

Chairman's letter

Dear Stakeholders,

I am pleased to present to you the interim results of MTR Corporation for the first six months of 2005.

With the change of accounting standards, particularly that relating to investment property revaluation, MTR Corporation recorded net profit of HK\$2,606 million, an increase of 122.2% over the same period last year with an increase in earnings per share of 118.2%. Excluding this accounting adjustment for revaluation, net profit and earnings per share would have increased by 50.8% and 50.0% respectively. This increase in profit was due to continuing growth in all our businesses. Your Board of Directors has declared an interim dividend of HK\$0.14 per share, unchanged from last year.

In previous annual and interim reports I have outlined our strategy to expand outside Hong Kong in pursuit of long-term growth, and I am pleased to say that our efforts in this regard have produced encouraging results in the first half of this year. In the Mainland of China further progress has been made with the initialling of Concession Agreements for Beijing Metro Line 4 and Shenzhen Metro Line 4 as well as Memoranda of Understanding signed on Shenzhen Metro Lines 2 and 3 and on possible metro investments in Wuhan. We are now awaiting final approvals from the National Development and Reform Commission to formally enter into the Concession Agreements for both Beijing Metro Line 4 and Shenzhen Metro Line 4.

In Europe, MTR Corporation is in partnership preparing bids for two train operating franchises in the U.K.: the Integrated Kent Franchise, a suburban commuter network in Kent, Southern England and the Thameslink/Great Northern Franchise which serves London both north and south of the River Thames.

In implementing our international growth strategy, we are keenly aware of the need for appropriate and adequate resources, particularly skilled and talented people. In May we appointed Mr. Jeremy Long as CEO – European Business, to develop the Company's business in Europe. Jeremy's extensive experience of the U.K. and continental European rail industry will provide the in situ management to help the Company build a strong presence in these markets. More broadly, the Resource Pool for Growth Business, which was established with an aim to leverage the competence of our staff into overseas business opportunities and operations, now comprises over 300 staff.

Our international development complements the activities in Hong Kong. We were pleased by the Government's decision in June 2005 to progress discussions on the West Island Line. We continue to await Government's decision on both South Island Line (East) and South Island Line (West). Disneyland Resort Line opened on 1 August 2005 and work progresses on the Tung Chung Cable Car project which will be using 'Ngong Ping 360' as its operating name.

We are committed to achieving high standards of corporate governance by continuing to identify and formalise best practices for the Company in the interest of the investing public. We therefore welcomed the new Code on Corporate Governance Practices issued by the Hong Kong Stock Exchange in November last year. Prior to the Code becoming effective,

we had already implemented a number of the Code's key requirements, notably a clear division of management of the Board by the Chairman and day-to-day management of the Company's business by the Chief Executive Officer, formalisation of functions reserved for the Board and those delegated to management, as well as strong independent representation on the Board.

In the community at large, we continue to play an active role, using our infrastructure and the energies of our people to help those in need and to promote healthy living. More than HK\$2 million was raised in January from our staff, passengers, commercial tenants, shoppers and affiliates, to help provide relief to victims of the December tsunami. We continued our partnership with the Hong Kong Community Chest during Chinese New Year and raised HK\$1 million through various promotion events at our shopping centres. In April, we co-organised with the Hong Kong Amateur Athletic Association the "MTR HONG KONG Race Walking 2005", the largest event of its kind in Hong Kong, to encourage people to walk more as a form of daily exercise. The event also raised more than HK\$900,000 to fund programmes promoting healthy living. Our popular "Art in Stations" programme continues to provide venues in our stations for local artists and students to show and perform art.

With Hong Kong as our home and being the local transport backbone, we place great emphasis on the role of the Company in promoting quality service and better life style for people in Hong Kong. We were pleased to receive two awards that recognise our efforts in these areas – the "Quality Living Award" from *East Week Magazine*, and the "Top Service Award" from *Next Magazine*, which we received for the seventh year in a row. Both of these awards are based on votes from members of the public and we are honoured to be so recognised by our stakeholders.

We monitor and measure our social, environmental and economic performance according to the established international guidelines of the Global Reporting Initiative and publicise this information through our annual Sustainability Report. Our leadership position in the promotion of sustainability was once again demonstrated by our Sustainability Report 2003 being awarded the Best Sustainability Report Award for 2004 by the Association of Chartered Certified Accountants Hong Kong and the Company itself being voted the most socially responsible company in Hong Kong by university students based on a survey sponsored by the Government's Sustainable Development Fund.

We are also at the heart of a broader effort by the global rail transport industry to address sustainability issues, through our chairmanship of the Commission on Sustainable Development of the International Association of Public Transport, UITP. We are a signatory to the body's Charter on Sustainable Development, which now has over 100 operators, authorities and manufacturers worldwide as signatories. MTR Corporation assisted UITP in publishing its report "Bringing Quality to Life – Better Mobility for People Worldwide" at the UITP World Congress in Rome in June this year. This is the commission's second report and it provides valuable case studies of Charter signatories' efforts to promote sustainable development. Our close involvement demonstrates the increasingly international perspective that guides our thinking on the issue of sustainability.

Following the submission of the joint proposal on a possible merger between MTR Corporation and the Kowloon-Canton Railway Corporation in September 2004, we continued our discussions with Government on this highly complex transaction during the first half of 2005. As I have said in the past, if properly structured and on acceptable terms, MTR Corporation is of the view that a merger benefits all stakeholders. Any merger decision will be subject to the approval of independent shareholders.

We are deeply saddened by the terrorist bombing attacks in London on 7 July 2005 and the loss of innocent lives and extend our heartfelt condolences to the victims and their families. As a world-class transport operator, we have always had as our top priority the safety of our passengers and in this regard we will continue our vigilance and efforts in further strengthening our risk management practices to maintain the safety and comfort of our passengers.

I would like to thank the Board, management and all staff of the Company for their hard work and dedication. I also thank Mr. Phil Gaffney, Managing Director – Operations & Business Development, who will be retiring in December, for his dedication and pursuit of excellence over 28 years at MTR Corporation.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 2 August 2005