

Chairman's Letter



Dr Raymond Ch'ien Kuo-fung
Chairman



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Dear Shareholders and other Stakeholders,

The year 2014 saw good performances and achievements from our businesses as we marked our 35th year of operations. In Hong Kong, the Western extension of the Island Line (also known as the West Island Line) opened in December, generating much excitement within MTR and amongst the community. Our transport operations continued to deliver world-class levels of service and safety, despite increasing patronage as well as a surge in demand during the public order events in Hong Kong in the latter part of the year. Improved demand for residential properties led to buoyant sales for our developments and the successful tendering of a number of our property development sites. Outside of Hong Kong, our associate company, Beijing MTR Corporation Limited, opened Phase 2 East Section of Beijing Metro Line 14 in December and we also secured two new landmark projects, the Crossrail Train Service ("Crossrail") in London and the North West Rail Link in Sydney, Australia.

However the year was not without its challenges. We announced delays in the construction and delivery of the four remaining rail network expansion projects in Hong Kong, resulting in cost increases. Although our train service delivery and passenger journeys on-time in Hong Kong remained at 99.9% in our heavy rail network, the year did see a slight increase in the number of longer delays to journeys, with 31 minutes or longer delays increasing from 8 to 12 cases.

Our financial results reflected the overall success of the year. MTR's recurrent profit after tax, being underlying profits before property development profits and investment property revaluation attributable to equity shareholders, increased by 7.9% to HK\$8,024 million. With an increase in post-tax property development profits to HK\$3,547 million, underlying profits before investment property revaluation rose by 34.5% to HK\$11,571 million. Including investment property revaluation, net profit attributable to equity shareholders was HK\$15,606 million, representing earnings per share after revaluation of HK\$2.69. Your Board has proposed a final dividend of HK\$0.80 per share, resulting in the full-year dividend increasing by 14.1% to HK\$1.05 per share, with a scrip dividend option offered.

Building Value for the Long Term

We celebrated our 35th Anniversary at the International Chinese New Year Night Parade, continued with activities ranging from the "Journeys with You for 35 Years" poster campaign to the "Thank You" campaign during which we distributed anniversary gifts. Alongside the celebrations, we showed our sincere appreciation to passengers for their support over the decades through a package of fare promotions worth approximately HK\$500 million, adding to the annual HK\$2.2 billion worth of ongoing fare promotions and concessions which we already offer today.

In the 35 years since we started running passenger services, MTR has grown with the people of Hong Kong to become a critical component of the transport infrastructure, as well as the creator of new integrated communities above and near stations.

Providing passengers with a safe and reliable public transport service has brought us widespread acclaim and given us the ability to leverage our expertise and reputation into new areas of growth in other markets. Our long-term vision is to be a leading multinational company that connects and grows communities with caring service. Our immediate goals as we pursue this vision are to grow and enhance our Hong Kong core businesses, strengthen our Hong Kong corporate citizen reputation and accelerate our growth in the Mainland of China and internationally.

In Hong Kong, we continue to invest in our railway assets to make journeys more reliable, convenient and comfortable, while expanding the network to bring new populations within reach of our services. The opening of the Western extension of the Island Line has brought the benefits of our network to new areas of Hong Kong Island, making travel more convenient for many more thousands of people every day.

Work now continues on the four remaining Hong Kong network expansion projects, namely the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"), the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link. We are addressing the delays experienced by these projects, in particular the

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Express Rail Link, by enhancing processes and oversight. As part of this enhancement, the Board has established the Risk Committee and the Capital Works Committee to provide additional monitoring of overall enterprise risk as well as major capital projects. The Independent Board Committee ("IBC"), which was established by the Board to investigate the reasons for the delays of the Express Rail Link, has completed its work and its recommendations are being implemented. I would like to take this opportunity to thank the IBC and the two experts hired by the IBC, for their hard work and recommendations.

On 30 January 2015, the Office of the Chief Executive of HKSAR made public the Report of the Express Rail Link Independent Expert Panel. We have reviewed this report in conjunction with our two experts appointed by the IBC and will assist Government to implement recommendations where appropriate.

Moving beyond the current new rail lines under construction in Hong Kong, as public consultations have demonstrated, there is strong support for expanding the rail network even further, as highlighted by Government, making rail the backbone of public transportation. The new Railway Development Strategy 2014 has outlined Government's agenda for railway expansion in Hong Kong up to 2031. Seven new railway projects are proposed, and we will continue to work with, and support, Government in the delivery of these new railways for the community.

In the Mainland of China and internationally, our existing railway services are performing well. The Phase 2 East Section of Beijing Metro Line 14 became operational during the year and work on the third phase continues to progress. Preparation works for new rail projects and franchises, including Crossrail, North West Rail Link and MTR Express in Sweden, are progressing as planned. Shortly after signing the Letter of Intent for the Beijing Metro Line 16 ("BJL16") Public-Private-Partnership ("PPP") project, the Concession Agreement for BJL16 was initialled on 8 February 2015. Our property projects in the Mainland of China also continue to make progress, with initial pre-sales for Tiara, the residential development in Shenzhen, expected in the first half of 2015, subject to market conditions.

Corporate Responsibility

We are very focused on corporate responsibility as it is integral to the long-term success of the Company and the communities we serve. We strive to achieve this by generating economic growth in a responsible manner, having regard to our stakeholders' interests, through providing jobs and careers, whilst contributing positively to the community and managing our impact on the environment. This approach enables us to maintain the Company's position as a good corporate citizen that builds and connects communities across the world.

Our Operations

Sustainable Business Model

A sustainable business model is key to the long-term success of MTR. Two components of this model are particularly important – our "financing model" and the Fare Adjustment Mechanism ("FAM").

At MTR we use a number of proven financing models such as the "Rail plus Property", PPP and operating franchises. The "Rail plus Property" model is unique among them and has served Hong Kong and MTR well over many decades. It is pleasing to note that a number of cities from all over the world visit us on a regular basis to learn more about this model and how it may be replicated in their home markets.

A resilient business model over the long term is critical to ensuring the continued delivery of a high-quality rail service. For instance, the maintenance and upgrades to our existing rail system in Hong Kong cost over HK\$6 billion in 2014. This amount is expected to increase significantly over time as the network matures. To ensure that adequate funds are available to re-invest back into the system, in order to maintain a high quality service, a sustainable fare structure is critical. Our current FAM is such a structure, which is transparent and objective, and is important to the long-term sustainability of quality rail service in Hong Kong.

Safety and Service

Our more than 16,000 staff in Hong Kong are dedicated to serving the community and to providing reliable and comfortable train journeys for our passengers. This attitude was reflected in train service performance in 2014, which despite the growth in passenger numbers, was maintained at a very

high level by world standards, with train service delivery and passenger journeys on-time across the network maintained at 99.9%.

Ensuring the safety of our customers, the public, contractors and employees is an absolute priority. Our Corporate Strategic Safety Plan comprises three strategic approaches, namely fostering a Safety-First culture, driving continuous improvement and engaging stakeholders to achieve our safety goals. Our efforts to reinforce the Safety-First culture and continuous improvement in safety management secured us three awards in the 13th Hong Kong Occupational Safety & Health Award, jointly organised by the Occupational Safety and Health Council, the Labour Department and 13 other organisations.

We have also continued to work in close partnership with contractors to enhance safety standards at construction sites. For railway expansion projects, we engaged Det Norske Veritas to conduct bi-annual safety audits on all major contractors. For property development projects, in addition to our Safety Incentive Scheme, we launched a Safety Hero Award Scheme to encourage our contractors to carry out all construction works in a safe and sound manner.

Environment and Natural Resources

In both our railway and property operations, we strive to be resource-efficient and ecologically sustainable. In addition to the Corporate Sustainability Policy, our environmental principles are outlined in our Climate Change and Corporate Biodiversity policies. These commit us to reducing carbon emissions, increasing energy efficiency, protecting important natural habitats and taking steps to mitigate any negative impacts of our operations. In response to growing concerns over food waste and landfill capacity, MTR Malls have been serving on the Steering Committee of the Food Wise Hong Kong Campaign under the Environment Bureau since 2013. MTR Malls also initiated their own "MTR Malls Food Waste Reduction Pledge" incentive scheme to encourage food waste reduction practices in the shopping mall sector.

Our People

Attracting and maintaining a workforce that is well-equipped to support our businesses and expansion is important to

our continued success. We make every effort to achieve this, including running various recruitment campaigns to attract the right calibre of candidates. We also develop and nurture talents and provide them with opportunities for career progression. Through various staff communication channels and engagement programmes, we talk with staff and resolve issues of concern. Meanwhile, motivational schemes and ways to recognise staff for their contributions, teamwork, professionalism and living MTR values are being rolled out across all our operations, both in Hong Kong and overseas.

Our Customers

We are committed to improving and upgrading our service to meet our customers' needs. In 2014, we implemented a number of initiatives to enhance customer convenience, comfort and accessibility, in response to customers' suggestions. These included additional train services, improvements in station access and facilities, and the enhancement of communication platforms. Our ability to keep Hong Kong moving during the public order events testifies to our absolute determination to serve the community to the best of our ability.

The promotions and concessions which we offer our passengers every year help reduce the burden of travel costs for a variety of different demographic groups in the community, as well as for longer distance travellers and frequent users. Such promotions and concessions in 2014 add up to approximately HK\$2.7 billion, representing 17% of our fare revenue (after the deduction of such promotions and concessions).

Contributions to Society

Youth

Young people are future innovators and business partners, hence investing in them is integral to building and sustaining communities. Through our community investment initiatives, our goal is to empower them with skills, motivation, perspectives and opportunities to create a secure future for themselves and their communities.

Caring for the community is one of our core beliefs. Our colleagues continued to actively support our mentoring programme for secondary school students, "Friend' for Life's Journeys", and they reached out to primary and secondary

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schools to impart MTR's enterprising spirit and work improvement practices through the "School-Company-Parent Programme" and the "Student Quality Circle Programme". Our leadership development programme, "Train' for Life's Journeys", also helped secondary school students build confidence, develop a positive attitude, and enhance their communications and project-management skills.

In addition, we collaborated with the Hong Kong Council of Social Service and local universities to offer summer internship opportunities for university students with disabilities or special educational needs, in support of the Talent-Wise Employment Charter and Inclusive Organisations Recognition Scheme initiated by the Labour and Welfare Bureau. We also maintained our support for the Hong Kong Athletes Career & Education Programme, which gives retired athletes job opportunities and life skills training.

Arts

Celebrating our communities' heritage, history and identities, our "art in mtr" initiative, which is now in its 16th year, continues to enhance passengers' journeys. Marking our 35th Anniversary, in June we showcased the evolution of MTR tickets as well as various specially-designed tickets commemorating important occasions for Hong Kong in an "arttube" exhibition entitled "MTR Ticket Collection – 35 Years of Tickets to Ride".

Our "living art" programme has gone from strength to strength with weekly performances ranging from dance to traditional Chinese music being staged in stations. Our 55 community art galleries located within our stations offer an opportunity for residents to showcase their creativity.

In addition, our "art in station architecture" programme continues to enrich the travelling environment within the MTR network. This programme also offers a platform for communities to contribute to the design of their station. For instance, we invited members of the community to submit original artwork proposals for the new stations on the Western extension of the Island Line. The winning proposal, "Blooming Bud", which contains silhouettes of the local youth and handprints from children residing in the area, is now on permanent display in Kennedy Town Station. Photographs

capturing memories of Western District taken by members of the public have been turned into collages that adorn the concourse and passageways of the new stations.

Supporting our communities

With the Company's support and encouragement, our employees also reached out to the community in a variety of other ways. In 2014, our "More Time Reaching Community" scheme organised 245 community projects involving over 6,000 volunteers. It was with great regret that the MTR HONG KONG Race Walking 2014, a charity event that has been held every year since 2005, was cancelled after a careful assessment of the prevailing situation along the race circuit and its vicinity. Nonetheless, we made a special donation of HK\$10 million to the Hospital Authority through the Hospital Authority Charitable Foundation. We saw this as one way to express our appreciation to the public for their support during this period. This donation was in addition to the more than HK\$15.5 million given by the Company and staff to charitable and other organisations during the year.

Recognition for Corporate Responsibility

During 2014, the Company's efforts to operate in a responsible way that balances the needs of our diverse stakeholder community again received wide recognition.

We have for many years been included in relevant investor indexes, including the Dow Jones Sustainability Index Asia Pacific, the FTSE4Good Index Series and the Hang Seng Corporate Sustainability Index.

Since 2011, we have been awarded the "5 Years Plus Caring Company Logo", and in 2014, we also gained a number of awards and certifications for our corporate responsibility practices.

Management Transition

I welcome Mr Lincoln Leong as the Company's Chief Executive Officer ("CEO"). Lincoln has been a member of MTR's Executive Directorate since 2002 and has been Acting Chief Executive Officer since August of last year. With Lincoln's knowledge of the Company, the opportunities and challenges which we face, the Board and I look forward to working with Lincoln and the Executive Directorate to deliver on the Company's vision.

I would like to take this opportunity again to extend my thanks to Mr Jay Walder, who left the Company as CEO in August 2014. I welcome to the Board the Hong Kong Permanent Secretary for Development (Works) Mr Wai Chi-sing as Non-executive Director and Mr James Kwan Yuk-choi, Mrs Lucia Li Li Ka-lai and Mr Benjamin Tang Kwok-bun as Independent Non-executive Directors, who were appointed on 14 October 2014. I likewise welcome Dr Eddy Fong Ching as Independent Non-executive Director, who was appointed on 13 January 2015. Their presence raises the Board strength to 20 members. Mr T. Brian Stevenson, after having served on the Board for more than 12 years, will retire as Independent Non-executive Director of the Company at our Annual General Meeting on 20 May 2015. I would like to thank Mr Stevenson, who is also currently the Chairman of the Audit Committee and a member of the Remuneration Committee, for his valuable contributions and service to both the Board and the Company over the past years.

I also welcome Dr Philco Wong who was appointed Projects Director on 28 October 2014 upon the retirement of Mr TC Chew.

My gratitude goes to my fellow directors for their invaluable counsel during the year. I also thank all of our staff members for their dedication to service excellence, especially for responding so well to the additional demands made on them by the public order events in Hong Kong. Such all-round dedication makes me confident that, working together, we will achieve our vision.



Dr Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 16 March 2015