3. Summary of Significant Accounting Policies (continued)

(s) Employee benefits (continued)

(ii) Defined benefit retirement plan obligations (continued)

Actuarial gains and losses comprise experience adjustments (i.e. the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. Actuarial gains or losses are generally not recognised if they are at or below a threshold amount. This threshold is set at ten percent of the greater of (i) the present value of the defined benefit obligations and (ii) the fair value of plan assets. To the extent that the net cumulative actuarial gains or losses exceed that threshold calculated at the end of the previous reporting period, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan.

(t) 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 balance sheet date, 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 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.

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 balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date 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.

3. Summary of Significant Accounting Policies (continued)

(t) Income tax (continued)

(iii) 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 group or the Authority 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.

(u) Provisions and contingent liabilities

(i) Contingent liabilities acquired in business combinations

Contingent liabilities acquired as part of a business combination are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 3(u)(ii). Contingent liabilities acquired in a business combination that cannot be reliably fair valued are disclosed in accordance with note 3(u)(ii).

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the group or the Authority 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.

(v) Revenue recognition

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

(i) Airport charges, representing landing charges, parking charges and terminal building charges, are recognised when the airport facilities are utilised.

(ii) Security charges in respect of aviation security services to passengers are recognised when the airport facilities are utilised.

(iii) Aviation security services revenue from the provision of security services to airlines, franchisees and licensees is recognised when the services are rendered.

3. Summary of Significant Accounting Policies (continued)

(v) Revenue recognition (continued)

(iv) Franchise revenue from awarded airside support services, retail revenue from awarded retail licences, advertising revenue from awarded advertising license, 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 accrual basis in accordance with the related agreements.

(v) The consideration received in respect of the sale of a portion of the income from the aviation fuel system is accounted for as income over the period to which the future income relates and on the basis of the estimated future quantum of income for each period after allowing for the implicit financing cost therein. The amount received not recognised as income is included in the balance sheet 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.

(w) 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 denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss, except those arising from foreign currency borrowings used to hedge a net investment in a foreign operation which are recognised in other comprehensive income.

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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

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. Balance sheet items, including goodwill arising on consolidation of foreign operations, are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. 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.

3. Summary of Significant Accounting Policies (continued)

(x) Related parties

For the purposes of these financial statements, a party is considered to be related to the group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the group or exercise significant influence over the group in making financial and operating decisions, or has joint control over the group;

(ii) the group and the party are subject to common control;

(iii) the party is an associate of the group or a joint venture in which the group is a venturer;

(iv) the party is a member of key management personnel of the group or the group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the group or of any entity that is a related party of the group.

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

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the 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.

4. 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 more 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 and believes that this presentation provides more relevant information.

Reconciliation of segmental information to the information presented in the 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 group's revenue and expenses and assets and liabilities is similar to that reported in these financial statements.

Revenues from major services

The group's revenues from its major services are set out in the consolidated income statement.

4. Segmental Information (continued)

Geographical Information

No geographical information is shown as the turnover and operating profit of the group is substantially derived from activities in Hong Kong, other than its interests in jointly controlled entities in the PRC, details of which are disclosed under note 13 to the financial statements.

Information about major customers

The group's customer base is diversified and includes only one customer with whom transactions have exceeded 10% of the group's revenues.

Included in the turnover of $9,015 million for the year (2009: $8,886 million) are revenues of approximately $2,117 million (2009: $2,282 million) which arose from this customer. This includes only revenues arising from those entities which are known to the group to be under common control of this customer. Details of concentrations of credit risk arising from this customer are set out in note 16(a).

5. Operating Profit before Interest and Finance Costs

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

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Auditors' remuneration:				
– audit services	**4**	4	**3**	3
– tax services	**–**	1	**–**	1
– other services	**–**	1	**–**	1
Stores and spares expensed	**70**	87	**69**	86
Net loss on disposal of other property, plant and equipment	**9**	19	**9**	19
Impairment losses on:				
– trade and other receivables (note 17(b))	**4**	38	**3**	37
– other investments (note 14)	**55**	70	**55**	70
Depreciation:				
– assets held for use under operating leases	**109**	135	**112**	138
– other assets	**1,834**	1,851	**1,813**	1,831
Amortisation:				
– interest in leasehold land	**232**	232	**232**	232
– intangible asset	**16**	16	**–**	–
Operating lease charges: minimum lease payments				
– hire of plant and machinery	**4**	4	**4**	4
– hire of other assets (including property rentals)	**7**	6	**2**	1
Rentals from investment properties less direct outgoings of $8 million (2009: $12 million) for both the group and the Authority	**(45)**	(41)	**(54)**	(50)
Dividends received from a jointly controlled entity	**–**	–	**–**	(41)

6. Remuneration of the Members of the Board and Executive Directors and Individuals with the Highest Emoluments

(a) Remuneration of the Members of the Board and Executive Directors

Members of the Board, the Chief Executive Officer and Executive Directors are considered as key management personnel of the Authority. There are three components of remuneration 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 scheme contributions accrued.

The emoluments of the Members of the Board and Executive Directors of the Authority are as follows:

2010 *$'000*	**Board Member's fee**	**Basic compensation**	**Performance-related compensation**	**Retirement benefits**	**Total**
Members of the Board					
Non-executive members					
Marvin Cheung Kin-tung	220	–	–	–	220
He Guangbei	110	–	–	–	110
Vincent Fang Kang	110	–	–	–	110
Edmund Leung Kwong-ho	110	–	–	–	110
Andrew Liao Cheung-sing	110	–	–	–	110
Lo Ka-shui	110	–	–	–	110
Wilfred Wong Ying-wai	110	–	–	–	110
Raymond Ho Chung-tai	110	–	–	–	110
Benjamin Hung Pi-cheng	110	–	–	–	110
Chan Kam-lam (appointed in January 2010)	28	–	–	–	28
Albert Ho Chun-yan (appointed in January 2010)	28	–	–	–	28
Allan Wong Chi-yun (appointed in January 2010)	28	–	–	–	28
Director-General of Civil Aviation[1]	110	–	–	–	110
Secretary for Financial Services and the Treasury[1]	110	–	–	–	110
Secretary for Transport and Housing[1]	110	–	–	–	110
Executive member					
Stanley Hui Hon-chung (Chief Executive Officer)	–	4,033	2,000	492	6,525
Executive Directors					
Howard Eng Kiu-chor	–	3,073	1,350	586	5,009
Raymond W C Lai	–	3,063	1,350	586	4,999
	1,514	10,169	4,700	1,664	18,047

[1] 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.

6. Remuneration of the Members of the Board and Executive Directors and Individuals with the Highest Emoluments (continued)

(a) Remuneration of the Members of the Board and Executive Directors (continued)

2009 *$'000*	Board Member's fee	Basic compensation	Performance-related compensation	Retirement benefits	Total
Members of the Board					
Non-executive members					
Victor Fung Kwok-king (term of office completed on 31 May 2008)[1]	–	–	–	–	–
Marvin Cheung Kin-tung[2]	201	–	–	–	201
He Guangbei	110	–	–	–	110
Vincent Fang Kang	110	–	–	–	110
Edmund Leung Kwong-ho	110	–	–	–	110
Andrew Liao Cheung-sing	110	–	–	–	110
Lo Ka-shui	110	–	–	–	110
Wilfred Wong Ying-wai	110	–	–	–	110
Jasper Tsang Yok-sing (resigned in October 2008)	57	–	–	–	57
Raymond Ho Chung-tai (appointed in June 2008)	92	–	–	–	92
Benjamin Hung Pi-cheng (appointed in June 2008)	92	–	–	–	92
Director-General of Civil Aviation[3]	110	–	–	–	110
Secretary for Financial Services and the Treasury[3]	110	–	–	–	110
Secretary for Transport and Housing[3]	110	–	–	–	110
Executive member					
Stanley Hui Hon-chung (Chief Executive Officer)	–	4,039	1,650	492	6,181
Executive Directors					
Howard Eng Kiu-chor	–	3,161	987	263	4,411
Raymond W C Lai	–	3,061	868	263	4,192
	1,432	10,261	3,505	1,018	16,216

1 Victor Fung Kwok-king elected to waive any fee payable to him by the Authority.

2 Marvin Cheung Kin-tung was appointed Chairman of the Authority with effect from 1 June 2008.

3 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.

6. Remuneration of the Members of the Board and Executive Directors and Individuals with the Highest Emoluments (continued)

(b) Individuals with the Highest Emoluments

Of the five individuals with the highest emoluments, three (2009: three) comprise the Chief Executive Officer and two Executive Directors whose emoluments are disclosed under note 6(a). The aggregate of the emoluments in respect of the other two (2009: two) individuals are as follows:

$'000	**2010**	2009
Basic compensation[1]	**7,167**	6,919
Performance-related compensation[2]	**1,126**	1,304
Retirement benefits	**853**	381
	9,146	8,604

The emoluments of the two (2009: two) individuals with the highest emoluments are within the following bands:

	2010	2009
$	**Number of individuals**	Number of individuals
3,000,001 – 3,500,000	**1**	1
5,000,001 – 5,500,000	**–**	1
5,500,001 – 6,000,000	**1**	–
	2	2

[1] The basic compensation includes net payment of PRC Individual Income Tax of $1.7 million (2009: $1.5 million) for one of the individuals on secondment to the PRC according to the terms of the secondment contract. The emoluments for the individual after including PRC Individual Income Tax fall within the $5.5 million to $6.0 million band (2009: the $5.0 million to $5.5 million band).

[2] The performance-related compensation relates to 2008/09 which was paid during the year. The performance-related compensation for 2009/10 was not allocated to the individuals as at the date of the approval of the financial statements and hence is not disclosed.

7. Staff Costs and Related Expenses

	The group		**The Authority**	
$ million	**2010**	2009	**2010**	2009
Contributions to defined contribution retirement plan	**42**	45	**18**	22
Expenses recognised in respect of defined benefit retirement plan (note 15)	**37**	36	**37**	36
Total retirement costs	**79**	81	**55**	58
Salaries, wages and other benefits	**1,079**	1,068	**574**	585
	1,158	1,149	**629**	643

8. Finance Costs

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Interest on bank loans repayable				
– within five years	**21**	105	**21**	105
Interest on notes repayable				
– within five years	**156**	147	**156**	147
– after five years	**50**	49	**50**	49
Other borrowing costs	**8**	13	**8**	13
Other interest expense	**11**	4	**8**	1
Total interest expense on financial liabilities not stated at fair value through profit or loss	**246**	318	**243**	315
Interest on notes stated at fair value through profit or loss repayable				
– within five years	**72**	58	**72**	58
– after five years	**3**	–	**3**	–
Less: Borrowing costs capitalised into assets under construction	**(59)**	(59)	**(59)**	(59)
	262	317	**259**	314
Net foreign exchange loss/(gain)	**5**	(11)	**5**	(11)
Cash flow hedges:				
– net gain on forward foreign exchange contracts, reclassified from equity	**(23)**	(36)	**(23)**	(36)
– net loss on interest rate swaps, reclassified from equity	**13**	5	**13**	5
Fair value hedges:				
– net gain on fair value hedging instruments (interest rate swaps)*	**(42)**	(99)	**(42)**	(99)
– net (gain)/loss on underlying hedged interest-bearing borrowings	**(19)**	76	**(19)**	76
	196	252	**193**	249

* Includes interest received of $59 million (2009: $20 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 2.8% per annum (2009: 3.5%).

9. Taxation

(a) Taxation in the income statement represents:

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Current tax – Hong Kong Profits tax				
– Provision for the year	**3**	1	**–**	–
Current tax – Overseas				
– Provision for the year	**–**	1	**–**	–
– Over-provision in respect of prior years	**(1)**	–	**–**	–
Deferred tax (note 9(d))				
– Origination and reversal of temporary differences	**578**	530	**578**	530
	580	532	**578**	530

No provision for Hong Kong Profits tax has been made in the financial statements in respect of the Authority as the current year's taxable income has been offset against carried forward tax losses. The provision for Hong Kong Profits tax for its Hong Kong subsidiaries for the year ended 31 March 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year.

No provision for PRC Corporate Income Tax has been made in the financial statements in respect of the PRC subsidiaries as there were no estimated assessable profits during the year.

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

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Profit before taxation	**3,421**	3,115	**3,257**	2,982
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	**565**	516	**538**	492
Tax effect of non-deductible expenses	**46**	49	**45**	46
Tax effect of non-taxable income	**(33)**	(36)	**(5)**	(8)
Tax effect of unused tax losses not recognised	**3**	3	**–**	–
Over-provision in respect of prior years	**(1)**	–	**–**	–
Actual tax expense	**580**	532	**578**	530

9. Taxation (continued)

(c) Current taxation in the balance sheets represents:

$ million	The group 2010	2009
Provision for the year (note 9(a))		
– Hong Kong Profits tax	**3**	1
– Overseas Profits tax	**–**	1
Provisional Hong Kong Profits tax paid	**(2)**	–
Tax payable (included in "Trade and other payables")	**1**	2

(d) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities of the group and the Authority recognised in the balance sheet and the movements during the year are as follows:

$ million **Deferred tax arising from:**	The group and the Authority — Depreciation allowances in excess of the related depreciation	Cash flow hedges	Deferred income	Estimated tax losses	Total
At 1 April 2008	3,195	(1)	(267)	(889)	2,038
Charged to profit or loss	77	–	15	438	530
At 31 March 2009	3,272	(1)	(252)	(451)	2,568
At 1 April 2009	**3,272**	**(1)**	**(252)**	**(451)**	**2,568**
Charged to profit or loss	**145**	**–**	**19**	**414**	**578**
At 31 March 2010	**3,417**	**(1)**	**(233)**	**(37)**	**3,146**

(e) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 3(t), the group has not recognised deferred tax assets in respect of a subsidiary's cumulative tax losses of RMB59 million ($68 million) (2009: RMB49 million ($55 million)) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses for the subsidiary in the PRC will expire within five years under the current PRC Corporate Income Tax legislation.

10. Fixed Assets

(a) The group

	Other property, plant and equipment									
$ million	Airfields	Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Construction in progress	Sub-total	Investment properties	Interest in leasehold land	Total
Cost										
At 1 April 2008	7,663	22,045	12,916	8,332	1,441	1,746	54,143	302	11,360	65,805
Additions/cost adjustments*	66	473	54	83	94	1,204	1,974	–	162	2,136
Reclassifications	210	–	–	–	–	(210)	–	–	–	–
Disposals	(73)	(256)	(10)	(689)	(42)	–	(1,070)	–	–	(1,070)
At 31 March 2009	7,866	22,262	12,960	7,726	1,493	2,740	55,047	302	11,522	66,871
At 1 April 2009	**7,866**	**22,262**	**12,960**	**7,726**	**1,493**	**2,740**	**55,047**	**302**	**11,522**	**66,871**
Additions/cost adjustments*	**(15)**	**84**	**13**	**118**	**51**	**1,049**	**1,300**	**–**	**–**	**1,300**
Reclassifications	**85**	**592**	**990**	**837**	**92**	**(2,596)**	**–**	**–**	**–**	**–**
Disposals	**(29)**	**(150)**	**(27)**	**(173)**	**(16)**	**–**	**(395)**	**–**	**(162)**	**(557)**
At 31 March 2010	**7,907**	**22,788**	**13,936**	**8,508**	**1,620**	**1,193**	**55,952**	**302**	**11,360**	**67,614**
Accumulated depreciation and amortisation										
At 1 April 2008	1,795	5,575	3,018	4,877	1,039	–	16,304	12	2,258	18,574
Charge for the year	320	747	417	379	112	–	1,975	11	232	2,218
Written back on disposals	(73)	(248)	(6)	(682)	(40)	–	(1,049)	–	–	(1,049)
At 31 March 2009	2,042	6,074	3,429	4,574	1,111	–	17,230	23	2,490	19,743
At 1 April 2009	**2,042**	**6,074**	**3,429**	**4,574**	**1,111**	**–**	**17,230**	**23**	**2,490**	**19,743**
Charge for the year	**301**	**646**	**436**	**411**	**138**	**–**	**1,932**	**11**	**232**	**2,175**
Written back on disposals	**(26)**	**(144)**	**(26)**	**(171)**	**(16)**	**–**	**(383)**	**–**	**–**	**(383)**
At 31 March 2010	**2,317**	**6,576**	**3,839**	**4,814**	**1,233**	**–**	**18,779**	**34**	**2,722**	**21,535**
Net book value										
At 31 March 2010	**5,590**	**16,212**	**10,097**	**3,694**	**387**	**1,193**	**37,173**	**268**	**8,638**	**46,079**
At 31 March 2009	5,824	16,188	9,531	3,152	382	2,740	37,817	279	9,032	47,128

* Cost adjustments relate to certain fixed assets capitalised at time of commissioning based on contractors' claimed values. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

10. Fixed Assets (continued)

(b) The Authority

	Other property, plant and equipment									
$ million	Airfields	Terminal complexes & ground transportation centre	Access, utilities, other buildings & support facilities	Systems, installations, plant & equipment	Furniture, fixtures & equipment	Construction in progress	Sub-total	Investment properties	Interest in leasehold land	Total
Cost										
At 1 April 2008	7,663	22,029	12,774	8,302	1,412	1,746	53,926	413	11,360	65,699
Additions/cost adjustments*	62	467	54	68	89	1,201	1,941	–	162	2,103
Reclassifications	210	–	–	–	–	(210)	–	–	–	–
Disposals	(73)	(256)	(10)	(687)	(41)	–	(1,067)	–	–	(1,067)
At 31 March 2009	7,862	22,240	12,818	7,683	1,460	2,737	54,800	413	11,522	66,735
At 1 April 2009	**7,862**	**22,240**	**12,818**	**7,683**	**1,460**	**2,737**	**54,800**	**413**	**11,522**	**66,735**
Additions/cost adjustments*	**(15)**	**82**	**10**	**112**	**49**	**1,050**	**1,288**	**–**	**–**	**1,288**
Reclassifications	**88**	**589**	**990**	**837**	**92**	**(2,596)**	**–**	**–**	**–**	**–**
Disposals	**(29)**	**(149)**	**(26)**	**(170)**	**(16)**	**–**	**(390)**	**(1)**	**(162)**	**(553)**
At 31 March 2010	**7,906**	**22,762**	**13,792**	**8,462**	**1,585**	**1,191**	**55,698**	**412**	**11,360**	**67,470**
Accumulated depreciation and amortisation										
At 1 April 2008	1,794	5,575	2,986	4,861	1,023	–	16,239	35	2,258	18,532
Charge for the year	320	745	406	376	108	–	1,955	14	232	2,201
Written back on disposals	(73)	(248)	(6)	(680)	(39)	–	(1,046)	–	–	(1,046)
At 31 March 2009	2,041	6,072	3,386	4,557	1,092	–	17,148	49	2,490	19,687
At 1 April 2009	**2,041**	**6,072**	**3,386**	**4,557**	**1,092**	**–**	**17,148**	**49**	**2,490**	**19,687**
Charge for the year	**301**	**644**	**425**	**407**	**134**	**–**	**1,911**	**14**	**232**	**2,157**
Written back on disposals	**(26)**	**(144)**	**(26)**	**(169)**	**(16)**	**–**	**(381)**	**–**	**–**	**(381)**
At 31 March 2010	**2,316**	**6,572**	**3,785**	**4,795**	**1,210**	**–**	**18,678**	**63**	**2,722**	**21,463**
Net book value										
At 31 March 2010	**5,590**	**16,190**	**10,007**	**3,667**	**375**	**1,191**	**37,020**	**349**	**8,638**	**46,007**
At 31 March 2009	5,821	16,168	9,432	3,126	368	2,737	37,652	364	9,032	47,048

* Cost adjustments relate to certain fixed assets capitalised at time of commissioning based on contractors' claimed values. Such assets' final values have been adjusted following finalisation of contract claims with contractors at final contract values during the year.

(c) Under the Private Treaty Land Grant issued by the Government for a 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. The net land formation cost of $11,360 million and the land premium of $2,000 have been classified as interest in leasehold land under fixed assets.

10. Fixed Assets (continued)

(d) The group and the Authority 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 properties. In order to determine the fair value of the group's and the Authority's investment properties, the valuer has considered the assignment restrictions on these investment properties in the valuations. The fair value of the group's and the Authority's restricted investment properties as at 31 March 2010 calculated by reference to net rental income allowing for reversionary income potential amounted to $679 million and $791 million (2009: $553 million and $641 million) respectively.

(e) The Authority has granted sub-leases of its interest in leasehold land for airport related development and the provision of airside support services under franchise agreements for periods ranging from 5 to 49 years. The group and the Authority also leases out part of the terminal complexes and related assets under operating leases for periods generally ranging from two to five years. Where the sub-leases are for substantially the full period of the Land Grant, they are considered to be in the nature of finance leases and accordingly the carrying value of the related interest in leasehold land is derecognised. Under the franchise agreements, the franchisees are granted sub-leases of interest in leasehold land for the periods of the respective franchises. All terms are renegotiated on renewal.

Payments receivable by the Authority under these operating leases and franchise agreements in some instances are adjusted periodically to reflect prevailing market indices and in some cases contain contingent rentals based on passenger flow and turnover of tenants and franchisees.

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

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Within one year	**1,389**	1,213	**1,384**	1,215
After one but within five years	**3,171**	2,824	**3,164**	2,811
After five years	**4,540**	4,303	**4,538**	4,300
	9,100	8,340	**9,086**	8,326

During the year, $4,760 million and $4,770 million (2009: $4,310 million and $4,316 million) for the group and the Authority were recognised as income in profit or loss in respect of the operating leases and franchise agreements. The above income includes contingent rentals of $3,523 million (2009: $3,192 million) for both the group and the Authority.

The cost less accumulated amortisation of the interest in leasehold land for airport related development and the provision of airside support services under franchise agreements sub-leased to third parties under non-cancellable sub-lease agreements for both the group and the Authority as at 31 March 2010 was $525 million (2009: $525 million) and amortisation for the year amounted to $14 million (2009: $14 million).

The cost less accumulated depreciation of the fixed assets leased to third parties under non-cancellable operating leases for the group and the Authority as at 31 March 2010 were $2,827 million and $2,908 million (2009: $2,809 million and $2,894 million) and depreciation for the year amounted to $109 million and $112 million (2009: $135 million and $138 million) respectively.

(f) A review of the useful life of fixed assets is undertaken by the Authority annually. Following a review undertaken during the year, the estimated useful lives of certain fixed assets were revised with effect from 1 April 2009 resulting in a net increase in the Authority's annual depreciation charge of approximately $93 million. A similar review undertaken during the previous year resulted in a net increase in the Authority's annual depreciation charge of approximately $103 million for the previous year.

11. Intangible Asset

	The group	
$ million	**2010**	2009
Cost		
At 1 April	**312**	305
Exchange adjustment	**2**	7
At 31 March	**314**	312
Accumulated amortisation		
At 1 April	**39**	22
Charge for the year	**16**	16
Exchange adjustment	**–**	1
At 31 March	**55**	39
Net book value		
At 31 March	**259**	273

In July 2006, HKIA (China) Limited ("HKIACL"), a wholly-owned subsidiary of the Authority, formed the Hong Kong-Zhuhai Airport Management Co., Ltd. ("HKZAM") with Zhuhai Headway Transportation Investment Co., Ltd. ("ZHTICL"). HKZAM acquired the right to operate and manage Zhuhai Airport ("ZHU") for 20 years ("the intangible asset") by paying an upfront franchise fee of RMB 250 million ($247 million) in addition to an annual franchise fee payable to Zhuhai Airport Group Limited ("ZHGL") for 20 years. Over the first three years of the franchise arrangement, the annual franchise fee was fixed at RMB 3 million ($3 million). Subsequently, it is calculated at the higher of RMB 3 million ($3 million) or a fixed percentage of the annual turnover of HKZAM. The present value of the minimum annual franchise fees payable and the upfront franchise fee is recognised as the cost of the intangible asset, and is being amortised over 20 years on a straight-line basis with effect from 1 October 2006 when HKZAM took over management of ZHU and is included in "Depreciation and amortisation" in the income statement. The cost and accumulated amortisation of the intangible asset are translated into Hong Kong dollars at the closing foreign exchange rate at the balance sheet date, and the amortisation charge for the year at the average foreign exchange rate during the year. The resulting exchange differences are recognised in the exchange reserve.

12. Investments in Subsidiaries

	The Authority	
$ million	**2010**	2009
Unlisted shares, at cost	**5**	5

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the group. The class of shares held is ordinary unless otherwise stated. Details of principal subsidiaries are as follows:

			Proportion of ownership interest			
Name of company	**Place of incorporation and operation**	**Particulars of issued and paid up capital**	**Group's effective interest**	**Held by the Authority**	**Held by a subsidiary**	**Principal activity**
Aviation Security Company Limited ("AVSECO")	Hong Kong	10,000,000 shares of $1 each	51%	51%	–	Provision of aviation security services
HKIA Precious Metals Depository Limited	Hong Kong	2 shares of $1 each	100%	100%	–	Provision of storage space and related services
SkyLink Passenger Services Company Limited ("SkyLink")	Hong Kong	100,000 shares of $1 each	51%	51%	–	Provision of passenger check-in services at various ports of Pearl River Delta
HKIA (China) Limited	Hong Kong	2 shares of $1 each	100%	100%	–	Investment holding company
Hong Kong – Zhuhai Airport Management Co., Ltd.*	PRC	RMB360,000,000	55%	–	55%	Airport management and provision of transportation and ground services relating to aviation

* a sino-foreign equity joint venture

13. Interests in Jointly Controlled Entities

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Unlisted shares, at cost	**–**	–	**1,994**	1,977
Share of net assets	**2,590**	2,389	**–**	–
Goodwill	**218**	217	**–**	–
	2,808	2,606	**1,994**	1,977

Details of the group's interests in the jointly controlled entities are as follows:

Name of joint venture	Form of business structure	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Authority	Principal activity
Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIACL")	Incorporated	PRC	RMB5,686,000,000	35%	35%	Management, operation and development of Hangzhou Xiaoshan International Airport ("HXIA") and provision of related services
Shanghai Hong Kong Airport Management Co., Ltd. ("SHKAMCL")	Incorporated	PRC	RMB30,000,000	49%	49%	Management and operation of the existing and new terminals at Hongqiao International Airport, Shanghai ("HIA")

(a) HXIACL

On 19 September 2006, the Authority signed a joint venture agreement with the original shareholders of HXIACL to jointly operate and manage HXIA at Hangzhou, China. After the completion of the capital injection on 29 November 2006, HXIACL was transformed from a State-owned enterprise to a Sino-foreign equity joint venture with a period of operation of 30 years. Currently, the original shareholders of HXIACL, being Zhejiang Airport Management Company, Hangzhou Investment Holding Co., Ltd. and Hangzhou Xiaoshan State-owned Assets Management Company, jointly hold a 65% equity interest of HXIACL whereas the Authority holds the remaining 35% equity interest.

Summary of financial information of the HXIACL – group's effective interest is as follows:

$ million	**2010**	2009
Non-current assets	**3,560**	1,938
Current assets	**481**	1,928
Non-current liabilities	**(801)**	(766)
Current liabilities	**(667)**	(711)
Net assets	**2,573**	2,389

13. Interests in Jointly Controlled Entities (continued)

(a) HXIACL (continued)

$ million	**2010**	2009
Income	**434**	384
Government subsidies	**81**	106
Expenses	**(326)**	(292)
Profit before taxation	**189**	198
Income tax	**(12)**	(5)
Profit after taxation	**177**	193

As at 31 March 2010, the group's share of net assets of HXIACL includes an amount of $228 million (2009: $147 million) which represents the group's share of pre-/post-acquisition airport construction fee subsidies ("ACF") and other subsidies received from the PRC government, of which $81 million (2009: $106 million) was received during the year. Such ACF and other subsidies are for restricted use and are not distributable.

HXIACL has 31 December as its financial accounting 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 HXIACL's results and net assets based on HXIACL's statutory financial year ending 31 December. Accordingly, in these consolidated financial statements, the results of HXIACL have been accounted for based on its audited financial statements for the year ended 31 December 2009 and adjusted for significant transactions and events that occurred during the period from 1 January 2010 to 31 March 2010 (2009: based on its audited financial statements for the year ended 31 December 2008 and adjusted for significant transactions and events that occurred during the period from 1 January 2009 to 31 March 2009). The financial information of HXIACL accounted for has been adjusted to comply with the Authority's accounting policies.

The outstanding commitments of HXIACL are as follows:

$ million	**2010**	2009
Commitments outstanding for HXIACL in respect of capital expenditure not provided for in the financial statements are as follows:		
Contracted for	**316**	437
Authorised but not contracted for	**7,098**	4,484
	7,414	4,921

It is envisaged that the capital commitments of the jointly controlled entity will be financed independently by the jointly controlled entity and no commitment has been made by the group to contribute further funds by way of equity or loans for this purpose. In August 2008, HXIACL arranged loan facilities of RMB 4,700 million ($5,346 million) for the second phase development of the airport facilities and RMB1,128 million ($1,283 million) has been drawn down from the facilities as at 31 March 2010.

During 2009, HXIACL and a PRC government-owned entity have entered into an agreement, under which HXIACL is entitled to use a piece of land contributed by the PRC government-owned entity amounting to RMB1,200 million ($1,361 million) initially without any consideration but subject to revision in the future for the second phase of the airport development.

13. Interests in Jointly Controlled Entities (continued)

(b) SHKAMCL

On 7 September 2009, the Authority signed a joint venture agreement with Shanghai Airport (Group) Company Limited ("SAGCL") for the establishment of the SHKAMCL, a Sino-foreign equity joint venture. SHKAMCL will manage and operate the existing and new terminals at HIA, under a management contract to be signed for 20 years in return for a management fee to be paid by Shanghai Airport (Group) Co. Ltd. Hongqiao International Airport Company. Pursuant to the joint venture agreement, the Authority and SAGCL will contribute RMB49 million ($55.7 million) and RMB51 million ($58.0 million), in return for a 49% and a 51% equity interest in SHKAMCL respectively. As at 31 March 2010, the Authority and SAGCL have contributed RMB14.7 million ($16.7 million) and RMB15.3 million ($17.4 million) respectively. As at 31 March 2010, the Authority's outstanding commitment in respect of capital contribution to SHKAMCL not provided for in the financial statements amounts to RMB34.3 million ($39.0 million), which is set out in note 23.

Summary of financial information of the SHKAMCL – group's effective interest is as follows:

$ million	**2010**
Current assets	**17**
Net assets	**17**

SHKAMCL has 31 December as its financial accounting 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 SHKAMCL's results and net assets based on SHKAMCL's statutory financial year ending 31 December. SHKAMCL had no significant results of operation since its incorporation and up to 31 December 2009.

14. Other Investments

	The group and the Authority	
$ million	**2010**	2009
Unlisted shares	**261**	261
Less: impairment loss	**(125)**	(70)
	136	191

Other investments represent the Authority's 11.8% (2009: 11.8%) equity interest in IEC Holdings Limited, a company set up by the Authority and the Government, which holds an equity interest of 84.9% (2009: 84.9%) in a joint venture company set up to procure the development of the AsiaWorld-Expo exhibition centre. The remaining 15.1% (2009: 15.1%) 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 on which the AsiaWorld-Expo exhibition centre is situated, 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 on which the AsiaWorld-Expo exhibition centre is situated until 2031 to the joint venture company which has constructed and operates the exhibition centre and will continue to operate over the period of the lease, at the end of which the land and the exhibition centre and the related facilities will revert to IEC Holdings Limited at nil consideration.

The investment is stated at cost less impairment loss because the shares do not have a quoted market price in an active market and the fair value cannot be measured reliably due to inherent uncertainty in the estimation process and the underlying assumptions relating to the cash flow projection as discussed in note 27(b)(ii).

During the year, an impairment loss of $55 million (2009: $70 million) was recognised on the basis of a material decline in its estimated future cash flows, discounted to present value using a discount rate of 10.25% (2009: 10.25%) per annum below carrying value. The cash flows have taken into consideration the judgement of the management of the investee and the discount rate has been confirmed by an external consultant. Adverse changes in the market in which the investee operates indicate that the cost of the group's investment may not be fully recovered. Impairment loss on other investments of $55 million (2009: $70 million) (included in "Other operating expenses") has been recognised in profit or loss in accordance with the policy set out in note 3(g).

15. Employee Retirement Benefits

(a) Defined benefit retirement plan

The Authority makes contributions to a defined benefit retirement plan which covers 12% (2009: 12%) of the group's employees. The plan is administered by independent trustees with its assets held separately from those of the Authority.

The plan is funded by contributions from the Authority in accordance with an independent actuary's recommendation based on an annual actuarial valuation. The Authority expects to pay $31 million (2009: $50 million) in contributions to the defined benefit retirement plan in 2011. Based on an independent actuarial valuation of the plan as at 31 March 2010 prepared by qualified staff of HSBC Insurance (Asia-Pacific) Holdings Limited (2009: Watson Wyatt (Hong Kong) Limited) using the projected unit credit method, the Authority's obligation under the plan is 92% (2009: 71%) covered by the plan assets held by the trustees. The signing actuary is a Fellow member of the Society of Actuaries of the United States.

(i) The amounts recognised in the balance sheet are as follows:

	The group and the Authority	
$ million	**2010**	2009
Present value of wholly funded obligations	**(588)**	(549)
Fair value of plan assets	**539**	391
Net unrecognised actuarial losses	**122**	221
Net assets*	**73**	63

* As a result of first time adoption of Hong Kong Statement of Standard Accounting Practice 34, "*Employee benefits*", in financial year 2002/03 and the transitional provisions prescribed therein, the Authority had recognised a defined benefit asset of $77 million in the balance sheet and an adjustment to the opening reserve as at 1 April 2002 was made accordingly.

A portion of the above asset is expected to be utilised after more than one year. However, it is not practicable to segregate this amount from the amounts recoverable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions.

(ii) Plan assets consist of the following:

	The group and the Authority	
$ million	**2010**	2009
Equity securities	**278**	182
Corporate bonds	**221**	187
Cash	**40**	22
	539	391

(iii) Movements in the present value of the defined benefit obligations:

	The group and the Authority	
$ million	**2010**	2009
At 1 April	**549**	539
Benefits paid by the plan	**(20)**	(24)
Current service cost	**45**	49
Interest cost	**12**	15
Actuarial losses/(gains)	**2**	(30)
– gains due to change in actuarial assumptions	**(27)**	(25)
– experience losses/(gains)	**29**	(5)
At 31 March	**588**	549

15. Employee Retirement Benefits (continued)

(a) Defined benefit retirement plan (continued)

(iv) Movements in plan assets are as follows:

	The group and the Authority	
$ million	**2010**	2009
At 1 April	**391**	497
Contributions paid to the plan	**47**	23
Benefits paid by the plan	**(20)**	(24)
Actual return/(losses) on plan assets	**121**	(105)
– changes in actuarial expected return on plan assets	**28**	34
– actuarial gains/(losses)	**93**	(139)
At 31 March	**539**	391

(v) Expense recognised in the income statement is as follows:

	The group and the Authority	
$ million	**2010**	2009
Current service cost	**45**	49
Interest cost	**12**	15
Actuarial expected return on plan assets	**(28)**	(34)
Net actuarial losses recognised	**8**	6
	37	36

The expense is recognised in the staff costs and related expenses in the income statement (note 7). The actual return on plan assets, taking into account all changes in the fair value of the plan assets excluding benefit paid and contribution received, for the year was a net income of $121 million (2009: net loss of $105 million).

(vi) The principal actuarial assumptions used at the balance sheet dates (expressed as weighted averages) are as follows:

	The group and the Authority	
	2010	2009
Discount rate	**2.80%**	2.00%
Expected rate of return on plan assets	**6.00%**	6.00%
Future long term salary increases	**3.50%**	3.50%

The expected long-term rate of return on plan assets for the year ended 31 March 2010 is based on the portfolio as a whole and market expectations as at 1 April 2009 for returns over the entire life of the obligation based on historical returns, without adjustments.

15. Employee Retirement Benefits (continued)

(a) Defined benefit retirement plan (continued)

(vii) Historical information

	The group and the Authority				
$ million	**2010**	2009	2008	2007	2006
Present value of the defined benefit obligations	**(588)**	(549)	(539)	(400)	(339)
Fair value of plan assets	**539**	391	497	477	422
(Deficit)/surplus in the plan	**(49)**	(158)	(42)	77	83
Experience (losses)/gains arising on plan liabilities	**(29)**	5	2	(5)	(11)
Experience gains/(losses) arising on plan assets	**93**	(139)	(14)	27	24

(b) Defined contribution retirement plans

(i) The group also operates Mandatory Provident Fund Schemes ("MPF") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees not covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Contributions by the group range from 5% to 15% of employees' salary and have been charged to profit or loss. Contributions by employees range from 5% to 9%. 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.

16. Financial Risk Management and Fair Values

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 financial risks and the policies and practices used by the group to manage these risks are described below.

(a) Credit risk

The group's credit risk is primarily attributable to trade and other receivables, over-the-counter derivative financial instruments entered into primarily 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 over due history. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are generally due within 14 to 30 days from the date of billing. In respect of the group's rental and franchise income from operating leases and franchise arrangements respectively, sufficient deposits are held to cover any 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 a signed netting agreement. 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 balance sheet date, the group has a certain concentration of credit risk as 19% (2009: 18%) and 45% (2009: 40%) of the total trade and other receivables was due from the group's largest customer and the five largest customers respectively.

16. Financial Risk Management and Fair Values (continued)

(a) Credit risk (continued)

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet after deducting any impairment allowance. The group does not provide any guarantees which would expose the group or the Authority to credit risk.

Further quantitative disclosures in respect of the group and the Authority's exposure to credit risk arising from trade and other receivables are set out in note 17.

(b) Liquidity risk

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

The following table details the remaining contractual maturities at the balance sheet date of the group's and the Authority'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 balance sheet date) and the earliest date the group and the Authority can be required to pay:

The group

		Contractual undiscounted cash flow				
$ million	**Balance sheet carrying amount**	**Total**	**Within 1 year or on demand**	**1-2 years**	**3-5 years**	**More than 5 years**
2010						
Interest-bearing borrowings	**8,193**	**9,316**	**2,735**	**740**	**4,507**	**1,334**
Trade and other payables	**1,791**	**1,846**	**1,540**	**60**	**194**	**52**
Interest rate swaps (net settled)	**(105)**	**(233)**	**(63)**	**(56)**	**(97)**	**(17)**
	9,879	**10,929**	**4,212**	**744**	**4,604**	**1,369**
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments						
– outflow		**1,909**	**–**	**–**	**1,909**	**–**
– inflow		**(1,950)**	**(2)**	**(2)**	**(1,946)**	**–**
		(41)	**(2)**	**(2)**	**(37)**	**–**
2009						
Interest-bearing borrowings	9,377	10,552	1,746	3,341	4,255	1,210
Trade and other payables	2,207	2,249	1,970	137	92	50
Interest rate swaps (net settled)	(120)	(150)	(35)	(40)	(75)	–
	11,464	12,651	3,681	3,438	4,272	1,260
Derivatives settled gross:						
Forward foreign exchange contracts held as cash flow hedging instruments						
– outflow		1,909	–	–	1,909	–
– inflow		(1,947)	(2)	(2)	(1,943)	–
		(38)	(2)	(2)	(34)	–

16. Financial Risk Management and Fair Values (continued)

(b) Liquidity risk (continued)

The Authority

$ million	Balance sheet carrying amount	Contractual undiscounted cash flow: Total	Within 1 year or on demand	1-2 years	3-5 years	More than 5 years
2010						
Interest-bearing borrowings	**8,193**	**9,316**	**2,735**	**740**	**4,507**	**1,334**
Trade and other payables	**1,666**	**1,689**	**1,438**	**57**	**181**	**13**
Interest rate swaps (net settled)	**(105)**	**(233)**	**(63)**	**(56)**	**(97)**	**(17)**
	9,754	**10,772**	**4,110**	**741**	**4,591**	**1,330**
Derivatives settled gross: Forward foreign exchange contracts held as cash flow hedging instruments						
– outflow		**1,909**	**–**	**–**	**1,909**	**–**
– inflow		**(1,950)**	**(2)**	**(2)**	**(1,946)**	**–**
		(41)	**(2)**	**(2)**	**(37)**	**–**
2009						
Interest-bearing borrowings	9,377	10,552	1,746	3,341	4,255	1,210
Trade and other payables	2,084	2,126	1,876	129	86	35
Interest rate swaps (net settled)	(120)	(150)	(35)	(40)	(75)	–
	11,341	12,528	3,587	3,430	4,266	1,245
Derivatives settled gross: Forward foreign exchange contracts held as cash flow hedging instruments						
– outflow		1,909	–	–	1,909	–
– inflow		(1,947)	(2)	(2)	(1,943)	–
		(38)	(2)	(2)	(34)	–

As shown in the above analysis, interest-bearing borrowings of the group and the Authority amounting to $2,735 million are due to be repaid in the upcoming 12 months after 31 March 2010. The short term liquidity risk inherent in this contractual maturity will be addressed by internal source of funds and new external borrowings.

(c) Interest rate risk

The group's interest rate risk arises primarily from long term interest-bearing borrowings. Borrowings issued 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, either through the contractual terms of the interest-bearing financial assets and liabilities or through the use of interest rate swaps. The group's interest rate profile as monitored by management is set out in (ii) below.

16. Financial Risk Management and Fair Values (continued)

(c) Interest rate risk (continued)

(i) Hedging

Interest rate swaps, denominated in Hong Kong and United States ("US") dollars, have been entered into to achieve an appropriate mix of fixed and floating interest rate exposure within the group's policy. As at 31 March 2010, the group and the Authority had Hong Kong and US dollar denominated interest rate swaps with a notional contract amount of $1,800 million (2009: $2,000 million) and US$100 million (2009: US$100 million) respectively. Out of this, $1,200 million (2009: $800) of the Hong Kong dollar and US$100 million (2009: US$100 million) of the US dollar interest rate swaps are designated as fair value hedges of the fair value interest rate risk inherent in the fixed interest rate notes. The remaining $600 million (2009: $1,200 million) Hong Kong dollar interest rate swaps are designated as cash flow hedges of the cash flow interest rate risk inherent in its floating interest rate bank borrowings.

The Hong Kong dollar denominated interest rate swaps mature over the next ten years (2009: five years) matching the maturity of the related Hong Kong dollar borrowings. $1,200 million (2009: $800 million) of the Hong Kong dollar denominated swaps pay floating interest rates linked to Hong Kong Interbank Offered Rate ("HIBOR"). The remaining $600 million (2009: $1,200 million) fixed rate swaps have fixed interest rates ranging from 1.25% to 2.05% (2009: 1.25% to 2.955%). The US dollar denominated swaps mature in approximately three years' time (2009: four years) matching the maturity of the related US dollar Eurobond and paying floating interest rates linked to London Interbank Offered Rate plus.

The group classifies interest rate swaps into either fair value or cash flow hedges and states them at their fair values in accordance with the policy set out in note 3(i).

Details of the fair values of swaps entered into by the Authority at the balance sheet dates are set out in note 16(e). These amounts are recognised as derivative financial instruments in the balance sheet.

(ii) Interest rate profile

The following table details the interest rate profile of the group's and the Authority's debt borrowings at the balance sheet dates, after taking into account the effect of interest rate swaps designated as cash flow hedging instruments and fair value hedging instruments ((i) above).

	The group and the Authority			
	2010		2009	
	Effective interest rate %	**$ million**	Effective interest rate %	$ million
Fixed rate borrowings				
Bank loans*	**1.25% – 2.05%**	**600**	1.35% – 3.13%	1,199
Fixed rate notes	**2.36% – 5.12%**	**3,830**	4.38% – 5.12%	3,527
Retail notes		**–**	4.67%	453
		4,430		5,179
Variable rate borrowings				
Bank loans	**0.05% – 0.61%**	**1,680**	0.13% – 3.72%	2,497
Fixed rate notes**	**(0.07%) – 0.90%**	**2,083**	0.58% – 2.40%	1,701
		3,763		4,198
Total borrowings		**8,193**		9,377
Fixed rate borrowings as a percentage of total borrowings		**54%**		55%

* Swapped to fixed rate

** Swapped to floating rate

16. Financial Risk Management and Fair Values (continued)

(c) Interest rate risk (continued)

(iii) Sensitivity analysis

As at 31 March 2010, 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 and the Authority's profit after taxation and retained profits by approximately $11 million (2009: $12 million). Other components of consolidated equity would have increased/decreased by approximately $1 million (2009: $5 million) 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 and the Authority's profit after taxation (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the group and the Authority which expose the group and the Authority to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating interest rate non-derivative instruments held by the group and the Authority at the balance sheet date, the impact on the group's and the Authority'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 for 2009.

(d) Foreign currency risk

(i) Recognised assets and liabilities

The group and the Authority are 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.

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

As at 31 March 2010, the group and the Authority hedged over 70% (2009: over 70%) of its estimated foreign currency exposure in respect of notes previously issued. The group and the Authority use forward exchange contracts to hedge its foreign currency risk and have classified these as cash flow hedges. All of the forward exchange contracts have remaining maturities of less than four years (2009: less than five years) after the balance sheet date.

As at 31 March 2010, the group and the Authority had forward exchange contracts with notional amount of US$250 million (2009: US$250 million) to hedge US dollar denominated notes with a net fair value of $16 million recognised as derivative financial assets (2009: $5 million as derivative financial liabilities).

(ii) Exposure to currency risk

As at 31 March 2010, the group and the Authority are mainly exposed to US dollar currency risk arising from forecast transactions or recognised assets or liabilities in respect of notes issued at US$350 million (2009: US$350 million), of which US$250 million (2009: US$250 million) has been hedged through the use of forward exchange contracts, and exposure in respect of trade and other receivables of US$6 million (2009: US$5 million). The group has not hedged the foreign currency risk in respect of their investments in PRC incorporated entities.

(iii) Sensitivity analysis

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 not material to the group and the Authority. Accordingly, no sensitivity analysis in respect of these unhedged exposures is considered necessary.

16. Financial Risk Management and Fair Values (continued)

(e) Fair values

Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, "*Financial Instruments: Disclosures*", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values 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
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

As at 31 March 2010, the group's and Authority'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 significant transfers of instruments in or out of Level 2.

Fair values and notional amounts of derivative financial instruments outstanding at the balance sheet dates are summarised as follows:

The group and the Authority

	2010			2009		
$ million	**Notional amount**	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
Cash flow hedges						
Forward foreign exchange contracts	**US$250**	**21**	**(5)**	US$250	6	(11)
Interest rate swaps	**$600**	**–**	**(3)**	$1,200	1	(6)
Fair value hedges						
Interest rate swaps	**US$100**	**66**	**–**	US$100	82	–
Interest rate swaps	**$1,200**	**42**	**–**	$800	43	–
Total		**129**	**(8)**		132	(17)
Less: Portion to be recovered/(settled) within one year						
Cash flow hedges						
Forward foreign exchange contracts	**US$250**	**2**	**–**	US$250	2	–
Interest rate swaps	**$600**	**–**	**(3)**	$1,200	1	(5)
Fair value hedges						
Interest rate swaps	**US$100**	**28**	**–**	US$100	19	–
Interest rate swaps	**$1,200**	**23**	**–**	$800	15	–
		53	**(3)**		37	(5)
Portion to be recovered/(settled) after one year		**76**	**(5)**		95	(12)

16. Financial Risk Management and Fair Values (continued)

(e) Fair values (continued)

Financial instruments carried at fair value (continued)

Derivative financial instruments qualifying as cash flow hedges as at 31 March 2010 have a maturity of 0.5 to 3.5 years (2009: 0.5 to 4.5 years) from the balance sheet date.

As at 31 March 2010, the carrying value and fair value of fixed rate notes of notional amount of $5,818 million (2009: $5,566 million), amounted to $5,913 million and $6,198 million (2009: $5,681 million and $6,244 million) respectively.

All other financial instruments are carried at amounts not materially different from their fair values at the balance sheet dates. Intra-group borrowings are unsecured, interest free and have no fixed repayment terms. Given these terms, it is not meaningful to disclose fair values.

(f) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) **Derivatives**

Forward exchange contracts are either marked to market using quoted market prices or by discounting the contractual forward price and deducting the current spot rate. The fair value of interest rate swaps is the estimated amount that the Authority would receive or pay to terminate the swap at the balance sheet date, 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 balance sheet date. Where other pricing models are used, inputs are based on market related data at the balance sheet date.

(ii) **Interest-bearing borrowings**

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iii) **Interest rates used for determining fair value**

The group and the Authority use the market yield curve as at balance sheet dates to discount financial instruments. The interest rates used for discounting borrowings and derivatives are as follows:

	2010	2009
Hong Kong dollars	**0.10% – 3.26%**	0.32% – 2.05%
US dollars	**0.42% – 2.09%**	1.70% – 2.13%

17. Trade and Other Receivables

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Trade debtors	**1,175**	1,021	**1,129**	979
Less: allowance for doubtful debts (note 17(b))	**(56)**	(57)	**(54)**	(56)
	1,119	964	**1,075**	923
Other debtors	**21**	15	**20**	12
Amounts due from subsidiaries	**–**	–	**223**	217
	1,140	979	**1,318**	1,152
Prepayments	**25**	20	**12**	13
Deposits and debentures	**15**	11	**9**	5
	1,180	1,010	**1,339**	1,170

All of the trade and other receivables (including amounts due from subsidiaries) are expected to be recovered or recognised as an expense within one year, except for an amount of $222 million (2009: $215 million) in respect of amounts due from a subsidiary, which is expected to be recovered or recognised as an expense after more than one year.

As at 31 March 2010, amounts due from subsidiaries are after impairment allowance of $32 million (2009: $32 million). Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

(a) The ageing analysis of trade debtors (net of allowance for doubtful debts) included above is as follows:

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Amounts not yet due	**1,061**	923	**1,037**	899
Less than one month past due	**36**	27	**26**	19
One to three months past due	**9**	7	**5**	3
More than three months past due	**13**	7	**7**	2
	1,119	964	**1,075**	923

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 16(a).

Included in the amounts of trade debtors not yet due as at 31 March 2010 is an amount of $259 million (2009: $nil) which represents the portion of franchise and rental payments due from franchisees and tenants operating at HKIA and for which payment have been deferred for up to one year, pursuant to the relief packages offered by the Authority during the year.

17. Trade and Other Receivables (continued)

(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 3(o)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
At 1 April	**57**	19	**56**	19
Impairment loss recognised	**4**	38	**3**	37
Uncollectible amounts written off	**(5)**	–	**(5)**	–
At 31 March	**56**	57	**54**	56

As at 31 March 2010, both the group's and the Authority's trade debtors of $43 million (2009: $54 million) were individually determined to be impaired. The individually impaired trade debtors related to customers that were in financial difficulties and management assessed that only a portion of the trade debtors is expected to be recovered. Consequently, specific allowances for doubtful debts of $38 million (2009: $52 million) for both the group and the Authority were recognised. The group and the Authority do not hold any collateral (2009: $2 million) over individually impaired trade debtors of $5 million (2009: $2 million) for which no provision has been made.

If it is determined that no objective evidence of impairment exists for individually assessed trade debtors, whether significant or not, these trade debtor balances are included in a group of trade debtor balances with similar credit risk characteristics and that group is collectively assessed for impairment.

(c) Trade debtors that are not impaired

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

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Neither past due nor impaired	**808**	923	**783**	899
Less than one month past due	**21**	20	**11**	13
One to three months past due	**4**	3	**–**	–
More than three months past due	**4**	4	**–**	–
	29	27	**11**	13
	837	950	**794**	912

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

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The group and the Authority hold cash deposits and bank guarantees of $3 million and $2 million (2009: $2 million and $1 million) as collateral over certain past due but not impaired trade debtors totalling $29 million and $11 million (2009: $27 million and $13 million) respectively.

18. Cash and Bank Balances

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Deposits with banks within three months of maturity at acquisition	**370**	96	**262**	31
Cash at bank and in hand	**261**	247	**208**	199
Cash and cash equivalents	**631**	343	**470**	230
Deposits with banks with over three months of maturity at acquisition	**27**	67	**–**	–
	658	410	**470**	230

As at 31 March 2010, effective interest rate ranges for deposits with banks which are within and over three months of maturity at acquisition are 0.0001% to 0.45% (2009: 0.01% to 0.76%) and 0.63% to 1.0925% (2009: 0.38% to 3.3%) respectively.

As at 31 March 2010, cash and cash equivalents include deposits with banks of $52 million (2009: $47 million) held by a subsidiary that are not freely remittable to the holding company because of currency exchange restrictions in the PRC.

19. Interest-bearing Borrowings

	The group and the Authority	
$ million	**2010**	2009
Notes payable		
US dollar Eurobond due 2013 (a)	**2,790**	2,802
HK dollar Retail notes due 2010 (b)	**–**	453
HK dollar Fixed rate notes due 2016 (c)	**400**	400
HK dollar Fixed rate notes due 2021 (d)	**600**	600
HK dollar Fixed rate notes due 2010 to 2014 (e)	**400**	600
HK dollar Fixed rate notes due 2010 to 2013 (f)	**832**	840
HK dollar Fixed rate notes due 2012 to 2019 (g)	**907**	–
	5,929	5,695
Bank loans (h) to (j)	**2,280**	3,700
	8,209	9,395
Less: Unamortised finance costs	**(16)**	(18)
	8,193	9,377

(a) The Authority issued 5.0% notes due 2013 with a principal amount of US$350 million at an issue price of 99.078 in September 2003. The notes are unsecured and repayable in full on the due date. The notes are listed on the Luxembourg Stock Exchange.

(b) In 2003, the Authority issued three Hong Kong dollar ("HK dollar") fixed rate retail notes totalling $896 million. Their annual coupons and tenors ranged from 2.3% to 4.5% and two years to seven years respectively. All of the above mentioned retail notes were unsecured. Their issue prices ranged from 98.12 to 99.62.

Out of the three HK dollar fixed rate retail notes, one with principal amount of $304 million and maturity of three years was repaid in March 2006. Another one with principal amount of $139 million and maturity of two years was extended for two years at the option of the Authority in March 2005 and was repaid in full in March 2007.

The remaining HK dollar fixed rate retail note with principal amount of $453 million and maturity of seven years was repaid in full in March 2010.

19. Interest-bearing Borrowings (continued)

(c) In April 2006, the Authority issued HK dollar fixed rate notes with principal amount of $400 million through private placement. These fixed rate notes were issued at par with an annual coupon rate of 5.1% per annum and maturity of 10 years. The notes are unsecured and repayable in full upon maturity.

(d) The Authority issued two tranches of HK dollar fixed rate notes of $300 million each in February and March 2006. Both tranches were issued at par with annual coupons of 4.8% and 4.85% respectively and maturities of 15 years each. The notes are unsecured and repayable in full upon maturity.

(e) Between February and March 2007, the Authority issued three tranches of HK dollar fixed rate notes of $200 million each through private placement. All three tranches were issued at par with quarterly coupon rates ranging from 4.38% to 4.48% per annum and maturity ranging between three to seven years. The notes are unsecured and repayable in full upon maturity. The tranche of $200 million with maturity of three years was repaid in full in February 2010.

(f) In July and August 2008, the Authority issued four HK dollar fixed rate notes totalling $800 million. These fixed rate notes were issued at par with annual coupon rates of between 3.36% and 3.98% per annum and maturity of between two years and five years. The notes are unsecured and repayable in full upon maturity.

(g) Between April and July 2009, the Authority issued three HK dollar fixed rate notes with a total principal amount of $900 million through private placements. These fixed rate notes were issued at par with annual coupon rates ranging from 2.00% to 3.85% per annum and maturity ranging from three to ten years. The notes are unsecured and repayable in full upon maturity.

(h) In October 2004, the Authority signed a credit agreement for a $6,000 million HK dollar 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. In 2008, the 3-year revolving credit tranche was fully repaid and the 5-year term/revolving credit facility was voluntarily reduced to $600 million. The 5-year term/revolving credit facility was repaid in full in October 2009.

(i) In September 2007, the Authority signed a three-year unsecured HK dollar revolving credit facility of $6,000 million. Interest is payable on amounts drawn down at a rate relating to HIBOR. As at 31 March 2010, $2,200 million (2009: $2,900 million) of the revolving credit facility was drawn down.

(j) During the year, the Authority also drew down from uncommitted money market line facilities of $2,688 million (2009: $2,500 million). Interest is payable on amounts drawn down at a rate relating to HIBOR. An amount of $80 million (2009: $200 million) was outstanding as at 31 March 2010.

(k) As at 31 March 2010, the unsecured interest-bearing borrowings were repayable as follows:

The group and the Authority

	2010			2009
$ million	**Notes payable**	**Bank loans**	**Total**	Total
Within one year or on demand	**200**	**2,280**	**2,480**	1,453
After one year but within two years	**512**	–	**512**	3,100
After two years but within five years	**4,103**	–	**4,103**	3,826
After five years	**1,098**	–	**1,098**	998
	5,713	–	**5,713**	7,924
	5,913	**2,280**	**8,193**	9,377

(l) None of the interest-bearing borrowings is subject to any covenants imposed by the lenders. All of the non-current interest-bearing borrowings are carried at amortised cost except for HK dollar fixed rate notes and US dollar Eurobond with total principal amounts of $1,200 million and US$100 million (2009: $800 million and US$100 million) respectively, which are designated as fair value hedged items and carried at fair value of $2,083 million (2009: $1,701 million). None of the non-current interest-bearing borrowings is expected to be settled within one year. Further details of the group's management of liquidity risk are set out in note 16(b).

20. Trade and Other Payables

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Creditors and accrued charges	**1,236**	1,713	**1,112**	1,589
Deposits received	**435**	375	**432**	373
Contract retentions	**120**	119	**120**	119
Amounts due to subsidiaries	**–**	–	**2**	3
Financial liabilities measured at amortised cost	**1,791**	2,207	**1,666**	2,084
Classified in the balance sheet as:				
Current liabilities	**1,534**	1,970	**1,438**	1,876
Non-current liabilities	**257**	237	**228**	208
	1,791	2,207	**1,666**	2,084

As at 31 March 2010, all of the trade and other payables are expected to be settled or recognised as income within one year except for $257 million and $228 million (2009: $237 million and $208 million) for the group and the Authority respectively, which are expected to be settled after more than one year. The amounts due after one year mainly relate to licence deposits received from retail licencees and contract retentions, the majority of which are due to be repaid within two to five years.

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

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Due within 30 days or on demand	**337**	397	**283**	356
Due after 30 days but within 60 days	**145**	235	**142**	230
Due after 60 days but within 90 days	**122**	189	**119**	185
Due after 90 days	**632**	892	**568**	818
Total	**1,236**	1,713	**1,112**	1,589

21. Deferred Income

Deferred income represents consideration received for the sale of a portion of the income from the aviation fuel system for a period up to 2018 and amounts received in respect of sub-leases of interest in leasehold land of the airport site. They are accounted for in accordance with the accounting policy detailed in notes 3(v)(v) and 3(v)(vi) respectively.

The amount expected to be recognised as income more than one year after the balance sheet date is included in non-current liabilities.

22. Capital, Reserves and Dividends

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the group's consolidated and Authority's equity is set out in the consolidated and Authority statements of changes in equity on pages 69 and 70 respectively.

(b) Dividends

$ million	**2010**	2009
Final dividend payable to the equity shareholder of the Authority in respect of the previous financial year, approved and paid during the year of $7,178.28 per ordinary share (2009: $6,525.71 per ordinary share)	**2,200**	2,000
Final dividend proposed by the Authority after the balance sheet date of $7,504.57 per ordinary share (2009: $7,178.28 per ordinary share)	**2,300**	2,200
Special dividend proposed by the Authority after the balance sheet date of $7,178.28 per ordinary share (2009: $nil per ordinary share)	**2,200**	–

The final and special dividends declared after the balance sheet date have not been recognised as liabilities at the balance sheet date.

(c) Share Capital

	The Authority	
$ million	**2010**	2009
Authorised, issued, allotted and fully paid: 306,480 ordinary shares of $100,000 each (2009: 306,480 shares)	**30,648**	30,648
	30,648	30,648

(d) 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 3(w).

(ii) Capital reserve

The capital reserve comprises the share of profits of a jointly controlled entity in the PRC which are not distributable as required by relevant 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 3(i).

22. Capital, Reserves and Dividends (continued)

(d) Nature and purpose of reserves (continued)

(iv) Distributability of reserves

As at 31 March 2010, the aggregate amount of reserves available for distribution to the equity shareholder of the Authority was $4,998 million (2009: $4,519 million). After the balance sheet date, the Board proposed a final dividend and a special dividend of $7,504.57 and $7,178.28 per ordinary share (2009: $7,178.28 and $nil per ordinary share), amounting to $2,300 million (2009: $2,200 million) and $2,200 million (2009: $nil) respectively. These dividends have not been recognised as liabilities at the balance sheet date.

(v) 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 and determine the dividend payment on its share capital. 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 and the Authority at the balance sheet dates are as follows:

		The group		The Authority	
$ million	Note	**2010**	2009	**2010**	2009
Total debt[1]	19	**8,193**	9,377	**8,193**	9,377
Total equity		**36,689**	36,038	**35,643**	35,163
Total capital[2]		**44,882**	45,415	**43,836**	44,540
Total debt/capital ratio		**18%**	21%	**19%**	21%

[1] Total debt equals to interest-bearing borrowings.

[2] Total capital equals to total debt plus total equity.

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

23. Outstanding Commitments

	The group		The Authority	
$ million	**2010**	2009	**2010**	2009
Commitments outstanding not provided for in the financial statements are as follows:				
Capital expenditure				
Contracted for	**214**	502	**214**	499
Authorised but not contracted for	**1,849**	2,487	**1,828**	2,474
	2,063	2,989	**2,042**	2,973
Capital contribution in respect of a jointly controlled entity in the PRC, SHKAMCL (note 13(b))	**39**	–	**39**	–
	2,102	2,989	**2,081**	2,973

The outstanding commitments of the group's jointly controlled entity, HXIACL, which are not included in the above, are disclosed in note 13(a).

24. Contingent Liabilities

(a) The group is currently under discussion with contractors regarding claims relating to several construction and system upgrade projects. Detailed documentation for these claims is not yet fully 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.

(b) The Inland Revenue Department ("IRD") has challenged the validity of tax allowances in an amount of $2,391 million claimed by the Authority in respect of certain fixed assets. The corresponding tax impact would be approximately $417 million computed at applicable tax rates. The Authority has responded to the IRD and is awaiting their assessment. The Authority remains confident that its claims are valid and supportable. Accordingly, no provision for additional taxation has been made in respect of this contingent liability as at 31 March 2009 and 2010.

25. 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 these financial statements.

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. Remuneration paid to Members of the Board and the Executive Directors is disclosed in note 6.

During the year, 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 year amounted to $735 million (2009: $722 million) and the amounts due to the Government as at 31 March 2010 with respect to the above services amounted to $nil (2009: $6 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 year amounted to $123 million (2009: $109 million). As at 31 March 2010, the amounts due to the Government with respect to the above services amounted to $60 million (2009: $47 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 amounts incurred by the Authority for these services for the year amounted to $406 million (2009: $393 million). In addition, the Authority licensed certain areas to AVSECO for a total fee of $20 million (2009: $16 million) during the year. As at 31 March 2010, the amounts due from AVSECO with respect to rentals and other recoveries amounted to $1 million (2009: $2 million) and amounts due to AVSECO with respect to security services amounted to $1 million (2009: $3 million).

(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 11.8% (2009: 11.8%) 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 (note 14).

(e) The Authority has entered into an agreement with MTR Corporation Limited ("MTRC") under which MTRC provides maintenance services to the Automated People Mover System and Cars in both Terminals 1 and 2. The amount incurred by the Authority for these services for the year amounted to $45 million (2009: $34 million). As at 31 March 2010, the amounts due to MTRC with respect to the maintenance service amounted to $16 million (2009: $8 million).

(f) The Authority has provided property rental and management services at the airport to MTRC. The aggregate amounts received for the year amounted to $8 million (2009: $6 million). As at 31 March 2010, the aggregate amounts due from MTRC amounted to $0.4 million (2009: $nil).

(g) The Authority has provided property management services, fitting-out works and other services at the airport to various Government departments, agencies and Government controlled entities. The aggregate amounts received for the year amounted to 18 million (2009: $38 million). As at 31 March 2010, the aggregate amounts due from these departments, agencies or entities amounted to $1 million (2009: $0.4 million).

25. Material Related Party Transactions (continued)

(h) The Authority has received various administrative, building plan submission and other services from various Government departments, agencies and Government controlled entities. The aggregate amounts paid for the above services, and aerodrome licence and other fees for the year amounted to $12 million (2009: $13 million). As at 31 March 2010, there was no outstanding amount due to these departments, agencies or entities (2009: $nil).

(i) AVSECO 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 $40 million (2009: $24 million). As at 31 March 2010, the aggregate amounts due from these departments, agencies or entities amounted to $3 million (2009: $3 million).

26. Immediate and Ultimate Controlling Party

As at 31 March 2010, the directors consider the immediate parent and ultimate controlling party of the group to be the Hong Kong SAR 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 held under an operating lease. Accordingly, the land premium and the land formation costs have been classified as interest in leasehold land under fixed assets. Upon the granting of finance leases of portions of the land concerned, the cost of leasehold land excluded from the balance sheet 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. It is considered that as these sub-leases are for the sole benefit of the Authority for enhancing services at the airport, it is 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 under fixed assets in the financial statements of the Authority and are not derecognised.

(iii) Interests in jointly controlled entities

On 29 November 2006, the group acquired a 35% equity interest in HXIACL and accounts for its interest in HXIACL as a jointly controlled entity. HXIACL receives ACF and other subsidies from the PRC government as is the case with most other airports in the PRC. The ACF and other subsidies received cannot be distributed as dividends and are to be used for airport development purposes as specified by the PRC government. Such ACF and other subsidies received are considered to be a capital contribution from the PRC government and are accounted for as a "capital reserve" in HXIACL's PRC statutory financial statements.

The group is of the view that HXIACL and all its shareholders can enjoy the economic benefits arising from the ACF and other subsidies received for airport development purposes in proportion to their shareholdings and that such ACF and other subsidies are revenue in nature but may only be used for restricted purposes. Further, although certain PRC government documents note that such ACF and other subsidies belong to the PRC government, certain other joint venture documents indicate that the amounts of ACF and other subsidies can be shared by the shareholders of HXIACL in proportion to their equity shareholdings and, accordingly, the group has equity accounted for its share of ACF and other subsidies in the consolidated income statement, with a subsequent transfer to the capital reserve.

27. Accounting Judgements and Estimates (continued)

(b) Major sources of estimation uncertainty

Notes 15 and 16(f) contain information about the assumptions and their risk factors relating to defined benefit retirement obligations and the fair value of financial instruments. 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 is adjusted accordingly.

(ii) Impairment of other investments

In assessing whether there is any impairment in the carrying value of the group's "other investments", management takes into consideration the projected volume and activity level and cash flows of the underlying business of the investments, discounted to present value. These projections are based on assumptions that take into consideration management's knowledge of the business environment and their judgement on future performance. There is inherent uncertainty in the estimation process and the underlying assumptions relating to the future and, accordingly actual performance may differ significantly from that projected.

(iii) 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 are estimated based on a best assessment of the group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(iv) Income tax and deferred tax assets

Certain treatments adopted by the Authority in the tax returns in the past years are yet to be finalised with the IRD. In assessing the Authority's income tax and deferred taxation in the current year financial statements, the Authority has followed the tax treatments it has adopted in those tax returns, which may be different from the final outcome in due course.

The group reviews the carrying amount of deferred taxes at each balance sheet date and reduces deferred tax assets to the extent it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred tax to be utilised. However, there is no assurance that the group will generate sufficient taxable income to allow all or part of its deferred tax assets to be utilised.

(v) Valuation of investment properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The group appoints independent professionally qualified valuers to conduct annual revaluations of its investment properties which take into consideration the net income allowing for reversionary potential and other assumptions which are based on market conditions existing at the balance sheet date, current market sales prices and the appropriate capitalisation rate.

28. Non-Adjusting Post Balance Sheet Events

After the balance sheet date, the Board declared final and special dividends for the year ended 31 March 2010, the details of which are disclosed in note 22(b).

29. Comparative figures

As a result of the application of HKAS 1 (revised 2007), "*Presentation of financial statements*", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in the current year. Further details of these developments are disclosed in note 3(c).

30. Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Year Ended 31 March 2010

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2010 and which have not been adopted in these financial statements.

	Effective for annual periods beginning on or after
HKFRS 3 (Revised), "*Business combinations*"	1 July 2009
Amendments to HKAS 39, "*Financial instruments: Recognition and measurement – Eligible hedged items*"	1 July 2009
Amendments to HKAS 27, "*Consolidated and separate financial statements*"	1 July 2009
Improvements to HKFRSs 2009	1 July 2009 or 1 January 2010
HKAS 24 (revised 2009) "*Related party disclosures*" and consequential amendments to HKFRS 8, "*Operating segments*"	1 January 2011
HKFRS 9 "*Financial Instruments*"	1 January 2013

The group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Authority's results of operations and financial position.