

The “backbone” of Hong Kong

INTERVIEW WITH SIR C K CHOW

CHIEF EXECUTIVE OFFICER, MTR CORPORATION



SIR C K CHOW was appointed Chief Executive Officer of MTR Corporation on 1 December 2003. He was formerly CEO of Brambles Industries and, from 1997 to 2001, chief executive of GKN PLC, a leading engineering company based in the United Kingdom.

Artist impression
of the future
MTR Admiralty Station

Not only does MTR Corporation play a key role in Hong Kong’s world-renowned public transportation system, it is a highly successful, publicly listed, real estate developer that was listed on the Stock Exchange of Hong Kong in October 2000. Its combining of public interest with commercial responsibility to its shareholders reflects in many ways the entire Hong Kong “success story.” According to its CEO, Sir C K Chow, MTR’s success is in large part due to its having adopted “a rail plus property development business model that is unique in the world.” And now it is exporting its expertise at building, operating and maintaining railways to public transport systems around the world – from Australia to Sweden and from Mainland China to the United Kingdom. Established in 1975 with the objective of providing a safe, efficient and reliable mass transit service for the people of Hong Kong, MTR currently carries about 4.5 million passengers a day, or around 45 per cent of the travelling public in Hong Kong. Given that roughly 90 per cent of Hong Kong citizens make use of public transport whenever they travel – a far higher proportion than in most of the world’s major cities – reliability and ease of travel are crucial. In terms of punctuality MTR achieves 99.9 per cent passenger journeys on time,

meaning that only one train in a thousand is running late for more than five minutes.

The savings to Hong Kong’s economy of having one of the world’s most efficient public transportation systems are huge. Compared with a road vehicle-focused city like Houston, Texas, Hong Kong saves approximately 9 per cent of its GDP, which, as Sir C K points out, “amounts to what the Hong Kong government spends on public health, medicare and social welfare.” And to achieve 90 per cent of the travelling population using public transportation, he insists that “rail must be the backbone, because there are not enough roads for buses, mini-buses and taxis. So, I think we carry out a very good, very important role in Hong Kong, by moving people with efficiency.”

A key part in ensuring this success has been the Octopus smartcard payment system. Because 90 per cent of Hong Kong citizens use public transport, Octopus achieved the critical mass necessary for smart card systems from the outset. Moreover, the facility was embodied in a separate company, so that all providers of transport services, be they bus or ferry, became shareholders. From its transport beginnings, Octopus has since expanded its applications to include off-street parking meters, garages, and more than 20,000 retail outlets.

Not content with resting on its laurels, the MTR Corporation has been expanding its network both within Hong Kong and the New Territories and onward into Mainland China. The Corporation invested in, built and is now operating the Shenzhen Line 4 linking Hong Kong with the northern part of that city and the surrounding local rail network. Most recently in August 2011, it also succeeded in transferring its rail plus property development model to Shenzhen by winning the right to develop land above the Shenzhen Line 4 depot site.

“The other new project that we are building,” says Sir C K, “is the 26-kilometre high-speed railway connection between Hong Kong and Shenzhen, which connects into the Chinese high speed railroad network. So when it opens in 2015, people from Hong Kong can take it to Shenzhen, to Guangzhou, to the Pearl River Delta, or if they want to, travel all the way to Shanghai or Beijing on the high speed railway.”

The MTR Corporation has also expanded through acquisitions, notably the 2007 merger with the operations of the Kowloon-Canton Railway



Corporation (KCRC). Sir C K says most of the objectives laid down – full integration into a single company team, a general fare reduction on the first day of the merger and a more transparent fare adjustment mechanism going forward, better integration between the old KCR network and the MTR network and, when building new railways, much better interfacing with the existing network, have been met. “Our objective really is to give our passengers the best interchange and the most efficient network. We also promised our shareholders to be earnings accretive in the first year and value accretive from then on, which we did. So the merger met with every single stakeholder’s expectation of the promises that we made to them.”

Closer to home, “in Hong Kong we will be building four new railways connecting Hong Kong Island in a better manner and connecting Kowloon and the New Territories in more efficient ways.” The West Island Line, for example, is being extended to service the west and north of Hong Kong Island – including, Sir C K notes, “the future Centennial Campus of Hong Kong University.” While WIL is partly government funded, he points out other extensions, such as the South Island Line, will be funded by the so-called “Rail Plus Property Development Model”, while the Sha Tin to Central Link will be government-owned and leased to the MTR Corporation to operate the service.

The MTR Corporation is able to adapt the ownership and funding structures best suited to new projects because, since the year 2000, it has been a commercial company, listed on the Hong Kong Stock Exchange, though with the government maintaining a 76 per cent shareholding, the public – both institutional and retail shareholders – hold the remaining 24 per cent of its shares. As CEO, Sir C K is happy to report that “our total shareholders’ return since listing has out-performed the Hang Seng Index by about 170 per cent.” But he also points out that the company has kept passenger fares stable and far more affordable than in most other cities. Funding for capital-intensive line extensions and the replacement of signalling systems and rolling stock cannot, he says, come from fare revenues alone. “So, we need to look for other revenues,” he explains, “and one of Hong Kong’s unique features is our ‘rail plus property development’ model.

“When the government asks us to build railroads, they give us certain development rights. These are not rights for free, but they do give us certain rights to develop real estate, either commercial or residential, above our depots and above our stations. We have to pay a land premium, as anybody else has to in Hong Kong. However, because we build the railroad values go up with better rail access. That is the profit that we make, which we then use to invest in the railway and to operate the railway.” Landmark developments in Hong

Kong built on the rail plus property development model include Hong Kong’s two tallest buildings, the IFC (International Financial Centre) and ICC (International Commerce Centre). Telford Plaza, one of MTR Corporation’s earlier developments, houses the corporation’s head office.

Over the past 30 years, MTR Corporation has utilised this model, which both generates sufficient cash in-flow to support it as a commercial company and has made it possible to provide a world-class rail network without spending any taxpayers’ money. Sir C K estimates the government has benefitted through the company’s payment of land premiums, the proceeds of its IPO, and dividends on its 76 per cent shareholding, by roughly 200 billion Hong Kong dollars over the last 30 years. That is equivalent to the government’s entire revenues for one year. “So, it’s not a model only for the MTR as a rail company,” he points out, “but it is also a very good model for any government which wants to build mass transit systems.” Shenzhen obviously sees the merits and is taking the first step towards applying the model.

In recent years, the MTR Corporation has been applying its experience in running mass transit systems far beyond Hong Kong, having taken over operation of the London Overground rail network, the Stockholm Metro and Melbourne’s rail network, not to mention its investments in Shenzhen and Beijing. Sir C K Chow sees improving services as a gradual process, as dependent on “human software” – the sense of necessary responsibility and dedication – as on upgrading physical infrastructure. But he is quietly confident that MTR Corporation will deliver, as it has been doing in Hong Kong for the past three decades.

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The first tunnel boring machine of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Hong Kong Section)

