



Dear Shareholders and other Stakeholders,

The first six months of 2018 saw MTR push ahead in many areas, as we worked towards our vision of becoming a world-class operator of sustainable rail transport services that is admired around the world.

Our strategy remains to strengthen and grow our Hong Kong business, accelerate our expansion in the Mainland of China and internationally, and enhance our corporate reputation. In Hong Kong, as part of "Rail Gen 2.0", we are in final preparations for the

opening of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong High Speed Rail ("High Speed Rail"). In relation to the Shatin to Central Link project, we continue to make progress, but are also acutely aware of the public's concern over the recently reported issues in relation to the project. I would like to emphasise that the Board of Directors take these matters very seriously and further details of the actions we have taken are set out under the section of "Our Network".

The Company's financial results for the first six months of 2018 were satisfactory. Profit attributable to equity shareholders for the period from recurrent businesses increased by 0.1% to HK\$4,483 million. As the vast majority of profit from the Tiara development in Shenzhen was recognised in the first half of 2017, property development profit for the period declined by 88.0% to HK\$165 million. As a result, profit attributable to shareholders from underlying businesses decreased by 20.5% to HK\$4,648 million. Including the gain arising from investment property revaluation, net profit attributable to shareholders of the Company decreased by 5.3% to HK\$7,083 million, representing earnings per share after revaluation of HK\$1.18. The Board has declared an interim ordinary dividend of HK\$0.25 per share.

OUR NETWORK

Safety is always the top priority in our railway operations, and during the first six months of the year our performance in this area continued to improve.

The High Speed Rail service will start in September 2018 following the completion of the project.

Although the Shatin to Central Link has made further progress, the commissioning date of the Tai Wai to Hung Hom section will depend on, inter alia, the verification of, and safety test on, the platform slab at the Hung Hom Station extension. The Hung Hom to Admiralty section is targeted for completion by 2021.

The Board of Directors has been and remains very focused on the recently reported issues relating to the Shatin to Central Link project which we understand have led to public concerns. Where issues have been raised, we have ensured that immediate steps have been taken to investigate the issues and, where required, remedial works have been carried out. We have also ensured that the findings have been reported to Government and that the Corporation's position against relevant contractors and consultants has been reserved. To provide additional assurances and confidence to the public, the Capital Works Committee of the Board will review the

processes and procedures for the Shatin to Central Link project within the Company's project management system, assisted by an external consultant, who has now been appointed.

The Board has also directed the Company's management to strengthen its monitoring and supervision over all Shatin to Central Link contracts. To address the concern relating to the platform at the Hung Hom Station extension, we have engaged an independent third party to perform a safety test. We will also cooperate fully with the Commission of Inquiry that has been appointed by the HKSAR Chief Executive in Council.

On 7 August 2018, the Board was informed that the report submitted by the Company to Government on 15 June 2018 in relation to the platform slab at Hung Hom Station extension of the Shatin to Central Link contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Board is very disappointed about such inaccuracies. The Company is investigating this issue and will provide updated information to Government in due course.

Looking ahead, Government is reviewing our proposals for five new railway lines put forward under the Railway Development Strategy 2014. In the longer term, Government has proposed additional transport corridors as part of the vision set out in its "Hong Kong 2030+" plan and we look forward to playing a role in realising these ambitions through participation in Government's "Strategic Studies on Railways and Major Roads beyond 2030".

Outside of Hong Kong, we have been awarded the operations and maintenance contract for Macau's first railway, the Macau Light Rapid Transit Taipa Line. We are also stepping up our efforts to take advantage of new railway and rail-related property development opportunities in Hangzhou, Shunde and Chengdu in the Mainland of China. In the UK, we have submitted our joint-venture bid for the West Coast Partnership rail franchise. In Australia, we are pushing forward our interests in the second metro project in Sydney – Sydney Metro City and Southwest. Finally, in North America, we are preparing for the pre-qualification bid for the Toronto Regional Express Rail project.



OUR CUSTOMERS

To provide our customers with the efficient, affordable railway service they demand, under "Rail Gen 2.0" we invest heavily each year in maintaining the high level of performance of our railway network and in projects designed to address future transport demand.

The affordability of our world-class services is underpinned by the Fare Adjustment Mechanism ("FAM"), which brings benefits to passengers while ensuring MTR's financial sustainability. There were no fare increases last year on the MTR lines while from June this year, in accordance with the FAM formula, fares will see an overall adjustment of +3.14%. This is significantly lower than the 11.89% increase in household incomes in Hong Kong over the last two years. We apply a variety of measures to keep our fares affordable. Adding together the HK\$500 million of our 2018/2019 fare promotions package and the HK\$2.6 billion of on-going fare concessions and discounts we provide to the community, we are offering customers with over HK\$3 billion worth of fare concessions over the 12 month period to June 2019.

OUR PEOPLE

The Company's success relies on our well-trained and diligent staff, who are our greatest asset. This year, we have launched the "Strengthen Our Culture" Campaign, which focuses on four areas: Participative Communication, Effectiveness and Innovation, Collaboration and Agility to Change. Our continuous efforts in caring for our employees saw MTR named first runner-up in the "Hong Kong's Most Attractive Employer 2018" by the Randstad Group, making it into the top five for the sixth time in a row.

The MTR Academy ("MTRA") was set up in 2016 to develop new talents for the railway industry of future in Hong Kong, the Mainland of China and "Belt and Road" countries. MTRA is now developing railway professionals at its campus here in Hong Kong. A Memorandum of Understanding ("MOU") was signed with Hangzhou Metro Group last year to set up a branch campus in Hangzhou. We have signed two more MOUs this year to collaborate with institutions in Jakarta, Indonesia and Manila, the Philippines. MTRA has also linked up with the University of Birmingham in the UK to offer distance learning programmes up to PhD level.

CONTRIBUTIONS TO THE COMMUNITY

As a company, we connect and grow communities through our various railway businesses. Our "Community Connect" platform brings this vision deeper into society and focuses on supporting young people in their journeys through life. We have set up the "STEM Challenge" programme to cultivate students' interest in science, technology, engineering and mathematics ("STEM") subjects. The programme has been strongly supported by Government, shown by the HKSAR Chief Executive's attendance at the inaugural MTR STEM Challenge Pitch Day. In the 2017-2018 academic year, MTR colleagues delivered talks to over 7,500 secondary school students to explain the application of STEM knowledge in the railway system.

Our active "Art in MTR" programme enriches the cultural life of people in Hong Kong through our extensive network of stations and shopping malls. This year, MTR collaborated with the Hong Kong Design Institute to showcase "Cream of the Crop" design works by graduating students. In July 2018, we launched "Uth Live Saturdays @ Living Arts", to offer young people a regular platform to demonstrate their talents.

A total of 145 volunteering projects was organised through our "More Time Reaching Community" Scheme, involving thousands of volunteer headcount. We also received the "10 Years Plus Caring Company Logo" from The Hong Kong Council of Social Service for the fourth consecutive year.

On environmental matters, in addition to our various initiatives to reduce energy consumption and other impacts, we have announced a new Green Finance Framework taking into account the recommendations of the Green Loan Principles issued by the Asia Pacific Loan Market Association. Under the existing Green Bond Framework and the new Green Finance Framework, we have issued a number of green bonds and arranged a green revolving credit facility to fund our investments in various green projects.

BOARD AND MANAGEMENT TRANSITION

At our Annual General Meeting on 16 May 2018, Mr Alasdair George Morrison retired as an Independent Non-executive Director. He had served on the Board for more than seven years and I thank him once again for his significant contributions. I would also like to warmly welcome Ms Rose Lee Wai-mun, who has become an Independent Non-executive Director effective from the same date.

On 7 August 2018, the Chief Executive Officer of the Company ("CEO"), Mr Lincoln Leong Kwok-kuen, notified the Company of his wish to retire early from his role as CEO and as a member of the Board, the Corporate Responsibility Committee and the Executive Directorate of the Company. The Board has mutually agreed with Mr Leong that his retirement will only be effective once a replacement CEO has reported for duty. The search for a new CEO will commence immediately. I wish to thank Mr. Leong for his leadership and valuable contribution since joining the Company in 2002 as Finance Director.

Last but not least, I want to thank all of my fellow Directors for their support, and all of our staff for their hard work and dedication. I am confident that together we can overcome the challenges.



Professor Frederick Ma Si-hang
Chairman
Hong Kong, 9 August 2018