

## Chairman's Letter



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## Dear Shareholders and other Stakeholders,

I am pleased to report that MTR Corporation achieved a strong set of results for the year ended 31 December 2010 by leveraging off the recovery in the Hong Kong economy. Our recurrent businesses in Hong Kong experienced good patronage growth, augmented by gains at our station retail and property rental businesses, as well as a pick-up in our advertising business. We recorded strong property development profits, relating mainly to Le Prestige at LOHAS Park. The year 2010 also saw the first full year results of a number of our rail businesses outside of Hong Kong, as well as the introduction of Phase 1 of Shenzhen Metro Line 4 (SZL4). The financial results of these rail businesses outside of Hong Kong were either in line with or better than expectation in their initial year of operations, except for our Stockholm franchise.

For the year, revenue rose by 57.0% to HK\$29,518 million, on the back of strong Hong Kong recurrent businesses as well as the full year revenue contribution from rail franchises outside of Hong Kong. Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment increased by 14.7% to HK\$10,917 million and property development profit for the year was 13.5% higher at HK\$4,034 million. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 18.5% to HK\$8,657 million. Including pre-tax gain in revaluation of investment properties of HK\$4,074 million, the net profit attributable to equity shareholders was HK\$12,059 million and earnings per share were HK\$2.10. Your Board has proposed a final dividend of HK\$0.45 per share, giving a full year dividend of HK\$0.59 per share, which is an increase of 13.5% compared to the previous year.

## Growth Strategy

Our growth strategy of expanding our rail network in Hong Kong and participating in rail businesses outside of Hong Kong remains on track.

In Hong Kong, we have five railway projects at various stages of development which, when completed, will increase our route network by 56-km. Construction of the West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link is progressing well. We have also steadily advanced the South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link projects through work on their detailed design, planning and approval processes.

In the Mainland of China, the Daxing Line extension of Beijing Metro Line 4 commenced operations on 30 December 2010. Our wholly owned subsidiary MTR Corporation (Shenzhen) Limited took over Phase 1 of SZL4 in July 2010, with Phase 2 nearing completion and services expected to commence in mid 2011. The Company signed a Memorandum of Understanding with Shenzhen Line 3 Investment Company to participate in the feasibility, land and planning study, and the investment study for Shenzhen Metro Line 6. The project for the investment in, construction and operation of the Hangzhou Metro Line 1, in which we plan to hold a 49% shareholding, is awaiting regulatory approval from the Central Government.

## Sustainability and Corporate Responsibility

The Company aims to be a globally recognised leader in meeting the transportation needs of present and future generations, connecting and growing communities with caring service. We see a railway system not merely as a physical infrastructure, but an asset with social, environmental and economic implications. Properly designed and integrated with property development, a railway enables more effective utilisation of land, contributing towards sustainable urban development and benefiting the environment.

As such, a successful rail line must nurture local communities and consider local aspirations during design, construction and in operation. We have developed ongoing relationships with local communities to maximise the benefit of our long-term infrastructure, drawing on stakeholder views throughout

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the planning, design and construction stages. We also use a Sustainable Competitive Advantage model, which combines and balances risk management, operator requirements and stakeholder views and aspirations, thus embedding sustainability into management decisions.

Our concern to bring sustainability into the heart of our business has led us to the publication since 2000 of our Sustainability Report, using a well respected framework which follows the Global Reporting Initiative.

We continue to make progress in reducing energy consumption, to address our responsibilities in relation to the local environment and global warming. While constrained by the relatively carbon intensive power generation in Hong Kong, continuous improvements in operational efficiency have supported a downward trend in power usage from 5.94 kWh per revenue car-km in 2005 to 4.83 kWh in 2010. In February 2010, we launched a programme to install LED lighting in 136 trains. Once installation is completed in 2014, starting from 2015, these changes will result in a measurable reduction of 2,519 MWh each year in electric power consumption. This is one of many energy saving initiatives during the year targeting rolling stock, tunnels and stations.

We also apply the same approach of sustainable development to our network expansion projects. In addition to community engagement on the planning and design, we make every effort to achieve high quality, safety and environmental standards during construction, through award schemes and other incentives. On the West Island Line, new technology using electronic detonators with water ballast rather than sand bags to absorb the pressure from blasting has enabled us to excavate the construction shaft at the King George V Memorial Park at Sai Ying Pun with barely noticeable levels of noise and dust.

### Community Care

A key objective of our Corporate Responsibility Policy is to enhance the quality of life and actively engage in the communities where we operate. These efforts fall under our Community Care Action programme, which targets four broad categories, namely Youth, Community Outreach, Art & Culture and Green & Healthy Living.

Our recent initiative “‘Friend’ for life’s journeys”, targets secondary school students. It aims to broaden their horizons and equip them with useful life skills through a variety of activities. Launched in December 2009 and continuing into 2011, the

programme initially paired 100 secondary school students with 100 young staff volunteers to act as mentors, sharing insights and bringing the students a new perspective. The other youth initiative is “Train’ for life’s journeys”, which provided 100 Form Five students with personal development and hands-on experience of working in our operations.

More broadly, our “More Time Reaching Community” scheme encouraged 198 volunteering community service projects during 2010 involving about 4,400 volunteers. Furthermore, in May 2010, in support of the Employee Volunteer Week organised by Community Business, our staff volunteers organised seven projects for the elderly, chronically ill, underprivileged families and mentally challenged people across Hong Kong.

We maintained our support for local art and culture through the “art in mtr” programme, including a 90 metre long corridor in Tsuen Wan Station featuring 132 works of mosaic art called “Urban Flow”.

Finally, during the year the Company took part in a number of events relating to the environment and health. The sixth MTR HONG KONG Race Walking, held in Central in April 2010, raised over HK\$1.13 million for the Hospital Authority’s Health InfoWorld. We also supported Community Business’ Work-Life Balance Day, Earth Hour, organised by the World Wide Fund for Nature, and World Car Free Day.

## Conclusion

Although we have seen a global recovery from the recent financial crisis, it remains fragile. In this environment, we will continue to pursue our strategy to achieve sustainable growth, while carefully managing risk through the application of sound principles of corporate governance. I wish to thank my fellow directors, our staff and all our stakeholders for their support as we journey forward. I would also like to welcome Mr Alasdair George Morrison, who joined the Board in July 2010 as an independent non-executive Director of the Company, and thank Mr Andrew McCusker, who retired in December 2010 as Operations Director. I further welcome Dr Jacob Kam, who became Operations Director on Andrew’s retirement.



Dr. Raymond Ch’ien Kuo-fung, *Chairman*  
Hong Kong, 3 March 2011