

香港特別行政區政府
The Government of the Hong Kong Special Administrative Region

政府總部
環境運輸及工務局
香港花園道美利大廈



Environment, Transport
and Works Bureau
Government Secretariat
Murray Building, Garden Road,
Hong Kong

本局檔號 Our Ref. ETWB(T) CR 1/986/00

來函檔號 Your Ref.

Tel. 2189 7348

Fax. 2537 5246

By fax: 2121 0420

Mr Andy Lau,
Clerk to Transport Panel,
Legislative Council Secretariat,
3/F., Citibank Tower,
3 Garden Road,
Central,
Hong Kong.

4 July 2006

Dear *Andy,*

Rail Merger - Proposed Steps for the Legislative Exercise

Panel on Transport Meeting on 26 May 2006

List of follow-up actions

At the meeting of the Panel on Transport on 26 May 2006 to discuss the proposed steps for the legislative exercise for the rail merger, Members requested the Administration to provide written responses to a number of questions. Our response is enclosed. I should be grateful if you would circulate our response to Members for their information.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Ida LEE'.

(Miss Ida LEE)

for Secretary for the Environment,
Transport and Works

Panel on Transport Meeting on 26 May 2006
Response to Questions

Best practices of MTRCL and KCRC

Service performance and customer service pledges

MTR Corporation Limited (MTRCL) and Kowloon-Canton Railway Corporation (KCRC) have comparable measures for service performance targets. The Performance Requirements can be divided broadly into:

- (a) train service performance (train service delivery, passenger journeys on time, train punctuality, train reliability) – this measures train delays and cancellations; and
- (b) reliability of passenger service related equipment at stations (add value machines, ticket issuing machines, escalators, passenger lifts) and of the magnetic tickets – this measures the availability of machines.

2. The two corporations have voluntarily established customer service pledges or service targets which also cover measures on passenger environment.

3. The Performance Requirements and the customer service pledges are set at a very high level. The range of measures is among the widest in the world. Many rail operators only have targets for train delays and cancellation.

4. The current Performance Requirements of MTRCL and KCRC are set out in **Annex A**, and the customer service pledges of MTRCL and the corresponding service targets of KCRC are set out in **Annex B**. Both corporations consistently meet and often exceed these pre-set requirements and targets. Since different railway lines may have reached different stages of maturity and may operate in different operating environments, the requirements and targets may vary slightly between different lines. If the merger is implemented, the Performance Requirements and the customer service pledges of the post-merger corporation (MergeCo) in respect of individual lines will be at least as high as the existing levels of requirements and targets for those lines.

5. The high performance of the two corporations indicates that they have the

necessary know-how and expertise that enable them to achieve above-standard performance. Their know-how can be shared between the two corporations once the merger is implemented. This would provide MergeCo with the potential to maintain high performance standards after the merger.

Maintenance standards and service improvements

6. MTRCL performs rolling stock heavy maintenance and overhauls at two of its five depots, and KCRC at three of its four depots. The difference is largely because MTRCL can move rolling stock around its network, whereas for KCRC, its East Rail, West Rail and Light Rail are not linked physically. The frequency and content of preventive maintenance is similar for the two corporations.

7. In both corporations, rolling stock is specified for and dedicated to a line, and both corporations have a maintenance depot for each line, which carries out routine maintenance on the rolling stock for that line (except MTRCL Siu Ho Wan Depot which services both Tung Chung Line and Airport Express Line).

8. Both corporations cover the same scope of activities within infrastructure maintenance – fault recovery, inspection, preventive and corrective maintenance, and upgrade and replacement of assets (some of which counts as capital expenditure). They also cover the same disciplines – civil, permanent way (i.e. track), signalling and communications, high voltage power supply and overhead lines. In both corporations, most of the infrastructure maintenance is done outside traffic hours, i.e. in the three to five hours between the end of train service and its start the following day.

9. Both corporations have safety and quality support functions within the Operations business, which develop and manage company-wide integrated management systems and monitor safety and quality performance.

10. We understand that MergeCo will conduct an in-depth review of the different practices soon after the merger, and re-design the internal procedures where appropriate to take advantage of the best practices of each corporation.

Fare Concessions and promotion programmes

11. Both MTRCL and KCRC offer half-fare concessions for the elderly (aged 65 or above) and children (aged between 3 and 11). MTRCL also offers half-fare

concessions to students aged between 12 to 25 who are enrolled on approved full-time course in a school. To encourage road-based passengers interchanging to their railways, MTRCL and KCRC provide inter-modal discounts or even free interchange for interchanging with designated minibus routes as well as franchised bus routes. KCRC's West Rail also provides free interchange with Light Rail and its feeder buses.

12. Apart from the above, both corporations have launched various other promotional programmes for passengers. The existing concession and promotion programmes of MTRCL and KCRC are summarised at **Annexes C and D** respectively.

Earliest date for fare adjustment under the fare adjustment mechanism (FAM)

13. We are now proceeding with the necessary steps including a legislative amendment exercise for implementing the rail merger. Depending on the progress of the legislative amendment exercise, we envisage that the whole merger process would take about one year to complete. Fares will be reduced from the first day of the merger. If the merger is implemented in mid 2007, the earliest date that MergeCo fares may be adjusted according to the FAM will not be earlier than mid 2008 and the reduced fares effective from the first day of the merger will be the base fares for the adjustment. It should be noted that if the merger can be implemented earlier, the travelling public will benefit from fare reduction as a result of the merger for a longer period of time.

Justification for retaining KCRC and its Board after the merger

14. Under the merger package, KCRC will grant a service concession to MergeCo to operate the KCRC's railway and bus services, and KCRC will retain ownership of the concession assets as well as its existing financial obligations. Therefore, KCRC will continue to take on certain administrative, accounting and treasury functions after the merger. We also need to retain KCRC after the merger because, as part of the service concession agreement, MergeCo is required to return the concession assets to KCRC upon termination of its franchise or in case the part of its franchise relating to KCRC railways has been revoked. KCRC will remain a statutory corporation with a Managing Board, which we envisage will comprise solely Government officers during the concession period. The Government

officers concerned will take up the Chairmanship / directorship in their official capacity and any honorarium received by them will go into Government revenue.

15. Since the bulk of the existing KCRC operations will be taken over by MergeCo, the outlay for residual services to support the post-merger operation of KCRC would be limited to costs for hiring external auditors, accountants, company secretariat, treasury staff, etc.

Collective bargaining

16. There is no consensus in the community on the issue of introducing compulsory collective bargaining by legislation. The Legislative Council had voted down motion debates on calls for compulsory collective bargaining in December 1998, April 1999 and December 2002.

17. Notwithstanding the above, the Government is committed to promoting voluntary consultation and communication between employers or employers' organisations and workers' organisations. All along, the Government has taken measures to encourage and promote the full development and utilization of machinery for voluntary consultation and communication at the enterprise level and industry levels.

Handling staff-related appeals arising from the rail merger

18. The two corporations have agreed to set up an appeal mechanism for handling appeals on staff-related matters arising from the rail merger. They will make reference to their existing appeal mechanisms whereby there is arrangement for certain degree of participation of staff representatives at the appeals. The two corporations have confirmed that for merger-related appeals regarding staff arrangements in future, the existing arrangement for participation of staff representatives will continue and in particular, representatives of both their staff unions and their Staff Consultative Committees / Consultative Committees will be included as staff representatives for this purpose. The corporations will consult and notify their staff members later on the detailed arrangement.

Role of Government directors on MergeCo Board

19. The functions of MergeCo Board are jointly exercised by all its members. Directors are required to act honestly and in good faith for the benefit of the company and exercise a reasonable standard of skill and care in the performance of their powers. There would be no difference in the role of the Government officials from that of the other members of the Board.

20. Similar to the other directors who may apply their experience and knowledge obtained from their professions and contribute to the discussions in the Board, Government directors would provide advice to the Board based on their understanding of public interest and expectation, as well as any unique insight they may have from a regulatory perspective. This would ensure that the Board can strike a balance between prudent commercial principles and public interest in its deliberation. It should be noted that the Government exercises its regulatory functions over the operation of MTRCL primarily through the established channels in accordance with the relevant legislation and the Operating Agreement (OA), and we will adopt the same arrangement for regulation of the performance of MergeCo with the existing OA to be expanded into an integrated OA to cover the KCR operation as well. There should be no conflict in the role of Government directors in MergeCo Board.

21. As part of the merger package, an objective and transparent FAM would be introduced to replace the fare autonomy of the two corporations. This would remove any possible concern of potential conflicting role of Government directors in MergeCo Board in future over fare adjustments by MergeCo.

Property development control mechanism

22. Under the merger package, a mechanism would be introduced to enable Government to exercise control on the level of flat production arising from tender programme of MergeCo for its railway property development. This mechanism seeks to enable the Government to exercise control in exceptional circumstances on the level of flat production arising from tender programmes of MergeCo for railway property development which is consistent with the way the Government monitors the overall housing supply. The Government is acting in the public interest to ensure adequate supply of land to meet market demand in a timely manner, with a view to facilitating the stable and healthy development of the property market.

23. At present, a mechanism is already in place for the Director of Lands to discuss and co-ordinate the tender programme of the two corporations on an informal basis, so as to enable an orderly disposal of the railway-related property developments according to market demand. Under the new mechanism after the merger, there would be discussions between the Government and MergeCo annually on the latter's property development programmes for the next following three years. The new mechanism simply puts the existing arrangements on a more formal footing following the merger.

Summary of Administration's responses to Members' questions raised at previous Panel meetings

24. To facilitate reference by Members, we have consolidated and summarized our written replies and supplementary information in relation to questions and concerns raised by Panel members on the rail merger which we sent to LegCo Secretariat on 27 April, 19 May, 22 May, 2 June and 5 June. The details are at **Annex E**.

4 July 2006

Performance Requirements of MTR and KCR

Performance Criteria	MTR	KCR		
		East Rail	Ma On Shan Rail	West Rail
Train Service Delivery	98.5%	98.5%	98.5%*	98.5%
Passenger Journeys on Time	MTR: 98.5% AEL: 98%	98%	98%	98%
Train Punctuality	MTR: 98% AEL: 98%	98%	98%*	98%
Add Value Machine Reliability	95.5%	98%	98%	98%
Ticket Issuing Machine Reliability	93%	97%	97%	97%
Ticket Gate Reliability	97%	97%	97%	97%
Escalator Reliability	98%	98%	98%	98%
Passenger Lift Reliability	98.5%	98%	98%	98%

* Effective from 1 January 2007.

Customer Service Pledges of MTR and Corresponding Service Targets of KCR

Performance Criteria	MTR	KCR		
		East Rail	Ma On Shan Rail	West Rail
Train Service Delivery	99.5%	99.0%	99.0%	99.0%
Passenger Journeys on Time	MTR: 99.5% AEL: 99.0%	N/A	N/A	N/A
Train Punctuality	MTR: 99.0% AEL: 99.0%	99.0%	99.0%	99.0%
Add-Value Machine Reliability	98.0%	N/A	N/A	N/A
Ticket-Issuing Machine Reliability	98.0%	99.0%	99.0%	99.0%
Ticket-Gate Reliability	99.0%	99.0%	99.0%	99.0%
Escalator Reliability	99.0%	99.0%	99.0%	99.0%
Passenger Lift Reliability	99.0%	99.0%	99.0%	99.0%
Train Reliability (train car-km per train failure causing delays \geq 5 minutes)	500,000	N/A	N/A	N/A
Ticket Reliability (magnetic ticket transactions per ticket failure)	8,000	N/A	N/A	N/A
Temperature & Ventilation	Train: 97.0% (Footnote 1) Station: 90.0% (Footnote 2)	Footnote 3	Footnote 3	Footnote 3
Railway Cleanliness	Train Compartment: 98.5% (Footnote 4) Train body: 98.0% (Footnote 5)	Footnote 6	Footnote 6	Footnote 6
Passenger Enquiry Response Time (within 7 working days)	99.0%	Footnote 7	Footnote 7	Footnote 7

Footnotes:

1. MTRCL's target is to maintain the temperature of train compartments generally at or below 26°C.
2. MTRCL's target is to maintain the temperature of platforms and station concourse generally at 27°C and 29°C (except on very hot days) respectively.
3. KCRC's targets are set at less than 3 failures of on-train air-conditioning per month.
4. MTRCL's target is that the train compartment should be cleaned daily.

5. MTRC's target is that the train exterior should be washed every 2 days.
6. KCRC's targets are set at 99% of providing external train washing every 2 days.
7. KCRC's targets are set at 99% of providing response within 2 working days to passengers' enquiries/opinions made by phone and within 6 working days to enquiries/opinions made by letter.

The existing concession and promotion programmes of MTRCL

Programme Name	Details	Period
Inter-modal Fare Discount Trial – NLB Routes	<ul style="list-style-type: none"> • Adult Octopus card users interchanging between MTR and NLB routes within one hour will enjoy a fare discount of \$1 as follows: <ul style="list-style-type: none"> (a) 38 via Tung Chung Station (b) 37 via Tung Chung Station (c) N38 via Tung Chung Station (d) 38P via Tung Chung Station 	1 Sep 2001 onwards 1 Dec 2001 onwards 1 June 2002 onwards 29 Aug 2005 onwards
Inter-modal Fare Discount Trial – green minibus routes	<ul style="list-style-type: none"> • A total of 23 Green Minibus routes now offer Bus Interchange Discounts from \$0.3 to \$1 with the MTR to all adult Octopus card users: <ul style="list-style-type: none"> (a) Kowloon GMB route 76B via Lam Tin Station, route 106 via Ngau Tau Kok Station, route 77M via Kowloon and Tsim Sha Tsui Station, route 78 via Olympic and Tsim Sha Tsui Station; (b) Kowloon GMB route 7 via Tsim Sha Tsui Station; (c) HK GMB routes 10 & 31 via Causeway Bay, Wanchai, Admiralty; route 10A via Central, Hong Kong; route 11 via Causeway Bay, Wanchai, Admiralty; (d) NT GMB routes 15M & 17M via Po Lam Station; (e) NT GMB route 101M via Hang Hau Station; (f) Kowloon GMB 59M & 59A via Kwun Tong Station; (g) Kowloon GMB 79M via Wong Tai Sin and HK GMB 14M via Causeway Bay Station; (h) Kowloon GMB 54 via Choi Hung Station; (i) Kowloon GMB 71A & 71B via Lam Tin Station; (j) HK GMB 49M & 50 via Sai Wan Ho Station (k) HK GMB routes 24A & 24M via Admiralty and Wan Chai Station and route 25 via Causeway Bay Station 	1 Apr 2005 onwards 1 Jun 2005 onwards 1 Jun 2005 onwards 1 Oct 2002 onwards 1 Nov 2002 onwards 31 Dec 2002 onwards 1 Jul 2003 onwards 1 May 2004 onwards 1 Oct 2004 onwards 1 Dec 2005 onwards 1 Apr 2006 onwards

Programme Name	Details	Period
Inter-modal Fare Discount Trial – Kwun Tung cross border express	<ul style="list-style-type: none"> Passengers using Adult/ Student/ Elder/ Child Octopus cards interchanging between Kwun Tung cross border express via Lam Tin, Kwun Tung, Ngau Tau Kok and Kowloon Bay Station and the MTR within three hours will enjoy a fare discount up to HK\$5. 	1 Nov 2004 onwards
Airport Staff Octopus	<ul style="list-style-type: none"> Up to 64% off Airport Express single journey fares for all workers working in the airport and AisaWorld Expo who apply for a special Airport Staff personalized Octopus. 	Dec 1998 onwards
Sales through Travel Agents	<ul style="list-style-type: none"> Airport Express tickets are available for sale at these agents to the general public at discounted prices. 	Jul 1998 onwards
Airport Express Group Tickets	<ul style="list-style-type: none"> Airport Express passengers can travel by using group tickets: group tickets for two persons from Hong Kong, Kowloon and Tsing Yi Stations to Airport Station are HK\$160, HK\$140 and HK\$90 respectively; those for three persons are HK\$210, HK\$190 and HK\$125; those for four persons are HK\$250, HK\$220 and HK\$150. 	1 Mar 2005 – 30 Nov 2006
“Ride to Rewards” Programme	<ul style="list-style-type: none"> Hong Kong ID Card holders with Octopus Card can enroll in the programme on the Corporation’s website. Successful enrollees will receive one bonus point on their Octopus Card for every normal fare-paid ride taken on the Airport Express. After collecting seven points within the designated period, they will be able to redeem a complimentary Airport Express Single Journey Ticket voucher (a maximum of 12 vouchers can be redeemed) or 500 Asia Miles. New gift of 3,500 Dragon Points is available for redemption of 7 points commencing 8 March 06. New enrollers will receive a coupon which entitles a one-off 50% discount on an Airport Express Round Trip as a welcome gift. 	1 Jan 2006 – 31 Dec 2006
Tsing Yi / Kowloon - > Hong Kong Morning Express Service	<ul style="list-style-type: none"> From 7:00 a.m. to 10:00 a.m., Monday to Saturday (except public holidays), passengers can take the Airport Express services from Tsing Yi and Kowloon Station to Hong Kong Station at a special rate of HK\$20 per trip. 	15 Jan 2006 – 14 Jan 2007
MTR Shareholders Promotion	<ul style="list-style-type: none"> 34% off Airport Express discount coupons for Adult/Child/Elder/Student Octopus Cardholders are sent to all MTR shareholders via the mail drop of Annual Report. Shareholder who uses the confirmation code on the coupon flyer to enroll in Airport Express “Ride to Rewards” Program will get double bonus points. 	18 Apr 2006 – 31 Aug 2006

Cathay Pacific (CX) In-flight Sales	<ul style="list-style-type: none"> Selected Airport Express tickets are available for sales on all CX in-flight duty free shops. Various discounts are offered on respective tickets. Passengers can redeem the ticket at designated Airport Express Customer Service Centres. 	1 Oct 2004 – 30 Sep 2006
Cathay Pacific (CX) Worldwide Promotion (Yum Sing)	<ul style="list-style-type: none"> CX passengers holding a valid boarding pass or air ticket within 7 days arrival in HK with coupons could buy Round Trip Ticket at single journey ticket fare 	1 Apr 2005 – 15 Apr 2007
Asia Miles members - Airport Express “2 Round-Trip ticket” Promotion	<ul style="list-style-type: none"> Asia Miles members can redeem 2 regular Airport Express Round Trip Tickets with their Asia Miles. Two regular Round Trip tickets of Hong Kong, Kowloon and Tsing Yi Station can be redeemed with 5000, 4500 and 3000 Asia Miles respectively. Passengers who are also Asia Miles members can earn 150 Asia Miles when they purchase an Airport Express “2 Round trips ticket” from 1 February 2005 onward 	1 Jan 2004 onwards
Hong Kong Tourism Board – Discover Hong Kong 06	<ul style="list-style-type: none"> Different language of incentive booklets are distributed to overseas markets via HKTB’s overseas offices. \$5 off Disney 1-day pass; \$30/\$20 off Airport Express Tourist Octopus (2-ride)/(1-ride) respectively; \$20/\$20/\$10 off Airport Express Round Trip Ticket (Hong Kong)/(Kowloon)/(Tsing Yi) respectively are offered. 	1 Jan 2006 – 15 Oct 2006
Fare Saver at Peninsula Centre	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Tsim Sha Tsui Station within the same day (except Airport Express). 	8 Oct 2005 – 30 Sep 2006
Fare Saver at China Hong Kong City	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Tsim Sha Tsui Station or Kowloon Station (from 1 Jan 2003 onwards) within the same day (except Airport Express) 	1 Feb 2006 – 31 Jan 2007
Fare Saver at Prosperous Garden in Yau Ma Tei	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Yau Ma Tei within two hours (except Airport Express). 	8 Oct 2005 – 30 Sep 2006

Programme Name	Details	Period
Fare Saver at Hang Hau	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at the Fu Nign Garden Commercial Complex can enjoy a discount of HK\$2 off the next MTR ride from Hang Hau Station within two hours (except Airport Express) 	8 Oct 2005 – 30 Sep 2006
Fare Saver at Tseung Kwan O	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at the Sheung Tak Shopping Centre can enjoy a discount of HK\$2 off the next MTR ride from Tseung Kwan O Station within two hours (except Airport Express). 	8 Oct 2005 – 30 Sep 2006
Fare Saver at Central Plaza	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Wan Chai Station within the same day (except Airport Express). 	28 Jul 2005 – 20 Jul 2006
Fare Saver at C.C. Wu Building	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Wan Chai or Causeway Bay Station within the same day (except Airport Express). 	22 Sep 2005 – 14 Sep 2006
Fare Saver at Mid-Levels and Soho	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at the fare saver at Hollywood Road will be able to enjoy a discount of HK\$2 off the next MTR ride from Sheung Wan, Central or Hong Kong Station within the same day (except Airport Express). 	1 Nov 2005- 31 Oct 2006
Fare Saver at Provident Centre	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from North Point and Fortress Hill Station within the same day (except Airport Express). 	16 Jan 2006 – 15 Jan 2007
Fare Saver at Grand Century Plaza	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Mong Kok Station or Prince Edward Station within the same day (except Airport Express). 	21 May 2006 – 20 May 2007
Fare Saver at Tsuen Wan Emperor Plaza	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Tsuen Wan Station within the same day (except Airport Express). 	23 Jul 2005- 15 Jul 2006
Fare Saver at Kai Tak Garden Shopping Centre	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Wong Tai Sin Station within the same day (except Airport Express). 	14 Sep 2005- 6 Sep 2006
Fare Saver at TST Harbour City	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Tsim Sha Tsui Station within the same day (except Airport Express). 	7 Apr 2006 – 6 Apr 2007

Programme Name	Details	Period
Fare Saver at Tsing Yi Garden	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Tsing Yi Station within the same day (except Airport Express). 	8 Aug 2005 - 7 Aug 2006
Fare Saver at The Household Centre	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Mei Foo Station within the same day (except Airport Express). 	28 Oct 2005 – 27 Oct 2006
Fare Saver at Broadway Computer City	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Sheung Wan Station within the same day (except Airport Express). 	2 Dec 2005 – 1 Dec 2006
Fare Saver at Cheung Fat Shopping Centre	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Tsing Yi Station within the same day (except Airport Express). 	22 Dec 2005 – 21 Dec 2006
Fare Saver at Hoi Fu Shopping Centre	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Olympic or Mongkok Stations within the same day (except Airport Express). 	7 Apr 2006 – 6 Oct 2006
Fare Saver at Enterprise Square	<ul style="list-style-type: none"> Adult Octopus card users who swipe their cards at this fare saver can enjoy a discount of HK\$2 off the next MTR ride from Kowloon Bay Station within the same day (except Airport Express). 	23 Jul 2005 – 22 Jul 2006

The existing concession and promotion programmes of KCRC**East Rail**

Concession	Promotion Period	Details
East Rail One-Month Pass	1 April 2005 – end December 2006	Passengers using their Octopus can buy the East Rail "One-Month Pass" for \$380 to enjoy unlimited rides on East Rail and Ma On Shan Rail. The current \$300 "One-Month Pass" users can continue to enjoy the Privileged Price for the next month.
Ocean Park - KCR Value Added Combo	4 February 2006 until further notice	Concessionary fare at \$198, Combo includes daytime admission to Ocean Park, travel on KCR and free shuttle bus to/from Ocean Park.
New World First Ferry (Macau) - KCR "Macau Premium" Package	28 April 2006 – end December 2006	Concessionary fare at \$280, Package includes one roundtrip ticket to Macau, KCR Domestic Travel Pass, Macau Museums Pass and privilege discount coupons. In addition, a Macau Pass and a KCR Lo Wu Travel Pass is also available at \$320.
KCR Tourist Pass Combo	16 May 2005 – end December 2006	Concessionary fare at \$80, Combo includes KCR Domestic Travel Pass for one-day unlimited rides on East Rail and West Rail to visit top attractions in urban Kowloon and the New Territories and a KCR Lo Wu Travel Pass for travel to the Mainland.
HK-Connect Transport Combo	24 April 2006 until further notice	Concessionary fare at \$100, HK-Connect Transport Combo comprises a KCR Lo Wu Travel Pass – is valid for two standard class journeys on East Rail and Ma On Shan Rail to/from Lo Wu Station within one month from day of purchase; and a Tourist MTR 1-Day Pass Voucher – redeem a Tourist MTR 1-Day Pass at the designated MTR Customer Service Centres for enjoying 24 hours unlimited rides starting from the first MTR journey (except Airport Express Line) of the Tourist MTR 1-Day Pass until 24 hours thereafter. Besides, passengers who pay additional HK\$30 can get a KCR Domestic Travel Pass for one-day unlimited rides on East Ride standard class (except Lo Wu and Racecourse stations), Ma On Shan Rail, West Rail, Light Rail and KCR Bus.
KCR Railbus - Disneyland	September 2005 until further notice	Concessionary fare at \$120, KCR Railbus - Disneyland provides integrated rail and bus service for cross boundary passengers

Concession	Promotion Period	Details
		travelling between Lo Wu and Hong Kong Disneyland. Railbus passengers can travel on East Rail from Lo Wu Station to Sheung Shui Station, then switch to luxury single-deck buses for a non-stop journey from Sheung Shui to Disneyland.
KCR Taxi - Disneyland	September 2005 until further notice	Concessionary fare at \$380, KCR Taxi - Disneyland provides integrated rail and taxi services for a maximum of 4 cross boundary passengers travelling between Lo Wu and Hong Kong Disneyland.
KCR Railbus - Disneyland Domestic Super-FUN Combo	1 July 2006 - 30 September 2006	Regular Day Combo at \$325, includes Hong Kong Disneyland admission ticket, KCR Domestic Travel Pass and round-trip between East Rail Sheung Shui Station and Disneyland (via West Rail Kam Sheung Road Station).
East Rail passengers free interchange with KCR buses	Until further notice	East Rail passengers can enjoy free interchange with 4 KCR bus routes in North East New Territories and K16.

East Rail/Franchised Bus Interchange Concession

Route No.	Route	Concession		Period
		Adult	Child/Elder	
701	Hoi Lai Estate - Mong Kok via Nam Cheong Station (Circular)	Free Interchange		22 August 2004 until further notice

East Rail/Maxicab Interchange Concession

Route No.	Route	Concession	Period
77M	East Tsim Sha Tsui - Kowloon MTR Station (Circular)	Flat Fare Discount of \$3	Until further notice
78	Tsim Sha Tsui (Hankow Road) - Island Harbourview (Circular)	Flat Fare Discount of \$1	Until further notice
79K	Mong Kok Station - Park Avenue (Circular)	Flat Fare Discount of \$1	Until further notice
21K	Mong Kok Station - Tai Kok Tsui Cherry Street (Circular)	Flat Fare Discount of \$1	Until further notice
810	Sha Tin Central - Ma On Shan (Villa Athena) (Circular)	Flat Fare Discount of \$1	Until further notice
58K	Sheung Shui Station - Ping Kong	Flat Fare Discount of \$0.5	Until further notice
58K Special Route	Sheung Shui Station - North District Hospital (Circular)	Flat Fare Discount of \$0.5	Until further notice

501K	Fanling Station - Yan Shing Court (Circular)	Flat Fare Discount of \$0.5	Until further notice
------	--	-----------------------------	----------------------

West Rail

Concession	Promotion Period	Details
West Rail One-Month Pass	1 August 2004 – end December 2006	Passengers using their Octopus can buy the West Rail One-Month Pass for \$400 to enjoy unlimited rides on West Rail. The current \$300 "One-Month Pass" users can continue to enjoy the Privileged Price for the next month.
West Rail Discovery Pass (previously Festival Pass)	20 December 2004 – end December 2006	Concessionary price at \$20, passenger with the West Rail Discovery Pass can enjoy unlimited rides on West Rail and designated West Rail free feeder services on the day of purchase.
West Rail Child/Senior Citizen \$2 Special Concession on West Rail on Sat, Sun and Public Holidays	12 June 2004 – end December 2006	Passengers aged between 3 and 11, and 65 or above using Octopus cards can travel on West Rail to any destination for just \$2 on each Saturday, Sunday and public holiday.
West Rail \$2 Taxi Fare Rebate	20 December 2003 – end December 2006	West Rail passengers transferring from taxi will receive rebate of \$2. This offer only applies to Octopus card users for journeys from any station between Tuen Mun and Kam Sheung Road to any station between Tsuen Wan West and Nam Cheong.
West Rail - Kam Sheung Road Huanggang Direct Coach	1 March 2005 – mid August 2006	West Rail passengers using Octopus card can travel to the Boundary on Huanggang Direct Coach for paying additional \$15.
Park and Ride Concession	20 December 2003 until further notice	West Rail passengers can enjoy park and ride concession at Kam Sheung Road Station. Day Park: \$15; Hourly Rate: \$3
West Rail passengers free interchange with Light Rail and KCR buses	20 February 2003 until further notice	West Rail passengers can enjoy free interchange with 12 KCR bus routes in North West New Territories and K16 (Light Rail free interchange is provided for adult fare \$3.9 or below)

West Rail/Franchised Bus Interchange Concession

Route No.	Route	Concession		Period
		Adult	Child/Elder	
701	Hoi Lai Estate - Mong Kok via Nam Cheong Station (Circular)	Free Interchange		22 August 2004 until further notice

702	Hoi Lai Estate - Shamshuipo via Nam Cheong Station (Circular)	Free Interchange		22 August 2004 until further notice
971	Nam Cheong Station - Aberdeen	\$1.5	\$0.8	20 December 2003 until further notice

West Rail/Maxicab Interchange Concession

Route No.	Route	Concession	Period
75	Nam Cheong Station - Cheung Sha Wan Castle Peak Road	\$2.5	Until further notice
81K	Mei Foo Station - Hoi Lai Estate, Sham Mong Road (Circular)	Free Interchange	Until further notice
86	Tsuen Wan West Station - Shek Lei	Free Interchange	Until further notice
87K	Tsuen Wan West Station - Kwai Fong MTR Station Metroplaza	Free Interchange	Until further notice
95K	Tsuen Wan West Station - Tsuen Wan MTR Station	Free Interchange	Until further notice
97	Tsuen Wan Transport Complex - Wonderland Villas	\$3.5 (Free interchange from/to Tai Wo Hau)	Until further notice
99	Tsuen Wan Transport Complex - Riviera Gardens	\$0.4	Until further notice
301M	Hoi Shing Road - Tsuen Wan MTR Station (Circular)	\$0.3	Until further notice
78	Lok Ma Chau PTI - Tai Lam Tunnel Bus Interchange	\$2.5 (Adult) \$1.5 (Child / Elderly)	Until further notice
77	Lok Ma Chau PTI - Tin Shui Wai	\$1.0	Until further notice
33	Yuen Long (Tai Fung Street) - Ha Pak Nai (Long Chok Hang)	\$0.5	Until further notice
34	Yuen Long (Tai Fung Street) - Lau Fau Shan	\$0.5	Until further notice
35	Yuen Long (Tai Fung Street) - Sha Kiu (Tsim Bei Tsui)	\$0.5	Until further notice
45	Tuen Mun Town Centre - Tai Hing Garden	\$0.3	Until further notice
46	Fu Tai Estate - Tuen Mun Town Centre	\$1.0	Until further notice

Ma On Shan Rail

Concession	Promotion Period	Details
Ma On Shan Rail One-Month Pass	1 January 2006 - end June 2006	Concessionary price at \$200, passengers can enjoy unlimited rides on Ma On Shan Rail as well as for combined journeys on East

		Rail (standard class only) and Ma On Shan Rail.
--	--	---

Ma On Shan Rail/Maxicab Interchange Concession

Route No.	Route	Concession	Period
803	Hin Keng - Lee On	Flat Fare Discount of \$1	Until further notice
804	Kwong Yuen - Hin Keng	Flat Fare Discount of \$1	Until further notice
807B	University Station - Shui Long Wo (Circular)	Flat Fare Discount of \$1	Until further notice
807K	University Station - Tseng Tau	Flat Fare Discount of \$1	Until further notice
808	Kam Ying Court - Prince of Wales Hospital	Flat Fare Discount of \$1	Until further notice
808P	Heng On Estate - Prince of Wales Hospital	Flat Fare Discount of \$1	Until further notice
809A	Shatin Station (Pai Tau Street) - Sha Kok Street (Circular)	Flat Fare Discount of \$0.5	Until further notice
809K	Shatin Station (Pai Tau Street) - Shui Chuen Au Street (Circular)	Flat Fare Discount of \$0.5	Until further notice
810	Sha Tin Central - Ma On Shan (Villa Athena) (Circular)	Flat Fare Discount of \$1	Until further notice

Light Rail

Concession	Promotion Period	Details
Light Rail Personalised Octopus Frequent User Bonus Scheme	End 1997 until further notice	Personalised Octopus holders can enjoy Frequent User Bonus Scheme for taking the subsequent journeys. (Adult: HK\$3 bonus for every HK\$30 of Light Rail travel accumulated within 6 days; Child/Senior citizen: HK\$1.5 bonus for every HK\$15 of Light Rail travel accumulated within 6 days; Student: HK\$3.4 bonus for every HK\$12 of Light Rail travel accumulated within 4 days.)
Light Rail passengers free interchange with KCR buses	20 February 2003 until further notice	Light Rail passengers can enjoy free interchange with 12 KCR bus routes in North West New Territories

**Summary of written replies and supplementary information provided by the
Administration in relation to the questions and concerns raised by Members
Which were sent to LegCo Secretariat
on 27 April, 19 May, 22 May, 2 June and 5 June**

A) Fare reduction

- (i) Whether the level of fare reduction can be enhanced and the Light Rail (LR), Airport Express Line (AEL) and Lo Wu fares can be included in the fare reduction package

Under the proposed fare reduction package, fare reduction from day one of the merger would benefit 2.8 million daily rail passenger trips. The fares for long distance journeys charging at \$12 or above would be reduced by a minimum of 10% and there would be different reduction rates for medium and short distance journeys. As a result, there will be 340,000 daily passenger trips enjoying a fare reduction of at least 10% per trip. Further, another 1.16 million daily passenger trips will enjoy a minimum of 5% reduction per trip.

There are reasons to exclude LR, AEL and Lo Wu fares from the fare reduction package. The LR system has been in deficit requiring cross-subsidisation from KCRC's other operations. There is little scope for fare reduction which would affect the sustainability of the LR system. Besides, it is noted that nearly one-third of LR passengers are already enjoying free service for interchange with West Rail, and frequent LR users can benefit from the "Light Rail Frequent User Bonus Scheme" which provides fare concession equivalent to about 10% fare discount.

The objective of the fare reduction package is to benefit local commuters in domestic travels. For AEL service, it is not used by commuters as a form of daily travel, whereas airport workers who are frequent users of AEL are already provided with substantial discount. As regards Lo Wu service, its main service target is different from the domestic railway services. There are historical reasons to maintain a different fare structure of the Lo Wu service which helps maintain a relatively low fare levels for the East Rail service between Sheung Shui and Tsim Sha Tsui (and Tsim Sha Tsui East now). Reduction of Lo Wu fares would have a negative impact on the East Rail domestic fares which would affect over 660,000 daily commuters and would also adversely

affect the financial position of the post-merger corporation (MergeCo).

The fare reduction package is the result of detailed discussions and negotiation with MTR Corporation Limited (MTRCL). We believe it is a fair and balanced proposal.

(ii) Whether the existing fare structure of KCR would be revised

On the first day of the rail merger, railway fares including those for the KCR service would be reduced according to the fare reduction package. Thereafter, railway fares would be adjusted according to the fare adjustment mechanism (FAM) on the basis of the reduced fare levels. Under this approach, the KCR fare structure would be re-set as above from the merger date.

(iii) Details of the concessionary fares provided to passengers travelling on the Airport Express Line AEL

Details of the promotional / concessionary fares currently provided by the MTRCL to passengers travelling on the AEL is set out in Appendix 1.

B) FAM

(i) Basis for pitching the productivity factor at 0.1%

The scope for productivity gain for railways is limited due to the heavy investment. This is the case in Hong Kong, where the railway network is expanding and it would take the new railways some time before they can get sufficient patronage to make more efficient use of the additional capacity they provide. If we adopted the same approach for calculating the productivity gain of the franchised bus industry (viz. using the ratio of total fare and non-fare revenue to total operating costs) to assess the productivity of the railways during the same period in the past, it would produce a negative value in productivity of the railways. Notwithstanding this, we have achieved an agreement with the MTRCL, as part of the terms of the overall merger package, to include a productivity factor of a positive value of 0.1% in the fare adjustment formula. This would have the effect of moderating future fare increases or increasing the level of fare reduction, as the case may be, which would benefit railway users, whilst at the same time incentivise MergeCo to achieve productivity.

C) Staff Issues

(i) Definition of frontline staff and breakdown of staff synergy

In general, a company would have regard to its actual operation in classifying frontline jobs. The definition of frontline staff is the result of careful consideration by the two corporations after lengthy discussions. Its scope has covered a wide range of staff positions. The two corporations believe that the definition is clear and appropriate.

The two corporations would consult their line management on the coverage of the definition of frontline staff and the delineation of individual job positions which would fall within the definition. They would decide on the detailed delineation after consultation with their staff. Individual staff would be notified by the management in due course on whether they belong to frontline staff.

As for the concern of the staff unions over whether, during the merger process, a staff member falling within the definition of a frontline staff but who is subsequently transferred to a non-frontline job position on the initiative of the management would continue to have job security. The corporations have indicated that they would continue to provide job security as it relates to the merger integration process to the staff members concerned.

In order to address the concern expressed by some staff over the uncertainty that would arise when the time period of the assurance of job protection for frontline staff expires if the assurance is time-limited, there is no time period specified for the assurance of job security for frontline staff under the merger package.

The two corporations are committed to looking after the interests of all staff. They estimated that due to business growth including commissioning of new railways as well as retirement and turnover, a total of 1,300 jobs vacancies would be available in the first 3 years after the merger, which is more than adequate to absorb the estimated 650 – 700 staff synergies. Therefore in overall terms, there would be more career development opportunities for staff after the rail merger.

The breakdown of the estimated staff synergies and job vacancies

are set out below:

Staff Synergies

	Non-managers	Managers / Professionals	Total
Synergies	580 – 620	70 – 80	650 – 700
% of synergies to number of staff	6%	10%	6%

Job Vacancies

	Non-managers	Managers / Professionals	Total
Expansion and business growth ¹	>510	~ 10	> 520
Retirement	>350	~ 40	> 390
Turnover	>360	~ 30	> 390
Total	>1,220	~ 80	> 1,300

The two corporations expect that majority of their staff would stay in their current jobs after the rail merger. MergeCo would make every effort to re-deploy affected staff to available vacancies and take every possible steps to minimize the impact of the merger on staff.

Both corporations have a good track record in carrying out staff re-deployment. In the past few years, the two corporations have successfully re-deployed over 1,000 staff to take up positions in various disciplines/fields. MergeCo would provide necessary assistance to redeploy and retrain affected staff. It would also set up a special team to provide support to help staff settling in their new jobs.

- (ii) Report of the external human resources consultant on the assessment of the area and magnitude of synergy which could be brought about by the merger

¹ The vacancies arising from network expansion and other business growth include:

- Lok Ma Chau Spur Line
- Tseung Kwan O South Station
- Kowloon Southern Link
- “Dream City” and “Metro Town” in Tseung Kwan O
- Residential and retail projects at Tung Chung Station, Kowloon Station, Ho Tung Lau and Wu Kai Sha

The two corporations advised that the study was an internal study which focused on a high-level and broad assessment on the overall functions. The study was not intended to find out exactly which position or grade could be deleted if there were a rail merger. According to the corporations, they had appointed an independent consultant to assist in the study and the consultant's input was for the management's reference only, and they would not disclose the consultant's input to staff or external parties.

(iii) Employment terms and conditions / pay and benefits

Upon implementation of the rail merger, staff of the two corporations will continue to be employed by the MergeCo on their prevailing terms and conditions of employment. MergeCo would thereafter align the terms and conditions of employment and grading structure of MTRCL and KCRC to facilitate the integration of the human resources of the two corporations.

The two corporations have commissioned studies on various aspects of human resource integration such as organization structure and manpower planning, grade and pay structure etc. It is expected that these studies would be completed near the end of 2006. In the course of the studies, the two corporations would consult their staff on matters affecting them.

The studies would make comparisons with other companies for benchmarking purpose to ensure that the employment terms and conditions of MergeCo would be competitive. The new employment terms and conditions would be treated as a total package. The two corporations expect that they would not differ significantly from the existing employment terms and conditions and would be competitive in the market. The two corporations will brief their staff including representatives of SCC/CC and staff unions on the approach and methodology of the studies. Staff views collected during the studies will be duly considered. After completion of the studies, staff would be consulted on the recommendations on the new employment terms and conditions before a final decision is made.

(iv) Staff selection process

Under the merger package, all serving staff of MTRCL and

KCRC would be employed by the MergeCo at the time of the merger. Staffing arrangements including selection and appointment of MTRCL and KCRC staff to job positions in the MergeCo would be conducted in a fair and equitable manner. Apart from top management and department heads who would be selected before the formation of MergeCo, the selection and appointment of all other staff would be made after the merger has been implemented.

The selection criteria will be drawn up jointly by the two corporations. The criteria will include requirements of the jobs, performance, experience and capability of the individual concerned. Selection panels comprising representatives from both MTRCL and KCRC will be appointed to conduct objective assessments. As the selection of all managers and general staff will take place only after the merger has been implemented, the principles, systems and procedures for the selection will be formulated at a later stage. The two corporations would consult their staff before finalizing the details.

(v) Participation of representatives of staff unions in appeal mechanism

The two corporations have agreed to set up an appeal mechanism for handling appeals on staff-related matters arising from the rail merger. They will make reference to their existing appeal arrangements whereby there is arrangement for participation of staff representatives at certain stage of the appeals. The two corporations have confirmed that for merger-related appeals regarding staff arrangements in future, the existing arrangement for participation of staff representatives will continue and in particular, representatives of both their unions and their Staff Consultative Committees (SCC) / Consultative Committees (CC) will be included as staff representatives. The corporations will consult and notify their staff members later on the detailed arrangement.

Same as the current practice, it is not appropriate for the Government to be involved directly in the handling of staff appeal matters in future.

(vi) Contract staff

It is a common market practice that certain staff of a company are employed on contract terms, having regard to the operation need of the company concerned. The adoption of such practice has no direct

relationship with the rail merger. The two corporations have indicated that they would look after the interest of all staff. Job security as it relates to the merger integration process would be provided to staff who are employed either on continuous terms or contract terms for a duration of two years or more. As regards the non-frontline contract staff, depending on the nature of the job positions of these contract staff and in order to retain talents, MergeCo would explore other development opportunities for them upon expiry of their contracts.

(vi) Eligibility of ex-KCR staff for certain civil service benefits

At present, there are some 500 ex-KCR staff who are working in the KCRC. They were transferred from the Government to KCRC in the corporatisation exercise of KCR in 1983. Assurance from the Government was then given to these ex-KCR staff that, as long as they remain employed by KCRC without a break, they could continue to be eligible for certain civil service benefits. The Government undertakes that the eligibility of these ex-KCR staff for the relevant civil service benefits would be retained for as long as they remain continuously employed by the MergeCo.

(viii) Establishment of a regular communication system among the Government, the corporations and the five staff unions

The two corporations have well established mechanisms for consultation and communication with representatives of their SCC/CC and staff unions. The established mechanisms have proved to be effective in resolving matters of common concern to both the management and staff side in the past. We encourage staff to maintain direct communication with the management through these channels. Staff arrangements are matters that should best be resolved through discussions between staff side and the management.

The corporations will arrange for participation of staff representatives (including representatives of the SCC / CC and staff unions) in the relevant forum to be set up for discussing merger-related issues on staff matters and will consult staff on merger-related matters affecting them before making any final decision. The corporations have made tremendous efforts in maintaining good and harmonious staff relations and are committed to continuing doing so in future.

The Government has met with representatives of the staff unions in the past to listen to their views on the merger. We will maintain communications with them. Future communication arrangements will be made having regard to development of the subject.

D) Financial Aspects of Merger Package

(i) Evaluation of various options for the structure and the financial terms for the proposed merger

The structure and financial terms of the merger package were drawn up based on the proposed service concession approach. The Government has considered alternative options other than the service concession approach in the merger discussions, such as an outright sale, but has taken a view that they are less appropriate for the current exercise.

(ii) Basis of valuation

The Government appointed a professional property valuer to conduct valuation on the property and related commercial interests included in the property package. The valuation was based on factual information and forecasts provided by KCRC (such as location, site area and gross floor area, revenue, cost and project implementation programme), and our property valuer has adopted a commonly accepted property valuation methodology in line with market practice. Our property valuer considers the price of the property package fair and reasonable.

(iii) Adopting a revenue-sharing mechanism for the property package of the rail merger proposal?

The property package forms part of the merger proposal. The proposal as a result of the merger discussion is for the property package to be sold to MTRCL on market terms, and our property valuer has confirmed that the price of the property package is fair and reasonable. We do not see any strong justification to adopt a revenue-sharing mechanism in this regard, where Government would retain a considerable amount of property market risk.

(iv) Remaining assets held by KCRC after the rail merger and their residual values

Under the service concession approach, assets which are

necessary for the operation of the KCR system would be provided to MergeCo. In addition, the items included in the property package would be sold as part of the merger package. All other assets of KCRC which do not form part of the service concession agreement or the property package, such as cash, receivables and shareholding in Octopus, would remain with KCRC. Valuation was conducted only to establish the terms of the service concession and the property package for the purpose of the rail merger. We did not conduct any valuation on the other assets which are to remain with KCRC, which falls outside the scope of the current exercise.

(v) Breakdown of individual property development

MTRCL will pay \$4.91 billion for the rights over the eight property development sites. The amount is for the rights over these sites, being the share of property development profits which the MergeCo may realise from co-development of these eight sites with property developer partners.

The rights over the foregoing property developments sites are valued based on the MergeCo's expected share of the assessed development profits for the sites. The development profit from each site is the independently and professionally assessed value of the market sales proceeds after deducting (1) land premium; (2) construction costs; (3) project enabling works costs; (4) tax; and (5) financing costs, professional fees, marketing costs, etc. As the sites are expected to be developed over a number of years, the assessed development profits are discounted to give a present value. Furthermore, the sites will be developed in conjunction with developer partners, hence the assessed development profits will also need to be shared with such partners.

The risks of these property developments, including market risk, land premium / construction cost increase risks, etc. will rest with MTRCL. Furthermore, the risks will also be affected by the fact that it will take a number of years to fully develop these eight sites and realise any profit.

The key information relevant to Government's valuation of these eight sites is set out in Appendix 2.

(vi) Breakdown of individual investment properties

The rental income from the eight investment properties in the investment properties portfolio of the property package amounted to \$142.6 million for the year ended 31 December 2005 (it should be noted that the Pierhead Plaza was under renovation for 9 months in 2005). The other details of the eight investment properties are set out in Appendix 3.

(vii) Breakdown of management businesses and rights relating to properties at the 33 sites

In addition to the right to manage the eight investment properties noted in (vi) above, MTRCL will acquire KCRC's property management business for five existing properties owned by third parties, namely, Pierhead Garden, Sun Tuen Mun Centre, Hanford Garden, Royal Ascot and the Metropolis. The net income earned in 2005 relating to management for these five properties owned by third parties was \$4.5 million. MTRCL will also require the initial rights to manage properties to be built along West Rail. Such properties have yet to be constructed and would take a number of years to complete.

MTRCL takes on substantial contract renewal risk in assuming KCRC's property management business in respect of the residential properties. The duration of such contracts usually ranges from one to three years, after which the owners of the properties have absolute discretion to appoint another party to manage the property. Given that property management operations can be easily assumed by a third party upon contract expiry, there is no assurance that future property management profits will continue to accrue to MTRCL.

(viii) Justifications for including the purchase of KCRC's property management business

The inclusion of KCRC's property management business as an integral part of the merger transaction is essential in order to ensure the long term sustainability of the connection and integration benefits between railway and property. If rail and property were managed separately, there would be less incentive for the respective parties to align their interests and ensure the optimal integration of the two, thus leading to the loss of connection and integration benefits. For example, essential links between station and properties (such as pedestrian footbridges and

subways) may not be constructed or could be poorly managed even if built.

Another critical reason for properties above or adjacent to stations to be managed by the rail operator is to secure a safe and efficient environment for rail operation. If the properties above or adjacent to stations are not properly managed, there could be adverse effects on the station such as water ingress or blockage of evacuation routes. In addition, some stations and adjacent property developments share services or access through each other's areas. Such situations require an integrated management approach to ensure smooth operation.

In summary, MTRCL, in taking on the property management business, will be best placed to ensure optimal management of both railway and property to the benefit of both sets of users.

- (ix) Whether the disposal of KCRC's properties without going through a public tender would be in the best interest of the general public?

The rail-property model has been creating tremendous value for the people of Hong Kong. An indication of this is at [Appendix 4](#) based on information provided by MTRCL.

Government believes that the current proposal regarding the property package is in the best interest of the general public, in that the technical-engineering interface issues could be properly addressed by integrating the construction and operation of railways with the construction and management of the relevant properties, as set out in (viii) above. Our intention is to sell the property package to MTRCL on market terms, and Government's professional property valuation consultant has confirmed that the pricing of the property package is fair and reasonable.

- (x) Whether Government would consider putting out for tender KCRC's properties and using the proceeds for the purpose of subsidizing railway operations and fare reductions?

As the property package forms an integral part of the proposed merger, we would not consider putting KCRC's properties up for auction or tender. The proceeds from the property package are intended for servicing KCRC's existing financial obligations and the day-to-day

administrative functions after the merger. In any event, it is not Government's policy to subsidise railway operations and fare reductions. We would also reiterate that there is no question of disposal of KCRC's assets at a severely diminished value, as our professional property valuation consultant has adopted a methodology for property valuation which is commonly accepted in the market, and confirmed that the pricing of the property package is fair and reasonable.

(xi) Synergy of rail merger and proposed property package

According to MTRCL, synergies of the rail merger will amount to about \$450 million per annum, which will take the MergeCo a few years to realise. The majority of such synergies will come from the following three areas –

- Transfer of best practice;
- Procurement; and
- Support functions.

As for KCRC's properties, there is synergy in the current model where KCRC is involved in the construction and operation of the railways and also the construction and management of properties. The MergeCo could continue to enjoy such synergy through the property package proposal.

(xii) Basis of calculation of the amount of payments for the service concession

Under the service concession arrangement, MTRCL has agreed to pay the Government an upfront payment of \$4.25 billion plus fixed annual payments of \$750 million up to 2056. In considering the overall terms and structure of the transaction, the principal consideration was on the evaluation of the future cash flow of the KCR system taking into account the operating costs and commitments on maintenance and renewal of the KCR system during the 50-year concession period. Other factors that have been considered include the risks associated with fluctuations in patronage in respect of the KCR system, future debt obligations of KCRC and affordability of MTRCL while striking an appropriate balance between the interests of the parties involved.

The Government would share in the potential out-performance of KCR system above a revenue threshold in form of an "earn-out" structure with variable annual payments being made by the MergeCo based on

revenues attained by KCRC. This would ensure a fair valuation for Government, if the performance of the KCR system improves.

(xiii) Rationale for setting the duration of the concession agreement to 50 years

Under the service concession arrangement, the MergeCo is responsible for carrying out and paying for all maintenance, improvement and replacement of assets. These would be long-term capital investments, which warrant sufficient time for the corporation to earn a return. During the 50-year concession period, MergeCo would need to meet established service standards, and Government would continue to monitor its operation. The 50-year term, which ties in with the franchise period of MergeCo, is therefore appropriate.

If there is an additional requirement of periodic reviews whereby Government or KCRC can unilaterally change the concession conditions or period, the uncertainties to MergeCo would increase, and the deal terms for KCRC and Government would naturally be detrimentally affected. This will not be in the interest of Government or KCRC.

Promotional / Concessionary Fare Schemes on the Airport Express Line

Scheme	Details	Period
Airport Staff Octopus	<ul style="list-style-type: none"> ▪ Up to 64% off Airport Express single journey fares for all workers working in the airport and AsiaWorld Expo who apply for a special Airport Staff personalized Octopus. 	Dec 1998 onwards
Airport Express Group Tickets	<ul style="list-style-type: none"> ▪ Airport Express passengers can travel by using group tickets: group tickets for two persons from Hong Kong, Kowloon and Tsing Yi Stations to Airport Station are HK\$160, HK\$140 and HK\$90 respectively; those for three persons are HK\$210, HK\$190 and HK\$125; those for four persons are HK\$250, HK\$220 and HK\$150. 	1 Mar 2005 – 30 Nov 2006
<p>“Ride to Rewards” Programme – A programme targeting frequent AEL users. The more they ride on AEL, the faster they accumulate bonus points for redeeming special offers.</p>	<ul style="list-style-type: none"> ▪ Hong Kong ID Card holders with Octopus Card can enroll in the programme on the Corporation’s website. Successful enrollees will receive one bonus point on their Octopus Card for every normal fare-paid ride taken on the Airport Express. After collecting seven points within the designated period, they will be able to redeem a complimentary Airport Express Single Journey Ticket voucher (a maximum of 12 vouchers can be redeemed) or 500 Asia Miles. ▪ New gift of 3,500 Dragon Points (membership points for Dragonair VISA card) is available for redemption of 7 points commencing 8 March 06. ▪ New enrollees will receive a coupon which entitles them to a one-off 50% discount on an Airport Express Round Trip as a welcome gift. 	1 Jan 2006 – 31 Dec 2006
Tsing Yi / Kowloon -> Hong Kong Morning Express Service	<ul style="list-style-type: none"> ▪ From 7:00 a.m. to 10:00 a.m., Monday to Saturday (except public holidays), passengers can take the Airport Express services from Tsing Yi and Kowloon Station to Hong Kong Station at a special rate of HK\$20 per trip. 	15 Jan 2006 – 14 Jan 2007

Scheme	Details	Period
MTR Shareholders Promotion	<ul style="list-style-type: none"> ▪ 34% off Airport Express discount coupons for Adult/Child/Elder/Student Octopus Cardholders are sent to all MTR shareholders via the mail drop of Annual Report. ▪ Shareholder who uses the confirmation code on the coupon flyer to enroll in Airport Express “Ride to Rewards” Program will get double bonus points. 	18 Apr 2006 – 31 Aug 2006
Taxi Interchange Promotion	<ul style="list-style-type: none"> ▪ Any passengers with Adult/ Student/Elder/ Child Octopus cards can enjoy 50% fare discount for journey to Airport Station by surrendering taxi receipt of HK\$60 or above and presenting their Octopus cards at the Customer Service Centre at Tsing Yi or Kowloon Stations. ▪ A maximum of five persons can enjoy the offer per taxi receipt on the date of issue. 	1 Oct 2005 – 30 Jun 2006
Sales through Travel Agents	<ul style="list-style-type: none"> ▪ Airport Express tickets are available for sale at these agents to the general public at discounted prices. 	Jul 1998 onwards
Cathay Pacific (CX) In-flight Sales	<ul style="list-style-type: none"> ▪ Selected Airport Express tickets are available for sales on all CX in-flight duty free shops. Various discounts are offered on respective tickets. Passengers can redeem the ticket at designated Airport Express Customer Service Centres. 	1 Oct 2004 – 30 Sept 2006
Cathay Pacific (CX) Worldwide Promotion (Yum Sing)	<ul style="list-style-type: none"> ▪ CX passengers holding a valid boarding pass or air ticket within 7 days of arrival in HK with coupons could buy Round Trip Ticket at single journey ticket fare. 	1 Apr 2005 – 15 Apr 2007
Asia Miles members - Airport Express “2 Round-Trip ticket” Promotion	<ul style="list-style-type: none"> ▪ Asia Miles members can redeem 2 regular Airport Express Round Trip Tickets with their Asia Miles. Two regular Round Trip tickets of Hong Kong, Kowloon and Tsing Yi Station can be redeemed with 5000, 4500 and 3000 Asia Miles respectively. ▪ Passengers who are also Asia Miles members can earn 150 Asia Miles when they purchase an Airport Express “2 Round trips ticket” from 1 February 2005 onward. 	1 Jan 2004 onwards
Hong Kong Tourism Board (HKTB) – Discover Hong Kong 06	<ul style="list-style-type: none"> ▪ Coupons are included in incentive booklets distributed to overseas markets via HKTB’s overseas offices, and the discounts are: \$5 off Disney 1-day pass; \$30/\$20 off Airport Express Tourist Octopus (2-ride)/(1-ride) respectively; \$20/\$20/\$10 off Airport Express Round Trip Ticket (Hong Kong)/(Kowloon)/(Tsing Yi) respectively. 	1 Jan 06 – 15 Oct 06

Appendix 2

Property Development

(1) Ho Tung Lau	
Location:	Sha Tin Town Lot No. 470 (Adjacent to East Rail Fo Tan Station)
Site Area:	2.67 hectares
Description:	<ul style="list-style-type: none">• Residential GFA 1,301,368 square feet• Commercial GFA 21,528 square feet• Total GFA 1,322,896 square feet• 1,351 flats• 246 parking spaces
Market sale prices assumed in valuation:	The information is commercially sensitive as the site has already been tendered and construction by a developer is underway.
Additional Information:	<ul style="list-style-type: none">• Land premium \$1,393.37 million• Land grant document enclosed

(2) Wu Kai Sha Station	
Location:	Sha Tin Town Lot No. 530 (South of Ma On Shan Rail Wu Kai Sha Station)
Site Area:	3.41 hectares
Description:	<ul style="list-style-type: none">• Residential GFA 1,815,349 square feet• Commercial GFA 32,292 square feet• Kindergarten GFA 10,764 square feet• Total GFA 1,858,405 square feet• 2,528 flats• 362 parking spaces
Market sale prices assumed in valuation:	The information is commercially sensitive as the site has already been tendered and construction by a developer is underway.
Additional Information:	<ul style="list-style-type: none">• Land premium \$5,391.19 million• Land grant document enclosed

(3) Che Kung Temple Station	
Location:	Lot no. not yet assigned (North of Ma On Shan Rail Che Kung Temple Station)

Site Area:	1.81 hectares
Description:	<ul style="list-style-type: none"> • Residential GFA 966,521 square feet • Commercial GFA 2,077 square feet • Kindergarten GFA 7,212 square feet • Total GFA 975,810 square feet • 1,240 flats • 208 parking spaces
Market sale prices assumed in valuation:	<ul style="list-style-type: none"> • Residential About \$6,040 per square foot • Commercial About \$6,000 per square foot • Kindergarten About \$1,750 per square foot • Parking spaces About \$300,000 each

(4) Tai Wai Maintenance Centre

Location:	To be known as Sha Tin Town Lot No. 529 (South-west of East Rail Tai Wai Station)
Site Area:	7.06 hectares
Description:	<ul style="list-style-type: none"> • Residential GFA 3,379,411 square feet • Total GFA 3,379,411 square feet • 4,304 flats • 718 parking spaces
Market sale prices assumed in valuation:	The information is commercially sensitive as the site has already been tendered.

(5) Tai Wai Station

Location:	To be known as Sha Tin Town Lot No. 520 (Adjoining to East Rail Tai Wai Station)
Site Area:	4.85 hectares
Description:	<ul style="list-style-type: none"> • Residential GFA 2,050,327 square feet • Commercial GFA 667,368 square feet • Kindergarten GFA 11,948 square feet • Total GFA 2,729,643 square feet • 2,900 flats • 713 parking spaces
Market sale prices assumed in valuation:	<ul style="list-style-type: none"> • Residential About \$6,330 per square foot • Commercial About \$7,200 per square foot • Kindergarten About \$1,750 per square foot • Parking spaces About \$300,000 each

(6) & (7) West Kowloon Station (Site C and Site D), Kowloon Southern Link	
Location:	Lot no. not yet assigned (Bounded by (i) Jordan Road, Canton Road and Wui Cheung Road; and (ii) Wui Cheung Road, Canton Road and Austin Road)
Site Area:	2.09 hectares
Description:	<ul style="list-style-type: none"> • Residential GFA 1,128,013 square feet • Commercial GFA 225,603 square feet • Total GFA 1,353,616 square feet • 321 parking spaces
Market sale prices assumed in valuation:	<ul style="list-style-type: none"> • Residential About \$9,780 per square foot • Commercial About \$4,500 per square foot • Parking spaces About \$450,000 each
Note:	Preliminary development plan only

(8) Tin Shui Wai Light Rail Transit Terminus	
Location:	To be known as Tin Shui Wai Town Lot No. 23 (Bounded by Tin Wing Road, Tin Shing Road and Tin Yan Road)
Site Area:	1.82 hectares
Description:	<ul style="list-style-type: none"> • Residential GFA 980,073 square feet • Commercial GFA 2,207 square feet • Total GFA 982,280 square feet • 1,600 flats • 267 parking spaces
Market sale prices assumed in valuation:	<ul style="list-style-type: none"> • Residential About \$3,450 per square foot • Commercial About \$6,000 per square foot • Parking spaces About \$220,000 each

Appendix 3

Investment Property

(1) Royal Ascot	
Location:	No. 1, Tsun King Road, Shatin
Description:	<ul style="list-style-type: none">• 20 residential units (GFA 29,964 square feet)• 20 parking spaces

(2) Royal Ascot	
Location:	No. 1, Tsun King Road, Shatin
Description:	<ul style="list-style-type: none">• Commercial Accommodation + Kindergarten (GFA 107,606 square feet)

(3) Hanford Plaza	
Location:	No. 333, Castle Peak Road, Tuen Mun
Description:	<ul style="list-style-type: none">• Reserved Commercial Accommodation (GFA 34,415 square feet)• 22 parking spaces

(4) Sun Tuen Mun Shopping Centre and Sun Tuen Mun Centre	
Location:	Nos. 55-65, Lung Mun Road, Tuen Mun
Description:	<ul style="list-style-type: none">• Reserved Commercial Accommodation + Kindergarten (GFA 170,696 square feet)• 421 parking spaces

(5) Pierhead Garden	
Location:	Nos. 168-236, Wu Chui Road, Tuen Mun
Description:	<ul style="list-style-type: none">• Commercial Accommodation (GFA 107,117 square feet)• 32 parking spaces

(6) Trackside Villas	
Location:	No. 4105, Tai Po Road, Tai Po Kau, Tai Po.
Description:	<ul style="list-style-type: none">• 252 residential units (GFA 120,600 square feet)• 60 parking spaces

(7) KCRC Hung Hom Building	
Location:	No. 8, Cheong Wan Road, Hung Hom

Description:	<ul style="list-style-type: none"> • 7 units (GFA 21,096 square feet)
---------------------	--

(8) Citylink Plaza	
Location:	No. 1, Sha Tin Station Circuit, Shatin
Description:	<ul style="list-style-type: none"> • 7 storeys, including the Retail Floor and 1/F to 6/F (GFA 170,431 square feet)

Appendix 4

Rail and Property model

According to MTRCL, with the Rail and Property model, Hong Kong has been able to benefit from a world-class metro system. At the same time, the Government has benefited by \$136.1 billion in value -

	(\$billion)
Value to Government / Hong Kong	
Land premium	75.8
Market capitalisation as at 29/5/2006	79.7
Cash dividends	2.3
IPO proceeds	10.5
Cost to Government	
Government equity injection	(32.2)
Value creation	136.1