CEO's Review of Operations and Outlook

"The Company's results for the first half of 2009 reflected the steady performance of our recurrent businesses as well as good results from property development."

Dear Stakeholders,

I am pleased to report MTR Corporation's results for the first six months of 2009. Despite the global recession and its negative impact on the Hong Kong economy, our recurrent businesses, comprising rail, station commercial and rail related businesses along with property rental and management, registered solid performance while our property development business remained resilient. The first half of 2009 also saw continued achievement of the Rail Merger synergies as well as accelerated momentum in our drive to grow our businesses both in Hong Kong and overseas.

In Hong Kong, we entered into a Project Agreement with the Hong Kong SAR Government on 13 July 2009 thus allowing for construction of West Island Line (WIL) to commence. Further progress was made on the design of the South Island Line (East) (SIL(E)) and Kwun Tong Line Extension (KTE), both of which will be invested, constructed and operated by the Company. Good progress was also made in the design of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the domestic Shatin to Central Link (SCL); these two lines will be funded by the Government. The new LOHAS Park Station on the Tseung Kwan O Line was opened for service on 26 July 2009 and operation of the Kowloon Southern Link with the new Austin Station will commence on 16 August 2009.

In the Mainland of China, we entered into the Concession Agreement for the Shenzhen Metro Line 4 project on 18 March 2009 as well as the Concession Agreement relating to the Operations and Maintenance of Shenyang Metro Lines 1 and 2 on 7 May 2009.

Internationally, in Stockholm, our wholly owned subsidiary was awarded an eight-year franchise in January to operate the Stockholm Metro starting from 2 November 2009, and in Melbourne, Metro Trains Melbourne (MTM), our 60% owned subsidiary, was chosen in June as the preferred bidder to operate the Melbourne metropolitan train network.

The Company's results for the first half of 2009 reflected the steady performance of our recurrent businesses as well as good results from property development. Under a recessionary environment, revenue increased by 1.2% to HK$8,630 million while operating profit from railway and related businesses before depreciation and amortisation increased marginally to HK$4,799 million. Property development profits were HK$2,147 million compared to HK$348 million in the same period of 2008 mainly due to the recognition of final profit split with the developer on The Harbourside at Kowloon Station as well as further recognition of profits from The Palazzo and The Capitol, arising from receipts of final stage payments on units previously sold. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 42.9% to HK$3,903 million. Change in fair value of investment properties was HK$712 million pre-tax (HK$595 million post-tax) compared with a much more significant property revaluation surplus of HK$2,080 million pre-tax in the first half of 2008. Therefore, net profit attributable to equity shareholders was HK$4,498 million, a decrease of 4.1% from the corresponding period in 2008, with reported earnings per share decreasing by 4.8% to HK$0.79. Your Board has declared an interim dividend of HK$0.14 per share.

Hong Kong Railway Operations

"Our overall share of the franchised public transport market rose to 42.0% in the first five months of 2009 . . ."

Patronage

For the first half of 2009, total patronage for all of our rail and bus passenger services (Integrated MTR System) increased by 0.7% to 726.4 million as compared to that of the same period last year.

Our Domestic Service, comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines, recorded total patronage of 586.7 million. This represents an increase of 0.3% when compared with patronage in the first half of 2008. However, beginning in May, we saw a reduction in patronage due to human swine influenza and the subsequent early closure of some schools. Average weekday patronage for the Domestic Service in the first half of 2009 was 3.47 million, which represents an increase of 0.7% over that in the same period last year.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 45.8 million in the first half of 2009, representing a slight decrease of 0.4% compared to the same period in 2008.

Passengers using the Airport Express in the first half of 2009 fell more significantly by 11.5% to 4.6 million when compared with the same period last year, mainly due to the decrease in air passengers.

Passenger volume on Light Rail, Bus and Intercity was 89.3 million in the first half of 2009, an increase of 5.3% when compared with the same period last year.

Overall, average weekday patronage on the Integrated MTR System was 4.2 million in the first half of 2009.

In our network expansion, the LOHAS Park Station on the Tseung Kwan O Line opened on 26 July 2009. The Kowloon Southern Link, with the new Austin Station, will commence service on 16 August 2009, and will strategically connect the West Rail Line with the East Rail Line, by an interchange at Hung Hom Station.

Market Share

Our overall share of the franchised public transport market rose to 42.0% in the first five months of 2009 as compared to 41.6% in the same period last year. Within this total, our share of cross-harbour traffic rose to 63.4% from 62.6% whilst our market share in the Cross-boundary business declined to 55.4% from 56.6% due to continued strong competition.

Fare Revenue

Total fare revenue was HK$5,527 million in the first half of 2009, which represents a small decrease of 1.2% from the same period last year.

Fare revenue of the Domestic Service was HK$3,829 million in the first half of 2009, which represents a slight decrease of 0.5% from the same period in 2008 with average fare per passenger decreasing by a marginal 0.8% to HK$6.53 due to the extension of student half fares to the East Rail Line, West Rail Line and Ma On Shan Line starting from 28 September 2008.

In our Cross-boundary Service, average fare per passenger was HK$24.75 in the first half of 2009, a slight increase of 2.0% when compared with the same period in 2008, whilst for the Airport Express, average fare per passenger decreased by 3.3% to HK$62.56 mainly due to the change in passenger mix.

The first application of the Fare Adjustment Mechanism took place in the second quarter of 2009. In accordance with the agreed methodology, the calculated fare increase of 0.7%, based on the change in Composite Consumer Price Index and transport wage index in 2008, was below the trigger point for a fare adjustment of ±1.5%. Hence the calculated increase percentage of 0.7% will be carried forward to the Fare Adjustment Mechanism calculation in 2010.

Operations Performance in First Half 2009

Service performance item	Performance Requirement	Customer Service Pledge target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line & Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line & Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	N/A	500,000	**1,928,587**
– East Rail Line (including Ma On Shan Line) & West Rail Line	N/A	500,000	**2,838,006**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) & West Rail Line*	N/A	8,000	**21,000**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	97.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.6%**
– West Rail Line	97.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	97.0%	99.0%	**99.8%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.8%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26˚C	N/A	97.0%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0.3**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27˚C for platforms and 29˚C for station concourses, except on very hot days	N/A	90.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**99.9%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

* East Rail Line (including Ma On Shan Line) and West Rail Line are included since 28 September 2008.

Service and Performance

We continue to exceed both the minimum performance levels as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges.

Service improvements in the first half of 2009 included an extensive programme of station area upgrades, the completion of public WiFi for Airport Express trains, and a continuing series of enhancements for access to the network for the disabled. In response to the serious threat to public health posed by human swine influenza pandemic, the Company implemented an extensive programme to educate both customers and staff about taking precautions and an Influenza Pandemic Command Team was established to implement a series of risk mitigation initiatives. Timely measures included increased sanitation and cleaning procedures, as well as the provision of personal protective equipment and dissemination of information through display systems at stations.

The winning of a number of prestigious awards once more reflected our ongoing commitment to service excellence. MTR Corporation won the Gold Award in The Hong Kong Association for Customer Service Excellence Limited's "Customer Service Excellence Award – Grand Award 2008". The Company also won the "Sing Tao Excellent Services Brand Award 2008 – Public Transportation Category" for the third consecutive year. Other awards included Next Magazine's "Top Service Award – Transportation Category" for the 11th year in a row, East Week Magazine's "Hong Kong Service Awards – Transportation Category" for the fifth consecutive year as well as the magazine's Corporate Social Responsibility Award for the second year, the Prime Award for Eco-Business presented by Prime Magazine for the second year and the "2008 Hong Kong Top Service Brand Award" jointly organised by the Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong.

Station Commercial and Rail Related Businesses

> "Revenue for our station commercial and rail related businesses in the first half of 2009 was HK$1,653 million representing an increase of 0.5% over the same period in 2008."

Revenue for our station commercial and rail related businesses in the first half of 2009 was HK$1,653 million representing an increase of 0.5% over the same period in 2008.

Station retail revenue in the first half of 2009 was HK$793 million representing an increase of 2.5% over the same period in 2008. This increase was largely due to the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations as well as an increase in shop rental rates on renewals or reletting in the first half of 2009. Renovation of 41 new shops was completed during the period at 11 stations along with seven new trades added. The total number of shops at 30 June 2009 was 1,209 with total station retail area of 51,726 square metres.

Advertising revenue in the first half of 2009 was HK$270 million representing a reduction of 22.0% when compared with the same period in 2008. This reduction was mainly due to decrease in advertising spending as a result of the poor economic environment. New advertising formats introduced in our system included 60 pairs of 65-inch High Definition plasma TVs installed at ten strategic stations in May. In total, there are now 21,152 advertising points in our stations, 24,629 in trains (including 4,545 Liquid Crystal Displays) and 66 exhibition and display sites in 42 stations.

Revenue from telecommunications services in the first half of 2009 was HK$132 million representing an increase of 2.3% when compared with the same period in 2008. In March, one of Hong Kong's leading telecom operators launched an advanced 2G/3G mobile network, enabling passengers to enjoy high data speed of up to 21Mbps in our railway system. Full 3G mobile phone coverage was also launched at four of the West Rail Line stations in June 2009 with the remaining stations along the line to be fully 3G enabled by the third quarter. A new source of revenue arose from the renting of our railway premises roof tops to house Global Positioning Systems and Microwave Antennae systems.

Revenue from external consultancy was HK$85 million during the first six months, an increase of 32.8% when compared with the same period in 2008.

Property and Other Businesses

"Profit from property development for the first six months of 2009 was HK$2,147 million, a significant increase over the HK$348 million recorded in the same period in 2008."

Overview

The Hong Kong property market saw some consolidation in the early months of the year. However, despite little improvement in the overall economy, the low interest rate environment and a recovery in confidence saw property activities pick up in the second quarter of 2009 with both prices and transaction volumes strengthening.

Property Development

Leveraging off the recovery in the property market, the pre-sale of Lake Silver at Wu Kai Sha was launched in May. Market response was positive and about 85% of the 2,169 units have now been sold. On 17 July 2009, pre-sale of Phase A of Le Prestige at LOHAS Park was launched with good response and all 1,688 units have been sold.

Profit from property development for the first six months of 2009 was HK$2,147 million, a significant increase over the HK$348 million recorded in the same period in 2008. As highlighted previously, recognition of property development profit in any period depends, partly, on the number of projects on which profits can be booked. In the first half of 2009 the major contributors to property development profit were the recognition of final profit split with the developer relating to The Harbourside, as well as additional profit bookings from The Palazzo and The Capitol following receipt of final stage payments from buyers of units in these developments.

Property Rental, Management and Other Businesses

Total revenue from property rental, property management and other businesses was HK$1,450 million, an increase of 12.4% over the same period in 2008.

Although the general demand for both office and retail space remained soft, our property rental income increased by 11.6% to HK$1,249 million, due mainly to the addition of Elements Phase 2 in November 2008 as well as an average increase in rental reversion of 4.6%. As of 30 June 2009, the occupancy rate of our shopping malls was 98% and our office premises were fully leased out.

Elements, our premium shopping centre in Hong Kong, won the Official Honouree distinction in the 13th Annual Webby Awards and the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and continued to receive international recognition by winning the Cityscape Asia Real Estate Award in May 2009 as Best Commercial/Retail Development.

Property Development Packages Awarded and to be Completed

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Kowloon Station						
Package Five, Six and Seven (Elements, International Commerce Centre, The Cullinan, W Hong Kong, The Harbourview Place)	Sun Hung Kai Properties Ltd.	Retail Office Service apartment Hotel Residential Kindergarten Car park	82,750 231,778 72,472 95,000 21,300 1,045	1,683*	Awarded in September 2000	By phases from 2006-2010
Tseung Kwan O Station						
Area 56	Sun Hung Kai Properties Ltd.	Residential Hotel Retail Office Car park	80,000 58,130 20,000 5,000	360	Awarded in February 2007	2011
LOHAS Park Station						
Package Two (Le Prestige)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800	905	Awarded in January 2006	By phases from 2009-2011
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2012
Wu Kai Sha Station (Lake Silver)	Sino Land Co. Ltd.	Residential Retail Kindergarten Car park	168,650 3,000 1,000	309	Awarded in July 2005	2009
Tai Wai Maintenance Centre	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	711	Awarded in April 2006	By phases from 2009-2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	253	Awarded in April 2008	2012
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail Car park	119,512 25,000	349	Awarded in August 2006	By phases from 2012-2013
Tsuen Wan West Station TW7#	Cheung Kong (Holdings) Ltd.	Residential Car park	113,064	444	Awarded in September 2008	2013

* The number of car parking spaces is subject to review

as development agent for the Government of HKSAR

Property Development Packages to be Awarded Notes 1 and 2

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Expected no. of parking spaces	Period of package tenders	Expected completion date
LOHAS Park Station	6 – 10	Residential Retail Car park	1,025,220 – 1,035,220 39,500 – 49,500	3,303 (max.)	2009-2015	2019
Tai Wai Station	1 – 2	Residential Retail Kindergarten Car park	190,480 62,000 1,110	713	Under review	Under review
Tin Shui Wai Light Rail Terminus	1	Residential Retail Car park	91,051 205	267	Under review	Under review
Austin Station, Site C & Site D	1	Residential Car park	119,116	285	2009	2013

Notes:

1 Property development packages for which we are acting as development agent for the Government of HKSAR are not included.

2 These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

Property management revenue in the first half of 2009 was HK$114 million, an increase of 10.7% over the same period in 2008. The number of residential units under our management totalled 77,280 at the end of June, while commercial space under management was 749,590 square metres.

Ginza Mall, which opened in January 2007, set a new benchmark for service and quality standards for shopping malls in Beijing. During the first half of 2009, the occupancy rate continued to be close to 100%. The mall was widely recognised by receiving various awards and honours. These included the Capital Safety and Security Pioneer Shopping Centre Award sponsored jointly by the Capital Safety and Security Office, the Beijing State-owned Assets Supervision and Administration Commission, the Beijing Police Bureau and the Beijing Industrial and Commerce Bureau.

As of 30 June 2009, the Company's investment properties included 222,189 square metres of lettable floor area of retail properties, 41,059 square metres of lettable floor area of offices and 10,402 square metres of real estate for other usage.

Octopus

Octopus continued its expansion in the retail sector by appointing new acquirers to recruit small to medium-sized retail merchants. By the end of June, there were over 2,500 Octopus service providers (including those serviced by Octopus-appointed acquirers) in Hong Kong. Cards in circulation was 19.5 million and average daily transaction volume and value were 10.7 million and HK$94.2 million respectively.

The Company's share of Octopus' net profit for the first half of 2009 was HK$68 million, a 12.8% decrease from the same period in 2008 due to lower international revenue contributions.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK$87 million of revenue in the first six months of 2009, a 27.9% increase over the same period in 2008, with visitor numbers reaching more than 745,000 despite a significant decline of tourists to Hong Kong. In April, Ngong Ping 360 launched the Crystal Cabins, which were the world's first cable car cabins to be fitted with a full-width transparent bottom and which proved to be hugely popular with our guests. In the same month, Ngong Ping 360's Cable Car Operations Department received ISO 9001:2008 certification.

Hong Kong Network Expansion

"Rapid progress was made on the Kowloon Southern Link, which will strategically connect the existing East Rail Line with the West Rail Line . . ."

Hong Kong

Good progress was made in the first half of the year on the planning and construction for the Company's five new rail projects in Hong Kong, which together with the completed Kowloon Southern Link, will extend our network by approximately 60 kilometres.

Rapid progress was made on the Kowloon Southern Link, which will strategically connect the existing East Rail Line with the West Rail Line, forming a major East-West rail artery with an interchange at Hung Hom Station. All statutory inspections for the new Austin Station on the Kowloon Southern Link and other associated works have been completed and the extension will open for service on 16 August 2009.

Phase 2 of the Tseung Kwan O Line was completed in the second quarter of 2009 with the LOHAS Park Station opening on 26 July to coincide with occupancy of The Capitol at LOHAS Park. The opening marked the full completion of the Tseung Kwan O Line, bringing passenger rail service to a growing new community.

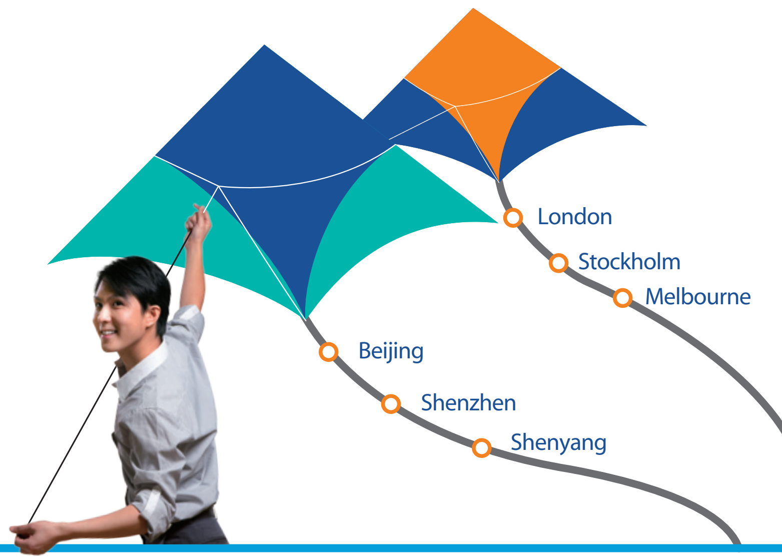
The WIL was gazetted under the Railways Ordinance in October 2007. Frequent dialogue with, and input from, local communities have since led to a design that is sensitive to both local heritage and urban renewal opportunities thus creating a "Community Railway". The WIL Project Agreement was signed between the Company and Government on 13 July 2009 whereby an amount of HK$12.252 billion would be granted to the Company for project construction works. Part of this project grant is subject to repayment to Government in the event that certain actual capital expenditure for the line is less than currently forecast. This project grant is in addition to an amount of HK$400 million, which was previously given by the Government to the Company on 19 February 2008 for detailed design of the WIL. These grants will enable the Company to earn an investment return within the range of 1% to 3% above our weighted average cost of capital. Construction has begun and WIL opening is expected in 2014.

The SIL(E) was gazetted on 24 July 2009, and detailed design has commenced with the line targeted to open in 2015.

The planning and design of other new railway projects continued with detailed design for the Express Rail Link and preliminary design of the SCL making good progress in the first half of 2009. Preliminary design of the KTE was completed in June, with gazettal and detailed design scheduled in the second half of the year.

Mainland and Overseas Expansion

"Our projects in the Mainland of China and overseas continued to make progress."



Our projects in the Mainland of China and overseas continued to make progress.

Mainland of China

In Beijing, the Public-Private-Partnership (PPP) company comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group (49%) is finalising construction work on the Beijing Metro Line 4 (BJL4) project in preparation for line opening in the fourth quarter of 2009. All track laying has been completed, while signalling testing and trial running of trains and station operations preparations continue.

In Shenzhen, the Concession Agreement for the Shenzhen Metro Line 4 (SZL4) project was signed in March with the Shenzhen Municipal Government. 82% of the overall civil works for SZL4 Phase 2 had been finished by the end of June and most of the Electrical and Mechanical contracts have been awarded. We are due to take over the operations of Phase 1 of SZL4 in the middle of 2010 with full line operations, including Phase 2, by the middle of 2011.

We also moved forward in our discussions with the Shenyang Municipal Government on the Operations and Maintenance of Shenyang Metro Lines 1 and 2 with the signing of the Concession Agreement in May together with a framework agreement on possible property development above stations on Lines 1 and 2.

Overseas

In the UK, our 50:50 joint venture, London Overground Rail Operations Ltd, continues to bring steady service improvements to the London Overground following takeover of the concession in November 2007.

In Sweden, our wholly owned subsidiary was selected as the operator under an eight-year concession for the Stockholm Metro system on 21 January 2009. Mobilisation is in progress to take over the concession in November after receiving assurance from the tendering authority in the face of a legal challenge, launched by the incumbent operator, against the tendering authority. In Australia, our subsidiary MTM, comprising MTR Corporation (60%), John Holland Melbourne Rail Franchise Pty Ltd (20%) and United Group Rail Services Ltd (20%), was selected as the preferred bidder to operate the Melbourne metropolitan train network for eight years with a possible extension for a further seven years. Negotiations continue with the aim to agree final franchise terms shortly and to start operating the franchise in December 2009.

Financial Review

The Group's financial performance for the first half of 2009 remained resilient despite the global economic downturn, with total revenue increasing by 1.2% to HK$8,630 million as compared to the same period last year. Total fare revenue decreased by 1.2% to HK$5,527 million, mainly attributable to the 11.5% drop in patronage on Airport Express and the extension of student concession fares to the ex-KCR system starting from September last year. Revenue from station commercial and rail related businesses increased by 0.5% to HK$1,653 million reflecting slight growth in most of these businesses except advertising, which was severely affected by the economic downturn and recorded a 22% drop in revenue. Property rental, management and other revenue rose by 12.4% to HK$1,450 million mainly due to the inclusion of rental revenue for Elements Phase 2, which opened in November 2008, as well as positive rental reversions.

Operating expenses before depreciation and amortisation for the first half of 2009 increased by 2.7% to HK$3,831 million when compared to the same period last year mainly due to increases in staff costs, maintenance costs and increases in stores and spares consumed. Further synergies from the Rail Merger were realised and are on track to achieve the estimated HK$450 million per year ahead of schedule within 2009. As a result, operating profit from railway and related businesses before depreciation and amortisation increased marginally by 0.1% to HK$4,799 million while operating margin decreased from 56.2% to 55.6%.

Property development profit for the first half of 2009 amounted to HK$2,147 million, mainly comprising recognition of final profit split with developer on The Harbourside and surplus proceeds from The Palazzo and The Capitol of which The Palazzo and The Capitol contributed HK$1,227 million. Operating profit before depreciation and amortisation increased 35.0% to HK$6,946 million as compared to the same period last year.

Depreciation and amortisation charges for the first half of 2009 decreased by 3.5% to HK$1,464 million mainly attributable to certain assets being fully depreciated by the end of last year. Merger related expenses, comprising post-merger integration expenses not eligible for capitalisation, decreased to HK$7 million. Net interest and finance charges decreased by 20.8% to HK$854 million mainly due to the lower costs of borrowing as well as reduced debt outstanding. The increase in fair value of investment properties since the end of 2008 amounted to HK$712 million pre-tax and HK$595 million post-tax compared with HK$2,080 million pre-tax and HK$1,737 million post-tax for the same period last year.

Including the share of profits of HK$74 million in total from Octopus Holdings Limited and London Overground Rail Operations Ltd, profit before tax for the first half of 2009 increased by 15.1% to HK$5,407 million. Income tax amounted to HK$910 million compared to HK$8 million last year; the low tax charge in 2008 was due to a one-off reduction in deferred tax liability, of HK$704 million, resulting from a reduction in Hong Kong Profits Tax rate from 17.5% to 16.5%. As a result, net profit attributable to shareholders for the first half of 2009 amounted to HK$4,498 million, a decrease of 4.1% from the same period last year. Reported earnings per share decreased from HK$0.83 to HK$0.79. Excluding investment property revaluation gains and the related deferred tax, net profit from underlying business increased by 42.9% to HK$3,903 million with earnings per share on the same basis increasing from HK$0.49 to HK$0.69. On a pre-tax basis, net profit from underlying business increased by 79.4% from HK$2,617 million to HK$4,696 million.

The Board has declared an interim dividend of HK$0.14 per share. As with previous dividend payments, a scrip dividend option will be offered to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. The Company's major shareholder, the Financial Secretary Incorporated (FSI), has agreed to receive its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash.

The Group's balance sheet strengthened further with net assets of the Group increasing by 3.7% to HK$101,409 million as at 30 June 2009. Total assets increased by 0.2% to HK$159,708 million mainly attributable to investment property revaluation gains of HK$712 million together with capital expenditures incurred in the SZL4 Project and other new railway extensions, as well as capital improvement projects. Debtors, deposits and payments in advance decreased by HK$1,390 million mainly due to cash receipts from property development projects such as The Palazzo, The Capitol, Metro Town and Le Point. During the period, total borrowings of the Group decreased from HK$31,289 million to HK$27,880 million due to loan repayment from net cash generated in our businesses. As a result, net debt-to-equity ratio of the Group including obligations under the service concession as a component of debt decreased from 42.1% at 31 December 2008 to 37.0% at 30 June 2009.

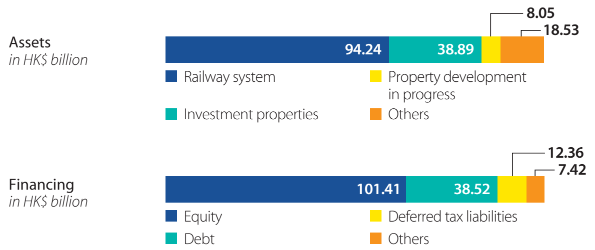
The Group's cash inflow generated from railway and related activities for the first half of 2009 increased by 2.1% to HK$4,771 million. After tax payment of HK$194 million, net cash inflow generated from operating activities for the half year was HK$4,577 million. Cash receipts from our property development business amounted to a further HK$2,523 million mainly from The Palazzo, The Capitol, Metro Town and Le Point. Including proceeds from net sales of investments in securities of HK$240 million and receipts of dividends of HK$40 million from Octopus Holdings Limited, cash inflow for the Group decreased by 11.8% to HK$7,380 million mainly due to a reduction in cash receipts from our property development business and the receipt of the government grant for the detailed design of the WIL Project of HK$400 million in February 2008. Cash outflow for capital expenditures during the period increased to HK$1,888 million from HK$1,429 million for the same period last year mainly due to an increase in purchases of operational railway assets. After deducting payments for property projects of HK$305 million, investment in Shenyang Metro Lines 1 and 2 associate of HK$55 million, net interest payment of HK$657 million, merger related expenditures of HK$12 million, dividend payment of HK$962 million and other working capital payments, net cash generated during the first half of 2009 amounted to HK$3,505 million, of which HK$3,277 million was used to reduce borrowings resulting in a net increase in cash and cash equivalents of HK$228 million.

Financing Activities

During the first half of 2009, financing conditions in both the capital and banking markets improved with increased liquidity, improved risk appetite, reduced credit spreads, and increased issuance volume, although new issuance remained skewed towards stronger, top rated credits.

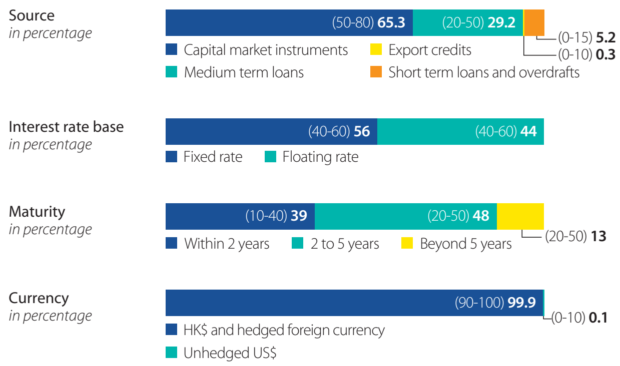
Simplified Balance Sheet

As at 30 June 2009



Preferred Financing Model and Debt Profile

(Preferred Financing Model) vs. **Actual debt profile**
As at 30 June 2009



With our strong cash flow and substantial undrawn banking facilities, we did not undertake any significant capital raising in the first half of 2009 although on an opportunistic basis, we issued HK$500 million of 5-year fixed rate medium term notes through private placement at very attractive rates.

In the Mainland of China, following the signing of the Concession Agreement for SZL4, the Group in May concluded a RMB 4.0 billion financing agreement for the project that comprises a RMB 3.6 billion 20-year term loan and other credit facilities.

As at the end of June 2009, the Group had total undrawn committed facilities of HK$7.8 billion (excluding the above-mentioned RMB credit facilities specifically for SZL4). Taking into account the strong cash flows from our businesses, it is estimated that these facilities will provide sufficient coverage for all the Group's funding needs through early 2011, including debt repayments and capital expenditures. In addition, after the period end, on 13 July 2009, the Company entered into the WIL Project Agreement whereby the Government will give to the Company a cash grant of HK$12.252 billion. On draw down of this grant, our liquidity will be further enhanced.

During the period, we continued to manage our debt financings in a prudent manner in accordance with the Preferred Financing Model to achieve a balanced portfolio with adequate risk diversification. As at the end of June 2009, the Group's debt maturity profile was well balanced with 39% of total outstanding debt repayable within 2 years, 48% between 2 and 5 years, and 13% beyond 5 years. More than 99% of the debt portfolio was either in or hedged into Hong Kong dollars, inclusive of foreign currency borrowings naturally hedged by assets or cash flows from overseas businesses. Approximately 56% of the debt outstanding was in fixed rate.

The Group's average borrowing cost during the period was 3.6%, a decrease from 4.7% during the same period last year as interest rates reduced.

Human Resources

"In these challenging economic times, we continue our focus to ensure a stable workforce, retaining and improving staff resources, and attracting the very best recruits to support our business growth."

The professionalism and dedication of our staff are key contributors to our continued success. In these challenging economic times, we continue our focus to ensure a stable workforce, retaining and improving staff resources, and attracting the very best recruits to support our business growth.

To cater for the increase in manpower requirements for the new extensions in Hong Kong, a high level human resources plan for Projects and Operations Divisions has been drawn up. Extensive communications on future manpower planning and career roadmaps for major job functions were conducted for all relevant staff to strengthen their commitment to career development through our integrated staff development programme.

In particular, to address the resourcing challenges arising from our offshore growth business, an integrated manpower resourcing mechanism was established along with the strengthening of growth business resource planning. In addition, we encouraged and facilitated more relocations of local staff to support different projects within the Mainland of China and overseas, such as engaging our Shanghai staff to help with our Delhi Project and the mobilisation of the Shenzhen staff to support BJL4's opening.

In order to develop management and leadership quality for the future of the Company, we maintained our major ongoing programmes such as our Executive Associate Scheme, while at the entrance level we continued to recruit top-notch, versatile graduates from the Mainland of China, Hong Kong and overseas universities into our graduate trainee and functional associate programmes.

To reinforce team spirit and enhance service performance, a broad range of training and staff development programmes was undertaken, with particular emphasis on strengthening the new Vision, Mission and Values culture across the Company. Strong emphasis was placed on improving customer service training, with a new "Caring Service Best Practice Manual" issued to frontline staff. Our efforts in training were given widespread recognition through the winning of several awards, including in June the Gold Prize in the Hong Kong Management Association's "2009 Award for Excellence in Training", which is a prestigious benchmark for exemplary training and development practices, and the VTC Outstanding Apprentice/Trainee Award in March for three graduated apprentices.

Outlook

Despite the financial markets having rebounded in the second quarter of 2009, the economic outlook remains challenging. Hence we take a cautious stance for the balance of 2009.

Although our rail business is defensive by nature, we began to see a patronage reduction in our Domestic Service towards the end of the first half; we expect this reduction to continue in the second half, impacted by the economic environment and the effect of human swine influenza. However the opening of the Kowloon Southern Link will help to mitigate the impact of this reduction. Under performance of the Airport Express business compared with the previous year is expected to continue.

In our station commercial and rail related businesses, we expect the poor economic environment to continue to impact our advertising business although the station retail and telecommunication businesses show resilience. I would highlight that in the second half of 2008, we received a one-off payment on termination of a telecom contract which will not be repeated in 2009.

In our property rental business we are beginning to see a slight increase in vacancies although rental reversions remain positive.

With the successful sales of apartments at Lake Silver in Wu Kai Sha, the timing of booking of our share of profits will depend only on the issuance of Occupation Permit, which was issued in mid-July 2009. The amount of profits booked is calculated after setting off the cost of acquisition of the related development rights from Kowloon-Canton Railway Corporation (KCRC). Our share of profits of Phase A (Towers 1, 2, 3 and 5) of Le Prestige at LOHAS Park will be accounted for as a "sharing in kind", and profit booking will be dependent only on the issuance of Occupation Permit, which is expected to be either at the end of 2009 or beginning of 2010. The total deemed interest on the interest free loan extended to the developer relating to Le Prestige will be set off against profits to be booked for our share of Phase A. We do not have any financial interest in the remaining phases of Le Prestige. Looking further forward in 2010, we would expect to receive Occupation Permit for the small retail centre in Area 56 Tseung Kwan O and, also as a "sharing in kind" project, would book profits relating to our share of the retail centre on issuance of the Occupation Permit.

Currently pre-sale consent for sale of units at Tai Wai Maintenance Centre is being processed. However even if sales are launched for this development later this year or in 2010 it is unlikely that enough units would be sold to allow profits to be booked until 2011.

In our property tendering activities, depending on market conditions, we may tender both Austin Station sites C and D, and the Nam Cheong Station site before the end of first quarter 2010. The Nam Cheong Station site is a West Rail Property Development site for which we only act as agent.

Given the economic uncertainties we remain focused on cost containment, minimising cash outflow and maintaining an adequate liquidity cushion.

Finally, I would like to take this opportunity to thank my fellow directors and all my colleagues for their energy and dedication.

C K Chow, *Chief Executive Officer*
Hong Kong, 11 August 2009