

Chairman's letter



Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2005, which again reflected good performance by the Company with strong growth in all of our businesses. These results demonstrated not only our ability to leverage off the continued strength in the Hong Kong economy through strategies developed over the last few years to generate growth, but also the enduring success of our well proven "rail and property" business model.

For the year, we benefited from the buoyant economy to increase our total revenue to HK\$9,153 million, 9.6% above 2004, and to achieve underlying profit, excluding revaluation of investment properties, of HK\$6,140 million, 36.7% better than the previous year. Including investment property revaluation, our net profit attributable to equity shareholders was HK\$8,450 million and earnings per share were HK\$1.55, respectively 29.1% and 26.0% increases over 2004. Your Board of Directors has recommended a final dividend of HK\$0.28, which is the same as in 2004.

There are two issues which I would highlight this year; firstly our growth strategy, and secondly our emphasis on sustainability, corporate social responsibility (CSR) and community involvement.

Strategy for growth

MTR Corporation's strategy for growth covers both Hong Kong and overseas, with the latter focused on the Mainland of China and Europe. Within our home base of Hong Kong, we aim to achieve growth through extension of our existing network, enhancement of income from our non-fare and other businesses as well as creating opportunities for our property development business. In each of these areas the strategy is taking hold.

In 2005 MTR Corporation opened the Disneyland Resort Line (DRL) and the AsiaWorld-Expo Station at the end of the Airport Express Line (AEL). Discussions with the Government continue on the West

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Island Line (WIL), an extension of the Island Line to the west of Hong Kong. Strong political and local support has been received for WIL and the Executive Council of the Hong Kong SAR Government has asked MTR Corporation to proceed with the preliminary planning and design. The South Island Line (East) still awaits a Government decision, but there is strong community support for a rail service to Ocean Park and the Southern District of Hong Kong Island.

In the past two years, we have maximised the growth of our non-fare revenue through the introduction of new advertising formats, the redevelopment of MTR stations and expansion of our portfolio of investment properties in Hong Kong. Over the next three years, based on our "rail and property" business model we will receive and add two more shopping centres to our property portfolio: The Edge in Tseung Kwan O in 2006 and Elements, our majority owned eighty-three thousand square metre high-end shopping centre in Union Square, Kowloon Station, in 2007.

Property development is the cornerstone of this successful business model, which aims to maximise value for shareholders by integrating property development with railway construction and through prudent weighing of risk and return. In this regard, in January 2005 and January 2006, we successfully awarded the tenders for the development of Package One and Package Two of Tseung Kwan O Area 86.

On the possible merger of MTR Corporation and Kowloon-Canton Railway Corporation (KCRC), after submission of the joint report with KCRC, MTR Corporation has been in bilateral discussions with the Government on the financial terms and structure. Those negotiations continue. We remain convinced that on acceptable terms, a merger would benefit all stakeholders.

In our growth strategy outside Hong Kong, I am pleased that during the year the Company has achieved a number of major milestones, particularly in the Mainland of China.

We are delighted that the Beijing Metro Line 4 project received Central Government approval in September, and that the private-public partnership (PPP) company in which we own 49% has, in January 2006, completed all registration requirements necessary to begin commercial operations.

In Shenzhen, substantial progress has also been made on Metro Line 4, with initialling of the Concession Agreement with the Shenzhen Municipal Government and submission of feasibility study report to the National Development and Reform Commission (NDRC) in May. Whilst project approval from NDRC is still pending, we are excited about the prospect of providing an efficient mass transit service to the residents of Shenzhen and of facilitating the development of neighbourhoods along the railway based on our Hong Kong "rail and property" business model.

The development potential for mass transit systems in the Mainland of China is substantial because of rapidly expanding urban populations, heightened environmental concerns and limitations to the expansion of road networks. To harness this potential and achieve a better economy of scale for our investments in this market, it is important for us to look beyond the two projects in Beijing and Shenzhen, and study other investment opportunities in these and other key cities.

In Europe, we are disappointed that our team's hard work did not result in success for our bids for the two train operating franchises in the UK, the Integrated Kent Franchise and the Thameslink / Great Northern Franchise, and one other franchise in Scandinavia. We are nonetheless confident that with the valuable experience gained during the bid process and a first class management team on the ground, the Company is well positioned to take advantage of the continuing liberalisation of the rail market in Europe to achieve market entry.

CSR and community involvement

An important characteristic of MTR Corporation is the very broad context in which we see our role in Hong Kong and the world, and the commitment of our efforts to creating a sustainable growth path.

During the year we facilitated the establishment, and became a founding member, of Hong Kong's first CSR Charter. We published the first MTR CSR Guideline and established a Sustainability and CSR Steering Committee. We also continued our work internationally through our chairmanship of the International Association of Transport Providers' (UITP) Commission on Sustainable Development. It is important to recognise that only competitive and profitable enterprises are able to make a long-term contribution to sustainable development by generating wealth and jobs without compromising the social and environmental needs of society.

These efforts to formalise sustainability have been rewarded in recent years by a deepening engagement with stakeholders. For example, the working consultation group for WIL is now using the findings of an extensive 2003 consultation in considering the final design of the project. At MTR Corporation, we have established a Community Rail programme which looks to develop a network of rail-linked community centres and involves local communities in consultation on any proposed new railway.

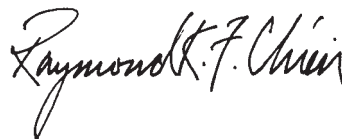
We are always reminded by our Mission and Vision of our obligation to help enhance the quality of life and development of our community. In 2005, we helped initiate a new employee volunteering programme "More Time Reaching Community". Built on the existing Community Involvement Team, also formed by volunteering employees, the programme was launched to provide advice, logistic support and funding to staff members who come up with a good idea for voluntary community work. We are proud of this programme and our other initiatives, such as the "From the Heart"

campaign and the continuing Art in Stations programme, which help to care for the less fortunate among us or otherwise enrich the lives of those with whom we come into contact.

In April, we co-organised with the Hong Kong Amateur Athletic Association the inaugural "MTR Hong Kong Race Walking 2005", to encourage people to walk more as a form of daily exercise. The largest event of its kind in Hong Kong, it raised more than HK\$900,000 to fund local health educational activities. This was followed up by a series of related activities at our managed estates to promote race walking as a means to achieve better health.

I would like to extend my special thanks to Mr. Philip Gaffney, who retired as Managing Director – Operations & Business Development in December after over 28 years of distinguished service to the Company. All of us are indebted to him for his contribution, and MTR would not be as strong a railway today had it not been for his dedicated service and strong leadership. I welcome to the Executive Directorate team Mr. Andrew McCusker as Operations Director and Dr. Francois Lung as China and International Business Director.

I would also like to take this opportunity to thank my fellow directors, the senior management and all of our staff for their contributions during 2005. MTR Corporation has enjoyed an excellent year and with their and other stakeholders' continued support will carry on succeeding in 2006.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 7 March 2006