

Legislative Council Panel on Transport
Fare Concessions of Franchised Bus Companies and MTR
Corporation Limited (“MTRCL”)
and Issues Relating to Fare Adjustment of MTR

The Government has all along been encouraging public transport operators to introduce fare reduction or concession as far as possible to help reduce passengers' travel expenses, taking into account the operators' respective operating and financial conditions, overall economic environment and passenger needs. Currently, major public transport operators are offering various kinds of fare concession, including elderly fare concessions, children fare concessions, interchange schemes, fare concessions for the elderly on Sundays and public holidays, monthly passes, and Octopus bonus schemes.

2. We will encourage the public transport operators to continue to offer fare concession to passengers while maintaining proper and efficient public transport services.

3. In respect of recent concerns over the extension of individual fare concession schemes of the MTR Corporation Limited (MTRCL) and franchised bus companies and issues relating to MTRCL fare adjustment, the responses from MTRCL and the various franchised bus companies (The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, Citybus Limited and New World First Bus Services Limited, and New Lantau Bus Company Limited) are at Annexes A to E. The Government welcomes the decisions of MTRCL and the franchised bus companies to continue to offer fare concessions to the elderly (details are in the annexes) in response to the Government's encouragement and the community needs.

4. The Administration's public transport policy is to ensure that public transport operators maintain efficient and proper public transport services for the community and at the same time regulate fares of major public transport services under well-established mechanisms to ensure that the fare levels are reasonable. Take franchised bus companies as an example. We have put in place a mechanism under which the Chief Executive-in-Council can fully consider and balance all relevant factors including public acceptability and affordability before determining the reasonable fare levels. Following the rail merger, MTRCL will adjust its fares according to a fare adjustment mechanism which is transparent and based on objective indicators. If the Government requires the public

transport operators to provide specific types of fare concession for specific groups of passenger, the financial impact on the operators will eventually be reflected in the basic fares. This requires extensive discussion of the community.

5. The Government will continue to encourage public transport operators, including franchised bus companies and the railway corporation, to provide fare concessions taking into account their respective operating and financial conditions, overall economic environment and customer needs. In accordance with the spirit of free enterprise, the provision of fare concessions, including the detailed arrangements, is the commercial decision of individual public transport operators. We hope that the operators can keep their fares at reasonable levels while maintaining their operational and financial capabilities to provide efficient and proper public transport services.

6. Members are invited to note the contents of this paper.

Transport and Housing Bureau
Transport Department
January 2009

Legislative Council Panel on Transport

**MTR Corporation's Fare Concession Arrangements
And Issues relating to Fare Adjustment**

Introduction

The Legislative Council Panel on Transport will hold a special meeting on 8 January 2009 to discuss MTR Corporation Ltd's (MTRCL) fare concession arrangements as well as the merger-related commitment of not increasing its fares on or before 30 June 2009. This paper provides the relevant information.

Fare Concessions for the Elderly

2. MTRCL has been providing to its passengers with various fare concessions and reward schemes from time to time, taking into account market circumstances, the social situation and commercial consideration as appropriate. The Corporation also reviews these concessions from time to time and makes adjustment to cater for market changes.
3. The Corporation cares for the needs of the elderly, and has been striving to provide them with high quality railway services. MTRCL has been providing up to a half-fare concession to the elderly aged over 65 to encourage them to integrate with the community. Over the past years, MTRCL has been giving support to the annual "Senior Citizens Day", including the "Senior Citizens Day" on 16 November 2008 (Sunday) and offered free rides to the elderly on that day.
4. Upon the rail merger on 2 December 2007 and in accordance with the agreements made, MTRCL immediately implemented fare reductions and continued to provide various fare concessions, including the \$2 concessionary elderly fare on Sundays and public holidays for 1 year up to 30 November 2008. This concession scheme has been provided as committed.

5. After reviewing the above promotional scheme with regard to the market circumstances and its operational situation, the Corporation offers a new promotional offer to the elderly. During the period of 1 January 2009 to 31 August 2009, senior citizens using an Elder Octopus card can ride on the MTR on all Wednesdays and all public holidays (not including Sundays) for a flat fare of \$2 per journey (not including the Airport Express, East Rail Line First Class, and journeys to and from Lok Ma Chau and Lo Wu stations, Light Rail, MTR feeder bus and MTR Bus). By offering this fare concession on Wednesdays, the Corporation hopes that our elderly passengers could enjoy a greater flexibility in arranging time to visit family and friends and could more actively participate in community activities on weekdays in addition to public holidays. Many public and commercial organisations in Hong Kong also offer discount and promotions on weekdays.

6. As a joint-promotion with Ngong Ping 360, the Corporation offers a new discount to the elderly. Starting from 1 January until 28 February 2009, senior citizens aged 65 or above using Elder Octopus card to travel to Ngong Ping 360 by MTR can enjoy a 50% discount off the regular senior citizens' price of Ngong Ping 360 cable car on all Wednesdays and public holidays (except Sundays).

7. MTRCL will continue with its established practice to provide various promotional schemes from time to time, taking into account factors including the market circumstances and operational situation in order to provide its passengers with quality rail services.

Fare Adjustment

8. Being a responsible listed company, MTRCL has to strike a proper balance taking into account the interests of various stakeholders, including its passengers and shareholders. In catering for the needs of passenger, the Corporation also has to maintain financial soundness and achieve sustainable development.

9. MTRCL has not increased its fares for 11 years since 1997. In addition, upon the rail merger on 2 December 2007, the Corporation implemented fare reductions. The Corporation has also committed not to increase fares on or before 30 June 2009.

10. The Corporation understands the community's concern about transport expenses. The fare reductions it has offered upon the rail merger has benefited about 2.8 million passengers every day. Starting from 28 September 2008, the Corporation further extended the student concessionary fares to pre-merger KCRC network for eligible students. As a result, 100,000 more passengers are benefited. Altogether, the Corporation is offering \$730 million fare concessions per annum and about 2.9 million passengers are benefited from these fare reductions every day.

11. The adoption of the Fare Adjustment Mechanism (FAM) was one of the five commitments under the rail merger. The new mechanism ensures that fare adjustments will be more transparent and objective, with adjustments to fares linked to annual changes in the Composite Consumer Price Index, Nominal Wage Index (Transport Services Sector) and a productivity factor. We should point out that fare adjustments have a sound basis under the new mechanism which uses indicators that reflect the overall economic situation of Hong Kong. Fares can be adjusted upwards or downwards based on the changes in the objective indices in an agreed formula. This mechanism is provided in the Operating Agreement entered into by the Corporation and Government in the context of the merger. Before the rail merger, the Legislative Council had been briefed on the mechanism which was also approved at the Extraordinary General Meeting of the Corporation in October 2007. Such mechanism is, therefore, legally binding and the Corporation is obliged to act in accordance with it.

12. The FAM adopts a direct drive approach¹, which makes fare adjustments more objective and transparent, as adjustments to fares are made strictly in accordance with the agreed formula, and not at the discretion of the Corporation. The arrangement makes revenue more predictable for an operator, which is paramount to the Corporation in sustaining a high quality rail service.

¹ Overall fare adjustment rate = 0.5 x change in Composite Consumer Price Index (CCPI) + 0.5 x change in Nominal Wage Index (Transport Services Sector) – a productivity factor. While change in CCPI refers to the year-on-year change for December in the year before the fare review and change in Nominal Wage Index (Transport Services Sector) refers to the year-on-year change for the fourth quarter of the year preceding the fare review.

13. After 30 June 2009, MTRCL needs to follow the aforementioned mechanism based on the latest figures of the objective indices to determine whether fare level will remain unchanged or it will have to be adjusted upwards or downwards. It is still premature to make any estimation at this stage.

14. The Corporation will continue to strike a balance between the needs of various stakeholders including those of passengers and shareholders while ensuring the sustainable development of the Company.

MTR Corporation
January 2009

The Kowloon Motor Bus Company (1933) Limited (“KMB”)

Expiry of Fare Concession Schemes

In the course of negotiations with the Government on the Fare Adjustment Mechanism in 2005/06, KMB, Long Win Bus Company Limited, Citybus Limited (“CTB”) and New World First Bus Services Limited (“NWFB”) agreed to offer a series of fare concession schemes for a three-year period from the respective date of implementation. Details of the fare concession schemes in question are as follows:

Fare Concession Schemes (for payment by Octopus card)	Start Date	Expiry Date
HK\$2 flat fare or half of the standard adult fare (whichever is lower) for persons aged 65 and above on Sundays and Public Holidays (excluding racecourse routes)	28 Jan 2006	28 Jan 2009
“Same Day Return” discount* (solely operated routes)	19 Feb 2006	18 Feb 2009
“Same Day Return” discount* (routes jointly operated with CTB & NWFB)	1 Jul 2006	30 Jun 2009

*Note: 20% discount on the return trip where the single journey fare is HK\$15 or above; 10% discount on the return trip where the single journey fare is between HK\$10 and HK\$14.90.

When the aforesaid schemes were launched in 2006, it was made clear that they would run for three years only.

2. Following careful evaluation of its operating environment and financial situation, KMB decided to extend the fare concession scheme for the elderly on Sundays and Public Holidays for one year ending 31 January 2010. The decision was announced on 17 December 2008.

3. As a matter of fact, due to increases in fuel costs, wages, tunnel toll charges and other operating costs, KMB recorded an operating loss of over HK\$160 million for the six months ended 30 June 2008.

Long Win Bus Company Limited (“LWB”)

Expiry of Fare Concession Schemes

In the course of negotiations with the Government on the Fare Adjustment Mechanism in 2005/06, LWB, The Kowloon Motor Bus Company (1933) Limited, Citybus Limited and New World First Bus Services Limited agreed to offer a series of fare concession schemes for a three-year period from the respective date of implementation. Details of the fare concession schemes in question are as follows:

Fare Concession Schemes (for payment by Octopus card)	Start Date	Expiry Date
HK\$2 flat fare or half of the standard adult fare (whichever is lower) for persons aged 65 and above on Sundays and Public Holidays (excluding airport “A” routes)	28 Jan 2006	28 Jan 2009
“Same Day Return” discount*	19 Feb 2006	18 Feb 2009

*Note: 20% discount on the return trip where the single journey fare is HK\$15 or above; 10% discount on the return trip where the single journey fare is between HK\$10 and HK\$14.90.

When the aforesaid schemes were launched in 2006, it was made clear that they would run for three years only.

2. Following careful evaluation of its operating environment and financial situation, LWB decided to extend the fare concession scheme for the elderly on Sundays and Public Holidays for one year ending 31 January 2010. The decision was announced on 17 December 2008.

3. As a matter of fact, due to increases in fuel costs, wages, tunnel toll charges and other operating costs, LWB recorded an operating loss of over HK\$3 million for the six months ended 30 June 2008.



周大福企業及新創建集團成員
Members of Chow Tai Fook Enterprises and NWS Holdings

Annex D

The Octopus Fare Concession Schemes

Citybus and New World First Bus (“NWFB”) started to offer the Octopus “Holiday Concession Scheme for Senior Citizens” and “Same Day Return Fare Discounts” for solely-operated routes and jointly-operated cross harbour routes in early 2006 for a period of three years. These concessions will expire in 2009.

In recent years, Citybus and NWFB have combated with immense hardships, and deficits have been recorded for several months in 2008. In face of the enduring operational pressures, such as declining patronage and revenues from keen rail competitions, as well as rising wages, fuel prices and tolls, the accumulative operating costs of the Companies have been increased tremendously.

With the current financial situation, Citybus and NWFB can only afford the extension of the Holiday Concession Scheme for Senior Citizens for one more year.

Managing Director
Samuel Cheng
Citybus Limited
New World First Bus Services Limited



NEW LANTAO BUS CO. (1973) LTD.
新大嶼山巴士(一九七三)有限公司

A subsidiary of KWON CHUNG BUS HOLDINGS LIMITED 冠忠巴士集團有限公司附屬公司

**SUBMISSION TO THE PANEL ON TRANSPORT
LEGISLATIVE COUNCIL
SPECIAL MEETING ON 8 JANUARY 2009 (THURSDAY)**

New Lantao Bus Co. (1973) Limited hereby agrees to extend its Route B2 (Yuen Long West Rail Station Public Transport Interchange – Shenzhen Bay Port) “Elderly Concessionary Fare Scheme” for one year, i.e., until 31 January 2010.

For and on behalf of
NEW LANTAO BUS CO. (1973) LTD.



Matthew L.P. Wong
Managing Director

29 December 2008