

LEGISLATIVE COUNCIL BRIEF

Tramway Ordinance
(Chapter 107)

FARE INCREASE APPLICATION FROM HONG KONG TRAMWAYS LIMITED

INTRODUCTION

At the meeting of the Executive Council on 3 May 2011, the Council ADVISED and the Chief Executive ORDERED that consent should be given to Hong Kong Tramways Limited (“HKT”) to alter the fares as set out in the Tramway Ordinance (Alteration of Fares) (Amendment) Notice 2011 (“the Notice”), at Annex A, to be made under section 51 of the Tramway Ordinance (Cap. 107), to give effect to the revised rates of fares as follows with effect from 7 June 2011 –

A

	Existing fares	Revised fares (Change)
Person aged 12 or above	\$2.0	\$2.3 (+\$0.3)
Child (aged 3 to 12)	\$1.0	\$1.2 (+\$0.2)
Monthly ticket	\$170.0	\$200.0 (+\$30.0)
Tourist ticket	\$34.0	\$34.0 (unchanged)

JUSTIFICATIONS

Consideration of HKT’s Fare Increase Application

2. The Administration needs to ensure that HKT has sound financial capability to provide efficient and quality tramway services at reasonable fares. When assessing HKT’s fare increase application, the Administration has taken into account –

- (a) the service provided and planned improvements;

- (b) the changes in operating costs and revenue since the last fare adjustment;
- (c) forecasts of future costs, revenue, profit and return; and
- (d) the likely public acceptability.

HKT's Application

3. HKT last increased its fares in March 1998, with fare for person aged 12 or above (commonly referred to as “adult fare”) increased from \$1.6 to \$2.0, fare for children and the elderly (aged 65 or above) increased from \$0.8 to \$1.0, and fare for the monthly ticket increased from \$135.0 to \$170.0. The fare for tourist ticket was last increased from \$30.0 to \$34.0 in March 2009, in conjunction with the fare increase of the “Star” Ferry Company, Limited¹ (“Star Ferry”).

4. HKT submitted an application on 10 August 2010 for fare increase to take effect from 1 November 2010. It proposed to increase the adult fare from \$2.0 to \$2.5 (by 25%), the child fare from \$1.0 to \$1.3 (by 30%), and the fare for the monthly ticket from \$170.0 to \$210.0 (by 23.5%). HKT also proposed to increase the concessionary fare for the elderly from \$1.0 to \$1.1 (by 10%), to be implemented a year after the revised fares for other groups of passengers take effect. The fare for the tourist ticket is proposed to remain unchanged. (Please refer to paragraph 20 below.)

5. In response to comments on the proposed rates of fare increase being too high, HKT proposed in January 2011 an alternative two stage fare increase: with the first stage increase in adult fare of \$0.3 and the second stage of another increase of \$0.2 a year after implementation of the first stage increase. The fares for children and for the monthly ticket are to be increased at similar rates in both stages. (Please refer to paragraph 20 below.)

The Administration's Assessment

HKT's Service Performance

6. With a fleet of 163 tram cars and about 670 staff, HKT has been

¹ HKT and Star Ferry jointly operate the Tourist Ticket, which is accepted by the two companies for unlimited travel for four consecutive days on trams and the two franchised ferry routes operated by Star Ferry, namely, Central – Tsim Sha Tsui, and Wan Chai – Tsim Sha Tsui.

providing a satisfactory service on the northern part of Hong Kong Island for decades. The frequent service with cheap fares and convenient tram stops are appreciated by passengers. There was a decreasing trend in the number of complaints received by the Transport Department against HKT. The number of complaints in 2006 was 162 and dropped to 61 in 2010, with an average of 84 per annum between 2006 and 2010. The total number of traffic accidents involving trams remained at about 70 per annum during the same 5-year period.

HKT's Improvement Projects

7. Veolia Transport China Limited ("Veolia Transport") acquired HKT from Wharf Transport Investments Limited in March 2010. This was achieved in two phases: Veolia Transport first took over the management and 50% of the shareholding in April 2009, and then the remaining 50% shareholding in March 2010. After Veolia Transport took over the management of HKT, it decided to improve the tramway system with a view to reversing the declining trend of patronage. In this connection, HKT conducted passenger opinion surveys and embarked on an extensive stakeholder engagement exercise. It led to strong public interest in improvements on frequency of tram service, passenger comfort (in terms of passenger flow, seating, suspension etc.) and passenger information.

8. HKT considers that there is a sense of urgency for introducing improvements to the tramway system. First, the system has been suffering from aging problems. Improvement measures should be implemented early to enhance the performance and long-term sustainability of the system. Second, the patronage could be declined further when the two new railways lines, namely, West Island Line and South Island Line (East), are commissioned in 2014 and 2015 respectively. Without the improvement projects, HKT is worried that they cannot stop the trend of continuous decline in patronage.

9. HKT has embarked on, or planned to implement, the following improvement projects to enhance the level of service, passenger comfort, safety and operational efficiency.

Four projects that have been implemented/are being implemented

- (a) Improving maintenance of tram track by using better rail welding and grinding machines so as to enhance riding comfort and safety, reduce noise during normal operation and maintenance, and cut maintenance costs (implementation since April 2010);

- (b) Improving the overhead line system by using better quality and more durable span wires (implementation since April 2010);
- (c) Adjusting the tram routes and service frequencies to better meet passenger demand (implementation completed in November 2010); and
- (d) Providing passenger information at tram stops and on tram cars (implementation since March 2011).

Three capital-intensive projects to be implemented

- (e) Replacing the existing Direct Current traction motor system with Alternating Current (“AC”) traction motor system on the tram fleet to enhance passenger riding comfort and reduce electricity consumption (trial completed, to be implemented in mid-2011);
- (f) Installing electromagnetic brake to improve braking performance on the tram fleet to enhance road safety (trial completed, to be implemented in mid-2011); and
- (g) Improving the interior design of the tram car to enhance passenger comfort and customer service (a mock-up tram car has been put into service for trial, to be implemented in mid-2011).

B The details of the above seven improvement projects are at Annex B. According to HKT, the capital expenditure for implementing all the seven projects will amount to a total of over \$200 million.

10. The Administration supports HKT’s initiatives to further improve the level and safety of tram service, as it would help maintain a sustainable tram operation. The projects on new track maintenance method, new overhead line system and electromagnetic braking system can bring about essential and quantum enhancement in the performance, reliability and safety of the system. Some of the projects can help reduce the recurrent maintenance and electricity costs of HKT in the long run.

Changes in Operating Costs and Revenue since the Last Fare Adjustment in March 1998

11. HKT’s total revenue mainly comes from fare revenue from passengers and non-fare box revenue from advertising on tram body and at

tram shelters. Between 1999 and 2009, HKT's average daily patronage was declining, mainly due to competition from other public transport modes. In line with the reduction in patronage from about 240,000 in 1999 to 231,000 in 2009 (3.8%), the fare revenue decreased by about 3.5%, from about \$158.3 million in 1999 to about \$152.8 million in 2009. Advertising revenue is the main source of HKT's non-fare box revenue. Between 1999 and 2009, the advertising revenue, which was subject to the economic climate, exhibited large fluctuations. At present, except a few antique tram cars, basically all tram cars are displayed with advertisements. Besides, tram shelters with commercial potential are largely utilised. Hence, the scope for further growth in advertising revenue would be very limited.

12. HKT's operating costs had increased by 7.9% (from about \$170.8 million to about \$184.2 million) over the 11-year period from 1999 to 2009. The increase is mainly attributable to the increases in staff costs, repair and maintenance costs, electricity costs and miscellaneous expenses. The increase is partially offset by the decrease in depreciation and decrease in operating costs related to replacement of tram track and overhead system.

13. Between 1999 and 2009, HKT suffered from a loss in 1999 and 2003. Although HKT made profits in all the other years, the average annual profit after tax at around \$9 million and the average profit margin of 4.9% over the 11-year period were generally modest. In 2009, HKT's after-tax profit was \$8.8 million, with a profit margin of 4.5%. HKT estimated that it would attain similar profitability in 2010.

Forecasts of Future Costs, Revenue, Profit and Return

14. HKT has demonstrated its commitment to improve tram service through the planned implementation of a series of improvement projects. HKT has already embarked on four improvement projects (i.e. tram service adjustments, new track maintenance method, new overhead line system, and provision of passenger information). However, HKT has made it clear that, in view of its financial situation, it would have to shelve the three capital-intensive projects involving the tram fleet (i.e. new emergency braking system, replacement of traction motor, and new tram car design) should the fare increase for adult be less than \$0.3 in 2011.

15. Based on the existing fares whereby HKT would continue to carry out the projects being implemented but shelve the three capital-intensive projects, HKT forecasts that its average daily patronage and fare box revenue in 2011 (compared with 2010) would both decrease by about 1.5%, and further decrease by about 1.3% and about 1.5% in 2012 respectively

(compared with 2011). HKT estimates that its total operating costs in 2011 would increase by about 4.2% from 2010, and further increase by about 2.0% in 2012 (compared with 2011), having regard to its forecast increase in staff costs, repair and maintenance costs, electricity costs, and other operating costs. Under the scenario without any fare increase, HKT estimates that it would incur a deficit in 2012.

16. The Administration considers that HKT's assumptions used in its forecasts are generally acceptable, albeit some minor adjustments are required. The Administration noted that the capital investment required for the four projects under implementation is about \$13 million, whereas that for the three major projects amounts to at least \$200 million. These expenditure amounts are clearly higher than HKT's average annual profit after tax of around \$9 million, in particular the latter which is very substantial, corresponding to more than 20 times of HKT's average annual profit after tax.

Public Acceptability

17. HKT has conducted an extensive public engagement exercise with major stakeholders (including relevant District Council Members, Legislative Councillors, academics, representatives from conservation groups, media and focus groups comprising tram passengers) in the form of meetings, depot visits with on-site demonstration and briefings on its proposed improvement projects. According to HKT, the feedback was generally positive and HKT was urged to implement the projects as soon as possible. When the Legislative Council ("LegCo") Panel on Transport ("the Panel") was consulted on HKT's fare increase application on 17 December 2010, the Panel Members generally appreciated the need for improving the tramway system and supported the improvement projects proposed by HKT. However, they considered the proposed 25% increase (i.e. +\$0.5) in adult fare in one go too drastic, and suggested that HKT should consider a phased increase in tram fares so as to mitigate the impact on passengers.

Implications of the Implementation of the Improvement Projects

18. For implementing all the improvement projects, HKT has to source and provide the funding for the capital investment of over \$200 million. HKT may ask its shareholders for resources to finance the capital investment, but this would require a reasonable rate of return. Alternatively, HKT may consider a commercial loan. However, a reasonable return

would equally be essential in order to allow HKT to have the cash flow to pay the interest expense and repay the loan in due course.

19. It is clear that with a passage of 13 years since 1998 without any fare increases and having regard to the improvement programme proposed by HKT, some fare increases in the future will be inevitable for HKT to sustain its quality of service and competitiveness. On the other hand, the proposed rate of increase at 25% in adult fare, whether it is in one stage or split into two years at 15% and 10% respectively as proposed by HKT, will raise concerns of public affordability and acceptability, particularly as the tram services have been catering to the needs of short trip passengers and the lower income groups.

The Administration's Recommendation

20. In order to allow tram passengers to enjoy economical, quality and efficient transport service, and at the same time encourage HKT to continue to invest for service provision and sustainability, we recommend that the **adult fare be revised to \$2.3, i.e. increase by \$0.3 (15%)** with details set out in the table below. When the Transport Advisory Committee ("TAC") was consulted on the fare increase application from HKT on 22 February 2011, it expressed support for the Administration's recommendation.

Fare increases proposed by HKT vs fare increases recommended by the Administration

Passenger Group (Existing Fare)	Revised Fares		
	HKT's Proposal		The Administration's Recommendation
	<u>Original</u> (August 2010)	<u>Alternative</u> (January 2011: 2-stage increase)[#]	
Person aged 12 or above (\$2.0)	\$2.5 (+\$0.5)	1 st : \$2.3 (+\$0.3) 2 nd : \$2.5 (+\$0.2)	\$2.3 (+\$0.3)
Child (\$1.0)	\$1.3 (+\$0.3)	1 st : \$1.2 (+\$0.2) 2 nd : \$1.3 (+\$0.1)	\$1.2 (+\$0.2)
Elderly (\$1.0)	\$1.1 (+\$0.1) (1 year later)	1 st : \$1.0 2 nd : \$1.1 (+\$0.1)	\$1.1 (+\$0.1) (1 year later)
Monthly ticket (\$170.0)	\$210.0 (+\$40.0)	1 st : \$200.0 (+\$30.0) 2 nd : \$210.0 (+\$10.0)	\$200.0 (+\$30.0)

[#] Under the two stage fare increase proposal, the second stage fare increase will be implemented one year after the first stage increase takes effect.

21. Section 51 of the Tramway Ordinance stipulates that –
- (a) subject to the consent of the Chief Executive in Council, it shall be lawful for HKT to alter the rates of fares for the time being authorized in respect of the whole or any portion of the tramway; and
 - (b) any such alteration shall come into force one month after its publication in the Gazette or within such shorter period after such publication as the Chief Executive in Council may order.

22. Having consulted TAC, we proceeded to discuss with HKT. HKT finally agreed to the Administration's recommendation and submitted a revised application on 2 March 2011 accordingly, together with an adjusted programme for implementation of its proposed improvement projects. Compared with its original programme, HKT would adopt a lower fare increase and shelve its alternative proposal for a 2-stage fare increase. Yet, HKT would take forward, at a slower pace, all the seven projects (including the three capital-intensive ones) in the next two years. After the recommended fare increase, HKT is expected to achieve a reasonable return in 2012, enabling HKT to continue with the investment in its improvement projects with a view to reversing the declining trend of patronage.

LEGISLATIVE TIMETABLE

23. The legislative timetable is as follows -

Publication in the Gazette	6 May 2011
Tabling at the LegCo	11 May 2011
Commencement date	7 June 2011

IMPLICATIONS OF THE PROPOSAL

24. The proposal is in conformity with the Basic Law, including the provisions concerning human rights, and will not affect the current binding effect of the Ordinance. It has no civil service, financial, productivity or environmental implications. The sustainability implications and economic implications are set out at Annex C.

PUBLIC CONSULTATION

25. We consulted the Panel on the fare increase application made by HKT on 17 December 2010. Members generally supported the improvement projects proposed by HKT, and agreed to the need to ensure the financial viability of tram service in recognition of its cultural and historical value. However, members considered the proposed rate of increase at 25% too drastic, and suggested that the fare increase should be implemented by phases.

26. TAC was consulted on the fare increase application made by HKT on 22 February 2011. TAC Members generally considered it justified for HKT to increase its fares after more than a decade in order to improve and sustain the tramway services, especially in recognition of its environment-friendly performance and heritage value. Having regard to all the relevant factors, Members agreed to the Administration's recommendation and understood that with this rate of increase, HKT would adjust its implementation programme of the improvement projects in terms of timing and priority. The detailed advice of TAC is set out in its letter to the Secretary for Transport and Housing at Annex D.

D

PUBLICITY

27. A press release will be issued on 3 May 2011, and a spokesman will be available to handle media enquiries.

ENQUIRIES

28. Any enquiries concerning the brief can be directed to the following officer -

Miss Lui Ying
Assistant Commissioner for Transport
Telephone No.: 2829 5210

Transport and Housing Bureau
May 2011

**Tramway Ordinance (Alteration of Fares)
(Amendment) Notice 2011**

(Made by Hong Kong Tramways Limited under section 51 of the Tramway Ordinance (Cap. 107) with the consent of the Chief Executive in Council)

1. Tramway Ordinance (Alteration of Fares) Notice amended

The Tramway Ordinance (Alteration of Fares) Notice (Cap. 107 sub. leg. D) is amended as set out in section 2.

Note—

The amendments set out in section 2 come into force one month after publication in the Gazette (see section 51(2) of the Tramway Ordinance (Cap. 107)).

2. Schedule amended (Rates of fares)

(1) The Schedule, item 1—

Repeal

“\$2”

Substitute

“\$2.30”.

(2) The Schedule, item 2—

Repeal

“\$1”

Substitute

“\$1.20”.

(3) The Schedule, item 4—

Repeal

“\$170”

Substitute

“\$200”.

Hong Kong Tramways Limited

2011

The Chief Executive in Council consented to the above alteration of fares on 2011.

Clerk to the Executive Council

COUNCIL CHAMBER

2011

Explanatory Note

The purpose of this Notice is to increase the fares payable for travelling on the tramway.

Improvement Projects
Proposed by Hong Kong Tramways Limited

Project	Details and Benefits
Projects for Improving System Performance	
1. Track maintenance improvements	<ul style="list-style-type: none">• Using Automatic Submerged Arc Welding Robot (SAW) (which deposits similar rail metal on worn rail surface by fusion without reducing rail hardness) and the supporting grinding machines to repair worn track surface.• The new maintenance equipment and method help ensure well-maintained tram tracks and therefore enhance riding comfort, safety and reduce noise during operation.• It reduces noise during maintenance (usually late at night), dust and traffic inconvenience.• It also enhances durability of tram tracks, thereby reduces the need for frequent track replacement.• It reduces maintenance costs.
2. Overhead line system improvements	<ul style="list-style-type: none">• To replace the existing galvanized steel wires by PARAFIL rope.• The existing steel span wires need to be replaced every 4 years. The new span wire with plastic coating can last for 10 years, thus reducing the nuisance caused by maintenance works.• It also improves reliability and safety.
3. Replacing DC traction motor with the AC traction motor	<ul style="list-style-type: none">• To enhance passenger riding comfort when the tram accelerates its operating speed or applies its brakes to stop.• The electricity generated during braking can be converted to power supply, and hence reduces electricity consumption and increases energy efficiency.• To enhance the reliability of the motor and hence reduce maintenance costs.

Project	Details and Benefits
4. New emergency braking system	<ul style="list-style-type: none"> • The existing tram is using pneumatic and electrodynamic braking system. A tram is put to a stop by friction between the rail and tram wheels. The current braking distance is about 14 metres at a tram speed of 30 km/hour. • The proposal is to install an additional emergency braking system by using electromagnetic track brake. It consists of a magnet bar installed underneath the tram body. When the emergency button is pushed, the suspended magnet bar would be attracted to the rail by magnetic force, and the friction between the rail and the magnet bar brings the tram to a stop more effectively. • It improves the braking performance of the tram by reducing the braking distance from 14 metres to 10 metres at a tram speed of 30 km/hour.
Projects for Improving Passenger Service	
5. New service timetable	<ul style="list-style-type: none"> • To adjust the frequencies of different tram routes to better meet passenger demand, e.g., adjusting the frequencies for all tram routes during peak hours on weekdays and during daytime on Saturdays and Sundays, resulting in an overall increase of carrying capacity by 14%. • To generally improve the duty shift arrangements of tram drivers.
6. Passenger information	<ul style="list-style-type: none"> • To provide passenger information at tram stop shelters and on tram cars, which includes newly designed network maps, tram stop names at tram stop shelters to improve customer service.

7. New tram body and interior design

- To improve the body and interior design of tram cars to enhance passenger comfort, ancillary passenger services, whilst retaining the traditional tram appearance.
- The new tram design has the following key features/provisions -
 - ✧ wooden and ergonomic seats with improved physical arrangements
 - ✧ wider aisles and headroom
 - ✧ more handrails
 - ✧ LED destination blinds
 - ✧ tram stop announcement system and LED panel displays of tram stop names
 - ✧ flap entrance gates to replace the turnstiles
 - ✧ reflective lighting panel
 - ✧ on-board tram route maps

SUSTAINABILITY IMPLICATIONS

The fare increase helps maintain the financial viability of HKT and thus its ability to continue to provide proper transport service to the public. It also allows HKT to implement its service improvement projects. Nevertheless, the fare increase would bring extra cost to tram passengers, in particular to those in the low income group who spend a relatively bigger portion of their income on public transport.

ECONOMIC IMPLICATIONS

Given that tram fares only have a tiny 0.02% weighting in the Composite Consumer Price Index, the inflationary impact of the fare increase is insignificant. However, the current concern is more on the aggregate burden of the various fare/price increases on the cost of living of the community generally and the low income group in particular. Moreover, for the elderly, the impact on their livelihood would depend very much on which income bracket they belong to.

本會檔號 Our Ref.

來函檔號 Your Ref.

28 March 2011

The Honourable Eva Cheng, JP
Secretary for Transport and Housing
16/F, Murray Building
Garden Road
Central
Hong Kong

Dear Ms Cheng,

Fare Increase Application
from Hong Kong Tramways, Limited

Hong Kong Tramways, Limited (“HKT”) submitted an application on 10 August 2010 for fare increase as follows -

	Existing Fare	HKT’s Proposal
Person aged 12 or above	\$2.0	\$2.5
Elderly (aged 65 or above)	\$1.0	\$1.1 (to be implemented one year later)
Child (aged 3 to 12)	\$1.0	\$1.3
Monthly Ticket	\$170.0	\$210.0
Tourist Ticket	\$34.0 ¹	\$34.0 (unchanged)

¹ The fare of the tourist ticket was last increased from \$30.0 to \$34.0 in conjunction with the fare increase of the “Star” Ferry Company, Limited in March 2009.

2. In January 2011, HKT proposed an alternative two-stage fare increase : with the first stage increase in adult fare of \$0.3 and the second stage of another increase of \$0.2 a year after the first stage, while the fares for children and the monthly ticket are to be increased in similar rates in both stages.

3. The Transport Advisory Committee (“TAC”) considered HKT’s application at its meeting held on 22 February 2011. This letter sets out TAC’s advice on HKT’s application.

Basis of TAC’s consideration

4. When assessing HKT’s fare adjustment application, Members have taken into account the following matters :-

- (a) the service provided and planned improvements;
- (b) the changes in operating costs and revenue since the last fare adjustment;
- (c) forecasts of future costs, revenue, profit and return; and
- (d) the likely public acceptability.

Financial Performance and Service Improvements

5. Members noted that HKT’s fares had been kept unchanged since the last increase in March 1998 despite a continuous reduction in patronage. The average daily patronage decreased by 3.8% from 1999 to 2009, which led to a corresponding decrease in fare revenue. Hitherto, HKT relies on non-fare box revenue from advertising on tram body and at tram shelters to bridge the funding gap. However, the potential to further increase advertising and other non-fare box revenue is rather limited. Members noted the rising operating costs of HKT, in particular, increases in staff costs, repair and maintenance, and electricity costs. Over the years, HKT’s profit margin has been modest.

6. After Veolia Transport China Limited took over the management of HKT in April 2009, HKT decided to improve the tramway system with a view to reversing the declining trend of patronage. Members noted the series of projects proposed by HKT to enhance the level of service, passenger comfort, safety and operational efficiency. Members were also made aware that HKT had embarked on an extensive stakeholder engagement exercise which led to strong public interest in the proposed improvements.

7. Members were informed that the capital expenditure for implementing all the proposed projects would amount to a total of around \$200 million, including an estimate of around \$89 million for the 3-year period from 2010 to 2012. HKT made an after-tax profit of \$8.8 million in 2009 and expected to reach a similar profit level in 2010. With the increase in total operating costs and the planned implementation of the improvement projects, HKT forecasts an operating loss from 2011 onwards.

Public Acceptability

8. Members noted that the public generally welcome HKT's proposed improvement projects but consider the proposed 25% increase (\$0.5) in adult fare in one go too drastic. In particular, the tram services have been catering to the needs of short trip passengers and the lower income groups. Hence, the proposed rate of increase at 25%, whether it is in one stage or split into two years as proposed by HKT might raise concerns of public affordability and acceptability.

TAC's views

9. Members generally considered it justified for HKT to increase its fares after more than a decade in order to improve and sustain the tramway services, especially in recognition of its environment-friendly performance and heritage value. However, HKT's proposed increase of \$0.5 is substantial compared to the current fare level at \$2.0 and could hardly be accepted by the public. At the same time, Members noted that with an increase in adult fare below \$0.3, HKT

would shelve the three capital intensive projects, namely, installing electromagnetic brake to improve braking performance, replacing the existing DC traction motor system with AC traction motor system, and improving the interior design of tram cars.

10. Having regard to all the relevant factors, Members agreed to the Administration's recommendation that HKT be asked to consider a reduced rate of increase at 15% (please refer to the table below) to provide some incentive for HKT to take forward its improvement projects. Members understood that with this rate of increase, HKT would adjust its implementation programme of the improvement projects in terms of timing and priority. HKT always has the right to submit another fare increase application in future if it has good reasons to do so.

Passenger Group (Existing Fare)	The Administration's Recommendation (Change)
Person aged 12 or above (\$2.0)	\$2.3 (+\$0.3)
Child (\$1.0)	\$1.2 (+\$0.2)
Elderly (\$1.0)	\$1.1 ² (+\$0.1)
Monthly ticket (\$170.0)	\$200.0 (+\$30.0)

11. TAC considers that the recommended rates of fare increase reflect an appropriate balance between the interests of the tram passengers for economical, quality and efficient transport service on the one hand, and the incentive for HKT to continue to invest for service provision and sustainability on the other.

² To be implemented one year after the new fares take effect.

12. I would be grateful if you would convey TAC's advice to the Chief Executive-in-Council for consideration. I confirm that TAC's advice as contained in this letter may be released for public information after the Chief Executive-in-Council's decision is announced.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Rimsky Yuen, S.C.', with a large, sweeping flourish at the end.

(Rimsky Yuen, S.C.)

Chairman

Transport Advisory Committee