



CHAIRMAN'S LETTER

Dear Shareholders and other Stakeholders,

By any measure, 2019 could be rated as the most difficult year in our 40 years of service, with a significant part due to the public order events that affected our Company and Hong Kong as a whole. Since taking up the Chairmanship of MTR in July 2019, I have been working closely with members of the Board and senior management to set the strategic direction for the Company. Together, we are making every effort to win back the confidence of the people of Hong Kong and maintain our leading position in the international railway community in order to sustain our continuous growth and success.

We were deeply distressed by the public order events that caused such heavy damage to our trains and stations and disrupted our services during the latter half of the year. The safety of our customers, staff and our infrastructure is especially concerning for us as this has always been our top priority. Thanks to the commitment and professionalism of our dedicated staff, many of whom often worked through the night to reinstate service the next morning, we were able to keep Hong Kong moving during most of this difficult period.

We also had to contend with the recent outbreak of COVID-19. Extensive measures have been implemented to deal with this serious health threat in order to protect the health and safety of our customers and staff. I would like to thank our staff for the professionalism they have exhibited during this difficult period.

Equally concerning for us and the public were the incidents involving the derailment of a train in service near Hung Hom Station and the collision between two trains while testing a new signalling system, albeit during non-traffic hours, as well as the ongoing controversy over the construction works of Hung Hom Station extension.

Reflecting on what has taken place over the past year, we have learned valuable lessons and we are taking actions to prevent the occurrence of those of a similar nature. We are also looking at new initiatives to further strengthen our corporate governance and corporate culture.

BUSINESS PERFORMANCE AND GROWTH

Despite the tremendous challenges of the year, we continued to work hard on expanding our world-leading network in Hong Kong, the Mainland of China and overseas.

In Hong Kong, we made steady progress on the Shatin to Central Link project. The Tuen Ma Line Phase 1 opened successfully on 14 February 2020, with the launch of two new stations at Hin Keng and Kai Tak, and an expanded Diamond Hill Station. Now that the Tuen Ma Line Phase 1 has gone into service, passengers travelling to and from the New Territories, East Kowloon and Hong Kong Island East can enjoy improved convenience and shorter journey times ahead of the full completion of the Shatin to Central Link in 2022.

On 26 March 2019, the Government published the redacted Interim Report of the Commission of Inquiry (“COI”) on the quality of work for the Hung Hom Station extension of the Shatin to Central Link. While recognising it to be an Interim Report, the COI found that although the Hung Hom Station extension diaphragm wall and platform slab construction works are safe, they were not executed in accordance with the relevant contract in material respects. The COI also made a number of comments regarding the Company’s performance and systems as well as a number of recommendations for the future. The Final Report of the COI is expected to be submitted to Government by 31 March 2020.

The Company carried out a further review and revalidation of the Shatin to Central Link Cost to Complete which was submitted to Government for review in February 2020. The Company’s submission included an additional amount of project management cost for the Company which Government has objected such inclusion. The Company is currently addressing these matters with Government.

We were pleased to hear in the Chief Executive’s 2019 Policy Address about the Government’s intention to commence detailed planning and design for three new railway projects under the Railway Development Strategy 2014, namely the Tung Chung Line Extension, Tuen Mun South Extension and Northern Link (and Kwu Tung Station). We look forward to working with the Government on progressing these projects, which are important to the Hong Kong public.

During the year, we continued our efforts to enhance the customer experience on our existing lines by upgrading station facilities, services and the train environment. These upgrades included the addition of new ventilation units, baby care rooms, public toilets, water dispensers, more wide gates and seats, mobile charging spots, and accessibility features for customers in need. In addition, we have continued with our digitalisation efforts through adopting new digital technology and smart mobility initiatives, such as enhancing our MTR Mobile app with more personalised services, to help customers better plan their trips.

We also made good progress outside Hong Kong, with the commencement of passenger service on the Sydney Metro North West Line, the initial section of Hangzhou Metro Line 5 and Macao Light Rapid Transit Taipa Line. In Beijing, our associate was awarded the Beijing Metro Line 17 Operations and Maintenance concession, while in Australia the Northwest Rapid Transit Consortium, of which we are a leading member, concluded the Public Private Partnership contract with Sydney Metro covering the project works and railway operations of the City and Southwest Line.

FINANCIAL PERFORMANCE

Apart from the provisions made in the first half of the year related to the Shatin to Central Link project and the South Western Railway franchise in the UK, our profitability was also affected by the public order events in the second half of the year, which reduced ridership and impacted our earnings in our station commercial and property rental businesses.

Profit attributable to equity shareholders from recurrent businesses declined by 44.8% to HK\$4,980 million. Together with profit for the year from property development businesses, which increased by 148.8% to HK\$5,580 million, profit attributable to shareholders from underlying businesses was 6.2% lower at HK\$10,560 million. Including the gain arising from investment property revaluation, which was lower than that in 2018, net profit attributable to shareholders of the Company fell by 25.5% to HK\$11,932 million. Earnings per share after revaluation was HK\$1.94. Your Board has proposed a final ordinary dividend of HK\$0.98 per share, which together with the interim dividend of HK\$0.25 per share, would bring the full year dividend to HK\$1.23 per share, an increase of 2.5% over last year.

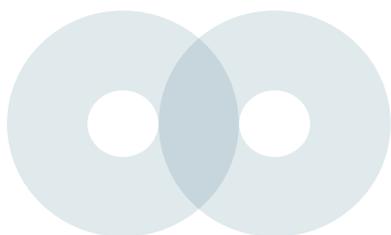
FUTURE DIRECTIONS FOR MTR

MTR has been growing with Hong Kong in the past 40 years and will continue to do so in the years to come. Over the years, MTR has become an integral part of the Hong Kong fabric, carrying over 5.5 million passengers per weekday and providing almost 50% of franchised public transport services in Hong Kong. MTR has played a critical role in the success of our city and is a major reason why Hong Kong is such a vibrant place to live and work.

Outside Hong Kong, MTR has become one of the leaders among the world's major metro operators, and we are recognised for our reliability, service quality, well-maintained metro systems and sustainability performance. MTR is truly an international brand that we, the people of Hong Kong, can take great pride in. While Hong Kong will always be our core market, we must also look at opportunities outside Hong Kong, as both the Mainland of China and international markets are becoming increasingly important for driving the growth of MTR. One example is the Mainland of China's Belt and Road initiative and the support we can offer through the MTR Academy, which was established to share our railway expertise across the region.

Our Environmental, Social and Governance ("ESG") performance is certainly an important element of our strategy, not only in Hong Kong but also worldwide. As one of the major corporations in Hong Kong, we can play a leading role in ESG by operating our business with environmental protection as a top priority. As more and more of us recognise the threat posed by climate change, we must step up our efforts to protect the environment and our natural resources, while further reducing our electricity consumption and carbon emissions through the use of new technology.

At the same time, we will continue to support our staff in preparing for the future through continuous training and development initiatives including corporate



programmes, workshops, seminars and benchmarking visits. Externally, we will maintain our commitment to connect communities by offering more community engagement initiatives, such as our STEM Challenge and 'Train' for Life's Journeys programmes that benefit our young people, as well as our More Time Reaching Community volunteering scheme and donations to charity organisations.

Just as important is the need to ensure and maintain high standards of corporate governance. The Board firmly believe that good corporate governance forms the cornerstone for ensuring the best interests of our stakeholders and is conscious about the need for continuous improvement in corporate governance through applying best practices in response to the growing expectations of our stakeholders and identified opportunities.

OUTLOOK

In the year ahead, I and the Board, along with the senior management of MTR, will work together to strengthen our corporate reputation and make progress on our growth journey, despite the prevailing social, political, economic and health challenges in Hong Kong, the Mainland of China and overseas. In particular, the recent outbreak of COVID-19 has been impacting many aspects of our operations, and we have implemented a number of cost control measures to mitigate its negative financial impact. Considering the tremendous challenges faced by various sectors amidst the COVID-19 epidemic, the Company is launching special relief measures to ride out the tough times together with the public. These measures include no actual adjustment to MTR fares for the remainder of 2020 and half of the rent for February and March 2020 waived for small to medium sized tenants at all MTR stations and 13 shopping malls.

At the same time, I have great confidence that the people of MTR will continue to maintain their professionalism and MTR's success as a world-class railway company. Their contributions have made the Company what it is today, and I am extremely proud of the way they handled themselves throughout this challenging period. I would like to extend my sincere thanks to all of them for their dedicated service to MTR and the people of Hong Kong and the world-wide communities that we serve.

In closing, we have a very efficient Board and I would like to take this opportunity to thank Professor Frederick Ma for his many contributions to the Board during his tenure as a member and Chairman, and also thank 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 for their invaluable service to the Company during their tenure with us. Additionally, I would like to welcome Mr Walter Chan Kar-lok, Mr Cheng Yan-kee and Mr Jimmy Ng Wing-ka, who have been appointed as Independent Non-executive Directors of the Board effective from 22 May 2019. I would also 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.

I look forward to working with the Board and everyone at MTR to set us on a new path towards an even brighter future.



Rex Auyeung Pak-kuen
Chairman
Hong Kong, 5 March 2020