

**Legco Transport Panel Special Meeting**

**Opening Remarks by KCRC Chairman, Mr. Michael Tien**

**5 May 2007**

Thank you for inviting myself and other members of the KCRC Managing Board to attend this meeting to exchange views on matters relating to the variable pay scheme (VPS). The Panel meeting on 21 March last year was briefed on the same topic, and at that time detailed background information was given to Members by way of a KCRC written submission.

Members will recall that in 2002, Government appointed the Hay Group Consultants to review the remuneration packages of the top three management tiers of statutory bodies including KCRC. Subsequently, the consultants recommended the introduction of VPS which was brought into effect from year 2005 onwards on a full-year basis, initially for the CEO, Senior Directors and General Managers making up the Managing Committee responsible for the day-to-day operations. It was necessary to obtain the agreement of those staff concerned to a change in their terms of employment to allow the VPS to be introduced. The scheme is based upon a set of pre-determined performance targets set on an annual basis. If actual performance meets targets, money withheld will be released to the participants. If it is not achieved, money is deducted from them on a pro-rata basis. It was agreed as a fair and equitable approach since the participants face a potential cash deduction under the scheme. The Managing Board agreed that in the event that the annual targets were

bettered, the Corporation would inject something extra into the payment pool as recognition of their efforts. The scheme is objective and calculations relating to actual performance as well as payments are in accordance with a fixed formula.

In summary the VPS introduced by the Managing Board is controlled by express rules agreed between the Corporation and the staff concerned. I hope Members understand that the money in the pool comes from the participants' own pockets. It is not a bonus. The Board had some discussions on whether indicators relating to the handling of negative media reporting, and KCRC's public image should be included in the VPS. The management felt that such measurements could not be done objectively and was against it. Having taken into account that the Board may use other means to handle isolated incidents, it was decided to delink the VPS and occurrence of isolated incidents. A case in point was that after the East Rail underframe equipment mounting cracks incident, the Board had taken appropriate action against those found accountable.

Similarly in regard to the corporate governance incident in March last year, special action was taken against the senior executives who, in breach of the corporate procedure, held a press conference. None of these executives happened to be in the VPS, and in my open letter to all KCRC staff on 20 March 2006, I indicated "the Managing Board considers that all personnel and disciplinary problems arising from the events of the recent few days have now come to an end. The focus for us all must now be on rebuilding teamwork. At all levels of the Corporation, we need

to work together to ensure the continued provision of safe and reliable rail services to our passengers, and to restore our public image as a responsible provider of public transport.” This letter was followed by a meeting between me and members of the senior management during which I related the Managing Board’s wish that it would be in the interest of the Corporation to move forward and not to look back at the past. With this preamble, the Corporation cannot go back on its words and consider the appropriateness of taking action against all KCRC staff involved in this incident, including the Directors.

Since Members have in front of them an information paper from KCRC giving further details in the 2006 VPS, we will now be pleased to respond to questions.