

## 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 5th GAZETTING WITH NO ACTUAL TOLL INCREASE****1.1 Net Revenue**

WHC's actual Net Revenues are far below the Minimum 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	Y/E Jul-03	Y/E Jul-04	Y/E Jul-05	Y/E Jul-06	Cum- ulative
Minimum Net Revenue in the Ordinance	154	201	253	506	713	794	880	1,190	1,455	6,146
Actual Net Revenue/(Loss)	(208)	(52)	59	172	299	325	400	492	567	2,054
Shortfall	362	253	194	334	414	469	480	698	888	4,092

**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 such as the congestion of WHC's ingress and egress (Central and Tsim Sha Tsui).

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

- a) It's management has examined impediments to free traffic flow 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:

- Current Empty Taxi Promotion (\$5 toll)

To further encourage the empty taxis using WHC, our current empty taxi promotion (during midnight 2400 to 0700 hrs) has been improved by charging \$10 cash with a rebate of \$5 prepaid tunnel ticket. Net toll is therefore at \$5 which is equivalent to 50% of CHT's toll.

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.

- Mid-night Goods Vehicle Promotion  
Toll for goods vehicle during midnight 2400 to 0600 hrs has reduced to CHT's toll level to encourage using WHC
- |                       |   |   |
|-----------------------|---|---|
| Light Goods Vehicles  | - | reduced from \$55 to \$15 (73% off);      |
| Medium Goods Vehicles | - | reduced from \$80 to \$20 (75% off);      |
| Heavy Goods Vehicles  | - | reduced from \$110 to \$30 (73% off); and |
| Extra axles           | - | reduced from \$30 to \$10 (67% off).      |

Promotions implemented in the previous years were:

- Free drive day on 4 May 1997;
- Fuel coupon (a \$30 fuel coupon given upto the end of 28 February 2003);
- By 10 tunnel tickets and get 2 free (from opening to 30/4/98);
- 50% reduction in toll for goods vehicles (10/98-3/99);
- Route education programme (7/2001);
- Joint Promotion on P/C Autotoll Incremental Traffic (6-8/2003);
- Free ride for designated P/C during 11 am to 3 pm on Sundays of November 2003;
- 50% toll discount of PC & MC exclusive for DBS ESSO MasterCard Cardholders (5-10/2004);
- Autotoll PC free return trip on Sunday & Public Holiday (2-3/2005) & etc.

However, the majority of the toll promotion results minor increase in traffic but substantial loss in revenue. i.e. increase in traffic flow is not sufficient to pay off the reduced toll level.

### 1.3 Loans Outstanding

Subsequent to the refinancing of WHC project, additional shareholders' injection of \$910 million and bank loan repayment, the Company has \$1.9 billion and \$2.9 billion of bank loan and shareholders loans as at the end of 7/2006 respectively. The size of this challenge can be seen by just simply dividing our total debts by the 17 years left of our franchise – the Company needs to generate a cash surplus of around \$300 million each year, on average, just to repay its debts without considering other obligations including shareholder's equity and return.

### 1.4 Obligation to Maximize 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 for any commercially oriented company such as the WHC to maximize revenue so as to achieve 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 staff canteen);
- Energy reduction (such as energy conservation programme);
- Staff cost reduction (such as replacement staff at a lower market rate during period of deflation).

The Company's monthly operating cost excluding Government rates, depreciation and insurance has been reduced by 22% in year ending July 2006 when compared to 1997.

In addition, the Company restructured its syndication loan in August 2002. As a result, the interest rate 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. However, revenue from mobile phone operators is reduced substantially due to the new Telecommunication Ordinance. Unlike MTRC, the company does not have any property development right hence there are great difficulty to improve other income.

## 3.0 **NEW GAZETTED TOLL AS FROM 31 JUL 2006 (NET TOLL REMAINS UNCHANGED)**

### 3.1 The 5<sup>th</sup> gazetting with no actual toll increase

Toll increases are always unwelcome to our customers but toll adjustment was always anticipated in the WHC Ordinance.

Through, the increase in toll discount, there is no real toll increase.

Category	Vehicle Type	Toll Level upto 30/7/06		Current Toll Level with effect from 31/7/06		Actual Increase
		Statutory	Concessionary	Statutory	Concessionary	
1	Motorcycle	\$35	\$22	\$40	\$22	\$0
2	Private Car	\$70	\$40	\$80	\$40	\$0
2	Taxi	\$70	\$35*	\$80	\$35*	\$0
3	Public & Private Light Bus	\$80	\$50	\$90	\$50	\$0
4	Light Goods Vehicles	\$105	\$55^	\$120	\$55^	\$0
5	Medium Goods Vehicles	\$145	\$80^	\$165	\$80^	\$0
6	Heavy Goods Vehicles	\$215	\$110^	\$245	\$110^	\$0
7	Single-decked Bus	\$80	\$70	\$90	\$70	\$0
8	Double-decked Bus	\$115	\$100	\$130	\$100	\$0
	Each extra axle (goods vehicles only)	\$70	\$30^	\$80	\$30^	\$0

\* Empty taxi toll promotion (charging \$10 cash with a rebate of \$5 prepaid tunnel ticket) during mid-night (00-07)

^ GV toll promotion (charging \$15 for LGV, \$20 for MGV, \$30 for HGV & \$10 for extra axles) during mid-night (00-06)