

立法會
Legislative Council

LC Paper No. LS61/03-04

**Paper for the House Committee Meeting
on 16 April 2004**

**Legal Service Division Report on
Airport Authority (Amendment) Bill 2004**

I. SUMMARY

- 1. Objects of the Bill** To provide a mechanism by which the share capital of the Airport Authority ("AA") which is stated in section 23(1) of the Airport Authority Ordinance (Cap. 483) ("the Ordinance") may be reduced.
- 2. Comments** 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.
- 3. Public Consultation** No public consultation is mentioned in the LegCo Brief.
- 4. Consultation with LegCo Panel** On 23 February and 2 March 2004, the LegCo Panel on Economic Services was consulted on the Administration's proposal to reduce AA's capital by \$6 billion prior to privatisation. Whilst the majority of the members supported the capital restructuring exercise prior to privatisation, members have raised concerns on the pros and cons of the proposed capital restructuring, the appropriateness of pitching the debt to equity ratio at 1:2 instead of the current ratio of about 1:4, and the effect of capital restructuring on the financial strength and credit rating of AA.
- 5. Conclusion** Since members of the Panel on Economic Services have raised questions on the policy aspects of the proposed capital restructuring and the forthcoming privatisation of AA, members may wish to consider whether to form a Bills Committee to look into the Bill.

II. REPORT

Objects of the Bill

To provide a mechanism by which the share capital of the Airport Authority ("AA") which is stated in section 23(1) of the Airport Authority Ordinance (Cap. 483) ("the Ordinance") may be reduced.

LegCo Brief Reference

2. LIN CR 4/2/951/00 issued by the Financial Services and the Treasury Bureau in March 2004.

Date of First Reading

3. 24 March 2004.

Comments

4. AA is currently a statutory corporation established under the Ordinance and wholly owned by the Hong Kong Government. Section 23(1) of the Ordinance provides that the share capital of AA is \$36,648 million divided into 366,480 shares of \$100,000 each. Under section 23(3), AA shall issue all these shares to the Government. Section 23(2) provides that the Financial Secretary may increase the capital of AA to an amount specified in an order published in the Gazette. Nevertheless, the Ordinance does not provide for any reduction of capital.

5. Upon reviewing AA's financial position in his preparation for the proposed privatisation of AA, the financial adviser to the Government has observed 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. As the cost of debt is typically lower than the cost of equity, a higher level of debt relative to equity (provided that the interest charge does not affect a company's cash flow and hence its default risk) usually leads to a reduction in a company's overall cost of capital. The Government's financial adviser has advised that AA's cost of capital can be reduced through restructuring its capital base by way of raising funds in the debt market to pay down its equity (para. 2 of LegCo Brief).

6. The Administration has formed the view that subject to the continuation of appropriate support from the Government, (e.g. as majority owner of AA), AA's financial strength and credit ratings should not be unduly affected by an additional borrowing of around \$6 billion to finance the reduction of its equity capital. The result of the proposed restructuring of AA's capital will be that the percentage of debt

of AA will increase from around 20% at present to 33% (para. 3 of LegCo Brief).

7. Clause 2 of 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. A draft of the resolution by which the Government will seek to reduce AA's capital by \$6 billion is attached to the LegCo Brief.

Public Consultation

8. No public consultation is mentioned in the LegCo Brief.

Consultation with LegCo Panel

9. On 23 February and 2 March 2004, the LegCo Panel on Economic Services was consulted on the Administration's proposal to reduce AA's capital by \$6 billion prior to privatisation.

10. Whilst the majority of the members supported the capital restructuring exercise prior to privatisation, members have raised concerns on the pros and cons of the proposed capital restructuring, the appropriateness of pitching the debt to equity ratio at 1:2 instead of the current ratio of about 1:4, and the effect of capital restructuring on the financial strength and credit rating of AA. Members also took the opportunity to discuss with the Administration various issues relating to the proposed privatisation of AA at the meetings.

Conclusion

11. Since members of the Panel on Economic Services have raised questions on the policy aspects of the proposed capital restructuring and the forthcoming privatisation of AA, members may wish to consider whether to form a Bills Committee to look into the Bill.

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