

# CEO's Review of Operations and Outlook

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Lincoln Leong  
Kwok-kuen  
CEO



## Dear Shareholders and other Stakeholders,

In our 35<sup>th</sup> Anniversary year we made further progress on our strategy of maintaining high levels of service performance in our railway operations, while expanding our businesses both in Hong Kong and internationally. This in turn supported a good set of financial results for 2014, with higher profits from our recurrent businesses and increased contributions from property development.

Among the year's notable successes, the opening of the Western extension of the Island Line to HKU and Kennedy Town stations in December 2014, marked another major milestone and aroused considerable excitement not only within MTR, but in the wider Hong Kong community. The new service will greatly benefit the many thousands of people living in or travelling to the Western District of Hong Kong. Overall, our Hong Kong rail services again reported world-class levels of performance. This achievement was made all the more remarkable by the increase in passenger numbers and train trips brought about by service enhancements as well as the public order events in Hong Kong during the second half of the year. During the public order events, lines such as the Island Line and stations such as Sheung Wan saw significant increases in patronage, to which we responded with additional services and an increase in staffing. Our contribution to keeping Hong Kong moving during this challenging time is a testament to the dedication of our staff and the efficiency of our operations. More generally, our Listening • Responding programme continues to invest in service enhancements that respond directly to feedback from our passengers, as we strive to make journeys more frequent, safer and more comfortable. More than 1,100 additional weekly train trips were added over the course of the year.

Property development is an important part of the Company's business. In addition to strong sales at existing developments, 2014 saw a very active tendering cycle as we responded to market demand for new sites, with the momentum continuing into 2015. These tenders, comprising three more packages at LOHAS Park, the Tai Wai Station site as well as the Tin Wing Stop site, will help to meet the need for more housing in Hong Kong.

Outside of Hong Kong, we continue to expand our footprint, while focusing on projects that generate sustainable returns. In the United Kingdom, we were honoured to have been granted the Concession Agreement to operate the Crossrail Train Service ("Crossrail") in London, one of the largest new rail routes to have been built in Europe in recent years. In Australia, the consortium of which MTR is a member was awarded the Operations, Trains and Systems Contract for the Sydney North West Rail Link ("NWRL"), which is our first international Public-Private-Partnership ("PPP") project. In the Mainland of China, Beijing MTR Corporation Limited ("BJMTR") signed the Concession Agreement for Beijing Metro Line 14 ("BJL14") PPP project with the Beijing Municipal Government on 26 November 2014, and opened Phase 2 East Section of BJL14 on 28 December 2014. The

Concession Agreement for Beijing Metro Line 16 ("BJL16") was also initialled on 8 February 2015.

Despite the overall success in 2014, a significant challenge which we faced was the delays, and in a number of cases, cost increases to our Hong Kong network expansion projects, including the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link"), South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link. Our Board established an Independent Board Committee ("IBC") to examine the Express Rail Link project delay and we are now implementing the recommendations made in the two IBC reports to enhance our reporting, monitoring and communication processes. A number of these recommendations will also be implemented for existing and future new rail projects. In January 2015, Government also published its Independent Expert Panel ("IEP") report on the Express Rail Link delay. We have engaged the two experts who advised the IBC to review the IEP report and we will assist Government to implement recommendations from the IEP report as appropriate. In our operational performance, a slight increase in the number of longer delays on some of our rail lines in Hong Kong, particularly the East Rail Line, caused inconvenience to some passengers. We have moved swiftly to examine the reasons for these train service delays and, in the spirit of continuous improvement, are making positive changes. Together, these measures aim to ensure that we complete our new projects as efficiently as circumstances allow and maintain and enhance the excellent levels of service that make MTR one of the world's most respected railway companies.

Looking at our financial performance, total revenue for 2014 grew by 3.7% to HK\$40,156 million. Earnings before interest, tax, depreciation and amortisation from recurrent businesses increased by an even greater percentage of 7.5% to HK\$15,478 million. Excluding our Mainland of China and international subsidiaries, revenue increased by 8.1% and operating profit rose by 7.4%, while operating margin decreased slightly by 0.3 percentage point to 53.1%. Recurrent profits attributable to equity shareholders, being net profits before property development profit and investment properties revaluation, increased by 7.9% to HK\$8,024 million. Post-tax property development profit rose to HK\$3,547 million, and was derived mainly from the booking of profits from The Austin and Grand Austin. Taking into account the post-tax property development profit, net profit from underlying businesses attributable to equity shareholders increased by 34.5% to HK\$11,571 million, representing earnings per share of HK\$1.99. Gain in revaluation of investment properties was HK\$4,035 million, as compared with HK\$4,425 million in 2013. As a result, net profit attributable to equity shareholders was HK\$15,606 million, equivalent to earnings per share of HK\$2.69 after revaluation. Your Board has proposed a final dividend of HK\$0.80 per share, resulting in a full year dividend of HK\$1.05 per share, an increase of 14.1% over 2013, with a scrip dividend option offered.

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## Hong Kong Transport Operations

Total revenue from Hong Kong transport operations in 2014 was HK\$16,223 million, a 7.0% increase over 2013. Operating costs of the Hong Kong transport operations increased by 9.3% to HK\$9,236 million, resulting in a 4.0% rise in operating profit for this business to HK\$6,987 million, with an operating margin of 43.1%.

### Safety

Maintaining high safety standards in all aspects of our operations remains an absolute priority for the Company.

Our commitment to continuous improvement in safety has resulted in another year of success in our safety performance. We achieved a 5.8% reduction in reportable events on the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island (including the Western extension of the Island Line), Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), the Cross-boundary Service and the Airport Express in 2014.

Safety initiatives during the year were focused on escalator safety, train door chime and Light Rail safety. A new safety promotional campaign with the theme "Escalator Safety Awards Presentation" was launched to the public in August 2014. A review of our Safety Management System ("SMS") by an independent panel formed by the American Public Transportation Association was completed in April 2014. The review identified 29 Industry Leading Effective Practices, confirming the excellence of our SMS.

### Patronage

Total patronage from all our rail and bus passenger services in Hong Kong increased by 4.5% to a record 1,904.6 million in 2014. Excluding the Intercity service, total patronage also increased by 4.5% to 1,900.3 million.

For the Domestic Service, total patronage reached 1,547.8 million, a 5.0% increase over 2013. The increase was driven by continued growth in the economy and additional demand arising during the public order events in Hong Kong that occurred between September and December 2014.

The Cross-boundary Service to Lo Wu and Lok Ma Chau showed a 1.5% increase in patronage to 113.0 million for the year.

Passenger traffic on the Airport Express increased by 8.9% over 2013 to 14.9 million, supported by a rise in air travel and more events held at AsiaWorld-Expo.

Passenger volume on our Light Rail and Bus services for 2014 was 224.6 million, a 2.4% rise, while patronage on the Intercity service was 0.6% higher at 4.3 million.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 4.0% to 5.46 million during 2014 (5.45 million excluding the Intercity service). The Domestic Service accounted for the majority of this patronage, increasing by 4.5% to 4.49 million.

### Market Share

The Company's overall share of the franchised public transport market in Hong Kong increased from 46.9% in 2013 to 48.1% in 2014, mainly as a result of the increase in market share for our Domestic Service. Within this total, our share of cross-harbour traffic was 68.2%. The Company's market share of Cross-boundary business for the year declined from 53.4% to 51.6%, owing to continued significant competition from other modes of transportation, while market share to and from the airport rose to 22.3% from 22.0%.

### Fare Revenue

Total Hong Kong fare revenue in 2014 was HK\$16,066 million, a 7.0% increase over 2013. Of this total, the Domestic Service accounted for HK\$11,318 million or 70%. Average fare per passenger on our Domestic Service increased by 2.6% to HK\$7.31.

Fare revenue from the Cross-boundary Service in 2014 was HK\$3,049 million, an increase of 4.3% over 2013. Fare revenue from the Airport Express was 8.5% higher for the year at HK\$915 million. Light Rail and Bus fare revenue in 2014 was HK\$639 million, a 6.5% increase over 2013, while fare revenue from the Intercity service was HK\$145 million, increasing by 0.7% over the year.

Having a transparent and objective mechanism to adjust fares is critical to the long term sustainability of an investment intensive business like metro rail. Such a mechanism provides the basis for funding the future significant investments required to maintain and upgrade the existing Hong Kong network. The Fare Adjustment Mechanism ("FAM") under which we operate was revised in 2013, and an overall fare adjustment rate of 3.6% was made in June 2014. The revision of the mechanism in 2013 resulted in an adjustment that was 0.5 percentage point lower than would have been the case before the revision. Hence passengers are enjoying lower fares than they otherwise would have.

### Promotions and Concessions

In recognition of our 35<sup>th</sup> Anniversary and to thank passengers for their support over the years, in May 2014 we announced a package of fare promotions, including those associated with the FAM. These have an estimated value of approximately HK\$500 million, adding to the annual HK\$2.2 billion worth of ongoing fare concessions and promotions that we already offer today.

The promotions relating to the current FAM arrangement included the “10% Same-Day Second-Trip Discount” for Octopus users making every second trip (on the same mode of transport) on the same day. To thank our passengers for their support over the past 35 years, the promotion was extended to 30 April 2015 from the original end-date of 15 October 2014. On average, more than 1.7 million trips have benefitted from the discount on a daily basis since its launch in June 2014. In addition, to cap off our 35<sup>th</sup> Anniversary and celebrate the opening of the Western extension of the Island Line, we also offered a special promotion on the second and third days of Chinese New Year in 2015, which provided roughly half fares for adults (equivalent to Child Octopus Fare) and HK\$1 for other passengers using Octopus on all domestic journeys during these two days.

The first multi-ride smart ticket, MTR City Saver, was launched in June 2014. Designed to save money for regular commuters making medium to long distance journeys within urban areas, it covers designated urban stations on seven lines. Costing just HK\$400, it is valid for 40 single journeys in any consecutive 30 days. From launch up to 31 December 2014, more than 490,000 MTR City Saver tickets were sold, indicating the attractiveness of this promotion.

To manage morning peak demand, the trial of an Early Bird Discount Promotion was introduced in September 2014 and will run to May 2015, offering adult passengers using Octopus a 25% fare discount if they exit gates between 7:15am and 8:15am on weekdays (excluding public holidays) at 29 designated core urban stations.

### Service and Performance

Service performance in 2014 continued to be maintained at world-class standards. Our train service delivery and passenger journeys on time across the network were maintained at 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. In 2014, we operated over 1.8 million train trips in our heavy rail network, with 12 delays that lasted 31 minutes or more. Improvement measures continue to be developed to minimise the inconvenience caused to passengers due to a delay. Our continuing service excellence gained both local and international recognition.

To continue to enhance customer experience under our well-received Listening • Responding programme, more initiatives were rolled out in 2014. These focused on providing more comfortable journeys through additional train services, improving station access and facilities, and enhancing communication with passengers.

Three phases of train service enhancements were implemented in April, August to September and December 2014, increasing train frequencies on the Tsuen Wan, Kwun Tong, Island, East

Rail, West Rail, Tseung Kwan O and Tung Chung lines at various times on weekdays and at weekends. During the year, over 1,100 train trips per week were added, bringing to more than 2,400 the number of train trips added weekly since 2012, when the Listening • Responding programme began. In addition, service hours on selected Light Rail routes have been extended since September 2014 to allow passengers to interchange from the last West Rail Line service of the day for onward travel to all 68 Light Rail stops.

We do appreciate that with the significant number of passengers, there are segments of our network which are crowded, particularly during rush hours. To ease this crowding we have increased train frequencies where we can, to the point where on many lines, services during rush hours have reached the capacity limit of our signalling equipment. We awarded the contract in early March 2015 for the replacement of signalling systems on a number of lines in our Domestic Service, as well as the Airport Express. This will enhance passenger carrying capacity, but the impact will not be significant. Hence, the solution will be the construction of more parallel rail lines to relieve crowding and enhance the robustness of the overall network. The Shatin to Central Link is one such example, as is the proposed North Island Line on Hong Kong Island.

To maintain and upkeep our existing railway assets and improve their operating performance and capacity, we spent over HK\$6 billion on maintenance, renewals and service improvements in 2014. We embarked on two major new investment programmes during the year. In addition to the HK\$3.3 billion contract for replacing the signalling systems with works scheduled to commence in 2016, we also started the process to refurbish or replace 78 out of our 93 existing M-type trains fleet, operating on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines between 2019 and 2022. This will make journeys more comfortable for our passengers. An initiative was also launched to modify the door bottom guides on M-type trains to reduce the chance of doors being blocked by foreign objects.

To improve platform management in stations, an additional 300 station assistants were recruited during 2014 to facilitate the smooth flow of passengers through stations, especially during peak periods. The installation of Automatic Platform Gates (“APGs”) for the Ma On Shan Line commenced in November 2014 and the first set of APGs is now in place at Tai Wai Station.

Eight additional external lifts at stations are currently being installed for completion between 2015 and 2018. Work began in 2014 to replace 24 hydraulic lifts in phases to provide swifter movement within stations. Public toilets in Mong Kok and Prince Edward stations opened in January 2015 for passengers’ use, adding convenience to their journeys.

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After five years of planning, trialling and testing, the replacement of older magnetic single journey tickets by more convenient Single Journey Smart Tickets was completed in March 2014. Replacement of existing Light Rail Single Journey Ticket Issuing Machines started in September 2014. The new "2-in-1" Ticket Issuing and Add-value Machines were put into service in three Light Rail stops in December 2014 and will be gradually installed in all 68 Light Rail stops.

Communicating with passengers remains a priority. The MTR Mobile app ("MTR Mobile") now has some 2.5 million users, of which some 1.4 million have opted-in to receive push notification of Traffic News. MTR Mobile has been enhanced with Light Rail Planner, MTR Bus information and station lifts service status, which makes journey planning easier. It was also upgraded to provide visually impaired passengers with more user-friendly navigation and better audio information.

Next Train app, which already provided real-time information on train schedules for the Airport Express, Tung Chung Line and West Rail Line, was upgraded to extend its coverage to the Tseung Kwan O Line.

## Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses increased by 8.2% in 2014 to HK\$4,963 million. The operating costs of our Hong Kong station commercial businesses increased by 11.0% to HK\$515 million, with the result that operating profit increased by 7.9% to HK\$4,448 million, representing an operating margin of 89.6%.

Station retail revenue for the year increased 9.0% to HK\$3,197 million. The increase was mainly due to trade mix refinements, rental renewals of station shops, as well as rental increases from the Duty Free Shops.

As at 31 December 2014, there were 1,350 station shops covering 55,696 square metres of retail space. During 2014, 14 new shops were added at Kennedy Town and HKU stations in December, and 35 new shops were added at nine other stations. In total, 28 new brands were introduced to our station shops network. The demolition of shops at Hung Hom Station to facilitate construction works for the Shatin to Central Link offset additional floor space from the new shops, leading to a 1% decrease in overall retail space.

The continual launch of timely sales packages drove higher advertising revenue, increasing by 6.2% in 2014 to HK\$1,118 million. "Soccer Fever" and other sales packages were rolled out in the year to generate more advertising revenue. Eight new single-sided and six double-sided concourse 12-sheet panels were added in Hong Kong, Kowloon and Airport stations, while 31 floor-mounted 12-sheet panels were installed at Kwai Fong

and Kwai Hing stations. As at 31 December 2014, the number of advertising units was 45,007.

Revenue from telecommunications in 2014 increased by 7.2% to HK\$479 million mainly due to mobile data capacity increases by telecom operators. Installation is underway for provision of Wi-Fi services in South Island Line (East) and Kwun Tong Line Extension stations, targeting the provision of services on the first day of operation of these new stations.

## Hong Kong Property and Other Businesses

The Hong Kong property market remained stable in the first half of 2014 and improved in the latter half of the year. With developers adopting an active sales approach, a number of new residential projects came onto the market and received positive responses, resulting in significantly higher primary home sales than in 2013. Residential prices remained resilient, supported by low interest rates. The office leasing market and retail property market both remained relatively stable.

### Property Development in Hong Kong

Profit from Hong Kong property developments in 2014 was HK\$4,216 million comprising mainly profits from The Austin (Austin Station Site C) and Grand Austin (Austin Station Site D), for which Occupation Permits were obtained during the year.

Following the successful presale of The Austin in 2013, presale of Grand Austin in 2014 was well received, with 99% of 691 units sold. In total, 99% of the City Point's 1,717 units at Tsuen Wan West Station, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), were also sold. The Occupation Permit for City Point was obtained in September 2014.

In our property tendering activities, LOHAS Park Package 4 was awarded in April to a subsidiary of Sun Hung Kai Properties Limited. In October, the Tai Wai Station site was awarded to a subsidiary of New World Development Company Limited and in November, LOHAS Park Package 5 was awarded to a subsidiary of Wheelock and Company Limited. In January 2015, LOHAS Park Package 6 was awarded to a subsidiary of Nan Fung Group Holdings Limited, and the Tin Wing Stop site was awarded to a subsidiary of Sun Hung Kai Properties Limited in February 2015.

At LOHAS Park, to enhance the flexibility of the development's flat mix in order to meet market demand, we received approval from the Town Planning Board in February 2015 allowing us to increase the number of units by 4,000 under the approved Master Layout Plan to a maximum of 25,500 units.

In view of market demand for more land supply, we will continue to explore opportunities for other property developments along our railway lines.

## Property Rental and Management Businesses in Hong Kong

Revenue from the Hong Kong property rental and management businesses in 2014 grew by 10.9% to HK\$4,190 million. Operating costs increased by 11.0% to HK\$747 million, resulting in operating profit rising 10.9% to HK\$3,443 million, representing an operating margin of 82.2%.

Total property rental income in Hong Kong was HK\$3,945 million, 11.2% higher than in 2013. Our shopping mall portfolio achieved an average 13% increase in rental reversion for the year. At 31 December 2014, our shopping malls in Hong Kong and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let, with a major tenant at Two ifc renewing its lease in July 2014.

As at 31 December 2014, the Company's attributable share of investment properties in Hong Kong was 212,500 square metres of lettable floor area of retail properties, 41,006 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

We continue to invest in our retail properties to enhance their attractiveness and financial performance. In 2014, renovation works for the common area of PopCorn2 were completed. Luk Yeung Galleria completed the ground floor repartitioning and trademix enhancement project to rejuvenate the mall and create a more exciting shopping experience for shoppers. Paradise Mall also underwent a partial revamp project in the year for a more conducive mix of lifestyle offerings in its West Commercial Block. For the Maritime Square Extension project, which will add about 12,100 square metres of retail properties at a cost of approximately HK\$2.4 billion (excluding capitalised interest), construction works commenced in 2014, with a targeted opening of this extension in the fourth quarter of 2017.

In the Tai Wai Station property development tender, we contributed HK\$7.5 billion to the land premium payment and the additional fit-out costs for the shopping centre. We will take ownership of the shopping mall of about 62,000 square metres (including 1,380 square metres of bicycle park and cycle track) and a share of profits from the residential development. This mall is expected to start operations in 2021.

Hong Kong property management revenue in 2014 increased by 6.1% to HK\$245 million. As at 31 December 2014, the area of managed commercial space was 763,018 square metres. The number of managed residential flat units rose by 911 to 91,434 units following additions from Century Gateway II in October 2014.

## Other Businesses

The Ngong Ping cable car ("Ngong Ping 360") and associated theme village achieved a 18.7% increase in revenue in 2014 to HK\$375 million. Visitor numbers for the year grew to approximately 1.83 million while reliability remained high at 99.8%. Growth in business was supported by new attractions, such as Stage 360, Motion 360 and new tour packages. Ngong Ping 360 gained local and international awards during the year, including being named one of the "Ten Amazing Cable Car Rides Around the World" by the UK's Daily Telegraph newspaper.

We leverage our experience as one of the world's leading railway operators to offer consultancy services to clients in Hong Kong and overseas. Revenue from our consultancy business in 2014 was HK\$180 million, 40.6% higher than in 2013. This was mainly attributable to the Automated People Mover projects at the Hong Kong International Airport.

The Company's share of Octopus' net profit for 2014 increased slightly by 0.4% to HK\$226 million. By 31 December 2014, more than 6,000 service providers in Hong Kong were accepting the Octopus service. Total Octopus cards and other stored-value Octopus products in circulation during the year reached 27.6 million. Average daily transaction volumes and value reached 13.4 million and HK\$152.1 million respectively.

Income from providing project management services to Government, relating to the entrustment works on the Express Rail Link and Shatin to Central Link, was HK\$1,561 million in 2014, an increase of 6.8% over 2013. Income from the entrustment works is currently booked on a cost recovery basis.

## Mainland of China and International Businesses

In 2014, revenue from our Mainland of China and International subsidiaries, comprising railway related subsidiaries and property related subsidiaries, was HK\$12,627 million. Revenue from our railway related subsidiaries outside of Hong Kong, namely MTR Corporation (Shenzhen) Limited, Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS"), MTR Express (Sweden) AB and the companies under Northwest Rapid Transit Consortium, was HK\$12,472 million. This represented a decrease of 4.8% over 2013, mainly due to exchange rate movements. Operating costs decreased to HK\$11,638 million, resulting in an 8.6% increase in operating profit to HK\$834 million and an operating profit margin of 6.7%.

Our associates outside of Hong Kong, namely BJMTR, London Overground Rail Operations Limited ("LOROL"), Tunnelbanan Teknik Stockholm AB ("TBT") and Hangzhou MTR Corporation Limited ("HZMTR"), continued to provide high quality rail and

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related services to their respective communities. While HZMTR start-up losses stabilised, our overall share of losses from these four associates was HK\$101 million in 2014.

The total number of passengers carried by our railway related subsidiaries and associates outside of Hong Kong was over 1,458 million in 2014, against approximately 1,355 million in 2013.

## Railway Businesses in the Mainland of China

Beijing Metro Line 4 and the Daxing Line exceeded their service targets in 2014. Combined ridership in 2014 reached 461 million passenger trips, with average weekday patronage of more than 1.3 million. The two lines have 35 stations and a combined length of 50 km.

The last station of Phase 1 of BJL14, Qilizhang Station, an interchange with Beijing Metro Line 9, opened for service on 15 February 2014. BJL14 service performance has been satisfactory, with 18 million passenger trips and average weekday patronage of over 52,000. In total, Phase 1 has seven stations and runs for 12.4 km. BJL14 Phase 2 East Section opened on 28 December 2014, covering 12 stations (two are currently bypassed) and running for 14.8 km. The PPP for BJL14 begins when the line fully opens, expected after 2017. In December 2014, BJMTR received a nation-wide achievement of "First Grand Award" on "Realisation of Sustainable Development through Life Cycle Management of Operational Asset" from the China Association of Communication Enterprise Management in recognition of its innovative management model and technique. On 28 December 2014, a fare increase was applied across the entire Beijing metro system, the first such increase in seven years.

The operational performance of Shenzhen Metro Longhua Line also exceeded targets during the year. Ridership for the year was 168.7 million, with average weekday patronage reaching 460,000. The line runs 20.5 km and has 15 stations. As part of a plan to increase capacity by 50% through converting the existing 4-car fleet, the first 6-car trains entered service in January 2014 and as at 31 December 2014, 23 6-car trains had been put into service. By February 2015, all the trains in service had been converted to 6-car trains.

Hangzhou Metro Line 1 ("HZL1") achieved good operational performance and a strong increase in passenger numbers in 2014, with patronage up 56% to 144.4 million. Average weekday patronage reached 380,000. Although operating losses continued at HZMTR during 2014, different initiatives such as bus route rationalisation and park-and-ride schemes were implemented to encourage a change of travelling patterns among commuters, so as to increase patronage. The expansion of the metro network in Hangzhou is expected to benefit HZL1 patronage growth.

## International Railway Businesses

In the UK, LOROL continued its award-winning service in London with good operational performance. LOROL has been assisting Transport for London ("TfL") to implement the GBP320 million capacity improvement project for London Overground with the first 4-car to 5-car train conversion put into service in November 2014. With its successful performance, LOROL has been appointed to run additional London Overground services that will extend the network by 28 stations and 43 km of route length starting in May 2015. In 2014, ridership grew by 14% to reach 114.8 million. LOROL has won many awards during the year, including the prestigious "Safety Award" in the UK National Rail Awards in recognition of the large reduction in passenger accidents since the start of the concession. The London Overground concession is due to expire in November 2016, and it will be re-let by TfL in an open tender process during 2015. We are considering our approach to this tender.

In Stockholm, MTRS' services achieved very good operational performance in 2014 and MTRS was awarded the prestigious "2014 Swedish Quality Award" by the independent Swedish Institute for Quality. Punctuality performance has continued to improve. Ridership for the year remained similar to 2013 at 329.4 million. The franchise comprises 100 stations and runs for 110 km.

In Melbourne, patronage on MTM was 222.2 million. The lines have 218 stations and run 390 km. Operational performance and customer satisfaction continued to improve. MTM received the "Operator & Service Provider Excellence Award" at the National Infrastructure Awards in March 2014.

## Property Development in the Mainland of China

MTR Property Development (Shenzhen) Company Limited has made good progress on the Shenzhen Metro Longhua Line Depot Site Lot 1 property project, named Tiara, and preparations are underway for Phase 1 pre-sales to be launched in the first half of 2015, subject to market conditions. The sales office for Tiara officially opened in November 2014, and show flats will be opened for public viewing in March 2015. The project offers a total developable gross floor area of approximately 206,167 square metres of which approximately 10,000 square metres will be a small shopping centre.

Tianjin TJ-Metro MTR Construction Company Limited ("TJ-MTR"), the joint-venture company in which we have a 49% interest, continues to make progress on the project at Beiyunhe Station on Tianjin Metro Line 6. The total developable gross floor area of the site is approximately 278,650 square metres. The site is being developed for residential and commercial use.

## Property Rental and Management Businesses in the Mainland of China

Revenue from our property rental and property management businesses in the Mainland of China increased by 6.2% to HK\$155 million in 2014. Our shopping mall in Beijing, Ginza Mall, had an occupancy rate of 97.3% at the end of 2014.

For our property management business in China, the Company's managed gross floor area in the Mainland of China at the end of 2014 was 230,000 square metres. This comprised AO City Fortune Centre, the North Star Paseo Mall and office towers in Beijing.

## Future Growth

Our network expansion projects in Hong Kong met with successes as well as some challenges in 2014, while further advances were made in our Mainland of China and International business.

### Growth in Hong Kong

#### New Rail Lines Owned by MTR

##### Western extension of the Island Line

The opening in December 2014 of the 3-km Western extension of the Island Line, created much excitement in the Western District of Hong Kong Island. Upon opening, it started serving HKU and Kennedy Town stations. Sai Ying Pun Station, which is one of the three stations on this extension, will open on 29 March 2015, with one of its entrances at Ki Ling Lane targeted for opening by the end of 2015. As previously announced, our estimate of the project cost (excluding capitalised interest) was approximately HK\$18.5 billion. This extension was built as a community railway, which brings added convenience to about 230,000 people working and living in the Western District, and the average daily patronage has reached over 100,000. The integrated, all-weather pedestrian network, including comfortable passageways, escalators and lifts, makes navigating the area's hilly terrain much easier.

##### South Island Line (East)

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. It will be the first metro service to the Southern District of Hong Kong, serving an estimated residential and working population of 350,000. Excavation of the 3.2-km Nam Fung Tunnel connecting Admiralty and Ocean Park stations was completed in October 2014. The Wong Chuk Hang Depot has been topped out and, fitting-out and Electrical & Mechanical ("E&M") works are progressing well in the depot. The technically complex works for the underpinning of the existing Island Line tunnel, in order to construct the extension of Admiralty Station, continue to be a major challenge

and timely completion of these works is critical to maintain the revised target opening date of end-2016. Structural works for Ocean Park and Wong Chuk Hang stations have been completed and fitting-out and E&M works are in progress. At Lei Tung Station and South Horizons Station, excavation works have been completed and construction of the station structure and entrances are in progress. The trains for the South Island Line (East) were delivered in 2014, and they are being gradually transferred to the Wong Chuk Hang Depot from late 2014. A series of train tests will be conducted on the tracks in 2015.

In August 2014, we revised upwards our estimate of the project cost (excluding capitalised interest) to HK\$15.2 billion. With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the project was 82% complete.

##### Kwun Tong Line Extension

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. It will be the first metro service to link Ho Man Tin and Whampoa, serving a catchment population of 146,000. The major challenge which may impact the timetable is the excavation of the platform tunnel at Whampoa Station, the timely completion of which is critical to meet the revised target opening date of mid-2016. At Whampoa Station the excavation of both West and East concourses has moved ahead with approximately 88% of overall excavation completed by the end of 2014, while at Ho Man Tin Station 66% of structural works had been completed. Track work installation from Yau Ma Tei Station to Whampoa Station was 27% complete at the end of 2014.

The original estimate of the project cost (excluding capitalised interest) was HK\$5.9 billion. With the complexity of the project and continued challenges encountered, this estimate will be further reviewed in light of project progress and may be revised upwards. As at 31 December 2014, the project was 72% complete.

#### Construction of New Rail Lines Entrusted to MTR by Government

##### Express Rail Link

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the West Kowloon Terminus. As at 31 December 2014, the project was 66% complete and the target completion date had been revised from 2015 to a target of

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end 2017. Under the Express Rail Link Entrustment Agreement ("XRL Entrustment Agreement"), Government is responsible for funding the construction of the Express Rail Link. In July 2014, we provided to Government our project cost estimate at that time for the Express Rail Link project of HK\$71.52 billion, inclusive of future insurance and project management costs. With the complexity of the project, particularly the works at the West Kowloon Terminus, we are reviewing again the project cost estimate and the target completion date (and any possible delay in respect thereof). Taking into account the continued construction challenges and recommendations from the IBC, the cost estimate may be revised significantly upwards. It is expected that this review will be completed within the second quarter of 2015, after which we will formally report the findings to Government. Thereafter, we will continue to monitor and review the project cost and completion date.

Under the XRL Entrustment Agreement, if a material modification to the programme for the execution of the entrustment activities is likely to result in a material increase or decrease in project management responsibilities or costs of the Company, the Company and Government are to negotiate in good faith to agree an increase or, as the case may be, decrease in the Project Management Fee (currently set at HK\$4,590 million). Such negotiations have not yet commenced (as of 31 December 2014 and up to the date of this annual report) and, accordingly, at this stage, there is no certainty as to whether such fee will be increased. If the Company does not receive an increase in the Project Management Fee, we may not be able to recover the increased internal cost we incur in performing our obligations under the XRL Entrustment Agreement.

As regards to potential legal liability, Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement, or if Government suffers a loss as a result of the Company's negligence in performing its obligations under the XRL Entrustment Agreement. The Company's total aggregate liability to Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement.

Following the April 2014 announcement of the delay to the project, the Board established the IBC, which worked with independent experts to advise how the Company could deliver

the project in a more transparent and timely manner. The resulting reports, published in July and October 2014, established various external reasons for delay to the project, including local labour shortage, utility diversion complications and unfavourable ground conditions. We are implementing the recommendations made for enhancements to the Company's systems and processes, including the establishment of the Board Capital Works Committee and Risk Committee. All these enhancements will improve the transparency and communications related to the project management.

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.

Construction of the tunnels for this project, which involves extensive excavation using Tunnel Boring Machines ("TBMs") and the Drill-and-Blast method, was 92% complete at the end of 2014. Of particular note, breakthrough of the 7.6-km Drill-and-Blast tunnel that runs through Tai Mo Shan between Tse Uk Tsuen and Shek Yam was achieved in late March 2014, while excavation of the Mei Lai Road to Hoi Ting Road tunnels using TBMs was successfully completed in October 2014. With the use of blasting to further accelerate the excavation of the underground rock at the West Kowloon Terminus Station North, which commenced in September 2014, the overall excavation work of the West Kowloon Terminus was 88% complete by year end, while 43% of the concrete structure had been cast. The structural works for all 14 buildings for the Shek Kong Stabling Sidings were completed and E&M installations are in progress.

## Shatin to Central Link

The 17-km Shatin to Central Link links up the existing railway lines to form an East West Corridor and a North South Corridor. The project covers ten stations, including six interchange stations linking existing railway lines and those under construction. The project was 27% complete overall by the end of 2014, with the East West Corridor 37% complete and the North South Link 9% complete. The progress of East West Corridor of the Shatin to Central Link has been mainly impacted by the archaeological works at a site in To Kwa Wan, resulting in 11 months delay with target opening now in 2019. For the North South Corridor, there is expected to be late site handover by other infrastructure projects in the vicinity, and our current estimate is that there will be at least six months delay in this project programme with target opening in 2021. The Company will continue to liaise closely with

the concerned parties to mitigate such delays as far as possible. Under the Shatin to Central Link Entrustment Agreement, Government is responsible for funding the construction of the Shatin to Central Link. In May 2014, we notified Government of the delays to the completion of the East West Corridor and North South Corridor. With the complexity of the project, together with the increased costs due to the archaeological works at To Kwa Wan, we are reviewing the project cost estimate taking into account the continued construction challenges and using the recommendation from the IBC. After the review we will report the findings to Government. Thereafter, we will continue to monitor and review the project cost.

The Shatin to Central Link will provide much needed new links across the New Territories, serving a catchment population of 380,000 people and catchment employment of an estimated 260,000 people in 2021. Construction works at all stations continued throughout the year. Hin Keng Station was 37% complete. Piling works on the temporary piling platform at the at-grade box cut and cover tunnel commenced. Works at Diamond Hill Station were 48% complete by the year end, while at Kai Tak Station, the overall progress was 49% complete. The modification works on station platforms of Ma On Shan Line to tie in with the future 8-car train configuration of the East West Corridor of the Shatin to Central Link were 75% complete by the end of 2014, with installation of extended steel platform roofs in progress.

### **New Railway Projects Under Discussion**

In September 2014, Government issued its Railway Development Strategy 2014, which outlined Government's agenda for railway expansion in Hong Kong up to 2031. The Company has provided some technical input to Government on these new railway projects and will continue to support Government in the delivery of new railways for the community.

### **Mainland of China and International Growth**

On 26 November 2014, BJMTR officially signed the Concession Agreement for the BJL14 PPP project with the Beijing Municipal Government. The entire line will run for 47.3 km and has 37 stations, including ten interchange stations. Under the RMB50 billion PPP project, BJMTR will invest RMB15 billion and is responsible for the provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years. The Phase 2 East Section of BJL14 opened on 28 December 2014. Full line operation is expected after 2017. To support BJMTR's investment in BJL14, the Company will invest about RMB2.45 billion as additional equity in BJMTR.

After signing a Letter of Intent for the BJL16 PPP project on 26 November 2014, the Concession Agreement was initialled on 8 February 2015. The line will run 50 km from Beianhe to Waping, encompassing 29 stations. Under the RMB49.5 billion PPP project arrangement, BJMTR would be responsible for the provision of E&M systems as well as rolling stock, which takes up about 30% or approximately RMB15 billion of the project's capital cost. BJMTR would also undertake the operations and maintenance of BJL16 for a term of 30 years. To support BJMTR's investment in BJL16, the Company may need to further invest up to RMB2.45 billion as additional equity in BJMTR.

In January 2014, the Company signed a Strategic Cooperation Framework Agreement with the Longhua New District Administration Commission for the North Extension of Shenzhen Metro Longhua Line. Under the framework agreement, MTR will offer advice and technical support for the construction of the North Extension and a light rail system. The project feasibility study report is targeted to be completed in the first half of 2015. We are also continuing discussion and negotiation on the Principal and Joint Venture Agreements associated with the construction and operation of Shenzhen Metro Line 6.

In July 2014, we signed a Memorandum of Understanding with the Chongqing Municipal Government and have begun preliminary discussions on rail and property development in the municipality.

In the United Kingdom, we were awarded the contract to operate the Crossrail services by TfL and the Concession Agreement was signed in July 2014. MTR will operate the service for an eight-year period with an option to extend to ten years. Crossrail is a new rail service currently under construction and will be put into service in stages. MTR Corporation (Crossrail) Ltd., a 100% MTR owned subsidiary, will start operating the first stage of the service from May 2015 and the service is scheduled to expand to its full scope in 2019. Our bids for the Essex Thameside, Thameslink and Scotrail franchises, for which we were shortlisted, were not successful.

In Sweden, preparations have progressed well for the Company's new rail service, MTR Express ("MTRX"), which will operate between the two largest cities, Stockholm and Gothenburg. The service using existing rail tracks and infrastructure will be operated by our wholly-owned subsidiary MTR Express (Sweden) AB and will provide approximately 90 weekly train trips. Initial services will commence on 21 March 2015, with the full schedule planned for August 2015. Sales of tickets started smoothly on 23 January 2015 via MTRX's website.

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In Australia, in September 2014 our consortium was awarded the Operations, Trains and Systems PPP Contract for NWRL, our first international PPP project outside of Hong Kong and the Mainland of China. The consortium includes MTR, Leighton Contractors Pty Ltd., John Holland Pty Ltd., UGL Rail Services Pty Ltd., Plenary Group Pty Limited and other financial sponsors. MTR, as a member of the consortium, is responsible for the design and delivery of the rail systems and Metro Trains Sydney Pty. Ltd, a 60% subsidiary of MTR, will operate and maintain the system for 15 years after commencement of operations. Start-up work is making good progress. MTR's equity contribution to the PPP company is estimated to be AUD 62.6 million. For the Dandenong Transformation Project (also known as Cranbourne-Pakenham Rail Corridor Project) in Melbourne, an interim offer was submitted in January 2015 and negotiation continues with the Government of the State of Victoria to finalise project details. This project is to upgrade the 57-km Pakenham and 18-km Cranbourne lines within the Melbourne metro network. These lines provide a crucial rail-corridor supporting the fast growing south-eastern population centres in the city. The project aims to boost the rail capacity of the two lines by 30% through the delivery of new trains, systems and infrastructure, catering for an additional 2 million passengers per year.

## Financial Review

In 2014, the Group achieved good financial results with continued growth in our recurrent businesses locally and overseas as well as higher property development profits. The Group reported total revenue and total operating expenses of HK\$40,156 million and HK\$24,733 million, 3.7% and 1.7% higher than in 2013, respectively. Revenue from Hong Kong transport operations reached HK\$16,223 million, an increase of 7.0%, owing to higher patronage in all our transport services and adjustments to fares which were partly offset by fare concessions. The related expenses grew by 9.3% to HK\$9,236 million to support various service enhancements initiatives, such as increases in train trips and systems upkeep. Revenue from station commercial businesses increased by 8.2% to HK\$4,963 million, mainly due to higher station shop rental rates and turnover rents. The related expenses were 11.0% higher at HK\$515 million, mainly due to higher Government rent and rates and advertising agency fees. Property rental and management businesses recorded revenue of HK\$4,190 million, up 10.9% as our shopping malls achieved double-digit growth in average rental reversion. An occupancy rate of close to 100% was achieved for our shopping malls and the office space at Two ifc. The related expenses increased by 11.0% to HK\$747 million, in line with revenue growth. Affected by exchange rate movements, our Mainland of China and international subsidiaries recorded revenues of HK\$12,627 million and expenses of HK\$11,821 million, 4.7% and 5.1% lower than in

2013, respectively. Excluding the impact of marketing expenses incurred in 2014 for the preparation of the pre-sales of our property development in Shenzhen and on a constant exchange rate basis, revenues and expenses would have increased 1.3% and 0.4%, respectively. Other businesses in Hong Kong reported revenues and expenses of HK\$2,153 million and HK\$1,960 million, up 11.6% and 10.1% against 2013, respectively. Including project study and business development expenses of HK\$454 million, the resulting operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment increased by 7.1% to HK\$15,423 million, with operating margin increasing by 1.2 percentage points to 38.4%.

Hong Kong property development profit increased by HK\$2,820 million to HK\$4,216 million in 2014, derived mainly from profit recognitions from The Austin and Grand Austin, surplus from the sale of inventory units and agency fee income from the West Rail property developments. Depreciation and amortisation charges increased by 3.4% to HK\$3,485 million and the variable annual payment to KCRC increased by 18.0% to HK\$1,472 million. Operating profit before interest and tax therefore increased by 31.4% to HK\$14,682 million.

Net interest and finance charges were HK\$545 million in 2014, down from HK\$732 million in 2013 due to lower average debt balances. Investment property revaluation gain amounted to HK\$4,035 million in 2014. Profit sharing from Octopus Holdings Limited amounted to HK\$226 million, about the same level as in 2013. Our share of loss from other associates was HK\$105 million as compared to a loss of HK\$67 million in 2013. While HZMTR start-up losses stabilised in 2014, the increase in share of loss was mainly due to increases in energy and train overhaul expenses at BJMTR and an increase in the operating costs of TBT.

Net profit attributable to shareholders, after deducting income tax of HK\$2,496 million and profits shared by non-controlling interests of HK\$191 million, increased from HK\$13,025 million in 2013 to HK\$15,606 million in 2014. Earnings per share therefore increased from HK\$2.25 to HK\$2.69. Excluding investment property revaluation, the underlying profit attributable to equity shareholders was HK\$11,571 million, up 34.5% over 2013, with earnings per share also increasing from HK\$1.48 in 2013 to HK\$1.99 in 2014. Underlying profit from our recurrent businesses grew by 7.9% to HK\$8,024 million while post-tax property development profits increased from HK\$1,163 million in 2013 to HK\$3,547 million in 2014.

Our balance sheet remained strong, as the Group's net assets increased by 7.1% to HK\$163,482 million as at 31 December 2014. Total assets increased by 5.2% to HK\$227,152 million as a result of investment property revaluation gains, capitalisation of further construction costs of the Island Line extension,

South Island Line (East) and Kwun Tong Line Extension, further capital injection into TJ-MTR, as well as net cash increase due to cash receipts from our property development projects net of repayments of bank borrowings. These asset additions were offset by a decrease in property development in progress as cash was received from the reimbursement of land premium at Austin Station sites. Total liabilities increased slightly by 0.9% to HK\$63,670 million as a result of increases in creditors and accrued charges for our Hong Kong railway extension projects as well as project management fees received in advance for our entrustment works on behalf of Government, offset by lower bank borrowings. The Group's net debt-to-equity ratio decreased from 11.8% at 31 December 2013 to 7.6% at 31 December 2014.

Cash generated from operations, net of taxes paid and working capital movements, increased by HK\$1,289 million to HK\$15,392 million in 2014, mainly due to the increase in operating profit. Receipts from property developments of HK\$9,176 million mainly relate to the recovery of land premium and surplus proceeds for Austin Station sites. Including the Shenzhen government subsidy for the Shenzhen Metro Longhua Line of HK\$652 million and other cash receipts of HK\$375 million, net cash receipts increased from HK\$19,042 million in 2013 to HK\$25,595 million in 2014. Total capital expenditure for railway operations paid during the year was HK\$9,771 million, including HK\$2,960 million for the purchase of assets for our existing Hong Kong transport operations, HK\$6,340 million for the construction of the Hong Kong railway extension projects and HK\$471 million for Shenzhen Metro Longhua Line railway operations. For property related businesses, total capital expenditure paid was HK\$2,588 million, including HK\$410 million and HK\$681 million for Hong Kong and Shenzhen property development projects respectively, and HK\$1,497 million for property renovation and fitting out works for our investment properties and land premium paid in relation to the Maritime Square Extension project. The Group paid fixed and variable annual payments to KCRC amounting to HK\$1,997 million and dividend to our equity shareholders amounting to HK\$4,944 million. After taking into account the further equity injection into TJ-MTR of HK\$294 million, net interest payment of HK\$602 million and dividends to holders of non-controlling interests of HK\$153 million, net cash payments decreased from HK\$21,624 million in 2013 to HK\$20,349 million in 2014. After these items and net loan repayment of HK\$3,650 million, the Group's cash balance increased from HK\$17,297 million at 31 December 2013 to HK\$18,893 million at 31 December 2014.

In line with our progressive dividend policy, the Board has proposed a final dividend of HK\$0.80 per share, giving a full year dividend of HK\$1.05 per share, an increase of 14.1% over 2013, with a scrip dividend option offered.

## Human Resources

We plan ahead to meet our current and future manpower needs in Hong Kong, the Mainland of China and internationally. The Company gained second place in a 2014 survey of the most attractive employer in Hong Kong conducted by the Randstad Group, one of the world's largest human resources service firms.

The Company, together with our controlled subsidiaries, employed 16,624 people in Hong Kong and 7,530 outside of Hong Kong as at 31 December 2014. During 2014, over 1,900 new hires were taken on and more than 1,500 staff were promoted internally, while staff turnover remained low at 4.4% in Hong Kong.

We encourage a positive dialogue and provide effective communication channels between management and staff for discussion of matters of mutual concern. To this end, we have a well-established staff consultation mechanism comprising Joint Consultative Committees and a Staff Consultative Council, with more than 800 staff representatives elected by staff. Two-way communication between line managers and frontline staff has been reinforced by the "Enhanced Staff Communication Programme", with more than 7,700 communication sessions organised in 2014, involving over 100,000 participants. One area of emphasis is strengthening internal communication both locally and among our global operations, including the launch of a new multinational internal communication platform "MTRconnects".

The "Work Improvement Team" ("WIT") programme has continued to encourage collective innovation, continuous improvement and staff engagement. WIT has been MTR's "DNA" in Hong Kong for more than 26 years and in 2014, there were 5,369 members and 920 teams, with 905 projects submitted. Following its success in Hong Kong, WIT has been introduced in our Shenzhen, Beijing, Hangzhou, Stockholm and Melbourne operations. There were 2,097 members and 250 teams in these five operations, with 306 projects submitted in 2014.

To nurture our leadership talents, we have continued our people development initiatives at corporate and divisional levels, along with our Executive Associate and graduate development programmes. We also provided ample opportunities to develop staff at different levels during the year, such as through the Executive Continuous Learning Programme for executives and senior managers as well as the MTR Advanced Management Programme for senior managers from Hong Kong, the Mainland of China and overseas.

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MTR's culture of excellence, learning and caring again won several local and international awards during the year. In 2014, 7,331 courses were delivered, providing 6.9 training days per Hong Kong employee.

## Community Engagement

We make every effort to engage with communities and consider their needs, both in the course of our day-to-day operations and in relation to the construction of new railway lines and buildings.

Open communication channels such as the customer service hotline, suggestion forms at stations, online feedback via our website, "Voice of Customers" surveys and radio phone-in programme, all help to ensure we stay abreast of public concerns so as to react quickly to changing needs. District Council Liaison Teams comprising representatives from across the Company engage District Councils outside meeting chambers and work with them to organise activities to show care to the community.

While new railways bring significant economic and social benefits, their construction may cause disturbance to local communities and businesses. In our network expansion projects, we have learnt that engaging stakeholders as early as the project planning stage and onwards through implementation is crucial to successful delivery. Project liaison engineers serve as a single point of contact and act as the bridge between community relations colleagues and construction management teams.

To facilitate two-way dialogue with the wider community during project delivery, we have established Community Liaison Groups that hold meetings with local residents, District Council members and representatives from Government. Stakeholders are also invited to attend meetings and access up-to-date progress information throughout project delivery, using our project hotlines and information centres. Information about our projects is also made available to all stakeholders via our website, social media and project-specific brochures.

## Outlook

The economic outlook remains uncertain with the US recovery appearing to be on a sustained path, although a number of European and emerging market economies, including the Mainland of China, are seeing a slowdown. In Hong Kong, Government's commitment to building infrastructure and improving the environment by focusing on rail as the backbone of public transport should continue to create opportunities for MTR.

With continued economic and tourism growth, we expect our rail business to experience further patronage increases, supported by the opening of the Western extension of the Island Line. Rental renewals and reversions in our station commercial and property rental businesses will depend on market conditions.

In our property development business, sales for LOHAS Park Package 3 and pre-sales of Phase 1 of the Shenzhen Tiara development are expected to be launched in the first half of 2015, depending on market conditions. As the Occupation Permit for LOHAS Park Package 3 has already been obtained in December 2014, booking of profits for this development will be based on the date when sales proceeds exceed the development cost.

In our property tendering activities between now and year end, subject to market conditions, we aim to tender out two to three more packages in LOHAS Park as well as the Yuen Long Station site, where we act as agent for the relevant subsidiary of KCRC.

Outside of Hong Kong we will continue to pursue sustainable growth opportunities.

I would like to welcome Dr Philco Wong, who was appointed as Projects Director on 28 October 2014, upon the retirement of Mr TC Chew. I thank Mr Chew for his contributions to MTR.

I am most grateful for the trust and confidence placed in me by the Board in appointing me as Chief Executive Officer; I am most honoured by this appointment. MTR is a Hong Kong success story made possible with the support of the people of Hong Kong, our dedicated and hard-working colleagues, our shareholders and other stakeholders. I look forward to working with my MTR colleagues to take MTR to even higher levels of achievement.

Finally, my thanks go to our Board Members for their support throughout the year, as well as to all my colleagues at MTR who have worked so hard and served our customers with outstanding professionalism, teamwork and dedication. They are truly the heroes of MTR.



Lincoln Leong Kwok-kuen, *Chief Executive Officer*  
Hong Kong, 16 March 2015