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31 October 2016

Secretary General
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong
(Attn: Ms Sophie LAU)

[Fax no: 2978 7569]

Dear Ms LAU,

Panel on Transport
MTR Fare Adjustment for 2016

Regarding the follow-up items raised at the meetings on 23 May and 21 June 2016, upon consultation with the MTR Corporation Limited (MTRCL), we hereby provide our reply.

(a) Legal and policy considerations of the Government as the majority shareholder of the MTRCL for requesting the MTRCL Board to freeze the fares

The Government is the majority shareholder of the MTRCL, holding around 76% of the shares. The Companies Ordinance and the common law provide that the interests of the majority shareholders shall not override the interests of the minority shareholders. Also, when there is a conflict between minority shareholders' interests and public interests, the Government, as the majority shareholder, cannot put public interests above the interests of

the minority shareholders.

Nevertheless, Government officials in the MTRCL Board have been reflecting public opinions and aspirations on the MTR services and fares. They will make good use of their in-depth understanding of public interests and expectations to give frank advice to the Board, so as to ensure that the Board can strike an appropriate balance between commercial principles and public interests when making decisions.

(b) Legal and policy considerations of the Government for deploying the dividends paid by the MTRCL to the Government to subsidise MTR fares

Dividends received by the Government from the MTRCL form part of the public money and all public money should be put to appropriate use. According to the Government's established principles of public finance, public money is to be allocated prudently based on the needs and priorities of the community so that public money will be put to appropriate use in all public policy areas (e.g. healthcare, education, welfare and security) without slanting towards any particular area. If the Government allocates the dividends directly on a "dedicated-funds-for-dedicated-uses" basis, it does not conform to the principles of public finance management as stipulated under the Public Finance Ordinance (Cap. 2).

It is the Government's fundamental policy that public transport services should be run by private operators in accordance with commercial principles. Basically, subsidies should not be provided, in order to enhance operating efficiency. The operation of our existing public transport services is generally efficient and highly cost-effective, providing convenient transport services to over 90% of the community every day. Such efficient services are attributable to the Government's long-standing policy that public transport services should be run according to commercial principles. Moreover, should the Government subsidise fares with public money while allowing public transport operators with handsome profits to increase fares, this will amount to an indirect way of making the operators more profitable by spending public money.

(c) Legal and policy considerations of the Government for replacing the MTR Fare Adjustment Mechanism (FAM) with the practice of approving adjustments to MTR fares by the Executive Council

Before the rail merger, the MTRCL enjoyed autonomy in setting their fares in accordance with prudent commercial principles and with due regard to, among other things, economic conditions, competition from other public transport modes and whether the service was cost effective. At that time, there was general public concern that the basis on which the rail companies adjusted fares was not clear. At the time of rail merger in 2007, the Government and the MTRCL agreed to put in place a FAM with an objective and transparent formulaic approach in determining future annual fare adjustments, to replace the fare autonomy the MTRCL hitherto enjoyed. During the legislative process of the rail merger, the FAM was extensively discussed in the Legislative Council, and approved through voting after careful deliberation at the MTRCL shareholders' meeting before being included as a condition for the merger. As such, the FAM is an integral part of the rail merger agreement between the Government and the MTRCL at that time and has been incorporated into the Operating Agreement. It is legally binding.

The Government and the MTRCL are reviewing the FAM. The main direction of this review is for the operation of the FAM to better respond to public concern about both the relationship between the FAM and MTRCL's profitability, and passengers' affordability, whilst still respecting the financial prudence required of the MTRCL as a listed company, on the premises of retaining a transparent fare adjustment mechanism building on the basis of open and objective data, and a direct-drive formula. The results of the review will be adopted in the MTR Fare Adjustment for 2017.

(d) MTR Fare Saver

As advised by the MTRCL, various fare concessions and promotional schemes have been offered by the MTRCL to benefit different passenger groups. Among them, the MTR Fare Saver promotional scheme encourages passengers to walk to nearby MTR stations to use the railway, with the aim of expanding the customer base. There are a total of 33 MTR Fare Savers installed across the territory (see Annex). By waving their adult Octopus cards over the reader on the MTR Fare Saver, passengers enjoy a discount of \$2 on the next MTR ride at designated stations.

MTR Fare Saver is a promotional scheme implemented by the

MTRCL. In considering the provision of MTR Fare Savers, the MTRCL will take various factors into account, such as the patronage of individual stations and the whole railway network, the pedestrian flow in the vicinity of stations and the ancillary transport facilities. The MTRCL also has to consider whether the proposed locations for MTR Fare Savers can provide the basic conditions for installation, including sufficient space and power supply. The MTRCL will review its concessionary schemes from time to time to tie in with the market needs.

(Donald LAM)
for Secretary for Transport and Housing

c.c.:
MTRCL (Attn.: Mr Eric LEE)

Locations of MTR Fare Savers

Location of MTR Fare Saver	Designated MTR station(s)
Causeway Centre	Wan Chai
Central-Mid-Levels Escalators & Walkway System	Central / Hong Kong / Sheung Wan
Cheung Fat Plaza	Tsing Yi
Enterprise Square	Kowloon Bay
Fu Ning Garden Commercial Complex	Hang Hau
Kai Tak Garden Shopping Arcade	Wong Tai Sin
Nob Hill Square	Mei Foo
Peninsula Centre	Tsim Sha Tsui / East Tsim Sha Tsui
Prosperous Garden Shopping Arcade	Yau Ma Tei
Provident Square	North Point / Fortress Hill
Sheung Tak Shopping Centre	Tseung Kwan O
Tai Hung Fai (Tsuen Wan) Centre	Tsuen Wan
Tai Kok Tsui Municipal Services Building	Olympic / Mong Kok / Prince Edward
Tai Wo Hau Shopping Centre 2	Tai Wo Hau
The Gateway, Harbour City	Tsim Sha Tsui / Austin
Tsing Yi Municipal Services Building	Tsing Yi
Welland Plaza	Sheung Wan
Chung On Shopping Centre	Heng On / Ma On Shan
D·PARK	Tsuen Wan
Fortune City One	City One
Kwai Chung Estate Shopping Centre	Tai Wo Hau
Kwai Shing East Shopping Centre	Kwai Hing
Kwai Sing Centre	Kwai Hing
Mei Lam Shopping Centre	Tai Wai
Metro Harbour Plaza	Olympic / Nam Cheong
Pak Tin Commercial Centre	Shek Kip Mei
Panda Place	Tai Wo Hau
Ping Tin Shopping Centre	Lam Tin
Shatin Galleria	Fo Tan
Sui Wo Shopping Centre	Fo Tan
Yiu On Shopping Centre	Ma On Shan

Location of MTR Fare Saver	Designated MTR station(s)
AsiaWorld-Expo	Tung Chung
Ka Wai Chuen Shopping Arcade	Whampoa / Ho Man Tin