

For discussion
on 6 February 2014

Legislative Council Panel on Economic Development

Issues regarding the Icon Shops Tender by the Airport Authority Hong Kong

PURPOSE

This paper aims to set out the Icon Shops tender process and the corresponding improvement measures taken by the Airport Authority Hong Kong (AA).

BACKGROUND

2. The AA follows a set of established procedures for handling the tendering of retail licences. The Retail & Advertising Department is responsible for the tendering of retail licences, including the Icon Shops. Throughout the whole process from planning of tendering to the award of licences, relevant departments will deliberate or report to internal committees in the AA. Decisions at different stages of the tendering process are made by the relevant internal committees and not by any individual.

3. Generally speaking, during the tender assessment, apart from factors such as tenderers' background, brand, marketing capability, experience in the trade, business concept as well as the AA's licence revenue, the AA also considers the overall retail trade mix at the airport to meet the different needs of passengers. AA will adjust its retail strategy as appropriate to cater for the changing market trend and passengers' needs.

The tender process and assessment work of Icon Shops

4. The creation of two Icon Shops in the East Hall of Terminal 1 was a new concept conceived by the AA back in 2009. Planning for the tendering of the two Icon Shops began in September 2010, and the relevant tender award was finalised in October 2011.

5. In the tender evaluation process of the Icon Shops, the Retail and Advertising Department of the AA had included product category of the tenderers and the rental conditions of the tenderers' existing shops in the airport as evaluation criteria after vetting the tenders received. Such inclusion was to cater for the latest market trend, balance the overall retail trade mix and optimise the commercial revenue to the AA, and the final decision was made by the internal committee led by Chief Executive Officer of the AA. It was believed such adjustment would optimise the overall revenue to the AA, as well as enhancing the shopping experience for the passengers.

6. Tender documents for the Icon Shops stipulated that in tender evaluation, the weighting of financial considerations accounted for 60 per cent, while non-financial factors accounted for 40 per cent. Tenderers were required to propose a minimum guaranteed rental and a percentage share of business turnover. The successful tenderers were required to pay whichever was higher to AA as the licence fee. The abovementioned weighting ratio (i.e. 60 per cent on financial return and 40 per cent on non-financial factors) remained unchanged throughout the whole tendering and evaluation process.

Internal independent review

7. The Internal Audit Department of AA is primarily responsible for reviewing the adequacy and effectiveness of internal control procedures and monitoring compliance with them. The Department independently draws up the annual internal audit programme using a risk-based approach. In May 2013, the Internal Audit Department of AA completed an independent review into the tender award process of the Icon Shops. The review results pointed out that there were shortcomings in the AA's tender process, which gave rise to the need for adjusting the evaluation criteria after vetting the tenders received.

Discussion and follow up on review results by AA Board and its Committee

8. Pursuant to the Airport Authority Ordinance, the Board of AA has overall responsibility for the leadership, control and performance of AAHK. The Board will scrutinise proposals on strategy and monitor the performance of the AA management. Currently there are five Board

Committees¹ to consider matters on specialised areas, and such Committees are required to report to the Board at each Board meeting. The principal duties of the Audit Committee and Finance Committee (ACFC) under the Board include reviewing financial statements, overseeing internal controls, financial controls, risk management system, and internal audit function etc.

9. The Internal Audit Department reported the results of the independent review on the Icon Shops tender process to the ACFC in May 2013. The ACFC shared the findings and reported to the Board in August 2013. The Board has taken the shortcomings revealed by the Icon Shops case very seriously. Though the Board accepted that in this case there was no evidence of any transfer of interest by anyone within the AA, the Board criticised the management on the shortcomings found in the handling of the Icon Shops tender. The Board requested the AA management to review the tender procedures and improve upon its tender planning work to avoid the need to exercise discretion allowed under the tendering procedures to make subsequent adjustments to tender evaluation criteria so as to protect the commercial interest of the AA. The Board also requested the AA management to take concrete steps to further strengthen the organisation's internal controls, corporate governance and compliance culture.

Commissioning independent consultants for overall review and implementation of improvement measures

10. The AA accepted the audit results and recognised the need for improvement in the tender processes. The AA evaluates its tender process from time to time, and has commissioned two independent external consultants in 2012 to review its tendering procedures and internal control framework. The consultant has provided suggestions specific to the shortcomings found in the Icon Shops case. With the substantial completion of the reviews, AA has implemented measures to make the tender process more robust and clear. For instance, representatives from departments other than the Retail & Advertising Department will be included in tender evaluation process of retail licences. Guidelines are strengthened to enhance the independence and professionalism of the process, and to ensure that tender evaluation complies with improved

¹ Currently there are five Board Committees including the Executive Committee, Audit Committee and Finance Committee, Capital Works Committee, Infrastructural Planning Committee, and Remuneration Committee.

procedures. Besides, AA has developed and implemented a comprehensive training programme to further strengthen the understanding of internal controls and corporate governance of AA staff.

Conclusion

11. The Icon Shops tender has been fully discussed and reviewed by the AA Board and the ACFC, and the relevant improvement measures are being implemented. AA is committed to further deepening its corporate governance culture and will continue to improve its tendering system and procedures. All necessary steps are being taken to ensure that tendering process is made even more robust and clear.

**Airport Authority Hong Kong
Transport and Housing Bureau
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