CEO'S REVIEW
OF OPERATIONS AND OUTLOOK

Dear Shareholders and other Stakeholders,

The first half of 2023 marked a period of transition and new promise. The removal of anti-pandemic restrictions and phased reopening of links with Mainland China spurred a rebound in patronage and provided a jump-start for MTR's cross-boundary, High Speed Rail ("HSR") and Duty Free businesses. We renewed the Fare Adjustment Mechanism ("FAM") with Government with certain new arrangements that will continue to ensure affordable fares for passengers while preserving the mechanism's objectivity, transparency and direct-drive formula. The FAM after review will also enable the Company to continue maintaining, upgrading and renewing its existing railway system and embarking upon new projects that will spur the growth of communities both old and new. Although patronage has yet to return fully to pre-pandemic levels, and external factors such as high inflation and rising interest rates continue to loom, we feel cautiously optimistic that the groundwork we have laid over the past few years – particularly as it relates to the implementation of our Corporate Strategy to create a better, more fit-for-future organisation – will give us a strong foundation upon which to build over the medium to long term.

BUSINESS PERFORMANCE AND GROWTH

One of the major milestones of the period was successfully concluding the FAM review with Government. Following the review, it was determined that the current direct-drive FAM formula will be retained for the upcoming five-year cycle (from 2023/2024 to 2027/2028) to provide a stable source of recurrent revenue for the maintenance, upgrading and renewal of railway assets. This will not only ensure that the community will continue to enjoy safe, reliable, efficient and high-quality railway services, but also maintain the financial sustainability of the Company to pursue new railway projects. Initiatives that have been implemented to reduce the fare increase adjustments include linking fare adjustments to the Company's property development profit and enhancing the service performance rebate with a new "Thank You Day" arrangement.

Patronage in Hong Kong gradually recovered over the first half of 2023. Together with the contribution from new lines, our Domestic Service patronage reached more than 90% of pre-pandemic levels. Considering the millions of passengers we serve every day, we are proud to have achieved excellent service reliability in Hong Kong once again, attaining 99.9% for both train service delivery and passenger journeys on-time.

Innovation and technology are playing increasingly important roles in our operations, and they are also vital to our efforts to develop "Smart Railways" and enhance the customer experience. More than HK$65 billion will be invested in railway asset maintenance and renewal over the next five years. We continued to "Go Smart Go Beyond" by launching a HK$1.3 billion programme to upgrade the Automatic Fare Collection system, which will feature new gates that support more e-payment options and have wider walkways. We also enhanced the MTR Mobile app by providing more information on train schedules and accessibility.

In our property businesses, we were thrilled to open our new 60,620-square-metre shopping mall at Tai Wai Station, The Wai. The Wai hosts more than 150 retail tenants providing dining, entertainment and other services for the community. Together with the 47,000-square-metre THE SOUTHSIDE at Wong Chuk Hang Station, which is expected to open in phases starting from the fourth quarter of the year, these new malls will expand our retail portfolio by approximately 30% in attributable GFA.

MTR is committed to Hong Kong and supports Government's development and housing supply strategies. We are forging ahead with determination and focus on the development of Oyster Bay, located on the Tung Chung Line, building a new community that will offer approximately 10,720 private residential units, all seamlessly connected by environmentally friendly rail transport. We also continued to progress the construction of 14 other residential property developments, which together will add about 16,000 more much-needed units to Hong Kong's housing supply.

Last year, MTR completed the Shatin to Central Link, marking the conclusion of an important era in the expansion of Hong Kong's railways. This February, we turned the page to an exciting new chapter by signing the Project Agreement with Government for the Tung Chung Line Extension, a major part of the Railway Development Strategy 2014 ("RDS 2014") blueprint for the city's railway transport infrastructure of the future. The Tung Chung Line Extension will serve new towns in the Tung Chung East new reclamation area and Tung Chung West, in turn enhancing the connectivity of Lantau North, supporting sustainable long-term population growth and boosting employment opportunities. Works on the extension commenced in May this year, and completion is scheduled for 2029. The Tung Chung Line Extension is an example of MTR and Government's shared goal to make rail transit the backbone of public transport by building thriving communities around railway stations. MTR also continues to work with Government on progressing several other RDS 2014 projects that will further connect communities across the city, including the Tuen Mun South Extension and Kwu Tung Station on the East Rail Line, the project agreements for which are at advanced stages of negotiation with Government. Construction on these projects is expected to commence later this year. Guided by our vision to "Go Beyond Boundaries" for our new railway projects, we will continue to support Government by implementing these and a number of other new railway extension projects that will enhance transportation capacity, unleash development potential, and foster connections between Hong Kong and the Greater Bay Area.

We continue to seek opportunities in Mainland China and overseas that can both grow our business and build the MTR brand internationally. In March 2023, the concession for the metropolitan train service in Melbourne, Australia, was granted an 18-month extension until mid-2026. The National Rail Contract for the South Western Railway in the United Kingdom has also been extended by two years till May 2025. Elsewhere, we once again achieved stable operations in many other important markets across Mainland China, Macao, Europe and Australia.

As a mass transit railway service operator, we are dedicated to fighting climate change by making every effort to minimise our greenhouse gas ("GHG") emissions. We are pleased to announce that the Science Based Targets initiative ("SBTi") recently approved our targets for reducing GHG emissions by 2030, providing valuable support as we work towards our long-term goal of achieving carbon neutrality by 2050.

FINANCIAL PERFORMANCE

Profit attributable to equity shareholders from recurrent businesses was HK$2,420 million in the first half of 2023 compared with HK$284 million in the first half of 2022 before the HK$962 million impairment provision made in respect of Shenzhen Metro Line 4. The improvement was largely due to higher patronage resulting from the relaxation and removal of anti-pandemic measures as well as the gradual recovery of the Company's Cross-boundary and Duty Free businesses following the phased reopening of rail links with Mainland China. Property development profit for the period decreased by 90.6% to HK$732 million, resulting in a decrease of 55.7% to HK$3,152 million in profit arising from underlying businesses. Including the gain arising from fair value measurement of investment properties (a non-cash accounting item) of HK$1,026 million, net profit attributable to shareholders of the Company decreased by 11.7% to HK$4,178 million, representing earnings per share of HK$0.67.

Your Board has declared an interim dividend of HK$0.42 per share, same as that of last year.

OUTLOOK

MTR's mission is to Keep Cities Moving with safe, reliable and inclusive low-carbon services. In this spirit, we are excited to help launch the next phase of Hong Kong's railway network development by commencing works on the Tung Chung Line Extension, a project that will connect communities across northern Lantau Island and help drive economic and job growth in these burgeoning areas. The Tung Chung Line Extension is the first RDS 2014 project to advance to the Project Agreement stage, and we look forward to participating in these and other future railway infrastructure works – including initiatives planned under Government's Northern Metropolis Development Strategy – as we seek to drive economic recovery in our home market as well as the Company's future business growth.

Since the lifting of anti-pandemic measures, MTR's Domestic Service has rebounded and is approaching pre-COVID patronage levels. The resumptions of Cross-boundary Service and HSR have also allowed our Duty Free business to resume and begin contributing to our financial performance once again. These revenue streams are very important to our recurrent business, and we are working hard to build them back to full strength as far as the economic recovery allows. We continue to face challenges in regard to station retail and property rental revenues due to negative rental reversions in the first half of this year. The openings of our new shopping malls, The Wai and THE SOUTHSIDE, are expected to make incremental contributions to property rental revenue. Advertising revenue remains dependent on the extent of the economic recovery and improvement in consumer sentiment and spending.

Employing the latest innovations and technologies is central to MTR's corporate strategy and business development. As part of our plan to employ smart railway operations and maintenance systems and develop smart customer services, we will not only invest more than HK$65 billion in railway asset maintenance and renewal over the next five years, but also implement further initiatives such as launching a digitised asset management system and setting up joint technology development with several research institutions. We will also keep rolling out smart asset management initiatives to optimise train safety and reliability, utilising artificial intelligence, cloud computing, big data and image processing technologies.

The pandemic has mostly subsided, but we are keeping a close eye on other macroeconomic factors that could still impact our operations. Although global inflation is falling, the rate of decrease is slow, and prices remain high compared to past levels. To contend with this, we will continue to exercise prudent cost controls and ensure efficient operations. Meanwhile, interest rates could potentially rise and remain at high levels for some time, potentially impacting the valuation of our investment property portfolio. Elsewhere, we must continue to monitor our supply chains closely for any possible disruptions that could affect our various projects.

In our property business, we plan to tender out about 4,000 units in the next 12 months or so, subject to market conditions. Tung Chung East Station Package 1 is expected to be the first tender to be put to the market. Other projects are under preparation including technical studies, land grant and statutory procedures and will be launched subject to market conditions. Applications for pre-sale consent are underway for THE SOUTHSIDE Package 3, LOHAS Park Package 12 and Package 13, Tin Wing Stop, Ho Man Tin Station Package 1, and the Yau Tong Ventilation Building. Recently, we have noted that more property buyers are opting for instalment payment terms (instead of equitable mortgage), which will delay the timing of profit recognition for our property development projects. Subject to the progress of construction and sales, and depending on the payment terms chosen by property buyers, we expect to continue booking profit from LOHAS Park Package 11 in the second half of 2023. However, given the current progress of construction and sales, we do not expect to book profit from THE SOUTHSIDE Package 4 or Ho Man Tin Station Package 2 in 2023.

Outside of Hong Kong, we continue to seek opportunities in Mainland China and overseas and in strengthening our connectivity within the Greater Bay Area in order to fulfil our business development strategies to grow MTR's prominence on the global stage.

I would like to take this opportunity to thank Mr Herbert L. W. Hui, who will retire from the position of Finance Director on 31 December 2023, for his valuable contributions to the Company and its success. Mr Michael George Fitzgerald will join the Company on 19 September 2023 as the Finance Director – Designate to prepare to succeed Mr Hui as Finance Director with effect from 1 January 2024.

In closing, I want to thank everyone at MTR for their commitment and hard work in helping us emerge from the trials of the past few years as an even stronger, more resilient organisation. I believe that the next six months and beyond will see us continue to build on the strong foundations we have laid as we move confidently into a promising new era and Keep Cities Moving with world-class, eco-friendly services.

Dr Jacob Kam Chak-pui
Chief Executive Officer
Hong Kong, 10 August 2023