

Annex

**Bills Committee on Rail Merger Bill**

**Administration's Response to questions raised by Hon. LAU Kong-wah**

- (1) The Administration's written reply in response to a Legislative Council question raised by Members at the Council meeting of 29 November 2006 has set out, in table form, the Kowloon-Canton Railway Corporation (KCRC)'s net profits generated from sale of properties along the East Rail, Light Rail Transit and West Rail as well as net profits from property management, leasing of shops, offices and residential units, commercial businesses in railway stations and other business. Would the Administration please advise whether KCRC has taken profits of the property development into account upon their completion when considering the fare adjustment annually?**
  
- (2) Would the Boards of the two corporations not discuss the profits of the property development in adjustment of fares?**

As mentioned in item (a) of our written response dated 8 December 2006 to the Bills Committee (LC Paper No. CB(1)442/06-07(01)), the two railway corporations would consider economic conditions, competition and whether the services are value for money as key factors in annual fare adjustments. They advised that as property development profits attributable to the application of the rail-and-property model, wherever applicable, have already been taken into account in setting the initial railway fares, they have never taken such property development profits into account in subsequent fare adjustments, as this would, in effect, be double-counting of such profits.

As regards the property development profits mentioned in Secretary for Financial Services and the Treasury's written reply to a Legislative Council question raised at the Council meeting of 29 November 2006, they were generated from sites outside the context of the application of the rail-and-property model. Similar to the situation as explained in our reply mentioned above to this Committee, such profits were attributed to sites allocated to KCRC long ago for railway operation which subsequently were turned into property development sites of KCRC after

KCRC had, through established procedures, applied for and obtained approval for changing the land use of those sites for property development. As such, the deployment of such profits was a matter for KCRC to decide, taking into account its financial and operating positions at the time and other relevant factors.

- (3) At the last meeting, the MTR Corporation Limited (MTRCL) mentioned that they had based on competition in adjusting the fares. Please use examples to illustrate the past situation of competition, competitors and rate of fare adjustments.**

The MTR Corporation Limited (MTRCL) advised that it had taken into account general economic conditions, market competition and value for money in its fare adjustment in the past. Paragraph 8 of our written response dated 28 November 2006 to the Bills Committee (LC Paper No. CB(1)383/06-07(01)) has provided examples on how market competition had been taken into account by MTRCL in its fare adjustments. In 1987, having regard to the introduction of / changes to sectional fares offered by other road-based public transport operations, some of the individual MTR fares along the sections between Tsuen Wan and Lai King, between Kowloon Tong and Choi Hung and between North Point and Wanchai were reduced from \$2.5 to \$2.2. The reduction of these individual fares represented a -18.7 percentage points deviation from the overall MTR fare increase rate of 6.7% in that year. Similar reduction of individual MTR fares happened in 1989 when, in response to introduction of new express bus routes operating along the Island Eastern Corridor, the fares along some sections of the Island Line were reduced from \$2.7 to \$2.5, which represented a -16.7 percentage points deviation from the overall MTR fare increase rate of 9.3% in that year. On the other hand, some \$2.5 fares were raised to \$2.7 or by 8% in the same year, being 1.3% higher than the overall adjustment rate.