FINANCIAL REVIEW

FINANCIAL SUMMARY

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2017/18</th>
<th>+/-%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>19,470</td>
<td>21,994</td>
<td>-11.5%</td>
</tr>
<tr>
<td>Operating expenses before depreciation and amortisation</td>
<td>7,027</td>
<td>6,058</td>
<td>+16.0%</td>
</tr>
<tr>
<td>Earnings before interest, taxes, depreciation and amortisation (EBITDA)</td>
<td>12,443</td>
<td>15,936</td>
<td>-21.9%</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>3,123</td>
<td>3,097</td>
<td>+0.8%</td>
</tr>
<tr>
<td>Net interest and finance income</td>
<td>379</td>
<td>275</td>
<td>+37.8%</td>
</tr>
<tr>
<td>Share of results of joint ventures</td>
<td>261</td>
<td>201</td>
<td>+29.9%</td>
</tr>
<tr>
<td>Profit before taxation</td>
<td>9,960</td>
<td>13,315</td>
<td>-25.2%</td>
</tr>
<tr>
<td>Income tax</td>
<td>1,558</td>
<td>1,829</td>
<td>-14.8%</td>
</tr>
<tr>
<td>Profit for the year</td>
<td>8,402</td>
<td>11,486</td>
<td>-26.9%</td>
</tr>
<tr>
<td>Profit attributable to the equity shareholder</td>
<td>8,339</td>
<td>11,416</td>
<td>-27.0%</td>
</tr>
<tr>
<td>Dividend declared</td>
<td>–</td>
<td>–</td>
<td>–</td>
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Key financial ratios

- Return on equity: 11.0% (2018/19) vs. 17.3% (2017/18)
- Total debt/capital ratio: 6% (2018/19) vs. 2% (2017/18)

Key traffic summary

- Passenger traffic (millions of passengers): 75.1 (2018/19) vs. 73.6 (2017/18) (+2.0%)
- Cargo and airmail throughput (millions of tonnes): 5.06 (2018/19) vs. 5.09 (2017/18) (-0.6%)
- Aircraft movements (thousands): 429 (2018/19) vs. 423 (2017/18) (+1.3%)

OVERVIEW

Airport Authority Hong Kong (AAHK) faced challenges due to geopolitical discord and global trade tensions in fiscal 2018/19, ended 31 March 2019.

Passenger volume and flight movements set new records in 2018/19. During the year, Hong Kong International Airport (HKIA) welcomed 75.1 million passengers and handled 428,870 flight movements, representing annual increases of 2.0% and 1.3%, respectively. Cargo and airmail throughput, however, fell 0.6%, to 5.06 million tonnes.

Despite the growth in passenger volume and flight movements, AAHK and its subsidiaries (the Group) recorded a weaker financial performance in 2018/19. This was largely the result of a one-off gain from the sublease of land at HKIA for SKYCITY’s hotel development in 2017/18, coupled with lower revenues from retail concessions and airside support services franchises in

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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 throughput includes airmail from Hongkong Post and transit mail from airlines.
2018/19. The Group reported earnings before interest, taxes, depreciation and amortisation (EBITDA) of HK$12,443 million and profit attributable to the equity shareholder of HK$8,339 million, representing decreases of 21.9% and 27.0%, respectively, from 2017/18. As a result, the Group’s return on equity decreased to 11.0%. No dividend was declared for the year.

Return on Equity

Return on Equity (in percent)

<table>
<thead>
<tr>
<th>Year</th>
<th>Return on Equity</th>
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<tbody>
<tr>
<td>14/15</td>
<td>16.7</td>
</tr>
<tr>
<td>15/16</td>
<td>17.3</td>
</tr>
<tr>
<td>16/17</td>
<td>14.7</td>
</tr>
<tr>
<td>17/18</td>
<td>17.3</td>
</tr>
<tr>
<td>18/19</td>
<td>11.0</td>
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REVENUE

Despite higher passenger numbers and flight movements, total revenue fell 11.5%, to HK$19,470 million, largely as a result of a one-off gain from the sublease of land at HKIA for SKYCITY’s hotel development in 2017/18 and lower revenue from retail licences and airside support services franchises in 2018/19. The major revenue categories were airport and security charges; revenues from airside support services franchises, retail licences and advertising; other terminal commercial revenue; and other income, which collectively comprised 96.6% of total revenue.

Airport and security charges, representing 36.1% of total revenue, rose 5.7%, to HK$7,024 million, primarily due to growth in flight movements and passenger traffic, and increases in landing and security charges, which took effect on 1 September 2018 and 1 October 2018, respectively.

Revenues from airside support services franchises dropped 8.8%, to HK$2,786 million, mainly due to the expiry of the aviation fuel system facility payment in July 2018. This was partly offset by higher franchise fees from air cargo and ramp handling due to improved terms when contracts were renewed during the year; amortisation of upfront payments for the premium logistics centre; and higher ground handling service and cargo revenues at Zhuhai Airport that accompanied increases in flight movements and cargo throughput.

Retail licences and advertising revenue, representing 36.7% of total revenue, fell 9.6%, to HK$7,149 million. This decrease was mainly a result of the full-year effect of the new anchor and money exchange licences awarded in the second half of 2017/18.

Other terminal commercial revenue mainly represents income from leasing offices and airport lounges to airlines and other tenants. This category grew 4.0%, to HK$1,460 million, largely due to the revised licence fee structure for commercial pay-in lounges.

Other income dropped 83.1%, to HK$394 million. This decrease was attributable to a one-off gain in 2017/18 of HK$2,185 million from the sublease of land at HKIA to Regal Hotels Group for the development and management of the SKYCITY hotel.
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, service and sustainability. Total operating expenses before depreciation and amortisation increased 16.0%, to HK$7,027 million, mainly due to inflationary pressures, strong traffic growth and expanded service scope during the fiscal year.

The major expense categories were staff costs and related expenses, repairs and maintenance, operational contracted services, government services, other operating expenses, and depreciation and amortisation, which accounted for approximately 95.3% of total operating expenses. Approximately 40% 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, representing 26.4% of total operating expenses, increased 7.8%, to HK$2,687 million, mainly due to adjustments to ensure the market competitiveness of employees’ remuneration and the increase in staff numbers to cope with traffic growth.

Repairs and maintenance costs grew 3.6%, to HK$864 million, principally due to additional works on the airfield and terminals to ensure safe and reliable operations amidst increased traffic. Wage increases due to labour shortages and inflationary pressures on material costs also contributed to the increase.

Operational contracted services represents costs for operations outsourced to third-party contractors. This category rose 27.4%, to HK$977 million, largely due to traffic growth, newly outsourced operations and higher costs as a result of contract renewals and wage increases due to labour shortages 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 flight movements led to higher air traffic control fees, and government services expense grew 4.4%, to HK$823 million.

Other operating expenses increased 63.8%, to HK$1,204 million, mainly attributable to an increase in the loss allowance for trade debtors; promotional activities for the 20th anniversary of HKIA; and an increase in the unrealised exchange loss from the depreciation of the renminbi.

Despite the completion of expansion and improvement projects for facilities and systems during the fiscal year, depreciation and amortisation increased only 0.8%, to HK$3,123 million, as certain fixed assets have now been fully depreciated.

Revenue/Operating Expenses per Employee

(in HK$ million)

<table>
<thead>
<tr>
<th></th>
<th>2015/16</th>
<th>2016/17</th>
<th>2017/18</th>
<th>2018/19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue per employee</td>
<td>2.8</td>
<td>2.9</td>
<td>2.7</td>
<td>3.0</td>
</tr>
<tr>
<td>Operating expenses per employee</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Notes: 1. Excludes employees of AAHK whose staff costs and related expenses are capitalised into assets under construction.
2. Operating expenses include depreciation and amortisation, but exclude interest and finance costs.
FINANCIAL REVIEW

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 and cargo throughput.

In calendar 2018, passenger traffic and flight movements at Hangzhou Xiaoshan International Airport (HXIA) grew 7.5% and 5.1%, respectively, to 38.2 million and 285,000. Cargo throughput rose 8.7%, to 641,000 tonnes. AAHK’s share of HXIA’s profits increased by 30.0%, to HK$260 million, in 2018/19, largely due to solid traffic growth.

In calendar 2018, passenger traffic at Zhuhai Airport grew 21.7%, to a record 11.2 million, flight movements climbed 16.4%, to 81,138, while domestic cargo throughput jumped 24.1%, to 46,393 tonnes. AAHK’s share of Zhuhai Airport’s profits decreased by 12.0%, to HK$73 million, in 2018/19, mainly due to higher staff numbers needed to meet traffic growth.

FINANCIAL POSITION
The Group’s financial position remains strong and well capitalised. The Group’s total equity as at 31 March 2019 reached HK$80,474 million, an increase of 10.9% over the previous year, mainly due to the net profit achieved in 2018/19 and non-payment of dividend for 2017/18.

Investment property, interest in leasehold land, and other property, plant and equipment amounted to HK$78,911 million, which accounted for 72.2% of total assets. The Group incurred capital expenditures of HK$23,831 million during 2018/19, mainly related to the three-runway system (3RS), the capacity enhancement of Terminal 1 (T1), the expansion of Car Park 4, the Midfield Apron development, the Automated People Mover System Depot, the automation of arrival bags delivery, the Sky Bridge connecting the North Satellite Concourse and T1, and the enhancement and improvement of other facilities and systems.

Intangible assets of HK$350 million represented the unamortised cost of the right to operate and manage Zhuhai Airport and the AsiaWorld-Expo (AWE) exhibition centre for a period of 20 years and 12.5 years, starting in 2006 and 2019, respectively.

Interest in an associate of HK$652 million represented the Group’s effective interest in the net assets of Hong Kong IEC Limited (which holds shares in AWE), plus the amount due from the associate and the preference shares premium.

Interests in joint ventures of HK$4,342 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 decreased 3.8%, to HK$3,747 million, primarily due to lower advance payments to certain contractors, despite the rise in trade debtors.

Total trade and other payables increased 76.5%, to HK$14,674 million, mainly attributable to the increase in construction costs payable and contract retentions in relation to the 3RS, and deposits received from licensees.

Unused airport construction fee (ACF) of HK$1,685 million represented the balance of ACF received and receivable that has not yet been used to fund 3RS construction costs.

Deferred income of HK$1,721 million mainly represented amounts received in advance in respect of subleases of leasehold land at HKIA. During the year, AAHK received up-front payments of HK$1,560 million for the SKYCITY and premium logistics centre developments.
DIVIDEND

Pursuant to the financial arrangement plan for the 3RS, the Board did not declare a dividend for 2018/19.

CASH FLOW

Net cash generated from operating activities decreased from HK$12,274 million in 2017/18 to HK$12,119 million this year, mainly due to the decrease in profit for the year.

FINANCING

AAHK’s total borrowings as at 31 March 2019 amounted to HK$5,344 million (2017/18: HK$1,415 million). AAHK up-sized its Medium Term Note programme to US$8 billion in 2017/18. The programme allows AAHK to access capital markets when needed. In February 2019, AAHK issued US$500 million in bonds due in 2029 with a coupon rate of 3.45% under this programme. The bonds were over seven times oversubscribed by potential investors.

AAHK continues to be one of the highest-rated corporations in Hong Kong. Standard & Poor’s assigns an AA+ 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 2019)

- Total Borrowings: HK$5,344 million
  - US dollar bond: 27%
  - Fixed rate notes: 73%

* After un-amortised finance costs of HK$19 million.

FINANCIAL RISK MANAGEMENT

AAHK manages its financial risks with a variety of instruments and techniques, including spreading its borrowings over different rollover and maturity dates. Financial instruments, such as interest rate swaps and cross-currency swaps, are also used to hedge AAHK’s financial risks. In accordance with approved policy, AAHK adopts measures to maintain an appropriate mix of fixed and floating rate borrowings to reduce the impact of interest rate fluctuations on earnings.

AAHK is exposed to renminbi movements as a result of its investment in Mainland airports and cash and bank balances denominated in this currency. AAHK is also exposed to United States dollar movements from cash and bank balances and trade and other receivables, as well as external borrowings issued in United States dollars. However, external borrowings in other currencies has been swapped into Hong Kong dollars whenever possible while revenues and costs at AAHK are largely denominated in Hong Kong dollars.

Capital Structure (in HK$ million)

<table>
<thead>
<tr>
<th></th>
<th>2018/19</th>
<th>2017/18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total debt</td>
<td>HK$5,344</td>
<td>HK$1,415</td>
</tr>
<tr>
<td>Total equity</td>
<td>80,474</td>
<td>72,569</td>
</tr>
</tbody>
</table>

* After un-amortised finance costs of HK$19 million.
OUTLOOK

We expect passenger and cargo traffic will experience moderate growth until the commissioning of the 3RS. To meet rising traffic demand and retain our leading position, we will carry out various enhancement projects to ensure the airport has sufficient capacity and maintains high service standards before the 3RS is commissioned.

The expansion of T1, which includes new passenger facilities such as check-in counters with self bag drop services and additional seating, is ongoing. The new facilities are expected to enter service in phases, starting in 2019. We completed phase one of the East Hall food court revamp in 2018/19 and phase two will open in the third quarter of 2019. Other enhancement initiatives, including the transformation of boarding gates into themed zones and the refurbishment of public seating areas, are under way.

To meet passengers’ expectations for smoother and more personalised travel, innovative technologies will continue to be adopted. We plan to extend the use of travellers’ biometric data to transfer checkpoints and boarding gates to create an end-to-end biometric network that offers seamless travel. New features are being developed for our “HKG My Flight” app that will let passengers pre-book services even when they are outside the airport. The use of new technologies, including artificial intelligence and big data analytics, will help us enhance resource allocation, improve productivity and deploy personnel more effectively. We will continue to introduce new technologies and carry out enhancement projects to optimise the use of our facilities.

The construction of the 3RS is a long-term solution to HKIA’s capacity constraints. The 3RS project made solid progress during 2018/19. We will closely monitor the project to ensure its timely completion within budget, thereby maintaining HKIA’s competitiveness and reinforcing our position as a leading international aviation hub.

During the year, our cross-boundary multimodal transport network grew with the commissioning of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Hong Kong-Zhuhai-Macao Bridge (HZMB). Our growing transport network, together with new commercial facilities around HKIA, is fuelling our transformation from a city airport into an airport city. The SKYCITY development, which comprises hotels as well as retail, dining and entertainment facilities, is scheduled to open in phases between 2020 and 2027. In addition, a premium logistics centre will open in 2023, helping us capture opportunities from cross-boundary e-commerce and related logistics businesses. We will collaborate closely with the companies developing these projects to ensure they open on schedule. We are also exploring opportunities at AsiaWorld-Expo and the topside of the Hong Kong Boundary Crossing Facilities.

The opening of the HZMB and the Express Rail Link strengthened our connectivity with the Mainland, providing impetus for traffic growth. To capture the growth potential, we are constructing an Intermodal Transfer Terminal to provide a direct connection between HKIA and the Hong Kong Boundary Crossing Facilities. We are also adding upstream check-in facilities in the Greater Bay Area to expand HKIA’s catchment area.

While we project profits will grow at a slower pace until the 3RS starts service, we will strive for productivity gains and apply prudent financial discipline to contain the growth of operating expenses, while maintaining the highest standards of safety, security, service and sustainability.

We believe HKIA will continue to create value for its stakeholders, fulfil customers’ expectations and benefit Hong Kong and the Greater Bay Area alike.