An enviable track record

INTERVIEW WITH LINCOLN LEONG

CHIEF EXECUTIVE OFFICER (AG), MTR CORPORATION

LINCOLN LEONG graduated from Cambridge University in 1982 and qualified as a chartered accountant in England in 1985 and Canada in 1986. Prior to joining MTR, he worked in both the accountancy and investment banking industries in London, Vancouver and Hong Kong. He joined the company as Finance Director in February 2002 and was appointed Deputy CEO in July 2012. Mr Leong has been the Acting CEO of MTR since 16 August 2014 and a member of the Executive Directorate since 2002.

Not many cities around the world are willing to outsource the running of their subway systems, but among the few metro operators to have consistently won international tenders is Hong Kong-based MTR Corporation, one of the biggest operators of metro systems in the world, which carries a global total of more than 3 billion people every year. Aside from running the metro in its home town, MTR also runs lines in the Chinese mainland cities of Beijing, Shenzhen and Hangzhou, as well as in Melbourne, London and Stockholm. What's more, it has just been chosen to run the first privately operated passenger rail line in Sydney, as well as London's flagship transport project, Crossrail. MTR already runs the London Overground franchise with Arriva.

Set up in 1975 as a government-owned statutory corporation to build and operate Hong Kong's mass transit railway (hence MTR), the company was partially privatised in 2000, although the government of the Hong Kong SAR retains a 77 per cent stake.

Asked why so many cities opted for MTR over domestic rivals, Lincoln Leong, a former Finance and Business Development Director and Deputy Chief Executive Officer, promoted to Acting CEO in August, cites the company's operations record. "In Hong Kong, the world's 10th-busiest subway system, we have consistently delivered a 99.9 per cent on-time rate while carrying up to five million people on an average weekday. What's more, in the past year, MTR has added 1,200 train trips a week to ease crowding, a long-standing complaint."

Despite Hong Kong's relatively modest 120 miles of metro lines, MTR carries roughly the same number of people as London and New York, each with more than 200 miles of track. Visitors to Hong Kong from those cities marvel at its clean trains, which appear at intervals of every two minutes during rush hour.

The company is justifiably proud of its efficiency, which in large part is due to continual maintenance

All in a day's work: MTR carries roughly the same number of passengers in Hong Kong as London Underground or the New York subway of its track and equipment: in 35 years, track work has caused just one shut-down. "Obviously, we work at night, and we also integrate repair work with new-builds, making sure it's planned and coordinated in advance. We don't close any part of lines when we connect. We have learned how to do this over the years. It's a seamless process."

Mr Leong also attributes the company's international success to the company's workforce, or "colleagues", of around 32,000 people, half of whom are employed in Hong Kong. "We have a safety-first culture: it's deeply ingrained in the company. It's a can-do culture, one of continuous improvement. We work as a team. We're a company that touches the lives of everybody in Hong Kong, not just passengers, but also the shoppers in the malls we own above the stations, the apartment buildings we build and manage, the advertising hoardings in our stations; we have a responsibility to be part of society, of the community. Our vision is to grow communities and connect them."

MTR stands apart from its competitors for another important reason: its consistent profitability. Without any direct government support, it made a net profit after tax of US$1.1 billion in 2013. Its profits, more than 90 per cent of which came from its Hong Kong operation in 2013, point to another unique characteristic: in Hong Kong, MTR benefits from developing the land above and around its stations, allowing it to benefit from Hong Kong's booming real-estate market.

Mr Leong describes the company's Hong Kong and Chinese models as "asset heavy": "We invest in the rail line, and in Hong Kong, we tender for property development rights above stations." In other cases, it will cut a deal with shop owners, receiving a share of a mall's profit, signs a co-ownership agreement, or accepts a percentage of property development fees. "In many cases, we own the entire mall itself," he explains. Two of the tallest skyscrapers in Hong Kong are MTR property developments, as are many of the offices, malls, and residences next to every transit station, some of which even have direct underground connections to the metro below.

While he admits that the systems MTR runs overseas don't quite match its standard of punctuality at home, Mr Leong says they are close. At London Overground, 96.7 per cent of trains operate on time compared with a rate of just 88.4 per cent in 2007, before it took over operations. Similarly, on-time performance at Melbourne Metro has risen to 93.7 per cent from 87 per cent in 2009 when MTR took over.

Expansion abroad…and at home

In London, Crossrail is expected to reduce passenger overcrowding on underground trains in central London and to reduce cross-London journey times. The line will see trains running from Reading in

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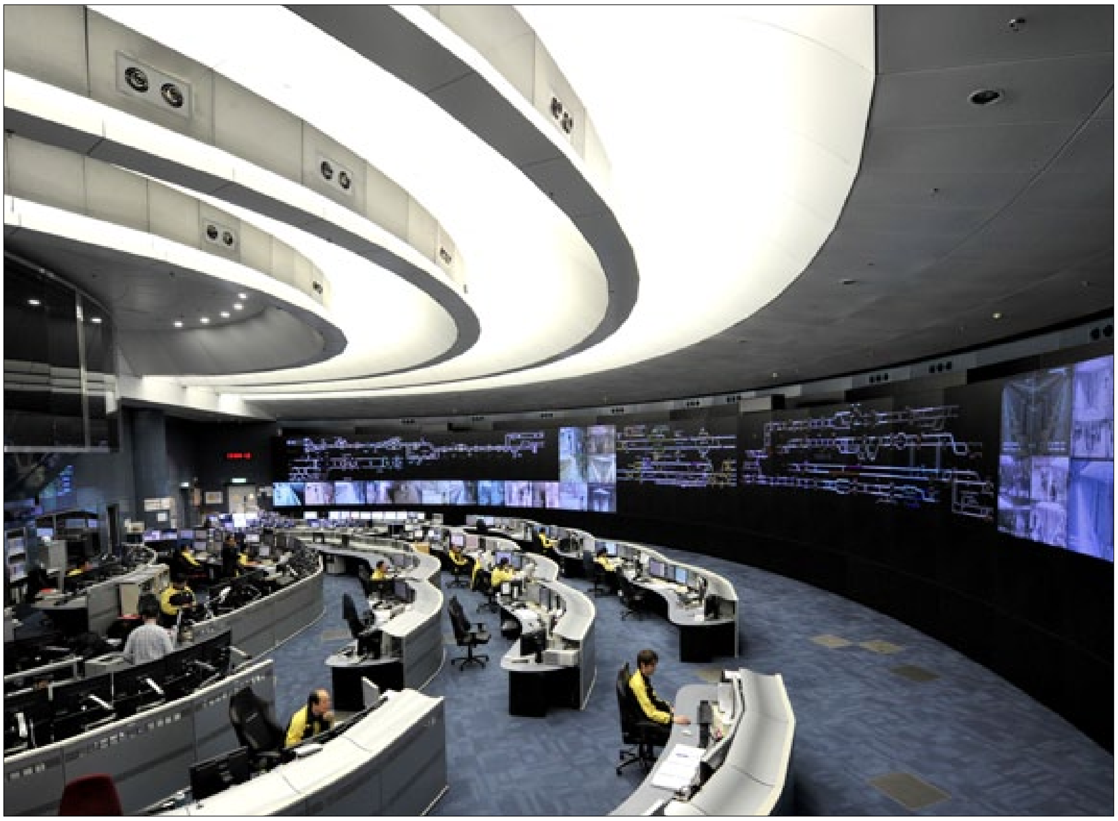

The operation of MTR's ten Hong Kong rail lines is overseen from its state-of-the-art Operations Contol Centre in Tsing Yi

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Berkshire to the west of the capital and as far east as Shenfield in Essex, as well as linking to south London. It is one of the most ambitious transport construction projects undertaken in London since the original Underground was built more than 150 years ago.

New trains will begin entering service in 2017. The route through Canary Wharf, the City, and the West End will open in late 2018, with the full route running from late 2019.

MTR's enlarged presence in London represents a return home for the company, which was set up when Hong Kong was still a British colony. Over the years, a number of MTR's top executives have ended up leading London Underground and other British rail companies. The huge Crossrail project, costing around £15bn to build, is the first complete new underground line in London since the Victoria line was built in the late 1960s. There is another London link: Roland Paoletti, the architect dubbed 'the Medici of London Transport' for his work on the extension to the Jubilee Line, notably Canary Wharf and Canada Water. Back in the mid-1970s Paoletti, who died last year, was the fledgling MTR's chief architect, supervising the design of three complete lines, as many train depots (each with vast housing neighbourhoods on top) and 37 stations, all built within a dozen years.

MTR's continued expansion outside Hong Kong will likely come from markets it has already entered, including China and London, according to Mr Leong: "Our approach to expansion is to compare our different experiences around the world and to use what we have learned. We've used different models in different countries. In Australia, the United Kingdom, and Sweden we are operators only. We are great believers in transferring the knowledge we have gained in Hong Kong to other countries and to other operating systems. We're able to recruit good local people, but we bolt-on systems, assets, and our 'culture transfer' of continuous improvement."

Mr Leong rebuffs suggestions that the company's recent growth runs the risk of it overreaching, but the company has been criticised for a two-year delay to Hong Kong's Express Rail Link project, which will connect Kowloon with Guangzhou in Mainland China. The line is now scheduled to open in 2017, meaning that four of MTR's five current major construction projects in Hong Kong are now delayed. But heads rolled, and at the highest level: former CEO Jay Walder stepped down in August after he was criticised by the company's directors for not exercising "more critical judgment" with respect to monitoring the project's progress.

For the moment, MTR's expansion plans are focused abroad, but a Hong Kong government-initiated plan, first formulated in 2000, seeks to maximise its domestic metro system's connectivity. Early last year, the government launched the second stage of a public consultation on the long-term railway development blueprint aimed at improving the Hong Kong rail system in the coming years – particularly after 2021, when most of the work being planned now will have been completed. Seven proposals have already been put on the table. Committed and future railway projects would potentially increase the network to around 186 miles before 2031.

The company will have its work cut out balancing domestic and international growth, admits Mr Leong: "We prefer to grow and expand in the cities we operate in. It's like farming, where you start with small plot and expand out. Australia is a case in point: we started out in Melbourne, moved to Sydney, and there may be more opportunities there, and the same applies to the UK and China. It's very encouraging that in September, the Chinese government issued a directive proposing a model in all China's cities based on MTR: this would be for high-speed rail, but it could also apply to metro systems. The Chinese have sent delegations to study our malls and stations. Financial synergies come from building the rail system and benefiting from the accompanying increase in property values. It's about capturing value and reinvesting it."

Sydney's new rapid transit train, to be operated by MTR