



November 30, 2004

Ms. Sandra Lee
Permanent Secretary for Economic Development
Government Secretariat
Central Government Offices
Lower Albert Road, Central
Hong Kong

Dear Ms. Lee,

Re: Partial Privatization of the Airport Authority

I refer to your letter of 15 November on the above subject and would like to submit a few comments for your consideration.

As stated in the consultation document, the analysis on Government's role, its relationship with the new Company and the proposed regulatory framework are rational and well-justified. However, with regard to the asset valuation aspect and the proposed alternatives to increase airport charges over a period of three to five years, this may warrant further review and discussion.

While considering the investment return of HKIA on a commercial project basis, I think the Government should also take into account the social and economic benefits the HKIA can bring to the long-term development of Hong Kong. At present, the HKIA is confronted with very strong competition from neighboring airports, especially those on the Mainland. As an example, if we take a look at the steady increase in the number of direct flights between Guangzhou and cities in the US and Europe at the new Baiyun airport, the volume of passengers and expanding cargo flow in Shenzhen, we can see the speedy pace of development in air transport on the Mainland. In this connection, it seems there is little room for imposing substantial increase on airport charges since it would undermine HKIA's market competitiveness and hence affect our development prospects in the long run.

On the other hand, in view of the very capital-intensive nature to develop and operate an airport and, in our case, a very high construction and start up cost for the HKIA with just 6 years of operation, the low return generated so far would need to be improved to a more acceptable level. While satisfactory financial performance is anticipated this year, the key business development strategies

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identified, including HKIA's extended home market of the Mainland and the PRD as the core, would need to be actively pursued. Besides, strong corporate governance, improved operational efficiency, passenger and cargo flow enhancement etc. are all crucial factors to boost investor confidence in the HKIA and in safeguarding Hong Kong's position as a leading Asian hub.

In summary, I think the ultimate objective of Airport Privatization should focus on enhanced efficiency and competitiveness. We need to strike a proper balance between fulfilling a well-defined, long-term growth strategy versus setting our eyes on commercial viability through careful review of airport charges to generate equitable return and short-term benefits.

Thank you for your attention.

Yours sincerely,

HE Guangbei
Member of the Board
Airport Authority Hong Kong

cc: Dr. David Pang, CEO, AAHK