

WESTERN HARBOUR TUNNEL COMPANY LIMITED

Company's Background Brief

The Western Harbour Tunnel was built at a cost of HK\$7.0 billion and opened for business on 30 April 1997 some three months ahead of schedule. Its construction and operation is governed by the WHC Ordinance of 1993.

1.0 BACKGROUND INFORMATION FOR TOLL ADJUSTMENT

1.1 Net Revenue

WHC's actual net revenues are far below the Minimum Estimated Net Revenue stipulated in the Ordinance. Please see the summary below:

\$m	Y/E Jul-98	Y/E Jul-99	Y/E Jul-00	Y/E Jul-01	Y/E Jul-02	Cumulative
Minimum Estimated Net Revenue in the Ordinance	154	201	253	506	713	1,827
Actual Net Revenue / (Loss)	(208)	(52)	59	172	299	270
Shortfall	362	253	194	334	414	1,557

1.2 Traffic Volume

The main reasons for the shortfall in net revenue is that actual traffic volume has been much less than forecast due to:

- i) economic downturn;
- ii) the large toll differential with other tunnels; and
- iii) poor access roads due to the lateness of the Central-Wanchai By-pass.

The WHC has been proactive in taking action to make the WHC more attractive to motorists:

- a) It's staff has examined impediments to free traffic flow throughout routes leading to the WHC and made a number of suggestions to the Environment, Transport and Works Bureau and Transport Department for improvements to roads and road signs. The Bureau and Department have been very helpful in implementing road improvements and scheduling many others for future implementation. New road signs have also been installed.

b) Carefully targeted promotions have been made, for instance. Current promotions are:

- Enhancement of the Current Empty Taxi Promotion (\$5 toll)
To further encourage the empty taxis using WHC, our current empty taxi promotion (during midnight 2400 to 0600 hrs) has been improved by charging \$10 cash with a rebate of \$5 prepaid tunnel ticket.

The \$5 prepaid tunnel ticket may induce the taxi driver to persuade his/her customers to divert to WHC. Hence, helping to improve the revenue of WHC and relieve the congestion at CHT.

- \$30 Fuel Coupon for Private Cars
From now until 28 February 2003, private cars user will be entitled to a \$30 fuel coupon.

Promotions implemented in the previous years were:

- Free drive day on 4 May 1997;
- Fuel coupon (a \$30 fuel coupon will be given from now till end of 28 February 2003);
- By 10 get 2 free (tunnel ticket);
- 50% reduction in toll for goods vehicles;
- route education programme; etc.

1.3 Loans Outstanding

The Company has \$3.5 billion of bank loans to repay, and \$2.7 billion of shareholders loans to repay too. The size of this challenge can be seen by just simply dividing our total debts by the 20 years left of our franchise – the Company needs to generate a cash surplus of over \$300 million each year, on average, just to repay its debts without considering other obligations.

1.4 Accumulated Loss

Vigorous promotion, aggressive cost cutting and lower interest have enabled WHC to achieve an accounting profit of HK\$26 million in the year ending July 2001, and HK\$145 million in the year ending July 2002, but these amounts are very far from the cash surplus which must be generated as mentioned in paragraph 1.3 above. Since the WHC opened, the

shareholders have provided additional cash of HK\$910 million to meet these losses and bank loan repayments.

1.5 Obligation to Maximize Net Revenue

Under the Project Agreement signed between the Government and the Company, the Company has an obligation to maximize its Net Revenue. This objective is natural to any commercially oriented company such as the WHC and the modest toll increase to be implemented on 16 February is a step in meeting both commercial and contractual obligations.

2.0 **COST REDUCTION & REVENUE ENHANCEMENT**

The Company has reduced cost and enhanced other revenue since its opening in 1997.

2.1 Cost Reduction

- Contract out services (such as catering);
- Energy reduction (such as energy conservation programme);
- Staff cost reduction (such as replacement staff at a lower market rate).

The Company's monthly operating cost has been reduced by 15% in 2002 when compared to 1997.

In addition, the Company restructured its syndication loan in August 2002. As a result, the interest expense is reduced and the repayment period has been extended.

2.2 Other Revenue Enhancement

WHC was the first tunnel having all eleven mobile phone networks installed. It also has advertising billboards and fixed line telephone optic fibres installed. All these facilities have generated additional income to reduce pressure for toll increase (although revenue from mobile phone provided is under attack due to the new Telecommunication Ordinance).

3.0 TOLL ADJUSTMENT TO TAKE EFFECT AS FROM 16 FEB 2003

3.1 Reduction in Toll Discounts

Toll increases are always unwelcome to our customers but toll adjustment was always anticipated in the WHC Ordinance and it is important to take the necessary steps to mitigate the accumulated loss of the Company and provide cash to repay the debts outstanding so the WHC can remain financially viable.

Currently, most categories of vehicle are charged a toll at a discount to the maximum permitted Gazetted Toll. After careful evaluation of the elasticity of demand, the Company will be reducing the toll discount currently given with the following result:

	Gazetted Toll	Toll up to 15/2/03		Toll from 16/2/03		Change
		Toll	Discount	Toll	Discount	
Motorcycle	\$25	\$20	20%	\$20	20%	None
Private Car	\$50	\$35	30%	\$37	26%	\$2 increase
Taxi	\$50	\$35	30%	\$35	30%	None
Light goods vehicle	\$75	\$50	33%	\$50	33%	None
Medium goods vehicle	\$105	\$70	33%	\$70	33%	None
Heavy goods vehicle	\$155	\$100	35%	\$100	35%	None
Extra axles (goods vehicles only)	\$50	\$30	40%	\$30	40%	None
Light bus	\$60	\$45	25%	\$47	21%	\$2 increase
Single-decker	\$60	\$50	16%	\$60	0%	\$10 increase
Double-decker	\$85	\$70	17%	\$85	0%	\$15 increase

The above adjustments are expected to provide the WHT with incremental revenue.

3.2 Implementation Date

The above adjustment will be implemented with effect from 00:01 hours on Sunday 16 February 2003.