

Fact Sheet

Merger of the MTR and KCR Systems

Foreword

- The Government and the MTR Corporation Limited (MTRCL) have reached an understanding on the structure and terms for merging the MTR and KCR systems.
- A fair and balanced deal – It is a package proposal that will bring overall benefits to the community and balance the interests of all stakeholders.

Benefits to the community

- Rail merger creates value.
- The community as a whole will gain:
 - A world class Hong Kong railway operator
 - Enhance efficiency of rail network and reduce duplication

Fare reduction upon rail merger

- No fare increase for 24 months from date of announcement of package proposal.
- 2.8 million daily passenger trips will benefit from fare reduction from Day One of the rail merger.
- The second boarding charge of \$1 to \$7 will be abolished; there will be a global fare reduction of \$0.2 for Octopus users¹ paying full

¹ The global fare reduction will be reduced by the corresponding concessionary rates for specific passenger categories enjoying concession, e.g. \$0.1 for children as they enjoy 50% concessionary fares.

fares; and fare for journeys at \$12 or above will have additional fare reduction of \$1.

- Guarantee a minimum of 10% fare reduction for all rail passengers travelling on journeys with fares at \$12 or above, benefiting about 340,000 daily passenger trips.
- Guarantee a minimum of 5% fare reduction for all rail passengers travelling on journeys with fares between \$8.50 and \$11.90, benefiting about 1.16 million daily passenger trips.
- Senior citizens will also enjoy a \$2 concessionary fare per trip for travelling on the MTR and the KCR during Sundays and public holidays in the first year of the rail merger.
- The fare reduction will be applicable to MTR (except Airport Express Line), West Rail, East Rail (excluding Lo Wu trips) and Ma On Shan Rail.

Introduction of Fare Adjustment Mechanism (FAM)

- An objective and transparent FAM will be introduced to replace fare autonomy.
- Fares can go down as well as go up in future according to a direct-drive formula that is linked to the consumer price index, a wage index and a productivity factor:

$$\Delta \text{Fare} = 0.5 * \Delta \text{CCPI} + 0.5 * \Delta \text{Wage Index} - \text{Productivity Factor}$$

where Δ CCPI is the change in the composite Consumer Price Index and Δ Wage Index is the change in Nominal Wage Index (Transport Sector) published by the Census & Statistics Department periodically.

- The formula will be used to assess railway fares once a year.
- The productivity factor will be set at 0.1% and will take effect from the 6th year of the rail merger.

- Fare adjustment which is equal to or less than 1.5% will be carried over to the next year, i.e. no fare adjustment in a particular year if the rate of fare reduction or increase for that year is smaller than 1.5%.
- FAM is subject to a review every 5 years upon request either by the Government or the post-merger corporation.

Interchange for Shatin to Central Link (SCL)

- Fully integrated interchange stations will be provided.
- No need for interchanging passengers to pay second boarding charge.

Job security for frontline staff

- Job security for all frontline staff of MTRCL and the Kowloon-Canton Railway Corporation (KCRC) will not be affected as it relates to the rail merger.
- More career development opportunities with net increase in job vacancies in the first three years of rail merger after taking into account the merger synergies.

Enhanced convenience to interchanging passengers

- More convenient interchange arrangement through removal of ticket gates at the three interchange stations viz. Nam Cheong, Kowloon Tong and Mei Foo within one year of the rail merger.

Structure and Key Financial Terms of the Transaction

Transaction Structure

- KCRC will grant a Service Concession to MTRCL to use its assets to operate the KCR system.
- The initial period of the Service Concession is 50 years.
- The listing status of MTRCL will be retained. MTRCL will be the

legal entity of the post-merger corporation.

- The post-merger corporation will be responsible for the daily operation and maintenance of the KCR system, and will pay for all operating capital expenditure during the Service Concession period.

Key Financial Terms

- MTRCL will pay KCRC the following:
 - ✧ an upfront payment of \$4.25 billion for the service concession and for acquisition of certain short-lived railway assets of KCRC such as stores and spares;
 - ✧ fixed annual payments of \$0.75 billion for the duration of the service concession;
 - ✧ starting from the fourth year, variable annual payments on the basis of a banded revenue-sharing approach based on the revenue generated from the use of the KCRC assets covered in the service concession, at 10% sharing for revenue exceeding \$2.5 billion and up to \$5 billion, 15% sharing for the next \$2.5 billion, and 35% sharing for revenue beyond \$7.5 billion; and
- MTRCL will pay HK\$7.79 billion for the acquisition of property package which includes the following:
 - ✧ Property development rights along East Rail, Ma On Shan Rail, Light Rail and Kowloon Southern Link
 - ✧ Investment properties related to East Rail and Light Rail currently held by KCRC
 - ✧ KCRC's property management business

Next steps

- Proceed with implementation of the rail merger if there is general support:

- ❖ Legislative exercise: Necessary amendments to the Mass Transit Railway Ordinance and the Kowloon-Canton Railway Corporation Ordinance

- ❖ Approval of merger package by MTRCL's minority shareholders