

Chairman's Letter



Dear Shareholders and other Stakeholders,

The first half of 2014 saw both achievements and challenges for MTR. In Hong Kong, our core transport operations continued to perform well, with world-class levels of service and safety. However, a small number of incidents leading to delays of 31 minutes or more, particularly on the East Rail Line, marred an otherwise satisfactory set of Hong Kong transport operations results. Our station commercial and property businesses in Hong Kong continued to achieve both operational and financial success, whilst our businesses outside of Hong Kong continued to build momentum. A key challenge remains the delays experienced in our Hong Kong rail projects due to various reasons. In particular, we announced that the opening of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") will have to be revised to end of 2017 from the original target date of 2015. With the benefit of hindsight, we could have better communicated the progress of the project including the delays experienced to our stakeholders. Lessons have been learnt from this and, while investigations and reviews are on-going to understand better the issues resulting in these delays, we are taking steps to enhance our reporting, processes and communications with the public.

In our financial results, the Group's underlying profit increased by 3.2% as compared with the first half of 2013, to HK\$4,389 million. Underlying earnings per share rose by 4.1% to HK\$0.76.

Including investment property revaluation, net profit attributable to shareholders rose by 28.5% to HK\$7,912 million. Your Board has declared an interim dividend of HK\$0.25 per share.

MTR is celebrating 35 years of train service in 2014 having started our first passenger service on just an 8-km long line between Shek Kip Mei and Kwun Tong in October 1979. Since then, MTR has contributed to the success of Hong Kong, helping to transform the way Hong Kong people live and move around, and becoming a part of the development of new, seamlessly integrated communities atop and around rail stations. Indeed, by international benchmarking, our railway system has become one of the world's best metro systems, playing a big role in Hong Kong transportation. It is pleasing to see Hong Kong being ranked No.1 in the world for mobility among 84 global cities as surveyed by international consultants Arthur D Little. This success reflects not only the contributions of the many MTR colleagues who have strived so hard over the years, but also the strong support received from the people of Hong Kong.

Looking ahead, the experience we have gained and what we have achieved together with the people of Hong Kong over the past 35 years has enabled us to develop a clear long-term vision: to be a caring company that connects and grows communities with excellent service both in and outside Hong Kong. To achieve this vision, we need to play our part as a leading Hong Kong corporate citizen, grow and enhance our Hong Kong core businesses and

continue to build MTR as a Hong Kong brand in the Mainland of China and overseas. The success of MTR in the future hinges very much on the continued support of all our stakeholders.

Building Value for the Long Term

To further establish ourselves as a benchmark for good practice in urban mass transit, we continue to commit to research and development, engage with major international organisations and work with bodies such as UITP (International Association of Public Transport) and CoMET (Community of Metros) in defining the future of global railway operations.

In Hong Kong, construction work on our five new railway lines has progressed steadily, although each has experienced different degrees of delay. The first of these lines to open, the West Island Line, will be a "Community Railway" with over 90% of residents in Western District living within walking distance of the line. We are targeting to open this line in December 2014, but due to construction difficulties, in the event the station at Sai Ying Pun cannot be opened in time, we have a back-up plan to commission the line by year end but not opening Sai Ying Pun Station until the first quarter of 2015. If Sai Ying Pun Station is not ready for opening in December 2014 and the back-up plan proves not to be feasible, then full opening of the West Island Line will take place in the first quarter of 2015.

The South Island Line (East) and the Kwun Tong Line Extension projects also face considerable construction and engineering challenges, and both lines are now behind schedule and the original target opening in 2015 cannot be achieved.

In April, we announced the postponement to end of 2017 of the opening of the Express Rail Link, one of two entrustment projects being implemented for the Government. We do recognise that our communication concerning this delay should have been made earlier and more clearly, and for this we apologise to our stakeholders.

As a result of this delay, the Board of MTR appointed an Independent Board Committee ("IBC") to review the background of and reasons for the delay of the Express Rail Link project, and advise on the manner in which the Company can deliver the project in a more transparent and timely manner. The first IBC report was issued in July and noted that, while there were numerous reasons for the delays leading to a revised schedule for commencement of operation in end of 2017, it concluded that the MTR Projects team has handled the engineering aspects in a professional manner. The Board has adopted the findings of this first report and the recommendations made for enhancements to the Company's systems and processes. We look forward to

receiving the IBC's second report relating to project management as well as any recommendations relating to MTR coming out of Government's own independent expert panel review on the delay of the Express Rail Link.

The other entrustment project, the Shatin to Central Link, has seen continued progress, but the archaeological works at the To Kwa Wan Station site, with the subsequent work stoppage, have already put the programme 11 months behind schedule.

We are doing our utmost to mitigate and contain delays, but unforeseen circumstances in the future may further impact the timing of delivery of these lines.

Our railway operations in the Mainland of China, including Beijing Metro Line 4, the Daxing Line, Phase 1 of Beijing Metro Line 14, the Shenzhen Metro Longhua Line and Hangzhou Metro Line 1, all performed well operationally. Further afield, London Overground Rail Operations Limited continued to forge a place for itself as one of the United Kingdom's most respected rail enterprises, while our franchises in Melbourne and Stockholm have further enhanced their operational performance. As we build up an international reputation for the quality of our rail services in many different urban environments, the opportunities for us to explore further overseas rail ventures are expanding. In Australia, a consortium of which we are a member has been selected as the preferred operator for the North West Rail Link project in Sydney, whilst we were awarded London's Crossrail Train Operating Concession franchise in July 2014.

To maintain the highest standard of corporate governance, the Board, on 21 August 2014, announced the setting up of two new committees, the Capital Works Committee and the Risk Committee. The principal duties of the Capital Works Committee are to oversee any project involving design and/or construction with a capital value in excess of a value as assessed by the Board and to report to the Board on the progress of the relevant projects, from both a programme and cost perspective. For the Risk Committee, its principal duties are to monitor the Company's risk profile and to review the Company's top risks (including, without limitation, operational, service performance, regulatory, financial and organisational risks), enterprise risk management framework and effectiveness.

Corporate Sustainability

Sustainability is an important pillar for MTR, and one we are continually striving to enhance. We do this in order that the generations to follow will inherit not simply our past successes, but a living legacy that can be carried forward with pride.

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For MTR, sustainability incorporates areas such as creating safe environments for all users including passengers, staff and contractors, achieving optimum energy efficiencies, developing staff, and engaging with the communities that we serve. Our annual Sustainability Report for 2013 contains full details of our sustainability policy and programmes such as our new Energy Saving Competition launched during the period. To date, the competition has led to over 30 energy-saving initiatives for trial. Our MTR Malls are now part of the Steering Committee of the Food Wise Hong Kong Campaign, initiated by the Environment Bureau in 2013 to reduce food waste in Hong Kong. Apart from initiating our own "MTR Malls Food Waste Reduction Pledge" incentive scheme, MTR Malls have also been leading the shopping mall sector in developing a good practice guide to encourage more malls to participate in reducing food waste.

Apart from our environmental commitments, we have continued to contribute to the development of a vibrant Hong Kong by supporting initiatives in the areas of Youth Development, Arts & Culture, Green & Healthy Living and Community Outreach.

In May 2014, we celebrated the completion of the fifth round of our mentorship programme "Friend' for life's journeys", which strives to strengthen the life skills of secondary school students whilst further developing our staff's communication and coaching skills. In July 2014, we kicked off the sixth year of "Train' for life's journeys", a comprehensive youth leadership development scheme that provides 100 secondary school students from 58 schools with classroom and experiential training as well as work experience at MTR during the summer.

The result of the second year survey of the MTR-CUHK Youth Quality of Life Index compiled by the Centre for Quality of Life of the Chinese University of Hong Kong was published in July. The survey tracks the well-being of Hong Kong youths. We sponsor this Index to assist the community in planning and providing programmes that will benefit our youths.

In March, we unveiled a stainless steel sculpture 'River Flow' at Sheung Shui Station as part of the Art in Station Architecture programme. In our "roving art" programme, smiling Miniature Big Head Buddha Masks delighted many passengers during the Chinese New Year period while a display of Teddy Bears marked Easter earlier this year. Our "arttube" programme, which serves as a platform for aspiring artists and designers to showcase

their work, hosted the 'Hong Kong Aviation Capital – Young Emerging Artist Award' exhibition at Central Station. Visitors were impressed by the remarkable works of art by young and up-and-coming local talents.

MTR has a strong tradition of community outreach, as reflected by the number of activities and charity events which our teams participated in. In the first half of 2014, we organised 112 community projects under the "More Time Reaching Community" Scheme, with over 2,000 volunteers taking part. Initiatives included outreach activities with Suicide Prevention Services to support elderly residents with emotional distress and a behind-the-scenes MTR journey for child cancer survivors.

In other initiatives, MTR runners took part in the Green Power Hike in January to raise funds for Green Power's environmental, education and conservation programmes. In February, volunteer teams participated in the Healthy Family @ Sai Kung – Race Walking Competition and Carnival organised by Sai Kung Healthy and Safe City. These activities are just a small sample of the many ways in which MTR staff support and reach out to our neighbours in the community.

Apart from their time, staff donated to the Community Chest through activities such as the Corporate Challenge, Skip Lunch Day, and the CARE Scheme. MTR also continued with its active support for the Hong Kong Athletes Career & Education Programme, a programme organised by the Sports Federation & Olympic Committee of Hong Kong, China that gives retired athletes valuable job opportunities and life skills training. In support of the Talent-wise Employment Charter initiated by the Labour & Welfare Bureau, MTR has collaborated with the Hong Kong Council of Social Service and local universities to launch a pilot Summer Internship Programme for students with disabilities or special educational needs.

Recognition

It is always pleasing to see our work towards sustainability recognised by local and international organisations, as was the case in the first six months of 2014. Germany-based Oekom Research AG, a sustainable research and rating agency, rated us as "Prime", while MSCI ESG Research granted us an "AA" rating in their Intangible Value Assessment, the second highest rating under MSCI, which puts MTR in the top three Roads and Rail Transport Industry companies globally. Meanwhile, we have also

maintained our listing in the Dow Jones Sustainability Index – Asia Pacific, the FTSE4Good Index Series, and the Hang Seng Corporate Sustainability Index. In recognition of our ongoing commitment to caring for the community, our employees, and the environment, MTR received the “5-Years Plus Caring Company Logo” awarded by the Hong Kong Council of Social Service. In March we also received the “Corporate Responsibility Award” for the seventh year in a row in the “Hong Kong Service Awards 2014” organised by *East Week*.

Management Transition

I would like to extend my sincerest thanks to our Chief Executive Officer (“CEO”), Mr Jay Walder, who left the Company earlier in August 2014. He has been a leading figure in setting new service directions of MTR over the last few years, and has achieved a number of notable successes. I take this opportunity to welcome Mr Lincoln Leong as Acting CEO. Lincoln has been with MTR for over 12 years and most recently has been our Deputy CEO. A global search is on-going to identify a new CEO and when appointed, an announcement will be made.

Our Projects Director, Mr TC Chew, will retire on 28 October 2014, and Dr Philco Wong will be appointed Projects Director with effect from 28 October 2014 when Mr Chew retires. To facilitate a smooth transition, Dr Wong became Projects Director – Designate on 18 August 2014.

I would also once again thank my fellow directors for the hard work and valuable input they have provided during this period, and our many other partners and stakeholders for the support they have shown. This, together with the dedication and hard work of MTR staff across all our businesses globally, means we are well set to face future challenges and grasp new opportunities as they arise.



Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 25 August 2014