

Chairman's Letter



“The Company has made significant progress in realising our vision, which is to make MTR a company admired in Hong Kong as a world-class operator of sustainable rail transport services.”

Dear Shareholders and other Stakeholders,

Since I took up my appointment as Chairman in 2016, 18 months have quickly passed. I am delighted to report that, through the “One Team” spirit and dedication of our staff, we have achieved very fruitful results. The Company has made significant progress in realising our vision, which is to make MTR a company admired in Hong Kong as a world-class operator of sustainable rail transport services.

The opening of the extension of the Kwun Tong Line and the South Island Line late last year marked an important milestone, with our rail services now reaching all 18 districts of Hong Kong. The conclusion of the early review of the Fare Adjustment Mechanism (“FAM”) with Government in March this year is another important milestone, which is enabling us to make the investments required to meet Hong Kong’s future rail transport needs. The two new railway projects already underway, the Hong Kong Section of the Guangzhou-

Shenzhen-Hong Kong Express Rail Link (“Express Rail Link”) and the Shatin to Central Link, continue to make progress. We continue working with Government on its strategy to build new railway lines under the Railway Development Strategy 2014 (“RDS 2014”). Beyond RDS 2014, Government has further proposed additional transport corridors under its long-term vision for development.

The track record and reputation we have built through the safety, efficiency and reliability of our Hong Kong operations have enabled us to expand in the Mainland of China and overseas markets. During the first half of the year, we won two new contracts together with our partners; signing the Concession Agreement relating to the Hangzhou Metro Line 5 (“HZL5”) Public-Private-Partnership (“PPP”) project and being awarded the seven-year South Western rail franchise in the UK.

Our operational and financial success over many years has been guided by our corporate strategy. To ensure our strategy provides the right approach for the opportunities and challenges that lie ahead both at home and outside of Hong Kong, the Board undertook a review in January this year. The review reaffirmed our three-pronged approach, namely strengthening and growing the Hong Kong business, accelerating growth in our Mainland of China and international businesses, and enhancing our corporate reputation. With this review, we aim to build on what we have already achieved to accelerate our growth, thereby contributing to the long-term sustainability of the Company.

The Company’s financial results for the first six months of 2017 were satisfactory. Profit attributable to equity shareholders for the first six months of 2017 from recurrent businesses decreased by 8.0% to HK\$4,478 million, largely due to the depreciation and interest expenses relating to the opening of the new lines highlighted above. With the booking of profit from Tiara in Shenzhen, our first Mainland China property development, and sundry sources from Hong Kong, property development profit increased by 561.8% to HK\$1,370 million. As a result, profit attributable to shareholders from underlying businesses increased by 15.3% to HK\$5,848 million. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company increased by 46.1% to HK\$7,480 million, representing earnings per share after revaluation of HK\$1.27. An interim ordinary dividend of HK\$0.25 per share has been declared by the Board.

Our Network

Safety is always our utmost priority, and I am pleased to report that our safety performance was excellent during the first half of 2017. The professionalism of our colleagues in response to the saddening arson incident on the Tsuen Wan Line in February was a testimony to our deeply rooted culture of safety. An Executive Review Panel was set up to investigate the incident, which included two independent experts. The panel concluded that the handling of the incident by our staff and the emergency services had been robust, orderly, speedy and effective. We were also commended for the way we communicated information to passengers and the public both during and after the incident. The panel’s report contained a number of initiatives to raise public awareness and to enhance risk management, and these are now being put into action. Despite our overall achievement in maintaining high safety standards, unfortunately, a fatal accident involving a staff member occurred at Tai Wai Station in May. I am saddened by the loss and we are deeply concerned about this incident, which is now undergoing investigation.

Every year we invest heavily in the MTR network to maintain our highly reliable service and to construct new railway lines to meet growing demand. Together, these investments form part of “Rail Gen 2.0”, a new era for rail transportation to support Hong Kong’s future development. Our teams are working diligently on the two remaining railway construction projects, the Express Rail Link and the Shatin to Central Link. The Express Rail Link is scheduled for completion in the third quarter of 2018, and the Company is in discussions with Government regarding the operating arrangements. We welcome Government’s announcement made in July 2017 on the proposed co-location arrangement at the West Kowloon Terminus, which will maximise service convenience for customers and realise the Express Rail Link’s full transportation and economic benefits. We will continue to support Government in pushing forward the project for commencement of passenger service. For the Shatin to Central Link, the East West Corridor and the North South Corridor are expected to be completed by mid-2019 and 2021 respectively.

Looking further ahead, RDS 2014 has identified seven new rail projects to be built in phases over a number of years. Government has invited MTR to submit project proposals

Chairman's Letter

for five of these projects first. We are now in discussion with Government over the project proposals for the Tuen Mun South Extension and the Northern Link (and Kwu Tung Station), and our project proposal for the East Kowloon Line was submitted to Government in July 2017. Project proposals for the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line will be submitted later in 2018.

Outside of Hong Kong, we carried an average of 5.8 million passengers every weekday in the first half of 2017 and our expansion continues. In the Mainland of China, we signed the Concession Agreement for the HZL5 PPP project with the Hangzhou Municipal Government and Hangzhou Metro Group on 26 June. In Shenzhen, we have recently handed over the sold units of Tiara. We are also positioning ourselves to take advantage of the many alluring opportunities that will come from China's "Belt and Road" Initiative. Further afield, following the award of the South Western rail franchise in the UK, we are now preparing our bid for the Wales and Borders rail franchise and the West Coast Partnership franchise. In the Nordic region, we are exploring possible involvement in additional railway projects; while in Australia, we continue our discussions with local governments on renewal of the Metro Trains Melbourne operation and potential participation in the Sydney Metro City and Southwest project. We are at the same time exploring property development opportunities over and around rail stations in the Mainland of China, the UK and Sweden.

Our Customers

Our customers expect nothing short of a world-class level of service, and the Company has attained this by maintaining our operational performance at 99.9% during the first six months of the year.

Central to maintaining our excellent service standards, and an important part of Rail Gen 2.0, is our asset replacement programme, which will see HK\$9.3 billion spent on new, more comfortable trains and enhanced signalling systems. These investments would not be possible without the FAM, which helps to ensure the financial sustainability of the Company and enables the continued provision of safe, reliable and efficient railway services for Hong Kong. The mechanism is open, objective and transparent and our fares compare very

favourably with many other metros elsewhere in the world. In March we concluded the early review of the FAM jointly with Government. While there is no change to the FAM formula, different concessions have been launched to benefit all passengers across the board.

World-class operational performance and an affordable fare structure are crucial to our provision of value for money service to our customers. Our 2030 Customer Experience Vision Blueprint provides a framework for us to make continuous improvements in response to our customers' changing needs.

Our People

Our colleagues embrace their work and challenges with professionalism and dedication, and they are the greatest assets of the Company. We fully appreciate the importance of our human capital, and MTR was named as the most attractive employer in Hong Kong at the "Randstad Employer Brand Awards 2017" in April this year.

As a flash back of my past 18 months as the Chairman of the Company, two interactive communication sessions with managers were held in June, during which I shared my thoughts on the importance I have attached to the "3 C's": staying abreast of change, working in collaboration and effective communication.

The depth of our expertise in railways has laid a solid foundation for us to establish the MTR Academy ("MTRA"), which aims to develop professionals for the railway industry on a global basis. MTRA has made encouraging progress since its official opening in November last year. MTRA aspires to become a globally recognised railway management and engineering centre that offers high quality programmes to extend our rail expertise from Hong Kong to "Belt and Road" countries.

Contributions to the Community

MTR's sustainable rail transportation and integrated real estate planning has benefited our communities, and beyond this we embrace and support initiatives that aim to improve their quality of life.

Our corporate vision is to connect and grow communities, and youth continues to be the main focus under the Community Connect platform. We have been working actively to strengthen the life-skills of our younger generations in Hong Kong. Our “Train’ for Life’s Journeys” programme is supporting 180 secondary school students in discovering their passion this summer through mentorship and exposure to real-life work environment. Projects funded under our “Pathways to Employment” programme, developed through an open innovation process, are creating additional options for young people as they consider their career options.

Our “Art in MTR” goes from strength to strength. Along the recently opened South Island Line, the artworks have quickly become landmarks in the Southern District, showcasing the talent of local artists and the community. Working with community partners, we have brought new art and design exhibitions into MTR premises under different themes. The MTR Gallery in Kowloon Station, which showcases the past, present and future of railway services in Hong Kong, has attracted over 9,700 visits since its opening in February 2017.

Year after year, our colleagues show their care for the community by organising volunteering activities under our “More Time Reaching Community” scheme and their contributions to the community were recognised by the “2016 Sing Tao Service Award – Corporate Voluntary Team”, awarded in March 2017. As a company, we are supporting non-governmental organisations through offering concessionary rental rates on certain shop spaces along the West Rail Line as well as free advertising spaces in our network.

Last but not least, for the third consecutive year, MTR has been awarded the “10 Years Plus Caring Company Logo” for our commitment to caring for the community, our employees and the environment.

Board Transition

The Board takes a leading role in maintaining the high standards of corporate governance, which is vital to the success of the Company. Mr Ng Leung-sing, after serving the Board for over nine years, retired as an Independent

Non-executive Director at our Annual General Meeting on 17 May 2017. I would like to thank Mr Ng again for his valuable contributions to the Board and the Company during his tenure of service. At the same time, I am pleased to welcome Mr Andrew Clifford Winawer Brandler and Mr Johannes Zhou Yuan, who have joined the Board as Independent Non-executive Directors effective 17 May 2017.

There are a few other changes to the Board, and I would also like to welcome Mr Frank Chan Fan (Secretary for Transport and Housing) and Mr James Henry Lau Jr. (Secretary for Financial Services and the Treasury), who joined the Board as Non-executive Directors in July. Taking the opportunity, I would like to thank Professor Anthony Cheung Bing-leung (former Secretary for Transport and Housing) and Professor Chan Ka-keung, Ceajer (former Secretary for Financial Services and the Treasury) for their valuable contributions to the Board and the Company during their terms of service.

Mrs Ingrid Yeung Ho Poi-yan, who ceased to hold the post of Commissioner for Transport with effect from 15 July 2017, ceased to be a Non-executive Director of the Company on the same date, and I would again like to thank her for her valuable contributions to the Board and the Company during her term of service.

Lastly, I wish to thank my fellow Directors for their advice and support they have given me, and every one of our staff members for their sterling contributions in making MTR a company admired in Hong Kong. As a strong and united team, and despite the many challenges ahead, we can look to the remainder of the year with confidence.



Professor Frederick Ma Si-hang
Chairman
Hong Kong, 10 August 2017