

# CHAIRMAN'S LETTER



## Dear Shareholders and other Stakeholders,

The past year has been an exceptionally challenging one for me as Chairman of the Board and for the Corporation as a whole.

Following the public order events in the second half of 2019, we were then confronted with the outbreak of the COVID-19 pandemic in Hong Kong and across the globe. The impact of the novel coronavirus came at a scale and magnitude unseen before in our history. To our core business as a transport operator, the pandemic brought substantially reduced patronage and revenue in our operations, particularly in Hong Kong.

Despite the odds, MTR managed to make progress on projects that are important to our continued growth over the long term. In February, we opened Tuen Ma Line Phase 1 and have made further progress on the remaining works of the Shatin to Central Link that will greatly add to the connectivity and convenience of our railway network in Hong Kong. We also secured policy support for new railway projects, two of which are now in the planning and design phase. We also continued to upgrade our railway facilities to provide an even more comfortable travelling experience for customers.

Our property development business continued to perform well despite a softening property market, with presales activities launched for a number of projects in our growing portfolio of residential developments.

As a good corporate citizen, the Corporation made efforts to alleviate some of the financial strain on our passengers and business partners during the pandemic. We were among the first in Hong Kong to introduce rental concessions for our tenants. Mindful of the impact of COVID-19 on people's livelihood, we also introduced relief measures, including a "20% Rebate for Every Octopus Trip" for six months from 1 July 2020 to 1 January 2021.

My heartfelt thanks go to our staff for their dedication and professionalism to keep Hong Kong moving in such challenging times. They are the unsung heroes behind the smooth operation of our city, providing a clean and safe transit network to keep our people and businesses connected.

## BOARD STRATEGY REVIEW

In August 2019, our Board undertook a review of our vision and corporate strategy so that MTR will be well positioned for a future that will be very different from today. This process was interrupted by the public order events and the more recent COVID-19 outbreak, however, and as a result the review took longer to complete.

During the strategy review, our Board arrived at a number of conclusions on what we should do to enable MTR to move forward over the next 15 years.

Among these conclusions, we determined that MTR must set bold business and social targets that are conducive to the long-term sustainability of the Corporation. To achieve these targets, we should ensure our Hong Kong core business is capable of reaching its full potential by exploring adjacent businesses and continually improving the customer experience and services we provide, without losing our focus on Mainland of China and International business markets.

Equally important, we must deliver large projects more efficiently by improving our cost management and continuing to improve the effectiveness of our business units.

As a responsible corporate citizen, MTR attaches great importance to creating shared value for the communities we serve with a strong Environmental, Social and Governance ("ESG") regime. Moving ahead, our focus will be on carbon reduction, leveraging our DNA as a green mode of transportation and strengthening our position as a caring member of the community.

Fulfilling these objectives will require us to strengthen our corporate effectiveness and efficiency in order to create a more fit-for-future organisation. This will entail continued efforts to raise effectiveness and efficiency in business processes through digitalisation, and the wider use of data and analytics in decision making. Meanwhile, we shall conduct a rigorous review of our organisational structure to ensure it meets the needs of our business goals.

A Transformation Management Office has recently been set up to provide dedicated efforts to enable and deliver our strategic transformation. Further updates will be provided, as we continue to thrash out the details of the corporate strategy.

## BUSINESS PERFORMANCE AND GROWTH

During the period, the COVID-19 outbreak had a significant impact not only on our passengers, customers and tenants, but also on our business performance, despite such impact was partially mitigated by our property development business in Hong Kong.

The Hong Kong rail operation is core to our business. In the first six months of the year, we maintained a record of 99.9% in terms of train service delivery and passenger journeys on-time on our heavy rail network. We continued to pursue a better commuting experience for our passengers by making further improvements to our railway network and station environments. For passengers' convenience, we have provided charging facilities as well as baby care rooms across our network.

Many of the improvements we have made leverage the latest advances in technology. Incorporating Artificial Intelligence, Virtual Reality, cloud computing and the Internet of Things, these advances will in the long run vastly improve the way we manage our facilities and projects, plan communities and meet the needs of our customers. Ultimately, they will transform our Company into one that is more technology-enabled and make us even more competitive in global markets.

In the first six months of 2020, MTR continued to make progress towards the completion of the Shatin to Central Link project, with the opening of the Tuen Ma Line Phase 1 in February. This line, which has been well received by the Hong Kong public, is now providing greater convenience

## CHAIRMAN'S LETTER

to passengers travelling to and from Wu Kai Sha Station in East New Territories and Kai Tak Station in East Kowloon. The scheduled completion of the full Tuen Ma Line in the third quarter of 2021 will further extend the existing Tuen Ma Line Phase 1 to the West Rail Line. When the Hung Hom to Admiralty Section (East Rail Line extending to Admiralty Station) is completed, passengers on the East Rail Line will be able to cross the harbour to Admiralty Station on Hong Kong Island with significantly reduced travelling time.

Also during the period, the Government published the Final Report of the Commission of Inquiry ("COI") on project quality issues related to the Hung Hom Extension of the Shatin to Central Link project. Among its conclusions, it stated that it is fully satisfied that the structures will be safe and fit for purpose with the suitable measures in place. It also made a number of comments on the construction process (including failures in respect thereof, such as poor workmanship incidents compounded by lax supervision and that in a number of respects also, management of the construction endeavour fell below the standards of reasonable competence) and made recommendations to the Company for the future. We accepted these comments and have pledged to do a better job on the projects we undertake. In fact, even before the release of the reports of the COI, we had been implementing the recommendations made by the COI in its initial report, along with those of our own consultant, so that incidents of similar nature are not repeated in future.

We are committed to further extending the railway network in Hong Kong to enhance connectivity across the city. In this regard, we are pleased to have been invited by Government to proceed with detailed planning and design for the Tung Chung Line Extension and Tuen Mun South Extension under its Railway Development Strategy 2014 ("RDS 2014"). We have already submitted proposals for four more new railway projects under RDS 2014, including the Northern Link (including Kwu Tung Station), East Kowloon Line, North Island Line and Hung Shui Kiu Station. A proposal for the remaining project South Island Line (West) under RDS 2014 is now expected to be submitted to Government later this year.

Outside Hong Kong, we opened the full line of the 56.2-km Hangzhou Metro Line 5, started a joint venture in Chengdu for station commercial business, and were awarded by Shenzhen Municipal Government the Shenzhen Metro

Line 13 Public-Private-Partnership project, while continuing to seek growth opportunities beyond our core market. We also supported countries and areas in the Mainland of China's Belt and Road region by sharing our railway expertise through programmes offered by the MTR Academy.

## FINANCIAL PERFORMANCE

For the first half of 2020, recurrent business profit attributable to shareholders decreased by 83.8% to HK\$433 million. Property development profit for the period increased from HK\$775 million to HK\$5,200 million. As a result, underlying business profit increased by 63.8% to HK\$5,633 million. Including the revaluation loss of investment properties of HK\$5,967 million, net loss attributable to shareholders of the Company was HK\$334 million, compared to a net profit of HK\$5,506 million in the same period in 2019. The Board has declared an interim ordinary dividend of HK\$0.25 per share.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE

During the coronavirus epidemic, we continued to maintain our focus on ESG performance across our businesses in and outside of Hong Kong. This means taking a lead in environmental protection, continuing to conserve resources and reducing our electricity consumption and carbon emissions, particularly through the adoption of advanced technology.

I must take this opportunity to commend our staff, who have been working hard to maintain a world class service during the COVID-19 pandemic and to keep MTR, Hong Kong and the cities we serve moving safely. Our infection mitigation strategy brings together state-of-the-art contamination prevention and deep cleansing technology, notably the application of multilevel antimicrobial polymer coatings on train compartments to help prevent microbial contamination and infrastructure corrosion, and the deployment of our "Vaporised Hydrogen Peroxide Robot" to further enhance disinfection of stations and trains.

As part of the community, we took part in helping those in need during these challenging times. To that end, we launched special relief measures, which included additional fare rebates to our passengers, and were among the first

landlords to offer rental concessions to the tenants of our shopping malls and station shops. Earlier on, as the community was struggling with a shortage of masks, we sourced and donated 100,000 masks to those in need in Hong Kong.

Members of the Board and the senior management of the Company also showed their community spirit by forgoing a portion of their remuneration to fund donations to our community partners, namely, the Community Chest of Hong Kong, Food Angel, Gingko House Love Project, Heep Hong Society, Hong Kong Family Welfare Society and ImpactHK, in order to help those directly affected by COVID-19.

Our MTR volunteers gave their full support by volunteering in charitable events, including packaging and distribution of pandemic supplies to those in need through arrangements by the Hong Kong Council of Social Service and NGOs. As at 30 June this year, 46 volunteer projects had been organised under the “More Time Reaching Community” Scheme.

We also continued to offer community programmes, although the scale of some had to be adjusted due to the pandemic. One of the highlights is “Art in MTR”, a robust programme that brings different kinds of art to liven up the train journey of customers. Through this programme, passengers were able to enjoy new permanent art works showcasing Hong Kong’s history and community elements at Wan Chai Station as well as stations along the new Tuen Ma Line Phase 1 in the first half of 2020. I am particularly proud of the impressive artwork in Wan Chai Station, bringing the ballet performance stage together with lively local street scenes into the station in a beautifully choreographed sequence.

In recognition of our commitment of caring for the community, our staff and the environment, MTR received the “15 Years Plus Caring Company Logo” from the Hong Kong Council of Social Service.

The Community Chest granted the Diamond Award, the 4<sup>th</sup> Top Fund-raiser Award and the 3<sup>rd</sup> Highest Donation Award for CARE Scheme to the Corporation in appreciation of our support for their fund-raising events, including staff donations to the 2019/2020 Corporate and Employee Contribution Programme.

To ensure we are able to continue meeting our ESG objectives, we must maintain a very high standard of

corporate governance. All of us on the MTR Board recognise that good corporate governance is essential for protecting our stakeholders, including our passengers, customers, tenants and investors. We also understand that we must continually improve our corporate governance practices as this is in the best interests of everyone connected with the Company.

## OUTLOOK

The past six months have been one of the most unsettling periods in recent memory. As Hong Kong recovers from the impact of COVID-19, MTR, as a major public transportation service provider, looks forward to playing a leading role in helping our city build back better.

I would like to thank my fellow Board members for their sage advice and words of encouragement during the past six months. I would also like to thank Dr Allan Wong Chi-yan, who retired from the Board on 20 May 2020, Mr James Henry Lau Jr, who resigned and ceased to be a Non-executive Director with effect from 1 June 2020, and Ms Mable Chan, who ceased to be a Non-executive Director with effect from 1 August 2020. Their services to the Corporation are highly appreciated. Additionally, I would like to welcome Dr Bunny Chan Chung-bun, who has been appointed as an Independent Non-executive Director of the Company, effective from 20 May 2020, and Mr Christopher Hui Ching-yu, the newly appointed Secretary for Financial Services and the Treasury, who has been appointed as a Non-executive Director of the Company with effect from 1 June 2020.

In closing, I would like to express my fervent hope that all of us in Hong Kong can summon the courage to pull together and ride out the storm we currently face. It is only by doing so that we can create a brighter, more prosperous future for Hong Kong.



Rex Auyeung Pak-kuen  
*Chairman*  
Hong Kong, 6 August 2020