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Tel : 2189 2002

Fax : 2537 3774

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Mr Andy Lau  
Clerk to Transport Panel  
Legislative Council Secretariat  
3/F, Citibank Tower  
3 Garden Road  
Central, Hong Kong  
(Fax : 2121 0420)

Dear

**Panel on Transport**

**Letter from the Democratic Alliance for Betterment of Hong Kong**

Thank you for your letter of 6 May 2005. Our comments on the letter from the Democratic Alliance for Betterment of Hong Kong are as follows.

Questions 1 to 3

We understand that the New Hong Kong Tunnel Company Limited (the Company) has provided its reply.

Question 4

The financial expert engaged by Government for the arbitration has already taken into account the actual and projected profit of the Company, as well as dividends payable to shareholders in assessing the Internal Rate of Return on Equity (Equity IRR) for the Company. It was agreed by financial experts of both the Government and the Company that the Equity IRR without any toll increase would be 13.64%, which was within the range of reasonable but not excessive rate of return of 12% to 14% assessed by our financial expert. Therefore we considered that there was no ground for the Company to increase the tolls of the Eastern Harbour Crossing.

Question 5

It is not appropriate for the Government to lend public funds on concessionary terms to a private enterprise for distribution as dividends.

Question 6

We do keep in view the operation of existing “Build-Operate-Transfer” contracts. We will take into account all the relevant factors and previous experience in designing the contract terms for new projects in future.

Question 7

We have checked the financial information prepared by the Company for the purpose of the toll increase to ensure the accuracy of the financial data.

Question 8

We understand that the New Hong Kong Tunnel Company Limited has provided its reply.

Question 9

Whether the Company would be able to achieve an IRR of 15% would depend on various factors, such as the actual traffic throughput in the future. Government will consider any toll increase applications in the future on a case by case basis.

With best regards,

Yours sincerely,

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