

**立法會**  
***Legislative Council***

LC Paper No. CB(1)1153/03-04

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**Panel on Economic Services**

**Background Brief on Privatization of Airport Authority**

**Purpose**

This paper provides background information on privatization of Airport Authority (AA).

**The Airport Authority**

2. AA is a statutory corporation wholly owned by the Government of the Hong Kong Special Administration Region (“the Government”). It was formally established on 1 December 1995 when the Airport Authority Ordinance (“the Ordinance”) was brought into effect as a continuation of the Provisional Airport Authority which had itself been set up in 1990. The Ordinance was amended in October 2002.

3. AA’s statutory purpose is to provide, operate, develop and maintain Hong Kong’s airport at Chek Lap Kok, in order to maintain Hong Kong’s status as a centre of international and regional aviation. Pursuant to these responsibilities, AA may also engage in airport-related activities in trade, commerce or industry at Chek Lap Kok and, subject to conditions stated under section 5(3) of the Ordinance, is allowed to engage in or carry out any airport-related activities at any place in or outside Hong Kong. AA is required under the Ordinance to conduct its business according to prudent commercial principles.

4. The Ordinance also sets out AA's initial authorized share capital as HK\$36,648 million to be wholly held by the Government. The amount of the authorized share capital has been fully paid up.

5. Under the Land Grant signed on 1 December 1995, the Government has granted to AA up to the year 2047 the legal rights to the entire airport site at Chek Lap Kok together with the rights necessary to develop such site for the purposes of its business.

6. Since the opening of the airport at Chek Lap Kok on 6 July 1998, AA's principal activities have been the management, operation, planning and development of the Hong Kong International Airport at Chek Lap Kok. It also engages in airport-related commercial and industrial activities at Chek Lap Kok. AA's subsidiary, Aviation Security Company Limited, is engaged in the provision of aviation security services at the airport.

7. The income statement, balance sheet, statement of changes in equity, and consolidated cash flow statement for the year ended 31 March 2003, and the five-year financial and operational summary of AA are enclosed in the **Appendix**.

### **Privatization of Airport Authority**

8. On 6 August 2003, the Administration announced that it would commence work in preparation for the proposed privatization of AA. At the Panel meeting held on 23 February 2004, members noticed that the Administration had initially come to a view on the way forward for the proposed privatization. As a first step, the Administration proposed that AA should return about \$6 billion of equity capital to Government through capital restructuring prior to privatization. As regards the privatization exercise, the Administration needed to consult various stakeholders before finalizing the privatization bill together with other regulatory documentation. The Administration would brief members again after drawing up concrete proposals. Details of the proposed privatization of AA are set out in LC Paper No. CB(1) 1017/03-04(05).

### **Members' concerns raised at previous discussions**

9. At the Panel meeting held on 23 February 2004, members expressed concern on a wide range of issues. The major ones included the following:

- (a) the merits and demerits of the proposed privatization of AA and foreign experience on airport privatization;
- (b) the regulatory framework for upkeeping the safety, security and service standards of the airport after privatization;
- (c) the regulatory mechanism for setting airport charges and levies on airport passengers, having regard to the competitiveness of the airport or general economy of Hong Kong vis-à-vis the interest of the privatized company and minority shareholders of the company ;
- (d) the impacts on the welfare of the entire workforce on the airport island after privatization;

- (e) whether the change of status from a public corporation to a privatized company will affect AA's ability to take forward its initiatives to achieve greater co-operation with other airports in the Pearl River Delta;
- (f) given the privatized AA's monopolistic status with a vast amount of land under its control and its unparalleled advantages in certain business activities, AA might abuse its dominant position to compete for profit with the private sector;
- (g) the justifications for the proposed capital optimization, the means of financing, and the appropriateness of pitching the debt to equity ratio to 1:2;
- (h) whether AA would transfer the cost of financing arising from the proposed capital optimization to other airport service providers.

10. The Panel would convene a special meeting to follow up on the related issues on 2 March 2004. The Administration has been requested to provide further information to address members' concerns raised at previous meeting.

Council Business Division 1  
Legislative Council Secretariat  
1 March 2004

# Income Statement

For the year ended 31 March 2003 (Expressed in Hong Kong dollars)

	Note	The group		The Authority	
		2003 \$ million	2002 \$ million	2003 \$ million	2002 \$ million
Airport charges		2,446	2,325	2,446	2,325
Security surcharges		156	-	156	-
Airside support services franchises		727	698	727	698
Terminal commercial revenue		1,727	1,901	1,727	1,902
Aviation security services		154	152	-	-
Real estate revenue		163	166	167	170
Other income		44	32	44	32
<b>Turnover</b>		<b>5,417</b>	<b>5,274</b>	<b>5,267</b>	<b>5,127</b>
Staff costs and related expenses	6	(903)	(894)	(507)	(503)
Repairs and maintenance		(364)	(395)	(364)	(394)
Operational contracted services		(266)	(285)	(546)	(568)
Government services	19	(715)	(716)	(715)	(716)
Other operating expenses		(504)	(482)	(487)	(464)
<b>Operating expenses before depreciation</b>		<b>(2,752)</b>	<b>(2,772)</b>	<b>(2,619)</b>	<b>(2,645)</b>
<b>Operating profit before depreciation</b>		<b>2,665</b>	<b>2,502</b>	<b>2,648</b>	<b>2,482</b>
Depreciation of fixed assets	9	(1,813)	(1,843)	(1,805)	(1,835)
<b>Operating profit before interest and finance charges</b>	4	<b>852</b>	<b>659</b>	<b>843</b>	<b>647</b>
Interest and finance charges:					
Finance costs	7	(233)	(428)	(233)	(428)
Interest income		12	12	11	11
		(221)	(416)	(222)	(417)
<b>Profit from ordinary activities before taxation</b>		<b>631</b>	<b>243</b>	<b>621</b>	<b>230</b>
Taxation	8	(125)	(2)	(123)	-
<b>Profit from ordinary activities after taxation</b>		<b>506</b>	<b>241</b>	<b>498</b>	<b>230</b>
Minority interests		(4)	(5)	-	-
<b>Profit attributable to shareholder</b>		<b>502</b>	<b>236</b>	<b>498</b>	<b>230</b>

The notes on pages 58 to 79 form part of these financial statements

# Balance Sheet

At 31 March 2003 (Expressed in Hong Kong dollars)

	Note	The group		The Authority	
		2003 \$ million	2002 \$ million	2003 \$ million	2002 \$ million
<b>Non-current assets</b>					
Fixed assets	9	46,282	47,579	46,273	47,567
Interests in subsidiaries	10	—	—	5	5
Defined benefit asset	11	78	—	78	—
		46,360	47,579	46,356	47,572
<b>Current assets</b>					
Stores and spares		125	126	125	126
Debtors and prepayments	12	760	1,074	737	1,046
Cash and cash equivalents		1,689	79	1,626	31
		2,574	1,279	2,488	1,203
<b>Current liabilities</b>					
Bank loans and notes payable	13	(2,750)	(1,500)	(2,750)	(1,500)
Creditors and accrued charges	14	(1,141)	(1,174)	(1,099)	(1,134)
Deferred income	15	(83)	(80)	(83)	(80)
Tax payable	8	—	(2)	—	—
		(3,974)	(2,756)	(3,932)	(2,714)
<b>Net current liabilities</b>		<b>(1,400)</b>	<b>(1,477)</b>	<b>(1,444)</b>	<b>(1,511)</b>
<b>Total assets less current liabilities</b>		<b>44,960</b>	<b>46,102</b>	<b>44,912</b>	<b>46,061</b>
<b>Non-current liabilities</b>					
Bank loans and notes payable	13	(5,051)	(6,950)	(5,051)	(6,950)
Creditors and accrued charges	14	(119)	(63)	(119)	(62)
Deferred income	15	(2,663)	(2,668)	(2,663)	(2,668)
Deferred taxation	8(c)	(123)	—	(123)	—
		(7,956)	(9,681)	(7,956)	(9,680)
<b>Minority interests</b>		<b>(26)</b>	<b>(22)</b>	<b>—</b>	<b>—</b>
<b>Net assets</b>		<b>36,978</b>	<b>36,399</b>	<b>36,956</b>	<b>36,381</b>
<b>Capital and reserves</b>					
Share capital	16	36,648	36,648	36,648	36,648
Reserves	17	330	(249)	308	(267)
		36,978	36,399	36,956	36,381

Approved and authorised for issue on behalf of the Members of the Board on 30 May 2003

Dr Victor Fung Kwok-king  
Chairman

Dr David J Pang  
Chief Executive Officer

Mr Raymond W C Lai  
Finance Director

The notes on pages 58 to 79 form part of these financial statements.

# Statement of Changes in Equity

For the year ended 31 March 2003 (Expressed in Hong Kong dollars)

	Note	The group		The Authority	
		2003 \$ million	2002 \$ million	2003 \$ million	2002 \$ million
Shareholder's equity at 1 April					
As previously reported		<b>36,399</b>	36,163	<b>36,381</b>	36,151
Prior period adjustment from change in accounting policy for employee retirement benefits	3(m)	<b>77</b>	-	<b>77</b>	-
As restated		<b>36,476</b>	36,163	<b>36,458</b>	36,151
Profit for the year		<b>502</b>	236	<b>498</b>	230
Shareholder's equity at 31 March		<b>36,978</b>	36,399	<b>36,956</b>	36,381

The notes on pages 58 to 79 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 March 2003 (Expressed in Hong Kong dollars)

	2003 \$ million	2002 \$ million
<b>Operating activities</b>		
Profit from ordinary activities before taxation	631	243
Adjustments for:		
Depreciation	1,813	1,843
Interest payable on bank loans	35	71
Interest on notes issued	177	346
Other borrowing costs	21	11
Interest income	(12)	(12)
Loss on disposal of fixed assets	59	32
Amortisation of deferred income	(87)	(80)
<b>Operating profit before changes in working capital</b>	<b>2,637</b>	<b>2,454</b>
Decrease in stores and spares	1	21
Decrease/(increase) in debtors and prepayments	252	(281)
Increase/(decrease) in creditors and accrued charges	72	(103)
<b>Cash generated from operations</b>	<b>2,962</b>	<b>2,091</b>
Hong Kong profits tax paid	(4)	(2)
<b>Net cash from operating activities</b>	<b>2,958</b>	<b>2,089</b>
<b>Investing activities</b>		
Interest received	12	13
Net proceeds on lease out – lease back	90	–
Net payment in respect of fixed assets	(525)	(2,521)
Receipts from disposal of fixed assets	2	1
<b>Net cash outflow from investing activities</b>	<b>(421)</b>	<b>(2,507)</b>
<b>Financing activities</b>		
Interest paid on bank loans	(38)	(70)
Interest paid on notes issued	(196)	(348)
Other borrowing costs paid	(21)	(11)
Proceeds from issue of notes	2,278	1,000
Drawdown of loans	–	3,750
Repayment of loans	(1,450)	(3,375)
Repayment of notes	(1,500)	(500)
<b>Net cash (outflow)/inflow from financing activities</b>	<b>(927)</b>	<b>446</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,610</b>	<b>28</b>
<b>Cash and cash equivalents at 1 April</b>	<b>79</b>	<b>51</b>
<b>Cash and cash equivalents at 31 March</b>	<b>1,689</b>	<b>79</b>

## Five-Year Financial and Operational Summary

	98/99*	99/00	00/01	01/02	02/03
<b>Income Statement</b>					
<i>(in HK\$ millions)</i>					
Turnover	3,773	5,055	5,159	5,274	5,417
Operating profit before depreciation	1,491	1,998	2,358	2,502	2,665
Depreciation of fixed assets	(1,639)	(1,740)	(1,781)	(1,843)	(1,813)
Interest and finance charges	(236)	(421)	(500)	(416)	(221)
Profit / (loss) from ordinary activities before taxation	(384)	(163)	77	243	631
Taxation	0	0	(3)	(2)	(125)
Profit / (loss) from ordinary activities after taxation	(384)	(163)	74	241	506
Minority interests	(4)	(5)	(3)	(5)	(4)
Profit / (loss) attributable to shareholder	(388)	(168)	71	236	502

### Balance Sheet

	98/99*	99/00	00/01	01/02	02/03
<i>(in HK\$ millions)</i>					
Non-current assets	50,737	50,242	49,029	47,579	46,360
Current assets	1,880	1,342	961	1,279	2,574
Current liabilities	(8,351)	(10,284)	(4,978)	(2,756)	(3,974)
Net current liabilities	(6,471)	(8,942)	(4,017)	(1,477)	(1,400)
Total assets less current liabilities	44,266	41,300	45,012	46,102	44,960
Non-current liabilities	(7,998)	(5,195)	(8,832)	(9,681)	(7,956)
Minority interests	(8)	(13)	(17)	(22)	(26)
Net assets	36,260	36,092	36,163	36,399	36,978
Share capital	36,648	36,648	36,648	36,648	36,648
Reserves	(388)	(556)	(485)	(249)	330
	36,260	36,092	36,163	36,399	36,978

### Key Financial Data and Operational Statistics

	98/99*	99/00	00/01	01/02	02/03
<i>(in thousands)</i>					
Return on net assets	(1%)	(0.5%)	0.2%	0.6%	1.4%
Debt / Equity ratio	1:4.7	1:4.7	1:4.8	1:4.3	1:4.7
Total passengers	21,607	30,915	33,844	33,101	34,198
Cargo tonnages	1,199	2,061	2,230	2,121	2,546
Aircraft movements	122	169	186	198	212

\* Period from 6 July 1998 to 31 March 1999