FINANCIAL REVIEW

Financial Summary

<table>
<thead>
<tr>
<th>(in HK$ million)</th>
<th>2012/13</th>
<th>2011/12</th>
<th>±% 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>13,134</td>
<td>12,154</td>
<td>+8.1%</td>
</tr>
<tr>
<td>Operating expenses before depreciation and amortisation</td>
<td>4,270</td>
<td>3,919</td>
<td>+9.0%</td>
</tr>
<tr>
<td>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</td>
<td>8,864</td>
<td>8,235</td>
<td>+7.6%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>2,208</td>
<td>2,221</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Interest and finance costs</td>
<td>121</td>
<td>174</td>
<td>-30.5%</td>
</tr>
<tr>
<td>Share of profits less losses of jointly controlled entities</td>
<td>210</td>
<td>521</td>
<td>-59.7%</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>6,745</td>
<td>6,361</td>
<td>+6.0%</td>
</tr>
<tr>
<td>Income tax</td>
<td>1,113</td>
<td>1,021</td>
<td>+9.0%</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>5,632</td>
<td>5,340</td>
<td>+5.5%</td>
</tr>
<tr>
<td>Profit attributable to the equity shareholder</td>
<td>5,624</td>
<td>5,336</td>
<td>+5.4%</td>
</tr>
<tr>
<td>Dividend declared</td>
<td>4,400</td>
<td>3,900</td>
<td>+12.8%</td>
</tr>
</tbody>
</table>

Key Financial Ratios

- Return on equity: 14.2% from 14.2%
- Total debt/capital ratio: 12% from 13%

Key Traffic Summary

- Passenger traffic3 (millions of passengers): 57.2 from 54.9, +4.1%
- Cargo throughput4 (millions of tonnes): 4.0 from 3.9, +2.9%
- Air traffic movements (thousands): 355 from 339, +4.7%

Overview

Airport Authority Hong Kong (AAHK) reported another year of strong financial performance in 2012/13 fiscal year, ended 31 March 2013.

Supported by regional economic growth, Hong Kong International Airport (HKIA) welcomed 57.2 million passengers and handled 355,000 air traffic movements, representing annual increases of 4.1% and 4.7%, respectively. Cargo throughput rose 2.9%, to 4.04 million tonnes.

Traffic growth, coupled with higher passenger spending in HKIA’s retail concessions and effective cost controls, helped AAHK and its subsidiaries (the Group) deliver excellent financial performance in 2012/13. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK$8,864 million and profit attributable to the equity shareholder of HK$5,624 million, representing an improvement of 7.6% and 5.4%, respectively, from the previous fiscal year. The Group’s return on equity remains at 14.2%. The Board declared a dividend of HK$4,400 million for the fiscal year.

1 Subject to rounding differences.
2 “Key Traffic Summary” is based on Airport Authority Hong Kong’s data for Hong Kong International Airport only.
3 “Passenger traffic” includes originating, terminating, transfer and transit passengers. Transfer and transit passengers are counted twice.
4 “Cargo throughput” includes originating, terminating and transshipment cargo. Transshipment cargo is counted twice. Airmail is excluded.
Turnover

Turnover grew 8.1%, to HK$13,134 million, largely as a result of increased passenger traffic, air traffic movements and cargo throughput as well as strong retail performance. Airport and security charges, revenues from airside support services franchises, retail licences and advertising, and other terminal commercial revenue, collectively comprised 95.9% of turnover.

Airport and security charges, representing 34.8% of turnover, rose 4.0% to HK$4,565 million, primarily due to increases in passenger traffic and air traffic movements. This category’s contribution to turnover decreased slightly as a result of the growth in revenues from retail licences and advertising and other terminal commercial revenue.

AAHK continues to support airlines adding new destinations to the network served by HKIA. The New Destination Incentive Arrangement, which offers temporary rebates on landing charges associated with new destinations, has been extended until the end of 2014. The total reduction in airport charges given to airlines under this arrangement amounted to approximately HK$27 million (2011/12: HK$26 million).

Revenues from airside support services franchises grew 6.1%, to HK$2,012 million. This increase was mainly attributable to increased passenger traffic, air traffic movements and cargo throughput during the year.

Retail licences and advertising revenue, representing 38.0% of turnover, rose 11.1%, to HK$4,995 million. This increase was a result of new licences awarded, higher passenger traffic and additional spending on liquor and tobacco, fashion and jewellery, and perfumes and cosmetics by Mainland passengers. This category contributed more than half of the growth in turnover for the year. However, growth in retail licences and advertising revenue has slowed from previous years.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 15.9%, to HK$1,023 million, largely due to the higher property index adjustment in rental rates during the year.

Operating Expenses

The Group continues to exercise stringent financial discipline to control its operating expenses while expanding its operations and maintaining the highest standards of safety, security, sustainability and service. Total operating expenses before depreciation and amortisation increased 9.0%, to HK$4,270 million, mainly due to inflationary pressures, strong traffic growth and additional three-runway system consultancy and other related expenses incurred during the year.

The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, three-runway system consultancy and other related expenses, other operating expenses, and depreciation and amortisation, which accounted for more than 90% of total operating expenses. Almost half of the Group’s total operating expenses relate to depreciation and amortisation, government services and government rent and rates. These are costs over which the Group has limited control.

Staff costs and related expenses increased 10.3%, to HK$1,403 million, mainly due to adjustments to ensure the market competitiveness of employees’ remuneration and the increase of staff size, particularly aviation security personnel, to cope with traffic growth.

Repairs and maintenance rose 16.3%, to HK$614 million, largely due to additional work carried out on the airfield and terminals to ensure safe and reliable operation amidst increased traffic. Inflationary pressures on labour and material costs also contributed to the increase.
Operational contracted services represents costs for operations outsourced to third-party contractors. This category grew 9.9%, to HK$444 million, largely due to traffic growth and higher costs as a result of contracts renewed during the year.

Government services includes air traffic control and aviation meteorological fees payable to the Civil Aviation Department and the Hong Kong Observatory, respectively. Increased air traffic movements led to higher air traffic control fees, and government services expense grew 2.0%, to HK$827 million.

Three-runway system consultancy and other related expenses includes amounts incurred for the statutory Environmental Impact Assessment and preparation of related designs for the new facilities. These expenses were mostly incurred after the Hong Kong SAR Government gave AAHK in-principle approval to adopt, for planning purposes, the three-runway system as the future development direction for HKIA. At HK$209 million, these expenses were much higher in 2012/13, reflecting an increased level of development activity.

Other operating expenses decreased 23.2%, to HK$367 million, mainly due to lower allowances for doubtful debts, non-recurring impairment for other investment in 2011/12 and non-recurring expenses relating to preparing HKIA Master Plan 2030 and the associated public consultation exercise in 2011/12 fiscal year.

Depreciation and amortisation decreased 0.6%, to HK$2,208 million, as certain fixed assets have now been fully depreciated.

Mainland Airports

During the year, the Mainland airports in which AAHK has an investment continued to benefit from China’s economic expansion and experienced strong growth in passenger traffic.

In calendar 2012, passenger traffic and cargo throughput at Hangzhou Xiaoshan International Airport (HXIA) grew 9.2% and 10.5%, respectively, to 19.1 million and 338,400 tonnes. Despite the strong traffic growth, AAHK’s share of profits decreased 59.8%, to HK$210 million, which was largely due to a non-recurring HK$233 million deferred tax credit arising from the finalisation of a tax treatment with the Mainland tax authority in calendar 2011.

In calendar 2012, passenger traffic at Zhuhai Airport grew 16.3%, to a record 2.1 million, while cargo throughput decreased 3.0%, to 16,300 tonnes. AAHK’s share of profit increased from HK$3 million to HK$5 million in 2012/13 fiscal year.

Balance Sheet

The Group’s balance sheet remains strong and well capitalised. The Group’s total equity as at 31 March 2013 reached HK$40,658 million, an increase of 4.6% over the previous year, mainly due to the net profit achieved in 2012/13.
Fixed assets amounted to HK$44,505 million, which accounted for 82.8% of total assets. The Group incurred capital expenditures of HK$3,156 million during 2012/13, mainly related to the Midfield development, apron expansion and the expansion and improvement of other facilities and systems.

Intangible assets of HK$233 million represented the unamortised cost of the right to operate and manage Zhuhai Airport for a period of 20 years, starting in 2006.

Interests in jointly controlled entities of HK$4,145 million represented the Group’s effective interest in the net assets of HXIA and Shanghai Hong Kong Airport Management Co., Ltd., plus associated goodwill.

Trade and other receivables increased 3.6%, to HK$1,835 million, primarily due to increased turnover as well as higher receivables near the year-end relating to retail licences.

Total trade and other payables increased 25.4%, to HK$2,732 million, mainly attributable to the increase in contract costs payable related to the Midfield development and apron expansion.

Dividend

A dividend of HK$4,400 million (2011/12: HK$3,900 million), payable to the Hong Kong SAR Government, was declared by the Board subsequent to the fiscal year-end. It was AAHK’s 10th dividend payment — representing approximately 81% of AAHK’s distributable profit for the year — and reflects management’s confidence in HKIA’s growth potential.

Cash Flow

Net cash generated from operating activities increased from HK$6,758 million in 2011/12 to HK$7,575 million this year, mainly due to the increase in profit for the year and the reduction in Hong Kong profits tax paid in 2012/13.

Financing

AAHK’s total borrowings as at 31 March 2013 amounted to HK$5,780 million (2011/12: HK$5,714 million). Total borrowings comprised unsecured bank loans, notes and bonds.

In July 2010, AAHK established a US$1.0 billion medium-term note programme, which allows AAHK to access capital markets when needed. During the year, through private placements AAHK issued a total of HK$550 million in Hong Kong dollar-denominated, 10-year notes. Proceeds from these issues were used to refinance maturing debt and meet working capital requirements.

AAHK continues to be one of the highest-rated corporations in Hong Kong. Standard & Poor’s assigns an AAA rating to AAHK’s long-term local and foreign currency debt, the same rating assigned to the Hong Kong SAR Government’s debt.

### Loan Facilities and Programmes (as at 31 March 2013)

- **Eurobond**: 3% of total borrowings
- **Fixed rate notes**: 48% of total borrowings
- **Floating rate notes**: 3% of total borrowings
- **Bank loans**: 46% of total borrowings

*After unamortised finance costs of HK$18 million.

### Financial Risk Management

AAHK manages its financial risks with a variety of instruments and techniques, including natural hedges achieved by spreading its loan portfolio over different rollover and maturity dates. Financial instruments, such as interest rate swaps and forward contracts, are also used to hedge AAHK’s risks. In accordance with approved policy, we have adopted measures to fix the interest rate of a portion of total borrowings in order to minimise the impact of interest rate fluctuations on earnings.

Following the 2003 acquisition of the aviation fuel supply system, which generates revenues in United States dollars, AAHK hedged its currency exposure with the appropriate amount of United States dollar borrowings, thereby neutralising the risk of exchange rate fluctuations on the revenue stream. In addition, AAHK has executed forward contracts to fix the exchange rate for the conversion of Hong Kong dollars into United States dollars to control the risk of exchange rate fluctuations on a portion of the United States dollar borrowings. Since the latter part of 2006, AAHK has also been exposed to Chinese renminbi movements as a result of its investment in Mainland airports. This exposure has resulted in significant exchange gains on the balance sheet owing to...
the strengthening renminbi. Apart from the above, AAHK has minimal currency exposure because revenues and costs at HKIA are largely denominated in Hong Kong dollars.

**Loan Maturity Profile**  
*(as at 31 March 2013)*

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within one year or on demand</td>
<td>5,780*</td>
</tr>
<tr>
<td>After one year but within two years</td>
<td>5,714*</td>
</tr>
<tr>
<td>After two years but within five years</td>
<td>7,086*</td>
</tr>
<tr>
<td>After five years</td>
<td>8,193*</td>
</tr>
</tbody>
</table>

*After unamortised finance costs of HK$18 million.

**Capital Structure**  
*(in HK$ million)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Debt</th>
<th>Total Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/13</td>
<td>5,780</td>
<td>40,558</td>
</tr>
<tr>
<td>11/12</td>
<td>5,714</td>
<td>38,763</td>
</tr>
<tr>
<td>10/11</td>
<td>7,086</td>
<td>36,382</td>
</tr>
<tr>
<td>09/10</td>
<td>8,193</td>
<td>36,689</td>
</tr>
<tr>
<td>08/09</td>
<td>9,377</td>
<td>36,038</td>
</tr>
</tbody>
</table>

**Outlook**

Traffic is expected to grow at a modest pace, in view of the Eurozone crisis and the fragility of the United States recovery. Traffic increases mean that some of HKIA’s facilities, such as aircraft parking stands, are approaching capacity.

In the medium term, the Midfield development and apron expansion will relieve pressure on HKIA’s parking stands and by the end of 2014, 28 new stands will be ready for operation. The Midfield development, which includes a five-level concourse with 20 stands, a cross-field taxiway and an extension of the existing automated people mover that will connect the concourse to Terminal 1, has been progressing smoothly and is scheduled for full operation in 2015. We will also carry out other capacity enhancement initiatives to optimise the use of existing space and facilitate the smooth movement of passengers, cargo and aircraft.

To ensure operational and service excellence, we will continue our safety and business continuity planning initiatives and programmes, which include resurfacing the airport’s taxiways and enhancing the fixed ground power and pre-conditioned air systems. We will also continue to rejuvenate and maintain the airport to handle traffic growth and ageing facilities.

Following the completion of HKIA Master Plan 2030 and the Hong Kong SAR Government’s in-principle approval to adopt, for planning purpose, the three-runway option as the future development direction for HKIA, we have started work on the Environmental Impact Assessment and related design details for the three-runway system.

In the near term, we expect profits will slow down as a result of three-runway system related spending, the impact of inflation and the completion of some facilities. In this challenging operating environment, we will continue to apply prudent financial discipline to contain the growth of operating expenses through continuous measures to improve productivity, while maintaining the highest standards of safety, security, sustainability and service.

In addition, we will further increase commercial revenues by optimising the use of existing retail space, refining the retail mix, building new facilities and supporting our business partners as they expand their operations and add new services. The completion of two new two-storey “icon” shops in the centre of the East Hall by the end of 2013 will generate additional revenue.

The vibrant Mainland economy will continue to create long-term demand for aviation. As a major gateway, HKIA will benefit from the growth of the Mainland economy and aviation sector. We will continue to support the construction of cross-boundary infrastructure, such as the Hong Kong–Zhuhai–Macao Bridge and the Tuen Mun–Chek Lap Kok Link. With these key infrastructure projects, we believe the accessibility of HKIA will be improved and its position as an international and regional aviation hub will be further enhanced.

With financial discipline, innovation and timely development, HKIA will continue to bring value to its stakeholders and generate economic benefits for Hong Kong and the Pearl River Delta.