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Panel on Transport

Subcommittee on Matters Relating to Railways

Background brief on Disneyland Resort Line

Introduction

On 24 July 2002, the Government entered into a Project Agreement with the MTR Corporation Limited (MTRCL) for the financing, design, construction and operation of the Disneyland Resort Line (DRL), formerly known as "the Penny's Bay Rail Link".

2. The DRL is a single-track railway with a passing loop, allowing the operation of two trains. The DRL provides a rail-shuttle service between a new station on the existing Tung Chung Line at Sunny Bay and a new station adjacent to the Hong Kong Disneyland (HKD). These two new stations have been designed to complement the environment and special features are to be incorporated in the design of the train cars.

3. Under the Project Agreement, the scheduled operating date of the DRL is 1 July 2005.

Financing arrangements

4. The initial capital cost of the DRL was estimated to be $2 billion (in money of the day). On a standalone basis, the DRL was considered financially not viable. However, in considering that the DRL was essential to the opening of the HKD as it would provide a principal gateway to the theme park, conveniently linked to other parts of the territory, and could bring added value to the overall economy and enhance the growth of tourism in Hong Kong, the Government, in July 2002, agreed to waive its claim for $798 million (in present value) worth of dividends that it could otherwise expect to receive as a shareholder from the MTRCL from time to time during the next few years.

These waived dividends would support the financing, construction and operation of the DRL by the MTRCL.

5. The Administration had pointed out that when the MTRCL was privatized in 2000, the Government undertook in the Initial Public Offering Prospectus for MTR Shares and in its Operating Agreement with the MTRCL that the Government would not require the company to construct and operate any future railway project without its agreement. The Government had also recognized that the MTRCL would require an appropriate commercial rate of return on its investment in any new railway projects, which was considered to be between 1% and 3% above the estimated weighted average cost of capital of the company. For the DRL, all its revenues net of capital and operating expenditures over the franchise period were estimated and then discounted at the minimum rate of return (11.25%) to derive the net present value. Since the net present value was negative $798 million, the Government was required to provide funding support of this amount. The financial support to be provided to the MTRCL in the form of waived dividends had been estimated based on a thorough check on the MTRCL's assumption including both cost items and patronage. Government's financial advisors also checked the MTRCL's financial assumptions and advised that they were reasonable. The Administration explained that funding support through a dividend waiver was not a cost to the Government but should be treated as retention and enhancement in value of the Government's investment in the MTRCL.

Previous discussions of the Subcommittee

6. In July 2002, the Subcommittee on Matters Relating to Railways held four meetings with the Administration to discuss the implementation of the DRL project. Members had expressed concern on the following matters:

(a) the justifications for implementing the DRL project, given that it was financially not viable;

(b) the guiding principles behind the choice of the dividend waiver option vis-à-vis other funding support options as a means of financial support to the MTRCL for the DRL, and the assessment criteria in applying this option for financing future railway projects;

(c) whether the dividend waiver option was lawful and represented the best interest of the general public;

(d) the basis and reliability of the capital cost estimate and the revenue assumptions of fare and estimated additional revenue induced by the DRL to the rest of the MTR network

(e) the basis for pitching the project rate of return at 11.25% for financial analysis purpose;

(f) the sustainability impact assessment of the DRL project, including its impacts on the economic, environmental and social conditions of Hong Kong;

(g) the basis and cost-effectiveness for adopting a single-track railway system under the DRL project which would restrict its interconnection with other MTR railway lines; and

(h) competition among different public transport modes serving the HKD and the reasons for the Government to consult the MTRCL before raising the level of bus services as specified in the Project Agreement

7. At the Subcommittee meeting held on 24 July 2002, the Subcommittee passed a motion, urging the Administration to speed up the delivery of the DRL and provide regular progress report to the Subcommittee. The Subcommittee however had reservation about the Government's proposed dividend waiver for financing the railway project.

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