

LCQ22: MTRCL businesses outside Hong Kong

Following is a question by the Hon Mrs Regina Ip and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (April 22):

Question:

â€‹ According to the Audited Results for the year ended December 31, 2019 published by the MTR Corporation Limited (MTRCL), MTRCL's revenues in 2019 from "Mainland of China and international railway, property rental and management subsidiaries" and "Hong Kong transport operations" were \$21,085 million and \$19,938 million respectively, and MTRCL's expenses on both for the same period were \$19,760 million and \$14,029 million respectively. There are views that MTRCL has placed too much emphasis on developing businesses outside Hong Kong at the expense of local railway business, giving rise to numerous problems. For example, on train operations, there have been frequent train delays, signalling system failures, and even serious incidents of train derailment and collision, and on the implementation of new railway projects, there have been problems of works quality, construction delays and significant cost overruns, etc. In this connection, will the Government inform this Council:

(1) whether it knows the details of each of the businesses/ projects currently engaged by MTRCL outside Hong Kong, including the contract periods and financial information such as investment amounts, as well as the anticipated and actual profits and losses; and

(2) in order not to divert the attention of the MTRCL management team from the local transport and other related businesses, whether the Government will demand MTRCL to reduce its business expansion outside Hong Kong so as to focus on local railway development and services; if not, of the reasons for that?

Reply:

President:

â€‹ Public transport services are closely connected with the livelihood of the people of Hong Kong, delivering 12 million passenger trips daily, representing close to 90% of daily commutes. It is the Government's policy to adopt railway as the backbone of public transport, while coordinating other public transport services, with a view to providing the public with a diverse means of transportation. Under such policy, the railway services operated by the MTR Corporation Limited (MTRCL) serve millions of passengers every day.

â€‹ As the sole operator of our local railway, the MTRCL is tasked with

great responsibilities. Hong Kong has been the home base of MTRCL for over 40 years, and the development of local railway businesses has been the core business of the Corporation. It is the MTRCL's established policy that when developing any business in the Mainland or overseas, the Corporation must keep its primary focus on local businesses.

â€‹ The MTRCL follows the principle of "on-the-ground management" in the management of Mainland and overseas businesses, through means such as establishing subsidiaries or setting up joint ventures with other companies. These subsidiaries or joint venture companies will then search for and employ suitable local talents who will be responsible for the construction or operation of railways by working with a small number of staff deployed from Hong Kong. Hence, on expenses, the MTRCL is mainly responsible for the investment in projects in relevant places.

â€‹ My reply to the two parts of the Hon Regina Ip's question is as follows:

(1) The MTRCL is involved in the construction and operation of railway projects in three Mainland cities, namely Beijing, Shenzhen and Hangzhou. The Corporation also constructs and operates the Macao Light Rapid Transit. As regards its overseas businesses, the Corporation operates railway services in London in the United Kingdom, Stockholm in Sweden, and Melbourne in Australia, and is involved in the construction and operation of a railway project in Sydney, Australia. The details of these projects are set out in the Annex.

â€‹ To strengthen management, the MTRCL has set risk management indicators for its Mainland and overseas investments. The total investment in Mainland projects shall not exceed 15 per cent of the Corporation's shareholders' funds (including all equity investment and shareholders' loans). As regards overseas investment, the total investment shall not exceed five per cent of the shareholders' funds (including all equity investment and shareholders' loans).

â€‹ The total equity attributable to the shareholders of the MTRCL in 2019 is around HK\$187 billion, while the Mainland and overseas investments are below the 15 per cent and five per cent limit of the shareholders' fund respectively. The MTRCL will review from time to time the appropriateness of these indicators, with a view to maintaining a steady growth of the Corporation's local and Mainland/ overseas businesses.

â€‹ The MTRCL released its 2019 Annual Report on April 9, 2020. The profit generated from the MTRCL's Mainland and overseas businesses in 2019 is \$525 million (Note). The details of the MTRCL's financial position can be referred to its Annual Report (page 201).

(2) The Government appreciates the public concern over the operating strategy of the MTRCL. The Government, as the majority shareholder of the Corporation, has been taking up the responsibility and requesting the MTRCL to continue to review its governance structure and operation, and maintain the quality of

local railway services and new construction projects. Without undermining the performance of local railway services and construction projects, the Government stays positive in seeing the Corporation, as an international brand, continues to develop its non-local business in a prudent manner. At the same time, the Government will continue to remind the MTRCL to maintain its primary focus on local railway businesses. The performance of its local railway services and construction projects should not be affected by the development of non-local businesses. The management of the Corporation all along adheres to this principle.

â€‹ In fact, in its development of Mainland and overseas businesses, a majority of the MTRCL's non-local staff are recruited on-the-ground, and not deployed from headquarters in Hong Kong. As at end of 2019, the MTRCL employs over 17 000 staff in Hong Kong, with fewer than 200 of them dedicated for railway businesses outside Hong Kong. Meanwhile, the MTRCL continues to invest annually billions of dollars in maintaining and renewing railway assets, and improving station facilities. All these reflect the MTRCL's Hong Kong-based approach in railway development.

â€‹ The MTRCL has also pointed out that it would carefully analyse every potential investment project before confirming the Corporation's participation. This includes reviews on the risk and return, local laws, market competition, manpower required from Hong Kong and the local community, etc. Apart from internal assessments, the Corporation also engages external consultants for advice where necessary, with a view to ensuring that the resource allocation is pursued on the principle of striking a balance between risks and reasonable commercial returns, and not affecting the Corporation's local businesses.

Note: Taking into account corresponding depreciation, amortisation, interests, tax and other expenses, and including share of profit or loss from associates and joint venture, net after-tax profits from Mainland of China & International Businesses was \$525 million in 2019.