

THB(T)CR 10/1016/99

Tel No. : 2189 2187

Fax No. : 2868 5261

Mr Andy Lau
Clerk to Subcommittee
Panel on Transport
Legislative Council Secretariat
3/F Citibank Tower
Hong Kong

23 April 2008

Dear Andy,

**Legislative Council Panel on Transport
Subcommittee on Matters Relating to Railways
Follow-up Matters of the Meeting on 27 March 2008**

Shatin to Central Link and MTR Kwun Tong Line Extension

During the discussion of the Shatin to Central Link (SCL) at the meeting of the Subcommittee on Matters Relating to Railways on 27 March 2008, Members enquired about the sharing arrangement of the SCL net revenue. We would like to provide further explanation as follows:

In the context of the rail merger, the Government, Kowloon-Canton Railway Corporation (KCRC) and MTR Corporation Limited (MTRCL) agreed that the concession approach can be adopted for new railway projects. Under this framework, the Government is prepared to provide, at its cost, the necessary railway infrastructure of the SCL. Upon completion of the railway, the MTRCL will be granted a service concession and pay the Government/KCRC service concession payments for the right to operate the railway. The service concession payment will be about 90% of the present value of the net profit from the SCL (i.e. the present value of its operating revenue minus the present value of the operating expenses and asset replacement cost incurred by the

MTRCL). The remaining 10% will be retained by the MTRCL. Therefore, the total concession payment will be dependent on the SCL fare level, actual patronage and non-fare revenues after the SCL has come into operation. The current estimate of the service concession payment is about \$91.8 billion.

The above arrangement is the result of negotiations among the parties concerned during the rail merger. The Legislative Council was briefed on the arrangement when the Government announced the commencement of the discussion on the rail merger. Under the concession approach, the Government shares with the MTRCL the operating risk of the SCL and the net operating revenue in corresponding proportion. This arrangement will provide reasonable economic incentives for the MTRCL to maintain its standard of service. In determining the proportion of sharing, the parties concerned have taken into consideration factors such as the rate of return for the Government in funding the SCL and an appropriate commercial rate of return for the MTRCL as a commercial entity.

Yours sincerely,

(Henry Chan)
for Secretary for Transport and Housing

c.c. FSTB (At tn: Mr Clement Leung, DS(Tsy)2)