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Sir Wilfrid Newton CA(SA) CBE.

Tel.: +44 (0)1590 679750

Fax: +44 (0)1590 677990

e-mail address: wandfnewton@btinternet.com**Newtons Gate,
12 Ramley Road.
Penington,
Lymington,
SO41 8GQ.
United Kingdom.**

___ September 2006.

The Hon. Members of the Legislative Council,
c/o The Clerk to the Bills Committee,
Rail Merger Bill,
Legislative Council Secretariat,
3/F Citibank Tower,
3 Garden Road,
Central,
Hong Kong SAR.

Hon Members,

I was privileged to be the Chairman & Chief Executive of the Mass Transit Railway Corporation (now MTR Corporation Limited, hereinafter referred as MTRCL) for a period of six years from March 1983 to March 1989. I then became Chairman & Chief Executive of London Transport, Chairman of London Underground Limited and Chairman of London Transport Properties for just less than six years from April 1989. My relevant experience includes some 12 years in charge of all construction, operating and commercial aspects of major underground railway operations and related property development and management in Hong Kong and in London.

I would like to submit a written deposition to the Honourable Members of the Hong Kong Legislative Council in connection with the proposed Merger of MTRCL & Kowloon Canton Railway Corporation (hereinafter KCRC) with particular reference to the fare adjustment processes and the importance of property development to urban railways.

Introduction

MTRCL in particular has earned a well-deserved international reputation as an outstanding urban mass transit railway company. It has become well known in railway circles in major capital cities, indeed in most major cities, in Asia, Europe and North and South America. Its reputation is derived from excellence in completion of major construction projects invariably "on time and within budget" as well as consistent excellence in railway operations, typified by enviable reliability performance, and innovative success in related property development and in property management. Coupled with outstanding management of major, complex financing of railway construction MTRCL's reputation is enviable. MTRCL's success is best revealed by the fact that it has succeeded in winning continuously increasing ridership from small beginnings to the present daily ridership of some 2.5 million in a population of between 7 and 8 million people. Although somewhat less well-known, KCRC is also well regarded as an efficient surface rail operator and its successful completion of the West Rail project is deserving of note.

MTRCL & KCRC are truly Hong Kong success stories in which the Government of Hong Kong as well as all citizens of Hong Kong can and should take considerable pride.

Fare Adjustment

Urban Mass Transit railways do not exist in isolation from competing modes of public transport, or from the wider financial and general business community.

Railway fares must be set at levels that are:-

1. sufficient to cover operating costs, recognising improvements in productivity won by sound management
2. adequate to remunerate the company's historical and prospective cost of capital
3. designed to attract passengers in numbers calculated to cover 1 & 2 above
4. low enough to compete effectively with other modes of transport
5. capable of rewarding shareholders fairly
6. finally, able to satisfy political masters.

Railway fare adjustment mechanisms are very evidently demanding, complex and sometimes positively perplexing. The transparent Fair Adjustment Mechanism (FAM) agreed between MTRCL and Government appears upon inspection to satisfy the 6 criteria I have set out above. In fact it appears to me to bear all the hall-marks of intense negotiation with the undesirable result of producing something of a strait jacket in contrast with the autonomous model that I and, in my years of experience, most senior railway managers would in ideal circumstances prefer. The 'ideal' is seldom fully attainable and I accept that the FAM is a prerequisite of the proposed Merger that, taken as a whole, is expected to be beneficial to stakeholders of both companies, including shareholders. This being so, it follows that the FAM must be applied on the so-called 'Direct Drive' (i.e. automatic application) basis. This very formulaic approach to fare adjustment seems to me to carry risk for the merged companies to a degree that should satisfy the demands of the most determined Members of LegCo and of officials. Any further direct political and/or official involvement would, in my considered opinion, carry dangers for management and indeed for politicians and/or officials too.

Property Development.

Construction of railways through urban and extra-urban environments creates opportunities for property development on sites in the immediate vicinity of and above stations. During initial construction of the MTR in Hong Kong management recognised that it would be possible to create additional, major opportunities for property development on sites created above railway depots. The latter was, at the time unique to Hong Kong. MTRCL has paid Government the open market value of the sites and called for competitive tenders from potential property developers. The net proceeds from this process gave government a fair market price for the sites and the net proceeds retained by MTR made a significant contribution towards the costs of railway construction. The Merged Company could well repeat similar results from properties in the future.

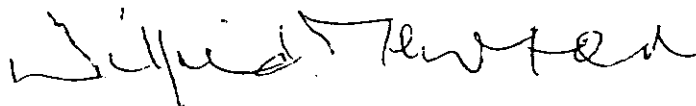
A number of properties, principally but not exclusively shopping centres or malls were retained by MTRCL for long term investment purposes. Sound commercial management of the retained properties has provided growing repetitive income that has contributed to MTRCL's ability to maintain fares at competitive levels while satisfactorily rewarding the capital cost of the retained properties.

Conclusion

I have not considered it appropriate for me to offer a detailed, blow-by-blow critique of either the FAM or the Memorandum of Understanding but I trust that my comments sufficiently summarise the opinions I have formed on the basis of my extensive experience at the head of major urban mass

transit railways. Senior experiences in heavy industry and in banking have also contributed to my comments.

I commend my comments to the Hon. Members of LegCo with respect.

A handwritten signature in black ink, appearing to read "Wilfrid Newton". The signature is written in a cursive, flowing style.

Signed by: Sir Wilfrid Newton CA(SA) CBE