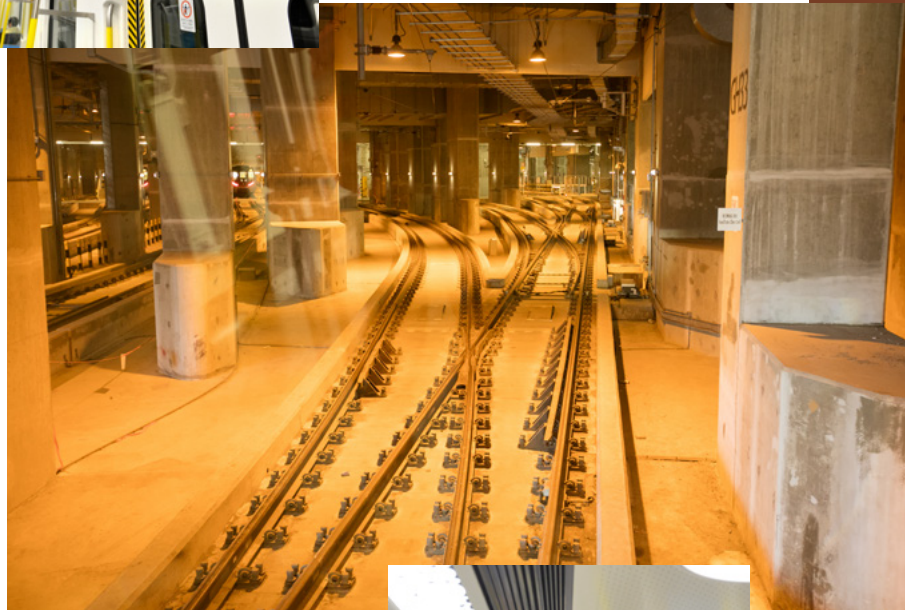


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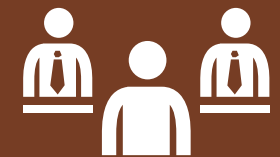
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SUPPLY CHAIN

Considering the wide range of products and services involved in the different categories of spending for railway construction projects, transport operations, property management and other businesses, we contribute significantly to the economy of Hong Kong and other places through our diverse supply chain.



HKD 8bn
Spent in railway
maintenance and
upgrades in 2016



715
Trainees under
the Contractor
Cooperative Training
Scheme since 2012

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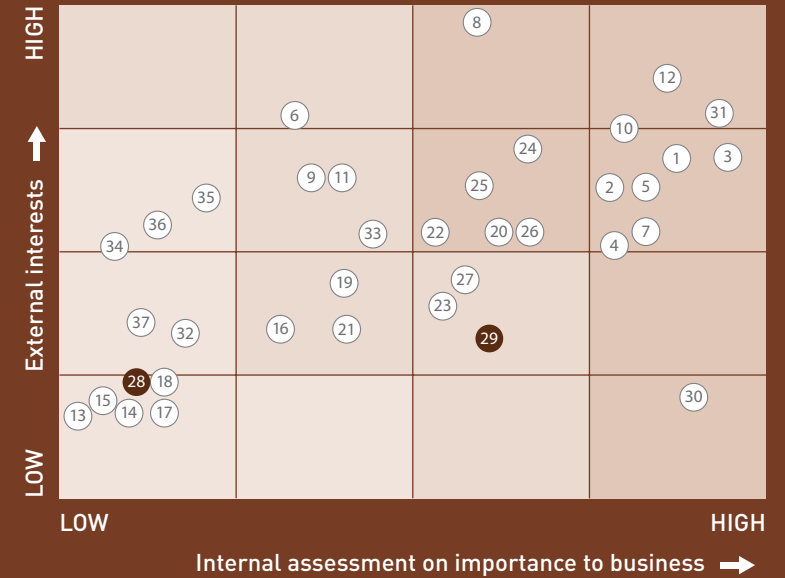
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INTRODUCTION

We are in a position to build upon a strong foundation of working with stakeholders in our supply chain to promote quality, safety, reliability, business ethics and a commitment to being a responsible and sustainable business. Our reputation as a fair and equitable business partner is well established and we find that this helps to maintain ongoing collaborative working relationships.

MATERIALITY ISSUES COVERED IN THIS CHAPTER



- 28 Supply chain human rights risk
- 29 Promoting social responsibility in the value chain

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Management Approach

GUIDING STRUCTURE

Supplier Code of Practice

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.

LEARN MORE...

Download a copy of our [Supplier Code of Practice](#).

Promoting Transparency in our 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 being a responsible and sustainable business.

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

LEARN MORE...

Our latest [Tender Notices](#), [Invitation for Tender/Expression of Interest](#), [Notice of Contract Awards](#) and [Supplier/Contractor Registration and Administration](#) can be found on our website.

Promoting Fair Competition

Our success depends on the trust placed in us by our stakeholders. It is therefore the responsibility of all members of our staff to uphold our reputation as a fair and ethical business at all times. In 2015, in line with the full operation of the Competition Ordinance on 14 December 2015, we reviewed our business arrangements and practices, released a new compliance manual and organised seminars to increase staff awareness of this topic.

Our Staff Code of Conduct has also set out clear guidelines on business ethics. We are committed to ensuring fair, open and honest competition, and we strive to be fair, transparent and competitive in our procurement activities. We conduct competitive tendering and ensure that fair opportunities are provided to capable, qualified suppliers, contractors and consultants who are interested in conducting business with us, wherever they may operate.

For example, in our tendering process, tenderers are not allowed to submit independent tenders for the Contract if they intend to act as a supplier, sub-contractor or sub-consultant for another tenderer, or if they are a partner of another joint venture established to tender for the Contract. In addition, tenderers having linkage to each other, e.g. subsidiaries, holding or sister companies, shall not submit tenders for the same Contract, whether on their own or as a partner of a joint venture. Tenderers having linkage to each other shall determine which company will submit a tender.

Furthermore, during tender submissions, all tenderers are required to declare that they have not entered into any agreement, arrangement or understanding with any other tenderer which involves collusion in tendering, inflation of tender prices, the provision of compensation if unsuccessful or any other related collusive activities.

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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 a range of procured items, including energy efficient equipment such as LED lights and Forest Stewardship Council (FSC) certified products for stationery supplies, to name a few. Likewise, lifecycle assessment approach is adopted in the procurement of capital assets such as trains, air conditioning chiller units. We also encourage our suppliers to adopt eco-labelling where appropriate and possible.

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.

Sustainable Procurement Taskforce

The Sustainable Procurement Task Force of the Procurement and Contracts Department was established in 2012. In 2016, we have reviewed and strengthened the governance structure of the Taskforce. It reports to the Engineering Director and comprises colleagues who look into the implementation of sustainable procurement initiatives across the Company.

The work of the Taskforce focuses on the following key areas:

- Supplier Survey & Compliance: surveys of the Supplier Code of Practice
- Green Procurement: share green procurement initiatives and practice
- Events & Promotion: coordinate awareness raising and sharing activities with suppliers, as well as promotion of the sustainability initiatives of the Company
- Training & Development: organise and recommend sustainability related training to Task Force members for capability building

Supply chain sustainability benchmark exercise

In 2015 we completed an independent study to benchmark MTR's supply chain sustainability. In some aspects we are already on par with best practices in the railway and properties industries, but in other aspects we are considering how to refine our approaches in order to meet and exceed market norms.

We recognise the growing need for all corporations to strengthen their supply chain management practices to bring about greater product responsibility and efficiency, while minimising environmental and social impacts. Going forward, we aim to continue integrating sustainability considerations into our procurement process in a strategic manner, while spearheading other improvement initiatives.

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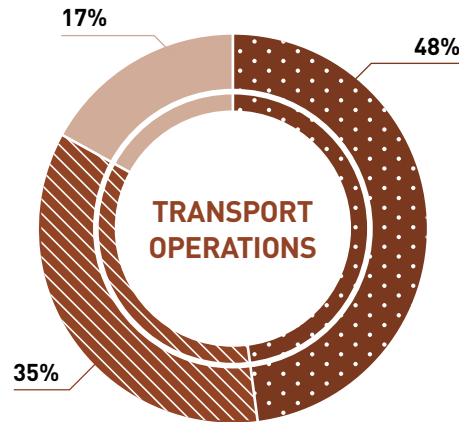
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SUPPLY CHAIN ASSESSMENT

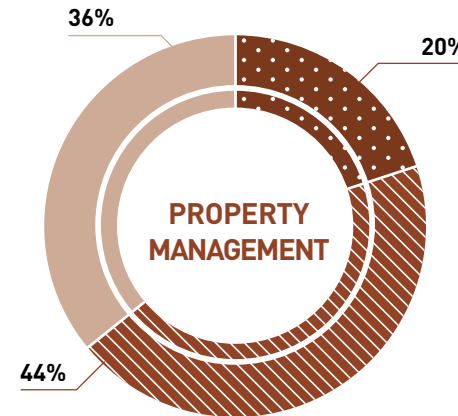
These diagrams show the breakdown of our spending on products and services during 2016. Owing to the growing diversity of suppliers and service providers for our different business units, we assess three separate groups of suppliers, for transport operations, property and

railway extension projects, by procurement category as a proportion to their total spend. We also identify the relevant sustainability risks for each supplier category, and the strategic focus areas for supplier engagement by division and category of spending.

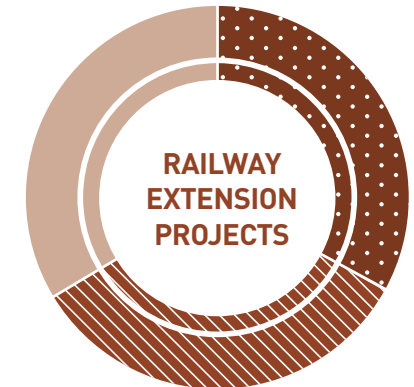
PERCENTAGE OF SPENDING BY MAJOR CATEGORIES IN 2016






-  Works & Maintenance Services
Worker safety and health
-  Goods, Services & Spares
Human rights and labour practices
-  General Goods & Services



-  Works & Maintenance Services
Worker safety and health
-  Cleaning, Security & Clubhouse Services
Human rights and labour practices
-  Other Goods & Services



Proportional spend data is not shown due to the cyclical nature of spending

-  Civil Works
Human rights and labour practices
Worker safety and health
-  Consultancies & Others
-  Engineering & Mechanical Works
Human rights and labour practices
Worker safety and health

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Supply Chain Risk Management

Spending on our transport operations continue to be the largest amongst the three categories. This year we have spent more than HK \$8 billion on maintaining, replacing and upgrading our existing network. This annual spending is expected increase significantly over time. The quality of the service we provide, and of the infrastructure that we build, are dependent on the reliability and quality of products and services delivered by our suppliers. Risks in our supply chain, similar to our other enterprise risks, are therefore subject to regular assessment through the Enterprise Risk Management System.

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, while our infrastructure and property assets will be subject to higher insurance premiums. Hence, we have put in place risk mitigation measures such as working closely with suppliers to ensure the continuity of supply for goods and services. It is essential that they keep safety and service critical spares at sufficient levels in stock, and investigate ways in which they may develop alternative sources of supply for proprietary spares and to keep up with technology advancements to avoid obsolescence.

DID YOU KNOW?

Model management practices in our supply chain

Since 2009, we have committed a total of HK\$9.7 billion towards procurement of trains 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 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. We also monitor the performance of equipment purchased that has undergone a lifecycle assessment in its initial period to check the accuracy of performance. In some cases, we incentivise suppliers that are able to meet their stated performance range.

Furthermore, in order to meet our high standards for quality we maintain close working relationships with manufacturers who fabricate our trains. Our model practice for quality management of trains 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, with particular attention to service and safety critical parts. We have also stationed full-time staff at the factory to ensure the quality of the manufacturing and assembly process. We have implemented this approach across all our train purchases for the new lines, including the tendering process of the 93 new 8-car trains we announced in 2015.

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ENGAGEMENT AND COLLABORATION WITH SUPPLIERS

The work that we do to engage with contractors is an aspect of our value chain. We invite suppliers to participate in regular forums, seminars and site visits to benchmark performance and share best practices. Our procurement teams also participate in regular visits to suppliers' facilities. Overall, we aim to foster a culture of cooperation and mutual support by working with suppliers to promote the principles of being a responsible and sustainable business 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.

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
- consumer protection
- supply chain management
- conflicts of interest

In our most recent survey in 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 – from 27.6% to 46%. There was an average improvement of 4.6% across all other indicators.

Findings from the questionnaire help us to understand how our suppliers are aligning with the Supplier Code of Practice and the maturity of their sustainability practices. In our next survey, scheduled for mid-2017, we will also seek to understand their priority sustainability areas, comparing these results with our own assessment. This will guide areas for improvement and collaboration, as well as note the feasibility of introducing enhanced sustainability requirements in the future.

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Collaboration with our Contractors

In addition to their own staff, contractors may also hire sub-contractors and specialist contractors. Securing buy-in from contractors is integral to our strategy and objectives of being a responsible and sustainable business.

Contractors are obliged to comply with a set of stringent safety specifications and requirements in the contract; however, we also strive to establish non-contractual partnering relationships that will lead to joint efforts to improve project deliveries.

DID YOU KNOW?

Material Testing Laboratory for Railway Extension Projects

First established in 1975, the MTR Materials Testing Laboratory developed a computer-based Material Management System and automated the testing process in 2009. Since then, the Laboratory has completed testing of 738,000 concrete cubes and 152,000 reinforcing bars ("rebar") to ensure stringent material standards for 70 MTR railway extension contracts, averaging 700 cubes and 100 rebars every day.

To meet statutory and our own requirements at each batch of concrete and rebar used needs to be tested on a number of parameters, including strength, mass and failure mode. The sampling and testing process was previously time-consuming and largely manual, relying on the circulation of hardcopy documents. Contractors used to prepared concrete samples on site, which were then transported by a clients' member of staff to a third party laboratory for testing. It was not uncommon for the whole testing process to take more than two weeks.

When construction of the five new rail projects commenced in late-2000, we sought to streamline the testing process. Developed in-house, the Material Testing System (MTS) makes use of multiple QR codes, Radio Frequency Identification (RFID) and mobile phone technology to capture and transfer information of each concrete and rebar sample. The automated process has reduced the risk of human error or mishandling of data significantly.

Testing equipment was also improved, and the process automated to allow test results to be available online for approval by Hong Kong Laboratory Accreditation Scheme (HOKLAS)'s approved signatories and then shared with site engineers and contractors immediately. As a result, the formal report turnaround time has been reduced to 24 hours in a now paper-less environment. By conservative estimates, 11 sheets of paper are saved for each testing sample.

During the development of MTS, there was close consultation and collaboration with our material suppliers and trade unions, contractors and construction engineers on site to understand their needs and concerns. With feedback from users provided through annual customer satisfaction surveys, and with advances in technology enabling incremental improvements through the years, we have continued to improve on the user-friendliness and effectiveness of the system.

Contributing to industry best practice

The mobile platform of the MTS remains an open system, this is to encourage collaborative solutions and industry advancement of automated and reliable testing systems. The Hong Kong Construction Materials Association (previously Concrete Producer's Association), for example, has now adopted mobile technologies and QR code concrete tickets. In 2014, the Government's Buildings Department began to accept electronic reports generated from the MTS – unprecedented acknowledgement of the system's success.

As a major infrastructure provider in Hong Kong, we take pride in continuing to play an instrumental role in developing innovative technology for the industry.

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DID YOU KNOW?

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 2016, the Award scheme was extended to also cover our subcontractors in addition to our main contractors, to commend and encourage their outstanding performance.

The Gold winner for different award categories are listed below:

- **Gold Quality Award:** Beijing HollySys Co., Ltd. of both Contract 841A: Signalling System – Trackside Equipment, and Contract 841B: Signalling System – Trainborne Equipment
- **Gold Safety Award:** jointly won by Samsung - Hsin Chong Joint Venture of Contract 1109: Sung Wong Toi and To Kwa Wan Stations and Tunnels, and Shinryo Corporation of Contract 816C: West Kowloon Terminus - Electrical Installation.
- **Gold Environmental Award:** Vinci Construction Grands Projets of Contract 1103: Hin Keng to Diamond Hill Tunnels
- **Gold Stakeholder Engagement Award:** Samsung - Hsin Chong Joint Venture of Contract 1109: Sung Wong Toi and To Kwa Wan Stations and Tunnels

DID YOU KNOW?

Graduate trainee programmes in our new lines

The shortage of skilled construction workers has been a challenge faced by our railway extension projects in the last few years. To attract new recruits to construction industry, we initiated the Shatin to Central Link Contractors Cooperative Training Scheme (SCL CCTS) in 2012. The Scheme provides training and internship programmes for various trades in the construction industry aimed at those who wish to work in the field. The SCL CCTS requires all contractors of SCL civil works contracts to recruit a specified number of trainees, provide training for them and offer 12-month employment contracts to graduate trainees who pass relevant trade tests. Up to the end of 2016, 715 trainees have received training with 455 of them having completed the programme and are re-continuing their careers in 17 trades including tunnel workers, carpenters and steel fixers.