

財經事務及庫務局  
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FINANCIAL SERVICES AND THE  
TREASURY BUREAU  
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來函檔號 Your Ref. : CB4/PAC/R65

9 December 2015

Mr Anthony Chu  
Clerk to the Public Accounts Committee  
Legislative Council  
Legislative Council Complex  
1 Legislative Council Road  
Central  
Hong Kong

Dear Mr Chu,

**Public Accounts Committee**  
**Consideration of Chapter 5 of the Director of Audit's Report No. 65**  
**Operation of Hongkong Post**

I refer to your letter dated 1 December 2015. Please find below the information requested in your letter –

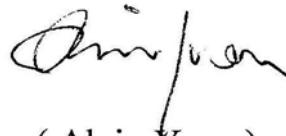
- (a) In setting target rates of return on fixed assets for trading funds, we have engaged consultants through competitive bidding to provide professional advice. We have considered the following factors in setting the target rates–
  - (i) The setting of target rates of return on fixed assets for trading funds is based on the cost of capital of the respective trading fund, which is equal to the weighted average of the cost of debt and the cost of equity of the respective trading fund.

- (ii) The cost of debt is calculated on the basis of a risk-free rate, as trading funds remain part of the Government, and adjusted to allow for the potential tax benefit on interest payments. The risk-free rate is normally represented by the yield of government bonds, which is the rate of return investors will require for investment in the least risky debt instrument in the market. In calculating the cost of debt for trading funds, the risk-free rate is determined with reference to the long-term yield of the Hong Kong Exchange Fund Notes.
- (iii) The cost of equity is calculated by adopting the Capital Asset Pricing Model. It is consisted of the risk-free rate and an equity-risk premium multiplied by an equity beta coefficient. In calculating the cost of equity, the same risk-free rate and equity-risk premium are adopted for all trading funds. The equity-risk premium represents the additional return required over and above the risk-free rate to justify investors' investment in equities and the equity beta coefficient reflects the level of risk faced by the relevant industry based on the Hong Kong data to the extent practicable as well as overseas market data if necessary.
- (b) By adopting the methodology as mentioned in (a) above, the target rates of return on fixed assets were set for various periods for the Post Office Trading Fund (POTF) in the past with reference to the prevailing data at that time. Details are at **Annex A**.
- (c) The value of fixed assets for POTF in calculating the actual rate of return is based on the net book value (cost less accumulated depreciation/ amortisation) of its fixed assets as shown in the audited financial statements of POTF. The fixed assets of POTF include property, plant and equipment, and computer software licences and system development costs. These fixed assets are valued at their historical costs.

**\*Note by Clerk, PAC: Please see Appendix 52 of this Report for Annex A.**

- (d) The target and actual rate of return for the other trading funds for the past five financial years from 2010-11 to 2014-15 are at **Annex B**.

Yours sincerely,



( Alvin Yuen )

for Secretary for Financial Services  
and the Treasury

c.c. Secretary for Commerce and Economic Development (Fax: 2588 1421)  
Postmaster General (Fax: 2868 0046)  
Director of Audit (Fax: 2583 9063)

**Rate of Return of Other Trading Funds from 2010-11 to 2014-15 <sup>(note)</sup>**

<b>Trading Fund</b>	<b>2010-11</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Companies Registry Trading Fund	59.4% (8.3%)	54.9% (8.3%)	63.6% (6.7%)	72.5% (6.7%)	54.4% (6.7%)
Land Registry Trading Fund	52.6% (8.3%)	19.7% (8.3%)	34.0% (6.9%)	15.8% (6.9%)	7.8% (6.9%)
Office of the Communications Authority Trading Fund	44.7% (8.5%)	48.8% (8.5%)	31.4% (6.7%)	26.0% (6.7%)	24.2% (6.7%)
Electrical and Mechanical Services Trading Fund	58.1% (8.5%)	45.5% (8.5%)	38.1% (7.8%)	31.7% (7.8%)	34.6% (7.8%)

Note: Figures in brackets represent target rates of return.