

**立法會**  
**Legislative Council**

LC Paper No. CB(4)1617/16-17  
(These minutes have been seen  
by the Administration)

Ref : CB4/PL/TP/1

**Panel on Transport**

**Minutes of special meeting held on  
Friday, 28 April 2017, at 9:00 am  
in Conference Room 1 of the Legislative Council Complex**

**Members present** : Hon CHAN Han-pan, JP (Chairman)  
Dr Hon KWOK Ka-ki (Deputy Chairman)  
Hon Abraham SHEK Lai-him, GBS, JP  
Hon Jeffrey LAM Kin-fung, GBS, JP  
Hon Starry LEE Wai-king, SBS, JP  
Hon CHAN Hak-kan, BBS, JP  
Hon Mrs Regina IP LAU Suk-yee, GBS, JP  
Hon Paul TSE Wai-chun, JP  
Hon LEUNG Kwok-hung  
Hon Claudia MO  
Hon Michael TIEN Puk-sun, BBS, JP  
Hon Frankie YICK Chi-ming, JP  
Hon WU Chi-wai, MH  
Hon YIU Si-wing, BBS  
Hon CHAN Chi-chuen  
Hon POON Siu-ping, BBS, MH  
Hon Alvin YEUNG  
Hon Andrew WAN Siu-kin  
Hon CHU Hoi-dick  
Dr Hon Junius HO Kwan-yiu, JP  
Hon HO Kai-ming  
Hon LAM Cheuk-ting  
Hon Wilson OR Chong-shing, MH

Hon YUNG Hoi-yan  
Hon CHAN Chun-ying  
Hon Tanya CHAN  
Hon LAU Kwok-fan, MH  
Dr Hon CHENG Chung-tai  
Hon KWONG Chun-yu  
Hon Jeremy TAM Man-ho  
Hon Nathan LAW Kwun-chung  
Dr Hon YIU Chung-yim

**Members absent** : Dr Hon Priscilla LEUNG Mei-fun, SBS, JP  
Hon WONG Kwok-kin, SBS, JP  
Hon Charles Peter MOK, JP  
Hon LEUNG Che-cheung, BBS, MH, JP  
Dr Hon Fernando CHEUNG Chiu-hung  
Dr Hon Helena WONG Pik-wan  
Ir Dr Hon LO Wai-kwok, SBS, MH, JP  
Hon CHUNG Kwok-pan  
Hon LUK Chung-hung  
Hon Kenneth LAU Ip-keung, MH, JP

[According to the Judgment of the Court of First Instance of the High Court on 14 July 2017, LEUNG Kwok-hung, Nathan LAW Kwun-chung, YIU Chung-yim and LAU Siu-lai have been disqualified from assuming the office of a member of the Legislative Council, and have vacated the same since 12 October 2016, and are not entitled to act as a member of the Legislative Council.]

**Public Officers attending** : **Agenda item I**

Professor Anthony CHEUNG, GBS, JP  
Secretary for Transport and Housing

Mr Andy CHAN, JP  
Deputy Secretary for Transport and Housing  
(Transport) 2

Mr Philip HAR  
Principal Assistant Secretary for Transport and  
Housing (Transport) 4

**Attendance by invitation : Agenda item I**

Ms Jeny YEUNG  
Commercial Director  
MTR Corporation Limited

Ms Maggie SO  
General Manager — Corporate Relations  
MTR Corporation Limited

Mr Raymond YUEN  
General Manager — Marketing and Planning  
MTR Corporation Limited

**Clerk in attendance :** Ms Doris LO  
Chief Council Secretary (4)6

**Staff in attendance :** Ms Macy NG  
Senior Council Secretary (4)6

Ms Emily LIU  
Legislative Assistant (4)6

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Action

**I. Outcome of the early review of the MTR Fare Adjustment Mechanism**

(File Ref: THB(T)CR 19/5591/00 - Legislative Council Brief on the review outcome of the Fare Adjustment Mechanism of the MTR Corporation Limited

LC Paper No. CB(4)839/16-17(08) - Paper on the Fare Adjustment Mechanism of the MTR Corporation Limited and adjustments to MTR fares prepared by the Legislative Council Secretariat (updated

background brief))

At the invitation of the Chairman, Secretary for Transport and Housing ("STH") briefed members on the outcome of the second review of the Fare Adjustment Mechanism ("FAM") of the MTR Corporation Limited ("MTRCL") in 2017. With the aid of a powerpoint presentation [LC Paper No. CB(4)947/16-17(01)], Commercial Director of MTRCL ("CD/MTRCL") further illustrated the new FAM package of proposals to be implemented in 2017-2018 to 2022-2023. With the lowering of the fare increase rate by 0.6% and a special one-off 10% discount on the fare adjustment rate in 2017, the overall fare adjustment rate would be +1.49% (i.e. within the range of -1.5% and +1.5%) and hence the MTR fares would be frozen in 2017-2018.

#### The Fare Adjustment Mechanism formula

2. Mr LAU Kwok-fan was disappointed that no change was made to the existing FAM formula, but just minor patch-ups of the FAM package of proposals. He urged the Administration to reconsider incorporating a profit factor in the FAM formula, as proposed by the Democratic Alliance for the Betterment and Progress of Hong Kong ("DAB") during the public consultation on the FAM review but was not adopted by the Administration.

3. STH stressed that the Administration had seriously considered the views received during the public consultation. He mentioned that as FAM was an integral part of the rail merger agreement between the Government and MTRCL and had been incorporated into the Operating Agreement ("OA"), any changes thereto should be agreed by both sides. Before reaching such agreement, MTRCL would need to seek its shareholders' approval should there be material changes to FAM. Given the possible hurdles in the way, the Administration adopted a pragmatic approach in negotiating with MTRCL on FAM, with a view to lowering the actual fares paid by passengers by offering more fare concessions to them.

4. Mr LAM Cheuk-ting said that on contrary to public expectation, the FAM review had not brought about any long-term and material changes to the mechanism. The time-limited concessionary measures were merely petty favour. He was disappointed that the Administration had not even attempted to seek consent from the shareholders for reviewing the FAM formula. The Deputy Chairman shared similar views.

5. The Chairman did not accept the Administration's claim that no change could be made to the FAM formula without seeking approval from shareholders. He noted that the lowering of the fare increase rate by 0.6%

and provision of the special 10% discount on the fare adjustment rate had been introduced simply upon agreement between the Administration and MTRCL. In this connection, he doubted why a profit factor could not be added by agreement. He said that the existing fare level was on the high side due to the accumulated fare increases over the years, but the concessionary measures could not adequately relieve the fare burden of passengers.

6. STH indicated that as the Chief Executive had mentioned in the 2017 Policy Address, the FAM review should be conducted on the premise that a transparent FAM based on public and objective data and a direct-drive formula would be retained. The Administration had never committed to revising the FAM formula in this review. The existing direct-drive FAM formula, which adopted the components of year-on-year changes to Composite Consumer Price Index, nominal wage index (transportation section), and productivity factor ("PF"), allowed both upward and downward fare adjustments according to changes in economic conditions. STH further explained that lowering of the fare increase rate by 0.6% and introduction of the special 10% discount was not part of the FAM formula.

7. STH further responded that the Government as the majority shareholder of MTRCL could not override the interests of the minority shareholders according to the relevant laws and regulations. While reviewing the FAM to better respond to public concern about the relationship between fare adjustment and MTRCL's profitability as well as passengers' affordability, the financial prudence of MTRCL required of as a listed company should be respected. The Administration had duly played the role as the regulator of public transport services in the negotiation with MTRCL. Yet, when the Board of MTRCL discussed the Administration's requests relating to the FAM review, the government representatives in the Board had to withdraw from the relevant meetings to avoid any potential conflict of interests.

#### Lowering of the fare increase rate by 0.6 percentage point

8. Mr Michael TIEN was pleased that MTRCL had agreed to lower the fare increase rate by 0.6% each year for the coming six years so that passengers could still benefit from moderated fare adjustment despite the negative PF value which would be reset as zero. He said that the reduction would have a compound effect on the fare base and hence long-term impact on the fare level.

9. Mr WU Chi-wai however considered that MTRCL was using financial management techniques to achieve a negative PF value. In his view, taking

into account the profits earned from MTRCL's transport operation, and the commissioning of new railway lines which should have brought down the average maintenance costs by economies of scale, the PF value would not possibly be negative and reset as zero. Further, Mr WU and the Deputy Chairman queried if the setting of the rate of reduction at 0.6% was arbitrary. The Deputy Chairman further asked why a higher rate of reduction was not adopted.

10. CD/MTRCL advised that the PF value was the outcome of the calculation of half of the compound annual growth rate of productivity in the reference period (i.e. 2012 to 2016 for the current review), where productivity was measured as a ratio between output (i.e. income) and input (i.e. cost) in MTRCL's transport operation. Since the railway system had been in use for nearly 40 years, MTRCL had continuously renewed its railway assets to ensure service quality. As such, the input had increased at a faster rate than the output in the past five years, and resulted in a negative PF value. In response to the Government's request, MTRCL had carefully examined its past operation and future operation forecast, and agreed to lower the fare increase rate by 0.6% each year to ensure that passengers could still benefit from a moderated fare adjustment consistent with the prevailing PF value of 0.6%. She stressed that the reduction by 0.6% was material.

11. Ms YUNG Hoi-yan was concerned that in anticipation of continuous investments in railway assets in future, the PF value would never become positive. It would have no effect in moderating any fare increase, not to mention contributing to a fare reduction. She considered it necessary to put in place a mechanism to incentivize MTRCL to improve its productivity, or penalize the corporation when the PF value remained as negative or zero.

12. In reply, CD/MTRCL explained that in the last FAM review in 2013, the PF value applicable for 2013-2014 to 2016-2017 was positive (i.e. 0.6%) based on the financial data from 2008 to 2012 when the operating cost had increased at a slower rate than income after the rail merger. For the current FAM review, the data from 2012 to 2016 were used. There was a drop in the output/input ratio from 1.812 in 2012 to 1.762 in 2016 by 2.75% as a result of the significant increase in the costs for ensuring service quality. The negative PF value was reset as zero under the existing arrangement. Despite the challenges, MTRCL would continue to enhance productivity. STH added that it was not in the interests of passengers if MTRCL cut the operational costs for asset maintenance and renewal for achieving a positive PF value.

13. Mr LAU Kwok-fan asked if the Administration would consider the suggestion made by DAB for a long time on using the cash dividends received by the Government each year from MTRCL to set up a fare stabilization fund. It would be a long-term solution for stabilizing MTR fares by offsetting fully or partially the fare increase determined by the FAM formula. The fund could also be used for providing subsidies for other means of transport as appropriate. Referring to a view expressed by the Chairman of MTRCL that the Government should sell its shares for setting up the fare stabilization fund, Mr LAU disagreed with this view as it would undermine the Government's bargaining power and control over MTRCL's operations.

14. Mr CHU Hoi-dick, however, had reservation about using public money to set up a fare stabilization fund on concern that the money would eventually go into the pockets of MTRCL's shareholders. He suggested taking a dual approach to, at the same time, set a cap on MTRCL's profits and permit fare increases only if its profits had been kept below the cap for a minimum period.

15. STH responded that the dividends received from MTRCL formed part of the public coffers. The Administration was obliged to ensure the prudent use of the dividends in appropriate areas. Besides, it had been providing different transport subsidies through various policy initiatives. He also said that the Government had no intention to downsize its shareholdings in MTRCL.

16. The Deputy Chairman, Ms Claudia MO and Mr LEUNG Kwok-hung asked if the Government would increase its shareholding interests in MTRCL or buy back all the shares of MTRCL in order to gain full control over the operation and fares of MTR. In response, STH stressed that there had been thorough discussions and wide consensus in the community towards the listing of MTRCL in 2000 and the rail merger in 2007. Public interests had been protected through the introduction of FAM under OA.

#### Fare adjustment in 2017-2018

17. The Deputy Chairman, Mr LAM Cheuk-ting, Mr WU Chi-wai, Mr LEUNG Kwok-hung and Mr Nathan LAW were concerned that the fare increase in 2018-2019 would be inflated by carrying forward the fare increase rate of 1.49% from 2017-2018. Mr LAM Cheuk-ting called on MTRCL to forgo the fare increase rate of 1.49% altogether. The Deputy Chairman asked why the Administration had not followed some overseas cities like London and New York to freeze the MTRCL fares for several years to relieve the burden of travelling expenses of the public.

18. STH explained that in the current FAM review, it had been agreed to retain the existing arrangement that when the overall fare adjustment rate determined by the FAM formula fell within the range of -1.5% and +1.5%, the fare adjustment would be deferred and added onto that for the following year for implementation. As such, the fare increase rate of 1.49% for 2017-2018 would be rolled over to 2018-2019. Notwithstanding this, the fare increase to be implemented in 2018-2019 would still be subject to the affordability cap such that it should not be higher than the year-on-year change in the Median Monthly Household Income in the fourth quarter of 2017.

19. Dr YIU Chung-yim said that according to MTRCL, the fare adjustment rate for 2017-2018 determined by the FAM formula would be +2.25%. The overall fare adjustment rate of 1.49% was derived from deducting the fare adjustment rate by 0.6% and then applying the special 10% discount, i.e.  $(+2.25\% - 0.6\%) \times 0.9$ . However, he said that the calculation should be corrected because fare after discount should be calculated by multiplying the original fare by "(1 – discount rate)". In response, CD/MTRCL clarified that the special 10% discount meant for discounting the fare adjustment rate, but not the fare amount.

#### Profit Sharing Mechanism

20. Mr CHAN Chun-ying noted that under the Profit Sharing Mechanism ("PSM"), MTRCL would share its profits with passengers by providing fare concessions based on its underlying business profits each year, but there was a profit sharing limit currently at \$15 billion. He worried that in case MTRCL manipulated to credit its huge profits derived from property developments under one single year, the underlying business profits in that year might far exceed the profit sharing limit and the profits to be shared through PSM would be disproportionate. As such, he suggested further raising or removing the profit sharing limit, while keeping the flat increase for each tier under the pre-determined tiered table at about 2%.

21. CD/MTRCL assured members that the booking of profits was subject to vigorous accounting procedures, and there was no cause for MTRCL to credit the profits from property developments in one single year. STH added that the underlying business profits counted towards PSM comprehensively included all MTRCL businesses. After the FAM review, the profit sharing limit had significantly increased from \$13 billion to \$15 billion having regard to the past financial performance of MTRCL. The profits shared with passengers at each tier were also expanded. STH said that the above views of Mr CHAN Chun-ying could be further considered in future FAM reviews.



### Service Performance Arrangement

22. Mr CHAN Chun-ying suggested specifying a critical number of service disruptions occurred in a year, exceeding which the penalties imposed under the Service Performance Arrangement ("SPA") should be doubled or even tripled. Mr Nathan LAW suggested imposing penalties for service disruptions of a duration shorter than 31 minutes.

23. In response, STH said that while MTRCL should be held accountable for serious service disruptions, it should not be fined for disruptions of duration shorter than 31 minutes in order not to put undue pressure on MTRCL's frontline staff, who otherwise might be tempted or pressurized to rush their repair works, hence putting railway safety at risk. He noted that serious service disruptions were not too frequent over recent years. The Administration would continue to monitor the situation and revisit the relevant issues in the next FAM review as appropriate.

24. The Deputy Chairman, Mr Jeremy TAM and Mr LEUNG Kwok-hung opined that the bonus or salary of the senior management of MTRCL should be deducted in case of serious service disruptions. Mr Jeremy TAM asked about the amount of penalty payable for the service disruption of Kwun Tong Line on 10 April 2017, and if the salary of the senior management of MTRCL had ever been deducted for poor service performance of the corporation.

25. STH replied that MTRCL had to set aside \$3 million under SPA in respect of the said service disruption of Kwun Tong Line. He also advised that upon Administration's request, the remuneration of MTRCL's staff at directorate level and above was already linked with the service performance of MTRCL.

### Fare discount mechanism and fare promotion schemes

26. Mr Michael TIEN supported replacing the existing "10% Same-Day Second-Trip Discount" scheme with the "3% Discount Scheme" to provide cash rebate to passengers for each single journey. Dr CHENG Chung-tai asked if the discount offered under the "3% Discount Scheme" would be lesser than that under the "10% Same-Day Second-Trip Discount" scheme. He also asked if the "3% Discount Scheme" would continue after the duration of concession period which would last for at least six months.

27. CD/MTRCL said that the "3% Discount Scheme" was introduced having regard to members' views that fare concessions should be provided to passengers through more direct means. She advised that the total amount of

concessions under the "3% Discount Scheme" to be offered for at least six months would be about \$235 million, which was greater than that under the "10% Same-Day Second-Trip Discount" scheme of about \$165 million.

28. STH supplemented that the amount of concessions offered under the "10% Same-Day Second-Trip Discount" scheme was subject to the total proceeds under PSM and SPA. Under the "3% Discount Scheme", MTRCL would top up the funding such that the 3% discount could last for at least six months each year.

29. Mr CHU Hoi-dick pointed out that the average fares per kilometre of West Rail Line ("WRL") and Tung Chung Line ("TCL") were more than double that of East Rail Line (Hung Hom to Sheung Shui section). He was disappointed that MTRCL had not addressed the fare differential between the three railway lines by introducing suitable discounts. The Deputy Chairman also expressed the view that the prevailing distance-based MTR fare structure put undue fare burden on passengers living in more remote areas.

30. CD/MTRCL advised that the fare promotion schemes including Monthly Pass Extras would be retained after the FAM review with a view to alleviating the fare burden of medium-and-long-haul passengers including those using WRL and TCL. Also, under the "3% Discount Scheme", the fare concessions in actual amount were relatively higher for long-haul trips.

#### Interchange scheme with green minibuses

31. Mr Jeremy TAM asked if MTRCL would consider offering other types of inter-modal interchange discounts for Tung Chung residents as there was no green minibus service in Tung Chung. CD/MTRCL advised that interchange discounts had been offered for passengers transferring between MTR and five franchised bus routes at Tung Chung Station. On Ms Claudia MO's enquiry of whether MTRCL would expand its interchange discounts to cover all franchised bus routes, CD/MTRCL responded that MTRCL had no such plan at present.

*(At 10:26 am, due to the absence of a quorum, the Chairman instructed the Clerk to ring the quorum bell to summon members to the meeting. At 10:31 am, the Chairman extended the meeting for five minutes.)*

## Motions

32. After discussion, Hon LAM Cheuk-ting moved the following motion –

本會要求港鐵放棄本年度累積1.49%的加幅，避免來年票價加幅更為沉重，減輕市民負擔。

(Translation)

This Panel requests the MTR Corporation Limited to forgo the 1.49% fare increase to be brought forward from this year, so as to avoid a heftier fare increase next year and alleviate the burden on the public.

33. The Chairman put the motion to vote. Nine members voted for the motion, none voted against it and three members abstained from voting. The Chairman declared that the motion was carried.

34. Mr LAU Kwok-fan moved the following motion –

在港鐵新票價調整機制下，市民面對車資的負擔未見減輕，因此本會要求政府立即研究利用每年從港鐵公司收取的現金股息設立票價穩定基金，以作為抵消全部或部分該年度獲准加價的幅度，令港鐵票價維持穩定水平，直接減輕調整車費後對乘客造成的負擔。此外，政府亦要積極研究可行措施，減輕市民乘搭其他交通工具的負擔。

(Translation)

As the new Fare Adjustment Mechanism of the MTR Corporation Limited ("MTRCL") fails to provide any relief to the transport fare burden borne by the public, this Panel requests the Government to immediately explore using the cash dividends it receives each year from MTRCL to set up a fare stabilization fund, which serves to offset fully or partially any fare increase approved for that year, so as to maintain MTR fares at a stable level and directly alleviate the financial burden that the fare adjustments have caused to commuters. Moreover, the Government should also actively explore feasible measures to alleviate the financial burden on the public in taking other means of transport.

35. The Chairman put the motion to vote. Thirteen members voted for the motion, none voted against it and none abstained from voting.

The Chairman declared that the motion was carried.

36. Ms Claudia MO moved the following motion –

本委員會要求港鐵公司應着緊研究考慮將綠色小巴轉乘優惠擴展至城巴、新巴等大巴。

(Translation)

This Panel requests the MTR Corporation Limited to put considerable effort into studying and considering the extension of the interchange discounts for green minibus routes to bus routes operated by Citybus Limited, New World First Bus Services Limited, etc..

37. The Chairman put the motion to vote. Twelve members voted for the motion, none voted against it and one member abstained from voting. The Chairman declared that the motion was carried.

38. Mr LAU Kwok-fan moved the following motion –

鑒於新票價調整機制未能完全反映港鐵盈利與票價的調整，為此本會要求政府與港鐵公司重新考慮將盈利指數納入調整票價的方程式內，以確保車費能平穩及市民能負擔。

(Translation)

Given that the new Fare Adjustment Mechanism ("FAM") fails to fully reflect the profitability of the MTR Corporation Limited ("MTRCL") and MTR fare adjustment, this Panel requests the Government and MTRCL to reconsider incorporating a profit factor into the FAM formula to ensure that the fares are stable and affordable to the public.

39. The Chairman put the motion to vote. Twelve members voted for the motion and one member voted against it. The Chairman declared that the motion was carried.

40. Dr YIU Chung-yim moved the following motion –

本人動議修正 2017/18 年港鐵票價[調整]方程[式]的算術錯誤，由 "整體票價調整幅度 = (+2.25% - 0.6%) x 9 折" 更正為 "整體票價調整幅度 = (1 + 2.25% - 0.6%) x 9 折"，因為折扣後售價 = 原價 x 折扣率，所以折扣後的調整 = 原價 x

(1 - 折扣率)。以\$10 票價計，經過+2.25% - 0.6%的調整後，

$$\text{票價} = \$10 \times (1 + 2.25\% - 0.6\%) = \$10.165$$

$$\text{九折後票價} = \$10.165 \times 0.9 = \$9.1485$$

$$\begin{aligned} \text{整體票價調整幅度} &= \frac{-\$10 + \$9.1485}{\$10} \times 100\% \\ &= -8.515\% \end{aligned}$$

(Translation)

I move to correct the arithmetic error in the MTR Fare Adjustment Mechanism formula for 2017/18 by amending "the overall fare adjustment rate = (+2.25% - 0.6%) x 0.9" as "the overall fare adjustment rate = (1 + 2.25% - 0.6%) x 0.9", given that the fare after discount = "the original fare x (1 - the discount rate)", and the discount = "the original fare x the discount rate". For illustration, if the fare is \$10, the fare after applying the adjustment rate of "+2.25% - 0.6%" =

$$"\$10 \times (1 + 2.25\% - 0.6\%) = \$10.165",$$

the fare after further applying the 10% discount = "\$10.165 x 0.9 = \$9.1485", and

$$\begin{aligned} \text{the overall fare adjustment rate} &= \frac{-\$10 + \$9.1485}{\$10} \times 100\% \\ &= -8.515\% \end{aligned}$$

41. The Chairman put the motion to vote. Five members voted for the motion, one member voted against it and seven members abstained from voting. The Chairman declared that the motion was carried.

## **II. Any other business**

42. There being no other business, the meeting ended at 10:36 am.