

**Route 3 (CPS) Company Limited**  
**Supplementary Information on Statutory Toll Adjustment**

1. Financial Position

- i. As at the end of July 2006, the accumulated loss was HK\$0.7 billion.
- ii. As at the end of July 2006, the outstanding bank loan was HK\$1.9 billion.

For the past 11 years, there have been no return to shareholders, who injected additional HK\$1 billion for refinancing in 2005.

Because of huge accumulated loss and rising interest rates, the Company is under financial pressure to find ways to improve revenue for repayment of bank loan and interest expenses.

2. Average Daily Traffic Volume

2000	45,153
2001	43,803
2002	44,456
2003	44,265
2004	45,385
2005	46,152
2006 first half year	46,351

- i. Because of West Rail, the economic downturn and the slow down of development in northwest New Territories, traffic volume has increased by 2.7% only since 2000, though the Company has been launching various promotion.
- ii. Because of the opening of West Rail and regulation on cross-boundary single-deck buses, daily bus traffic is reduced by 1,000 (a drop of about 15%).

3. Measures on Cost Reduction & Service Enhancement

- i. Although traffic has slightly increased, the Company has taken active steps in reducing operating expenses, which is still below that of the 2000/01 financial year.
- ii. The Company has also endeavoured to foster revenues from advertising and others. Although other revenue has increased from previous year, the effects of these initiatives are nevertheless limited with the principal income still generating from tolls.
- iii. Safety is the Company's prime concern. Tai Lam Tunnel is boasted of as Hong Kong's safest since 2001<sup>1</sup>. Notwithstanding the huge accumulated loss, the Company has spent millions in the past few years on service and safety enhancement including (1) road

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<sup>1</sup> Tai Lam Tunnel was Hong Kong's safest tunnel from 2001 to 2005 according to statistics of Transport Department. The accident rate per million veh-km was 0.03.

resurfacing (2) installation of crash cushion barriers at major exits (3) installation of truck mount attenuator (4) enhancement of radio rebroadcast system inside tunnel.

4. Marketing and Promotion

- i. The “\$25 for empty trailers” promotion, launched since 29 July 2002, will continue.
- ii. Additional discounts for corporate fleets under the incentive scheme will continue.
- iii. The “\$10 for taxis without passengers at midnight” promotion, launched on 1 December 2004, will continue.

5. Timing & Amount of Toll Adjustment

- i. According to toll adjustment mechanism, the Company is entitled to increase this statutory toll on 1 January 2003<sup>2</sup>.
- ii. Since the year 2000, the Company has launched various promotions to medium and heavy goods vehicles instead of increasing the tolls.

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<sup>2</sup> Based on Tai Lam Tunnel and Yuen Long Approach Road Ordinance, if the Company’s actual net revenue is below the minimum estimated net revenue, the Company is entitled to additional toll increase. This toll adjustment referred to the year 2001/02.

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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)
2004/05	762	371	(391)
2005/06	877	420	(457)

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.

\*\*\* The year referring to the statutory toll adjustment this time.