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Dear

Panel on Transport

Letter from the Democratic Alliance for Betterment of Hong Kong

Thank you for your letter of 5 May 2005. Our comments on the letter from the Democratic Alliance for Betterment of Hong Kong are as follows.

Point 1

We are not in a position to comment on Professor Lui's article as we do not have the details of his calculation. In the arbitration, we argued that although the arbitrator in the 1997 arbitration concluded that the band of reasonable but not excessive remuneration for the franchisee of Eastern Harbour Crossing (EHC) was an internal rate of return (IRR) between 15% and 17% over the life of the franchise, given the material changes in the economic conditions of Hong Kong since 1997, the band should be adjusted downward to 12-14%. Based on the traffic projection of EHC, the financial experts of the Government and the EHC franchisee agreed that the IRR for a "no toll increase" scenario would be 13.64%. We argued in the arbitration that since such an IRR already fell within the range

of 12% and 14%, there was no ground to raise the tolls at EHC.

Point 2

In the arbitration, the Government did argue that since 1997, there had been significant adverse changes in the economic conditions of Hong Kong. In support of this argument, we had made reference to indicators such as the Gross Domestic Product, Composite Price Index, and the Hang Sang Index.

Nevertheless, we understand from the arbitrator's Award that the arbitrators considered that the changes in the economic conditions of Hong Kong since 1997 were not material to affect the overall level of reasonable but not excessive remuneration over the life of the franchise when set against the known changes which had occurred since the project began.

Point 3

We will take into account all relevant factors in considering any toll increase application.

With best regards,

Yours sincerely,

(Elizabeth Tai)
for Secretary for the Environment,
Transport and Works