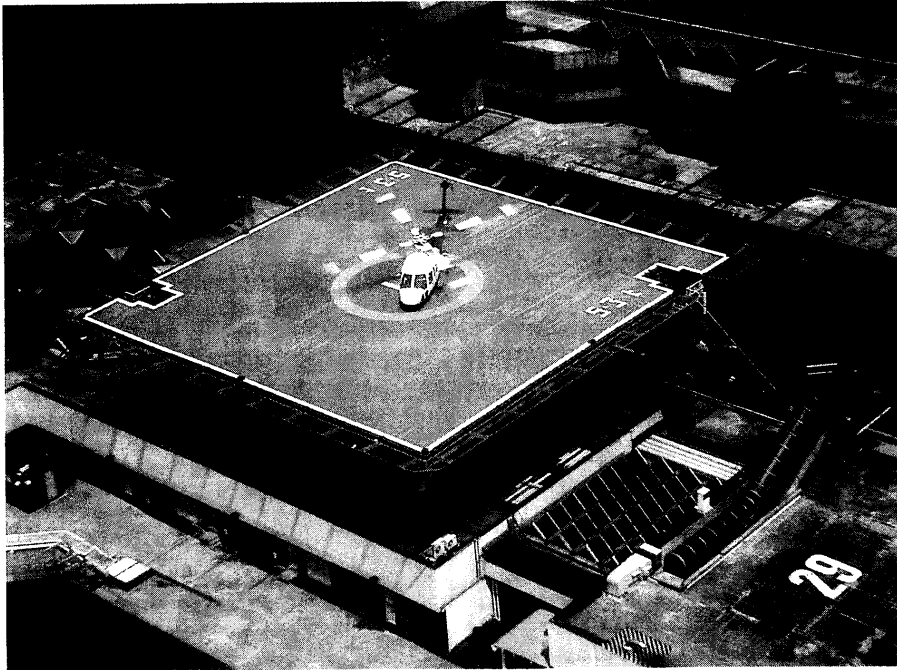


**PROPOSAL TO RESTRUCTURE THE RENTAL AGREEMENT
FOR THE HELIPORT AT THE HONG KONG-MACAU FERRY TERMINAL**



Existing View of Shun Tak Heliport at the Hong Kong-Macau Ferry Terminal

SUBMITTED TO
THE LEGISLATIVE COUNCIL

HONG KONG SPECIAL ADMINISTRATIVE REGION OF THE PEOPLE'S REPUBLIC OF CHINA

28 MAY 2001



HELICOPTERS HONG KONG LTD.

Letterhead of HeliHongKong

**PROPOSAL TO RESTRUCTURE THE RENTAL AGREEMENT
FOR THE HELIPORT AT THE HONG KONG-MACAU FERRY TERMINAL**

**SUBMITTED TO
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**BY
HELICOPTERS HONG KONG LIMITED**

28 MAY 2001



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SECTION I

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

This report presents the rationale for restructuring the existing rental agreement for the Heliport at the Hong Kong-Macau Ferry Terminal (HKMFT).

Today, the helicopter industry has evolved from private transportation for the privileged few into a popular form of public transportation. Soon it will become a *strategic asset* for Hong Kong, bolstering the its tourist industry and its ability to conduct business throughout the Pearl River Delta region with unmatched efficiency.

As the helicopter industry matures, there is an increasing need for the Heliport at the HKMFT to function as a *licensed, public aerodrome*. Among other things, this entails additional investments in infrastructure¹. Moreover, as helicopter service is extended into the Pearl River Delta, one can anticipate the reciprocal entry of multiple Chinese helicopter operators, all utilizing the facilities of the Heliport².

New financial mechanisms must be devised to amortize the additional investments and to allocate costs among multiple users, mechanisms that are beyond the scope of the present rental agreement, a simple commercial lease drafted over ten years ago. *Accordingly, we respectfully submit that the "Airport Model" utilised at the Hong Kong International Airport is a more rational model to compute user fees at a multi-user public aerodrome.*

Moreover, as the Honourable Howard Young noted,

*"At present, linkage with the Pearl River Delta relies on rail, road and sea. All aviation services provided are beyond the Delta. **Therefore, helicopter service is the one with potential to make up for this deficiency.**"*

Therefore, we respectfully submit that restructuring the existing lease to facilitate the conversion of the present single-user heliport into a multi-user public aerodrome would be an important first step to help the helicopter industry evolve into a mature public transportation system serving the entire Pearl River Delta region. In the process, it could also help the HKSAR fulfil its public mandate under Article 128 of the Basic Law to:

"...maintain the role of Hong Kong as an international and regional centre of aviation." (Emphasis added)



Proposal to Restructure the Heliport Rental Agreement

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SECTION II

BACKGROUND

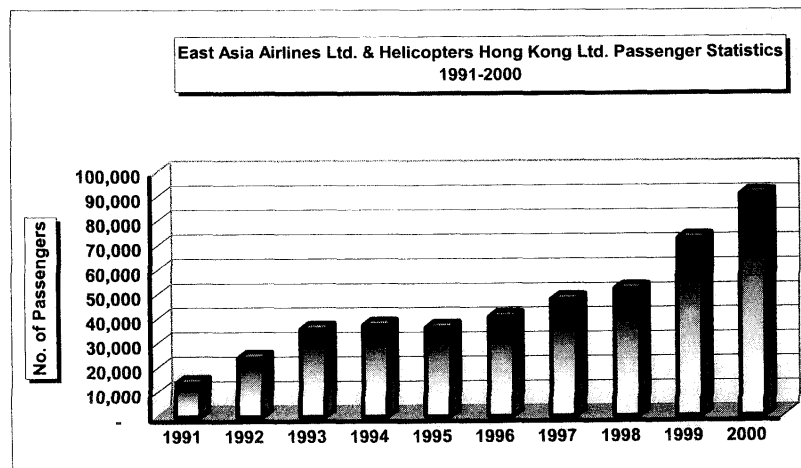
BACKGROUND

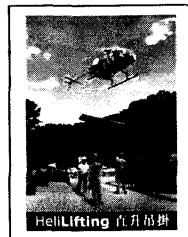
The rental dispute involves the lease of the Helipad at the Hong Kong-Macau Ferry Terminal (“HKMFT”). The Helipad was built in 1980’s under a special agreement between the Government and Shun Tak Centre Ltd. (“Shun Tak”), pursuant to which Shun Tak paid for the construction of the Shun Tak Centre Office Complex and the HKMFT, inclusive of the Helipad.

Upon completion of construction, Shun Tak Enterprises Corporation Ltd. (an entity related to Shun Tak) leased back from the Government certain portions of the Ferry Terminal and the Helipad for ferry and helicopter operations. Hong Kong Macau Aviation Limited (“HKMA”) is the successor entity to Shun Tak Enterprises Corporation Ltd., the Lessee.

Macau-based East Asia Airlines, and Hong Kong-based Helicopters Hong Kong Ltd. provide helicopter operations from the HKMFT utilising the helipad and ancillary facilities (collectively referred to herein as the “HELIPORT”). These two helicopter operators, along with HKMA (collectively referred to herein as the “HELIHONGKONG (HHK) GROUP”), jointly provide maintenance, flight operations and ground operations at the heliport.

Since helicopter service first began in 1990, the HHK Group has steadfastly improved service and built up traffic volume, resulting in a five-fold increase in passenger traffic in the last decade. (Please see chart below.) In an effort to gain market share, the HHK Group has not increased ticket prices since 1993. Today, with half-hourly shuttles between Hong Kong and Macau daily from 9 a.m. to 11 p.m. carrying over 94,000 passengers a year, *the HHK Group operates the busiest such commercial helicopter operation in the world*, a fact of which Hong Kong can be justly proud.





Within the past few years, HHK GROUP has expanded beyond its core HeliShuttle operation between Hong Kong and Macau to include HeliTours, HeliCharter, and HeliLifting. Moreover, we are working actively to gain entry into the Pearl River Delta region, and have signed landmark agreements with the cities of Shenzhen and Jiangmen to provide helicopter service to these destinations. In short, the HHK GROUP is committed to developing the commuter helicopter industry in the HKSAR and beyond through on-going investments in infrastructure, equipment, human resources, and cross-border services, investments that to date have run well over HK\$270 millions.

HeliHongKong's vision is to create a regional network of short-haul, point-to-point commuter helicopter service, supported by a solid core of experienced pilots and technical expertise.

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Proposal to Restructure the Heliport Rental Agreement

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SECTION III

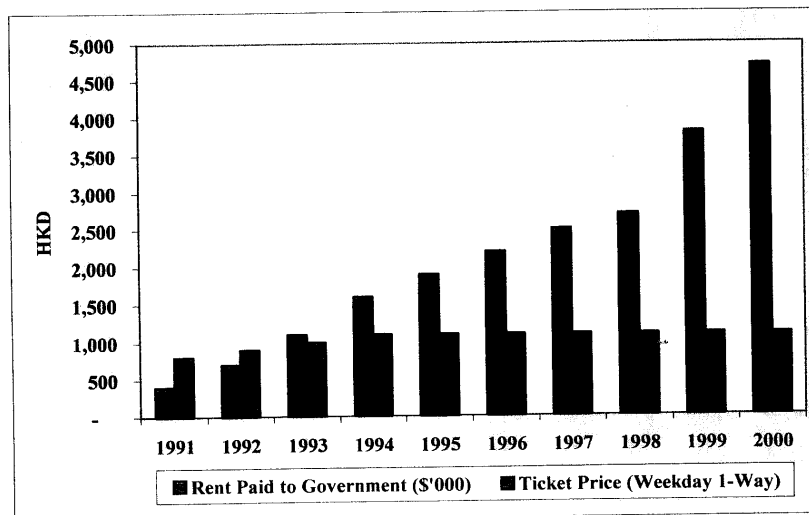
SYNOPSIS OF THE HELIPORT RENTAL DISPUTE

SYNOPSIS OF THE HELIPORT RENTAL DISPUTE

The Heliport Rental Agreement (Government Property Agency Tenancy Agreement No. DLO/KW NHX-376, the "Agreement") with the GPA, drafted in 1990 and since amended 3 times (most recently in December 1997), stipulates that the rent of the Helipad and related facilities at the HKMFT is determined by the highest of three components:

- A "**Minimum Annual Rent**" exclusive of rates of HK\$605,000;
- A "**Percentage of Revenue Rent**" equal to 4.5% of Gross Revenue; and,
- A "**Per Passenger Rent**" of HK\$50 per revenue passenger.

Pursuant to this formula, our rental payment over the last 10 years totaled HK\$21.6 Million, \$4.7 Million of which in the last year alone, as the chart below indicates. Despite the fact that we have not raised ticket prices in 8 years, the government's rental take has continued to grow.



On 30 December 1999 GPA unilaterally declared a sharp increase in all three components, despite the fact that the broader real estate market is mired in one of the worst recessions in recent history. We raised a 4-point objection to the proposed rent increase:

- The GPA wanted Minimum Annual Rent of \$3,300,000 (from \$605,000, an increase of 445%!)

\$3,300,000 is equivalent to 75% of the total rent payable at the HKMFT by all the HK-Macau ferry operators – certainly a disproportionate burden on a tenant that generates only 1% of total passenger traffic!

- The GPA wanted to increase the Percentage of Revenue Rent to **5.75%** from 4.5% (a 28% increase), and to increase the Per Passenger Rent to **\$70.00** from \$50.00 (a 40% increase.)

We contended that the Percentage of Revenue and Per Passenger rental structure had neither precedent nor parallel in the transportation sector within the HKSAR and should be replaced by a more equitable rent structure.

- The present Agreement grants the GPA sole discretion to adjust rents. While such discretionary power may be fair play in an open competitive market, it is decidedly unfair when applied to a *unique* facility where the government effectively holds *monopoly power*.

We contended that, in the context of the Agreement, such discretionary power was unreasonable. Future rent adjustments, if any, should be subject to mutual agreement and tied to objective trends in the broader real estate market.

- The present Agreement has no provision for the Lessee to be compensated for making capital improvements to the facility.

We contended that when we made necessary capital improvements to the facility that enhanced the government's asset value, we should be able to amortize such investments through mutually agreeable rent reductions over a reasonable lease period.

On 8 June 2000 the GPA unilaterally withdrew its proposed rent increase without, however, addressing any of the objections described above.

By maintaining the status quo, the GPA probably believed that it had resolved the situation. Quite the opposite, we respectfully submit that in failing to offer any explanation for its unreasonable rent increase and its sudden reversal, the GPA's actions highlighted the apparent arbitrary and capricious manner in which it conducted its rental policy, lending further credence to our call to amend the Agreement.

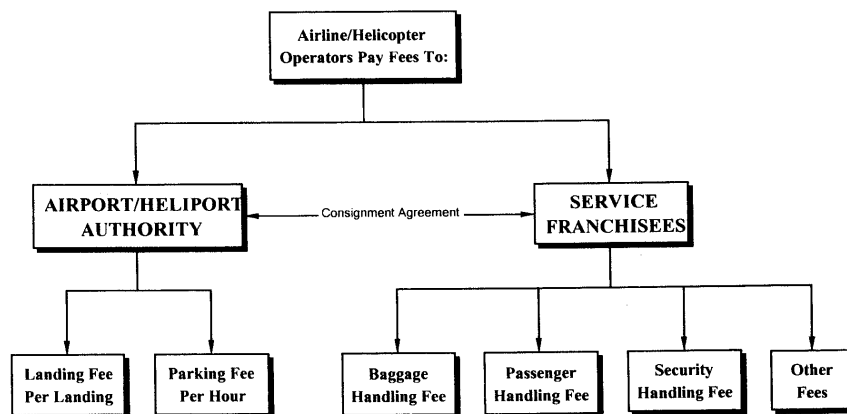


SECTION IV

**PROPOSAL TO RESTRUCTURE
THE HELIPORT RENTAL AGREEMENT**

PROPOSAL TO RESTRUCTURE THE HELIPORT RENTAL AGREEMENT

At the Hong Kong International Airport (“HKIA”), airline operators pay a fixed landing and parking fee to the **Airport Authority** for use of the airport terminal building, the runway and other support facilities. They also pay various fees to **Service Franchisees** for baggage handling, passenger handling and security clearance, etc. We submit that this “Airport Model” is also the preferred model for a multi-user heliport, as illustrated in the diagram below.



THE FEE-BASED “AIRPORT MODEL” IS THE PREFERRED MODEL FOR HELIPORTS

This system of cost allocation treats all **airline operators** equitably, compensates the **property owner** for use of the facilities, and compensates the **service providers** for services rendered.

Compared to the Airport Model, our current rental payment appears out of line. For instance, the HKIA charges \$552.50 per helicopter take-off and landing. However, at HKMFT we can pay up to a maximum of \$1,754.00 on weekends and \$1,658.00 on weekdays per take-off and landing³.

We respectfully submit that:

- Helicopter operations are inherently similar to airline operations;
- The heliport is essentially a compact runway – that is, a piece of public infrastructure as opposed to commercial real estate. Therefore, the Government should not adopt a commercial lease to charge for its usage.
- Operationally, the Heliport at the HKMFT is similar to the HKIA. Consider, for example, the fact that the Heliport is technically open to all helicopter operators, not just the HHK Group.

Therefore, we submit that a fee-based "Airport Model", similar to the one adopted at the HKIA, using a **Heliport Authority** and a designated **Heliport Operator**, is a more appropriate model to determine the Heliport rent at the HKMFT than the current 3-tier commercial rental structure.

The merit of this Airport Model is that it is a generic model. Therefore, it is applicable to the existing Heliport as well as the proposed **International Heliport**, currently the subject of a Government-sponsored consultancy study.



SECTION V

A MATTER OF GOVERNMENT POLICY

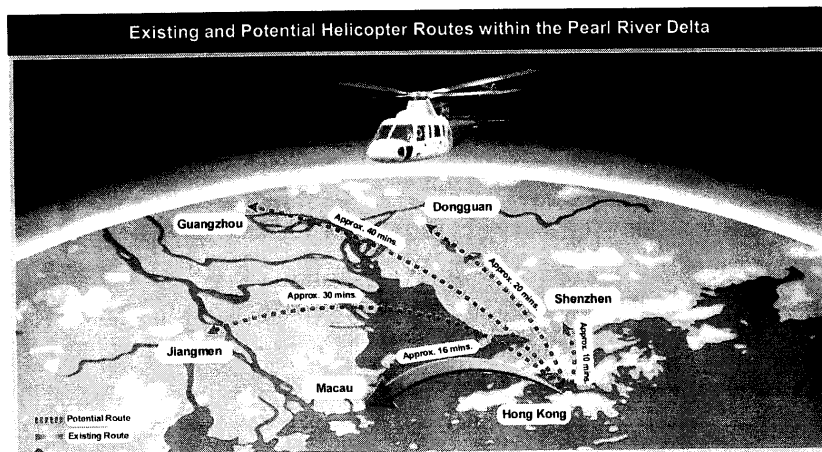
A MATTER OF GOVERNMENT POLICY

Even as we apply our best efforts to resolve our rental dispute amicably with the GPA, we recognize that the underlying issues touch upon matters of government policy, and that unless these issues are resolved at the policy level, they cannot be addressed at the administrative level. Accordingly, we respectfully submit that the Government should consider adopting the following policy directives.

Policy Directive #1: HKSAR Should Recognize the Helicopter Industry as a Strategic Industry

In a post-WTO China, we believe that the Pearl River Delta will become an even more important magnet for foreign direct investment, as overseas firms under unrelenting profit pressure seek cheaper manufacturing and marketing bases to expand their operations into this dynamic region of China. In that context, Hong Kong, in addition to being a global financial centre, a regional transportation hub, and a regional hub for Multi-National Corporations - "*the best place for international companies to access the Mainland,*"* - will be a key provider of financial, technical, business and information services that will further propel the growth of the Pearl River Delta region.

The HHK Group, with its twin bases in Hong Kong and Macau sitting astride the gateway to the Pearl River Delta, is uniquely poised to serve both shores of the Delta - from Hong Kong and Macau up to Guangzhou, and all points in between.



In the New Economy, where speed and agility can win the day, where mobile workforce and ad-hoc work teams are the new business paradigms, and where business must move at the speed of information, we envision the need for flexible, efficient transportation systems that can move at the speed of business.

* From a speech by The Hon. Donald Tsang at a luncheon sponsored by the Hong Kong Trade Development Council in New York City, 13 June 2000.

Once the cross-border protocol is instituted and the necessary heliport infrastructure established, the HHK Group is committed to developing a new regional network of short-haul, point-to-point, commuter helicopter service that will serve the needs of this new breed of mobile professionals.

In short, we believe that the unique transportation service provided by the HHK Group will be a strategic asset to Hong Kong, enhancing its strategic role within the dynamic Delta region, and its competitive advantage within the regional economy.

Policy Directive #2: HKSAR Should Adopt a Proactive Policy to Help Develop the Helicopter Industry

Today, the helicopter industry has evolved from a luxury into a necessity, and soon it will become a *strategic asset* for Hong Kong, bolstering the latter's ability to conduct business throughout the Pearl River Delta region with unmatched efficiency. *To achieve that vision, a proactive government policy is needed to guide the next phase of the industry's development.*

Such a proactive policy can have the following dimensions:

1. The Government can mandate a restructuring of the Helipad Rental Agreement, along the lines suggested.

A heavy rental burden hampers our ability to launch low-priced promotional campaigns to build our customer base, or to enter the China market at an acceptable price point. In short, an exorbitant rent severely limits our ability to grow and invest in the business.

2. The Government can defeat the proposed \$80 Air Passenger Departure Tax for helicopter passengers.

The short-haul helicopter industry serves a local commuter market and differs in many significant respects from the long-haul international airlines industry. The Government should not apply a blanket tax across two such dissimilar industries. (Please see our submission to the Bills Committee of the Legislative Council, "*Petition Against the Proposed Levy of \$80 Airport Passenger Departure Tax on Helicopter Passengers*", dated 24 May 2001.)

3. The Government can approve the construction of a state-of-the-art International Heliport.

Currently the topic of a Government-sponsored consultancy study, an International Heliport is a pre-requisite to providing cross-border services into the Pearl River Delta region.

4. The Government can help negotiate air services agreement and route rights within the Pearl River Delta.

Many of the issues involving cross-border, low-altitude flights pertain to sensitive national security concerns, and therefore, are more appropriately dealt with on a governmental level.

We respectfully submit that only if the government adopts a proactive policy to address the aforementioned issues will this nascent industry be able to blossom into a strategic industry for Hong Kong.



SECTION VI

CONCLUSION

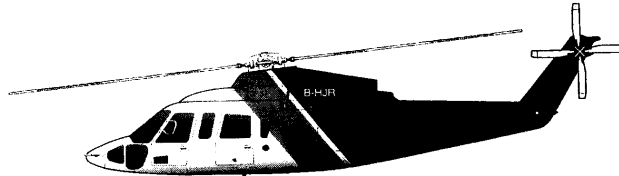
CONCLUSION

We wish to emphasize the following points:

- 1. Today, the helicopter is no longer a vehicle for the super-rich, but an efficient mode of public transportation for leisure, tourist and business travelers alike.**
 - 2. We believe that the unique transportation service provided by the helicopter will be a strategic asset to Hong Kong, providing it with a distinctive tourist attraction, and enhancing its competitive position within the regional economy.**
 - 3. As the HHK Group strives to extend helicopter service into the Pearl River Delta, our success will depend on our ability to deliver convenient, reliable service at a competitive price. Therefore, an exorbitant rent or the proposed new Airport Passenger Departure Tax on helicopter passengers will make it more difficult for us to launch such service in the Pearl River Delta region. Accordingly, we urge the Government to:**
 - Restructure our present lease at the HKMFT in accordance with the Airport Model, with the goal of reducing our overall rental burden.**
 - Defeat the proposed \$80 Airport Passenger Departure Tax on helicopter passengers.**
 - 4. If closer economic integration with the Pearl River Delta were one of the HKSAR's priorities, then the Government should make it easier and less costly to conduct intra-regional trade by:**
 - Broadening the available modes of transportation linking the two territories.**
 - Making these modes of transportation more affordable.**
 - Streamlining the cross-border formalities.**
 - 5. Specifically, in the context of the helicopter industry, the Government should adopt a proactive policy:**
 - To negotiate the necessary air services agreements with the respective Mainland governments, aviation and military authorities.**
 - To streamline the cross-border protocol.**
 - To help establish the attendant heliport infrastructure. Specifically, the Government should support the construction of a state-of-the-art International Heliport in Hong Kong, a pre-requisite to providing cross-border services into the Pearl River Delta.**
-

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In conclusion, we note that the **HeliHongKong Group** is a “long-term player” investing in the future of Hong Kong. In return, we respectfully ask the Government to proactively support our efforts to create a new strategic industry for Hong Kong in the New Millennium.



SECTION VII

NOTES

NOTES

¹ **Licensed Public Aerodrome**

Presently, our HeliShuttle service between Hong Kong and Macau operates as a "**chartered**" service as defined by the Hong Kong Civil Aviation Department. This modus operandus presents several disadvantages, chief among which is the fact that we are unable to link our ticketing system with global airline reservation systems, thereby limiting our ability to reach or to provide streamlined service to international travelers. To overcome this limitation, our service must be switched from "chartered" to "**scheduled**" status.

Among the requirements for "scheduled" service is that the aerodrome must be **licensed**. Licensing carries attendant requirements ensuring safe and uninterrupted service, chief among which is the requirement to have a means to remove any disabled aircraft without disrupting scheduled operations. In the context of the access-restricted rooftop helipad at the HKMFT, this necessitates the construction of a **Parking Helipad** adjacent to the existing helipad, and **enlarging the existing helipad** to conform to ICAO (International Civil Aviation Organization) standards.

The estimated cost for these enhancements is approximately **HK\$10 Million**, which we are prepared to finance, on condition that we can amortize our investment through mutually agreeable rent rebates over a reasonable period of time. On this point, however, we have been unable to engage the GPA in a meaningful discussion, let alone come to an agreement. GPA's position is that restructuring the rental agreement in such radical terms is beyond their mandate. The Finance Bureau, to which GPA reports, also has not heeded our repeated requests to intervene.

Thus, with each passing day of inaction on the part of the GPA and the Finance Bureau, our helicopter operation becomes ever more vulnerable to a service shutdown should an aircraft become disabled on the helipad.

² **Multiple Helicopter Operators**

Presently, in addition to rental payments, the HeliHongKong (HHK) Group pays for all heliport maintenance, repair and ground operations, such as baggage handling, passenger handling, security clearance, etc. While the rental agreement stipulates that third-party operators have a right to use the helipad, it does not stipulate how the HHK Group is to be compensated for such usage. With the possible entry of multiple Chinese helicopter operators once service to the Pearl River Delta begins, it has become necessary to define a proper mechanism to compensate the HHK Group for its costs.

We submit that an "Airport Authority" model based on the Hong Kong International Airport can be an appropriate model for determining user fees in a multi-user environment. (Please see diagram on page 11.) Such a model allocates user fees based on:

- Use of **FACILITIES** (namely, landing fee and parking fee): payable to the Airport Authority.
- Use of **SERVICES** (namely, baggage handling, passenger handling, security clearance, etc.): payable to the Service Franchisee.

This system of cost allocation has the merit of charging all **airline users** equitably, compensating the **property owner** for use of the facilities, and compensating the **service providers** for services rendered.

³ Government Charges at the Heliport at HKMFT

The Heliport rental charge covers use of the 1,105 sq.m. Helipad and 256 sq.m. of ancillary space. In practice, the 3-tier rental structure at the HKMFT results in a complicated calculation of rental payments that vary with the number of passengers per flight and the fare charged. For example, assuming a full flight:

**GOVERNMENT CHARGES AT THE HELIPORT
AT HONG KONG MACAU FERRY TERMINAL**

	<u>Weekdays</u>	<u>Weekends</u>
	<u>HK\$</u>	<u>HK\$</u>
Embarkation Fee - Collected by Marine Department	18	18
Movement Charges - Collected by Civil Aviation Dept.	121	121
Heliport Rental/Pax - Collected by Government Property Agency		
Weekdays (HK\$1,100 x 4.5%)	50	
Weekends (HK\$1,200 x 4.5%)		54

**Total Charges on S76C+ Full Capacity
(12 Incoming and 12 Outgoing Passengers)**

Embarkation Fee (Outbound Passengers Only) HK\$ 18 x 12 =	216	216
Movement Charges (Both Landing and Takeoff) HK\$ 121 x 2 =	242	242
Heliport Rental - Inbound Pax. – Weekdays HK\$ 50 x 12 x 2 =	1,200	
Heliport Rental - Outbound Pax. – Weekends HK\$ 54 x 12 x 2 =	_____	<u>1,296</u>
<u>Total Charges per Landing and Takeoff</u>	<u>1,658</u>	<u>1,754</u>

Therefore, the **\$1,754** maximum total charge per take-off and landing at the Heliport at HKMFT can be over 3 times the **\$552.50** fixed fee at the Hong Kong International Airport. While this is not intended to be a direct comparison due to the fact that rental at the HKMFT Heliport includes some ancillary facilities, it nevertheless illustrates the magnitude of difference between the charges at the two facilities.

