



CHAIRMAN'S LETTER



Dear Shareholders and other Stakeholders,

It is a great privilege for me to have been appointed as the chairman of MTR, a position that I formally assumed on 1 July 2019. Although my term as Chairman only began in July 2019, I have been in close contact with my predecessor, Professor Frederick Ma, and the senior management since my appointment to the MTR Board in March in order to familiarise myself with the business operations of the Company.

I have been impressed by what I have been learning about the Company over the past few months, particularly the high calibre of MTR staff. I am very excited about having the opportunity to work with the Board and the management, and I look forward to bringing new ideas to the Company that will change it for the better.

As a matter of priority, the Company needs to continue working hard to deal with the recent challenges that have tarnished the Company's reputation. These include concerns over the project management of the Hung Hom Station extension of the Shatin to Central Link and the train collision incident in March 2019.

With regard to the construction of the diaphragm wall and platform slabs at the Hung Hom Station extension, the Commission of Inquiry ("COI") in its Interim Report has stated that the structures are safe. However, this incident, combined with the insufficiency of construction records and certain construction issues at the Hung Hom North Approach Tunnel, the South Approach Tunnel, and the Hung Hom Stabling Sidings, has served as a wake-up call for the Company and



reminds us of the importance of staying vigilant. Working as one team, the Board and the management have now put in place a comprehensive plan that will enable the Company to manage projects of this magnitude and complexity with greater oversight and transparency.

The incident surrounding the train collision during a drill of the new signalling system for the Tsuen Wan Line in non-traffic hours also caused public concern. All train tests relating to new signalling systems were suspended immediately after this incident, and an Investigation Panel was set up to identify its root causes. A report was then submitted to Government on 17 June and made public on 5 July, and improvement actions recommended by the Investigation Panel have been adopted to prevent a reoccurrence of a similar incident.

Based on the lessons learned from these incidents, the Company has taken appropriate measures and actions to ensure we can continue to provide a safe and reliable service to the Hong Kong public.

As the new Chairman, one of my top priorities is to restore the public's confidence in the Company and maintain the reputation of our brand. In particular, I will recommend ideas on how we can prepare MTR for the future in areas such as the Company's corporate culture, governance, succession planning and new technology. With regard to new technology, I will recommend greater usage of artificial intelligence that enables us to look ahead and identify ways to improve efficiency, enable our employees to perform their duties more effectively, and allow customers to enjoy a better travel experience on our trains.

From a more general perspective, we should be constantly thinking about making changes, not because of the things we have not done but to ensure that we as an organisation are keeping pace with global developments. The way we see the market will vary at different points of time, and we need to work together across the organisation to position the Company for the future.

FINANCIAL PERFORMANCE

In the first six months of 2019, profit attributable to equity shareholders from recurrent businesses decreased by 40.6% to HK\$2,665 million, mainly due to the provisions totaling HK\$2.44 billion related to the Shatin to Central Link project and the South Western Railway franchise in the UK. Property development profit for the period increased by 369.7% to HK\$775 million. As a result, profit attributable to shareholders from underlying businesses decreased by 26.0% to HK\$3,440 million. Including the gain arising from the investment property revaluation, net profit attributable to shareholders of the Company decreased by 22.3% to HK\$5,506 million, representing earnings per share after revaluation of HK\$0.90. The Board has declared an interim ordinary dividend of HK\$0.25 per share.

OPERATIONS AND FARES

During the period, MTR staff continued to work relentlessly to maintain operational performance at a world-class standard. Passenger journeys on-time were maintained at 99.9%, with three delays and no delays of a duration of 31 minutes or more attributable to factors within MTR's control reported on heavy rail and light rail, respectively.





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To maintain this high level of service, fares must be periodically reviewed in order to support the significant investment necessary to renew and upgrade MTR's assets. According to the Fare Adjustment Mechanism, the overall fare adjustment rate for 2019/2020 is +3.3%. With the implementation of a 3.3% rebate for 40 weeks, however, there will effectively be no actual fare increase for Octopus passengers until 5 April 2020. The total amount of savings to customers through fare promotions and on-going fare concessions will come to over HK\$3.5 billion in the next 12 months.

GROWTH

Hong Kong remains our core market, and rail operations continue to be our core business. Accordingly, we must continue to build on this long-term business in our home market in order to maintain a solid foundation for future growth.

During the period, MTR made steady progress on the Shatin to Central Link project, the remaining railway project under Rail Gen 2.0. As at the end of June 2019, 99.7% of the Tai Wai to Hung Hom Section and 78.8% of the Hung Hom to Admiralty Section had been completed.

Improvements were also made to the existing network, including major asset replacements and facilities upgrades.

Proposals have been submitted for five new railway lines under the Railway Development Strategy 2014, the framework for the future expansion of Hong Kong's railway network up to the year 2031. Among these were proposals for the Tuen Mun South Extension, Northern Link (and Kwu Tung Station), East Kowloon Line, Tung Chung West Extension (and Tung Chung East Station) and North Island Line. We have also been invited by Government to submit proposals for the Hung Shui Kiu Station and South Island Line (West) projects.

Outside of Hong Kong, MTR opened two new railway lines in the first half of the year: Sydney Metro Northwest in Australia and the initial section of Hangzhou Metro Line 5 in the Mainland of China. For Crossrail in the UK, we are preparing to commence services from Paddington to Reading in December 2019 under the TfL Rail brand. What's

more, steady progress was made on Macau's first light rail service, the Macau Light Rapid Transit Taipa Line. The Macau SAR Government has also indicated their target to open the Macau Light Rapid Transit Taipa Line by the end of 2019.

On non-rail projects outside of Hong Kong, we launched a soft opening of TIA Mall in Shenzhen in April 2019, with the official opening targeted for August 2019.

OUR PEOPLE

Our staff are the heroes of the Company. Their experience and commitment to provide our customers with excellent service are key to MTR's success as a world-class railway company.

An excellent example of how our engaged team exemplify the "can do" spirit is the way they handled the train collision incident on 18 March 2019, when the drill was being conducted during non-traffic hours for the new signalling system for the Tsuen Wan Line. More than 200 colleagues worked around the clock, with assistance from the Fire Services Department, to remove the collided trains from the tunnel for resumption of service on Tsuen Wan Line.

To develop railway professionals globally and contribute to the Mainland of China's Belt and Road initiative, the MTR Academy ("MTRA") was established in November 2016. In the first six months of 2019, MTRA continued to share our railway and engineering expertise across the region. One of the highlights for MTRA during the period was the co-founding of the Corporate Tech Academy Network with five other partnering organisations in May 2019. Its mission will be to promote vocational and professional education and training for the development of a skilled and qualified workforce.

CONTRIBUTIONS TO THE COMMUNITY

MTR is part of the Hong Kong fabric, and corporate responsibility is embedded in our DNA. Since the Company is also one of the few home-bred multinational Hong Kong brands and one of the major public transport service providers in Hong Kong, we cannot afford to ignore this.

During the period, MTR organised a variety of programmes capitalising on our expertise that benefited the community, particularly the younger generation. A series of promotional videos, entitled *Amazed by Youth*, was also produced to highlight the various youth programmes at MTR. Among these were the MTR Budding Station Master Programme, in which we invited primary school students to visit station control rooms and play the role of station staff; the MTR Safety Experience Zone in Tsing Yi Station, where children learned about railway safety; and Uth Live Saturdays, which gave tertiary students the opportunity to demonstrate their performing arts talents at the Living Art Stage in Hong Kong Station.

We also held the STEM Challenge for the second year, which included a series of school talks on how STEM principles are applied in the design and operation of our railway system. In the STEM Challenge itself, students had the opportunity to present their ideas on "Innovation for Sustainable Infrastructure", based on the knowledge they had gained during the talks. The winning student teams were invited to visit our overseas railway operations in the UK. We also held Youth Forum 2.0, in which forum members were invited to brainstorm ideas on enhancing the Company's business initiatives from a youth perspective.

In our Art in MTR programme, we continued to enrich the cultural life of Hong Kong people through our extensive network. In addition to the existing 82 artworks in our network, the programme featured a variety of exhibitions in Sheung Wan, Sai Wan Ho and Central stations, as well as 22 live performances at the Living Art Stage in the Central Subway of Hong Kong Station during the first half of 2019.

Our staff volunteers are also an integral part of corporate responsibility at MTR. Up to June this year, 140 volunteer projects have been organised under the "More Time Reaching Community" Scheme, involving thousands of volunteer headcount. In recognition of our commitment to colleagues, the community and the environment, we received the "10 Years Plus Caring Company Logo" from the Hong Kong Council of Social Service for the fifth consecutive year.

BOARD

MTR has a strong Board, which through its effective oversight of the Company's operations drives MTR's sustainable development. I would like to take this opportunity to thank Professor Frederick Ma for his many contributions to the MTR Board during his tenure as a member and Chairman, and especially for his valuable advice to me in the past few months. I would also like to thank the Board for the time they devoted and their wise counsel to the Company during the past six months.

I would like to welcome Dr Jacob Kam, who was appointed as the Company's CEO on 1 April 2019, and thank Mr Lincoln Leong, who retired from the Company after 31 March 2019, for his contributions during his time at MTR. Moreover, I would also like to express my gratitude to Mr Vincent Cheng Hoi-chuen, Mr Lau Ping-cheung, Kaizer and Mr Abraham Shek Lai-him, who retired from the Board on 22 May 2019. Finally, I would like to welcome Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka, who were appointed as Independent Non-executive Directors of the Company, effective 22 May 2019.

As the new chairman of MTR, I am confident that, with the continuous collaboration and work of the Board and management, MTR will continue to be the pride of Hong Kong and a multinational company that is admired globally as a leader in sustainable rail transport.



Rex Auyeung Pak-kuen

Chairman

Hong Kong, 8 August 2019