

Chairman's Letter

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Dear Stakeholders,

I am pleased to report to you the interim results of MTR Corporation for the first six months of 2008.

The period witnessed smooth and rapid implementation of the Rail Merger, the progress of our projects for extending the Hong Kong network, and our ongoing commitment to the sustainable economic growth of Hong Kong.

The results in the first half demonstrate the initial success of the Rail Merger. We achieved strong financial results for the half year, with revenue rising by 75.7% to HK\$8,527 million and operating profit from railway and related businesses before depreciation and amortisation also increasing by 71.5% to HK\$4,796 million. Our property development profit realised in the period was HK\$348 million, less than the HK\$1,664 million recognised in the first half of 2007, due to the timing of development profit recognition particularly relating to two development projects, The Capitol and The Palazzo, from which, subject to issuance of the Occupation Permit, we expect profit bookings later. Excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 33.2% to HK\$2,731 million. Including investment property revaluation, our net profit attributable to equity shareholders was HK\$4,689 million and earnings per share were HK\$0.83. Your Board has declared an interim dividend of HK\$0.14 per share.

Rail Merger

The first half of 2008 saw the continued successful implementation of the programme that has guided us throughout the merger integration process. A new set of the Vision, Mission and Values for the Company was developed following the Rail Merger. We continued to work on creating harmonious staff relations and a unified culture, as well as completed the selection and appointment of all of our staff, as part of merger integration. We intensified our ongoing "Service from the Heart" campaign, signalling a new chapter in high quality customer service. A large-scale review of energy efficiency was also launched through benchmarking of best practices from both pre-merger rail operations. Overall, the work of the Merger Integration Office ensured that divisional integration, achievements in synergies and integration of the single journey ticket system stayed on track.

Growth Strategy

Our growth strategy gained much ground in Hong Kong with Government's approval, in March and April, for the planning and design of the Shatin to Central Link, the Kwun Tong Line Extension to Whampoa and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link. These new lines together with the West Island Line, South Island Line (East), and Kowloon Southern Link which were previously approved by Government will, when completed, add approximately 60 kilometres to our network, representing the largest home base network expansion in the history of our company.

Our Mainland of China and international business continued to expand, with progress on the Beijing Metro Line 4 project and Shenzhen Metro Line 4 project, the exploration of new opportunities in Hangzhou and Shenyang, and further progress of our joint venture, London Overground Rail Operations Limited.

Sustainability

Concerns over the environment and climate change have become key business considerations for companies around the world. MTR Corporation continues to expand our commitment to fostering sustainable development and the well-being of the communities wherever we operate.

Our efforts to integrate environmental concerns, best practice and sustainability into all our business decisions continued to receive widespread acclaim. In February, we were recognised as a Sustainability Leader within the global travel and tourism industry sector, and won the Silver Class Award from Sustainable Asset Management. We have also retained our listing on the internationally recognised Dow Jones Sustainability Indexes and FTSE4Good Index series.

In May we published our seventh annual Sustainability Report 2007, *Building Capability*, which reflects our culture of continual improvement. The Report offers our vision of the future challenges to our business from the changing physical environment and the benefits derived for the communities we serve.

We also won the Hang Seng Pearl River Delta Environmental Award organised by the Federation of Hong Kong Industries. The award recognised our efforts in protecting the environment and embracing sustainability through launching a series of initiatives, including energy saving programmes in stations, recycling of industrial rechargeable batteries, construction of noise barriers and sustainability reporting.

We continue to encourage MTR colleagues to take part in community service. During the first six months of the year, there were 35 volunteering projects in our "More Time Reaching

Community" scheme involving around 600 volunteers. In April, the fourth MTR HONG KONG Race Walking event was held in Central to encourage Hong Kong people to integrate regular exercise into their daily lives. The event raised HK\$1.3 million for health education.

We are affected in spirit by the natural disasters in the Mainland. In February, after record snow falls in Central China, we donated HK\$1 million to the Hong Kong Red Cross to provide clothing and emergency supplies for the victims, and HK\$1 million to the All-China Federation of Railway Trade Unions to show our care and concern. The Sichuan earthquake in May was a blow to everyone. Following an initial early donation of HK\$1 million by the Company, MTR colleagues raised another HK\$5.6 million which was "dollar matched" in donation by the Company, bringing the total to HK\$11.27 million. In addition, our colleagues working in various offices in the Mainland raised a further RMB300,000, while in our shopping centres in Hong Kong, customers contributed an additional HK\$2 million. In sum, donations from MTR Corporation, our employees and our customers topped over HK\$14.6 million for those struggling in the aftermath of the Sichuan earthquake.

The soundness of our Board governance, the excellence of our management and staff, the loyalty of our customers and the trust of our shareholders underpin the continuing strong performance of MTR Corporation. As we forge ahead in the new "post merger" era, I would like to thank my fellow directors, our staff and all our stakeholders for their continued support.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 5 August 2008