

The Government of the Hong Kong Special Administrative Region

政府總部
環境運輸及工務局
局長辦公室
香港花園道三號
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**Office of the Secretary for the
Environment, Transport and Works
Government Secretariat**

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16 September 2005

The Hon Lau Kong-wah, JP
Chairman of the Subcommittee to Study
Tate's Cairn Tunnel Ordinance (Replacement
of Schedule) Notice 2005 and Tai Lam Tunnel
and Yuen Long Approach Road Ordinance
(Replacement of Schedule 1) Notice 2005
Legislative Council
8 Jackson Road
Central
Hong Kong

Dear Chairman,

**Subcommittee to Study
Tate's Cairn Tunnel (TCT) Ordinance
(Replacement of Schedule) Notice 2005
and
Tai Lam Tunnel and Yuen Long Approach Road Ordinance
(Replacement of Schedule 1) Notice 2005**

I refer to your letter of 4 July 2005. Our responses to the various questions raised in the attachment to your letter are set out below.

- (1) What are the factors considered by the administration before reaching a decision that the application for toll increase by TCTC should be approved?***
- (2) Given that the TCT Ordinance has not set out the criteria for determination of toll adjustments by the Chief Executive in Council (CE in Council), it is not clear on what basis the Administration has reached a decision that an application for toll increase should be approved and arbitration should not be resorted to. How can the current mechanism be improved to address this issue?***

In reaching the decision that the toll increase proposed by TCT Company Limited should be approved, the Chief Executive in Council has considered all the relevant factors, including the financial position of the TCT Company Limited, the magnitude of the toll increase, the traffic impact of the toll increase, public acceptability and whether the remuneration to the TCT Company Limited is reasonable but not excessive, etc. The Chief Executive in Council has also taken into account the views of both the Transport Advisory Committee and the Legislative Council Panel on Transport.

The assessment of the Administration has been set out in the Legislative Council Brief for Members' reference. My colleagues have also explained this to Members in the meetings on 15 and 23 June 2005.

- (3) For the current toll increase of Route 3, what are the relevant factors and information that SETW has considered before coming to a view that she is satisfied with the franchisee's 2000-01 Actual Net Revenue (ANR) Statement? Whether SETW has considered referring the matter to an independent expert for resolution; if not, please provide the reasons.***

Section 37 of the Tai Lam Tunnel and Yuen Long Approach Road Ordinance requires the franchisee of Route 3 to submit an audited ANR Statement to the Administration every year. Section 36 of the Ordinance also stipulates how the ANR should be calculated. Upon receipt of the ANR Statement, we have verified the information according

to the requirements set out in the Ordinance and the Project Agreement. The question of referring the 2000-01 ANR Statement to an independent expert did not arise because we were satisfied that the Statement was accurately calculated and properly audited.

It is an administrative law principle that statutory powers should be exercised in a reasonable manner. In the current case, we can question the 2000-2001 ANR Statement only if we can identify possible errors in the calculation of the ANR that render it not in compliance with the Ordinance or the Project Agreement. As we have not identified such errors, and the ANR Statement has been duly audited, we cannot, without any reasonable ground, question the ANR Statement and refer the matter to an independent expert.

(4) SETW is invited to consider:

- (a) whether a deadline or timetable should be set for the current negotiation between the Administration and the franchisee of Route 3 on the need to extend the franchise period; and***
- (b) whether, and if so, how Schedule 4 to the Ordinance could be amended; and the implications, if any, of the amendments.***

We have been discussing with the franchisee of Route 3 various possible measures to enhance the utilisation of Route 3, including the idea of extension of its franchise. We consider that setting a deadline for the negotiation will reduce the Government's flexibility in getting a good deal, which in turn may not be in the best interest of the general public.

The Maximum and Minimum Estimated Net Revenues set out in Schedule 4 of the Ordinance form part of the agreement between the Government and the franchisee in awarding the franchise in 1995. The Government should not propose amendments to the Schedule unilaterally without consultation with the franchisee. We would take these issues into account when we discuss with the franchisee of Route 3 measures to enhance the utilisation of Route 3.

- (5) What are the justifications and legal basis on which the Administration comes to the view that it could not disclose information about the ANR of Route 3 (Country Park Section) Company Limited to the public?***

Under the Project Agreement, the Government may not disclose the financial information delivered by the Route 3 (Country Park Section) Company Limited without its consent. Nevertheless, over the past years, we have duly carried out our responsibility to monitor the operation of the Company based on the Ordinance and the Project Agreement. Before each toll increase take effect, we have issued information papers to the Panel on Transport to brief Members of the background as well as our assessment of the relevant net revenue statements. In addition, we have been urging the Company to disclose its financial information more fully to enhance the transparency of its work, and the Company has agreed to provide more details of its financial position.

- (6) Whether and how far the Administration has honoured the undertaking made by the then Secretary for Transport during the resumption of the Second Reading debate on the Tai Lam Tunnel and Yuen Long Approach Road Bill on 24 May 1995 that the Administration would adopt the following steps to enhance the transparency of the franchisee's plans and performance:***

- (a) The Administration will require the tabling in the Legislative Council (LegCo) in July each year (before the summer recess) the franchisee's plan as embodied in its three-year rolling projection of net revenue and its annual budget of operating costs, together with a statement;***
- (b) The Administration will table in LegCo in October each year the franchisee's annual audited statement of ANR, and will make a statement on that occasion on both the figures and any application for a toll increase; and***

(c) The Administration will brief the LegCo Panel on Transport on the Administration's findings before deciding by the end of October whether a toll increase should be agreed or whether the Administration should proceed to arbitration. Members will then have the opportunity to debate the findings if they so wish.

We have examined the matter in detail. During the various stages of a bill's passage through LegCo, it is indeed not uncommon for the Administration to provide clarifications or assurances to address certain concerns raised by Members. In some cases, they are enshrined in the text of the legislation by way of committee stage amendments. As such, they are enforceable through legal means. In some other cases, they reflect the policy intent of the Administration, and can only be implemented with our best endeavours through administrative means.

As you know, the rights and obligations of the tunnel operator are governed by the relevant Project Agreement and the Ordinance. However, it appears that the assurances given by my predecessor in 1995 were to some extent not consistent with the provisions of the Project Agreement and the Ordinance, which was enacted on the same date when the undertakings were made.

Specifically, on (a) and (b), you may wish to note that under the Project Agreement, the Government may not disclose the financial information delivered by the Route 3 (Country Park Section) Company Limited without its consent. Nonetheless, in the light of LegCo Members' concern, we have been urging the Company to make available more information. The Company has recently agreed to provide more details of its financial position, and the information provided by the Company is attached for your reference.

On (c), we understand that the toll adjustment mechanism has been enshrined in Sections 39 and 40, as well as other provisions in Part X of the Ordinance. In brief, if the actual net revenue of the Company for a year is lower than the Minimum Estimated Net Revenue for that year set out in Schedule 4 to the Ordinance, the Company will be entitled to a toll increase. The entitlement of the Company to a toll increase depends entirely on the net revenue and application of the provisions in Part X

Sections 39 and 40 of the Ordinance. Such entitlement does not depend on the Administration's agreement to the toll increase. On receipt of a toll increase application, we only have two options i.e. either to inform the franchisee that the toll increase may be effected, or that payment shall be made from the Tai Lam Tunnel and Yuen Long Approach Road Toll Stability Fund. As there is currently no money in the Fund, we can only take the first action.

To recap, we may agree to an ANR Statement, or question it if there are reasonable grounds to do so. If we are not satisfied with the ANR Statement, and an agreement cannot be reached through negotiation with the franchisee, the matter shall be referred to an independent expert whose decision shall be final as regards matters relating to the ANR Statement. Thus, we only have a limited power to agree or otherwise to the ANR Statement, and as mentioned in my reply to Question 3 above, this power has to be exercised in a reasonable manner. It is not for me to decide whether or not to agree to a toll increase application.

The assurances given by the then Secretary for Transport referred to "*....or whether the Administration should proceed to arbitration....*". However, the toll adjustment mechanism as enshrined in the Ordinance has not provided for arbitration to determine the question of toll increase. The then Secretary for Transport may possibly be talking about referring disagreements on the ANR Statement to an independent expert when he referred to "arbitration". Furthermore, as stated above, a toll increase does not depend on my agreement to the toll increase application.

We therefore find it impracticable to implement the assurances in the manner suggested by the then Secretary for Transport. The Administration has to act in accordance with the Ordinance and the Project Agreement.

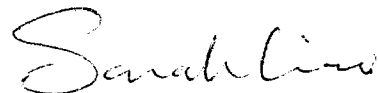
Notwithstanding the above problems, we have over the years maintained the practice of informing LegCo when the Company decides to exercise its entitlement to a toll increase. In the relevant papers for the Panel, we have included information on the ANR Statement on which the toll increase is based, and LegCo Members may consider debating the matter, if they so wish. In the current toll increase, Members had actually

discussed the matter twice, the first occasion on 15 June 2005, and the second on 23 June 2005. This is in line with the spirit of enhancing transparency.

At the motion debate on 6 July 2005, you made a similar point regarding the Western Harbour Crossing. The Western Harbour Tunnel Company Limited has agreed to disclose its financial information, and we have submitted the relevant information to the Panel on Transport earlier.

I hope the above have addressed your points. Should you have any queries, our Bureau would be most happy to explain in further detail.

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Sarah Liao".

(Sarah Liao)
Secretary for the Environment,
Transport and Works

Route 3 (CPS) Company Limited**Toll Table**

<u>Actual Toll</u>	25 May 1998 - 31 Jul 1999		
	27 Oct 1998 - 31 Jul 1999	11 Aug 1998 - 26 Oct 1998	25 May 1998 - 10 Aug 1998
	Concessionary tolls for LGV started	Concessionary tolls for MGV, HGV and axles started	Tunnel opened to traffic
Motorcycles	\$10	\$10	\$10
Private cars and Taxi	\$15	\$15	\$15
Light Goods Vehicles (LGV)	\$23	\$30	\$30
Medium Goods Vehicles (MGV)	\$30	\$30	\$40
Heavy Goods Vehicles (HGV)	\$30	\$30	\$60
Public and Private Light Buses	\$30	\$30	\$30
Public and Private Single-Decked Buses	\$30	\$30	\$30
Public and Private Double-Decked Buses	\$45	\$45	\$45
Each Extra Axle (for GV only)	\$0	\$0	\$20

<u>Gazetted Toll</u>	25 May 1998 - 31 Jul 1999
Motorcycles	\$10
Private cars and Taxi	\$15
Light Goods Vehicles	\$30
Medium Goods Vehicles	\$40
Heavy Goods Vehicles	\$60
Public and Private Light Buses	\$30
Public and Private Single-Decked Buses	\$30
Public and Private Double-Decked Buses	\$45
Each Extra Axle (for GV only)	\$20

Route 3 (CPS) Company Limited

Traffic Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 1999</u>
Average Daily Traffic	
Motorcycles	491
Private Cars / Taxis	22,828
PC sub-total	<u>23,319</u>
Light Goods Vehicles	3,924
Medium Goods Vehicles	1,616
Heavy Goods Vehicles	3,004
GV sub-total	<u>8,544</u>
Public / Private Light Buses	55
Single-Decked Buses	506
Double-Decked Buses	2,797
Bus sub-total	<u>3,358</u>
Total	<u><u>35,221</u></u>
Traffic Mix	
PC	66.2%
GV	24.3%
Bus	9.5%

Route 3 (CPS) Company Limited

Toll Revenue Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 1999</u> HK\$'M
Toll Revenue	
Motorcycles	1.8
Private Cars / Taxis	123.1
PC sub-total	<u>124.9</u>
Light Goods Vehicles	34.3
Medium Goods Vehicles	17.7
Heavy Goods Vehicles	32.7
GV sub-total	<u>84.7</u>
Public / Private Light Buses	0.6
Single-Decked Buses	5.5
Double-Decked Buses	45.8
Bus sub-total	<u>51.9</u>
Extra Axles	<u>0.1</u>
Total	<u><u>261.6</u></u>
Toll Revenue Mix	
PC	47.7%
GV	32.4%
Bus	19.9%

Route 3 (CPS) Company Limited**Income Statement**

	<u>Actual</u> <u>Year ended</u> <u>31 Jul 1999</u> HK\$M
Toll Revenue	262
Advertising and Other Income	15
Total Revenues	<u>277</u>
Administrative Expenses	60
Utilities, Professional, Insurance, Maintenance	41
Rates & Government Rent	8
Interest Expenses	380
Depreciation	130
Total Expenses	<u>619</u>
Profit Before Taxation	(342)
Less Deferred Tax	0
Net Profit for the Year	<u>(342)</u>
Accumulated Losses Brought Forward	(217) *
Prior Year Adjustment on Deferred Tax	0
Accumulated Losses Carried Forward	<u>(559)</u>

* Accumulated losses brought forward from 1998 represented operating expenses, depreciation and interest expenses for 2-month operation period between 25 May and 31 July 1998, and pre-opening expenses before 25 May 1998.

Route 3 (CPS) Company Limited**Toll Table**

<u>Actual Toll</u>	1 Aug 1999 - 31 Jul 2000	
	1 Apr 2000 - 31 Jul 2000	1 Aug 1999 - 31 Mar 2000
	Toll increase	
Motorcycles	\$15	\$10
Private cars and Taxi	\$20	\$15
Light Goods Vehicles (LGV)	\$25	\$23
Medium Goods Vehicles (MGV)	\$35	\$30
Heavy Goods Vehicles (HGV)	\$35	\$30
Public and Private Light Buses	\$45	\$30
Public and Private Single-Decked Buses	\$45	\$30
Public and Private Double-Decked Buses	\$60	\$45
Each Extra Axle (for GV only)	\$0	\$0

<u>Gazetted Toll</u>	1 Aug 1999 - 31 Jul 2000	
	1 Apr 2000 - 31 Jul 2000	1 Aug 1999 - 31 Mar 2000
Motorcycles	\$15	\$10
Private cars and Taxi	\$20	\$15
Light Goods Vehicles	\$45	\$30
Medium Goods Vehicles	\$55	\$40
Heavy Goods Vehicles	\$75	\$60
Public and Private Light Buses	\$45	\$30
Public and Private Single-Decked Buses	\$45	\$30
Public and Private Double-Decked Buses	\$60	\$45
Each Extra Axle (for GV only)	\$25	\$20

Route 3 (CPS) Company Limited

Traffic Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2000</u>
Average Daily Traffic	
Motorcycles	574
Private Cars / Taxis	26,742
PC sub-total	<u>27,316</u>
Light Goods Vehicles	5,489
Medium Goods Vehicles	2,465
Heavy Goods Vehicles	4,468
GV sub-total	<u>12,422</u>
Public / Private Light Buses	73
Single-Decked Buses	756
Double-Decked Buses	3,277
Bus sub-total	<u>4,106</u>
Total	<u><u>43,844</u></u>
Traffic Mix	
PC	62.3%
GV	28.3%
Bus	9.4%

Route 3 (CPS) Company Limited

Toll Revenue Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2000</u> HK\$'M
Toll Revenue	
Motorcycles	2.4
Private Cars / Taxis	162.8
PC sub-total	<u>165.2</u>
Light Goods Vehicles	47.5
Medium Goods Vehicles	28.7
Heavy Goods Vehicles	52.0
GV sub-total	<u>128.2</u>
Public / Private Light Buses	0.9
Single-Decked Buses	9.7
Double-Decked Buses	60.5
Bus sub-total	<u>71.1</u>
Extra Axles	-
Total	<u><u>364.5</u></u>
Toll Revenue Mix	
PC	45.3%
GV	35.2%
Bus	19.5%

Route 3 (CPS) Company Limited

Income Statement

	<u>Actual</u> <u>Year ended</u> <u>31 Jul 2000</u> HK\$'M
Toll Revenue	364
Advertising and Other Income	20
Total Revenues	<u>384</u>
Administrative Expenses	55
Utilities, Professional, Insurance, Maintenance	37
Rates & Government Rent	7
Interest Expenses	352
Depreciation	144
Total Expenses	<u>595</u>
Profit Before Taxation	(211)
Less Deferred Tax	0
Net Profit for the Year	<u>(211)</u>
Accumulated Losses Brought Forward	(559)
Prior Year Adjustment on Deferred Tax	0
Accumulated Losses Carried Forward	<u>(770)</u>

Route 3 (CPS) Company Limited**Toll Table**

<u>Actual Toll</u>	1 Aug 2000 - 31 Jul 2001		
	1 Apr 2001 - 31 Jul 2001	18 Sep 2000 - 31 Mar 2001	1 Aug 2000 - 17 Sep 2000
	Toll increase	Adjustment of concessionary tolls for HGV	
Motorcycles	\$17	\$15	\$15
Private cars and Taxi	\$22	\$20	\$20
Light Goods Vehicles (LGV)	\$25	\$25	\$25
Medium Goods Vehicles (MGV)	\$35	\$35	\$35
Heavy Goods Vehicles (HGV)	\$40	\$40	\$35
Public and Private Light Buses	\$60	\$45	\$45
Public and Private Single-Decked Buses	\$60	\$45	\$45
Public and Private Double-Decked Buses	\$75	\$60	\$60
Each Extra Axle (for GV only)	\$0	\$0	\$0

<u>Gazetted Toll</u>	1 Aug 2000 - 31 Jul 2001	
	1 Apr 2001 - 31 Jul 2001	1 Aug 2000 - 31 Mar 2001
Motorcycles	\$20	\$15
Private cars and Taxi	\$25	\$20
Light Goods Vehicles	\$60	\$45
Medium Goods Vehicles	\$70	\$55
Heavy Goods Vehicles	\$90	\$75
Public and Private Light Buses	\$60	\$45
Public and Private Single-Decked Buses	\$60	\$45
Public and Private Double-Decked Buses	\$75	\$60
Each Extra Axle (for GV only)	\$30	\$25

Route 3 (CPS) Company Limited

Traffic Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2001</u>
Average Daily Traffic	
Motorcycles	448
Private Cars / Taxis	26,358
PC sub-total	<u>26,806</u>
Light Goods Vehicles	5,779
Medium Goods Vehicles	2,760
Heavy Goods Vehicles	4,192
GV sub-total	<u>12,731</u>
Public / Private Light Buses	72
Single-Decked Buses	874
Double-Decked Buses	<u>4,005</u>
Bus sub-total	<u>4,951</u>
Total	<u><u>44,488</u></u>
Traffic Mix	
PC	60.3%
GV	28.6%
Bus	11.1%

Route 3 (CPS) Company Limited

Toll Revenue Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2001</u> HK\$'M
Toll Revenue	
Motorcycles	2.5
Private Cars / Taxis	196.3
PC sub-total	<u>198.8</u>
Light Goods Vehicles	52.7
Medium Goods Vehicles	35.2
Heavy Goods Vehicles	59.6
GV sub-total	<u>147.5</u>
Public / Private Light Buses	1.3
Single-Decked Buses	15.9
Double-Decked Buses	95.7
Bus sub-total	<u>112.9</u>
Extra Axles	<u>-</u>
Total	<u><u>459.2</u></u>
Toll Revenue Mix	
PC	43.3%
GV	32.1%
Bus	24.6%

Route 3 (CPS) Company Limited

Income Statement

	<u>Actual</u> <u>Year ended</u> <u>31 Jul 2001</u> HK\$'M
Toll Revenue	459
Advertising and Other Income	21
Total Revenues	<u>480</u>
Administrative Expenses	54
Utilities, Professional, Insurance, Maintenance	39
Rates & Government Rent	13
Interest Expenses	317
Depreciation	151
Total Expenses	<u>574</u>
Profit Before Taxation	(94)
Less Deferred Tax	0
Net Profit for the Year	<u>(94)</u>
Accumulated Losses Brought Forward	(770)
Prior Year Adjustment on Deferred Tax	0
Accumulated Losses Carried Forward	<u>(864)</u>

Route 3 (CPS) Company Limited

Toll Table

<u>Actual Toll</u>	1 Aug 2001 - 31 Jul 2002
Motorcycles	\$17
Private cars and Taxi	\$22
Light Goods Vehicles (LGV)	\$25
Medium Goods Vehicles (MGV)	\$35
Heavy Goods Vehicles (HGV)	\$40
Public and Private Light Buses	\$60
Public and Private Single-Decked Buses	\$60
Public and Private Double-Decked Buses	\$75
Each Extra Axle (for GV only)	\$0

<u>Gazetted Toll</u>	1 Aug 2001 - 31 Jul 2002
Motorcycles	\$20
Private cars and Taxi	\$25
Light Goods Vehicles	\$60
Medium Goods Vehicles	\$70
Heavy Goods Vehicles	\$90
Public and Private Light Buses	\$60
Public and Private Single-Decked Buses	\$60
Public and Private Double-Decked Buses	\$75
Each Extra Axle (for GV only)	\$30

Route 3 (CPS) Company Limited

Traffic Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2002</u>
Average Daily Traffic	
Motorcycles	394
Private Cars / Taxis	25,471
PC sub-total	<u>25,865</u>
Light Goods Vehicles	5,914
Medium Goods Vehicles	2,732
Heavy Goods Vehicles	3,861
GV sub-total	<u>12,507</u>
Public / Private Light Buses	75
Single-Decked Buses	1,008
Double-Decked Buses	4,562
Bus sub-total	<u>5,645</u>
Total	<u><u>44,017</u></u>
Traffic Mix	
PC	58.8%
GV	28.4%
Bus	12.8%

Route 3 (CPS) Company Limited

Toll Revenue Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2002</u> HK\$'M
Toll Revenue	
Motorcycles	2.4
Private Cars / Taxis	202.0
PC sub-total	<u>204.4</u>
Light Goods Vehicles	53.5
Medium Goods Vehicles	34.6
Heavy Goods Vehicles	55.5
GV sub-total	<u>143.6</u>
Public / Private Light Buses	1.6
Single-Decked Buses	22.1
Double-Decked Buses	124.9
Bus sub-total	<u>148.6</u>
Extra Axles	<u>-</u>
Total	<u><u>496.6</u></u>
Toll Revenue Mix	
PC	41.2%
GV	28.9%
Bus	29.9%

Route 3 (CPS) Company Limited

Income Statement

	<u>Actual</u> <u>Year ended</u> <u>31 Jul 2002</u> HK\$'M
Toll Revenue	497
Advertising and Other Income	15
Total Revenues	<u>512</u>
Administrative Expenses	47
Utilities, Professional, Insurance, Maintenance	40
Rates & Government Rent	16
Interest Expenses	172
Depreciation	156
Total Expenses	<u>431</u>
Profit Before Taxation	81
Less Deferred Tax	0
Net Profit for the Year	<u>81</u>
Accumulated Losses Brought Forward	(864)
Prior Year Adjustment on Deferred Tax	0
Accumulated Losses Carried Forward	<u>(783)</u>

Route 3 (CPS) Company Limited

Toll Table

<u>Actual Toll</u>	1 Aug 2002 - 31 Jul 2003
Motorcycles	\$17
Private cars and Taxi	\$22
Light Goods Vehicles (LGV)	\$25
Medium Goods Vehicles (MGV)	\$35
Heavy Goods Vehicles (HGV)	\$40
Public and Private Light Buses	\$60
Public and Private Single-Decked Buses	\$60
Public and Private Double-Decked Buses	\$75
Each Extra Axle (for GV only)	\$0

<u>Gazetted Toll</u>	1 Aug 2002 - 31 Jul 2003
Motorcycles	\$20
Private cars and Taxi	\$25
Light Goods Vehicles	\$60
Medium Goods Vehicles	\$70
Heavy Goods Vehicles	\$90
Public and Private Light Buses	\$60
Public and Private Single-Decked Buses	\$60
Public and Private Double-Decked Buses	\$75
Each Extra Axle (for GV only)	\$30

Route 3 (CPS) Company Limited

Traffic Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2003</u>
Average Daily Traffic	
Motorcycles	370
Private Cars / Taxis	24,670
PC sub-total	<u>25,040</u>
Light Goods Vehicles	6,026
Medium Goods Vehicles	2,791
Heavy Goods Vehicles	4,235
GV sub-total	<u>13,052</u>
Public / Private Light Buses	72
Single-Decked Buses	1,214
Double-Decked Buses	4,651
Bus sub-total	<u>5,937</u>
Total	<u><u>44,029</u></u>
Traffic Mix	
PC	56.9%
GV	29.6%
Bus	13.5%

Route 3 (CPS) Company Limited**Toll Revenue Statistics**

	<u>Actual</u> <u>Year ended</u> <u>31 July 2003</u> <u>HK\$'M</u>
Toll Revenue	
Motorcycles	2.3
Private Cars / Taxis	196.6
PC sub-total	<u>198.9</u>
Light Goods Vehicles	55.0
Medium Goods Vehicles	35.5
Heavy Goods Vehicles	58.8
GV sub-total	<u>149.3</u>
Public / Private Light Buses	1.6
Single-Decked Buses	26.5
Double-Decked Buses	127.4
Bus sub-total	<u>155.5</u>
Extra Axles	-
Total	<u><u>503.7</u></u>
Toll Revenue Mix	
PC	39.5%
GV	29.6%
Bus	30.9%

Route 3 (CPS) Company Limited

Income Statement

	<u>Actual</u> <u>Year ended</u> <u>31 Jul 2003</u> HK\$'M
Toll Revenue	504
Advertising and Other Income	14
Total Revenues	<u>518</u>
Administrative Expenses	43
Utilities, Professional, Insurance, Maintenance	39
Rates & Government Rent	18
Interest Expenses	132
Depreciation	159
Total Expenses	<u>391</u>
Profit Before Taxation	127
Less Deferred Tax	10
Net Profit for the Year	<u>117</u>
Accumulated Losses Brought Forward	(783)
Prior Year Adjustment on Deferred Tax	125
Accumulated Losses Carried Forward	<u>(541)</u>

Route 3 (CPS) Company Limited

Toll Table

<u>Actual Toll</u>	1 Aug 2003 - 31 Jul 2004
Motorcycles	\$17
Private cars and Taxi	\$22
Light Goods Vehicles (LGV)	\$25
Medium Goods Vehicles (MGV)	\$35
Heavy Goods Vehicles (HGV)	\$40
Public and Private Light Buses	\$60
Public and Private Single-Decked Buses	\$60
Public and Private Double-Decked Buses	\$75
Each Extra Axle (for GV only)	\$0

<u>Gazetted Toll</u>	1 Aug 2003 - 31 Jul 2004
Motorcycles	\$20
Private cars and Taxi	\$25
Light Goods Vehicles	\$60
Medium Goods Vehicles	\$70
Heavy Goods Vehicles	\$90
Public and Private Light Buses	\$60
Public and Private Single-Decked Buses	\$60
Public and Private Double-Decked Buses	\$75
Each Extra Axle (for GV only)	\$30

Route 3 (CPS) Company Limited

Traffic Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2004</u>
Average Daily Traffic	
Motorcycles	339
Private Cars / Taxis	24,657
PC sub-total	<u>24,996</u>
Light Goods Vehicles	6,220
Medium Goods Vehicles	2,964
Heavy Goods Vehicles	4,319
GV sub-total	<u>13,503</u>
Public / Private Light Buses	68
Single-Decked Buses	2,303
Double-Decked Buses	4,504
Bus sub-total	<u>6,875</u>
Total	<u><u>45,374</u></u>
Traffic Mix	
PC	55.1%
GV	29.8%
Bus	15.1%

Route 3 (CPS) Company Limited

Toll Revenue Statistics

	<u>Actual</u> <u>Year ended</u> <u>31 July 2004</u> HK\$'M
Toll Revenue	
Motorcycles	2.1
Private Cars / Taxis	193.3
PC sub-total	<u>195.4</u>
Light Goods Vehicles	56.7
Medium Goods Vehicles	37.8
Heavy Goods Vehicles	59.8
GV sub-total	<u>154.3</u>
Public / Private Light Buses	1.5
Single-Decked Buses	50.3
Double-Decked Buses	123.7
Bus sub-total	<u>175.5</u>
Extra Axles	-
Total	<u><u>525.2</u></u>
Toll Revenue Mix	
PC	37.2%
GV	29.4%
Bus	33.4%

Route 3 (CPS) Company Limited

Income Statement

	<u>Actual</u> <u>Year ended</u> <u>31 Jul 2004</u> HK\$'M
Toll Revenue	525
Advertising and Other Income	17
Total Revenues	<u>542</u>
Administrative Expenses	43
Utilities, Professional, Insurance, Maintenance	40
Rates & Government Rent	18
Interest Expenses	81
Depreciation	166
Total Expenses	<u>348</u>
Profit Before Taxation	194
Less Deferred Tax	34
Net Profit for the Year	<u>160</u>
Accumulated Losses Brought Forward	(541)
Prior Year Adjustment on Deferred Tax	0
Accumulated Losses Carried Forward	<u>(381)</u>

Route 3 (CPS) Company Limited

Net Revenue

Year*	Minimum Estimated Net Revenue HK\$'M (A)	Actual Net** Revenue HK\$'M (B)	Shortfall HK\$'M (B) - (A)
1998/99	45	(271)	(316)
1999/00	101	(68)	(169)
2000/01	149	55	(94)
2001/02	264	238	(26)
2002/03	479	286	(193)
2003/04	648	361	(287)

Net Revenue in any year is derived from the profit before taxation, after adding back the depreciation, together with other adjustments.

Since opening to traffic on 25 May 1998, the Company's actual net revenues summarised above are far below the Minimum Estimated Net Revenue stipulated in the Ordinance. The main reasons for the shortfall in net revenues is that actual traffic volume has been much less than forecast because of:-

- (a). the economic downturn in the past years;
- (b). the slow down of development in northwest New Territories;
- (c). the impact of West Rail; and
- (d). regulation on cross -boundary coaches.

Under the Tai Lam Tunnel and Yuen Long Approach Road Ordinance (Chapter 474), the Company is entitled to gazette a toll increase if the actual Net Revenue is less than the Minimum Estimated Net Revenue. If the actual Net Revenue is above the Maximum Estimated Net Revenue, the excess amount will go to Toll Stability Fund.

* The financial year is from 1 August to 31 July of the following year

** Actual net revenue for every year had been audited by a recognised certified public accountant.

Route 3 (CPS) Company Limited

Notes on Income Statement for the Prior 6 Years

1. Toll Revenue

The increase in toll revenue was attributable to the increase in traffic in the initial years and toll increases in 1 April 2000 and 1 April 2001.

2. Advertising and Other Income

Lower advertising and other income in the financial year 2002 was mainly due to the reduction of income from phone operators and less interest income from a declining interest rate.

3. Administrative Expenses

Administrative expenses reduced to \$43 million or 28% from \$60 million through cost control measures.

4. Utilities, Professional, Insurance, Maintenance

Higher expenses in the financial year 1999 was attributable to the consultancy expenses payable to the Design and Works Checker to ensure the design and construction complied with the requirements of the Project Agreement.

Increase in expenses after the year 2000 was attributable to the professional fees incurred to study the impact of Route10, and higher maintenance expenses.

5. Rates & Government Rent

The increase in rates & government rent was the result of an increasing toll revenue in the prior years.

6. Interest Expenses

The reduction in interest expenses was due to lower interest rates and partial repayment of bank loan over the years.

7. Depreciation

The gradual increase in depreciation was the result of the effect of the sinking fund method to depreciate the \$7 billion cost of tunnel, approach road and buildings, electrical and mechanical systems.