

LCQ11: Overseas railway business of MTR Corporation Limited

Following is a question by the Hon Regina Ip and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (July 8):

Question:

According to the Annual Report 2019 published by the MTR Corporation Limited (MTRCL), the financial performance of the South Western Railway of the United Kingdom last year continued to suffer for a number of reasons, and the MTRCL therefore needed to set aside a provision of £43 million which amounted to its share of maximum potential loss under the relevant franchise agreement. In addition, while the MTR Express intercity railway service between Stockholm and Gothenburg, Sweden, operated by a wholly-owned subsidiary under the MTRCL gained a steady patronage growth last year, it was still operating at a loss. Notwithstanding the unsatisfactory performance of the railway business it operated overseas, the MTRCL continued to expand its overseas railway business, such as the Sydney Metro North West Line which commenced service in May last year. In this connection, will the Government inform this Council if it knows:

(1) the profits or losses of the MTRCL's overseas railway business recorded in each of the past five years;

(2) the number of staff members sent overseas by the MTRCL in the past five years to handle railway business, and their specific duties;

(3) the percentage of its management resources currently allocated by the MTRCL to its overseas railway business; the specific measures in place to ensure that the senior management staff of the MTRCL will stay focused on local railway business, so that the MTRCL will not miss the opportunity for development and thereby affecting the shareholders' return; and

(4) how the MTRCL assesses the return on its overseas railway business, and whether the MTRCL has formulated any exit plan in respect of overseas railway projects that have recorded losses over a long period of time and are faced with bleak prospects; if the MTRCL has, of the details; if not, the reasons for that?

Reply:

President,

As the railway operator of Hong Kong, the MTR Corporation Limited (MTRCL) is tasked with great responsibilities. Since its commencement of business in 1979, the MTRCL has adhered to the management principle of maintaining its primary focus on local businesses. The development of railway

businesses in Hong Kong has always been its core business. As for the businesses outside Hong Kong, the Corporation adopts "on-the-ground management" strategy such as establishing subsidiaries in, or setting up joint ventures with other companies of those places, thereby continuing to develop its Mainland and overseas businesses in a steady manner. These subsidiaries or joint venture companies will then search for and employ suitable talents on-the-ground, who will be responsible for the construction or operation of railways in those places by working with a small number of suitable staff members deployed from Hong Kong.

Mindful of the public concern over the operating strategy of the MTRCL, the Government has been actively fulfilling its responsibility as the majority shareholder of the Corporation. We have requested the MTRCL to continue to review its governance structure and operation, and maintain the quality of local railway services and new construction projects.

My reply to the four parts of the question is as follows:

(1) Profits gained from Mainland and overseas businesses in each of the past five years are shown below:

	Profits* (HK\$ million)
2019	525
2018	560
2017	631
2016	191
2015	152

*After deducting business development costs

(2) In developing Mainland and overseas businesses, a majority of the MTRCL's staff are recruited on the ground, and not deployed from Hong Kong. The number of staff members sent overseas by the MTRCL in the past five years to handle railway businesses is as follows:

	Number of staff members sent overseas
2019	223
2018	246
2017	183
2016	138
2015	80

They were engaged in different professional disciplines such as engineering, operations, maintenance, safety and quality, and project consultancy. These staff were posted to a subsidiary or joint venture company

on the Mainland or overseas primarily to provide support for the construction, daily operation and maintenance of local railways, including management of trains and E&M systems (including signalling system and other systems), as well as supervision of the operation, maintenance and refurbishment work after commissioning of the railways.

The MTRCL employs over 17 000 staff in Hong Kong. In the past five years, an average of fewer than 200 of them a year (only about 1 per cent of the overall staff number) were dedicated for railway businesses outside Hong Kong.

(3) To strengthen management and to ensure that the Corporation keeps its primary focus on local businesses, the MTRCL has set risk management indicators for its Mainland and overseas investments. The total investment in Mainland projects (including all equity investment, shareholders' loans as well as financial and performance guarantees determined after risk assessment) shall not exceed 15 per cent of the equity attributable to equity shareholders. As regards overseas investment, the total investment (including all equity investment, shareholders' loans as well as financial and performance guarantees) shall not exceed 5 per cent of the equity attributable to equity shareholders. At present, the MTRCL's investment on the Mainland and overseas has not reached the cap in relation to the above funds. The MTRCL management team oversees the development and administration of all of the Corporation's day-to-day businesses (including local, Mainland and overseas businesses), and there is no breakdown of the management resources allocated to individual businesses.

(4) The MTRCL, as a listed company operating according to commercial principles, shall carry out prudent study on the risk and return before confirming the participation in any potential investment project in the Mainland or overseas. This includes analysis of financial condition, local laws, market competition, and manpower required from Hong Kong and the local community. External consultants may also be engaged for advice where necessary.

As for projects already launched, the MTRCL shall continue to review the risk and return, including the impact of the external economy and investment environment on the operation of individual projects, so as to examine if the projects are beneficial to the Corporation. The MTRCL management team shall report to the Board of Directors regularly in this regard, and disclose relevant information to the public in accordance with the Listing Rules at suitable times and where appropriate.