

# Chairman's letter

Dear Stakeholders,

I am pleased to present to you the results of MTR Corporation Limited (MTR) for 2004, the 25th Anniversary of commencement of MTR's rail services in Hong Kong.

The 2004 results reflect a heartening turnaround from the SARS buffeted 2003. Our satisfactory performance was underpinned by a broad based economic recovery, driven by tourism, positive consumer sentiment, waning deflationary pressure and steadily improving property prices. During the year, the Company recorded total turnover of HK\$8,351 million, an increase of 10.0% over the previous year, with net profit rising by 1.0% to HK\$4,496 million. Net profit in 2003 included a large book profit recorded on the receipt of 18 floors in Two IFC.

In February, the Government requested the Company and the Kowloon-Canton Railway Corporation (KCRC) to begin merger discussions. As I indicated in my letter to you in the 2004 Interim Report, we worked hand in hand with KCRC to move matters forward. Thanks to the cooperative and mutually supportive manner in which discussions took place, in

September we jointly submitted to the Government a merger proposal. The proposal addresses positively the five parameters laid down by the Government whilst providing a blueprint for integrating the two railway operations to create a single, world-class railway network for Hong Kong. Those five parameters are: an objective and transparent fare adjustment mechanism; abolition of transfer charges; fare reduction; job security for frontline staff; and provision of seamless interchange.

Upon submission of the joint proposal, the Company began negotiations with the Government on the terms of the possible merger, which has continued into the new year. MTR believes that deal terms can be reached that would benefit all stakeholders, including customers, the Government, shareholders and staff of both MTR and KCRC. A well executed merger would create a world leading mass transit cum property development enterprise, providing greater convenience, better connectivity, higher operational and financial efficiency and compelling international competitiveness.

In 2004, we took significant steps forward in implementing the Company's expansion strategy outside Hong Kong. In January, MTR signed an Agreement in Principle with the Shenzhen Municipal People's Government to construct Phase 2 of Line 4 in the Shenzhen Metro System and to operate the whole line for a period of 30 years following completion of Phase 2. The project will



also include property development rights of an aggregate gross floor area of 2.9 million square metres at stations and the depot along Line 4. Negotiations on the Concession Agreement and related agreements with the Shenzhen authorities are progressing, albeit at a slower pace than originally anticipated, due to the measures implemented by the Central Government to dampen overheating aggregate demand.

In December, the Company signed an Agreement in Principle with Beijing Infrastructure Investment Co. Ltd. and Beijing Capital Group, both subsidiaries of the Beijing Municipal People's Government, to form a Public-Private-Partnership (PPP) for the investment, construction and operation of the Beijing Metro Line 4 project for a period of 30 years. MTR will own 49% of the PPP company, which will be responsible for providing the electrical and mechanical systems including trains, and for running the line upon completion of the project. Based on this PPP model, land acquisition and civil construction of the project will be financed by the Beijing Municipal People's Government. In February 2005, together with our partners, we initialled the Concession Agreement for the franchise with the Beijing Municipal People's Government and the related agreements, and now await approval from the National Development and Reform Commission.

We are encouraged by business opportunities in Europe, particularly the UK, where we are pursuing operating franchise contracts. In November, we signed a joint-venture agreement with the Great North Eastern Railway Holdings Limited to bid for the Integrated Kent Franchise in southeast England. We are eyeing a similar opportunity in the Thameslink / Great Northern Franchise, which serves London north and south of the River Thames.

Our offshore expansion strategy complements the Company's continuing interest in extending the MTR network in Hong Kong. The Disneyland Resort Line and the Tung Chung Cable Car projects are on track, whilst we are engaged in earnest discussion with the Government on proposed projects such as the West Island Line (WIL) and South Island Line (SIL).

The wider responsibilities of MTR to our stakeholders and society were high on our agenda in 2004. Full details of the Company's achievements in this area are given in our Sustainability Report, which adheres to Global Reporting Initiative (GRI) guidelines. The Report was included in the GRI's top 100 reports and named Best Sustainability Report by the Association of Chartered Certified Accountants (ACCA). In addition, in late 2004 we began the development of a new Enterprise-Wide Risk Management System to help better monitor and track risks and best practices across our businesses. We also enhanced and strengthened our processes to engage community stakeholders through extensive consultations on the proposed WIL and SIL, and by establishing a Sustainability Advisory Board for the Tung Chung Cable Car project. The Company continued to apply our tried and true rail plus socially responsible property development business model, codes of conduct, training and best governance practices to our projects abroad and actively supported international initiatives to enhance enterprise sustainability.

MTR persistently maintains a high standard of corporate governance and financial disclosure. We were once again recognised by the Hong Kong Management Association (HKMA), which gave us the Silver Award in the General Category in the 2004 Best Annual Report Awards Competition. This marks the 16th consecutive year of award winning for MTR.

Community service is part of MTR's fabric. Two ongoing programmes are noteworthy, namely, "Art in Stations" which sponsors local artists and students to display and perform art in our stations, and the promotion of healthy living. The latter, which, among other things, encourages walking as a form of daily exercise, will be highlighted by an Annual Race Walking event beginning in 2005.

Although Hong Kong was not directly affected, we were all touched by the human sufferings and tragedies that followed in the wake of the Indian Ocean tsunami. MTR, by working with our employees, passengers, commercial tenants and affiliates, accounted for over \$2 million of relief funds raised to date. We are deeply grateful to all those who have cooperated with us in this humanitarian endeavour.

Finally, I would like to thank my Board colleagues, management and all staff for their sharp, conscientious work, dedication and focus on excellence, which contributed to the successes of our 25th Anniversary Year. As MTR drives into the future, I am confident we can build on the strong legacy of this quarter century and continue being caring, innovative, visionary and profitable.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*  
Hong Kong, 1 March 2005