

**立法會**  
**Legislative Council**

LC Paper No. CB(4)771/16-17  
(These minutes have been seen  
by the Administration and  
Airport Authority Hong Kong)

Ref: CB4/HS/2/16

**Subcommittee to Follow Up Issues Relating to the Three-runway System at  
the Hong Kong International Airport**

**Minutes of the third meeting held on  
Tuesday, 7 February 2017, at 2:30 pm  
in Conference Room 3 of the Legislative Council Complex**

- Members present** : Hon WONG Ting-kwong, SBS, JP (Chairman)  
Hon Jeremy TAM Man-ho (Deputy Chairman)  
Hon LEUNG Yiu-chung  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon CHAN Kin-por, BBS, JP  
Hon Paul TSE Wai-chun, JP  
Hon LEUNG Kwok-hung  
Hon Steven HO Chun-yin, BBS  
Hon Frankie YICK Chi-ming, JP  
Hon YIU Si-wing, BBS  
Dr Hon KWOK Ka-ki  
Hon Dennis KWOK Wing-hang  
Dr Hon Elizabeth QUAT, JP  
Hon CHU Hoi-dick  
Hon Holden CHOW Ho-ding  
Hon Wilson OR Chong-shing, MH  
Hon Tanya CHAN  
Hon HUI Chi-fung  
Hon LUK Chung-hung  
Dr Hon CHENG Chung-tai  
Dr Hon YIU Chung-yim  
Dr Hon LAU Siu-lai
- Members absent** : Hon Abraham SHEK Lai-him, GBS, JP  
Hon Michael TIEN Puk-sun, BBS, JP  
Ir Dr Hon LO Wai-ki, SBS, MH, JP  
Hon LAU Kwok-fan, MH

**Public Officers  
attending**

: Agenda item II

Transport and Housing Bureau

Mr YAU Shing-mu, JP  
Under Secretary for Transport and Housing

Mr Andy YAU, JP  
Head (Airport Expansion Project Coordination Office)

Mr Wallace LAU  
Deputy Secretary for Transport and Housing  
(Transport) 4

Airport Authority Hong Kong

Mr Fred LAM, JP  
Chief Executive Officer

Mr Wilson FUNG  
Executive Director, Corporate Development

Mr NG Chi-kee  
Executive Director, Airport Operations

Mr William LO  
Executive Director, Finance

**Clerk in attendance** : Ms Shirley CHAN  
Chief Council Secretary (4)5

**Staff in attendance** : Ms Shirley TAM  
Senior Council Secretary (4)5

Ms Lauren LI  
Council Secretary (4)5

Ms Zoe TONG  
Legislative Assistant (4)5

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Action

**I. Confirmation of minutes of meeting**

(LC Paper No. CB(4)489/16-17 — Minutes of meeting held on 5 December 2016)

The minutes of the meeting held on 5 December 2016 were confirmed.

**II. Meeting with the Administration and Airport Authority Hong Kong**

Cost and financial arrangement plan of the three-runway system

(LC Paper No. CB(4)491/16-17(01) — Airport Authority Hong Kong's paper on the cost and financial arrangement plan of the three-runway system

Manpower plan and development in relation to the three-runway system development

LC Paper No. CB(4)491/16-17(02) — Airport Authority Hong Kong's paper on the manpower plan and development in relation to the three-runway system development

LC Paper No. CB(4)131/16-17(01) — Letter from Hon LUK Chung-hung dated 11 November 2016 proposing discussion on the manpower planning and development in relation to the three-runway system development (Chinese version only)

LC Paper No. CB(4)359/16-17(01) — Letter from Hon LUK Chung-hung dated 21 December 2016 requesting information from the Administration on manpower plan and development in relation to the three-runway system development (Chinese version only))

2. The Subcommittee deliberated (index of proceedings attached at **Annex**).

Action

Follow-up actions to be taken by the Administration/ Airport Authority Hong Kong

Admin/  
AAHK

3. The Administration/ Airport Authority Hong Kong ("AAHK") was requested to provide the following information –

- (a) similar to the Government's public works programme projects, the "10-year" "snap-shot" cash flow figures of the three-runway system ("3RS") project;
- (b) the ruling and action number of the judicial review cases with respect to, amongst other things, the financing arrangement of AAHK for funding the 3RS project;
- (c) how the outcome of the sensitivity tests on changes in revenue and construction cost of the 3RS project would be affected in the light of the recent downward trend of the money-of-the-day factors;
- (d) the form(s) of the construction contract adopted by AAHK for the 3RS project and the reasons for adopting such form(s) of contract; and
- (e) the updated annual growth of air passenger throughput of the Hong Kong International Airport projected by AAHK.

**III. Any other business**

4. The Chairman advised that the next meeting of the Subcommittee would be held on Tuesday, 11 April 2017 at 8:30 am to discuss the item "Environmental issues: progress of implementation of key Environmental Impact Assessment commitments".

5. Members noted that a visit to the Hong Kong International Airport would be arranged in March/April 2017. They would be notified of the arrangements in due course.

*(Post-meeting note: With the concurrence of the Chairman, the visit has been scheduled for 5 May 2017. Members were notified of the arrangements vide LC Paper No. CB(4)743/16-17 on 23 March 2017.)*

6. There being no other business, the meeting ended at 4:29 pm.

**Proceedings of the third meeting of  
the Subcommittee to Follow Up Issues Relating to the Three-runway System at  
the Hong Kong International Airport  
on Tuesday, 7 February 2017, at 2:30 pm  
in Conference Room 3 of the Legislative Council Complex**

Time marker	Speaker	Subject(s)	Action required
<b>Agenda item I – Confirmation of minutes of meeting</b>			
000409 – 000441	Chairman	Confirmation of minutes of meeting	
<b>Agenda item II – Meeting with the Administration and Airport Authority Hong Kong</b>			
000442 – 000530	Chairman	Opening remarks	
000531 – 001833	Chairman Administration Airport Authority Hong Kong ("AAHK")	Briefing by AAHK on the cost and financial arrangement plan of the three-runway system ("3RS") with the aid of powerpoint presentation [LC Paper No. CB(4)519/16-17(01)]	
001834 – 002433	Chairman Dr KWOK Ka-ki Administration	<p>Pointing out that the proposed financial arrangement plan of 3RS was an attempt to bypass the Legislative Council ("LegCo"), Dr KWOK Ka-ki was concerned about the possible cost overrun of the project and queried whether the Government would bear no responsibility for the cost overrun. He also expressed concern about the estimated borrowing cost of \$17 billion included in the \$69 billion loan.</p> <p>The Administration advised that AAHK would finance the 3RS project by itself. The cost of borrowing would depend on AAHK's detailed funding plan which was under study.</p>	
002434 – 003054	Chairman Mr Dennis KWOK AAHK	<p>Noting that the cost of borrowing mentioned in the 2011 and 2015 financial reports prepared by AAHK's financial adviser, the Hongkong and Shanghai Banking Corporation Limited ("HSBC"), was 6.5% p.a. and 5% p.a. respectively, and given that interest rate was expected to rise in future, Mr Dennis KWOK queried the viability of the cost of borrowing projected in the 2015 report. He also sought explanation on the impact of the severe downside scenarios as mentioned in the 2015 report, as well as their impact on the credit rating of AAHK.</p> <p>AAHK advised that –</p> <p>(a) the different macroeconomic environment in 2011 and 2015 accounted for the different assumptions used to project the costs of borrowing in the two reports;</p>	

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		<p>(b) in the 2015 report, the 5% p.a. was the assumption of cost of borrowing throughout the eight-year construction period of 3RS. Such rate was considered fair and reasonable;</p> <p>(c) five downside scenarios had been adopted to test the financial robustness of the 3RS financial arrangement plan, including a further 2% increase in the cost of borrowing. The results indicated that in the event that these downside scenarios were to occur, AAHK would still be able to maintain an investment grade rating and raise additional debt to fund the consequential funding shortfall;</p> <p>(d) the five downside scenarios were designed for sensitivity testing purpose only and did not reflect the financial advisor's expectation of possible occurrence of such situations; and</p> <p>(e) it would be undesirable to directly compare the credit ratings of AAHK in the 2011 and 2015 reports as the two reports served different purposes and credit rating agencies regularly reviewed and adjusted their credit rating methodologies.</p>	
003055 – 003625	Chairman Mr YIU Si-wing AAHK	<p>Mr YIU Si-wing enquired about the progress of the construction work of 3RS and the relevant expenditure, as well as the projected passenger throughput before the commissioning of 3RS and the subsequent impact on AAHK's revenue.</p> <p>AAHK advised that the construction of 3RS commenced in August 2016 and would take some eight years to complete. So far, the cost of the construction contracts awarded was within budget. The Hong Kong International Airport ("HKIA")'s passenger throughput reached 70 million in 2016. According to the Environmental Impact Assessment report for 3RS published in 2014, it was estimated that the annual passenger throughput would increase to about 82 million in 2024.</p>	
003626 – 004231	Chairman Deputy Chairman AAHK	<p>Noting that in the 2015 report, a 4.5x debt/EBITDA ratio was projected under the working case assumptions, the Deputy Chairman enquired about the credit rating of AAHK under such ratio as well as the change in AAHK's business profile since 2011.</p> <p>AAHK advised that a 4.5x debt/EBITDA ratio would have immaterial impact on AAHK's current AAA</p>	

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		<p>credit rating, and that the future credit rating of AAHK would only be available by the time the incremental debt was eventually raised for the 3RS project.</p> <p>The Deputy Chairman was not convinced. He pointed out that as mentioned in the 2011 report, AAHK's credit rating would drop to BBB level under 4-5x debt/EBITDA ratio.</p> <p>Noting that AAHK had appointed HSBC to study the detailed funding plan for the \$69 billion incremental debt ("the 2017 report"), the Deputy Chairman requested AAHK to report the findings when available.</p> <p>AAHK replied that the 2017 report would have to be endorsed by the Board of AAHK which would also consider whether and how best to release the report.</p>	
004232 – 004657	Chairman Dr YIU Chung-yim AAHK	<p>Dr YIU Chung-yim requested for a discounted cash flow analysis of the 3RS project. He also enquired about the peak time for AAHK to repay the loans.</p> <p>AAHK advised that the funding information would be contained in the 2017 report. Yet, details of the funding plan were commercially sensitive due to their implications on AAHK's borrowing strategy.</p> <p>In response to Dr YIU's enquiry, AAHK advised that the estimated internal rate of return for the 3RS project and the Weight Average Cost of Capital were both 8% according to the 2015 report.</p>	
004658 – 005359	Chairman Ms Tanya CHAN AAHK	<p>Ms Tanya CHAN enquired about the change in the methodology of Standard and Poor's rating adopted in the 2011 and 2015 reports. She said that according to the LegCo Brief issued by the Transport and Housing Bureau on 29 September 2015, the independent financial consultant engaged by the Government had pointed out that AAHK's proposed borrowing in the order of 4.5 times EBITDA in the financial year 2022-2023 might possibly approach the practical limit achievable in the market benchmarking from the experience in overseas airports. As a 4.5x debt/EBITDA ratio was projected under the working case assumptions in the 2015 report, she considered that a more accurate estimate on the impact of interest rate hike on AAHK's credit rating and the cost of borrowing should be provided in the 2017 report so that the public could be informed of the situation.</p>	

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		<p>In response, AAHK advised that the 2015 report had confirmed that AAHK's financial arrangement plan was practicable and viable, and that the 2017 report would only focus on the detailed funding plan for the \$69 billion incremental debt.</p>	
005400 – 005931	<p>Chairman Mr CHU Hoi-dick AAHK</p>	<p>In view of the future increase of passenger throughput, Mr CHU Hoi-dick enquired about the need to construct a double "Y" shaped third runway passenger building ("TRPB") instead of the single "Y" design, and the relevant cost estimate for constructing a double "Y" shaped concourse.</p> <p>AAHK advised that the single "Y" design of TRPB could handle an additional 30 million passengers per annum. AAHK did not see an immediate need to adopt a double "Y" design. Hence, an estimate on the cost of constructing a double "Y" shaped concourse was not available.</p>	
005932 – 010232	<p>Chairman Mr Holden CHOW AAHK</p>	<p>As regards the possible financial instruments to be considered in the detailed funding plan for the incremental debt, Mr Holden CHOW was concerned about AAHK's ability in obtaining commercial bank loans with favourable terms, and whether convertible bonds would be an option.</p> <p>AAHK advised that given AAHK's excellent credit rating, AAHK was able to raise debts on favourable terms as evidenced by the revolving credit facility in December 2015, and that it had no plan to issue convertible bonds.</p>	
010233 – 010917	<p>Chairman Ms Tanya CHAN Administration AAHK</p>	<p>Ms Tanya CHAN enquired about the legality of the Government's intention to waive dividends from AAHK for the construction of 3RS, and whether the Airport Construction Fee ("ACF") would be collected beyond the planned 2031 in case loans relating to 3RS could not be fully repaid by that time.</p> <p>The Administration said that the retention of distributable profits by AAHK in its proposal to fund the 3RS project had the benefit of not involving the use of public funds. It undertook to provide information on the ruling and action number of the judicial review cases with respect to, amongst other things, the financing arrangement of AAHK for funding the 3RS project.</p> <p>AAHK advised that the construction cost of \$141.5 billion was inclusive of all capital cost, and that ACF would remain in effect until all loans had been repaid.</p>	<p>The Administration to follow up as per paragraph 3(b) of the minutes</p>



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010918 – 011343	Chairman Dr YIU Chung-yim AAHK	<p>Upon the request of Dr YIU Chung-yim, AAHK undertook to provide the following information –</p> <ul style="list-style-type: none"> <li>(a) similar to the Government's public works programme projects, the "10-year" "snap-shot" cash flow figures of the 3RS project;</li> <li>(b) how the outcome of the sensitivity tests on changes in revenue and construction cost of the 3RS project would be affected in the light of the recent downward trend of the money-of-the-day factors; and</li> <li>(c) the form(s) of the construction contract adopted by AAHK for the 3RS project and the reasons for adopting such form(s) of contract.</li> </ul> <p>In response, AAHK advised that regarding requests (a) and (b), as the study on the detailed funding plan was underway, AAHK could only consider these two requests after the study had been completed, and as and when the necessary information was available. Separately, AAHK undertook to provide the form(s) of construction contracts adopted by AAHK for the 3RS project.</p>	AAHK to follow up as per paragraphs 3(a), (c) and (d) of the minutes
011344 – 012502	Chairman Deputy Chairman Mr LEUNG Kwok-hung Administration AAHK	<p>The Deputy Chairman urged the Government to appoint an independent consultant to review the 2017 report, given that incremental borrowings comprised nearly half of the total project cost of 3RS. Pointing out that AAHK might not be able to retain its distributable profits after the commissioning of 3RS in 2024, he expressed concern that AAHK would continue to levy ACF beyond 2031 in case loans relating to 3RS could not be fully repaid by that time.</p> <p>Mr LEUNG Kwok-hung also enquired about AAHK's ability in repaying the loans and the collection of ACF.</p> <p>The Administration advised that unlike the 2015 study which aimed to verify the viability of AAHK's financial arrangement proposals for the 3RS project, the 2017 study would only focus on the detailed plan to raise debt from the market. The Government did not have any plan nor consider any need to appoint an independent consultant to review AAHK's detailed debt-raising plan.</p> <p>AAHK advised that that in the 2015 report, HSBC had confirmed AAHK's ability in raising further debts under any of the five downside scenarios while</p>	

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		maintaining an investment grade rating. ACF collection would remain in effect until all borrowings related to the 3RS project were fully repaid. The charging levels of ACF would be maintained throughout the collection period. Whether further debts might need to be raised to cover any downside scenario would depend on the actual circumstances.	
012503– 013051	Chairman Mr CHU Hoi-dick AAHK	Referring to the traffic demand estimated by International Air Transport Association Consulting, Mr CHU Hoi-dick queried if AAHK had under-estimated the growth in passenger throughput. He requested AAHK to provide updated figures on the air passenger demand of HKIA.  AAHK advised that as part of the airport's next master planning cycle (i.e. Master Plan 2035), the process of updating the traffic forecast was underway.	AAHK to follow up as per paragraph 3(e) of the minutes
013052 – 014348	Chairman AAHK	Briefing by AAHK on the manpower plan and development in relation to the 3RS development with the aid of powerpoint presentation [LC Paper No. CB(4)519/16-17(02)]	
014349 – 014721	Chairman Mr Frankie YICK Administration	Mr Frankie YICK urged the Administration to address the manpower shortage arisen from the 123 000 jobs created by 3RS. He was of the view that importation of skilled labour might be necessary to cope with the problem. The Administration responded that it would maintain dialogues with the relevant sectors on the matter.	
014722 – 015307	Chairman Mr LUK Chung-hung AAHK	Mr LUK Chung-hung objected to the importation of labour which would adversely affect the employment opportunities of local workers. He considered that inconvenient and expensive transportation had discouraged people from working in the airport, resulting in a manpower shortage. He urged AAHK to provide concessionary bus fares for airport staff. He was also concerned about details of the training to be provided by the new Hong Kong International Aviation Academy ("the Academy").	
015308 – 015651	Chairman Deputy Chairman AAHK	The Deputy Chairman welcomed the setting up of the Airport Preschool and the Academy. He suggested that AAHK should extend the operating hours of the preschool and widely publicize the courses provided by the Academy. To retain staff, he suggested that AAHK should offer higher concessionary rate of bus fares to its staff, and take appropriate measures to ensure the work safety of airport staff so as to prevent occurrence of accidents.	

<b>Time marker</b>	<b>Speaker</b>	<b>Subject(s)</b>	<b>Action required</b>
015652 – 015957	Chairman Mr YIU Si-wing AAHK	Mr YIU Si-wing sought information on the job vacancies in the airport, the estimated increase in manpower the airport would require in future, and AAHK's plan regarding importation of labour.  AAHK advised that it was conducting a full scale workforce survey to collect updated data on the manpower situation of the airport. The survey was targeted for completion by mid-2017.	
<b>Agenda item III – Any other business</b>			
015958 – 020110	Chairman	Date of next meeting  Visit	