

(Translation)

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By Fax

17 May 2007

Miss Sarah Yuen
Clerk to Panel
Panel on Transport
Legislative Council Secretariat
[Fax: 2121 0420]

Dear Miss Yuen,

Legislative Council Panel on Transport

At the Panel meeting on 5 May 2007, Members requested the Administration to provide a written response to set out its stance on the need to review the performance targets under the variable pay scheme of the Kowloon-Canton Railway Corporation (KCRC), and the relevant factors and criteria that would be taken into account when drawing up new performance targets. Our reply is set out below.

KCRC introduced the variable pay scheme in 2005. Under the scheme, management who participated contribute a defined percentage of their total annual remuneration to establish a corporate pool. The Managing Board evaluates the overall annual performance of the Corporation against the performance targets established at the beginning of the year in order to determine the amount of variable pay to be distributed. In gist, if the overall

performance of the Corporation fails to meet the targets, no variable pay would be distributed to management; if the Corporation's performance just meets the targets, management would receive no additional payout; if the Corporation's performance exceeds the targets, management would receive additional payout in accordance with the extent to which the targets are exceeded. The actual amount to be received by each participant depends on his or her individual performance.

The variable pay scheme is bound by the terms of the employment contract. This means that if the overall annual performance of the Corporation exceeds the targets established at the beginning of the year, the Managing Board will have to distribute additional payout to scheme participants in accordance with the extent to which the targets are exceeded. The Managing Board has no discretion in the release of the variable pay.

Since its introduction, the variable pay scheme has been reviewed by the Managing Board annually. As a member of the Managing Board, the Administration has all along been monitoring the operation of the scheme and has been recommending improvement measures including how to better evaluate the performance of management. The Administration also offers comments on details of the performance targets under the four strategic areas of the scheme, namely Finance, Customer, Operations and Capital Projects. In the course of the review, the Managing Board takes into account the Corporation's past performance under the respective strategic areas, as well as forecast for the coming year. Nonetheless, we have to point out that since the variable pay scheme forms a part of the employment contract of the scheme participants, the Managing Board needs to obtain management's agreement if new performance targets are to be introduced.

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Since a new corporation will be established after the merger of the MTR and KCR systems, KCRC's management has earlier agreed with the Managing Board that if the merger materializes within this year, KCRC's variable pay scheme would be cancelled. In other words, even if the Corporation's performance in 2007 exceeds the pre-determined performance targets, scheme participants will not receive additional variable pay.

I should be grateful if you would circulate this to members of the Panel for information.

Yours sincerely,

(Miss Cathy Chu)
for Secretary for the Environment,
Transport and Works