

**Select Committee to Inquire into the Background of and
Reasons for the Delay of the Construction of
the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong
Express Rail Link**

Written Statement of Mr WAI Chi-sing

I. Introduction

This Statement is prepared in response to the invitation by the captioned Select Committee to me to attend a hearing and to submit a Statement. As requested by the Select Committee, this Statement contains information which is relevant to Parts I to III of the Select Committee's major areas of study. The information covers the period up to June 2010 before I left the post of the Director of Highways (DHy). It is noted that the incumbent DHy, Mr KK Lau, has submitted a written Statement to the Select Committee earlier on, and I have made general reference to his Statement at Part III below.

II. Background of and reasons for the delay of the construction of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") ("the project delay"), as announced by the Government and MTR Corporation Limited ("the Corporation") in April 2014

The announcement of the delay in completion of the XRL construction was made in April 2014, which is beyond my terms as the DHy.

(A) Scope and implementation schedule of the construction of the XRL ("the project"), implementation progress of the project, project delay and delay recovery measures adopted by the Corporation to catch up with the implementation schedule up to June 2010

2. The XRL is a 26-kilometre (km) long underground rail corridor. It will run from a new terminus in West Kowloon, going north passing Yau Tsim Mong, Sham Shui Po, Kwai Tsing, Tsuen Wan, Yuen Long to the boundary south of Huanggong, where it will connect to the Mainland section of the XRL.

3. In 2000, the XRL (formerly named as Regional Express Line) was first recommended for implementation under the Railway Development Strategy 2000. In October 2007, the Chief Executive announced, in his Policy Address, the proposed Hong Kong section of the XRL as one of the ten major infrastructure projects. On 22 April 2008, the Executive Council (ExCo) decided to invite the MTR Corporation Limited (MTRCL) to proceed with the further planning and design of the Hong Kong section of the XRL. The Finance Committee (FC) of the Legislative Council (LegCo) approved on 8 July 2008 a sum of \$2,782.6 million in money-of-the-day (MOD) prices for the design and site investigation of the XRL which was entrusted to the MTRCL for implementation under an Entrustment Agreement (EA1). The railway scheme of the XRL was gazetted under the Railways Ordinance (Cap. 519) on 28 November and 5 December 2008. During the period of handling of objections, an amendment to the railway scheme was gazetted on 30 April 2009. On 20 October 2009, the ExCo decided that the MTRCL should be asked to proceed with the construction, testing and commissioning of the XRL under the concession approach.

4. On 16 January 2010, the FC approved the funding for the construction of the railway (\$55.0175 billion MOD) and non-railway works (\$11.8 billion MOD) of the XRL, amounting to a total of \$66.8 billion MOD. On 26 January 2010, the Government and the MTRCL entered into another Entrustment Agreement for construction, testing and commissioning of the XRL (EA2).

5. The estimated handover date to the Government for the XRL project, as submitted by MTRCL in the final draft version of the EA2, was set at 30 June 2015. As there was a six-week delay in obtaining the FC's approval for the funding application of the XRL project, the estimated handover date of the XRL project was subsequently changed to 4 August 2015 when the EA2 was executed.

6. According to the EA2, the MTRCL shall use its best endeavours to complete the Entrustment Activities in accordance with the Entrustment Programme subject to adjustment under justifiable situation. The MTRCL shall consult and liaise with the Government in a timely manner if any adjustment would have the effect of amending the Entrustment Programme. The Entrustment Programme indicates that the XRL project would complete

testing and trial running, and be ready for operation by 4 August 2015.

7. Construction of the XRL commenced in late January 2010. By June 2010, 11 out of a total of 42 major contracts under the XRL project were awarded as listed in Table 1.

Table 1 - List of Major Contracts awarded up to June 2010

Contract Number and Title	Date of Award	Contract Sum (\$M)
802 – Nam Cheong Property Foundation Removal / Re-provisioning	27 Jan 10	333.9
805 – Sham Mong Road Obstruction Removal	27 Jan 10	159.9
820 – Mei Lai Road to Hoi Ting Road Tunnels	3 May 10	3,668.9
822 – Tse Uk Tsuen to Shek Yam Tunnels	10 Mar 10	3,235.4
825 – Mai Po to Ngau Tam Mei Tunnels	27 Jan 10	1,683.6
826 – Huanggang to Mai Po Tunnels	10 Mar 10	1,690.9
811A – West Kowloon Terminus Approach Tunnel (North)	3 May 10	1,039.8
803A – West Kowloon Terminus Diaphragm Walls (Site A)	27 Jan 10	461.2
803B – West Kowloon Terminus Piles (Site A – North)	10 Mar 10	497.4
803C – West Kowloon Terminus Piles (Site A – South)	27 Jan 10	321.2
803D – West Kowloon Terminus Diaphragm Walls and Piles (WKCD)	27 Jan 10	819.1

8. Up to June 2010, the MTRCL had identified some delays under individual contracts of the XRL and the HyD was aware of the MTRCL considering some delay mitigation measures to catch up the delays being encountered. One of the more significant issues reported by the MTRCL was the delay in handing over of the works sites in Choi Yuen Tsuen to the contractors, due to delay in land resumption and clearance in Choi Yuen Tsuen.

9. The MTRCL also reported in the Project Supervision Committee (PSC) meeting and the Monthly Progress Report (MPR) of May 2010, a 3-month delay in the construction of the Huanggang shaft and the “drill & blast” tunnel for the Mainland section which would impact on the programme of

Contract 826. The MTRCL estimated that the Mainland section of the cross boundary section of the XRL would likely suffer a delay of 6 months. The MTRCL advised that meetings were being held with the contractor and the Mainland authorities to discuss the mitigation proposal for timely programme delivery.

10. Since May 2010, the MTRCL has been reporting the overall physical progress of the Entrustment Activities in the MPRs against time expended/planned progress. As at end June 2010, the MTRCL reported that the actual overall physical progress was 1.3% against 1.7% as planned, representing a very slight overall delay.

(B) Monitoring mechanism on the project, in particular the roles of the Government, the MTRCL and the monitoring and verification consultant in the project

11. As the XRL project would be implemented under the concession approach, in early 2008, the Railway Development Office (RDO) of the HyD engaged a consultant, the Lloyd's Register Rail (Asia) Limited (Lloyd's), to review the institutional arrangements to ensure effective implementation of the XRL project by the MTRCL. The Lloyds's recommended to the Government adoption of the "monitoring and verification" role for the design and construction of the XRL project. On this basis, the monitoring and verification role would effectively be "check the checker", i.e. verifying (checking) that the MTRCL (checker) was implementing its project management process as specified in its project implementation management system. A risk based sampling approach would be used to verify delivery of the requirements of the project scope and authorized expenditure.

12. The HyD set up a dedicated division under the RDO to oversee the implementation of the XRL project in July 2008. As at June 2010, this dedicated division comprised a total of 15 civil engineers posts, including a Chief Engineer who is the division head, 5 Senior Engineers and 9 Engineers. To suit office work co-ordination, there were minor changes in staff deployment at times. In-house support on the advisory service on Electrical and Mechanical (E&M) work and building submissions were provided.

13. In April 2010, the Government, vide LC Paper No. CB(1)

1573/09-10(04), informed the Subcommittee on Matters Related to Railways of the LegCo of the Government's detailed monitoring mechanism on the construction of the XRL implemented under the concession approach. A copy of the paper is at **Annex 1**. A flowchart on the monitoring mechanism is at **Annex 2**.

14. As elaborated in the paper in paragraph 13 above, the DHy, being the Controlling Officer responsible for the XRL project, which is the first railway project implemented under the concession approach, leads a PSC which is established under the provision of EA2. Members of the PSC include, among others, representatives of the MTRCL (including the MTRCL's Projects Director). The PSC meets on a monthly basis to review project progress and to monitor procurement activities, post-tender award cost control and resolution of contractual claims. The PSC also provides steer on matters that would affect the progress of XRL. The MTRCL is required to submit a progress report setting out the latest progress and financial position of the project. Up to June 2010, the PSC held four meetings.

15. Representatives from the Transport and Housing Bureau (THB) sit on the PSC. In addition, the DHy updates the Secretary for Transport and Housing (STH) on the project progress at their regular monthly meetings about the work of the HyD. Where necessary, the DHy also reports to the STH any significant issues relating to the implementation of the XRL. From time to time, the HyD and/or the MTRCL are requested to provide briefings to the THB on major issues relating to the project.

16. As the XRL is a fast-track project, an officer at Assistant Director level of the HyD holds monthly, or sometimes at closer intervals to meet ad hoc needs, Project Coordination Meetings (PCMs) with the MTRCL's General Managers and Project Managers to monitor various activities for the delivery of the XRL project including, but not limited to, timely completion of land matters, resolution of third party requests, key issues on the design, construction, environmental matters that may have potential impact on the progress and programme of the XRL project as well as interfacing issues with other projects. The PCM started in the planning stage of the XRL project and the first meeting was held in December 2007.

17. In addition, an officer, at Chief Engineer level, holds monthly

Contract Review Meetings (CRMs) with site supervision staff of the MTRCL for major civil and E&M works. In case of delays encountered by the MTRCL's contractors, the MTRCL would report measures being considered for mitigating such delays. The first CRM was held in May 2010.

18. More details on the monitoring of the implementation of the XRL project under the concession approach is given in Part III of my Statement below.

III. Performance and accountability of the Government and the Corporation relating to the project delay

19. I note that the performance and accountability of the Government and the MTRCL relating to the project delay was covered in Mr KK Lau's Statement to the Select Committee. I would like to make reference to Mr Lau's Statement as below in my Statement.

(A) Entrustment Agreement between Government and the Corporation

20. In early 2008, the RDO of the HyD commissioned a consultancy to review the institutional arrangements to ensure implementing the XRL project by the MTRCL efficiently. The Lloyd's was employed to carry out the review study. One of the key areas investigated by the Lloyd's was with respect to what project management procedures should be adopted to deliver the XRL project if it was entrusted to the MTRCL by the Government under the concession approach. The Lloyd's considered that the MTRCL's processes were known to be robust and in line with industry best practice, which was regularly reviewed and audited by outside bodies and had been proven and refined through the delivery of many high quality railway projects in Hong Kong and abroad. The Lloyd's also identified that in general there were many similarities between the processes adopted by the MTRCL and the Government.

21. The Lloyd's recommended that the MTRCL's project management procedures for the delivery of the XRL project should be adopted but allowing Government representation in key control processes, and Government to conduct monitoring and verification of its interests in the design and construction of the XRL project. This monitoring and verification role, or

named as the “check the checker” role, uses a risk based sampling approach to verify delivery of the requirements of the project scope and authorized expenditure. The Lloyd’s also advised that the Government’s resources should be utilized effectively to avoid repetition and micro-management of the project. The Lloyd’s recommendations formed the framework of the monitoring system adopted by the Government for the delivery of the XRL project by the MTRCL.

22. Under the EA1 and EA2 for the XRL project, the MTRCL is responsible for the overall management of the project. In doing so, the MTRCL has to comply with its own management systems and procedures. The MTRCL also has the obligation to provide any information concerning any matters relating to the XRL project as requested by the Government.

23. According to the EA2, the MTRCL shall use its best endeavours to complete, or procure the completion of, the Entrustment Activities in accordance with the Entrustment Programme (subject to fair and reasonable adjustment under justifiable situations); and to minimize any delay or other effect which any modifications may have on the Entrustment Programme.

(B) Major details of the concession approach which is adopted for implementation of the XRL project, including the responsibilities and liabilities of the Government and the Corporation under the Entrustment Agreement

24. Before the Rail Merger in December 2007, all railway projects were financed under the ownership approach. Under this approach, the two railway corporations, namely the MTRCL and the Kowloon-Canton Railway Corporation (KCRC), were responsible for the funding, design, construction, operation and maintenance of the railway, and ultimately own the railway. Since the two railway corporations at that time were operating on commercial principles, they would not take up financially non-viable railway projects unless some form of financial support was provided by the Government as appropriate. The form of funding support for each railway project was considered on a case-by-case basis.

25. Upon the implementation of the Rail Merger, the MTRCL was granted a service concession by the KCRC to operate the KCR railway lines and the KCRC has been receiving service concession payment from the MTRCL since then. The MTRCL is now responsible for the operation, maintenance

and improvement of the KCR system, including the replacement of the concession assets, during the concession period. The MTRCL exercises control over all the operational arrangements of the KCRC network in addition to its own network and is responsible for the performance of the total system. Upon expiry or termination of the service concession, under the terms of the service concession agreement between the MTRCL and KCRC, the MTRCL would be required to return to KCRC an operating KCR system that meets the prevailing operating standards. In other words, the KCRC is not disposing of the railway system to the MTRCL, and the MTRCL is not acquiring the KCRC's railway assets (except for certain low value items such as spare parts and consumables). The way in which the MTRCL is granted a service concession for the operation of railway line(s) as depicted above is called "concession approach".

26. Under the concession approach, as compared to the ownership approach, the railway owner, i.e. the Government in the case of the XRL, bears the construction risk and shares the operational risk of the project. The ownership of the railway ultimately rests with the Government.

27. It was agreed in the context of the Rail Merger that the Government has the discretion to determine whether to adopt the ownership approach or the concession approach. However, the choice of the Government should be project specific. The Government would consider the most viable option for each railway project on a case-by-case basis, having regard to the following considerations:

- (i) whether the Government should take a longer term view on investment in railway infrastructure and would like to retain the ownership of the railway, thereby retaining the residual value of the railway;
- (ii) whether the Government would be prepared to input more resources, including staff and cash outlay, to implement the railway under the concession approach;
- (iii) whether the Government would be prepared to bear the construction risks and operating risks under the concession approach, e.g. lower revenue as a result of patronage being lower than anticipated;

- (iv) the financial implications for the Government;
- (v) whether the selected approach would allow the MTRCL to effectively co-ordinate the planning and implementation of the railway and the above station/depot property development; and
- (vi) whether the ownership of the new railway by the Government would facilitate the smooth implementation of the railway networks.

28. In the light of the above considerations, the Government decided to adopt the concession approach for the XRL.

29. As mentioned in paragraph 23 above, the MTRCL shall use its best endeavours to complete, or procure the completion of, the Entrustment Activities in accordance with the Entrustment Programme; and to minimize any delay or other effect which any modifications may have on the Entrustment Programme. In this connection, the MTRCL shall act in accordance with its management systems and procedures. Moreover, the Government shall be entitled to appoint an appropriate consultant to verify the MTRCL's compliance with its obligations under the EA2. At any time the MTRCL is in material or persistent breach (or the Government, acting reasonably, suspects that the MTRCL is in material or persistent breach) of any of the MTRCL's material obligations under the EA2, the Government shall be entitled to verify the MTRCL's compliance with the MTRCL's obligations under the EA2.

30. In the event of any errors or omissions by the MTRCL which constitutes breaches of the EA2 by the MTRCL and as a result of which the re-execution of the Entrustment Activities is required, the MTRCL shall, if required by the Government, at its own cost re-execute (or procure the re-execution of) such Entrustment Activities to the reasonable satisfaction of the Government.

31. If there is a delay and the extent of the delay in question is not covered by any modification or adjustment to the Entrustment Programme, it may amount to a breach of the MTRCL's obligations under the EA2 and the Government may have a claim against the MTRCL for such a breach.

32. In addition, the MTRCL warrants the Government on a number of

matters including that the Entrustment Activities that relate to the provision of project management services, such Entrustment Activities shall be carried out with the skill and care reasonably expected of a professional and competent project manager whose role includes co-ordination, administration, management and supervision of the design and the construction of works. Should the delay in question involve a breach of the MTRCL of any of its warranties, the Government may have a claim against the MTRCL for breach of warranties.

(C) Accountability of the Government and the Corporation in respect of the project delay

33. Under the Public Finance Ordinance, the Controlling Officer for the XRL project is the DHy who shall be responsible and accountable for all expenditure for the XRL. According to the Controlling Officer's Report by the DHy in the 2010-11 Budget, the XRL is one of the new railway projects under the Railway Development Programme (which contributes to Policy Area 21: Land and Waterborne Transport under the STH). The aim of this Programme is to implement the Railway Development Strategy and formulate plans for further development of the railway network.

34. According to the said Controlling Officer's Report, the HyD plans, monitors and co-ordinates various activities associated with the implementation of new railway projects. The HyD has to liaise with the MTRCL to undertake necessary preparatory work and statutory procedures, and resolve interface issues arising from the implementation of these projects. HyD also co-ordinates with other departments concerned for approval of the infrastructure layout design for various new railways and their interface arrangements with other projects, and takes part in site liaison for traffic diversion and other construction matters, as well as issues on the commissioning and operation of the XRL.

35. The key roles of the HyD in the implementation of the XRL project are as follows:

- (i) to oversee the overall implementation of the XRL project and the prudent use of public funds allocated for this project,
- (ii) to monitor and verify that the MTRCL properly fulfills its obligations in

accordance with the Entrustment Agreements entered between the Government and the MTRCL for the design, procurement, construction and testing and commissioning of the XRL project, and

- (iii) to facilitate the implementation of the XRL project by liaising and coordinating with the MTRCL and other departments concerned in resolving interfacing issues and seeking necessary approvals associated with the implementation, commissioning and operation of the XRL.

36. If the delay is due to contractor's default, they will be responsible for the additional costs incurred. If the MTRCL is at fault in not complying with the Entrustment Agreements, it should be held responsible.

IV. Whether the Government and the Corporation have deliberately covered the project delay

(A) Communication/reporting mechanism within the Corporation with regard to the progress of project

37. According to the Lloyd's recommendations, it is considered that MTRCL's processes were known to be robust and in line with industry best practice, which were regularly reviewed and audited by outside bodies and had been proven and refined through the delivery of many high quality railway projects in Hong Kong and abroad. The Lloyd's also identified that in general there were many similarities between the processes adopted by MTRCL and the Government. In view of this, the Lloyd's recommended that MTRCL's project management procedures for the delivery of the XRL project should be adopted.

38. As mentioned in paragraphs 11, 21 and 37 above, the Lloyd's recommendations were adopted by the Government and formed largely the basis of the Entrustment Agreements for the design and site investigation as well as construction and commissioning of the XRL.

(B) Communication/reporting mechanism between the Corporation and the Government in respect of the progress of project

(i) Monitoring Regime for the Implementation of the XRL Project

39. Under the Entrustment Agreements, the MTRCL is responsible for the overall management of the project. In doing so, the MTRCL has to comply with its own management systems and procedures. The MTRCL also has the obligation to provide any information concerning any matters relating to the XRL project as requested by the Government. The Government spares no effort in monitoring the work of the MTRCL to ensure that the implementation of the project is within the approved project estimate, of good quality and on schedule.

(ii) Project Supervision Committee

40. The DHy, being the Controlling Officer responsible for the XRL project, leads a high-level inter-departmental PSC. The Committee holds monthly meetings with the MTRCL and the related Government departments to review project progress, monitor procurement activities, post-tender award cost control and resolution of contractual claims. The PSC also provides steer on any matters that would affect the progress of the XRL project.

41. To support and complement the PSC's effort, the HyD has inserted various check points into the MTRCL's relevant work processes so that issues of potential concern can be flagged up and appropriately resolved at an early stage.

(iii) Check Points in the MTRCL's Work Processes

(a) *Tendering procedure*

42. The MTRCL engages services from consultants, contractors and suppliers for the XRL project by means of a four-stage process, which includes expression of interest, pre-qualification for shortlisting of tenderers, tendering and tender assessment. In general, the Procurement Team of the MTRCL undergoes this four-stage process before making recommendations for tender award. The Team submits recommendations for approval of the Divisional Director, the Tender Board, or the MTRCL Board depending on the tender sum.

43. The procurement and tendering procedures of the MTRCL comply

with the provisions of the World Trade Organisation's Agreement on Government Procurement. The same procedures also apply to the contracts relating to the Hong Kong section of the XRL project, including those that have been tendered.

44. Representatives of the HyD, normally at directorate level, attend tender readiness presentations made by MTRCL's Procurement Team and meetings of the Procurement Team and the Executive Tender Panel concerning procurement of works and services for the XRL project. Where a major procurement decision is to be made by the MTRCL Board, the DHy participates in the relevant meeting of MTRCL's Executive Committee that makes recommendations to the Board.

(b) Project management

45. The MTRCL holds monthly project report meetings to monitor the progress of the XRL project. Representatives from the HyD attend such meetings. The MTRCL is also required to submit relevant information to the HyD. Upon request, the MTRCL would arrange briefings for the HyD and/or other Government departments on issues that may have bearing on the cost, quality or progress of the works.

(c) Cost and budget control mechanism

46. The MTRCL has built-in mechanisms that enables and encourages cost saving initiatives. During the tendering process, tenderers are allowed to submit alternative proposal which may achieve better performance and/or at lower costs. During the course of construction, the MTRCL, its contractors, suppliers and the relevant government departments conduct value engineering sessions to identify and assess opportunities that could save cost while delivering the same or even better values.

47. The MTRCL convenes cost control meetings to review the financial situation of the constituent consultancies, construction contracts and the XRL project as a whole. Representatives from the HyD attend these meetings. The MTRCL has also set up a Project Control Group to scrutinize the assessment of variations and claims arising from the contracts of the XRL project. The HyD representatives, at directorate level, attend these meetings to

provide comments and reflect views of the Government.

(iv) External monitoring and verification

48. In view of the mega scale of the XRL project, the HyD has employed an external consultant to assist in the monitoring and verification work and undertake regular audits to verify the MTRCL's compliance with its obligations under the Entrustment Agreements with Government.

(C) *Communication/reporting mechanism between the Corporation and the Government in respect of the announcement of the project delay*

49. This is outside my terms as the DHy.

(D) *The timeliness and comprehensiveness of the information provided by the Government and the Corporation to the Subcommittee on Matters Relating to Railways under the Panel on Transport of the Legislative Council on the project delay*

50. As mentioned in paragraph 13 above, in April 2010, the Government, vide LC Paper No. CB(1) 1573/09-10(04), informed LegCo of the Government's detailed monitoring mechanism on the construction of the Hong Kong section of the XRL.

51. In July 2010, the Government, vide LC Paper No. CB(1)2290/09-10(01), submitted the 1st Half-yearly Report for the Period ending 30 June 2010 to the LegCo for Members' reference.

CS Wai
The ex-Director of Highways
May 2015

Annex 1

LC Paper No. CB(1) 1573/09-10(04) on
the Government's detailed monitoring
mechanism on the XRL

**For information
16 April 2010**

**Legislative Council Panel on Transport
Subcommittee on Matters Relating to Railways**

**Government's Monitoring and Reporting on the
Construction of the Hong Kong Section of
Guangzhou-Shenzhen-Hong Kong Express Rail Link**

Introduction

This Paper briefs Members on the Government's monitoring mechanism on the construction of the Hong Kong section of the Guangzhou–Shenzhen– Hong Kong Express Rail Link (XRL) and the proposal of regular reporting to the Legislative Council (LegCo) on the XRL project.

Background

2. The Hong Kong section of the XRL is an express rail connecting Hong Kong with Shenzhen, Dongguan, and Guangzhou and will form part of the national high-speed rail network. Following the approval of the Finance Committee of the LegCo on the funding for construction of the railway and non-railway works of the Hong Kong section of the XRL on 16 January 2010, Government entered into an entrustment agreement with the MTR Corporation Limited (MTRCL) on 26 January 2010 for the construction and commissioning of the XRL project. Construction works then started in end January 2010 for completion in 2015.

Monitoring Regime for the Implementation of the XRL Project

3. Under the entrustment agreement, the MTRCL is responsible for the overall management of the project. In doing so, the MTRCL has to comply with its own management systems and procedures. The MTRCL also has the

obligation to provide any information concerning any matters relating to the XRL project as requested by the Government. The Government spares no effort in monitoring the works of MTRCL to ensure that the implementation of the project is within the approved project estimate, of good quality and on schedule.

Project Supervision Committee

4. The Director of Highways, being the controlling officer responsible for the XRL project, leads a high-level inter-departmental Project Supervision Committee (PSC). The Committee holds monthly meetings with the MTRCL and the related Government departments to review project progress, monitor procurement activities, post tender award cost control and resolution of contractual claims. The PSC also provides steer on any matters that would affect the progress of the XRL project.

5. To support and complement the PSC's effort, the Highways Department (HyD) inserts various check points into the MTRCL's relevant work processes so that issues of potential concern can be flagged up and appropriately resolved at an early stage.

Check Points in the MTRCL's Work Processes

(a) Tendering procedure

6. The MTRCL engages services from consultants, contractors and suppliers for the XRL project by means of a four-stage process, which includes expression of interest, pre-qualification for shortlisting of tenderers, tendering and tender assessment. In general, the Procurement Team of the MTRCL undergoes this four-stage process before making recommendations for tender award. The Team submits recommendations for approval of the Divisional Director, the Tender Board, or the MTRCL Board depending on the tender sum.

7. The procurement and tendering procedures of the MTRCL comply with the provisions of the World Trade Organisation's Agreement on Government Procurement. The same procedures also apply to the contracts relating to the Hong Kong section of the XRL project, including those that have been tendered.

8. Representatives of the HyD, normally at directorate level, attend tender readiness presentations made by the Procurement Team and all meetings of the Procurement Team and the Executive Tender Panel concerning procurement of works and services for the XRL project. Where a major procurement decision is to be made by the MTRCL Board, the Director of Highways participates in the relevant meeting of MTRCL's Executive Committee that makes recommendations to the Board.

(b) Project management

9. The MTRCL holds monthly project report meetings to monitor the progress of the XRL project. Representatives from the HyD attend such meetings. The MTRCL is also required to submit relevant information to the HyD. Upon request, the MTRCL will arrange briefings for the HyD and/or other Government departments on issues that may have bearing on the cost, quality or progress of the works.

(c) Cost and budget control mechanism

10. The MTRCL has built-in mechanism that enables and encourages cost saving initiatives. During the tendering process, tenderers are allowed to submit alternative proposal which may achieve better performance and/or at lower costs. During the course of construction, the MTRCL, its contractors, suppliers and the relevant government departments conduct value engineering sessions to identify and assess opportunities that can save cost while delivering the same or even better values. These processes, in which HyD representatives participate, help bring down the overall project cost of the Hong Kong section of the XRL.

11. The MTRCL convenes cost control meetings to review the financial situation of the constituent consultancies, construction contracts and the XRL project as a whole. Representatives from the HyD attend these meetings. The MTRCL has also set up a Project Control Group to scrutinize the assessment of variations and claims arising from the contracts of the XRL project. The HyD representatives, at directorate level, attend such meetings to provide comments and reflect views of the Government.

External monitoring and verification

12. In view of the scale of the XRL project, the HyD will also employ an external consultant to assist in the monitoring work and undertake regular audits to verify the MTRCL's compliance with its obligations under the entrustment agreement with Government. The monitoring and verification exercise is not limited to the work of the MTRCL, but also includes that of the consultants, contractors or agents employed by the MTRCL for the XRL project. Moreover, the HyD consultant will identify and advise the HyD any potential risk regarding the implementation of the XRL project and propose appropriate mitigation measures. This would help ensure that the XRL project will meet the required standards and will be completed on schedule and within budget.

Reporting on Progress and Finance of the XRL Project

13. When seeking the approval of the LegCo Finance Committee for the funding applications for the railway and non-railway works of the XRL project in January 2010, the Government undertook to report regularly to the Subcommittee on Matters Relating to Railways (the Subcommittee) of the Panel on Transport of the LegCo on the construction of the Hong Kong section of the XRL.

14. We note that the Government reported to the LegCo regularly on the progress of the Airport Core Programme (ACP) projects to enable LegCo to keep track of the large scale projects. Members generally felt that this was an effective monitoring arrangement. We propose that the reporting framework used for the ACP projects be adopted for the purpose of reporting to the Subcommittee on the XRL project. A copy of the ACP report for the period

— from July to September 1997 is enclosed at **Appendix** for reference. Similar to the ACP reports, we propose that the XRL reports should cover the progress and the financial position of the construction of the XRL project. Major items to be covered by the XRL reports are set out below.

15. The ACP comprised a wide range of projects, covering the airport, highways, railways, tunnels, reclamation and new town development, implemented by various parties and funded in different ways. The ACP reports provided updates on the progress of individual major projects, including updated cost estimates, funding and financing positions, and claims. The XRL project is one single rail project under the public works programme. It comprises mainly tunnel and terminus construction and the ancillary railway facilities and road works. To enhance transparency and provide the Subcommittee with a more in-depth update, we propose to divide the XRL project into three major components, namely –

- (a) the railway tunnels, including the ancillary railway facilities;
- (b) the West Kowloon Terminus, including the road works and pedestrian links in the nearby area; and
- (c) system-wide electrical and mechanical works, including rolling stock.

16. To enable Members to keep track of the progress of the XRL project to ensure timely completion, we will report the works done and major contracts¹ awarded for each major project component during the reporting period as well as the planned works and the schedule of major contracts to be awarded in the next reporting period. The report will also cover the progress of major pre-construction preparatory work (such as land clearance, condition surveys for buildings along the railway alignment, and important temporary traffic arrangements), as well as major interface issues (such as traffic impact in affected areas due to construction works and coordination with related projects).

¹ Major contracts with contract sum exceeding HK\$50 million will be reported to the Subcommittee. Other contracts will be reported collectively.

As to the financial situation of the XRL, we will report the expenditure position and contractual claims of each major project component during the reporting period.

17. As the XRL project is fully publicly-funded with a narrower scope than the ACP, its project management is expected to be less complicated. We consider it appropriate to update the Subcommittee on the construction of the XRL project at six-month intervals.

18. Subject to Members' views, we propose that the first report should cover the period between 16 January 2010, when the Finance Committee approved the project funding, and 30 June 2010. Subsequent reports will cover six month periods ending 31 December and 30 June of the future years until the high-speed railway is commissioned.

Transport and Housing Bureau
April 2010

NOTE FOR FINANCE COMMITTEE

Quarterly Report on Progress, Financing, Cost Estimate, Funding and Claims of the Airport Core Programme Projects (July to September 1997)

INTRODUCTION

Encl. 1 This is the thirteenth quarterly report on the Airport Core
Encls. 2&3 Programme (ACP) projects for the Finance Committee, and covers the period July
to September 1997. A summary is at Enclosure 1 and the full report is at
Enclosure 2. The ACP claims summary is at Enclosure 3.

2. Subsequent to the issue of the last quarterly report in August 1997, we have completed a review of the cost estimates for the ACP. Principally because of rigorous cost control efforts of the Government, the estimated net expenditure for government ACP projects has been reduced from \$50,650 million by \$1,042 million to **\$49,608 million**. While the cost estimates for the new airport, Airport Railway (AR) and Western Harbour Crossing remain unchanged, the adjustments on the part of government projects have reduced the overall ACP cost estimates from \$156,364 million to **\$155,322 million**.

3. We would be happy to give a more detailed briefing on the report, and to answer questions, if Members so desire.

OVERALL PROGRESS OF THE ACP

4. As at 30 September 1997, the overall ACP is approximately 90% complete and we have completed 99% of the government ACP works. So far, 181 major ACP contracts have been awarded by the Government [92], the Airport Authority (AA) [57], the Mass Transit Railway Corporation (MTRC) [31] and the Western Harbour Crossing franchisee [1], at a total value of \$96,361 million.

/5.

5. The AA's works for the new airport and the AR works were both 89% complete as at 30 September 1997, and are on course to meet their respective target opening dates of April and June 1998. Preparatory work for new airport and AR opening has now entered a critical stage. Efforts are being made by all concerned to ensure that the works programme as well as all the preparation work, such as systems, testing and commissioning, training and trials, etc. that are required for airport and AR opening will be completed on schedule.

UPDATED COST ESTIMATES OF THE ACP

6. The ACP budget has been reduced to **\$155,322 million** as a result of the reduction in estimated expenditure for government ACP projects from \$50,650 million to \$49,608 million. The cost estimates of AA's share of the new airport project and of the AR remain within the estimates of \$49,787 million (based on April 1998 opening) and \$34,000 million (based on June 1998 opening) respectively.

7. The net government ACP budget has been reduced by \$1,042 million primarily because of savings identified in Government Facilities at the New Airport (\$488 million), Tung Chung Development Phase 1 (\$326 million), Lantau Link (\$107 million), Route 3 (\$303 million), West Kowloon Reclamation (\$492 million) and Utilities and Others projects (\$109 million). These gross savings of \$1,825 million from project budgets less the reductions of \$783 million in the reimbursements from AA and MTRC for the new airport and AR related projects result in a net saving of \$1,042 million.

8. As for the West Kowloon Reclamation (WKR), while individual works item under the project (WKR Hinterland Drainage Package 1) will require an additional funding of \$35 million, we have been able to identify a net saving of \$492 million for the project as a whole. This comprises \$242 million related to works under four WKR works items and \$250 million from land resumption and compensation expenditure.

9. There is a reduction of \$747 million in the reimbursement from the MTRC due to the setting up of advance accounts so that some works originally intended to be temporarily funded by Capital Works Reserve Fund project contingencies have been directly funded by the MTRC. The reduction of \$36 million in the reimbursement from the AA is due to the decrease in the estimate for North Lantau Refuse Transfer Station.

/FUNDING

FUNDING POSITION OF THE ACP

10. The Finance Committee has so far approved a net total of \$49,897 million for government ACP projects. This represents 101% of the revised project estimates. As at 30 September 1997, the Administration had committed \$45,342 million, or 91% of the project estimate. Of this, we had spent \$43,790 million or 88% of the project estimate. We intend to reduce the amount of funds approved by the Finance Committee for various Public Works Project items to reflect the revised estimates. The revised figures will be incorporated in future quarterly reports.

11. The Finance Committee has approved an equity commitment of \$36,648 million for the new airport. As at 30 September 1997, the AA had committed \$42,048 million, or 84% of the project estimate. Of this, the AA had expended \$40,502 million, or 81% of the project estimate.

12. The Finance Committee has approved an equity commitment of \$23,700 million for the AR. As at 30 September 1997, the MTRC had committed \$30,399 million, or 89% of the project estimate. Of this, the MTRC had expended \$27,286 million, or 80% of the project estimate.

FINANCING OF THE NEW AIRPORT

13. On 19 September 1997, the AA signed a HK\$4,000 million syndicated revolving credit facility with 32 international financial institutions. This facility is for general corporate purposes, including the financing of the second runway, the northwest concourse and new capital expenditure arising after the opening of the new airport. The facility will not be used for the opening phase of the new airport (Phase 1a), for which funding provisions have been made through a credit facility of HK\$8,200 million signed by AA and a group of 48 banks in January 1996.

CLAIMS

14. As at 30 September 1997, the Government, the AA and the MTRC had received a total of 18 536 claims against 152 major ACP construction contracts. Of these, we have resolved 5 224 at a cost of \$2,580 million against an original claim amount of \$9,741 million. Our current assessment is that sufficient contingency remains to meet the unresolved claims, and that we will have a reasonable balance to meet changes and variation orders for the remaining contract period.

/THE

THE NEXT QUARTERLY REPORT

15. The next quarterly report covering the period October to December 1997 will be issued in January 1998.

New Airport Projects Co-ordination Office
Works Bureau
November 1997

ACP QUARTERLY REPORT

July - September 1997

Quarterly Review

As at 30 September, we had completed approximately 90% of the ACP, with government ACP works 99% completed. 181 major ACP contracts at a total cost of approximately \$96 billion had been awarded by Government (92), AA (57), MTRC (31) and Western Harbour Tunnel Company Ltd (1). The list of major ACP contracts awarded so far is at Annex I and the tender schedule for the next quarter ending 31 December 1997 is at Annex II. A list of countries, indicating the extent of their involvement in major ACP contracts awarded, is at Annex III.

**The New Airport
AA Works**

The AA works were approximately 89% complete.

Final fixings for the roof membrane of the Passenger Terminal Building (PTB) were substantially complete except for those at the northwest and southwest concourses. Clerestory gasket installation was complete in the processing terminal, north and south concourses and the east hall. Acceleration measures have been taken by the superstructure contractor to meet the revised target completion date by December 1997. Fit-out works continued on all fronts, and some critical items would be airfreighted to recover previous slippages. Placement of the

granite hard flooring in the public areas was 78% complete. Fitout works for the landlord areas, public toilets, fixed link bridges (FLBs) and government areas continued.

Primary and secondary steelwork for 37 out of the 38 FLBs has been completed, with 34 installed with cladding panels. All 76 aircraft loading bridges have been delivered to site, out of which 52 have been erected and 36 pre-commissioned.

Overall, the PTB building services contract was 89% complete, with installation 84% complete. Acceleration measures have been taken by the contractor to meet target substantial completion by mid-January 1998. Works continued in the communication rooms, FLBs and internal fit-out works areas.

Works continued on the specialist contracts for the automated people mover (APM), lifts and escalators, fixed ground power and baggage handling system. Test running for APM vehicles commenced in August following successful inspection by the Hong Kong Railway Inspectorate. Overall installation of the APM was 94% complete. Installation of 48 out of the 54 moving walkways was substantially complete, with testing and commissioning 5% complete. Lift installation was 88% complete with testing and commissioning 25% complete. Work on installation of 57 out of the 61 escalators continued with overall installation 97% complete and testing and commissioning 3%

complete. Baggage handling conveyor works continued on programme and was over 95% complete. Computers have been installed in the baggage control room and software testing on site has commenced.

As for special systems contracts, acceleration measures have been implemented to achieve the target programme, with special attention paid to potential problem areas, including voice and data cabling, flight information system, fixed communication system and systems integration programme.

Progress on the Ground Transportation Centre (GTC) is improving. The MTRC and AA were working closely with a view to providing timely access to plant and communications rooms within the station for commencement of AR system contracts. Roof completion was targeted for mid October to allow MTRC critical access to the departures level trackbed and overhead catenary and platform screen door brackets.

The airfield works were proceeding with asphalt base and wearing course placement on the crossfield and northern taxiways. The cargo apron was complete. Pavement quality concrete and block paving works continued in the apron areas surrounding the PTB. Over 83% of pavement quality concrete has been laid. Laying of block paving was over 41% complete. Pre-commissioning of the airfield ground lighting has commenced. High mast lighting erection was complete at the cargo

apron, and continued at the PTB apron with 82 out of the 122 masts erected. Pressure testing of the aviation fuel system continued. Over 70% of the fuel pipeline system covering the PTB's south, north and west aprons has been tested.

As for landside infrastructure, works concentrated on the expressway, the south perimeter and the roads in the catering south commercial area. Work on bridges and drainage works for the airport expressway and landside areas continued. The deck and retaining walls for the five southern bridges were complete and parapet works were underway. Works on the eastern airfield tunnel and approach ramps were substantially complete. Testing and commissioning of the essential electrical and mechanical equipment was sufficiently complete for tunnel opening. Outstanding work in the western tunnel was limited to completion of backfill of the south portal end wall.

Development of the Airport Operational Readiness (AOR) programme continued, covering activities that were critical for airport opening. The Airport Opening Implementation Plan was being regularly refined. AA continued to monitor the developments of its franchisees and other commercial developments.

Franchises

Progress on Hong Kong Air Cargo Terminals Ltd (HACTL)'s Superterminal 1 facility has experienced delays on the main building and

cargo systems installations. This was accentuated by the wet weather with incomplete roof covering, resulting in a six-week delay in overall terms and a 16-week delay in the box storage system. HACTL was working with the contractor on acceleration measures to meet target 50% operational capacity by end April 1998. Meanwhile, installation of warehouse cargo handling equipment continued along with assembly of cargo transfer vehicles as well as erection of the box storage system racking and stacker cranes in the north and south voids. The first zone of the west cargo storage system was fully commissioned and handed over to HACTL for system integration on 29 September.

Asia Airfreight Terminal Co Ltd's main building works continued with concrete works complete and the roof under construction. Building services work was underway on all levels. Erection of racking for the automatic storage and retrieval system as well as the pallet handling system was underway.

Installation of glazing and curtain walling continued for Cathay Pacific Catering Services (HK) Ltd's facility, with testing and commissioning of stacker cranes underway. Lifts were ready for inspection following energisation of transformers. Weather-tightness has been achieved for the LSG Lufthansa building. Installation of chillers and freezers inside the building was complete while electrical and mechanical installation

continued. As for Gate Gourmet, concrete works have been completed, blockwork and electrical & mechanical installation continued, and cladding steelwork has commenced.

Aviation fuel tank farm works at Chek Lap Kok continued. Progress of internal and external painting of the nine tanks was affected by the wet weather, but this should not have impact on the overall programme. The fuel receiving facility at the Sha Chau Jetty structure was over 84% complete. Dredging of the basin adjacent to the jetty was 60% complete.

At the Hongkong Aircraft Engineering Co Ltd's site, both halves of the hangar roof steelwork have been assembled and lifted into position. Assembly of the hangar doors has commenced.

All in all, satisfactory progress was being made by the AA and all concerned to meet the April 1998 target opening date. On PTB works, acceleration measures have been put in place to meet the target of issuing the temporary occupation permit by December 1997. Preparation for operational trials for the PTB commencing from January 1998 was well advanced. In addition, good progress was being maintained in the development of the five-phase plan for the mobilisation and move of airport operations from Kai Tak to the new airport.

Meanwhile, special attention continued to be

directed to five key areas, i.e. fit-out works at the PTB; progress of works of franchisees, particularly HACTL's cargo handling facilities; progress on various systems and software; the AOR Programme; and the recruitment and training of staff for airport opening.

Government Facilities at the New Airport

Overall, the projects were 91% complete, tracking slightly ahead of programme.

The Air Traffic Control Complex, Police Station, Microwave Station and Sub-divisional Fire Station were substantially complete. Work on building services and systems installation continued at the Government Flying Service Building and the Airmail Centre.

Installation, acceptance testing and calibration of most of the air traffic control systems were substantially complete. The Civil Aviation Site Acceptance Test was scheduled to commence in October 1997. Minor rectification work continued on the off-the-shelf simulator, aerodrome terminal information system, speech processing equipment, surveillance radars, world area forecast system data processing workstation and the aviation meteorological data processing system. Most of the postal mechanisation system equipment has been delivered to site and installation work was progressing well.

Airport Railway (AR)

Overall, the AR was 89% complete with progress generally in accordance with the project programme. While building services work at Tsing Yi Station was 30% complete, critical cable containment and cable installation to support Test Running in early 1998 were progressing well. Delay recovery measures were being implemented to meet critical access dates for system-wide contracts.

On Hong Kong Station, work on the floor finishes and ceiling works at the Airport Express Line (AEL) concourse and mezzanine floor was in progress. Finishing works and building services installation at the Hong Kong Station were 60% complete. The contractor would increase the output of these works to meet the critical access dates for system-wide contractors. As for the Central Subway, architectural finishing works have commenced following substantial completion of the reinforced concrete work. Overall, works were 86% complete.

Structure of the Kowloon Station was nearly complete, and building services work at the Tung Chung Line (TCL) level and at AEL level was 35% complete. Construction of the western elevated road was progressing well with all piers and crosshead completed. Overall, works were 82% complete.

Waterproofing work for the Olympic Station

structure was complete and system-wide works were in progress. Overall, works were 98% complete.

At the Lai King Station, deviation of the existing MTR Tsuen Wan Line (Tsuen Wan bound) was effected on 6 July 1997, following which construction of platform extension slab over the abandoned track commenced. Building work, building services installation and system-wide work continued. Overall, works were 87% complete.

Architectural finishing works for the Tsing Yi Station were in progress. Critical fibre optic cable pulling from central equipment room to all four cable termination rooms at platform was progressing well. Manpower for building services work has increased to meet the critical access dates for system-wide contractors. Overall, works were 88% complete.

Building and architectural finishing works at the Tung Chung Station were in good progress. Building services work were 78% complete. Overall, works were 95% complete.

The main and ancillary buildings at the Siu Ho Wan Depot, the depot access road bridge and associated road work were substantially complete. Building work, building services installation and system-wide work continued. Overall, works were over 98% complete.

Mitigation measures were in place to mitigate previous delays experienced in the works entrusted to the AA's Landside Infrastructure and GTC contracts. Plant rooms in the Airport Station have now been made available to MTRC's contractors, whose target was to complete the system-wide contracts by end 1997 for commencement of AR Test Running.

Tracklaying works from the Airport Station at Chek Lap Kok to the Hong Kong Station were in progress. Commissioning of the mainline test track was substantially complete. Test runs of the TCL trains in North Lantau at a speed of 135 km/hr were successfully performed in August 1997. The contractor has mobilised additional resources and plans for night works were being formulated to increase tracklaying productivity at Hong Kong Station, Kowloon Station and on Chek Lap Kok. Overall, works were 98% complete.

Signalling installation continued on schedule. Main cabling was substantially complete from the middle of Tsing Ma Bridge to just before the Airport Station, and from Olympic Station to the Lai King viaduct. The manufacturing and delivery of fans, dampers, cables, motor control centres and environmental control system control panels continued.

Overall, good progress continued to be made by MTRC towards meeting the June 1998

target commissioning date. The Kowloon Station was topped out in September; tracklaying was near completion; and the test run for the first TCL train was successfully performed in August. With the substantial completion of civil works and trackwork, emphasis was now placed on completion of the electrical and mechanical system-wide installations to allow the timely commencement of AR Test Running scheduled for early 1998.

North Lantau Expressway (NLE)

The NLE project was essentially complete with only minor remedial works outstanding.

Tung Chung Development Phase 1 (TCD)

The project was 96% complete.

Commissioning tests for the Tung Chung Pumping Station and the Siu Ho Wan Sewage Treatment Plant were complete. The Police Station was substantially complete.

Work on the Refuse Transfer Station was progressing well. The Station is expected to be operational by March 1998 to tie in with airport opening in April 1998. Design work was substantially complete, and construction of the superstructure and the marine vessel was in progress.

The Home Ownership Scheme blocks and public rental flats were complete and handover of flats to residents commenced on 21 July and 19 August respectively. Other

facilities were being commissioned in stages to support the population intake.

Lantau Link (LL)

The LL was essentially complete.

Following completion of site acceptance tests, the essential traffic control and surveillance systems and equipment were handed over to the Tsing Ma Control Area operator for operation in August 1997.

Route 3 – Kwai Chung and Tsing Yi Sections (RT3)

The RT3 project was essentially complete.

Minor outstanding works and rectification of defects would be completed within the maintenance period.

West Kowloon Reclamation (WKR)

Overall the WKR was 99% complete.

Hinterland drainage works in the southern and northern areas were substantially complete. The outstanding road reinstatement works were scheduled for completion by December 1997.

Some of the localized ACP drains/pipes in the hinterland were behind programme. Actions have been taken by the contractors to expedite progress, which would be closely monitored.

All of the ACP new roads in WKR have been opened to traffic except for the eastbound carriageway of Road SR4, which would be

completed and opened to traffic by December 1997.

**West Kowloon Expressway
(WKE)**

The WKE project was essentially complete. Minor outstanding works would be finished within the maintenance period.

**Central Reclamation Phase 1
(CWR)**

Works under the reclamation contract were essentially complete. The following outstanding station-related works, which have been entrusted to the MTRC and included in the AR Hong Kong Station Contract, are expected to be completed by June 1998:

- Rumsey Street flyover extension: falsework for the first span of the bridge deck was complete; construction of columns and pilecaps continued; and casting of the first span of the deck would commence.
- Jubilee Street underpass: Stage 2 construction of the diaphragm walls and base slabs was complete; stage 3 construction has commenced.
- New bus termini: work has yet to commence.
- Footbridge FB1: construction was in good progress.
- Pumping Station: base slab has been cast; and casting of walls continued.

- Remaining Landscape work has yet to commence.

Utilities and Others

The ACP-funded utilities (i.e. water works) were essentially complete.

Western Harbour Crossing (WHC)

The WHC was complete and opened to traffic on 30 April.

Enclosure 3

ACP Claims Summary as at 30 September 1997

Introduction

1. ACP construction contracts apportion risks involved in the construction process between the Employer and the Contractor. They must therefore contain means by which contractors may submit claims for additional money (cost claim) or time (extension of time or “EOT”) or both, associated with the risks where the Employer has liability. Contractual claims are a normal and natural part of construction contracting.

2. From the inception of the ACP, the Government has aimed to set in place systems which will enable the early identification of contractual claims. Equally, we have put in place mechanisms which would allow claims to be dealt with early and to avoid, as far as possible, contractual claims turning into formal contractual disputes.

Total claims recorded against ACP

3. As shown at the Annex, the Government, the Airport Authority (AA) and the MTR Corporation (MTRC) (collectively referred to below as the Works Agents) had awarded a total of 152 major ACP construction contracts with a total award value of \$89,291 million as at 30 September 1997. We have not included the contract for the Western Harbour Crossing because the franchisee is responsible for all claims on the contract.

4. The Works Agents have recorded a total of 18,536 claims against the awarded contracts since inception. Of these, the Works Agents have resolved 5,224 claims either by way of settlement or withdrawal of the claims by the contractors, leaving 13,312 unresolved claims.

Settlement of claims

5. In resolving the 5,224 claims, the Works Agents have awarded \$2,580 million to the contractors. The original amount claimed was \$9,741 million.

Enclosure 3
(cont'd)

Unresolved claims

6. As at end September 1997 unresolved claims for CWRP projects totalled 2,620 and the total amount claimed was \$4,115 million. The estimated contingent liability for these unresolved claims stood at \$863 million.

7. As at 30 September 1997 the AA had a total of 49 major construction contracts. Against these, 8,304 claims had been recorded and 7,072 remained unresolved. Contractors were seeking a total of \$6,003 million against such unresolved claims and the AA's estimated contingent liability stood at \$1,840 million.

8. For the MTRC, the number of awarded AR contracts remained at 31 as at end September 1997. Against these, 4,620 claims had been recorded with 1,000 of them resolved. The amount claimed by contractors in respect of the 3,620 unresolved claims was \$3,270 million. The MTRC's estimated contingent liability stood at \$1,480 million.

9. In total, of the 13,312 unresolved claims, 10,260 are claims for cost or both cost and EOT. The contractors were, as at end September, seeking recovery of \$13,388 million for these claims and the Works Agents have estimated their contingent liability against these claims at \$4,183 million.

10. Current assessment by the Works Agents indicates that there is sufficient contingency within the revised estimate for the ACP projects to settle these claims while leaving a reasonable balance to meet changes and variation orders for the remaining contract period.

11. EOT claims will also be closely monitored to ensure that critical contract completion dates will remain unaffected. The Works Agents will, as a safeguard, have the right to order acceleration measures in those instances where a valid EOT claim might jeopardise a critical completion date.

12. In short, we are confident that sufficient allowance exists within the overall ACP budget to meet ACP claims requirements.

Situation on ACP Contractual Claims
(as at 30 September 1997)

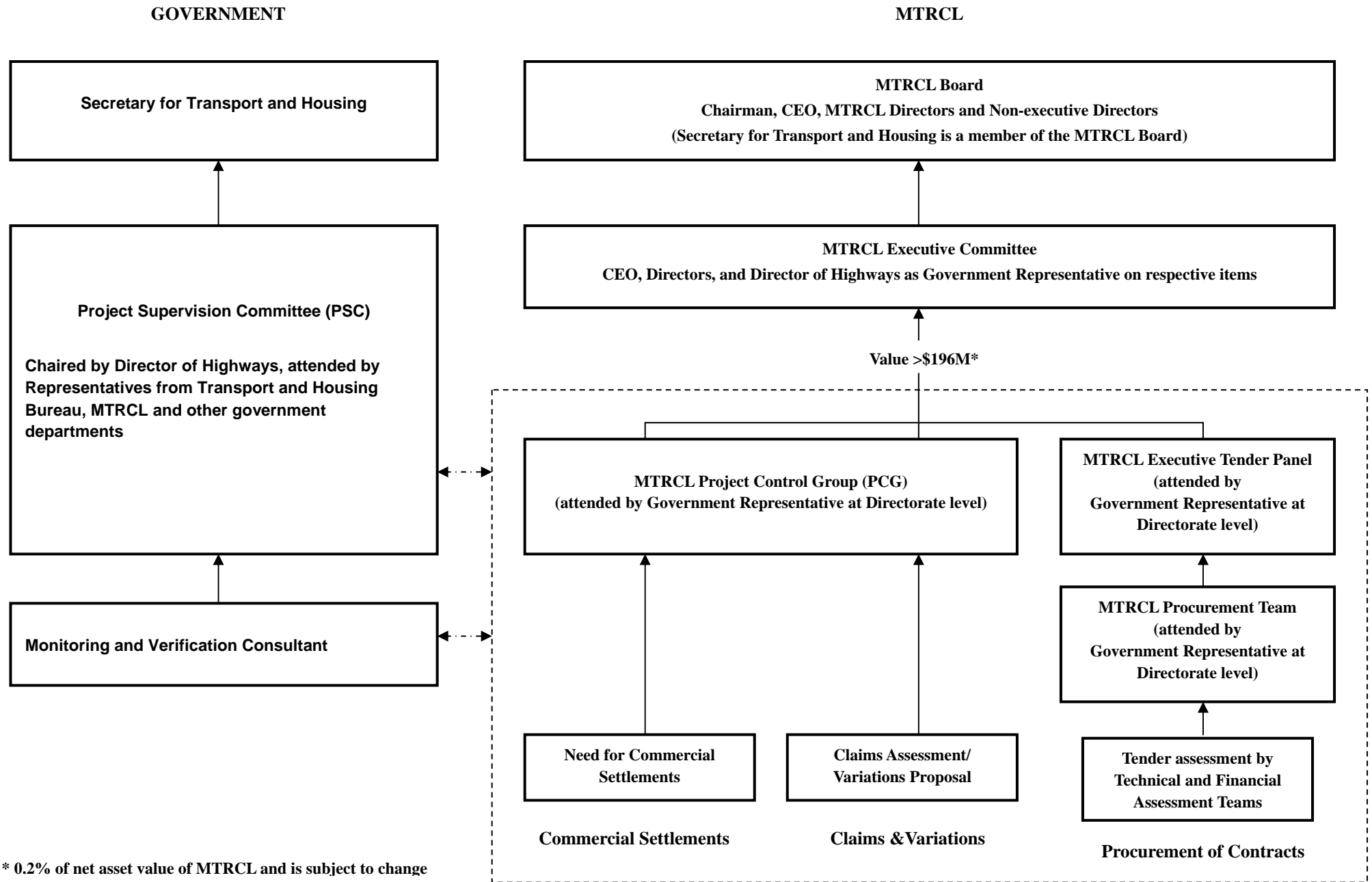
ACP Project	Number	Award Value \$M	Works completed ⁽²⁾ \$M	Number	Number	Amount claimed originally \$M	Amount awarded \$M	Number ⁽³⁾	Amount claimed \$M	Estimated contingent liability ⁽⁴⁾ \$M
CWRF	72	37,393	36,645	5,612	2,992	5,637	964	2,620	4,115	863
AA - CLK Airport	49	34,142	30,828	8,304	1,232	2,556	1,050	7,072	6,003	1,840
MTRC - Airport Railway	31	17,756	17,860	4,620	1000	1,548	566	3,620	3,270	1,480
TOTAL	152	89,291	85,333	18,536	5,224	9,741	2,580	13,312	13,388	4,183

- Notes :
- (1) Excludes non-construction contracts such as design, supply and equipment contracts.
 - (2) May exceed award value due to contract variations
 - (3) Includes rejected claims
 - (4) Includes interim awards

Annex 2

A flowchart on the monitoring mechanism

Flowchart on Government’s monitoring mechanism on the construction of the Hong Kong section of the XRL Project



* 0.2% of net asset value of MTRCL and is subject to change