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Dear Shareholders and other Stakeholders,

It has been an engaging and gratifying first six months as Chairman since taking up my appointment on 1 January this year. The time has not been without its challenges, as the business environment has been less buoyant than in recent years, but MTR has continued to deliver services of the highest standard to its customers and we have made further progress on our growth strategy at home and abroad.

New initiatives have been launched and significant achievements made in each of the three areas outlined in our vision for MTR: our rail network, our customers and our people. As we move forward, we remain focused on a clear objective – to build on our world-class operations to make MTR a leading multinational company at the forefront of sustainable rail transport, connecting and growing communities with caring service.

Our strong operational performance but also the more challenging business conditions in the first half of 2016 are reflected in the Company's financial results. Profit attributable to equity shareholders for the six months arising from recurrent businesses increased by 7.8% to HK\$4,866 million. Post-tax property development profit fell by 91.0% to HK\$207 million, and hence profit attributable

to equity shareholders arising from underlying businesses declined by 25.7% to HK\$5,073 million. Including investment property revaluation, net profit attributable to equity shareholders was HK\$5,121 million, representing earnings per share after revaluation of HK\$0.87. In addition to the one-off special cash dividend of HK\$4.40 per share, of which the first tranche (of HK\$2.20 per share) was paid on 13 July 2016, and the second tranche (also of HK\$2.20 per share) is to be paid in the second half of 2017, your Board has declared an interim ordinary dividend of HK\$0.25 per share.

Our Network

For our Hong Kong rail network, our focus is to successfully complete the four new rail lines we are constructing, while making significant enhancements to the existing network. By doing so, we can be well positioned to meet our customers' future needs and aspirations. These tasks form what we call "Rail Gen 2.0", a new era for rail transportation in Hong Kong that will underpin its further economic and social development.

Progress on our four railway projects in the first six months has been solid. The Kwun Tong Line Extension is targeted to open in October this year. We are pressing ahead at full steam on the South Island Line (East), according to the target opening at the end of the year, but the remaining

tight construction timetable puts this at risk. The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") is targeted for completion in the third quarter of 2018, followed by the opening of the two corridors of the Shatin to Central Link in 2019 and 2021.

As previously reported, an important step forward on the Express Rail Link was the agreement reached with Government regarding the further funding of the project, the "XRL Agreement". With the approval of the XRL Agreement by our independent shareholders on 1 February and the approval of additional funding for the Express Rail Link project by the HKSAR Legislative Council on 11 March, the XRL Agreement became fully effective. Under the XRL Agreement, (1) Government will fund the project cost up to a level of HK\$84.42 billion (an increase of up to HK\$19.42 billion (the "Current Cost Increase") from the original project cost estimate of HK\$65 billion) and, if the project exceeds this amount, 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, the first such tranche having been paid on 13 July with the second tranche expected to be paid in the second half of 2017; and (3) Government has reserved the right to refer to arbitration the question of the Company's liability (if any) under the project Entrustment Agreements for the Current Cost Increase, after the start of commercial operations on the new line. Once again, on behalf of everyone at MTR, I wish to express my sincere appreciation to the independent shareholders and the legislators for giving their support.

Beyond these four new MTR lines, Government has identified seven new rail projects under its Railway Development Strategy 2014 that will be implemented in phases by 2031. Government has invited us to submit project proposals first for three of these projects, namely the Northern Link including Kwu Tung Station, Tuen Mun South Extension and East Kowloon Line, and technical studies are already underway.

Outside Hong Kong, we have submitted the tender for Hangzhou Metro Line 5. We are preparing our bid for the South Western Rail franchise in the UK and our negotiation for the concession extension of Metro Trains Melbourne in Australia.

Our Customers

As regards our customers, our priorities are on the two key areas of service and safety. In the first six months of the year, we continued to run our railway services at exceptional levels of efficiency, with 99.9% of passenger journeys on the heavy rail network on time. There were only three 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. Our safety record was likewise excellent.

Maintaining such high levels of service on our existing network requires continuous investment and Rail Gen 2.0 involves a major asset replacement programme. In addition to spending HK\$9.3 billion on new trains and signalling systems, we will replace 160 chillers in stations and depots with more energy efficient models. New Light Rail vehicles are also being ordered, and we are undertaking major modifications to Hung Hom, Diamond Hill and Admiralty stations that will improve connectivity across Hong Kong. These investments under Rail Gen 2.0 are in addition to spending on other improvements to our network, ranging from bus replacement to better passenger information display systems.

To make such investments we need a sustainable financial model. Ours is based on the Fare Adjustment Mechanism ("FAM") that was agreed with Government. The FAM has served both MTR and the people of Hong Kong well over the years. It is fair, objective and transparent and has successfully balanced different interests to keep MTR fares at a reasonable level. Internationally, our Hong Kong network ranks highly on measures of affordability and our fare increases over the past seven years on average have been below inflation. In April, at Government's request, we agreed to a joint review of the FAM one year earlier than scheduled, together with a public consultation conducted by Government that began in May. We welcome constructive discussion on this important matter and are listening carefully to the different views that are being or have been expressed. It is clearly in the best interests of everyone for MTR to maintain a sustainable financial model so that we can continue to invest in our rail network to meet the needs of Hong Kong people.

Chairman's Letter

In addition to keeping fares affordable overall, we offer our customers fare promotions every year. We currently provide some HK\$2.4 billion of fare concessions and promotions and, as we did last year, we are offering an additional package worth over HK\$500 million for 2016/2017. In addition to fare promotions, we strive to make our customers' travel experiences more pleasant and enjoyable. In April, we launched a new "Happy Birthday • Happy Journey" programme, where one day of each month is chosen by lucky draw. Birthday packs with travel passes and gift coupons are given out each month to customers whose birthdays fall on the chosen day, adding a touch of delight to their journeys.

To find new ways to enhance customers' end-to-end journey experience, journey-mapping workshops were conducted for different target segments. Several customer experience enhancements, such as "Time to Next Train" information on the gate-top passenger information display system at selected stations, were launched during the first six months.

Our People

Having a dedicated team of professional, well-trained and motivated staff at all levels is essential to delivering the services our customers expect. We receive wide recognition for our commitment in inspiring, engaging and developing our employees. Earlier in the year MTR was named among the "Best Companies to Work for in Asia 2016" by HR Asia Magazine, and was honoured as the first runner-up of the "Most Attractive Employers in Hong Kong" by the Randstad Group, an international Human Resources consulting firm.

The Company's accumulated expertise is an invaluable asset and we are now planning to draw on it more broadly by establishing the MTR Academy. Our plan for such an institution to develop skilled railway professionals was highlighted in the Chief Executive's 2016 Policy Address and it is now taking shape. On 1 July, our former European Business Director, Mr Morris Cheung, became its President and we have allocated some existing office space to get it underway. The MTR Academy will offer signature programmes in railway engineering, operations, management and customer service. To support Hong Kong's role in the "One Belt, One Road" strategy, the MTR Academy will look to partner with local and overseas

institutions to offer accredited joint programmes and undertake rail-related research. In the longer term, the MTR Academy aims to become a leading global research institute for rail technology and practices.

Contributions to the Community

Our rail and property services are very much a part of the lives of the people and communities we serve. Apart from treating our employees and shareholders responsibly, we make great efforts to support the development of our communities, contributing in different ways to enhancing people's quality of life and fostering a thriving environment in which to live and work.

We have now launched a new identity for our outreach and community investments called Community Connect, to complement our Youth Connect initiatives. In addition to existing programmes, Community Connect covers a number of new initiatives, such as offering a number of retail shops along the West Rail Line for lease to the social enterprises of non-governmental organisations at concessionary rates. We are also organising art-related activities in our malls. The first collaboration project of Community Connect, the "HK Design to Connect: DFA Awards Exhibition" was launched in May and co-organised with the Hong Kong Design Centre. This supplements our existing "art in mtr" programme, which in the first half of the year supported 42 events in seven of our stations.

Youth Connect, meanwhile, continued its good work during the first half of 2016. In May, over 120 secondary school students from seven schools attended the completion ceremony for our mentoring programme for secondary school students, "Friend' for life's journeys". Through activities and voluntary services, the students and their "MTR Friends" broadened their horizons, widened their social networks, and injected a dose of energy and motivation as they planned for their years ahead.

We have also continued the dialogue started last year at the "Cross-Sector Summit on Pathways to Employment" by launching a social innovation platform that combines creative and critical thinking skills to come up with solutions to address societal challenges. We will be asking the public to help us select projects that we should pilot in Hong Kong to make the journey from education to work easier for our young people.

Board Transition

A strong Board is vital to the good corporate governance that underpins any successful business, and I welcome to our ranks Mr Anthony Chow Wing-kin, who was appointed as an Independent Non-executive Director on 18 May 2016. I also wish to thank Mr Edward Ho Sing-tin, who retired from the Board as Independent Non-executive Director on the same day. Being the longest-serving member on the Board, Edward has been giving insightful advice and making valuable contributions to the Company over the past 24 years.

Finally, I would like to thank my fellow directors for their valuable advice and the solid support they have given to me as Chairman. I must also extend my heartfelt gratitude to all of our staff members, whose daily contributions are the bedrock on which the Company rests. Although uncertainties lie ahead, with two new lines opening there is much cause for optimism. Our aim in the remainder of the year will be to continue to provide the people of Hong Kong with exceptional levels of service while pushing ahead with our new lines and increasing our profile in overseas markets.

A handwritten signature in black ink, appearing to read 'Fred Ma', with a stylized flourish at the end.

Professor Frederick Ma Si-hang, *Chairman*
Hong Kong, 9 August 2016