

Legislative Council Panel on Transport

**Subcommittee on Matters Relating to the
Implementation of Railway Development Projects**

Investigation Report on KCRC West Rail Contracts

Background

In January 2002, there was public concern about the additional payments made by the Kowloon-Canton Railway Corporation (KCRC) to Siemens, the contractor for the West Rail telecommunications systems (Contract DB1500), and to other West Rail contractors under a total of 26 supplemental agreements.

2. To address the public concern, the KCRC Managing Board asked KPMG to conduct an investigation under the supervision of an independent Steering Committee, chaired by the KCRC Chairman. In the absence of an agreement with KPMG on the indemnity requirements, KCRC subsequently appointed Ernst & Young to undertake the investigation. The Steering Committee decided that the investigation should cover the Siemens contract and a sample of two representative supplemental agreements (Contract CC213 – construction of Tuen Mun Station and Contract CC404 – construction of Mei Foo Station).

The Investigation Report

3. The Steering Committee and the KCRC Managing Board have now received and accepted the investigation report from Ernst & Young. A letter from KCRC enclosing the investigation report, the Executive Summary of the report and a letter from the Steering Committee to the KCRC Managing Board are at **Annex**.

4. The Government welcomes the Managing Board's decision to implement the recommendations in the investigation report. To implement its new railway projects effectively, it is important that KCRC take all the necessary steps to implement the recommendations to strengthen the Corporation's systems and procedures for contract procurement, monitoring and management. The Government will render full support to KCRC in implementing the recommendations.

5. The separation of the duties and functions of the Chairman and chief executive in December last year has helped strengthen the corporate governance of KCRC. The investigation report also suggested that consideration should be given to appointing persons with specific knowledge and experience of major projects to the Managing Board in order to complement the existing Managing Board's knowledge and experience. The Government will consider this when reviewing the appointment of Board Members later this year.

Transport Bureau
16 May 2002