立法會
Legislative Council

LC Paper No. CB(1)1693/03-04
Ref: CB1/BC/7/03

Background Brief on
Airport Authority (Amendment) Bill 2004

Purpose

1. This paper sets out the background of the Airport Authority (Amendment) Bill 2004 (the Bill), and summarizes the legislative proposal therein and views of Members expressed when the proposed privatization of Airport Authority (AA) was deliberated at the meetings of the Panel on Economic Services on 23 February and 2 March 2004.

Background

2. The AA is a statutory corporation established under the Airport Authority Ordinance (Cap. 483) ("the Ordinance") to provide, operate, develop and maintain an airport for civil aviation at and in the vicinity of Chek Lap Kok (known as Hong Kong International Airport), and also to carry out airport-related activities as permitted by the Chief Executive by order in the Gazette. The AA is currently wholly-owned by the Government with a share capital of $36,648 million as at the end of the financial year on 31 March 2003.

3. The Financial Secretary announced on 6 August 2003 that the Government would commence work immediately in preparation for the proposed privatization of AA.

4. In studying the privatization of AA, the Government's financial advisors find that the present debt to equity ratio of AA is relatively low when compared with utilities in Hong Kong and selected airports around the world (Annex A). As the cost of debt is normally lower than the cost of equity, AA's low debt to equity ratio of about 1:4 (about 25%) has resulted in relatively high weighted average cost of capital (WACC). According to the Government's financial advisors, AA could optimize its capital structure to lower its WACC by returning to Government part of the $36 billion equity capital. This arrangement will have a value-enhancement effect, although the

eventual valuation of AA also hinges on a host of other factors including market conditions and expected growth prospect. Such capital restructuring will also have an added advantage of making available some capital revenue to Government prior to privatization. While AA would have to finance such return of equity by borrowing, the Government's financial advisors estimate that an amount of about $6 billion should not unduly affect its financial strength and credit rating, subject to the continuation of appropriate Government credit support mechanism, e.g. a majority Government ownership. The additional borrowing by AA to finance a capital restructuring would increase its interest expenses and lower the amount of its net profits in the next few years. However, the capital structure optimization would in the long term help improve AA's return on equity and make it more attractive to potential investors.

5. Taking the above into account, the Administration intends to ask AA to return about $6 billion of equity capital to Government prior to privatization. This would result in a debt to equity ratio of about 1:2 instead of the current ratio of about 1:4 . In order to take forward the proposal, the Administration needs to introduce an amendment bill to enable the capital of the AA established under the Ordinance to be reduced. According to the Administration, this two-step approach would enable the capital restructuring to proceed early, so that AA could take advantage of the current low interest environment to arrange the necessary financing. The proposed capital optimization would help enhance the business case of AA regardless of the final form and timing of the subsequent privatization.

The Bill

6. The object of the Bill is to provide a mechanism by which the share capital of the AA which is stated in section 23(1) of the Ordinance may be reduced. The Bill seeks to specifically provide that the Legislative Council may, on the recommendation of the Financial Secretary made after he has consulted AA, by resolution provide for a reduction of AA's capital in any way to an amount specified in the resolution. Such a resolution may also provide for other ancillary matters including that the capital so reduced be returned to the Government, and that shares issued by AA to the value of the capital returned be cancelled.

Members' concerns raised at previous discussions

7. The Panel on Economic Services held two meetings on 23 February 2004 and 2 March 2004 to discuss the Administration's proposal to request AA to return $6 billion of equity capital to Government prior to privatization.

8. The majority of the Panel members support the Administration's move to take forward the amendment bill for capital restructuring ahead of the privatization bill. However concerns have been raised over the pros and cons of the proposed capital restructuring and the appropriateness of pitching the debt to equity ratio to 1:2 instead of the current ratio of about 1:4. There are also concerns about the implications of the proposal on AA's existing and future contracts with the franchisees/contractors, and how would it affect the employees of the franchisees/contractors.

9. At the Panel meetings, members also took the opportunity to review with the Administration issues relating to the proposed privatization of AA. The major issues include the following:

(a) the impact of privatization on staff working on the airport island;
(b) regulation of airport charges;
(c) mechanism for upkeeping the service standards and efficiency after privatization;
(d) scope of AA's business and competition and mechanism to prevent AA from abusing its monopolistic power after privatization;
(e) residual Government controls over AA after privatization;
(f) how to strike a balance among the conflicting interests of various stakeholders after privatization;
(g) overseas experience in privatization of airports;
(h) whether the Government could take back the land on the airport island not already earmarked for airport operational and support facilities before privatizing AA; and
(i) the pros and cons of various privatization options.

10. Members may wish to refer to the minutes of the Panel meetings on 23 February 2004 (LC Paper No. CB(1)1321/03-04) and 2 March 2004 (LC Paper No. CB(1)1685/03-04) for details.

Council Business Division 1
Legislative Council Secretariat
6 May 2004

Annex A

Debt to Equity Ratio of Selected Airports

Airport / Airport Corporation	Debt to Equity Ratio
Auckland, New Zealand	106%
BAA, United Kingdom	40%
Copenhagen, Denmark	127%
Fraport, Germany	16%
Hong Kong market comparable	
CLP Holdings Limited	24%
Hongkong Electric Holdings Limited	44%
MTR Corporation Limited	56%

Note:
Debt to equity ratios are derived from latest published year-end figures of respective organisations/ airports. For calculation purpose, debt is net of cash.