

Chairman's speech at Lingnan University Fundraising Dinner

21 April 2016 (Thursday), 7:55-8:20pm (speech only)

Topic: "Opportunities and challenges for MTR in the years ahead"

Introductory remarks

Chairman Auyeung, Professor Cheng, distinguished members of the Council and Court, ladies and gentlemen...

It gives me great pleasure to be with all of you this evening at the University's Fundraising Dinner 2016. It is gratifying to see the broad community representation here tonight to support this event.

In its long and remarkable history, Lingnan has faced and overcome many challenges. All along it has been sustained by the proud "Lingnan spirit" of its many alumni, friends, and supporters.

Hong Kong has many success stories. Lingnan is certainly one of them. I would like to say a few words tonight about another Hong Kong success story - one which touches on the daily lives of most people - I'm talking about the MTR, which has progressed a long way in the past 30+ years.

My MTR story

Many of the young people in the audience have grown up with the MTR already in place. But I remember Hong Kong before we had the MTR. Back in the early 70s, I was a student at the University of Hong Kong and I regularly travelled over to the Jordan Road area to teach at a school. So I would take a bus ride from the University to Central - the traffic was congested and it could get pretty hot on the way, there were no air-conditioned buses in those days. Once I got to Central, I would catch a ferry to the old Jordan Road Ferry Pier and then make my way to the school.

On a good day, the trip would take about an hour and a half. On a bad day, more like 2 hours.

Today, with the MTR extension to Western District, you can make the same trip in about half an hour. A train ride from HKU Station to Jordan takes less than 20 minutes! It is a good example of how much MTR has changed Hong Kong and our daily lives for the better! Our journeys nowadays are so much more convenient and reliable - which means we can all fit a lot more into our day.

MTR has been growing hand-in-hand with Hong Kong since service commenced in 1979. No question, it has contributed to a better quality of life for citizens - and also helped to foster growth and development in the economy.

Let me name some milestones we have achieved during the past several years:

- We now carry 5.5 million passenger journeys a day. Since 2008 after the Rail Merger, patronage has increased by around 30%.

- We provide more than 8,000 train trips per day and have added more than 2,600 weekly services since 2012.
- Even as we carry more passengers and provide more train trips than ever before, we maintain our world-class 99.9% on-time passenger service

I can tell you that MTR is regarded as one of the very best railway companies internationally. Railway company and government officials come to Hong Kong to visit and learn from us, while our proven expertise and experience is also in strong demand in Mainland China and overseas. Today, beyond our home base of Hong Kong, we operate high quality railway services in London, Melbourne and Stockholm as well as in Beijing, Shenzhen and Hangzhou. Our success is helping to build the Hong Kong brand for excellence around the world.

Challenges

Yet in spite of our high performance standards and many successes and achievements, somehow MTR's image has been tarnished in recent years. We do hear more criticism than in the past.

As Chairman, I see two key challenges facing the Corporation - firstly, service-related challenges.

The growth in patronage and increase in train services means that we are now operating at near capacity on our network. Because of that, even a small hiccup like a delay of a minute or two affects a lot of people. There is a knock-on effect on our service along the line. Platforms and trains become more crowded. Passengers feel aggrieved and express their criticism.

That is understandable. The Hong Kong community has rightly come to expect a very high standard of service from MTR. What we have seen in recent years is the criticism has become amplified by the spread of social media. Any time an incident happens, the news and the frustration of passengers circulates very quickly through the community. Everyone can add their voice - whether they were affected or not.

How are we responding to these service-related challenges?

- We are striving to maintain the highest operational standards and manage the flow of customers through our network. When delays do occur, the focus is on safely resuming normal service as quickly as we can.
- We are also investing large sums of money to upgrade and replace our assets. Last year, we committed \$6 billion to replace 93 urban line trains and \$3 billion to replace signalling systems that will give us added capacity in the coming years.
- We are building new rail lines - this is the real solution to increasing overall carrying capacity. It does take time but we look forward to opening both the Kwun Tong Line Extension and South Island Line (East) before the end of this year, with the Express Rail Link to follow in 2018 and the Shatin-Central Link in two phases in 2019 and 2021. The opening of new rail lines will also bring significant enhancement in our overall carrying capacity.

The second key challenge that we face at MTR relates to fare adjustments. There is a lot of feedback on this from the public.

Let me make a few points:

The average MTR fare for domestic service is \$7.49 - and relative to major metros around the world that is at the low end of the scale. In 2015, CoMET, a global metro community group, conducted a benchmarking study on metro fares. What they found was that MTR fares on a passenger-kilometre basis as a percent of income are in the lowest quartile amongst 30 metros in major cities covered in the study. In other words, Hong Kong rail fares are reasonable by international standards.

I would also point out that our Fare Adjustment Mechanism is open and transparent - it is purely based on government-published statistics for inflation and wages in the transport sector minus the productivity factor. Since FAM was adopted, from 2008 to 2015, the average annual increase for MTR fares is 2.9% - which is well below both the average annual increase in Hong Kong inflation of 3.5% and the average annual increase in Hong Kong Payroll Index of 4.6%

Another way to look at this is the rate of return for our shareholders - which is not high compared to other utilities. Return on equity for MTR is only 6.5% as compared to double digit figures for many other utilities.

Having said that - we do understand public aspirations on this issue. We are responsive to the community's views, so yesterday our Board made the decision to bring forward the next scheduled review of the FAM originally due in 2017/18 by one year. We will listen to the views of all stakeholders, including customers and our shareholders, and seek to balance their interests. MTR will work closely with Government during the review and endeavour to achieve a mutually agreed outcome.

Opportunities

Let me turn now to the opportunities for MTR.

Externally, the Belt and Road policy of the Mainland Government presents us with a number of growth opportunities. One area that we can explore to extend our business is to partner with mainland railway companies for new rail lines in the Belt and Road area.

The Chief Executive has also encouraged us to work with the relevant mainland authorities such as the National Development and Reform Commission to see if we can collaborate in bidding for Belt and Road related projects. As we develop our China and International business, we further enhance Hong Kong's image.

Moving back to our home base, the second major opportunity is the new generation of rail that is coming to Hong Kong under the Rail Gen 2.0 identity that we have announced. We

will continue to work on this, putting a range of service enhancements in place progressively including new station facilities.

As I mentioned we will be opening new rail lines to improve connectivity and convenience for residents - starting with the Kwun Tong Line Extension in the 3rd or 4th quarter of this year, to be followed by the South Island Line (East) by the end of this year.

When all four of our new projects are completed, Hong Kong will be better connected than ever before. Our heavy rail network will grow by 52 kms - or about 24% - over the next several years.

MTR will serve more parts of the city, with the network reaching over 70% of Hong Kong's population. There will be 18 new stations. Our new lines and extensions will also relieve choke points on the existing system. And there will be one more cross-harbour rail link and a new high-speed offering to the Mainland of China.

My vision for MTR

Those are the major challenges and opportunities. When I think about my vision for MTR - I think about our people, both our staff and our customers.

In Hong Kong, MTR employs over 17,000 people. Without their dedication and hard work, we could not provide this city with the world-class railway service that it has. So we need to nurture our colleagues, continue to provide them with the training and development opportunities that they need and also create opportunities for a new generation of railway professionals to come through the ranks.

To achieve these objectives, a new MTR Academy will be established as a high quality training base for railway professionals. I would like to thank the Chief Executive for rendering his support for this initiative in his policy address earlier this year.

The MTR Academy will benefit MTR colleagues and help our younger generation develop rewarding careers in the rail industry. It can also tap into the Belt and Road strategy by offering rail-related programmes to participants from outside Hong Kong. Creating a strong pipeline of talent will also ensure that we can continue to provide one of the best railway services in the world for the Hong Kong community.

Another part of my vision is that we must continue to enhance the customer-centric nature of our business. We need to provide the services and facilities members of the community require for their daily journeys but we also want to go beyond that and make their travel experience enjoyable and fun.

Recently we have launched our Happy Birthday Happy Journey programme - which offers a special Birthday Pack to people whose birthday falls on a drawn date for each month. We also had our Easter Delight with an Easter bunny going around some of our stations giving small gifts to passengers. It was a lot of fun and helped to create a real festive spirit on our network.

There was also a very special treat last Sunday when we had a world-class performance by Joshua Bell and Alessio Bax at Hong Kong Station. MTR customers thoroughly enjoyed their violin and piano duet and it also went viral on social media.

There will be more activities like this on the way. There is also a special new attraction upcoming - the MTR Gallery - which will open at Kowloon Station soon. The Gallery has a range of engaging and interactive exhibits there that allow visitors to take a fun journey through MTR's development from the past to the present and into the future of Rail Gen 2.0. It is great for people of all ages with some special features for kids. So watch out for our announcement in due course and make a booking and come along with your friends and family to enjoy a guided tour at the MTR Gallery.

Concluding remarks

Ladies and gentlemen, to wrap up - there is a lot in the MTR pipeline. We are excited about the future and look forward to providing an even better railway service for the people of Hong Kong. While it would be impossible to provide an absolutely NO DELAY service, I can assure you that MTR will always strive to provide safe and reliable service. We are not complacent and we will continue to improve.

As a socially responsible company, MTR cares deeply about the community. We are bringing through new service offerings and engaging with different groups and sectors in many ways, especially with a focus on the younger generation. To fulfil our responsibilities, it is important that we maintain a sustainable financial base and balance the interests of all stakeholders including our employees.

Younger people often wonder how previous generations could manage without computers and smartphones. It must also be hard for them to imagine Hong Kong without the MTR. Our world-class railway system provides a crucial service for millions of people every day and has helped to make Hong Kong one of the most efficient and smooth functioning cities on earth. MTR should be a source of pride for the people of Hong Kong - it is undoubtedly one of Hong Kong's great success stories... and there are new and exciting chapters in the MTR success story soon to come.

Thank you