



本會檔號      Our Ref.  
來函檔號      Your Ref.

15 February 2005

Dr Sarah Liao, JP  
Secretary for the Environment, Transport and Works  
10/F, Citibank Tower  
3 Garden Road  
Central, Hong Kong

Dear Dr Liao,

**Application for Toll Increase  
by Tate's Cairn Tunnel Company Limited**

The Transport Advisory Committee has examined in detail the toll increase application submitted by the Tate's Cairn Tunnel Company Limited (TCTC). This letter sets out the Committee's views and advice to the Chief Executive-in-Council.

In considering the application, Members took the view that all relevant factors and circumstances should be taken into account. The first and foremost is the definition and interpretation of what amount to "reasonable but not excessive remuneration". Other factors include the financial position of TCTC, the current economic conditions of Hong Kong as well as any material change in it since the last toll increase in January 2000, the traffic impact that would be brought about by the proposed toll increase and last but not the least, the public acceptability of the proposed toll increase.

Members noted that while the cashflow position of TCTC had been improving since the last toll increase in January 2000, the Company had only just managed to repay its bank loan in October 2004 and had accumulated a loss of \$453 million for the first 16 years of operation.

In submitting its franchise bid in January 1988, TCTC had assumed that the project would generate an Internal Rate of Return (IRR) of 13.02% over the 30-year franchise period. The construction cost for the tunnel was in the sum of \$1,962 million. Members were informed that the projected IRR of 13.02% was not an agreed figure. Nonetheless, it is the lowest targeted IRR amongst the four Build-Operate-Transfer tunnels in Hong Kong.

Based on the current forecast, if no toll increase is to be made, TCTC would achieve an IRR of 3.87%. Members are of the view that an IRR of 3.87% would fall short of what would amount to a "reasonable but not excessive remuneration" for such a large scale and long term infrastructure investment.

If the current application is acceded to, then with the other six projected toll increases set out in its application, TCTC would achieve an IRR of 7.62%. This percentage would, in Members' view, represent a reasonable but not excessive return in the current situation. It is less than the projected IRR when TCTC submitted its franchise bid but nonetheless would reasonably remunerate TCTC as envisaged in the franchise agreement and Tate's Cairn Tunnel Ordinance. Members observed that this does not mean that the six projected toll increases should be accepted or seen as being agreed to or that the IRR of 7.62% is accepted for future applications. Each application has to be considered in the light of the then prevailing circumstances.

Members noted TCTC's claim that it had been affected by the sluggish economy in the past few years but felt that such impact was applicable to many businesses and was not unique to TCTC. Members were also mindful of the possible public reaction to the proposed toll increase and the financial impact on road users. However, given the changing economic conditions in Hong Kong and the entitlement of TCTC to a reasonable but not excessive remuneration, a balance had to be struck. With this, the right of TCTC to refer the application for toll increase to arbitration must not be overlooked. If the toll increase is

justifiable, it is much better from an overall perspective to reach an agreement with TCTC than to incur public spending by way of legal costs in resolving such differences through contentious proceedings.

From the traffic management perspective, Members noted that with the proposed toll increase, about 940 and 260 vehicles would be diverted to the Lion Rock Tunnel and Tai Po Road respectively each day. This might aggravate the traffic congestions along the two roads, especially the Lion Rock Tunnel. Nevertheless, Members considered that the KCRC Ma On Shan Line should help relieve the traffic congestion and again the question is one of striking the right balance.

After weighing all the above factors, the Committee concluded that TCTC's current application for toll increase is justified. I should be grateful if you would convey this Committee's advice to the Chief Executive-in-Council.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Teresa Cheng', with a horizontal line underneath.

(Ms Teresa Cheng)  
Chairman  
Transport Advisory Committee



交通諮詢委員會  
TRANSPORT ADVISORY COMMITTEE

31 December 2005

Dr. Sarah Liao, JP  
Secretary for the Environment Transport and Works  
10/F, Citibank Tower  
3 Garden Road  
Central  
Hong Kong

Dear Dr. Liao,

**Application for New Bus Franchises from  
Citybus Limited (Franchise for Hong Kong Island and Cross Harbour  
Routes), New Lantau Bus Company (1973) Limited and  
Kowloon Motor Bus (1933) Limited**

The Transport Advisory Committee discussed at its meeting on 22 November 2005 the applications from Citybus Limited (Franchise for Hong Kong Island and Cross Harbour Routes) ("Citybus (Franchise 1)"), New Lantau Bus Company (1973) Limited ("NLB") and Kowloon Motor Bus Company (1933) Limited ("KMB") for the grant of new franchises for 10 years to take effect upon expiry of their current franchises. This letter sets out the Committee's views and advice to the Chief Executive in Council ("CE-in-Council").

In considering the applications from the three bus companies, the Committee has taken into account all relevant factors including, inter alia, –

- (i) the relevant legislation governing the grant of bus franchises;
- (ii) the capability of the bus companies concerned to provide proper and efficient bus services;
- (iii) the willingness of the bus operators concerned to improve their bus services;
- (iv) the opinion polls of the public on the bus services provided; and
- (v) some of the terms to be introduced or modified in the proposed new franchises.

Members noted that under section 5 of the Public Bus Services Ordinance ("PBSO") (Cap 230), the CE-in-Council may grant a franchise conferring the right to operate public bus service to any company registered under the Companies Ordinance (Cap 32). A franchise may be granted for a period not exceeding 10 years. Section 12 of the PBSO states that a grantee shall at all times during the franchise period maintain to the satisfaction of the Commissioner for Transport ("C for T") a proper and efficient public bus service.

Members noted that Citybus (Franchise 1), NLB and KMB have been providing quality service to the travelling public. The lost trip rate of the three bus companies have decreased in the past five years, from 2000 to 2004. During the same period, the overall bus accidents per million vehicle-km of Citybus (Franchise 1) and KMB reduced to 4.69 and 2.82 respectively and that of NLB remained at a very low level of below 2.

According to the independent opinion polls conducted by the Hong Kong Polytechnic University in August and September 2005, about 76% to 88% of the respondents are satisfied with the services of the three companies.

Members noted that the Administration intends to introduce a number of changes to the franchises, such as additional requirements for prior approval from C for T for installation of on-bus facilities and introduction of bus related ancillary/add-on services; requirements for the bus companies to conduct passenger satisfaction surveys and to provide direct communication links and assistance to Transport Department's emergency control centre. These changes are modelled on the franchises of New World First Bus Services Limited, Citybus Limited (Franchise for the Airport and North Lantau bus network) and Long Win Bus Company Limited.

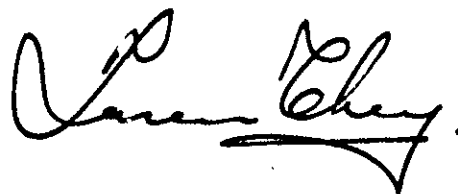
In addition, the three bus operators concerned agreed to include, inter alia, new clauses in the franchises to set out explicitly the power of CE-in-Council to adjust bus fares upward or downward and to reflect the inclusion of an additional factor (change in price of the cost elements and productivity improvement of the franchised bus industry) in the new fare adjustment arrangement, and to strengthen the procurement guidelines to ensure transparency and fair deal in transactions between related parties in the same company group. They also undertake to conduct system audit

annually to ensure integrity of the information submitted to C for T. The Committee supports these proposed changes to the franchises as they would improve bus operation in general and would be in the interest of the passengers.

In addition to inclusion of new or modified franchise clauses, Members noted that the bus companies have committed to introduce fare reduction initiatives, implement the most up-to-date environmental improvement measures and enhance service standards. Whilst the Committee generally welcomes the willingness of the bus operators to make commitment to invest in the improvement of the environmental-friendliness as well as quality of their service, Members expressed concern that the day return fare reduction would be provided in the form of advance payment. Members noted the strong public views that the bus companies should consider how to make the advance pay mode more flexible in order to benefit more passengers. Members also considered that in considering bus fare adjustment, income generated by the bus companies from activities related to bus operation should be taken into account.

Taking into account all the relevant factors, the Committee supports the Administration's recommendation in granting new franchises to Citybus (Franchise 1), NLB and KMB, subject to Members' view expressed above.

I should be grateful if you would convey the Committee's views and advice to the CE-in-Council so that they would be taken into full account in the Council's deliberation on the applications from the three bus companies. The Committee's views and advice may be released for public information when the Council's decision is announced.

A handwritten signature in black ink, appearing to read 'Teresa Cheng', with a stylized flourish at the end.

(Teresa Cheng)  
Chairman  
Transport Advisory Committee