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Professor Frederick Ma Si-hang
Chairman
Dear Shareholders and other Stakeholders,

This is my first letter to you as Chairman of MTR since taking up my appointment on 1 January this year. I feel very honoured to have been appointed to this role and look forward to playing my part in taking the Company forward in the coming years.

It is our goal to build on what is already recognised as world-class operations to make MTR the pride of Hong Kong and a multinational company admired globally as a leader in sustainable rail transport. To this end, I have outlined a vision for MTR covering three areas: our rail network, our customers and our people.

Firstly, we aim to deliver our new railway projects in Hong Kong according to their revised timetables and budgets. These new rail lines together with major enhancements to our existing network are collectively creating “Rail Gen 2.0”, a new era for rail travel in Hong Kong which will benefit our community with enhanced connectivity and help drive economic and social development.

With the opening of Sai Ying Pun Station in March last year, the Western extension of the Island Line is now in full operation. Although we are working through some challenges on the four remaining railway projects, we are making progress. We plan to open the Kwun Tong Line Extension and South Island Line (East) by the end of this year, and to complete the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (“Express Rail Link”) in the third quarter of 2018. This will be followed by the two corridors of the Shatin to Central Link in 2019 and 2021.

On the Express Rail Link, last year we reached agreement with Government regarding the further funding of the project, the “XRL Agreement”, which was conditional on the approval of MTR’s independent shareholders and the HKSAR Legislative Council for Government’s additional funding obligations under the XRL Agreement (“LegCo Approval”), within the agreed timeframe. The approval of our independent shareholders was obtained on 1 February 2016 and I am delighted to see that, after the announcement of our 2015 annual results, the LegCo Approval was obtained on 11 March 2016, as a result of which the XRL Agreement has become fully effective. This Annual Report has been updated, where applicable, to reflect the fact that the XRL Agreement has come into full effect. Under the XRL Agreement, (1) Government will fund the project cost up to a level of HK$84.42 billion, while MTR will be responsible for any costs above this amount (except for certain agreed excluded costs); (2) we will also pay a special cash dividend of HK$4.40 per share in two equal tranches of HK$2.20 each to all shareholders; and (3) Government has reserved the right to refer the question of the Company’s liability (if any) under the project Entrustment Agreements to arbitration, after the start of commercial operations on the new line. I deeply appreciate the support from our independent shareholders who approved the XRL Agreement, and the HKSAR Legislative Council for the LegCo Approval.

In addition to these four railway projects, we continue to work with Government to support the succeeding generation of railway lines that are being planned for Hong Kong’s longer-term future.

The second area of focus is on our valued customers. With 5.56 million passengers travelling on our rail and bus services on an average weekday in 2015, MTR is one of the busiest railways in the world. Our aim is to provide not just a safe, reliable and efficient transport service, but also a pleasant journey for our customers. As demand has grown, we have added more services to make sure journeys remain comfortable. Since the launch of our programme to raise service levels in March 2012, more than 2,600 extra train trips have been added each week.

While continuing to put safety first, it is also our goal to ensure that they have a positive passenger experience on our network. Our customers rightly expect our services to be reliable and I am pleased to report that in 2015, 99.9% of passenger journeys on the heavy rail network were on time. There were only seven delays in our heavy rail network and one delay in our light rail network, which lasted for 31 minutes or more, that were attributable to factors within MTR’s control. This is one of the best performances by any such operation anywhere in the world. Safety was a similar story, with a further fall in an already low rate of reportable events.

Through our Customer Experience Management Model, we have devised plans to deepen our understanding of our customers’ needs. We have enhanced our communications with our customers, for example during incidents, to provide them with clear, timely and accurate information. Our “Happy Birthday - Happy Journey” campaign will be launched in April 2016 to thank our customers for supporting MTR.

To maintain our high standards, we need to remain profitable so that we can continue to invest back into the network, which we did to the tune of over HK$7 billion in 2015, increasing from over HK$6 billion in 2014. This not only maintains our assets in good working condition, but also funds improvements to our trains and stations that make journeys safer, more accessible and more comfortable. Last year these programmes saw the installation of new external lifts, wide gates, toilets
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and passenger information systems. We also announced the investment of HK$9.3 billion in new signalling systems and trains as part of our “Rail Gen 2.0” vision. New investment aside, our customers enjoyed on-going fare promotions and concessions of approximately HK$2.4 billion in 2015. In addition, a further concession package of HK$500 million was implemented for 2015/2016.

Looking at our financial results, it is clear that they reflect our strong operational performance. Recurrent profit after tax for the year, being underlying profits before property development profits and investment property revaluation, increased by 6.7% to HK$8,565 million. With a decrease in post-tax property development profit to HK$2,329 million, underlying profit before investment property revaluation lowered by 5.9% to HK$10,894 million. Including investment property revaluation, net profit attributable to shareholders was HK$12,994 million, representing earnings per share after revaluation of HK$2.22. Return on average equity attributable to equity shareholders arising from underlying businesses was 6.5% in 2015, compared to 7.3% in 2014. In addition to the one-off special cash dividend of HK$4.40 per share and which is expected to be paid in two equal tranches (of HK$2.20 per share in 2016 and 2017), your Board has proposed a final ordinary dividend of HK$0.81 per share, resulting in a full-year ordinary dividend of HK$1.06 per share, with a scrip dividend option offered for the ordinary dividend.

None of our achievements would have been possible without the men and women who work at MTR. They are our greatest assets. Our experienced and professional staff are dedicated to providing good service to our customers every single day. At all levels, we take great care to hire the right people, give them the support they need to do their work well and motivate them by recognising their contributions. One measure of our success is the consistently low staff turnover rate. Our training and development achievements are also well-recognised, and in 2015 we won the Hong Kong Management Association’s prestigious “25th Anniversary Award: Most Dedicated Organisation to People Development”.

So the third part of my vision is to invest in the training and development of future generations of railway professionals. An important initiative on this front is the “MTR Academy”, a new educational institution to develop talent for the railway and transport industries initially in Hong Kong, with an aim to expand to the Mainland of China and overseas. This will help sustain our business growth and ensure we continue to provide one of the best railway services in the world. The Chief Executive of the HKSAR has expressed his support for the establishment of the MTR Academy in his latest Policy Address.

Of course our responsibilities as a corporation cover not only our passengers, shareholders and staff, but extend to the communities of which we are a part and to the environment. The community benefits every year from the many initiatives under the MTR Community Care Action programme, but we are always trying to do better. A new initiative recently launched is the offer of 12 shops along West Rail Line for use by social enterprises. We contribute to charity, through events such as the MTR HONG KONG Race Walking and regular volunteer work by our staff. We also support the arts through our extensive “art in mtr” programme. Currently, there are 60 art pieces created by local and international artists in our railway stations, which enhance the journey experience of our customers.

In our community work, the young generation and the environment they will inherit take priority. MTR has a long-standing commitment to working with young people to enable them to reach their full potential, and in September last year, we unveiled “Youth Connect”, a new platform for our youth development programmes. Caring for the environment, meanwhile, is built into every aspect of our operations. To give only one example, we have a voluntary target to cut the electricity consumed per passenger-kilometre in our heavy rail network.

Last but not least, I wish to extend my heart-felt thanks to Dr Raymond Ch’ien for his tremendous contributions as Chairman in the past 12 years. Under his leadership, the Company has become recognised around the world for excellence in rail operations. I look forward to building on his legacy. I also wish
to thank Mr T. Brian Stevenson and Ms Christine Fang Mengersang who departed from the Board as Independent Non-executive Directors of the Company during 2015.

In addition to my new role as Chairman, I am pleased to have been joined on the Board by several new members. Mr Lincoln Leong became the Chief Executive Officer (“CEO”) of the Company on 16 March 2015, following seven months as Acting CEO. Mr Hon Chi-keung joined the Board upon taking over the post of Permanent Secretary for Development (Works) on 7 April 2015 from Mr Wai Chi-sing. Mr Lau Ping-cheung, Kaizer, and Dr Allan Wong Chi-yun joined the Board as Independent Non-executive Directors of the Company on 11 August 2015.

I wish to thank my fellow directors for their valuable advice and support since I became Chairman. I also take this opportunity to acknowledge the remarkable contributions of all staff members during the year. Their dedication and professionalism amidst challenges and rising public expectations are truly impressive. Although further challenges lie ahead, I am confident that with so many capable people, MTR will continue to serve Hong Kong well and be recognised as a successful brand that Hong Kong is proud to call its own.

Professor Frederick Ma Si-hang, Chairman
Hong Kong, 11 March 2016