

Chairman's Letter

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Dear Shareholders and other Stakeholders,

I am pleased to report that the interim results of MTR Corporation for the six months ended 30 June 2011 continue to show strong momentum in all our businesses.

The buoyant economy supported our recurrent businesses in Hong Kong, with our transport business seeing a further rise in patronage and our station commercial operations putting in solid performances. Our investment properties saw positive rental reversions and we booked property development profits relating to our share of a shopping mall in Tseung Kwan O Area 56 as well as an initial amount of profit relating to Festival City at Tai Wai. Our growth strategy in and outside of Hong Kong made further progress and a number of our expansion projects have entered important new stages of development.

The modest increase in fares implemented under the agreed annual Fare Adjustment Mechanism in June 2010 also contributed to results. The fare adjustment last year was the first fare increase since 1997, whilst we had also reduced fares at the time of the Rail Merger back in 2007. This year's application of the mechanism on 19 June 2011 also led to a modest weighted average increase of 2.2% to applicable fares. Even after these fare adjustments, many of our fares today are no higher than they were in 1997. Despite such competitive fares, as part of our social responsibility, we offer a number of concessions to the elderly, children, students and passengers with disabilities. These concessions, together with various fare promotions in 2011, will add up to HK\$1.7 billion returned to the community.

Financial Results

Revenue for the first six months of 2011 increased by 14.7% over the same period last year to HK\$16,169 million. Within this, revenue from our recurring businesses excluding our railway subsidiaries outside of Hong Kong grew by 8.1%, leveraging off the strong economic growth in Hong Kong. Revenue from our

railway subsidiaries outside of Hong Kong recorded a 27.2% growth, mainly due to additional revenue from our Melbourne franchise, exchange rate movements and the inclusion of revenue from our Shenzhen subsidiary. Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment increased 9.3%. However, due to the lower property development profits in the first half of 2011 compared to 2010, net profit attributable to equity shareholders (excluding the change in fair value of investment properties and the related deferred tax) was HK\$4,369 million, a 23.6% reduction compared to the first half of 2010. Including investment property revaluation, our net profit attributable to equity shareholders was HK\$8,050 million and earnings per share were HK\$1.39. Your Board has declared an interim dividend of HK\$0.25 per share.

Growth Strategy

Our five railway extension projects in Hong Kong passed important milestones during the period. Further progress was made in the construction of the West Island Line and the Express Rail Link (the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link). In May 2011, the Company entered into Project Agreements with Government for the design, construction, operation and financing of both the South Island Line (East) and the Kwun Tong Line Extension, and construction works started immediately for both projects. At the same time, an Entrustment Agreement for the design and construction for the Advance Works of the Shatin to Central Link was signed and construction works also started immediately.

In the Mainland of China, Beijing Metro Line 4 and the Daxing Line, which opened on 30 December 2010, have performed reliably and exceeded their operating performance and passenger number targets. In Shenzhen, we took over operation of Phase 1 of the Shenzhen Metro Longhua Line (SZL4) in July 2010 and average train service delivery and punctuality rates have also exceeded targets. The 16-km Phase 2 extension of SZL4 commenced passenger services on 16 June 2011.

Sustainability and Corporate Responsibility

The Company has been guided by a Corporate Sustainability Policy since 2002 and a Corporate Responsibility Policy since 2008. In March 2011, we supplemented these with the issue of a Corporate Biodiversity Policy, which commits us to safeguarding the environmental heritage against impacts from our operations. The new policy will coordinate the sustainable planning of our built environments and bring the climate change agenda to the front line of our rail and property businesses.

Our achievements in this area continue to attract international recognition. In March 2011, Sustainable Asset Management and PricewaterhouseCoopers again named our Company the Sector Leader in the global travel and tourism industry. We have retained our listing in FTSE4Good Index, Dow Jones Sustainability Indexes, and Hong Kong's Hang Seng Corporate Sustainability Index. We also remain the only Hong Kong company among the Global 100 Most Sustainable Corporations.

Underpinning our efforts to promote sustainable practices is the rigorous reporting we undertake. This is brought together in our annual Sustainability Report 2010, which was published in June 2011.

We have continued our efforts to reduce energy consumption and have begun introducing energy-efficient LED lighting on our trains and advertising panels. Waste is another area of environmental responsibility we have been tackling and in January 2011, three-colour recycling bins were introduced in all MTR and Airport Express stations. The bins make it easier for the nearly 4 million people travelling on our Hong Kong domestic heavy rail system and the Airport Express each day to achieve a low carbon lifestyle and reduce the waste going to Hong Kong landfills.

Community Care Action

Our Community Care Action programme focuses on four main areas: namely Youth, Community Outreach, Art & Culture and Green & Healthy Living.

As part of our youth programme, we have selected 100 Senior Secondary 2 (SS2) students out of 177 nominations for our 2011 "Train' for life's journeys" programme, which started in July this year. The "'Friend' for life's journeys" Programme for secondary school students will enter its third year later this year. It continues to enable our young volunteers to act as mentors and share insights with students. The programme also helps students broaden their horizons and equip them with useful life skills through a wide range of activities. It attracts participation from more than 100 secondary school students every year.

Each year, we support staff volunteering initiatives under our "More Time Reaching Community" scheme. During the first six months of the year, 85 projects took place involving over 1,900 volunteers. We have also continued to lend strong support to the Community Chest by raising funds through Green Day and a variety of other activities.

Culture and heritage are important aspects of community life and we have programmes in place to support them, such as the "art in mtr" programme which incorporates elements of art into our network.

We continue to encourage passengers to stay fit and this message is reinforced every year by MTR HONG KONG Race Walking. In April 2011, the event was held for the seventh time, raising a record HK\$1.33 million for the Hospital Authority's Health InfoWorld to support its work on disease prevention and health education.

Conclusion

Our aim is to make a sustainable contribution to the communities in which we operate that is both economic and social. I believe we have been achieving this goal and we will make every effort to continue to do so.

I would like to express my gratitude to my fellow directors for their counsel, our staff for their hard work and our stakeholders for their invaluable support.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 August 2011