The Members of the Board have pleasure in submitting the annual report of Airport Authority Hong Kong (AAHK) together with the audited consolidated financial statements for the year ended 31 March 2019.

PRINCIPAL ACTIVITIES

Pursuant to the Airport Authority Ordinance (Cap. 483) (the Ordinance) and the objective of maintaining Hong Kong’s status as a centre of international and regional aviation, AAHK is responsible for the provision, operation, development and maintenance of Hong Kong International Airport (HKIA) situated at Chek Lap Kok, Lantau, Hong Kong, and the provision of facilities, amenities and services at, as regards or in relation to HKIA. AAHK may also engage in airport-related activities in trade, commerce or industry at or from any place on the airport island, and other airport-related activities as permitted by the Airport Authority (Permitted Airport-related Activities) Order (Cap. 483E). AAHK is required under the Ordinance to conduct its business according to prudent commercial principles.

The principal activities and other particulars of AAHK’s subsidiaries are set out in Note 11 to the Financial Statements.

FINANCIAL STATEMENTS

The profit of AAHK and its subsidiaries (the “Group”) for the year ended 31 March 2019 and the Group’s financial position as at that date are set out in the Financial Statements on pages 99 to 158.

DIVIDEND

The Ordinance provides that AAHK may pay dividends on its shares and that the Financial Secretary may, after taking into account the financial position of the Group, direct AAHK to pay dividends out of the distributable profits of AAHK. No dividend has been declared since the year ended 31 March 2015, in order to preserve capital for the purpose of funding the three-runway system project.

TRANSFER TO RESERVES

The Group’s profit attributable to equity shareholder of HK$8,339 million (2017/18: HK$11,416 million) has been transferred to reserves. Other movements in reserves are set out in the Consolidated Statement of Changes in Equity.

INVESTMENT PROPERTY, INTEREST IN LEASEHOLD LAND, OTHER PROPERTY, PLANT AND EQUIPMENT

Movements in investment property, interest in leasehold land, other property, plant and equipment during the year are set out in Note 9 to the Financial Statements.

CAPITALISED INTEREST

Interest amounting to HK$88 million (2017/18: HK$66 million) was capitalised by the Group during the year as set out in Note 5 to the Financial Statements.
BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group as at 31 March 2019 are set out in Note 17 to the Financial Statements.

FINANCIAL SUMMARY

A summary of the financial results and the assets and liabilities of the Group for the last five financial years is set out on page 159 of the annual report.

SHARE CAPITAL

Under the terms of the Ordinance, AAHK may only issue shares to the Government of the Hong Kong Special Administrative Region (HKSAR) of the People’s Republic of China on behalf of which all shares are held by the Financial Secretary Incorporated. No shares were issued or cancelled during the year ended 31 March 2019.

DONATIONS

Donations made during the year amounted to HK$4,056,000 (2017/18: HK$3,528,000), which were funded partly from the sales of “lost and found” items at the airport.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect to the Group’s sales and purchases attributable to major customers and suppliers during the financial year were as follows:

<table>
<thead>
<tr>
<th>Percentage of the Group’s total</th>
<th>Sales</th>
<th>Purchases</th>
</tr>
</thead>
<tbody>
<tr>
<td>The largest customer</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Top five customers</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>The largest supplier</td>
<td></td>
<td>26%</td>
</tr>
<tr>
<td>Top five suppliers</td>
<td></td>
<td>39%</td>
</tr>
</tbody>
</table>

The largest supplier is the HKSAR Government which is the sole shareholder of AAHK. Purchases are exclusive of supplies of a capital nature.

GOING CONCERN

The financial statements on pages 99 to 158 have been prepared on a going concern basis. The Board has approved AAHK’s budget for 2019/20 and the business plan and financial plan for 2019/20 to 2023/24 and is satisfied that AAHK has sufficient resources to continue as a going concern for the foreseeable future.
REPORT OF THE MEMBERS OF THE BOARD

RETIREMENT SCHEMES

Details with regard to AAHK’s retirement schemes are set out in Note 20 to the Financial Statements. The administration of the retirement schemes and AAHK’s contributions thereto are reviewed periodically with reference to reports of the investment manager of the schemes and independent actuaries.

CORPORATE GOVERNANCE

Principal corporate governance practices adopted by AAHK are set out in the Corporate Governance Report on pages 17 to 43 of the annual report.

EMPLOYEES

As of 31 March 2019, AAHK, excluding its subsidiaries, had a total of 2,602 staff (31 March 2018: 2,314). AAHK has developed human resources policies to ensure that employees’ remuneration is competitive and that employees are rewarded according to their performance within the framework of AAHK’s performance management and reward system. To further strengthen the pay-for-performance culture, a variable compensation scheme has been in place since 2002. Regular reviews are conducted to ensure AAHK’s remuneration package is competitive in the market.

MEMBERS OF THE BOARD AND EXECUTIVE DIRECTORS

Biographies of the Members of the Board and Executive Directors as at the date of this report are set out on pages 12 to 15 of the annual report. Changes of the Board Members from the beginning of the financial year to the date of this report are as follows:

• Mr Andrew Fung Hau-chung, after serving the Board for three years, retired on 31 May 2018.
• Ms Linda Chan Ching-fan and Mr Adrian Wong Koon-man were appointed to the Board for a term of three years, from 1 June 2018 to 31 May 2021.
• Mr Jack So Chak-kwong was reappointed as the Board Chairman for a term of three years, from 1 June 2018 to 31 May 2021.
• Ir Billy Wong Wing-hoo and Dr the Hon Allan Zeman were reappointed to the Board for a term of three years, from 1 June 2018 to 31 May 2021.
• Ms Anita Fung Yuen-mei, after serving the Board for nine years, retired on 31 May 2019.
• The Hon Jeffrey Lam Kin-fung and Ir Lee Shing-see, after serving the Board for eight years, retired on 31 May 2019.
• Mr Stuart Thomson Gulliver, Ir Dr the Hon Lo Wai-kwok and Mr Thomas Jefferson Wu were appointed to the Board for a term of three years, from 1 June 2019 to 31 May 2022.
• Mr Wilson Fung Wing-yip ceased to be Executive Director, Corporate Development with effect from 25 September 2018.
INTEREST OF MEMBERS OF THE BOARD AND EXECUTIVE DIRECTORS IN CONTRACTS

No contracts of significance to which AAHK or any of its subsidiaries was a party and in which a Member of the Board or an Executive Director had a material interest subsisted at the end of the year or at any time during the year. At no time during the year was AAHK or any of its subsidiaries a party to any arrangements to enable any Member of the Board or Executive Director to acquire benefits by means of acquisition of shares of AAHK or of any body corporate.

RELATED-PARTY TRANSACTIONS

Details of material related-party transactions entered into or ongoing during the year are set out in Note 24 to the Financial Statements.

MEMBERS’ RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Members of the Board are responsible for the preparation of financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Group’s financial performance and cash flows for the period. In preparing the financial statements for the year ended 31 March 2019, the Members of the Board selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and prepared the financial statements on a going concern basis. The Members of the Board are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group.

AUDITORS

In accordance with Section 32 of the Ordinance, the Chief Executive of the HKSAR approved the appointment of KPMG as auditors and they remain in office.

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

This report takes into account changes that occurred between the financial year-end and the date of the approval of this report.

By order of the Board

H Y Shu
Secretary to the Board
Hong Kong, 3 June 2019