



Introduction

This year, for the first time we are broadening the scope of our sustainability report to provide a more complete picture of the many ways in which we create value for our stakeholders and society at large. Whether it is through working closely with suppliers or enabling the growth of small businesses through our station retail network, we strive to maximise the Company's contribution to society by working with stakeholders outside of the organisation, in line with our policy on corporate responsibility.



What is a Value Chain?

A value chain is a set of activities performed by an organisation in order to deliver products and services. It is related to the idea of evaluating each organisation as a collection of various inputs, processes and outputs.

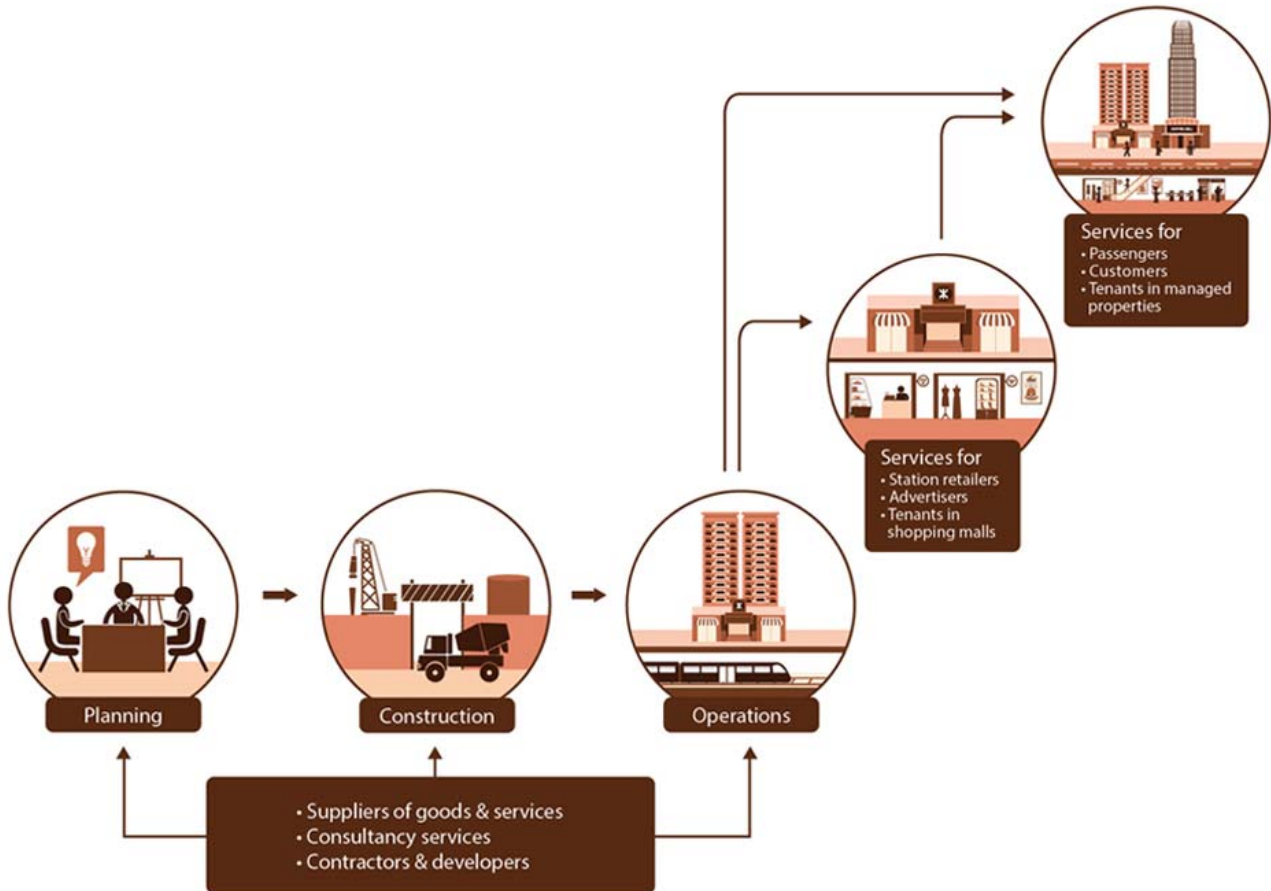


Our Value Chain

Our value chain is complex because it encompasses a wide range of activities from planning and construction through to delivery of rail, property, retail and other services. Despite, or indeed because of, this complexity our value chain provides many opportunities to broaden, amplify and deepen the Company's contribution to society.

MTR's Value Chain

VALUE CHAIN FOR MTR CORPORATION



In future, we plan to report comprehensively on all aspects of our value chain. For the time being, we are featuring particular aspects of our value chain in this section of the report to reflect the current focus of our value chain activities, including the following:

- **Supply Chain Management** refers to suppliers of goods and services, including contractors and developers on our construction sites.
- **Working with Station Retailers** refers to tenants of MTR Shops that provide services to passengers in stations across our railway network.
- **Working with Partners in our Properties** refers to tenants of MTR Malls as well as tenants of managed residential estates.

Links to Other Sections

Stakeholder engagement activities to promote corporate responsibility and sustainable practices are also covered

elsewhere in this report. The following are two examples:

Financial Performance — An integral part of our Rail plus Property model involves working with the Government and property developers to create sustainable and integrated communities all across Hong Kong.

Community — We work hard to engage with communities impacted by our railway extension projects, and we also have a programme of community investment to promote social sustainability in partnership with the Government and other organisations that share our values.





Supply Chain Management

We contribute significantly to the economy of Hong Kong and other places through our diverse supply chain, which comprises the full sequence of activities involved in providing products and services to all areas of our business. Consider the wide range of products and services involved in the different categories of spending for railway construction projects, transport operations, property management and other business. Managing the procurement process for such a complicated supply chain in a responsible manner requires focus and a strategic approach.

Fortunately, we are in a position to build upon a strong foundation of working with stakeholders in our supply chain over more than three decades to promote quality, efficiency and a commitment to corporate responsibility. Our reputation as a fair and equitable business partner is well established among our suppliers, and we find that this helps to maintain constructive and productive working relationships with them.

A (Supply) Chain is Only as Strong as Its Weakest Link

During February 2014, the East Rail Line experienced lengthy delays due to faults caused by sub-quality overhead line insulators. In response to this incident, we implemented enhancement measures to prevent similar problems from occurring in the future, which include establishing in-house facilities to conduct high voltage insulator tests and strengthening the procurement process to re-emphasise the required specifications when placing orders with suppliers.



Management Approach

We introduce the key elements of our approach to procurement and working with suppliers in this section. It also contains links to more information on our corporate website.

GUIDING STRUCTURE

Procurement Process

The Company has a transparent and independent procurement process based on principles of good governance. The key objectives of this process are to serve the interests of our shareholders and other stakeholders by promoting competition, providing value for money to the Company, and ensuring compliance with our policies on corporate responsibility and sustainability.

Supply Chain Risk Management

Risks in our supply chain are subject to regular assessment by our Enterprise Risk Committee. For example, we anticipate that flooding and other extreme weather events associated with climate change could have major impacts on our supply chain, including delays to production and delivery of goods, and higher insurance premiums for our infrastructure and property assets. To address these issues, we have put in place risk mitigation measures such as keeping safe levels of stock for critical spares and investigating ways to develop alternative sources of supply for a range of goods and services.

The Supplier Code of Practice (SCoP) was launched in 2008. It provides a basic, compulsory behavioural framework for ethical standards, human and labour rights, and supply chain management. Full compliance with the SCoP is a requirement of all procurement contracts entered into by the Company, with any violation considered to be a material breach of contract. Suppliers are also responsible for ensuring that their own suppliers comply with the SCoP.

Green Procurement

Our Green Procurement Policy encourages our procurement teams to promote sustainability in our supply chain. We are a founding member of the Hong Kong Green Purchasing Charter and apply green specifications for procurement of a range of items, such as Forest Stewardship Council (FSC) certified products for stationery supplies. We encourage our suppliers to adopt eco-labelling and are currently working with some

Learn more...

You can download a copy of our Supplier Code of Practice from our corporate website.

Learn more...

The Hong Kong Green Purchasing Charter is an initiative of the Green Council, a non-profit environmental association formed in 2000 to encourage environmental protection measures in the industrial and commercial sectors of Hong Kong.

Learn more...

Please refer to our corporate website for Information on Tender Notices, Invitation for Tenders/Expressions of Interest, and Notices of Contract Award and Supplier Registration and Administration.

suppliers to explore the feasibility of introducing locally produced biodiesel into our supply chain.

KEY PRINCIPLES AND PROCESSES

Supplier Survey

We survey our suppliers periodically to collect information about the status of their policies, initiatives and monitoring systems relating to

- ethical standards
- human and labour rights
- environmental protection (including carbon emissions, energy, water, waste and noise)
- consumer protection
- supply chain management
- conflicts of interest

We use this information to understand how our suppliers are aligning with the Supplier Code of Practice and to identify areas for improvement and collaboration.

Supplier Engagement

We invite suppliers to participate in regular forums, seminars and site visits to evaluate performance and share best practices, and our procurement teams participate in regular visits to suppliers' facilities. Overall, we aim to foster a culture of cooperation and mutual support in our supply chain by working with suppliers to promote corporate responsibility beyond contractual compliance. Focusing on worker safety and health, human rights, labour practices and community engagement, our Operations, Projects and Property Divisions have identified specific parts of the supply chain in which to deliver strategic engagement on these issues.

Please refer to [supply chain assessment](#) and [collaboration with contractors](#).

Promoting Transparency

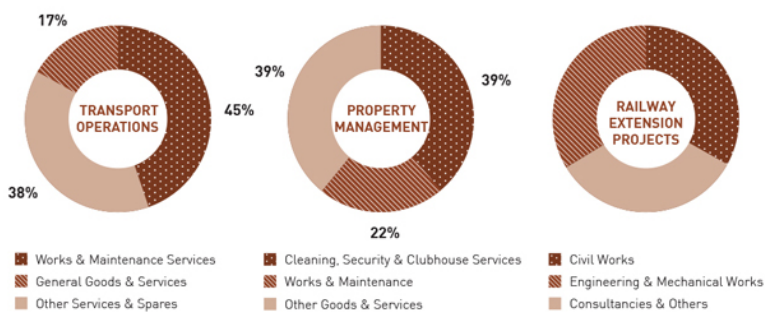
We publicise information about contracts and tenders on our corporate website in the interests of total transparency.



Supply Chain Assessment

These diagrams show the breakdown of our spending on products and services during 2014 as well as our strategic focus areas for supplier engagement by division and category of spending.

PERCENTAGE OF SPENDING BY MAJOR CATEGORIES IN 2014



Strategic Focus Areas for Engagement

	Transport Operations	Property Management	Railway Extension Projects
Worker safety and health	<ul style="list-style-type: none"> Works & Maintenance Services 	<ul style="list-style-type: none"> Works & Maintenance Services 	<ul style="list-style-type: none"> Civil Works Engineering & Mechanical Works
Human rights and labour practices	<ul style="list-style-type: none"> Other Services & Spares 	<ul style="list-style-type: none"> Cleaning, Security & Clubhouse Services 	<ul style="list-style-type: none"> Civil Works Engineering & Mechanical Works

Supplier Survey in 2014

During 2014, we received information from 660 suppliers in response to our Corporate Responsibility Questionnaire. Compared with the baseline from 2011, we have observed an overall increase in the proportion of suppliers indicating they have corporate responsibility policies, initiatives and monitoring systems in place. Subsequent to completion of our survey, we engaged a consultant to review corporate responsibility practices in our supply chain and to assist us in identifying the next steps to embed corporate responsibility even deeper into our procurement process. We plan to report on the progress of this activity in future.

Supply Chain Audit

Under the terms of our Supplier Code of Practice we have the right to conduct audits to ensure compliance. During 2014, we conducted an audit at the manufacturing facility of one supplier for marketing merchandise. This supplier was selected in view of the labour intensive nature of its production process, which implies a high risk profile for corporate responsibility and sustainability issues. The overall findings of the audit were considered satisfactory, with no major areas of non-compliance. However, we did take the opportunity to make a number of suggestions on how the factory could strengthen its compliance with our Supplier Code of Practice in future.

Model Management Practices in Our Supply Chain

Since 2009, we have committed a total of HK\$9.7 billion towards procurement of rolling stock for our new railway lines. Given the huge scale of this investment, we have put a lot of effort in recent years into refining our lifecycle assessment approach for this kind of equipment. Our procurement decisions take into consideration future energy use and maintenance costs of our trains over an average lifespan of 40 years, in addition to upfront capital costs.

Furthermore, in order to meet our high standards for quality we maintain close working relationships with the manufacturers who fabricate our trains. Our model practice for quality management of rolling stock grew out of an enhanced partnership that has developed with one of our major suppliers. We work closely with this supplier through a joint project office located at the manufacturing base to ensure all performance indicators for quality are achieved, including complete traceability of all major components.



Collaboration with Contractors

The work that we do to engage with contractors is an aspect of our value chain. In general, contractors hire their own staff directly but they may also hire sub-contractors and independent contractors. Securing buy-in from contractors is integral to our strategy to promote corporate responsibility.

Contractors are obliged to comply with a set of stringent safety

specifications as part of their contractual obligations for every project; however, we also strive to establish non-contractual partnering relationships that will lead to joint efforts to improve delivery plans. For example, we set up a “war room” for every major civil works contract, providing a designated physical space for project team members to work together to meet high standards of safety, quality and environmental best practice.

Safety on Construction Sites

We provide leadership on safety standards for construction workers in Hong Kong in partnership with the Labour Department, industry bodies, unions and other major employers.

Awards for Excellence in Quality, Safety, Environmental Management & Stakeholder Engagement

Launched in 2010, our Project Division’s annual awards scheme aims to promote continuous improvement in these areas during delivery of new railway projects for Hong Kong.

In 2014, the Grand Safety Award was presented to Samsung - Hsin Chong Joint Venture (Shatin to Central Link) for being the best performer among all extension project contractors based on a set of objective criteria including accident rates, site conditions, safety audit results, training efforts and leadership on safety. We particularly appreciated the initiative shown by this contractor to introduce concrete hoardings along footpaths in the To Kwa Wan area, ensuring public safety during implementation of large-scale, temporary traffic management schemes.

Other award winners in 2014:

- The Gold Environmental Award was won by Nishimatsu Construction Company Ltd (South Island Line (East)) and Leighton Contractors (Asia) Ltd (Shatin to Central Link) for successfully reducing construction noise with effective measures such as fully enclosing works plants using insulating fabric.
- The Gold Stakeholder Engagement Award was won by Chun Wo – Hip Hing Joint Venture (Kwun Tong Line Extension) for engaging with stakeholders in the Whampoa area, where more than 100 traffic diversions had to be implemented to facilitate construction work in the congested neighbourhood.

- The Gold Quality Award was won by Kier – Laing O’Rourke – Kaden Joint Venture (South Island Line (East)) for outstanding quality and control measures in project management.





Working with Station Retailers

At the end of 2014, we had over 1,350 outlets — known as MTR Shops — covering in excess of 55,696 square metres of retail space in stations across our railway network. MTR Shop tenants cater to our passengers' shopping needs, providing goods such as food and beverages, gifts, beauty and wellness products, and fashion. They also provide services such as dry cleaning, shoe repair, travel agency, express mail and banking.

Optimal Trade Mix

In order to provide maximum convenience for passengers using our network, the mix of tenants in our MTR Shops is determined with reference to the Optimal Trade Mix Model, which takes into account our commercial team's assessment of the profile of passengers utilising each station. According to the model, prospective tenants can be assigned into one of three main groups:

Core Trade — Convenience stores, cake and bakery, banking

Edible Trade — Takeaway food and beverage, confectionery and grocery shops

Retail Trade — Fashion, accessories, health and beauty, passenger services, etc

At the same time, stations in our network are classified into four groups reflecting the main purpose of customer traffic through the station:

Domestic — Varied purposes such as transport interchange and business

Leisure — Sightseeing and shopping

Residential — Daily commuting from and to home

Cross-boundary — Tourist and business travel to and from the Mainland of China

With the aid of the Optimal Trade Mix Model, our commercial

team evaluates the passenger profile and geographical location of each station and introduces an appropriate mix of tenants to best suit our customers' needs.



Support for Small Businesses

We welcome entrepreneurs and small businesses to become tenants of MTR Shops. We value their insight into Hong Kong's local preferences, willingness to lead the market through innovation, and the caring service that they provide for our passengers. We provide assistance to support new tenants in MTR Shops, including help with interior design and advice on professional presentation.





Working with Partners in our Properties

MTR Malls

MTR Malls are closely integrated with MTR railway stations across our network. We design and operate them as neighbourhood malls to provide hubs for shopping and other recreational or social activities. The facilities and services offered in our malls shape the overall experience of MTR Mall patrons and have important benefits to local residents and businesses. We prioritise the needs of our stakeholders throughout the process of retail development, endeavouring to achieve an appropriate mix of MTR Mall tenants in order to meet the constantly evolving needs of our customers and communities.

We engage with tenants of MTR Malls as part of our customer service quality programme. MTR Malls are also actively involved in engaging with local communities by supporting Community Care Programme events and providing space for community gatherings.

Managed Residential Estates and Offices

We engage with local communities around our residential estates and offices in various ways. Please refer to Community Engagement for information about our activities in 2014.

Learn more...

The Food Wise Hong Kong Steering Committee formulates and oversees the implementation strategy of the Food Wise Hong Kong Campaign.

Partnerships to Reduce Food Waste

According to a report issued by the Environmental Protection Department, Hong Kong generates over 3,000 tonnes of food waste every day. MTR is a signatory of the Food Wise Hong Kong Campaign, and we have also joined its steering committee to support the Government and other stakeholders to relieve pressure on our city's landfills. We strive to reduce environmental impacts from food waste in the following ways:

MTR Malls — Under our self-initiated MTR Malls Food Waste Reduction Pledge, we work with food and beverage tenants to minimise potential waste at source and to promote food-waste reduction practices in the shopping mall sector.

Managed Residential Estates — Under our Central Food Waste Recycling for Improving Estate Environment initiative, we have launched programmes to encourage residents to recycle their food waste at Heng Fa Chuen, Tierra Verde and The Capitol.

