

**Select Committee to Inquire into the Background of and Reasons for
the Delay of the Construction of the Hong Kong Section of the
Guangzhou-Shenzhen-Hong Kong Express Rail Link**

15 July 2015

**Opening Statement for Mr Lincoln Leong,
Chief Executive Officer of MTR Corporation Limited**

Honourable Chairman and committee members

1. Thank you for allowing me the opportunity to say a few words. My written statement submitted to the Select Committee covers the following areas relating to your investigation, namely:
 - (a) the Corporation's role and responsibilities under the Entrustment Agreements signed with Government;
 - (b) our management systems and procedures set out in the Corporation's Project Integrated Management System, or PIMS, which has successfully delivered a number of new rail projects in Hong Kong and beyond over the last 20 plus years. As you know, the Corporation is required to follow our system under the Entrustment Agreements for the Express Rail Link Project; and
 - (c) the extensive channels of communication with Government throughout the Express Rail Link construction and the monitoring mechanisms in place.
2. Before I take your questions I would like to briefly touch on a few points.
3. First of all, I would like to apologise that MTR did not until April of last year provide the Government, the Legislative Council and the public with an updated assessment of the completion date of

the Express Rail Link Project. As a result, our announcement of the delay in April 2014 understandably caused public concern.

4. The question that is often asked is “Why didn’t we provide an updated assessment at an earlier time?”
5. In April of last year, I was serving as the Corporation’s Deputy CEO, primarily responsible for continuing the growth of our businesses outside Hong Kong.
6. But since being appointed as Acting CEO in August of last year and later as CEO in March of this year, I have spent a lot of time focusing on this important project. Having talked to our staff and outside experts in the construction industry, as well as visiting the different works sites, the answer to that question has become clearer to me. Although delays to particular contracts were well known and communicated, we were too optimistic on the overall ability to catch up with the original timetable.
7. As we all know, the Express Rail Link is a large and immensely complex project. It is the world’s first all-underground high-speed railway project. At the terminus site in West Kowloon (WKT), in the heart of an extremely busy urban area, we are undertaking one of the largest and deepest excavations ever in Hong Kong to build a four-storey underground structure with the lowest level being located 30 metres below ground. The 11-hectare WKT site area, which as mentioned in the Government’s Independent Expert Panel (IEP) report, is approximately the size of 15 football fields. The main public area of the terminus incorporates a large atrium with a steel-framed Station Entrance Building. The total construction floor area of the station, all of which is underground, is around 380,000 square metres - almost two thirds of the floor area of Terminal 1 at Chek Lap Kok Airport.
8. MTR’s role in the delivery of the Express Rail Link is as Project Manager to oversee the design, construction and commissioning into service of the project. Our role and responsibility as Project

Manager are embedded in, so called Entrustment Agreements with Government. There are two Entrustment Agreements, the first relates predominately to design and site investigation whilst the second (EA2) entered into in January 2010 predominately relates to our role to oversee the construction and commissioning of the project including the procurement and oversight of contracts with third parties.

9. Under both Entrustment Agreements, which require MTR to use our project management system, we are to carry out our services as Project Manager with reasonable skill and care and are to use our best endeavours to bring the Project forward as well as to provide regular updates and progress report to Government. Under EA2, both the Entrustment Programme and Entrustment costs are estimates which may be subject to modifications in accordance with the contract.
10. Before construction commenced, site investigation works were carried out as far as possible. In particular, the site investigation that was undertaken at the West Kowloon Terminus not only complied with Government guidelines, but also exceeded industry norm. While delays are common for complex construction projects such as the Express Rail Link, throughout the construction, we did everything we could to reduce the effect of delays.
11. As highlighted by various independent experts who have looked into the Express Rail Link delay, many issues have impacted the construction programme, including challenges which were identified but proven to be much more serious than anticipated, such as unfavourable ground conditions and the acute labour shortage in the local construction industry. In addition, other key contributors of delay include issues with the Tunnel Boring Machines (TBM), and a fast-tracked front end and late site possessions. To overcome these challenges, we instructed the contractors to carry out a large number of delay recovery measures. And with good results achieved by some of these remedial

measures, we became too optimistic on the overall timetable to complete the project.

12. Eventually, continuing delays in several critical contracts meant that the original project completion date could not be achieved. Although the challenges and delays on individual contracts were well communicated to Government, over-optimism led to a belief that the original overall project completion date could still be met.
13. From the Express Rail Link events of last year and taking the recommendations of the Independent Board Committee (IBC), we have over the past year, introduced enhancements to strengthen our monitoring and reporting of the project, including the following -
 - (a) we have established the Capital Works Committee at Board level to improve monitoring of the construction of new projects and to extend more support to the project teams. In addition, to strengthen corporate governance, the MTR Board has also established the Risk Committee;
 - (b) we have implemented improved internal project reporting processes and mechanisms within the Projects Team; to the Executive Committee; the Capital Works Committee; the Board and to Government; and we have also enhanced external reporting to the Legislative Council;
 - (c) we have established enhanced communication channels with Government and senior management of key contractors; and
 - (d) we have reviewed the report by the Independent Expert Panel appointed by the Government and we will support Government in any follow up actions which they may require.
14. Recently, after extensive and detailed review and taking into account the IBC experts' methodology, a revised programme and cost estimate has been submitted to the Government.

15. With the permission of Government, we have reported the details of this review to the LegCo Transport Panel's Subcommittee on Matters Relating to Railways on 3 July 2015. The Project is now over 70% complete. While there are still challenges in the remaining construction works, we will, as always, continue to use our best endeavours to deliver the project according to the revised timetable.
16. The Corporation's project team is highly professional and experienced, and has a proven track record in the construction and commissioning of new railway projects. The hard-working women and men in the team continue to do their utmost and put in tremendous efforts to overcome challenges. We work promptly and responsibly with the project contractors in an effort to mitigate delays when they occur, looking at what is in the best interest of the Project, from both the schedule and cost perspectives.
17. I am grateful for the advice which honourable members of the Legislative Council and the public have given us. We will continue to work with Government to deliver the Express Rail Link in a timely and cost effective manner.
18. Thank you, Chairman and members.

Lincoln Leong Kwok-kuen
Chief Executive Officer, MTR Corporation Limited
15 July 2015