

**AIRPORT AUTHORITY
INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008**

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Auditor's Independent Review Report

Review Report To The Members Of The Board Of The Airport Authority (Incorporated in Hong Kong under the Airport Authority Ordinance)

Introduction

We have reviewed the interim financial report set out on pages 4 to 21 which comprises the consolidated balance sheet of the Airport Authority as of 30 September 2008, the related consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period then ended and explanatory notes. The Airport Authority has prepared the interim financial report to be in compliance with the relevant provisions of Hong Kong Accounting Standard 34 "*Interim financial reporting*" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the Members of the Board.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "*Review of interim financial information performed by the independent auditor of the entity*" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 September 2008 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "*Interim financial reporting*".

KPMG

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

25 November 2008

AIRPORT AUTHORITY
Consolidated Income Statement
For the six months ended 30 September 2008 - Unaudited
(Expressed in Hong Kong Dollars)

	Six months ended 30 September	
	<u>2008</u>	<u>2007</u>
Note	\$ million	\$ million
Airport charges	1,567	1,514
Security charges	395	393
Aviation security services	71	62
Airside support services franchises	694	692
Retail licences revenue	1,312	1,149
Other terminal commercial revenue	367	288
Real estate revenue	87	66
Other income	37	35
Turnover	<u>4,530</u>	<u>4,199</u>
Staff costs and related expenses	(558)	(516)
Repairs and maintenance	(196)	(175)
Operational contracted services	(163)	(170)
Government services	20 (386)	(370)
Government rent and rates	(104)	(92)
Occupancy expenses	(103)	(100)
Other operating expenses	(215)	(143)
Operating Expenses before Depreciation and Amortisation	<u>(1,725)</u>	<u>(1,566)</u>
Operating Profit before Depreciation and Amortisation	2,805	2,633
Depreciation and Amortisation	(1,131)	(1,141)
Operating Profit before Interest and Finance Charges	3 1,674	1,492
Interest and finance charges:		
Finance costs	4 (101)	(171)
Interest income	10	6
	(91)	(165)
Share of profits of a jointly controlled entity	43	54
Profit before Taxation	<u>1,626</u>	<u>1,381</u>
Income tax	5 (271)	(248)
Profit for the period	<u><u>1,355</u></u>	<u><u>1,133</u></u>
Attributable to:		
Equity shareholder of the Authority	1,358	1,136
Minority interests	(3)	(3)
Profit for the period	<u><u>1,355</u></u>	<u><u>1,133</u></u>
Dividend:		
Dividend declared during the period	6 2,000	1,600

The notes on pages 8 to 21 form part of this interim financial report.

AIRPORT AUTHORITY
Consolidated Balance Sheet
At 30 September 2008 - Unaudited
(Expressed in Hong Kong Dollars)

		At 30 September 2008	At 31 March 2008
	Note	\$ million	\$ million
Non-current Assets			
Fixed assets			
- Investment properties		284	290
- Interest in leasehold land		8,986	9,102
- Other property, plant and equipment		37,703	37,839
	7	<u>46,973</u>	<u>47,231</u>
Intangible asset	8	281	283
Interest in a jointly controlled entity	9	2,500	2,403
Other investments	10	261	261
Net defined benefit retirement asset	11	71	76
Derivative financial instruments		47	47
		<u>50,133</u>	<u>50,301</u>
Current Assets			
Stores and spares		51	61
Trade and other receivables	12	1,185	1,122
Deposits in respect of lease arrangement	13	1,151	-
Term deposits		43	-
Cash and cash equivalents	14	346	331
		<u>2,776</u>	<u>1,514</u>
Current Liabilities			
Interest-bearing borrowings	15	(600)	(320)
Trade and other payables	16	(1,854)	(2,019)
Deferred income		(110)	(113)
Obligations in respect of lease arrangement	13	(1,223)	-
		<u>(3,787)</u>	<u>(2,452)</u>
Net Current Liabilities		(1,011)	(938)
Total Assets Less Current Liabilities		49,122	49,363
Non-current Liabilities			
Interest-bearing borrowings	15	(10,185)	(10,005)
Trade and other payables	16	(195)	(163)
Deferred income		(1,613)	(1,718)
Derivative financial instruments		(4)	(46)
Deferred tax liabilities		(2,309)	(2,038)
		<u>(14,306)</u>	<u>(13,970)</u>
Net Assets		<u>34,816</u>	<u>35,393</u>
Capital and Reserves			
Share capital	17	30,648	30,648
Reserves		3,961	4,539
Total equity attributable to equity shareholder of the Authority		<u>34,609</u>	<u>35,187</u>
Minority interests		207	206
Total Equity		<u>34,816</u>	<u>35,393</u>

Approved and authorised for issue on behalf of the Members of the Board on 25 November 2008.

**The Honourable
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 8 to 21 form part of this interim financial report.

AIRPORT AUTHORITY
Consolidated Statement of Changes in Equity
For the six months ended 30 September 2008 - Unaudited
(Expressed in Hong Kong Dollars)

	Note	Six months ended 30 September	
		<u>2008</u> \$ million	<u>2007</u> \$ million
Total Equity as at 1 April			
- attributable to equity shareholder of the Authority	17	35,187	34,304
- minority interests	17	206	196
		<u>35,393</u>	<u>34,500</u>
Net profit recognised directly in equity:			
Exchange difference on translation of financial statements of:			
- PRC subsidiary	17	8	8
- PRC jointly controlled entity	17	54	52
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	17	52	32
Net profit for the period recognised directly in equity		<u>114</u>	<u>92</u>
Transfers from equity:			
Cash flow hedge: transfer from equity to profit or loss, net of deferred tax	17	(46)	(33)
Net profit for the period	17	<u>1,355</u>	<u>1,133</u>
Total Recognised Income and Expense for the Period		<u>1,423</u>	<u>1,192</u>
Dividend declared during the period	6	<u>(2,000)</u>	<u>(1,600)</u>
Total Equity as at 30 September		<u><u>34,816</u></u>	<u><u>34,092</u></u>
Total Recognised Income and Expense for the Period			
Attributable to:			
- equity shareholder of the Authority		1,422	1,191
- minority interests		1	1
		<u>1,423</u>	<u>1,192</u>

The notes on pages 8 to 21 form part of this interim financial report.

AIRPORT AUTHORITY
Consolidated Cash Flow Statement
For the six months ended 30 September 2008- Unaudited
(Expressed in Hong Kong Dollars)

	Six months ended 30 September	
	2008	2007
Note	\$ million	\$ million
Operating Activities		
Profit before taxation	1,626	1,381
Adjustments for:		
Depreciation of fixed assets	1,123	1,134
Amortisation of intangible asset	8	7
Interest on notes and bank loans	100	185
Other borrowing costs and interest expense	7	1
Interest income	(10)	(6)
Share of profits of a jointly controlled entity	(43)	(54)
Loss on disposal of fixed assets	6	33
Foreign exchange gain	(6)	(15)
Amortisation of deferred income	(56)	(53)
Operating Profit before Changes in Working Capital	2,755	2,613
Decrease in stores and spares	10	3
Increase in trade and other receivables	(63)	(253)
Increase in trade and other payables	92	27
Net Cash Generated from Operating Activities	2,794	2,390
Investing Activities		
Increase in term deposits	(43)	(67)
Interest received	10	6
Payment for purchase of fixed assets	(1,070)	(885)
Receipts from disposal of fixed assets	2	-
Payment of annual franchise fee for PRC subsidiary	(2)	(2)
Net Cash Used in Investing Activities	(1,103)	(948)
Financing Activities		
Interest paid on notes and bank loans	(155)	(229)
Other borrowing costs paid	(3)	(1)
Drawdown of new loans	600	1,770
Repayment of loans	(920)	(3,200)
Receipts from issue of notes	800	-
Dividend paid	(2,000)	-
Net Cash Used in Financing Activities	(1,678)	(1,660)
Net Increase / (Decrease) in Cash and Cash Equivalents	13	(218)
Cash and Cash Equivalents at Beginning of Period	331	361
Effect of foreign exchange rate changes	2	2
Cash and Cash Equivalents at End of Period	346	145
	14	

The notes on pages 8 to 21 form part of this interim financial report.

AIRPORT AUTHORITY
Notes to the Interim Financial Report
(Expressed in Hong Kong Dollars)

1. Summary of Significant Accounting Policies

Basis of preparation

This unaudited interim financial report has been prepared so as to comply with Hong Kong Accounting Standard (HKAS) 34, *“Interim Financial Reporting”*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). This interim financial report also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with the exception of disclosure on Earnings Per Share which is not relevant to the Airport Authority (“the Authority”) as the Authority’s shares are not publicly traded. It was authorised for issuance on 25 November 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007/08 annual financial statements, except that the group has early adopted HKFRS 8, *“Operating Segments”*, which is effective for annual periods beginning on or after 1 January 2009 and supersedes HKAS 14, *“Segment Reporting”*. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, HKAS 14, required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity’s system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the group’s reporting segments has changed and is now presented in a manner that is more consistent with internal reporting provided to the group’s most senior executive management.

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the six months ended 30 September 2008 and which have not been early adopted in this report, except for the early adoption of HKFRS 8 as noted above.

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 group’s operating results and financial position.

Revised HKAS 1, *“Presentation of Financial Statements”*, which is effective for annual periods beginning on or after 1 January 2009, will result in new and amended disclosures in the group’s financial statements for the periods beginning on or after 1 April 2009.

The preparation of the interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2007/08 annual financial statements. The consolidated interim financial

statements and explanatory notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards.

The financial information relating to the financial year ended 31 March 2008 that is included in the interim financial report as being previously reported information does not constitute the Authority's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 March 2008 are available from the Authority's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 27 May 2008.

2. Segmental Information

Services from which reportable segments derive their revenue

In prior periods, segment information reported externally was analysed on the basis of the types of services provided by the group's operating departments (i.e. aeronautical business, non-aeronautical business and others). However, information reported to the group's chief operating decision maker for the purposes of resource allocation and assessment of segment 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 and operating parameters set out for each department. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8 and believes that this presentation provides more relevant information than that previously shown under HKAS 14.

Reconciliation of segmental information to the information presented in the interim financial report has not been presented, as the reconciling items are considered to be immaterial.

Revenues from major services

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

Geographical Information

No geographical information is shown as the turnover and operating profit of the group is substantially derived from activities in Hong Kong.

Information about major customers

Included in the revenue of \$4,530 million for the six months ended 30 September 2008 (six months ended 30 September 2007: \$4,199 million) are revenues of approximately \$1,143 million (six months ended 30 September 2007: \$1,049 million) which arose from the group's largest customer.

3. Operating Profit before Interest and Finance Charges

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

\$ million	Six months ended 30 September	
	2008	2007
Auditors' remuneration - audit services	1	1
- tax services	1	-
Stores and spares expensed	38	30
Loss on disposal of fixed assets	6	33
Depreciation of fixed assets	1,123	1,134
Amortisation of intangible asset	8	7
Gain on forward contracts	(45)	(30)
Rentals from investment properties less direct outgoings of \$6 million (2007: \$nil)	22	-

4. Finance Costs

\$ million	Six months ended 30 September	
	2008	2007
Interest on notes and bank loans wholly repayable within five years	124	139
Interest on notes and bank loans wholly repayable after five years	29	79
Other borrowing costs	4	1
Other interest expense	3	-
Total interest expense on financial liabilities not at fair value through profit or loss	160	219
Interest on notes wholly repayable within five years stated at fair value through profit or loss	15	-
Interest on notes wholly repayable after five years stated at fair value through profit or loss	-	23
Less: Borrowing costs capitalised into construction in progress	(25)	(22)
	150	220
Foreign exchange gain	(6)	(15)
Derivative financial instruments		
- Cash flow hedges:		
transfer from hedging reserve	(43)	(34)
	101	171

5. Taxation

Taxation in the consolidated income statement represents:

\$ million	Six months ended 30 September	
	2008	2007
Current tax		
- Provision for Hong Kong profits tax for the period	-	-
Deferred tax		
- Origination and reversal of temporary differences	271	248
	271	248

No provision for Hong Kong profits tax has been made in the interim financial report in respect of the Authority as the current period taxable income has been offset against carried forward tax losses.

No provision for PRC enterprise income tax has been made in the interim financial report in respect of the group as there were no estimated assessable profits during the period.

6. Dividend

Dividend payable to the equity shareholder of the Authority:

\$ million	Six months ended 30 September	
	<u>2008</u>	<u>2007</u>
Final dividend in respect of the previous financial year ended 31 March 2008, declared and approved during the following interim period of \$6,525.71 per share (2007: \$5,220.57 per share)	2,000	1,600

7. Fixed Assets

During the six months ended 30 September 2008, the group acquired or commissioned assets with a cost of \$873 million (six months ended 30 September 2007: \$1,031 million). Items of civil works and plant and machinery with a net book value of \$8 million were disposed of during the six months ended 30 September 2008 (six months ended 30 September 2007: \$33 million), resulting in a loss on disposal of \$6 million (six months ended 30 September 2007: \$33 million).

All investment properties of the group are stated in the balance sheet at cost net of accumulated depreciation and impairment losses. The group engaged an independent firm of surveyors, Knight Frank Petty, who have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, to value its investment properties. Under the Land Grant, the group is not permitted to assign its leasehold interest of the airport island to any third party, but is allowed to sublease or grant licences to use the land and buildings for a period up to the term of the Land Grant less three days subject to compliance with certain restrictive terms of the Land Grant. In order to determine the fair value of the group's investment properties, the valuer, Knight Frank Petty, has considered these restrictions in their valuations of these investment properties. The fair value of the group's restricted investment properties as at 30 September 2008 calculated by reference to net rental income allowing for reversionary income potential amounted to \$654 million (31 March 2008: \$701 million).

Following a review undertaken during the period, the estimated useful lives of certain fixed assets were revised with effect from 1 April 2008 resulting in a net increase in the group's depreciation charge of approximately \$70 million for the six months ended 30 September 2008 (six months ended 30 September 2007: \$110 million).

8. Intangible Asset

\$ million	At 30 September 2008	At 31 March 2008
Cost:		
Balance brought forward	305	279
Exchange adjustment	<u>7</u>	<u>26</u>
Balance carried forward	<u>312</u>	<u>305</u>
Accumulated amortisation:		
Balance brought forward	22	7
Charge for the period	8	14
Exchange adjustment	<u>1</u>	<u>1</u>
Balance carried forward	<u>31</u>	<u>22</u>
Net book value:		
Balance carried forward	<u>281</u>	<u>283</u>

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 RMB250 million (\$247 million) in addition to annual minimum franchise fees of RMB 3 million (\$3 million) payable to Zhuhai Airport Group Limited ("ZHGL") for 20 years. The present value of the minimum annual franchise fees payable and the upfront franchise fee are recognised as the cost of the intangible asset, which is amortised over 20 years on a straight line basis with effect from 1 October 2006 when HKZAM took over management of ZHU. Finance charges implicit in the annual minimum franchise fees are charged to the income statement using the effective interest rate method.

9. Interest in a Jointly Controlled Entity

\$ million	At 30 September 2008	At 31 March 2008
Share of net assets	2,241	2,150
Goodwill	<u>259</u>	<u>253</u>
	<u>2,500</u>	<u>2,403</u>

Details of the group's interest in the jointly controlled entity are as follows:

<u>Name of joint venture</u>	<u>Form of business structure</u>	<u>Place of incorporation and operation</u>	<u>Particulars of issued and paid up capital</u>	<u>Proportion of ownership interest</u>		<u>Principal activity</u>
				<u>Group's effective interest</u>	<u>Held by the Authority</u>	
Hangzhou Xiaoshan International Airport Co., Ltd. ("HXIACL")	Incorporated	PRC	RMB 5,686 million	35%	35%	Management, operation and development of Hangzhou Xiaoshan International Airport ("HXIA") and provision of related services

HXIA has 31 December as its financial accounting year end date, which is not coterminous with that of the group. The Authority's consolidated financial statements for the year ended 31 March 2007 incorporated the results of HXIA from the date of acquisition of 29 November 2006 to 31 March 2007 based on its management accounts prepared in accordance with the Authority's accounting policies. With effect from 1 April 2007, the Authority determined that it was more practicable to incorporate its share of HXIA's results and net assets based on HXIA's statutory financial year ending 31 December, and for the interim financial report ending 30 September to incorporate HXIA's results and net assets based on its management accounts for the six months period ended 30 June each year. Accordingly, in this interim financial report, the results of HXIA have been accounted for based on its management accounts for the period from 1 January 2008 to 30 June 2008 (30 September 2007: management accounts for the period from 1 April 2007 to 30 June 2007, excluding three months' results from 1 January 2007 to 31 March 2007 which were incorporated in the financial statements for the year ended 31 March 2007). The results of HXIA accounted for have been adjusted to comply with the Authority's accounting policies.

10. Other Investments

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

IEC Holdings Limited has granted an under-lease of the land to 2031 to the joint venture company which constructed the exhibition centre and will operate the exhibition centre

over the period to 2031, at the end of which the land and the exhibition facilities will revert to IEC Holdings Limited for nil consideration.

11. Defined Benefit Retirement Plan

The amounts recognised in the balance sheet of the group are as follows:

	At 30 September 2008	At 31 March 2008
\$ million		
Present value of wholly funded obligation	(543)	(539)
Fair value of plan assets	447	497
Net unrecognised actuarial loss	<u>167</u>	<u>118</u>
Net asset*	<u><u>71</u></u>	<u><u>76</u></u>

* 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.

12. Trade and Other Receivables

	At 30 September 2008	At 31 March 2008
\$ million		
Trade debtors	1,161	1,086
Less: allowance for doubtful debts	<u>(47)</u>	<u>(19)</u>
	1,114	1,067
Other debtors	<u>19</u>	<u>21</u>
Loans and receivables	1,133	1,088
Prepayments	43	25
Deposits and debentures	<u>9</u>	<u>9</u>
	<u><u>1,185</u></u>	<u><u>1,122</u></u>

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

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

	At 30 September 2008	At 31 March 2008
\$ million		
Amounts not yet due	1,037	988
Less than one month past due	53	61
One to three months overdue	14	12
More than three months overdue	<u>10</u>	<u>6</u>
	<u><u>1,114</u></u>	<u><u>1,067</u></u>

Trade debtors are generally due within 14 days from the date of billing. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, there are procedures in place to closely monitor the payment performance. 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. In respect of the group's rental income from operating leases, sufficient rental deposits are held to cover any potential exposure to credit risk.

13. Deposits and Obligations in respect of Lease Arrangement

In December 2001, the Authority entered into a lease-out/lease-back agreement for its baggage handling system and related security screening equipment. Since the Authority retains title to these assets and no restrictions are placed on its ability to utilise them, no adjustment is made to fixed assets. The total cost of the system and related equipment as at 30 September 2008 amounted to \$1,629 million (31 March 2008: \$1,564 million) and net book value of \$839 million (31 March 2008: \$812 million).

Under this lease arrangement, the Authority received cash of \$1,229 million in April 2002 and committed to make long-term lease payments with a total estimated net present value of \$1,120 million which were defeased by payments of deposits ("Defeasance Deposits") totalling \$1,120 million with third party financial institutions ('Payment Undertakers'). The payment obligations and deposits made were offset and not shown on the balance sheet in previous periods' financial statements, in order to reflect the overall commercial effect of the arrangement.

The net cash amount received in April 2002, less related transaction expenses, of \$90 million in respect of this transaction was recorded as deferred income, and was being amortised over the lease term.

Given the current market conditions, the management is of the view, that the netting-off of the payment obligations and the Defeasance Deposits may no longer be appropriate given the risk of default by the Payment Undertakers is no longer considered remote. Accordingly, the payment obligations and the Defeasance Deposits have been recorded on the balance sheet of the interim financial report as at 30 September 2008 as current assets and current liabilities. Further, following the credit rating downgrade of the guarantor, which is the parent company of one of the Payment Undertakers, the Authority is required to replace the Payment Undertaker with a financial institution with acceptable credit rating or undertake the payment obligation itself or alternatively to terminate the lease arrangements forthwith. In the event of early termination of the lease arrangement, the Authority is required to make payment to the lessor of an amount which exceeds the balance of the deposits held by the Payment Undertakers. This excess is estimated at approximately \$72 million. Assuming termination, provision for the additional amount payable has been made in the interim financial report and has been set off against the balance of the deferred income brought forward of \$52 million with the balance of \$20 million being charged in the income statement in the current period. The provision of \$72 million has been included as part of "Obligations in respect of lease arrangement" under current liabilities.

14. Cash and Cash Equivalents

\$ million	At 30 September <u>2008</u>	At 31 March <u>2008</u>
Deposits with banks	227	119
Cash at bank and in hand	<u>119</u>	<u>212</u>
Cash and cash equivalents	<u><u>346</u></u>	<u><u>331</u></u>

As at 30 September 2008, deposits with banks mature within three months and the effective interest rate range is 1.5% to 3.9% (31 March 2008: 0.6% to 2.3%).

As at 30 September 2008, cash and cash equivalents include deposits with banks of \$58 million (31 March 2008: \$65 million) held by a subsidiary that is not freely remittable to the holding company because of currency exchange restrictions.

15. Interest-bearing Borrowings

- (a) In September 2007, the Authority signed a three-year Hong Kong Dollar revolving credit facility of \$6,000 million. Interest is payable on amounts drawn down at a rate relating to HIBOR. As at 30 September 2008, \$4,000 million (31 March 2008: \$4,600 million) of the revolving credit facility was drawn down.
- (b) In July and August 2008, the Authority issued four Hong Kong Dollar fixed rate notes totalling \$800 million. The 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.
- (c) During the period, the Authority also drew down from uncommitted money market line facilities of \$3,290 million (31 March 2008: \$4,190 million). Interest is payable on amounts drawn down at a rate relating to HIBOR. An amount of \$600 million (31 March 2008: \$320 million) was outstanding at the period end.

16. Trade and Other Payables

\$ million	At 30 September <u>2008</u>	At 31 March <u>2007</u>
Creditors and accrued charges	1,500	1,748
Deposits received	426	309
Contract retentions	<u>123</u>	<u>125</u>
Financial liabilities measured at amortised cost	<u><u>2,049</u></u>	<u><u>2,182</u></u>
Classified in the balance sheet as :		
Current liabilities	1,854	2,019
Non-current liabilities	<u>195</u>	<u>163</u>
	<u><u>2,049</u></u>	<u><u>2,182</u></u>

As at 30 September 2008, all trade and other payables are expected to be settled within one year except for \$195 million (31 March 2008: \$163 million), which was expected to be settled after one year. The amounts due after one year are mainly related to licence deposits received from retail licencees and contract retentions, the majority of which are due to be repaid within two to three years.

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

\$ million	At 30 September <u>2008</u>	At 31 March <u>2008</u>
Due within 30 days or on demand	376	363
Due after 30 days but within 60 days	190	294
Due after 60 days but within 90 days	138	183
Due after 90 days	<u>796</u>	<u>908</u>
Total	<u><u>1,500</u></u>	<u><u>1,748</u></u>

17. Capital and Reserves

\$ million	<u>Share capital</u>	<u>Exchange reserve</u>	<u>Hedging reserve</u>	<u>Retained profits</u>	<u>Total</u>	<u>Minority interests</u>	<u>Total equity</u>
At 1 April 2007	30,648	43	16	3,597	34,304	196	34,500
Dividend approved in respect of the previous year	-	-	-	(1,600)	(1,600)	-	(1,600)
Exchange difference on translation of financial statements of :							
- PRC subsidiary	-	4	-	-	4	4	8
- PRC jointly controlled entity	-	52	-	-	52	-	52
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	-	-	32	-	32	-	32
Cash flow hedge: transfer from equity to profit or loss, net of deferred tax	-	-	(33)	-	(33)	-	(33)
Profit for the period	-	-	-	1,136	1,136	(3)	1,133
At 30 September 2007	<u>30,648</u>	<u>99</u>	<u>15</u>	<u>3,133</u>	<u>33,895</u>	<u>197</u>	<u>34,092</u>
At 1 October 2007	30,648	99	15	3,133	33,895	197	34,092
Exchange difference on translation of financial statements of :							
- PRC subsidiary	-	14	-	-	14	11	25
- PRC jointly controlled entity	-	161	-	-	161	-	161
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	-	-	(88)	-	(88)	-	(88)
Cash flow hedge: transfer from equity to profit or loss, net of deferred tax	-	-	68	-	68	-	68
Profit for the period	-	-	-	1,137	1,137	(2)	1,135
At 31 March 2008	<u>30,648</u>	<u>274</u>	<u>(5)</u>	<u>4,270</u>	<u>35,187</u>	<u>206</u>	<u>35,393</u>

\$ million	<u>Share capital</u>	<u>Exchange reserve</u>	<u>Hedging reserve</u>	<u>Retained profits</u>	<u>Total</u>	<u>Minority interests</u>	<u>Total equity</u>
At 1 April 2008	30,648	274	(5)	4,270	35,187	206	35,393
Dividend approved in respect of the previous year	-	-	-	(2,000)	(2,000)	-	(2,000)
Exchange difference on translation of financial statements of :							
- PRC subsidiary	-	4	-	-	4	4	8
- PRC jointly controlled entity	-	54	-	-	54	-	54
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	-	-	52	-	52	-	52
Cash flow hedge: transfer from equity to profit or loss, net of deferred tax	-	-	(46)	-	(46)	-	(46)
Profit for the period	-	-	-	1,358	1,358	(3)	1,355
At 30 September 2008	30,648	332	1	3,628	34,609	207	34,816

18. Outstanding Commitments

\$ million	Group	
	At 30 September <u>2008</u>	At 31 March <u>2008</u>
	Commitments outstanding for the group in respect of capital expenditure not provided for in the interim financial report are as follows:	
Contracted for	1,382	1,398
Authorised but not contracted for	1,808	1,839
	<u>3,190</u>	<u>3,237</u>

In addition, the outstanding commitments of the group's jointly-controlled entity, Hangzhou Xiaoshan International Airport Co., Ltd., which are not included in the above, are as follows:

\$ million	Group's jointly controlled entity	
	At 30 September <u>2008</u>	At 31 March <u>2008</u>
	Commitments outstanding for the group's jointly controlled entity in respect of capital expenditure not provided for in the interim financial report are as follows:	
Contracted for	1,673	145
Authorised but not contracted for	4,795	7,262
	<u>6,468</u>	<u>7,407</u>

The group holds a 35% equity interest in the jointly controlled entity. 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, the jointly controlled entity arranged loan facilities of RMB4.7 billion for the second phase development of the airport facilities and RMB200 million has been drawn down from the facility as at 30 September 2008.

19. Contingent Liabilities

The group is currently under discussion with a contractor regarding claims relating to construction of the SkyPier project. 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.

20. Material Related Party Transactions

The Authority is wholly-owned by the Hong Kong SAR Government ("the Government"). Transactions between the Authority and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise in the normal dealings between the Government and the Authority, are considered to be related party transactions pursuant to HKAS 24, "*Related Party Disclosures*" and are identified separately in this interim financial report.

Members of the Board and the Executive Directors, and parties related to them, are also considered to be related parties of the Authority. Material transactions with these parties are separately disclosed.

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

- (a) The Authority has entered into service agreements with the Government under which the Government is to provide aviation meteorological and air traffic control services and aircraft rescue and fire fighting services at the airport. The amounts incurred for the six months ended 30 September 2008 amounted to \$386 million (six months ended 30 September 2007: \$370 million) and the amounts due to the Government as at 30 September 2008 with respect to the above services amounted to \$nil (31 March 2008: \$4 million).
- (b) In addition, the Authority has also entered into agreements with the Government under which the Government provides electrical and mechanical maintenance services at the airport. The amounts incurred for these services for the six months ended 30 September 2008 amounted to \$49 million (six months ended 30 September 2007: \$50 million). As at 30 September 2008, the amount due to the Government with respect to the above services amounted to \$37 million (31 March 2008: \$49 million).
- (c) The Authority has entered into an agreement with AVSECO, a subsidiary in which the Government is the other shareholder, for the provision of airport related security services to the Authority on a cost reimbursement basis. The amount incurred by

the Authority for these services for the six months ended 30 September 2008 amounted to \$197 million (six months ended 30 September 2007: \$179 million). In addition, the Authority licensed certain areas to AVSECO for a total fee of \$8 million for the six months ended 30 September 2008 (six months ended 30 September 2007: \$4 million). As at 30 September 2008, the amount due to AVSECO with respect to security services amounted to \$5 million (31 March 2008: \$8 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 11.6% equity interest, to participate and co-operate with a third party consortium in the development, funding and operation of the AsiaWorld-Expo exhibition centre. The Authority has sub-leased to IEC Holdings Limited to 2047 the leasehold land on which the exhibition centre has been built.
- (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 six months ended 30 September 2008 amounted to \$19 million (six months ended 30 September 2007: \$14 million). As at 30 September 2008, the amount due to MTRC with respect to the maintenance services amounted to \$6 million (31 March 2008: \$9 million).
- (f) The Authority has provided property rental and management services at the airport to MTRC. The aggregate amounts received for the six months ended 30 September 2008 amounted to \$3 million (six months ended 30 September 2007: \$4 million). As at 30 September 2008, the aggregate amounts due from MTRC amounted to \$0.3 million (31 March 2008: \$1 million).
- (g) The Authority has provided property management services, fitting-out works and other services at the airport to various Government departments, agencies or Government controlled entities. The aggregate amounts received for the six months ended 30 September 2008 amounted to \$17 million (six months ended September 2007: \$2 million). As at 30 September 2008, the aggregate amounts due from these departments, agencies or entities amounted to \$5 million (31 March 2008: \$5 million).
- (h) The Authority has received various administrative, building plan submission and other services from various Government departments, agencies or Government controlled entities. The aggregate amounts paid for the above services, aerodrome license and other fees for the six months ended 30 September 2008 amounted to \$6 million (six months ended 30 September 2007: \$7 million). As at 30 September 2008, there was no outstanding amount due to these departments, agencies or entities (31 March 2008: \$nil).

21. Comparative Figures

As a result of adopting HKFRS7, "*Financial Instruments: Disclosures*" and HKFRS 8, "*Operating Segments*" certain comparative figures have been adjusted to conform with changes in disclosures in the current period and to show separately comparative amounts in respect of items disclosed for the first time for the current period.