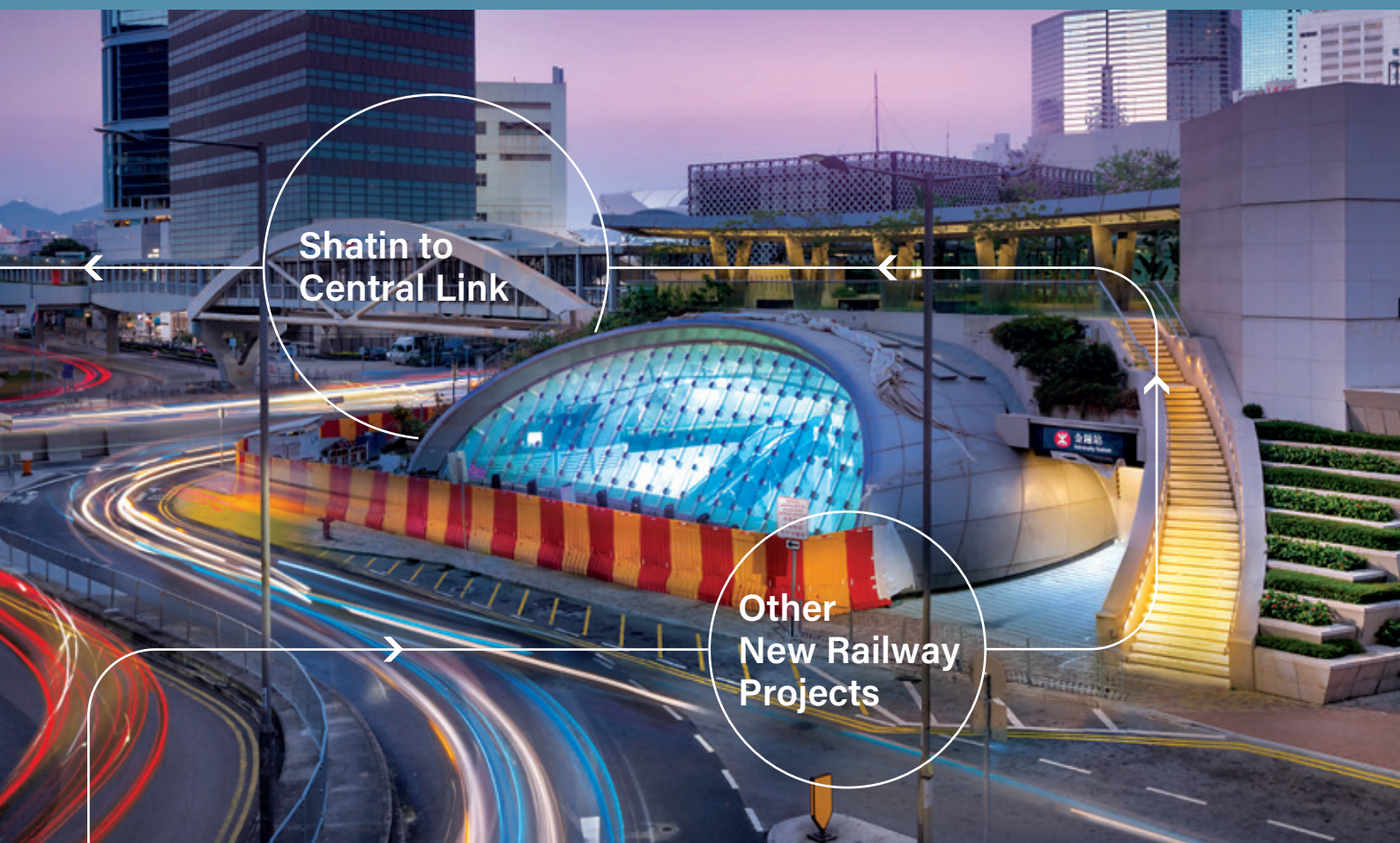


HONG KONG NETWORK EXPANSION



Shatin to
Central Link

Other
New Railway
Projects

Tai Wai to
Hung Hom Section

99.99%

Complete

Hung Hom to
Admiralty Section

91.2%

Complete

Proceed with
3 Railway Projects
under Railway
Development Strategy
2014

AIM

Network expansion is a key aspect of our “Hong Kong Core” strategic pillar, laying the foundations for our future growth as we enhance connectivity to meet the city’s developing transport needs. We strive to design and construct new railway projects to the highest possible standards of quality, emphasising safety, cost control, efficiency and environmental sustainability.

CHALLENGES

- Progressing the design of railway projects under Railway Development Strategy 2014 (“RDS 2014”), which could add 35 km to the MTR railway network in the coming years and create further development opportunities
- Working toward the opening of the full Tuen Ma Line in the third quarter of 2021; for the Hung Hom to Admiralty section of the Shatin to Central Link, the targeted opening date of the first quarter of 2022 is significantly at risk due to the major challenges encountered

STRATEGIES

- Further improve our project management systems and processes to ensure quality delivery of current and future projects
- Continue digitalising our approach to project management by adapting modern systems and technology
- Continue to strengthen collaboration among internal and key external stakeholders
- Ensure the Company’s future success by leveraging and building upon previous project experience to secure future projects, diversify our business and contribute to long-term, sustainable growth

OUTLOOK

We continue to work toward the delivery of the 17-km Shatin to Central Link project, which will greatly reduce travel times between major population centres in Hong Kong. We expect the full Tuen Ma Line – connecting Phase 1 of the Tuen Ma Line with West Rail Line via Sung Wong Toi, To Kwa Wan, Ho Man Tin and Hung Hom stations – to open in the third quarter of 2021, bringing the important Shatin to Central Link project one step closer to completion. We are also working hard on the project’s Hung Hom to Admiralty section.

Elsewhere, we are progressing the design of the Tung Chung Line Extension and the Tuen Mun South Extension, and have commenced the procurement of the design consultancies for Kwu Tung Station and the Northern Link. We are also continuing to work closely with Government on other railway projects under RDS 2014.

BUSINESS REVIEW

HONG KONG NETWORK EXPANSION

With the opening of Tuen Ma Line Phase 1, the Shatin to Central Link made further progress in 2020. We are continuing to work closely with Government on the RDS 2014 development framework for Hong Kong railways,

which will potentially increase the city's railway network by 35 km and bring with it even more opportunities for development and business expansion.

SHATIN TO CENTRAL LINK

The ten-station, 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will enhance the existing rail network and improve connectivity in Hong Kong. The first phase is the 11-km Tai Wai to Hung Hom Section, and the second phase is the 6-km Hung Hom to Admiralty Section.

The Tai Wai to Hung Hom Section will connect the former Ma On Shan Line to the West Rail Line via Diamond Hill and Hung Hom stations to form the Tuen Ma Line. When the Hung Hom to Admiralty Section is completed, the East Rail Line will run under Victoria Harbour to Exhibition Centre Station and Admiralty Station via Hung Hom.

Upon completion, the Shatin to Central Link will connect several existing railway lines and significantly reduce travel times between New Territories North, Kowloon and Hong Kong Island. Passengers will also have more routes to choose from, particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line.

Project Progress

As at 31 December 2020, 99.99% of the Tai Wai to Hung Hom Section and 91.2% of the Hung Hom to Admiralty Section had been completed.

On 11 February 2020, the Company entered into relevant agreements with Government and Kowloon-Canton Railway Corporation to supplement current agreements to enable the Company to operate Tuen Ma Line Phase 1 in substantially the same manner as the existing railway network for a period of two years from 14 February 2020.

Tuen Ma Line Phase 1, opened on 14 February 2020, enables passengers on the former Ma On Shan Line to travel directly to Kai Tak Station in East Kowloon via Hin Keng and Diamond Hill stations. Meanwhile, the expanded Diamond Hill Station has become a new

interchange between the Tuen Ma Line and Kwun Tong Line, allowing passengers to travel between the New Territories North and East districts to East Kowloon and Hong Kong Island East more conveniently.

Trial operations of the full Tuen Ma Line began in January 2021, marking a major milestone toward the commencement of passenger service.

During 2020, track-laying works were completed along the full length of the 6-km section from Hung Hom Station to Admiralty Station. To mark this milestone, a small celebration event was held in the tunnel at



Exhibition Centre Station on 17 July 2020. In November 2020, a topping-out ceremony for Exhibition Centre Station was held.

As the existing East Rail Line will connect with the future Hung Hom to Admiralty section, its signalling system must be upgraded for compatibility with the extension to the line. As reported earlier, the introduction of the new signalling system was put on hold in September 2020 and the system was finally commissioned in February 2021 after the satisfactory completion of all further testing and approvals from relevant Government departments.

After reviewing the report of the investigation panel, the Company has established a dedicated “Shatin to Central Link Technical and Engineering Assurance Team” to monitor the project from both a technical and service readiness perspective and to identify any important potential issues of the remaining works for timely reporting and follow-up. A new Service Reliability Report will also be introduced as part of Government’s reviewing mechanism of the commissioning of new lines to ensure the timely reporting and handling of issues with potentially significant reliability impacts. The Company will also implement other recommendations made in the report of the investigation panel.

Programme for Delivery

The full line opening of the Tuen Ma Line is anticipated to be in the third quarter of 2021. As for the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station), due to the major challenges encountered, the targeted opening date of the first quarter of 2022 is significantly at risk. The Company is working to the best of its ability to open the line at the earliest opportunity.

Concerns Relating to Construction Works

On 12 May 2020, Government released the Final Report of the Commission of Inquiry (“COI”) into the Construction Works at and near the Hung Hom Station Extension under the Shatin to Central Link. The report concluded that the

relevant structures at and near the Hung Hom Station Extension are safe and fit for purpose with the completion of suitable measures. Works for the suitable measures were completed to programme in mid-2020.

Separately, the Expert Advisor Team report also concluded that it is safe in practical terms to use the related built structures at Hung Hom Station for their intended purposes after the implementation of the suitable measures.

In its Final Report, the COI identified a number of inadequacies in respect of the construction process used during the construction of the Hung Hom Station and adjacent structure (including failures in respect thereof, such as poor workmanship incidents compounded by lax supervision, and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations on how the Company’s project management practices should be improved. Based on the COI’s interim report and the recommendations of the review carried out by the Capital Works Committee of the Board in 2018, the latter aided by an external consultant Turner & Townsend (“T&T”), the Company has been updating and improving its project management practices over the past two years. Many of these have already been incorporated into the Company’s standard practices. Out of the 38 recommendations made by T&T, 31 have been implemented, and implementation of the remaining seven is well underway. The Company notes the comments and recommendations made by the COI in its Final Report. These are now being incorporated into our on-going work to improve our project management and quality assurance systems and processes for the delivery of future railway projects.

In the meantime, we are continuing our discussions with the contractor about fulfilling their contractual responsibilities and will be considering our legal position.



Funding

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete, and this was submitted to Government on 10 February 2020. The Company's submission included an additional amount of project management cost for the Company. However, Government advised the Company that Government considers there has been no material modification in respect of the Shatin to Central Link project and, therefore, Government disagrees with the inclusion of any additional project management cost in the Cost to Complete. The additional funding sought by Government and subsequently approved by the Legislative Council on 12 June 2020 did not include any additional amount of project management cost for the Company. Government has recently responded to the Company that Government maintains its position of

disagreement to any increase in the project management fee. The Company believes it is entitled (in accordance with the relevant entrustment agreement and following the Company's receipt of independent expert advice) to an increase in the project management cost, to be agreed by way of good faith negotiations or otherwise determined in accordance with the relevant entrustment agreement. Despite the fact that this matter needs to be resolved, the Company continues to comply with its project management obligations under the agreement and meet the costs thereof, on an interim and without prejudice basis, to allow the Shatin to Central Link project to progress whilst reserving its position. The Company continues to exercise rigorous cost control with the objective of ensuring that construction costs are contained as far as possible.

In light of the matters described above, the Group has made a provision of HK\$1.4 billion for the estimated additional cost to the Company of continuing to comply with its project management responsibilities in its

consolidated profit and loss account for the year ended 31 December 2020. Further details can be found in note 21B to the Consolidated Accounts of this Annual Report.

OTHER NEW RAILWAY PROJECTS

Working under the RDS 2014 framework for the future development of the Hong Kong railway network, the Company was invited by Government in April, May and December 2020 to proceed with the detailed planning and design of the Tung Chung Line Extension, Tuen Mun South Extension, as well as Kwu Tung Station and the Northern Link, respectively. In June and October 2020, the design consultancies were awarded for the Tung Chung Line Extension and Tuen Mun South Extension, respectively. Ground investigation works and environmental impact assessments have also commenced. Procurement of the design consultancies for Kwu Tung Station and the Northern Link has commenced.

The Tung Chung Line Extension project comprises two components: i) a new intermediate Tung Chung East Station between Sunny Bay Station and Tung Chung Station, and ii) an extension of the existing Tung Chung Line to a new terminal station at Tung Chung West. Construction is expected to commence in 2023. The Company has also agreed with Government to construct the Airport Railway Extended Overrun Tunnel to facilitate an increase in the train frequency of Tung Chung Line in the future.

The Tuen Mun South Extension is a 2.4-km extension of the West Rail Line (which will become the Tuen Ma Line in the future) from the existing Tuen Mun Station to a new terminus at Tuen Mun South via a proposed

intermediate station between Tuen Mun Station and the new Tuen Mun South Station. Construction is expected to commence in 2023.

The Kwu Tung Station and Northern Link project comprises two phases: i) a new Kwu Tung Station along the Lok Ma Chau Spur Line between Sheung Shui Station and Lok Ma Chau Station, and ii) a 10.7 km-long railway line linking Kam Sheung Road Station on the West Rail Line (future Tuen Ma Line) with the new Kwu Tung Station via three proposed intermediate stations in San Tin, Ngau Tam Mei and Au Tau. Upon completion of the project, a loop will be formed in the Northwest New Territories to enhance transport network connectivity between the east and west New Territories.

In May 2020, we submitted a proposal to Government for the Hung Shui Kiu Station project, and we continue to provide further information and details to Government. We also submitted a project proposal for the South Island Line (West) in December 2020.

During the year, we continued to work with Government to address technical challenges on the East Kowloon Line and North Island Line projects.