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18 February 2016

Mr. Raymond CHOW
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr. CHOW,

**Hong Kong Section of
Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL)**

I refer to the letter from Hon. Fernando CHEUNG to the Chairman of Public Works Subcommittee ("PWSC") dated 1 February 2016, which was forwarded to us on 2 February 2016. Our reply is set out below.

In January 2010, the Government and the MTR Corporation Limited ("MTRCL") entered into an Entrustment Agreement for entrusting the construction, testing and commissioning of the XRL project to the latter at an Entrustment Cost of \$65 billion. Unless the

Finance Committee (“FC”) of the Legislative Council (“LegCo”) approves the present additional funding application made by the Government, the MTRCL must keep the total expenditure of the XRL project within \$65 billion.

That the Entrustment Cost of \$65 billion will be used up in July 2016 is based on an assumption that the XRL works will continue to proceed as planned. However, as stated in the supplementary information papers no. CB(4)333/15-16(02) submitted to the Subcommittee on Matters Relating to Railways of the LegCo and no. PWSC102/15-16(01) submitted to the PWSC earlier, if the construction works for the XRL project is suspended and the XRL contracts are subsequently terminated, the additional cost incurred is about \$4.8 billion, which is considered a conservative estimate. The Government cannot assume that additional funding will surely and timely be approved by FC of the LegCo, hence the Government must reserve funding for the suspension of works and termination of the contracts in order to contain the project expenditure under the Entrustment Agreement of the XRL project within the Entrustment Cost of \$65 billion. In other words, we must consider whether there is a need to suspend the works when the total expenditure of the project approaches \$60 billion.

As at 31 December 2015, the cumulative expenditure of the various awarded contracts for the XRL project was about \$52.2 billion. Including the Project Management Cost payable to the MTRCL, insurance fee and other miscellaneous expenditure, the total expenditure under the Entrustment Cost of the XRL project amounted to about \$57.6 billion. According to the information provided by the MTRCL, the estimated total expenditure would reach about \$60.2 billion in March this year. Therefore, if it is still uncertain by end February this year whether the additional funding for the XRL project will be approved, the Government must critically review the overall financial situation of the XRL project and consider the need and timing of suspension of the works, when we will have a better grasp of the estimated total expenditure by then.

Yours sincerely,



(Chris NG)

for Secretary for Transport and Housing

c.c.

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