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FINANCIAL SERVICES AND
THE TREASURY BUREAU
(The Treasury Branch)

Central Government Offices,
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BY FAX

30 January 2004

The Hon Mr. Henry Wu, BBS, JP,
The Legislative Council
Rm 420 West Wing,
Central Government Offices
Hong Kong.

Dear Mr. Wu,

Securitisation of Future Revenue from Government Toll Roads

Thank you for your letter of 29 January 2004 to which the Secretary for Financial Services and the Treasury has asked me to reply on his behalf.

Attached please find our replies to your questions.

Yours sincerely,

(Tommy Yuen)
for Secretary for Financial Services
and the Treasury

c.c. LegCo Secretariat (Attn: Ms. Connie Szeto) 2869 6794

Replies to Letter dated 29 January 2004

1. The total net revenue from all the toll tunnels and bridges included in the proposed securitisation is about \$1 billion in 2002-03. We are, however, unable to disclose further details in relation to individual tunnels and bridges at this stage due to contractual obligations with the operators. We expect to obtain necessary agreement and finalise such information during the course of preparation of the prospectus/offering memoranda.
2. Further information of the Autoroute du Sud de la France (ASF) transaction are provided in Annex A. We would like to stress that, however, each transaction is unique and may not be directly comparable with other similar types of transaction, as are the capital markets of each jurisdiction. For ASF, the securitisation was by way of an initial public offering of shares. As such, the process of retail distribution and the nature of the investment securities offered were different from those under the current proposal.

You may also wish to note that the Triborough Bridge and Tunnel Authority (TBTA), which issued US\$500 million toll revenue-backed bonds in 2003, as mentioned in Attachment B to our reply of 28 January 2004, also completed a US\$2,157 million offering of toll revenue-backed bonds in 2002. About 16% of the offering was sold to retail investors at that time.

3. The guarantee from an “AAA” insurance company, which is usually a specialist in the provision of insurance on revenue-backed bonds, is different in nature to the issuer or the Government guaranteeing a return on the investment or providing other undertakings. Such insurance is aimed to minimise the default risk, and thus enhance the credit rating of the relevant notes, in return for which the issuer typically pays a significant annual and/or upfront insurance premium, to the insurer. Such a “guarantee” is different in nature from a guaranteed return.

As previously mentioned, the feedback we have obtained to date from the credit rating agencies and our financial adviser indicates that

our proposed securitisation could achieve ratings of at least AA-/Aa3 for an offering of up to \$6 billion, which is the same as those of the Government. Therefore, the Administration does not consider it essential to take up monoline insurance though we would of course discuss this possibility and analyse its cost and benefits with the arrangers upon their appointment.

4. We will discuss with our lawyers and the arrangers upon their appointment with a view to minimising Government exposure. Care will be taken in the drafting of all legal documents to that effect.
5. We thank you for your advice and will take this into account in the course of structuring the offering.

Financial Services and the Treasury Bureau
January 2004

Further Information on the Securitisation of Autoroute du Sud de la France (ASF)

- 1 This EUR 2.6 billion offering is the largest initial public offering in Europe in 2002 and was more than 18 times oversubscribed. Over 900,000 retail investors participated in the domestic French public offer, while the institutional tranche was about 19 times oversubscribed.
- 2 The global offering is comprised of an institutional offering and a French retail offering. The French retail offering represented some 42% of the global offering.
3. HSBC acted as the financial adviser to the French Government, and also the sole bookrunner and global co-ordinator of the institutional offering. Credit Lyonnais acted as a joint lead manager for the institutional offering. The two financial institutions also acted as joint lead managers for the retail offering, along with six co-lead managers and one co-manager.