

PR073/18
23 August 2018

High Speed Rail Service Operated by MTR Corporation Starts on 23 September 2018

Passenger service on the Guangzhou-Shenzhen-Hong Kong High Speed Rail (“HSR”) (Hong Kong Section) will commence on 23 September 2018, connecting Hong Kong with the over 25,000 km high speed rail network in the Mainland of China and providing a brand new experience for cross-boundary travel.

The commencement date was announced by the Hong Kong Special Administrative Region Government (“the Government”) today (23 August 2018) upon the appointment of MTR Corporation as the HSR Operator for a concession period of 10 years.

Professor Frederick Ma, Chairman of MTR Corporation, said that having successfully completed the construction of the Express Rail Link (“XRL”) as the Project Manager, the Corporation is delighted and honoured to be appointed as the operator for the HSR service.

“High Speed Rail will open a new page in rail travel in Hong Kong and will impact positively on the city’s economic development by enhancing Hong Kong’s connectivity with the Mainland. With the confirmation from the Government of the HSR being safe and sound for passenger service, we are fully geared up for the commissioning of this new line on 23 September. Although there will inevitably be challenges in launching a new railway service, we are confident of providing a safe and efficient HSR service and managing any teething issues that may arise,” he said.

“It is our mission to provide a high quality HSR service for Hong Kong people and international travellers. Furthermore, this important project benefits Hong Kong and hence is also in the best interest of MTR.”

Today, the Government and the Corporation signed the two principal agreements that will regulate the operation of and concession arrangements for the Express Rail Link. Firstly, the Amendment Operating Agreement (“AOA”) to the Existing Integrated Operating Agreement which has been entered into by MTR Corporation and the Government; and secondly, the Supplemental Service Concession Agreement (“SSCA”) entered into by MTR Corporation and the Kowloon-Canton Railway Corporation (“KCRC”).

The regulation of the HSR under the AOA is substantially the same as for the existing Hong Kong railway network, while the concession arrangements under the SSCA are similar to those for that part of the existing railway network subject to a service concession.

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The principal terms of the AOA that are specific to the XRL include obligations and requirements for MTR Corporation to ensure that the HSR operation meets the high service standards set by the Government. (See Annex 1)

Under the SSCA, KCRC has granted a service concession for the HSR to MTR Corporation which, like the existing Service Concession Agreement, includes both a fixed and a variable annual payment. As under the existing Service Concession Agreement, the Corporation will make variable annual payments to KCRC based on the revenues generated from the operation of the HSR, to be calculated in the same manner as prescribed under the existing Service Concession Agreement. The existing Service Concession Agreement between both sides also includes a fixed annual payment and, under the SSCA, KCRC will make agreed upon payments to the Corporation over the 10-year concession period. Such fixed receipts from KCRC allow the Corporation to make a commercial rate of return on the operation of the HSR after deduction of all operating and asset management costs from revenues as well as payment to KCRC of the variable annual payment. In addition, the SSCA contains further revenue-related arrangements for XRL, including for the sharing between MTR and KCRC of any excess or shortfall in patronage when compared to current projections. (See Annex 2)

Mr Lincoln Leong, Chief Executive Officer of MTR Corporation, said: "The arrangements we have reached with the Government and KCRC are fair and reasonable. The concession is designed to generate a commercial return for MTR and we will share risks that arise - upside as well as downside risks - with KCRC in an appropriate manner. These arrangements provide a solid foundation to support high quality railway services for the overall benefit of Hong Kong."

Following the commencement of the HSR service in September, the Corporation expects that HSR patronage will build up over time and cross-boundary travel as a whole will increase as more travel options and convenience can be offered to passengers.

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About MTR Corporation

MTR Corporation is regarded as one of the world's leading railway operators for safety, reliability, customer service and cost efficiency. In its home base of Hong Kong, the Corporation operates ten commuter railway lines, a Light Rail network and a high-speed Airport Express link on which about 5.8 million passenger trips are made on a normal week day. Another 6.5 million passenger trips are made on the rail services it operates outside Hong Kong in the Mainland of China, the United Kingdom, Sweden and Australia. In addition, the Corporation is involved in a range of railway construction projects as well as railway consultancy and contracting services around the world. Leveraging on its railway expertise, the Corporation is involved in the development of transit-related residential and commercial property projects, property management, shopping malls leasing and management, advertising media and telecommunication services.

For more information about MTR Corporation, please visit www.mtr.com.hk.

Annex 1

Amendment Operating Agreement to the Integrated Operating Agreement

The Amendment Operating Agreement (“AOA”) amends and supplements the Existing Integrated Operating Agreement for the purpose of regulating the operation of the XRL.

The XRL will be operated under the service concession approach and regulated in substantially the same way as the existing railway network.

Principal terms of the AOA that are specific to the HSR include obligations and requirements for the MTR Corporation with respect to:

- Specific performance requirements in relation to train service delivery, ticket machine reliability, ticket gate reliability, and reliability of escalators and passenger lifts;
- Publication of specific customer service pledges;
- Obligations in relation to maintenance of the Corporation’s HSR trains carried out outside Hong Kong;
- Carrying out design checks and tests and establishing procedures to ensure that the Mainland operator’s trains can run safely on the XRL;
- Facilitating inspections by the railway inspector; and
- Safeguarding the security and integrity of the boundary of the Mainland Port Area at Hong Kong West Kowloon Station.

In addition, the AOA provides mechanisms and Government approval procedures for setting fares for HSR train journeys. Fares cannot be adjusted without the prior consent of the Government.

Annex 2

Supplemental Service Concession Agreement

The Supplemental Service Concession Agreement (“SSCA”) supplements the Existing Service Concession Agreement which regulates the operation of the part of the existing railway network for which KCRC has granted a concession to MTR Corporation.

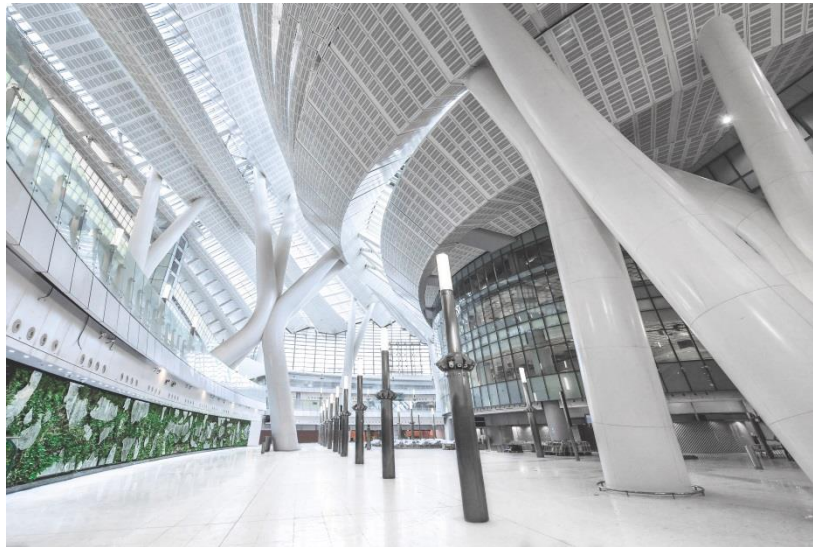
The SSCA provides that the concession arrangements for HSR are similar to those for that part of the existing railway network, save where any amendments are necessary to reflect the particular characteristics of the HSR.

Financial arrangements of the SSCA include:

- Annual concession payments (fixed and variable payments) reflecting the current payment structure of the Existing Service Concession Agreement. The annual concession payments under the SSCA are in addition to the payments made in respect of the existing KCRC system;
- Fixed annual payments for the HSR will be made from KCRC to MTR Corporation. These in aggregate will amount to HK\$7,965 million over the 10-year concession period;
- Variable annual payments to be calculated in the same manner prescribed under the Existing Service Concession Agreement, whereby the Corporation pays to KCRC, for each financial year, a certain percentage of the revenue generated from the KCRC system. This shall include revenues received or retained by the Corporation from HSR fares and from businesses related to the HSR;
- Patronage adjustment arrangements: In respect of actual deviations from current patronage forecasts for XRL, MTR Corporation will share upside and downside performance with KCRC beyond a 15% deviation below or above the forecast but will bear any deviation within the band. In addition, in respect of actual deviations from patronage projections for the existing cross-boundary train service, MTR Corporation may receive two payments from KCRC (subject to caps). Furthermore, in respect of revenue loss from Mainland discount programmes, MTR Corporation will receive reimbursement from KCRC. The Corporation will also be reimbursed by KCRC for the proportion of service fees borne in respect of the tickets sold at Hong Kong West Kowloon Station for train journeys originating from and terminating at any railway station in the Mainland; and
- Costs reimbursement: KCRC shall reimburse MTR Corporation for agreed Pre-Operating Costs reasonably incurred prior to passenger service commencement.

Photo Caption:

1. Hong Kong West Kowloon Station will be the hub of the new High Speed Rail service to be operated by MTR Corporation.



2. High Speed Rail service will commence on 23 September 2018, connecting Hong Kong with the over 25,000 km high speed rail network in the Mainland of China.

