

Effect of High Oil Prices on KMB

1. KMB's total fuel cost for 2004 was HK\$605 million. For the first eight months of 2005, the total fuel cost was HK\$529 million, which was HK\$158 million or 42.6% higher than that for the corresponding period of 2004. Should oil prices remain at the current high level, KMB's total fuel cost for 2005 is projected to be about HK\$850 million and that for 2006 would be about HK\$980 million. These represent substantial increases of HK\$245 million (or 41%) and HK\$ 375 million (or 62%) over the fuel cost for 2004.
2. The significance of these projected increases is summarized as follows:

	2004 (Actual) HK\$ 'million	2005 (Projected*) HK\$ 'million	2006 (Projected*) HK\$ 'million
Fuel cost	605	850	980
Increase vs. 2004		+\$245 (+41%)	+\$375 (+62%)
Remarks:		<p>The \$245 million is equivalent to:</p> <ul style="list-style-type: none"> • the total purchase price of 80 new double-deck buses, or • a reduction in the rate of return on Average Net Fixed Assets (ANFA) by about 4.5 percentage points 	<p>The \$375 million is equivalent to:</p> <ul style="list-style-type: none"> • the total purchase price of 125 new double-deck buses, or • a reduction in the rate of return on ANFA by about 7 percentage points

*Note: Projection based on the current oil price level (NYMEX Light, Sweet Crude: US\$67 per barrel); for each increase of US\$1 per barrel in the oil price, KMB's fuel cost would go up by about HK\$1 million per month

3. The price change in each major cost element of KMB since December 1997, when KMB's current bus fares were set, is summarised as follows:-

Cost Element	Price Change Aug 2005 vs. Dec 1997	Remarks
Fuel price (NYMEX light sweet crude)	+270% (or 3.7 times)	US\$18.6 as at 1 Dec 1997; US\$68.9 as at 31 Aug 2005
Tunnel toll rates	+67.6%	
Staff remuneration (including salary, wages and on-costs)	+10.0%	Pay rise of 5.39%, 2.36% and 2% in 1998, 2001 and 2005 respectively

4. Increases in oil prices and tunnel toll rates are totally beyond KMB's control. They are also direct and unavoidable costs of operating franchised bus services. The adverse effect of high oil prices, toll rate increases and pay rises can erode most or even all of KMB's profits and financial resources. As a result, KMB is facing great difficulties in meeting the expectations of its stakeholders who include:
- Bus passengers
 - Government
 - KMB shareholders
 - KMB staff
 - The community at large.
5. The diesel consumed for the purpose of operating franchised bus services has been fully exempted from duty since 1992. The exemption was granted by Government "to help reduce the pressure on upward adjustment of bus fares" (see the reply given by the Secretary for the Environment, Transport and Works to a question by the Hon Andrew Cheng in the Legislative Council on 20 November 2002). The benefit of the exemption has therefore been fully passed on to KMB bus passengers in the sense that, had the exemption not been granted, higher bus fares would have been set.

The Kowloon Motor Bus Co (1933) Ltd
14 September 2005