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Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2006, which continue the growth momentum of recent years.

For the year, the sound economy and our ability to leverage this through our proven “Rail and Property” model combined to increase our total revenue to HK\$9,541 million, 4.2% higher than 2005, leading to an increase of 2.0% in operating profit before property development profit and depreciation. However, underlying profit, excluding revaluation gain on investment properties, decreased marginally by 2.9% to HK\$5,962 million due to very strong property development profit recognised in 2005, the magnitude of which was not repeated in 2006. Including investment property revaluation, our net profit attributable to equity shareholders was HK\$7,759 million and earnings per share were HK\$1.41. Your Board of Directors has recommended a final dividend of HK\$0.28, the same as in 2005.

For the year, three issues stand out which I would like to discuss: the proposed merger, our growth strategy and our continuing efforts towards ensuring sustainable growth.

Proposed merger

The proposed merger of MTR Corporation and Kowloon-Canton Railway Corporation (KCRC) has moved closer following the signing by the Company in April of a Memorandum of Understanding (MOU) with the Government of the Hong Kong SAR (Government) setting out the terms of the merger of the rail operations, together with the acquisition of a property package. The Rail Merger Bill was submitted to the Legislative Council (LegCo) in July, shortly followed by the first meeting of the LegCo Bills Committee on the bill. Should LegCo pass the bill, independent shareholders will then be invited to vote on the merger.

In the meantime, we and our counterparts at KCRC have been working together to ensure as smooth an integration as possible on Day One of the merger. The merger is expected to yield synergies, while the travelling public will experience benefits including lower fares and improved integration of the networks. To achieve these goals, we recognise the need to take account of the needs of staff and of the two different corporate cultures, and have worked assiduously not only to put in place the right structures, but to keep staff informed of progress throughout.

Growth strategy

The merger clearly forms a part of our strategy for growth, which covers both Hong Kong and overseas markets, where we will not only leverage the assets and skills we have, but invest in further expansion.

In Hong Kong, this year saw the commencement of the Ngong Ping 360 cable car service on Lantau Island, and the opening of our sixth shopping centre, The Edge in Tseung Kwan O. The former's teething problems notwithstanding, both attractions have performed well compared to original projections. We continue to explore network expansion opportunities in Hong Kong and maintain close discussions with Government on the proposed West Island Line as well as the South Island Line (East), both of which have been receiving considerable level of community support.

Outside of Hong Kong, in the Mainland of China, we signed the Concession Agreement for the Beijing Metro Line 4 project with the Beijing Municipal Government in April and are awaiting final approval on the Shenzhen Metro Line 4 project. At the same time, we are actively pursuing other opportunities in key cities such as Beijing, Shenzhen, Hangzhou, Wuhan and Suzhou. In Europe, meanwhile, our joint-venture with the UK's Laing Rail is now among the two remaining bidders for the London Rail Concession, while we are in partnership with Swedish railway company SJ bidding for concessions in Sweden and Denmark.

Sustainability

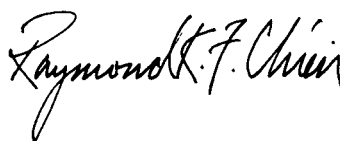
Inherent in our commitment to achieving growth is the aim to ensure that the growth is sustainable. We have a strategy in place that focuses on the four key areas of community, process, strategy and people, which when integrated with our cost optimisation and stakeholder engagement processes, will help to foster a sustainable competitive advantage for the Company.

In 2006, we officially adopted the MTR Corporation Climate Change Policy, which is modelled on the recently established policy of the International Union of Public Transport (UITP), whose Sustainable Development Commission we currently chair. Our climate change policy commits us to adapt to and mitigate the risks posed by climate change by becoming one of the most resource efficient and ecologically sustainable companies of our kind in the world. Through this initiative, we hope to make a leading contribution to the Action Blue Sky Campaign launched in July by the Chief Executive of the Hong Kong SAR.

Our efforts in sustainability have garnered increasing recognition internationally and during the year, we were ranked seventh amongst the 100 global corporate leaders in sustainability reporting in a Global Reporters 2006 survey undertaken by UK-based think tank, SustainAbility, in association with the United Nations Environment Programme and Standard & Poor's. Singled out for our reporting excellence, governance and business strategy, we were the only Asia-based corporation, the only transport organisation and one of the only two non-OECD companies amongst the leading ten companies named in the survey.

Locally, our various community schemes continued to reach out to people in need and the Company was awarded the Caring Company Logo for two consecutive years for 2005/06 and 2006/07 by the Hong Kong Council of Social Service. The "More Time Reaching Community" volunteering programme, launched in November 2005, has been a great success and has led to 81 community projects in 2006, addressing a wide variety of causes. In April, we co-organised the "MTR HONG KONG Race Walking 2006" together with the Hong Kong Amateur Athletic Association. The objective of this event is to encourage people to walk more as a form of daily exercise. It attracted 1,000 walkers in 14 categories, making it the largest event of its kind in Hong Kong, and raised over HK\$1.2 million for the Hospital Authority's health education campaign. Our ability to make a difference to the lives of some of the less fortunate in our community through such programmes gives me great personal satisfaction and has allowed hundreds of Company employees to expand their horizons through their participation in such activities.

Finally, I would take this opportunity to thank my fellow Board Members, management and all staff of the Company for their efforts during the year in support of our objective of continued growth.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 13 March 2007