

LEGISLATIVE COUNCIL BRIEF

TUNG CHUNG LINE EXTENSION FINANCIAL ARRANGEMENT

INTRODUCTION

At the meeting of the Executive Council on 28 February 2023, the Executive Council ADVISED and the Chief Executive ORDERED that approval should be given to grant the MTR Corporation Limited (MTRCL) the property development rights of the Tung Chung Area 113 (the Site) and deduct a fixed lump sum from the full market value (FMV) land premium of the Site assessed on a “with-railway” basis as funding support to MTRCL for bridging the funding gap to implement the Tung Chung Line Extension (TUE) project.

THE PROJECT

2. The TUE project is one of the seven recommended railway schemes in the Railway Development Strategy 2014. The background of the project is at **Annex A**. In 2020, we briefed the Subcommittee on Matters Relating to Railways of the LegCo Panel on Transport that the then estimated capital cost for the TUE project was about \$18.7 billion (in December 2016 prices). The TUE project would not be financially viable to MTRCL by virtue of the incremental fare and non-fare revenues alone estimated to be generated by the project from the scheduled commissioning date of the two new Tung Chung Line stations in 2029 to the end of the franchise in 2057.

3. Upon completion of the preliminary design, MTRCL updated the project estimates in July 2021. The Government commissioned an independent checking consultant (ICC) to check the estimated project costs and incremental revenues of the TUE project prepared by MTRCL with reference to the actual expenditures of the recent railway projects and prevailing market trends. Based on the checking completed by the ICC in August 2022, the capital cost estimate, the funding gap and the economic internal rate of return of the TUE project were estimated to be \$19.5 billion (December 2020 prices), \$15.5 billion (July 2022 Net Present Value (NPV)) and 3.9% respectively.

Financial Arrangement

4. Under the Rail-plus-Property model for TUE, funding support to bridge the funding gap of the railway project would take the form of a fixed lump sum amount to be deducted from the FMV land premium of the property development site. The fixed lump sum amount has been agreed with MTRCL as \$18.3645 billion (money-of-the-day prices), which is equivalent to the above-mentioned funding gap of \$15.5 billion (July 2022 NPV), and the land premium (from which the fixed lump sum amount would be deducted) would be assessed on “with-railway” basis at the time of execution of land grant initiated by MTRCL. This provides sufficient funding support and certainty to MTRCL for taking forward the railway project.

B

5. The Site¹ is located in immediate vicinity to the proposed Tung Chung East (TCE) Station as shown at **Annex B**, with an area of about 7.6 hectares, and is newly reclaimed by the Civil Engineering and Development Department under the Tung Chung New Town Extension project and currently vacant. The FMV land premium of the Site will be assessed based on the prevailing market condition at the date of valuation. The fixed lump sum amount would be deducted from the FMV premium of the Site.

6. In addition to the ICC’s assessment, independent surveying firms have been engaged via the ICC to provide estimates of the FMV land premium of the Site. Based on the land premium valuation² provided by the ICC and the independent surveying firms, the FMV land premium of the Site would be sufficient for providing the funding support for the TUE project. MTRCL is required to pay land premium (i.e. the FMV land premium less the fixed lump sum amount) to the Government for the development of the Site. In an unlikely event where the FMV premium is insufficient to cover the funding gap, MTRCL will absorb the shortfall in the funding support.

7. We consider the funding support to be provided to MTRCL for implementing the TUE project sufficient and reasonable, with the deduction of the fixed lump sum amount from the FMV land premium payable for the Site. MTRCL has conducted its own separate assessment

Note ⁽¹⁾ The Site falls within an area zoned “Other Specified Uses” annotated “Commercial and Residential Development cum Public Transport Interchange” in the approved Tung Chung Extension Area Outline Zoning Plan No. S/I-TCE/2. This zone is intended for an integrated development for commercial and residential uses cum Public Transport Interchange with the provision of open space and Government, Institution and Community facilities.

Note ⁽²⁾ The valuations by the ICC and the independent surveying firms were all conducted according to the Valuation Standards on Properties published by Hong Kong Institute of Surveyors and other relevant statutory regulations.

on the business case of developing the TUE project with the Site under the R+P model and is prepared to implement the TUE project. MTRCL would bear all the associated commercial risks arising from market fluctuations and rail operations.

IMPLICATIONS

8. The funding gap of TUE project of \$15.5 billion (July 2022 NPV) would be bridged by land premium deduction through granting the property development rights of the Site to MTRCL at FMV land premium on a “with-railway” basis. Additional civil service posts have been secured for the departments concerned to take forward the TUE project.

9. The TUE is a designated project under the Environmental Impact Assessment (EIA) Ordinance (Cap. 499) and an Environmental Permit (EP) is required for the construction and operation of the TUE. The EIA report was approved under the EIA Ordinance on 12 July 2022 and the EP was issued to MTRCL on 9 August 2022. MTRCL will implement all recommended mitigation measures in the EIA report and comply with the conditions in the EP as well as other statutory requirements for environmental protection.

10. The Government’s funding support would enable the implementation of the TUE project, which would otherwise not be financially viable. The TUE, upon completion, will improve the connectivity and accessibility of the TCNTE, thereby helping to unleash the full development potential of the area. The TUE would also help strengthen the railway as the backbone of the public transport system in Hong Kong.

11. The TUE should help improve mobility and air quality in the long term through enabling more commuters to switch from road to rail transport. Suitable mitigation measures will be implemented to alleviate any environmental impacts during the construction and operation stage. The concerns and views of the public, in particular those from various stakeholders, will be handled with care.

PUBLIC CONSULTATION

12. The Government and MTRCL have carried out extensive consultation on the TUE project in the past few years. Before the commencement of construction works, MTRCL will set up community liaison groups to enable direct dialogue with the local community including affected owners and residents and to handle enquiries and complaints.

PUBLICITY

13. A press release will be issued and the Subcommittee on Matters Relating to Railways of the LegCo Panel on Transport will be briefed.

ENQUIRIES

14. For enquiries on this brief, please contact Mr Eddie LEUNG, Principal Assistant Secretary for Transport and Logistics 7, at 3509 8167.

February 2023
Transport and Logistics Bureau

Background of Tung Chung Line Extension (TUE) Project

The TUE project mainly comprises Tung Chung West (TCW) Extension, which is a 1.3-kilometre long extension from the existing Tung Chung Station of Tung Chung Line (TCL) to a new station at the TCW area (TCW Station), as well as a new intermediate Tung Chung East (TCE) station (TCE Station) with approximately 1.2-kilometre long railway track re-alignment between the existing Sunny Bay Station and Tung Chung Station of TCL.

2. The main function of the TUE project is to serve the TCW area and the new developments in the TCE area, which are collectively referred to as the Tung Chung New Town Extension (TCNTE). The TCNTE is an important source of land supply to meet Hong Kong's housing, economic and social needs. The TCNTE project involves reclamation at the TCE area to create new land of about 130 hectares to support an additional planned population of 146,000. For the TCW area, the existing population in Yat Tung Estate and Mun Tung Estate and other housing developments commissioned or under construction is about 56,000, while the developments under planning in TCW will generate a further population of about 38,000. The TUE is scheduled for commissioning in 2029 to support the new population intake of the new town. The TUE project, including the two proposed stations, will offer direct railway access to the TCNTE to support the long term growth in population and employment there in a sustainable manner. Upon the implementation of TCW and TCE Stations, compared with road based transport, the journey time by rail from TCW to Tsim Sha Tsui and Central will be reduced by 12 minutes while that from TCE to Tsim Sha Tsui and Central will be reduced by 21 minutes. It is estimated that the economic internal rate of return accruing from the TUE project for Hong Kong will be 3.9%.

3. The TUE, being a natural extension of the TCL, will be an ownership project under the terms of the Operating Agreement between the Government and MTRCL signed in 2007 at the time of the rail merger. Under the ownership approach, MTRCL will be responsible for the financing, design, construction, operation and maintenance of the TUE and will own the TUE.

4. The TUE scheme covers a total area of about 54 hectares, comprising approximately 46 hectares of government land and 8 hectares of private land. Approximately 20 hectares out of 46 hectares of government land and 2 hectares out of 8 hectares of private land covered by the scheme will be used as works sites or works areas by MTRCL under short-term tenancies / licenses. The scheme affects 54 private lots and 15 existing government land allocations. One short-term tenancy and 8

licences will need to be terminated. As regards land resumption, no private building will be resumed under the Railways Ordinance. Out of the 8 hectares of private land, about 75% is currently held by the MTRCL, and the MTRCL will make their own arrangement with the parties concerned to use the land for the construction of the TUE. On the other hand, a total of 0.8 hectare of land and 0.3 hectare of underground strata of land within 47 private lots out of 54 private lots are required to be resumed under the Railways Ordinance for the construction of the railway station and tunnels. Rights of temporary occupation of private land for 31 out of the 54 private lots (among these 31 lots, 24 lots are also involved in land/underground strata resumption) are required to be created for facilitating the station and tunnel construction.

5. The TUE scheme was gazetted under the Railways Ordinance (the Ordinance) on 10 December 2021. An amendment of scheme was gazetted on 24 June 2022 with the objection period expired on 23 August 2022.

6. All objections received had been handled according to the stipulated requirements. Upon receipt of the objections, the Government, in collaboration with the MTRCL, have carefully studied the objections, met the objectors who agreed to attend the meetings, explained to the objectors the details of the scheme and addressed their concerns. Regarding those objectors who declined the meeting invitations, the Government and MTRCL have sent written replies to them explaining details of the scheme and addressing the objectors' concerns. All the unwithdrawn objections have been submitted together with the railway scheme and relevant documents to the Chief Executive in Council for consideration. The TUE scheme was authorised by the Chief Executive in Council under the Railways Ordinance on 10 January 2023.

7. As a part related to the TUE project, MTRCL will construct the remaining section of the Airport Railway Extended Overrun Tunnel (ARO) of about 460 metres at the east of the existing Hong Kong Station in order to enable the TCL and the Airport Express Line (AEL) to achieve their maximum design capacities⁽¹⁾. The funding support was already provided to MTRCL for such ARO remaining section as part of the Airport Railway project.

Note⁽¹⁾ Upon completion of the ARO remaining section, TCL and AEL would be able to attain the maximum frequencies of 24 trains per hour per direction (tphpd) and 8 tphpd respectively.



東涌線延線
東涌第113區建議物業發展用地 — 位置圖

Tung Chung Line Extension
Proposed Property Development Site at Tung Chung Area 113 - Location Plan