

**AIRPORT AUTHORITY
INTERIM FINANCIAL REPORT
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009**

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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 24 which comprises the consolidated balance sheet of the Airport Authority (the "Authority") as at 30 September 2009 and the related consolidated income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the six-month period then ended and explanatory notes. The Authority has prepared the interim financial report to be in compliance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Hong Kong Accounting Standard 34, "*Interim financial reporting*" issued by the Hong Kong Institute of Certified Public Accountants. The Members of the Board are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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 2009 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

1 December 2009

AIRPORT AUTHORITY
Consolidated Income Statement
For the six months ended 30 September 2009 - Unaudited
(Expressed in Hong Kong dollars)

	Note	Six months ended 30 September	
		<u>2009</u> \$ million	<u>2008</u> \$ million
Airport charges		1,324	1,567
Security charges		372	395
Aviation security services		75	71
Airside support services franchises		682	694
Retail licences and advertising revenue		1,340	1,312
Other terminal commercial revenue		397	367
Real estate revenue		89	87
Other income		37	37
Turnover		<u>4,316</u>	<u>4,530</u>
Staff costs and related expenses		(562)	(558)
Repairs and maintenance		(183)	(196)
Operational contracted services		(159)	(163)
Government services	19	(395)	(386)
Government rent and rates		(78)	(104)
Occupancy expenses		(108)	(103)
Other operating expenses		(156)	(215)
Operating Expenses before Depreciation and Amortisation		<u>(1,641)</u>	<u>(1,725)</u>
Operating Profit before Depreciation and Amortisation		2,675	2,805
Depreciation and amortisation		(1,065)	(1,131)
Operating Profit before Interest and Finance Costs	4	<u>1,610</u>	<u>1,674</u>
Interest and finance costs:			
Finance costs	5	(102)	(101)
Interest income		14	10
		(88)	(91)
Share of profits of a jointly controlled entity		50	43
Profit before Taxation		<u>1,572</u>	<u>1,626</u>
Income tax	6	(268)	(271)
Profit for the Period		<u>1,304</u>	<u>1,355</u>
Attributable to:			
Equity shareholder of the Authority		1,307	1,358
Minority interests		(3)	(3)
Profit for the Period		<u>1,304</u>	<u>1,355</u>

The notes on pages 10 to 24 form part of this interim financial report. Details of dividend payable to equity shareholder of the Authority are set out in note 7.

AIRPORT AUTHORITY
Consolidated Statement of Comprehensive Income
For the six months ended 30 September 2009 - Unaudited
(Expressed in Hong Kong dollars)

	Six months ended	
	30 September	
	<u>2009</u>	<u>2008</u>
	\$ million	\$ million
Profit for the Period	1,304	1,355
Other Comprehensive Income for the Period		
Exchange differences on translation of financial statements of a:		
- subsidiary in the People's Republic of China ("PRC")	-	8
- jointly controlled entity in PRC	<u>4</u>	<u>54</u>
	4	62
Cash flow hedge: effective portion of changes in fair value	1	49
Less: Deferred tax	<u>1</u>	<u>3</u>
	2	52
Cash flow hedge: transfer from equity to profit or loss	(1)	(43)
Less: Deferred tax	<u>(1)</u>	<u>(3)</u>
	(2)	(46)
	-	6
	<u>4</u>	<u>68</u>
Total Comprehensive Income for the Period	<u>1,308</u>	<u>1,423</u>
Attributable to:		
Equity shareholder of the Authority	1,311	1,422
Minority interests	<u>(3)</u>	<u>1</u>
Total Comprehensive Income for the Period	<u>1,308</u>	<u>1,423</u>

The notes on pages 10 to 24 form part of this interim financial report.

AIRPORT AUTHORITY
Consolidated Balance Sheet
At 30 September 2009 - Unaudited
(Expressed in Hong Kong dollars)

	At 30 September 2009	At 31 March 2009
Note	\$ million	\$ million
Non-current Assets		
Fixed assets	8	
- Investment properties	272	279
- Interest in leasehold land	8,916	9,032
- Other property, plant and equipment	37,707	37,817
	<u>46,895</u>	<u>47,128</u>
Intangible asset	9	273
Interest in a jointly controlled entity	10	2,606
Other investments	11	191
Net defined benefit retirement plan asset	12	63
Derivative financial instruments		95
	<u>50,145</u>	<u>50,356</u>
Current Assets		
Stores and spares		51
Trade and other receivables	13	1,010
Cash and bank balances	14	410
Derivative financial instruments		37
	<u>1,567</u>	<u>1,508</u>
Current Liabilities		
Interest-bearing borrowings	15	(1,453)
Trade and other payables	16	(1,970)
Deferred income		(113)
Derivative financial instruments		(5)
	<u>(6,284)</u>	<u>(3,541)</u>
Net Current Liabilities		
	<u>(4,717)</u>	<u>(2,033)</u>
Total Assets Less Current Liabilities		
	<u>45,428</u>	<u>48,323</u>
Non-current Liabilities		
Interest-bearing borrowings	15	(7,924)
Trade and other payables	16	(237)
Deferred income		(1,544)
Derivative financial instruments		(12)
Deferred tax liabilities		(2,568)
	<u>(10,282)</u>	<u>(12,285)</u>
Net Assets		
	<u>35,146</u>	<u>36,038</u>
Capital and Reserves		
Share capital		30,648
Reserves		4,296
Total equity attributable to equity shareholder of the Authority		<u>34,944</u>
Minority interests		205
Total Equity		<u>35,146</u>

Approved and authorised for issue on behalf of the Members of the Board on 1 December 2009.

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 10 to 24 form part of this interim financial report.

AIRPORT AUTHORITY
Consolidated Statement of Changes in Equity
For the six months ended 30 September 2009 - Unaudited
(Expressed in Hong Kong dollars)

\$ million	Note	Attributable to Equity Shareholder of the Authority					Total	Minority interests	Total equity
		Share capital	Exchange reserve	Capital reserve	Hedging reserve	Retained profits			
Balance at 1 April 2008		30,648	274	-	(5)	4,270	35,187	206	35,393
Changes in Equity for the Six Months Ended 30 September 2008:									
Dividend approved in respect of the previous year	7	-	-	-	-	(2,000)	(2,000)	-	(2,000)
Total comprehensive income for the period		-	58	-	6	1,358	1,422	1	1,423
Balance at 30 September 2008 and 1 October 2008		30,648	332	-	1	3,628	34,609	207	34,816
Changes in Equity for the Six Months Ended 31 March 2009:									
Transfer of government subsidies received by the PRC jointly controlled entity to capital reserve		-	-	106	-	(106)	-	-	-
Total comprehensive income for the period		-	(1)	-	(5)	1,230	1,224	(2)	1,222
Balance at 31 March 2009		30,648	331	106	(4)	4,752	35,833	205	36,038
Balance at 1 April 2009		30,648	331	106	(4)	4,752	35,833	205	36,038
Changes in Equity for the Six Months Ended 30 September 2009:									
Dividend approved in respect of the previous year	7	-	-	-	-	(2,200)	(2,200)	-	(2,200)
Total comprehensive income for the period		-	4	-	-	1,307	1,311	(3)	1,308
Balance at 30 September 2009		30,648	335	106	(4)	3,859	34,944	202	35,146

The retained profits as at 30 September 2009 includes \$87 million (31 March 2009: \$85 million) in respect of the Authority's subsidiary, Aviation Security Company Limited ("AVSECO"), which in accordance with its memorandum of association is not permitted to distribute or transfer any portion of its property or profits, directly or indirectly, by way of dividend, bonus or otherwise howsoever, to its shareholders.

The notes on pages 10 to 24 form part of this interim financial report.

AIRPORT AUTHORITY
Consolidated Cash Flow Statement
For the six months ended 30 September 2009- Unaudited
(Expressed in Hong Kong dollars)

	Six months ended	
	30 September	
	2009	2008
Note	\$ million	\$ million
Operating Activities		
Profit before taxation	1,572	1,626
Adjustments for:		
Depreciation	941	1,007
Amortisation of interest in leasehold land	116	116
Amortisation of intangible asset	8	8
Interest on notes and bank loans	117	152
Other borrowing costs and interest expense	13	13
Interest income	(14)	(10)
Cash flow hedges:		
- net gain on forward foreign exchange contracts, reclassified from equity	(10)	(45)
- net loss on interest rate swaps, reclassified from equity	9	2
Fair value hedges:		
- net (gain)/loss on fair value hedging instruments (interest rate swaps)	(10)	2
- net gain on underlying hedged interest-bearing borrowings	(17)	(17)
Share of profits of a jointly controlled entity	(50)	(43)
Impairment loss on trade and other receivables recognised	2	28
Net loss on disposal of other property, plant and equipment	3	6
Loss in respect of the early termination of a lease arrangement	-	20
Net foreign exchange gain	-	(6)
Amortisation of deferred income	(56)	(56)
Expenses recognised in respect of defined benefit retirement plan	23	16
Operating Profit before Changes in Working Capital	2,647	2,819
Decrease in stores and spares	7	10
Decrease/(increase) in trade and other receivables	48	(91)
(Decrease)/increase in trade and other payables	(110)	56
Net Cash Generated from Operating Activities	2,592	2,794
Investing Activities		
Increase in term deposits	(16)	(43)
Interest received	14	10
Payment for purchase of other property, plant and equipment	(995)	(1,070)
Receipts from disposal of other property, plant and equipment	-	2
Payment of annual franchise fee for a PRC subsidiary	(2)	(2)
Net Cash Used in Investing Activities	(999)	(1,103)

AIRPORT AUTHORITY
Consolidated Cash Flow Statement (continued)
For the six months ended 30 September 2009- Unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2009	2008
Note	\$ million	\$ million
Financing Activities		
Interest paid on notes and bank loans	(133)	(165)
Other borrowing costs paid	(4)	(3)
Drawdown of new loans	400	600
Repayment of loans	(500)	(920)
Receipts from issue of notes	900	800
Net interest income received on interest rate swaps	25	10
Dividend paid	(2,200)	(2,000)
Net Cash Used in Financing Activities	<u>(1,512)</u>	<u>(1,678)</u>
Net Increase in Cash and Cash Equivalents	81	13
Cash and Cash Equivalents at Beginning of Period	343	331
Effect of foreign exchange rate changes	-	2
Cash and Cash Equivalents at End of Period	14 <u>424</u>	<u>346</u>

The notes on pages 10 to 24 form part of this interim financial report.

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

1. Summary of Significant Accounting Policies and 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 issue on 1 December 2009.

For the purposes of this interim financial report, the Authority and its subsidiaries are together referred to as the “group”.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008/09 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2009/10 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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 condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the group since the 2008/09 annual financial statements. The condensed 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 (“HKFRS”).

The interim financial report is unaudited, but has been reviewed by KPMG 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 HKICPA. KPMG’s independent review report to the Members of the Board is included on page 3.

The financial information relating to the financial year ended 31 March 2009 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 2009 are available from the Authority’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 May 2009.

2. 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 1 (revised 2007), “*Presentation of financial statements*”
- Improvements to HKFRSs (2008)

- 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*”
- HKAS 23 (revised 2007), “*Borrowing costs*”

The group has 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. 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. In addition, the amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report. The impact of the remainder of these developments on the interim financial report 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 this interim financial report 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 “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.

- 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.

3. Segmental Information

Services from which reportable segments derive their revenue

In accordance with HKFRS 8, segment information disclosed in the interim financial report has been prepared in a manner consistent with the information used by the group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. 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.

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

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 revenue of \$4,316 million for the six months ended 30 September 2009 (six months ended 30 September 2008: \$4,530 million) are revenues of approximately \$1,047 million (six months ended 30 September 2008: \$1,155 million) which arose from this customer. This includes only revenues arising from those entities which are known to the group to be under same common control as this customer.

4. Operating Profit before Interest and Finance Costs

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

\$ million	Six months ended 30 September	
	<u>2009</u>	<u>2008</u>
Auditors' remuneration		
- audit services	1	1
- tax services	-	1
Stores and spares expensed	28	38
Net loss on disposal of other property, plant and equipment	3	6
Impairment loss on trade and other receivables recognised	2	28
Depreciation:		
- assets held for use under operating leases	55	73
- other assets	886	934
Amortisation:		
- interest in leasehold land	116	116
- intangible asset	8	8
Operating lease charges: minimum lease payments		
- hire of plant and machinery	2	2
- hire of other assets (including property rentals)	6	4
Rentals from investment properties		
less direct outgoings of \$6 million (2008: \$6 million)	(16)	(16)

5. Finance Costs

\$ million	Six months ended 30 September	
	<u>2009</u>	<u>2008</u>
Interest on bank loans repayable		
- within five years	15	55
Interest on notes repayable		
- within five years	79	69
- after five years	25	29
Other borrowing costs	4	10
Other interest expense	9	3
Total interest expense on financial liabilities not stated at fair value through profit or loss	132	166
Interest on notes stated at fair value through profit or loss repayable		
- within five years	35	24
- after five years	1	-
Less: Borrowing costs capitalised into construction in progress	(38)	(25)
	130	165
Net foreign exchange gain	-	(6)
Cash flow hedges:		
- net gain on forward foreign exchange contracts, reclassified from equity	(10)	(45)
- net loss on interest rate swaps, reclassified from equity	9	2
Fair value hedges:		
- net (gain)/loss on fair value hedging instruments (interest rate swaps) *	(10)	2
- net gain on underlying hedged interest-bearing borrowings	(17)	(17)
	<u>102</u>	<u>101</u>

* Includes interest received of \$25 million (six months ended 30 September 2008: \$9 million) in respect of interest rate swaps under fair value hedging arrangements.

6. Taxation

Taxation in the consolidated income statement represents:

\$ million	Six months ended 30 September	
	<u>2009</u>	<u>2008</u>
Deferred tax		
- Origination and reversal of temporary differences	268	271

No provision for Hong Kong Profits Tax has been made in the interim financial report in respect of the Authority and its Hong Kong subsidiaries as the current period's 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 PRC subsidiaries as there were no estimated assessable profits during the period.

7. Dividends

\$ million	Six months ended 30 September	
	<u>2009</u>	<u>2008</u>
Final dividend payable to the equity shareholder of the Authority in respect of the previous financial year, approved and paid during the period of \$7,178.28 per share (2008: \$6,525.71 per share)	<u>2,200</u>	<u>2,000</u>

8. Fixed Assets

During the six months ended 30 September 2009, the group acquired or commissioned assets with a cost of \$827 million (six months ended 30 September 2008: \$873 million). Items of civil works and plant and machinery with a net book value of \$3 million were disposed of during the six months ended 30 September 2009 (six months ended 30 September 2008: \$8 million), resulting in net loss on disposal of \$3 million (six months ended 30 September 2008: \$6 million).

Following a review undertaken during the period, the estimated useful lives of certain fixed assets were revised with effect from 1 April 2009 resulting in a net increase in the group's depreciation charge of approximately \$47 million for the six months ended 30 September 2009 (six months ended 30 September 2008: \$70 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 Land Grant") signed on 1 December 1995 with the Hong Kong SAR Government ("the Government"), the Authority 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 2009 calculated by reference to net rental income allowing for reversionary income potential amounted to \$647 million (31 March 2009: \$553 million).

9. Intangible Asset

\$ million	At 30 September 2009	At 31 March 2009
Cost:		
Balance brought forward	312	305
Exchange adjustment	-	7
Balance carried forward	<u>312</u>	<u>312</u>
Accumulated amortisation:		
Balance brought forward	39	22
Charge for the period	8	16
Exchange adjustment	-	1
Balance carried forward	<u>47</u>	<u>39</u>
Net book value:		
Balance carried forward	<u>265</u>	<u>273</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 RMB 250 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 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. Finance costs implicit in the annual minimum franchise fees are charged to the income statement using the effective interest rate method.

10. Interest in a Jointly Controlled Entity

\$ million	At 30 September 2009	At 31 March 2009
Share of net assets	2,442	2,389
Goodwill	218	217
	<u>2,660</u>	<u>2,606</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

As at 30 September 2009, the group's share of net assets includes an amount of \$147 million (31 March 2009: \$147 million) which represents the group's share of airport construction fee subsidies ("ACF") and other subsidies received from the PRC government in prior periods. 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, and for the interim financial report ending 30 September to incorporate HXIACL's results and net assets based on its management accounts for the six months ended 30 June each year. Accordingly, in this interim financial report, the results of HXIACL have been accounted for based on its management accounts for the period from 1 January 2009 to 30 June 2009 (30 September 2008: management accounts for the period from 1 January 2008 to 30 June 2008) and adjusted for significant transactions and events that occurred during the period from 1 July 2009 to 30 September 2009. The financial information of HXIACL accounted for has been adjusted to comply with the Authority's accounting policies.

During the year ended 31 March 2009, HXIACL and a PRC government-owned entity entered into an agreement to acquire land use rights for 50 years at RMB 3.4 billion (\$3.8 billion) for the second phase of the airport development. Under the agreement, HXIACL and the PRC government-owned entity agreed to contribute RMB 2.2 billion (\$2.4 billion) and RMB 1.2 billion (\$1.4 billion), respectively for such land use rights. As at 30 June 2009, full payment of RMB 3.4 billion (\$3.8 billion) (31 December 2008: RMB 3.4 billion (\$3.8 billion)) was made to the relevant government land registration authority and recognised as a prepayment, while the RMB 1.2 billion (\$1.4 billion) (31 December 2008: RMB 1.2 billion (\$1.4 billion)) received by HXIACL from the PRC government-owned entity has been recognised as a current liability by HXIACL.

HXIACL is responsible for the application for the land use right certificates. Upon the receipt of such certificates, the land use rights for the proportionate portion of land with a value of RMB 1.2 billion (\$1.4 billion) will revert to the PRC government-owned entity. In addition, HXIACL and the PRC government-owned entity have entered into a separate agreement, under which HXIACL is entitled to use this portion of the land initially without any consideration, but subject to revision in the future. As at 30 September 2009, HXIACL is still awaiting receipt of the land use right certificates.

11. Other Investments

Other investments represent the Authority's 11.8% (31 March 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% (31 March 2009: 84.9%) in a joint venture company set up to procure the development of the AsiaWorld-Expo exhibition centre. The remaining 15.1% (31 March 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 to 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.

The group's other investment was determined to be partially impaired as at 31 March 2009 and provision for impairment loss in the amount of \$70 million was made as at that date. Management has reassessed the recoverable amount of the group's other investment as at 30 September 2009 and considers that the provision for impairment loss of \$70 million made as at 31 March 2009 is adequate.

12. Defined Benefit Retirement Plan

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

\$ million	At 30 September 2009	At 31 March 2009
Present value of wholly funded obligation	(544)	(549)
Fair value of plan assets	508	391
Net unrecognised actuarial loss	99	221
Net assets*	63	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.

13. Trade and Other Receivables

\$ million	At 30 September 2009	At 31 March 2009
Trade debtors	959	1,021
Less: allowance for doubtful debts	<u>(59)</u>	<u>(57)</u>
	900	964
Other debtors	<u>20</u>	<u>15</u>
	920	979
Prepayments	33	20
Deposits and debentures	<u>11</u>	<u>11</u>
	<u><u>964</u></u>	<u><u>1,010</u></u>

All of the trade and other receivables are expected to be recovered or recognised as an expense within one year.

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

\$ million	At 30 September 2009	At 31 March 2009
Amounts not yet due	826	923
Less than one month past due	56	27
One to three months past due	9	7
More than three months past due	<u>9</u>	<u>7</u>
	<u><u>900</u></u>	<u><u>964</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 overdue 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 material exposure to credit risk.

Included in the amounts of trade debtors not yet due as at 30 September 2009 is an amount of \$129 million (31 March 2009: \$nil) which represents the portion of franchise and rental payments due from franchisees and tenants operating at Hong Kong International Airport and for which payment have been deferred for up to one year, pursuant to the relief packages offered by the Authority during the period.

14. Cash and Bank Balances

\$ million	At 30 September 2009	At 31 March 2009
Deposits with banks within three months of maturity at acquisition	166	96
Cash at bank and in hand	258	247
Cash and cash equivalents	<u>424</u>	<u>343</u>
Deposits with banks over three months of maturity at acquisition	83	67
	<u>507</u>	<u>410</u>

As at 30 September 2009, effective interest rate ranges for deposits with banks which are within and over three months of maturity at acquisition are 0.01% to 0.31% (31 March 2009: 0.01% to 0.76%) and 0.25% to 3.3% (31 March 2009: 0.38% to 3.3%), respectively.

As at 30 September 2009, cash and cash equivalents include deposits with banks of \$50 million (31 March 2009: \$47 million) held by a subsidiary that are not freely remittable to the holding company because of currency exchange restrictions in the PRC.

15. Interest-bearing Borrowings

- (a) In September 2007, the Authority signed a three-year unsecured Hong Kong Dollar (“HKD”) revolving credit facility of \$6,000 million. Interest is payable on amounts drawn down at a rate relating to Hong Kong Interbank Offered Rate (“HIBOR”). As at 30 September 2009, \$2,600 million (31 March 2009: \$2,900 million) of the revolving credit facility was drawn down.
- (b) Between April and July 2009, the Authority issued three HKD 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 between 2.00% and 3.85% per annum and maturities between three and ten years. The notes are unsecured and repayable in full upon maturity. The Authority has entered into floating rate interest rate swap contracts with notional amounts of \$400 million in respect of these three new fixed rate notes.
- (c) During the period, the Authority also drew down from uncommitted money market line facilities of \$2,688 million (31 March 2009: \$2,500 million). Interest is payable on amounts drawn down at a rate relating to HIBOR. An amount of \$400 million (31 March 2009: \$200 million) was outstanding as at 30 September 2009.

16. Trade and Other Payables

\$ million	At 30 September 2009	At 31 March 2008
Creditors and accrued charges	1,463	1,713
Deposits received	382	375
Contract retentions	112	119
Financial liabilities measured at amortised cost	<u>1,957</u>	<u>2,207</u>
Classified in the balance sheet as:		
Current liabilities	1,710	1,970
Non-current liabilities	247	237
	<u>1,957</u>	<u>2,207</u>

As at 30 September 2009, all trade and other payables are expected to be settled or recognised as income within one year except for \$247 million (31 March 2009: \$237 million), which is expected to be settled after 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:

\$ million	At 30 September 2009	At 31 March 2009
Due within 30 days or on demand	366	397
Due after 30 days but within 60 days	216	235
Due after 60 days but within 90 days	207	189
Due after 90 days	<u>674</u>	<u>892</u>
Total	<u><u>1,463</u></u>	<u><u>1,713</u></u>

17. Outstanding Commitments

\$ million	The group	
	At 30 September 2009	At 31 March 2009
Commitments outstanding for the group not provided for in the interim financial report are as follows:		
Capital expenditure		
Contracted for	413	502
Authorised but not contracted for	<u>1,721</u>	<u>2,487</u>
	2,134	2,989
Capital contribution in respect of a jointly controlled entity, Shanghai Hong Kong Airport Management Co., Ltd	56	-
	<u><u>2,190</u></u>	<u><u>2,989</u></u>

On 7 September 2009, the Authority signed a joint venture contract with Shanghai Airport (Group) Company Limited ("SAGCL") for the establishment of the Shanghai Hong Kong Airport Management Co., Ltd ("the Airport Management Company"). The Airport Management Company will manage the existing and new terminals at Hongqiao International Airport, Shanghai, under a management contract for 20 years in return for a management fee to be paid by Hongqiao International Airport. Pursuant to the joint venture contract, the Authority and SAGCL will contribute RMB 49 million (\$55.6 million) and RMB 51 million (\$57.9 million), in return for a 49% and a 51% equity interest in the Airport Management Company respectively.

In addition, the outstanding commitments of the group's jointly controlled entity, HXIACL, which are not included in the above, are as follows:

\$ million	The group's jointly controlled entity	
	At 30 September 2009	At 31 March 2009
	Commitments outstanding for the group's jointly controlled entity, HXIACL in respect of capital expenditure not provided for in the interim financial report are as follows:	
Contracted for	429	437
Authorised but not contracted for	2,804	4,484
	<u>3,233</u>	<u>4,921</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 \$5.3 billion (RMB 4.7 billion) for the second phase development of the airport facilities and \$1,491 million (RMB 1,313 million) (31 March 2009: \$1,489 million (RMB 1,313 million)) has been drawn down from the facilities as at 30 September 2009.

18. Contingent Liabilities

The Inland Revenue Department of the Government ("IRD") has challenged the validity of the Authority's entitlement to claim tax allowances in respect of certain fixed assets. The Authority is at the stage of collecting information and responding to the IRD and remains confident that its claims are valid. Accordingly, no provision for additional taxation has been made in respect of this contingent liability as at 30 September 2009. In view of the uncertainties as to the extent of allowances that could potentially be disallowed, the Authority is unable to make a reliable estimate of the impact of any additional liabilities that may arise in the event of an unfavourable outcome to this matter.

19. Material Related Party Transactions

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

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

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

- (a) The Authority has entered into service agreements with the Government under which the Government is to provide aviation meteorological and air traffic control services and aircraft rescue and fire fighting services at the airport. The amounts incurred for the six months ended 30 September 2009 amounted to \$395 million (six months ended 30 September 2008: \$386 million) and the amounts due to the Government as at 30 September 2009 with respect to the above services amounted to \$nil (31 March 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 six months ended 30 September 2009 amounted to \$58 million (six months ended 30 September 2008: \$49 million). As at 30 September 2009, the amounts due to the Government with respect to the above services amounted to \$58 million (31 March 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 six months ended 30 September 2009 amounted to \$202 million (six months ended 30 September 2008: \$197 million). In addition, the Authority licensed certain areas to AVSECO for a total fee of \$10 million for the six months ended 30 September 2009 (six months ended 30 September 2008: \$8 million). As at 30 September 2009, the amounts due from AVSECO with respect to rentals and other recoveries amounted to \$1 million (31 March 2009: \$2 million) and amounts due to AVSECO with respect to security services amounted to \$2 million (31 March 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% (31 March 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 11).
- (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 amounts incurred by the Authority for these services for the six months ended 30 September 2009 amounted to \$18 million (six months ended 30 September 2008: \$19 million). As at 30 September 2009, the amounts due to MTRC with respect to the maintenance services amounted to \$8 million (31 March 2009: \$8 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 2009 amounted to \$3 million (six months ended 30 September 2008: \$3 million). As at 30 September 2009, the aggregate amounts due from MTRC amounted to \$nil (31 March 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 six months ended 30 September 2009 amounted to \$9 million (six months ended 30 September 2008: \$17 million). As at 30 September 2009, the aggregate amounts due from these departments, agencies or entities amounted to \$0.4 million (31 March 2009: \$0.4 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 2009 amounted to \$6 million (six months ended 30 September 2008: \$6 million). As at 30 September 2009, there was no outstanding amount due to these departments, agencies or entities (31 March 2009: \$nil).

20. 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 period's presentation and to provide comparative amounts in respect of items disclosed for the first time for the current period. Further details of these developments are disclosed in note 2.