

# Chairman's letter

Dear Stakeholders,

I am pleased to present to you the interim results of MTR Corporation for the first six months of 2007.

The period was marked with two major steps forward in our growth strategy at home and abroad. In Hong Kong, the Legislative Council of Hong Kong (LegCo) passed the key legislation for our proposed merger with the Kowloon-Canton Railway Corporation (KCRC). In Europe, we secured our first rail operating contract with the award of the concession for London Overground.

These important developments came as we continued to achieve steady financial results for the half year, with revenue rising by 6.3% to HK\$4,852 million and operating profit from railway and related businesses before depreciation increasing by 6.0% to HK\$2,797 million. Profit from our underlying businesses before investment property revaluation declined by 48.1% to HK\$2,050 million, as a result of lower property development profit in the first half of 2007 as compared with the same period of 2006. Our property development profit depends on the timing of completion of development projects and in the first half of 2006 there was significant profit recognition from projects along the Tseung Kwan O Line, such as Metro Town and the Grandiose. The first half of 2007 did not see the completion of as many development projects as in the first half of 2006. Including investment property revaluation, our net profit attributable to equity shareholders was HK\$4,071 million and earnings per share were HK\$0.73. Your Board of Directors has declared an interim dividend of HK\$0.14 per share, unchanged from last year.

## Merger

Much of our focus during the period has been to work towards the merger with KCRC. The Bills Committee of LegCo gave the proposal a detailed examination and legislative councillors from all constituencies reviewed the issues with considerable care. We are pleased that after extensive debate, the Rail Merger Bill gained solid support and was passed on 8 June. On 11 July, two important pieces of subsidiary legislation, namely the By-Laws and Regulations, were also passed by LegCo.

With passage of the Rail Merger Bill and subsidiary legislation, all LegCo enactments bar the final Commencement Notice are complete. We are now finalising transaction documents with the Government and KCRC and preparing for approval by our independent shareholders at an Extraordinary General Meeting (EGM), currently expected to be held in October.

Shareholders will in due course be sent an EGM circular setting out details of the merger and recommendations from the Independent Board Committee, whose members are advised by the Independent Financial Adviser, Merrill Lynch. As the transaction is a connected transaction, the vote will involve only independent shareholders, with the Government and its associates not eligible to vote.

Assuming independent shareholders approve the merger, the final step will be for the Government to introduce, and LegCo to enact, the Commencement Notice to bring the Rail Merger Bill into effect. Only then will we proceed to Day One of the merger.

As I have said before, the merger as proposed represents a major step forward for MTR Corporation and I continue to hold the view that it benefits all our stakeholders, including our shareholders, employees and the travelling public in Hong Kong.

Through the work of the Merger Integration Office, which comprises members from both MTR Corporation and KCRC, the key integration issues in relation to the merger have been substantially resolved to enable readiness for smooth operations on Day One of the merger. To mark what is a new era for the Company, a single brand will be adopted for the entire expanded network, with new uniforms for customer facing staff.

## Overseas Growth

While the merger with KCRC will ensure additional growth in our home market, our growth overseas now has a "double track", with our investment in Beijing Metro Line 4 (BJL4) joined by a presence in the UK.

On 19 June, the Mayor of London, Mr. Ken Livingstone, announced the award of the London Overground concession to our UK joint venture, MTR Laing Metro Limited (now renamed as London Overground Railway Operations Limited (LORO)). Our partnership with Laing Rail faced intense competition during the bidding process, and was selected over three other bidders.

Under the concession, LORO will operate the new London Overground service in Greater London for seven years from November 2007, with an option for a two year extension at the discretion of Transport for London (TfL). London Overground is an important franchise in the UK's capital, a semi-orbital route of five rail lines serving West, North and East London. The service will be a crucial link for the 2012 Olympic Games.

I believe our success reflects the recognition of MTR's ability to deliver highly reliable frequent rail services, with a high degree of customer satisfaction. We look forward to applying this knowledge to improve the experience of London rail passengers and assisting London's Mayor in realising his objective of achieving significant service improvements.

## Sustainability

As the global concern over climate change and the environment becomes ever more pressing, MTR Corporation's commitment to ensuring business sustainability will have increasingly significant bearing on our operations.

Last year, we adopted the MTR Corporation Climate Change Policy, which is modelled on the policy developed by the International Association of Public Transport (UITP), whose Sustainable Development Commission we currently chair. Our aim is to become one of the most resource efficient and ecologically responsible companies of our kind in the world. Potential risks arising from climate change have been considered within our Enterprise Risk Management structure and we are developing actions to progress energy awareness and savings with a view to reducing the Company's carbon footprint.

We continue to encourage community volunteerism among MTR staff. During the first half of the year, there were 38 community volunteering initiatives involving close to 900 volunteers. The MTR HONG KONG Race Walking 2007, which we co-organised with the Hong Kong Amateur Athletic Association, raised over HK\$1 million for the Hospital Authority's health education campaign.

That MTR continues to do well is due to sound Board governance, management and staff excellence, customer trust, and the continuing faith of shareholders. As we approach the threshold into the "post merger" era, we are thankful for, and count on the support of, all our stakeholders.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*  
Hong Kong, 7 August 2007