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By Fax

14 January, 2004

Miss Salumi Chan
Clerk to Subcommittee
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Miss Chan,

Re: Subcommittee on proposed resolution under section 3(1) of the Loans Ordinance

I would like to raise several questions in the subcommittee meeting this Friday. They are set out at the Annex to this letter. I would be grateful if the written answers to the same can be provided before the meeting.

Thank you for your attention.

Yours sincerely,

Audrey Eu

Encl.

Questions about the Loans Ordinance section 3(1)

a. Options considered

1. Whether securitization of future proceeds from toll roads and tunnels is a justifiable means of fund raising (in terms of costs and efficiency) when compared to a simple debt issue or IPO?
2. Have all fund raising alternatives been fully considered?
3. Has the Government done a detailed analysis, comparing the costs and impact to the financial market by doing securitization vs. debt issuing? What is the initial comment of the rating agency as the rating of the bonds would affect the fund cost?
4. Whether the credit ratings of the toll roads and tunnels to be given by the independent credit rating agencies was considered by HSBC not qualified to warrant a successful debt issuance, and therefore some forms of collaterals are necessary to secure the issuance of note.
5. If the government is to give certain undertakings or to set out a concrete transport policy insofar as that may affect the traffic flow of the toll roads, and yet it may also have to adapt its transport policy in the light of Hong Kong's developing situation, would the securitization put the Government in a position of conflict of interest?

b. Securitization Market

1. The bod(ies) who are going to hold the notes before maturity, whether it is the ABS, or the market markers.
2. Whether there will be an active second-hand market for the trading of the notes before their maturity, and if yes, whether Hong Kong is a market sophisticated enough for that?
3. The securitization market in Hong Kong is at its infancy. Has HSBC, the arranger of the exercise, considered whether the Hong Kong market is ready and has the capacity to absorb one-off notes issue worth HKD 6 billion? What are the market risks involved?
4. How much will be the total initial costs and the annual on-going operation costs (e.g. fees charged by the investment bank, trustee) of the securitization?

c. Control

1. Please address the hindrance on the Government to determine the tariff once the securitization of future revenue has been in place.
2. Some of the tunnels such as Lion rock and the Hung-Hom Cross-Harbor tunnel have reached its maturity and the room for future revenue growth is questionable. Under such circumstances, the assets, in order to attract investors, might have to be sold at considerable discount or with guaranteed dividend. Will the return be as good as what the Government expects?

d. Deal Assessment

1. Whether seller requires provision of guarantee for the pool, i.e. the securitized assets.
2. Whether there is sinking fund payment (repayment) during the life of the bond. This may pose potential cash flow problem to the seller.
3. Whether there is any top-up deficiency requirement, i.e. what will happen if the cash flow from the asset is at risk? Does the seller need to top-up? If yes, this poses cash flow problem back to seller.

e. Selection of advisor/ arranger

1. Will the appointment of HSBC as the advisor "AND" arranger pose an issue of possible conflict of interest, given the Advisor has the inroad to the deal so in theory have advantage over others?
2. What is the criterion of selecting the advisor and arranger? What is the selection process and who were the candidates?