

立法會
Legislative Council

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**Paper for the House Committee meeting
on 21 May 2004**

**Report of the Bills Committee
on Airport Authority (Amendment) Bill 2004**

Purpose

This paper reports on the deliberations of the Bills Committee on Airport Authority (Amendment) Bill 2004 (the Bill).

Background

2. Airport Authority (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. 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 the past few months, the Administration had conducted informal consultation on the proposed privatization with many stakeholders to gauge their views on the matter. The Administration is mindful of the concerns over certain issues relating to the proposed privatization, and therefore has decided to take more time to further consult stakeholders before putting a privatization bill to the Legislative Council. In the meantime, the Administration intends to restructure the capital of AA in order to lower its overall cost of capital.

The Bill

5. The object of the Bill is to provide a mechanism by which the share capital of 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.

The Bills Committee

6. The House Committee agreed at its meeting on 16 April 2004 to form a Bills Committee to study the Bill. Chaired by Hon SIN Chung-kai, the Bills Committee held a meeting with the Administration to discuss the Bill. The membership list of the Bills Committee is in **Appendix I**.

Deliberations of the Bills Committee

7. The Bills Committee notes 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 normally lower than the cost of equity, AA's low debt to equity ratio of about 1:4 has resulted in relatively high weighted average cost of capital (WACC). To improve the situation, the Administration proposes that AA could optimize its capital structure to lower its WACC by returning to the Government part of the \$36 billion equity capital. This arrangement will have a value-enhancement effect. Such capital restructuring will also have an added advantage of making available some capital revenue to the Government prior to privatization.

8. In evaluating the amount of equity that AA should return to the Government, the Bills Committee notes that the Administration has sought to ensure that AA's financial position will not be undermined and its current credit rating can be maintained, and that it has the ability to raise further borrowings to finance essential capital expenditure in future. The Bills Committee accepts that AA should be requested to return about \$6 billion of equity capital to the Government. Whilst the additional borrowing by AA to finance such return of equity would increase its interest expenses and lower the amount of its net profits in the next few years, the Bills Committee concurs with the Administration's view that the proposed capital restructuring would in the long term help improve AA's return on equity and make it more attractive to potential investors. The proposed debt to equity ratio of about 1:2 is also in line with that adopted by most commercial comparables.

9. As regards whether the proposed capital restructuring would affect future cash dividend received by the Government from AA, the Administration advises that the proposed appropriation of retained earnings was a matter for the AA Board to decide, having regard to AA's financial performance and its ability to finance essential capital expenditure in future. The proposed capital restructuring would have no direct relationship with AA's dividend policy.

10. The Administration also assures the Bills Committee that the proposed capital restructuring does not in anyway affect the ownership or corporate structure of AA. Further, it does not preempt the arrangements for privatization, and indeed the decision on whether and when AA should be privatized. The Bills Committee notes that the Administration intends to restructure AA's capital as soon as possible so that AA could take advantage of the current low interest environment to raise the funds involved.

Resolution

11. Subject to the enactment of the Bill, the Administration would move a resolution to effect the proposed reduction of \$6 billion in the capital of AA and to require AA to distribute an amount equivalent to the reduction to the Government. Payment received by the Government would be credited to the Capital Investment Fund. The Resolution would also give effect to the cancellation of shares in the AA held by the Government to an equivalent value. The draft Resolution is enclosed in **Appendix II**.

Recommendation

12. The Bills Committee supports the Bill and recommends the resumption of the Second Reading debate on the Bill on 9 June 2004. No Committee Stage amendment would be moved by the Administration or the Bills Committee.

Advice sought

13. Members are requested to support the recommendations of the Bills Committee at paragraph 12 above.

14. Subject to the enactment of the Bill by the Council on 9 June 2004, the Administration proposes to move the resolution at the Council sitting on 16 June 2004, and would seek the President's waiver of the notice requirement. The Administration points out that the draft resolution has been considered in parallel by the Bills Committee and should not be controversial. Further, it is important to allow AA to raise funds as early as possible in the market, given the ongoing uncertainties over interest rate rises. In this regard, the Administration would like to seek the House Committee's support in principle, on an exceptional basis, for the President to grant

the waiver.

Council Business Division 1
Legislative Council Secretariat
19 May 2004

**Bills Committee on
Airport Authority (Amendment) Bill 2004**

Membership list

Chairman	Hon SIN Chung-kai
Members	Hon LEE Cheuk-yan Dr Hon Eric LI Ka-cheung, GBS, JP Hon Fred LI Wah-ming, JP Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP Hon CHAN Kam-lam, JP Hon Howard YOUNG, SBS, JP Hon Miriam LAU Kin-ye, JP Hon Ambrose LAU Hon-chuen, GBS, JP Hon Abraham SHEK Lai-him, JP Hon LI Fung-ying, JP Hon LEUNG Fu-wah, MH, JP
	(Total: 12 members)
Clerk	Mr Andy LAU
Legal Adviser	Ms Kitty CHENG
Date	7 May 2004

AIRPORT AUTHORITY ORDINANCE

RESOLUTION OF THE LEGISLATIVE COUNCIL

Resolution made and passed by the Legislative Council under section 23(6) of the Airport Authority Ordinance (Cap. 483) on 2004.

RESOLVED that –

- (a) the authorized share capital of the Airport Authority referred to in section 23(1) of the Airport Authority Ordinance (Cap. 483) be reduced by an amount of \$6,000 million to \$30,648 million;
- (b) the Airport Authority shall distribute to the Government in cash an amount of \$6,000 million, such amount in the hands of the Government to be credited to the Capital Investment Fund established by resolution made and passed by the Legislative Council on 14 March 1990 under section 29 of the Public Finance Ordinance (Cap. 2); and
- (c) with effect from the date of receipt by the Government of the distribution referred to in paragraph (b), shares previously issued at par by the Airport Authority in accordance with section 23(3)(a) of the Airport Authority Ordinance (Cap. 483) and representing at the time of such issue a value of \$6,000 million in total be cancelled.

Clerk to the Legislative Council

2004

Explanatory Note

This Resolution provides for a reduction in the authorized share capital of the Airport Authority established under section 3(1) of the Airport Authority Ordinance (Cap. 483) by an amount of \$6,000 million, for the distribution of that amount to the Government of the Hong Kong Special Administrative Region, to be credited to the Capital Investment Fund, and for the cancellation of shares in the Airport Authority held by the Government to a similar value.