

**Press release**

**LCQ14: Government's shareholding in MTRCL**

Wednesday, December 8, 2010

Following is a question by the Hon Paul Chan and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 8):

Question:

When the Bill to list the shares of the former Mass Transit Railway Corporation (now known as the MTR Corporation Limited (MTRCL)) was passed by the Legislative Council in 2000, the Government advised that "it will remain as the majority shareholder of the MTRCL for at least 20 years" and its shareholding and voting right in the Corporation would be no less than 50%. It also indicated that should the Government intend to reduce its shareholding in the Corporation to below 50%, "it must be confident that the Corporation, in setting the MTR fares, will certainly take into full consideration passengers' acceptability of the fares and public interest". Upon the implementation of the rail merger, the authorities also stated clearly that MTRCL would maintain its listing status. Currently, the Government has a shareholding of around 77% in MTRCL. Yet, looking at the blue chips companies listed in Hong Kong, their majority shareholders can gain control of the companies by holding merely some 30 to 40% of the shares. In this connection, will the Government inform this Council:

(a) whether it has assessed if the current level of the Government's shareholding in MTRCL is appropriate; if the assessment result is in the affirmative, of the justifications; if not, the reasons for that and what actions will be taken to rectify the situation;

(b) whether the authorities have assessed the extent to which the level of the Government's shareholding in MTRCL and the fares of MTRCL are affecting each other; if they have, of the details; if not, the reasons for that; whether they have assessed if the fare adjustment mechanism currently applicable to MTRCL can fulfil the authorities' pledge that "it must be confident that the Corporation, in setting the MTR fares, will certainly take into full consideration passengers' acceptability of the fares and public interest"; whether the conditions are ripe for the Government to reduce its shareholding in MTRCL; if not, what adjustments the authorities will make to the fare adjustment mechanism so that it can fully take passengers' acceptability of the fares and public interest into consideration; and

(c) given that MTRCL has already been listed for 10 years, which is half of the 20 years as indicated by the authorities to be the minimum period of time during which the Government will remain the majority shareholder of MTRCL, whether the authorities have commenced any study on plans to reduce the Government's shareholding in MTRCL in an orderly manner; if they have, of the details; if not, the reasons for that?

Reply:

President,

(a) and (c) When privatising the Mass Transit Railway Corporation (MTRC) (currently named as MTR Corporation Limited (MTRCL)) in 2000, the Government committed that it would remain for at least 20 years from the date of privatisation the largest shareholder of MTRC, and would hold not less than 50% of the shares and voting rights of the company. This has reflected the Government's commitment to the continuous development of the railway system and has shown local and overseas investors as well as credit rating agencies that the Government is determined to support MTRCL in its continuous provision of quality railway services and expansion of transport infrastructure in Hong Kong. The Government considers its existing shareholding in MTRCL at 76.8% appropriate. The Government will continue to keep a close watch on the market conditions and take into account the commitment made when MTRCL was privatised in reviewing the Government's shareholding in MTRCL.

(b) According to the Transport and Housing Bureau, MTRCL's fare adjustments will be made in accordance with a formula linked to changes in the Composite Price Index (CCPI), Nominal Wage Index (Transportation Section) (wage index) and a productivity factor. This objective and transparent fare adjustment mechanism (FAM) was formulated after extensive discussion at the Legislative Council during the rail merger and came into effect after rail merger from December 2, 2007. The adoption of a more objective and transparent FAM was one of the five parameters set down by the Government for the rail merger. After detailed discussions with the Government, the MTRCL before the merger agreed to give up its fare autonomy and to adopt a direct-drive formula FAM instead. Under this FAM, changes in the CCPI and wage index are published by the Census and Statistics Department. The productivity factor is pre-determined by both parties. The CCPI used in the FAM reflects the macroeconomic environment and public affordability to a certain extent.

With regard to Government's shareholding in MTRCL, as indicated in part (a) above, the current shareholding is in line with the commitment made at the time of the privatisation of MTRCL.

Ends