

Chairman's Letter



"The Group's financial results for the first half of 2013 were good, with recurrent operations performing well and our growth strategy continuing to be on track."

Dear Shareholders and other Stakeholders,

The Group's financial results for the first half of 2013 were good, with recurrent operations performing well and our growth strategy continuing to be on track. Our Hong Kong transport operations recorded increases in patronage and market share. Our station commercial and property rental businesses achieved higher revenues, while modest Hong Kong property development profits were booked, mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station. Our franchises outside of Hong Kong performed satisfactorily with more lines added to our portfolio.

The Group's underlying profit increased by 5.1% as compared with the first half of 2012, to reach HK\$4,251 million. Underlying earnings per share rose by 4.3% to HK\$0.73. Including investment property revaluation, net profit attributable to shareholders rose 6.4% to HK\$6,158 million. Your Board has declared an interim dividend of HK\$0.25 per share.

In April 2013, we announced with Government the result of the review of the Fare Adjustment Mechanism ("FAM"), which left the overall FAM formula and direct drive mechanism

unchanged but with a revision to the productivity factor. This resulted in the overall fare adjustment rate being reduced to 2.7% from what would have been 3.2% using the original FAM productivity factor. As part of the FAM review and to encourage usage of our network by various passenger groups, we announced the introduction of a number of additional fare concessions including the "Monthly Pass Extra" and "MTR City Saver". A new profit-related fare concession scheme and a Service Performance Arrangement will provide funds for fare concessions under the "10% Same-day Second-Trip Discount" promotion going forward.

The revised FAM remains an open, objective and transparent formula. It also aligns the Company's overall fare system more closely with the community's aspirations. In future years, an Affordability Discount will be offered when the FAM rate in any given year triggers a fare increase that is higher than the yearly percentage change in Median Monthly Household Income as published by Government. This well-balanced package addresses the travelling public's desire to spend less on fares, while at the same time assures our shareholders of the Company's long-term sustainable development.

Creation of Long Term Value

Our Company's operations are guided by the Corporate Strategy which was revamped in 2012. This refinement of the strategy that has served us so well in the past affirms that we will continue to strengthen our ties with the community in our home base of Hong Kong, as well as invest in improving our services. This will in turn help achieve further growth and maximise the value of our Hong Kong core businesses. At the same time, we will pursue faster growth in other markets.

In executing our strategy, the Company aims to be a long-term source of global best practice in urban mass transit development and operations. This necessitates us undertaking financially sustainable new projects continuously in both Hong Kong, Mainland of China and overseas, as well as increasing our commitments to research and development ("R&D"). In addition to our own R&D team, we are partnering with others in our industry and with recognised research institutions on R&D, including many Hong Kong universities and MIT (the Massachusetts Institute of Technology). We are also furthering international best practice through engagement with bodies such as UITP (International Association of Public Transport), CoMET (Community of Metros) and through sponsoring and supporting the iESM, the international Handbook on Engineering Safety Management for the rail industry.

Our growth strategy has made further progress in the first six months of 2013. In Hong Kong, the construction works on our five railway extension projects have become even more intense, and we currently have over 11,400 workers employed on some 180 rail project sites. These projects, namely the West Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link, are all making solid progress and remain on target, with the West Island Line due to open next year. As well as providing employment, the new lines will generate significant economic, social and environmental benefits once they are in service.

Outside of Hong Kong, in the Mainland of China, Beijing Metro Line 4, the Daxing Line, Shenzhen Metro Longhua Line and Hangzhou Metro Line 1 all exceeded their operational targets. The first phase of Beijing Metro Line 14 opened successfully in May 2013. Overseas, London Overground Rail Operations

Limited continued to win awards for its outstanding services in the UK's capital, while our franchises in Melbourne and Stockholm continued to meet or exceed their contractual requirements. We will continue to pursue growth by leveraging on our success and exploring further rail and property business opportunities in the Mainland of China and overseas.

Sustainability

Our commitment to sustainability focuses our attention on how best to meet the needs of the present, while not compromising the ability of future generations to meet theirs. We balance the expectations of our stakeholders with our long-term development. This includes optimising energy efficiency, improving customer service and ensuring safe and healthy work environments, while at the same time integrating the needs of the community into our decision-making process.

A good example of our commitment to higher energy efficiency is the innovative energy storage system we have developed for the South Island Line (East). It is expected to save up to 1.38 million units of electricity per year, equivalent to an annual reduction of up to 742 tonnes of carbon emissions.

We became a signatory in 2012 to Hong Kong's Energy Saving Charter, which advises us to maintain an average indoor temperature of 24-26 degrees Celsius in the common areas of shopping malls between June and September 2013. In 2013, we extended the Charter to cover our main office buildings in Kowloon Bay, Fo Tan and Kam Tin as well as the common areas of office buildings managed by the Company including Two International Finance Centre ("Two ifc"), Admiralty Centre, World Wide House and Fairmont House.

Efforts to ensure sustainable development led to the "Gold Award of Leadership in Energy and Environmental Design (LEED)" being granted to Two ifc. The award demonstrates our success in integrating "green" concepts into our property management services.

Community concern about food waste has been rising and we were one of the first organisations to sign and support the new "Food Wise Charter" under the Food Wise Campaign by the Environmental Bureau, which aims to reduce food waste from retail outlets such as supermarkets and restaurants.

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Overall, our rail plus property development model has gained wide recognition as demonstrating our ability to integrate community aspirations into our business model. We are now successfully translating this to markets outside of Hong Kong, and were honoured to win the prestigious International Business Model Award at the UITP World Congress in Geneva on 26 May 2013 for our integrated rail plus property development model for the Shenzhen Metro Longhua Line.

Our Sustainability Report 2012, which was published in June 2013, describes in more detail how these and other initiatives are helping the Company to progress towards our goals of enhancing our corporate citizen reputation and maximising value from our core businesses, while contributing to the long term sustainable development of the communities in which we operate.

Corporate Responsibility

Our Corporate Responsibility programme focuses on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

We are partnering with the Methodist Centre on our latest "Train' for life's journeys" programme, which has inducted more than 100 students from 80 different secondary schools. Our youth mentoring programme "Friend' for life's journeys", meanwhile, took the opportunity of the Completion Ceremony in May 2013 to launch an Alumni Association. We have also sponsored The Chinese University of Hong Kong to launch an "MTR-CUHK Youth Quality of Life Index" and initiate an "MTR-CUHK Youth Quality of Life Champions Competition" in secondary schools. All these initiatives are designed to encourage positive attitudes and civic engagement among our young people.

Our schemes to enliven local arts and culture have also expanded to involve more young people. The "MTR x Hong Kong Repertory Theatre: Master of Railway Safety School Tour" drama has been seen by students in 50 primary schools and expanded its horizons to 50 kindergartens for the first time,

giving children exposure to entertaining storytelling, while raising safety awareness. In Central Station, an inspiring "art in mtr – arttube" exhibition kicked off in April 2013 featuring more than 100 of the best entries from the first round of the "Brushstrokes Over Hong Kong: International Children Painting Competition in Hong Kong 2012/13", which we are co-sponsoring. The event is organised by the Promotion of Young Artists Foundation. The participants are aged between 4 and 18 years old and come from 52 countries and regions, making it a truly international youth event. In addition to these two events, we have continued to add to the enjoyment of using our network through additions to our "art in station architecture" and "roving art" programmes.

Beyond these areas, 93 community projects were organised under the "More Time Reaching Community" Scheme during the first six months of 2013, involving over 2,100 volunteers. In addition, the Company and staff together donated a total of over HK\$3.2 million to charitable causes, including The Community Chest and Sichuan earthquake victims. The Company organised activities to raise funds for The Community Chest, such as the "Green Day", "Corporate Challenge", "Skip Lunch Day" and the "CARE Scheme". In addition to these activities, the Company organised a charity fund raising event at the site of the decommissioned explosive storage magazine for the West Island Line project, and raised HK\$1.24 million for The Community Chest.

Recognition for Sustainability and Corporate Responsibility

We have received further recognition for our efforts towards sustainability. We now rank as the leading Hong Kong company on the Hang Seng Corporate Sustainability Index, on which we have been listed since its launch in 2010. The Company remains listed on the Dow Jones Sustainability World Index, Dow Jones Sustainability Asia Pacific Index and the FTSE4Good Index, and is one of the 16 companies designated a "New Sustainability Champion" by the World Economic Forum. We were also awarded a "Sustainability

Excellence Award" by the Chamber of Hong Kong Listed Companies and the Centre for Corporate Governance and Financial Policy of Hong Kong Baptist University.

In recognition of our corporate social responsibility, since 2011 we have been awarded the "5 Years Plus Caring Company Logo". East Week Magazine gave MTR a "Corporate Social Responsibility Award" for the sixth consecutive year in the "Hong Kong Service Awards 2013". We have also received numerous related awards in areas ranging from waste separation to noise abatement.

Conclusion

We have made a good start to the year and will continue to work towards creating more sustainable shareholder value, while improving the lives of those whom we serve. I would like to thank my fellow directors for their counsel, all of our people for their hard work and our other stakeholders for their consistent support. Finally, I would like to welcome Professor Frederick Ma Si-hang, Mrs Pamela Chan Wong Shui and Dr Dorothy Chan Yuen Tak-fai, who joined the Board in July 2013 as Independent Non-Executive Directors of the Company.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 26 August 2013