CEO's Review of Operations and Outlook

"The Company's recurrent businesses in Hong Kong saw higher revenue, as economic activity led to good patronage growth, higher rental reversions at our rental properties and station shops, and further gains for our advertising business."

Dear Shareholders and other Stakeholders,

I am pleased to report that the strong business momentum from last year continued in the first six months of 2011. We are also making good progress in our growth strategy.

The Company's recurrent businesses in Hong Kong saw higher revenue, as economic activity led to good patronage growth, higher rental reversions at our rental properties and station shops, and further gains for our advertising business. Revenue from passenger services was further supported by the upward adjustment of fares under the Fare Adjustment Mechanism. Property development profits during the period came mainly from the booking of our share of a shopping centre at Area 56 in Tseung Kwan O as well as certain guaranteed receipts from the developer relating to Festival City at Tai Wai. The Company's businesses outside of Hong Kong also contributed to our financial results.

A number of significant milestones were achieved in our growth strategy. In Hong Kong, 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 in May 2011. At the same time, an Entrustment Agreement for the design and construction for the Advance Works of the Shatin to Central Link project was also signed. Construction works commenced immediately after these agreements were signed. The West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) continue to progress according to plan. In the Mainland of China, we began operations of Phase 2 of the Shenzhen Metro Longhua Line (SZL4) in June 2011.

Total revenue for the first half of 2011 rose by 14.7% to HK$16,169 million. Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment increased by 9.3% to HK$6,001 million. Excluding our railway subsidiaries outside of Hong Kong, revenue was 8.1% higher and operating profit was 8.9% higher, while operating margin improved by 0.5 percentage point to 57.6%. Property development profit in the first half of the year was HK$1,445 million compared to HK$3,705 million in the same period in 2010, when we booked significant profits from our share of Le Prestige at LOHAS Park Package 2. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders decreased by 23.6% to HK$4,369 million, representing earnings per share of HK$0.76. The decrease was due to the timing and magnitude of property development bookings this year compared with last year. Gain in revaluation of investment properties was HK$4,408 million pre-tax (HK$3,681 million post-tax) as compared with HK$1,101 million pre-tax for 2010. Therefore net profit attributable to equity shareholders was HK$8,050 million, equivalent to earnings per share of HK$1.39 after such revaluation. Your Board has declared an interim dividend of HK$0.25 per share.

HONG KONG PASSENGER SERVICES

"Total Hong Kong fare revenue was HK$6,392 million in the first half of 2011, an increase of 7.7% when compared with the first six months of 2010..."

Our Hong Kong fare revenue reached HK$6,392 million in the first half of 2011, an increase of 7.7% over the same period last year.

Patronage

Total patronage for all of our rail and bus passenger services in Hong Kong in the first six months of 2011 rose by 5.4% to 815.4 million.

On the back of economic growth and increased tourist arrivals in Hong Kong, our Domestic Service recorded total patronage of 658.4 million, a 5.6% increase over the same period last year. Our Domestic Service comprises 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.

The Cross-boundary Service at Lo Wu and Lok Ma Chau achieved patronage of 50.2 million in the first six months of 2011, 3.2% higher than the comparable period in 2010.

Passenger traffic on the Airport Express in the first half of 2011 increased by 11.4% to 5.6 million when compared with the same period last year, as air travel to and from Hong Kong continued its growth.

Passenger volume on Light Rail, Bus and Intercity was 101.2 million in the first six months of 2011, an increase of 5.1%.

Average Weekday Patronage

Average weekday patronage for all of our rail and bus passenger services in Hong Kong in the first half of 2011 rose by 5.2% to 4.7 million as compared to the same period last year, with the majority coming from our Domestic Service at 3.9 million, an increase of 5.3% over the first six months of 2010.

Market Share

Our overall share of the franchised public transport market in Hong Kong rose to 44.9% in the first five months of 2011 as compared with 43.7% for the same period of 2010. Within this total, our share of cross-harbour traffic increased to 65.7% from 64.6%. Our market share of Cross-boundary business in the first half of 2011 declined to 54.5% from 54.8% due to recently opened boundary crossings with Shenzhen. The Company's market share to and from the airport in the first half of 2011 rose to 21.9% from 21.6%.

Fare Revenue

Total Hong Kong fare revenue was HK$6,392 million in the first half of 2011, an increase of 7.7% when compared with the first six months of 2010, with Domestic Service revenue accounting for HK$4,447 million or 69.6% of the total. Average fare per passenger on our Domestic Service rose by 2.4% to HK$6.75, mainly due to changes in fares as well as trip mix.

Fare revenue of the Cross-boundary Service was HK$1,264 million for the first six months of 2011, a rise of 5.1% when compared with the same period last year. Fare revenue of the Airport Express was HK$360 million in the first half of 2011, an increase of 11.1% over the same period of 2010. For Light Rail, Bus and Intercity, fare revenue was HK$321 million in the first half of 2011, 9.9% higher than the same period last year.

Attracting Patronage

Promotions and various marketing campaigns were launched to attract additional patronage to the network. These included themed tickets to celebrate the Hong Kong Disneyland 5th Anniversary, Cross-boundary Travel Passes for tourists travelling for one to two days in Hong Kong, Through Train weekend packages for Intercity travellers and joint promotions with organisations in Guangzhou and Dongguan. Fare promotions were offered to selected travellers on the Airport Express, while the joint promotion with Asia Miles through online ticketing was extended for another year from March 2011. For the Cross-boundary Service, group travel promotions were launched.

In May 2011, we announced a number of concessions and promotions, which took effect from July 2011, such as the "Ride $100 for Free Ticket", new interchange discounts for outlying island ferry passengers and extension of the HK$2 Fare Promotion scheme for the elderly for another year.

Operations Performance in First Half 2011

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 and Airport Express	98.5%	99.5%	**99.9%**
– 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 and 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 and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.8%**
– 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 and Airport Express	N/A	500,000	**1,969,355**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**3,575,716**
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) and West Rail Line	N/A	8,000	**14,141**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and 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%	**99.6%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.6%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– 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 and Airport Express	97.0%	99.0%	**99.9%**
– 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 and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– 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 and 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%**
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**
– 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%	**99.9%**
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%	**99.9%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

Our MTR Club Bonus Points scheme was well received, with over 53,000 new club members recruited as of 30 June 2011, bringing total club membership to 1,189,617.

Service Performance

We continued to exceed all the performance standards set by the Operating Agreement and our own more demanding Customer Service Pledges for the reporting period. Train service delivery, passenger journeys on time and train punctuality were at 99.7% or above. Cleanliness was at 99.9% or above.

Our dedication to service excellence was again widely recognised, with a collection of awards, including the Hong Kong Service Awards in the Public Transportation Category presented by East Week magazine, Sing Tao Excellent Services Brand Award 2010 in the Public Transportation Category presented by Sing Tao Daily, and Top Service Awards 2011 in the Public Transportation Category presented by Next Magazine.

Service Improvements

To enhance our service standards, we are committed to investing in improvements to our station environment and rolling stock.

During the period we started renovation works at Sha Tin Station and completed detailed design work for Fanling and Sheung Shui stations. For the safety and comfort of our passengers, automatic platform gates are being installed at above ground station platforms on the Kwun Tong, Tsuen Wan and Island lines. Furthermore, new toilets were added in Ngau Tau Kok and Quarry Bay stations while toilets in other stations were upgraded. Escalator refurbishment and the instalment of new platform seats continued.

To enhance connectivity and communications to our passengers, new Service Information Panels were installed at all interchange stations. The public address system on all Light Rail platforms was enhanced to notify passengers of train arrivals. A Free Internet Zone was put into service in the Hung Hom Station Through Train Departure Hall restricted area for free computer on-line access by passengers. The purchase of Guangzhou-Kowloon Through Train tickets was extended to MTR e-Instant Bonus terminals. Wi-Fi service was launched on Ktt train and the Hung Hom Station Through Train platform and Departure Hall.

To enhance station accessibility, the installation of external passenger lifts began at five stations. Braille maps were installed at six stations, and a full length tactile guide path was completed on the East Rail Line platforms of Kowloon Tong Station.

We began taking delivery of ten new metro trains in April 2011. These trains will be delivered progressively in 2011 and 2012, with the first new train entering service towards the end of this year. Most of the Mainland-operated diesel engines for Through Trains were replaced by environmentally friendly electric-powered locomotives. As part of a five year modernisation programme, the first modernised Light Rail vehicle entered passenger service on 31 January 2011.

Productivity

We continue to enhance productivity while maintaining service quality. During the six months, various energy saving initiatives were launched on West Rail, East Rail, Light Rail and Ma On Shan lines. Variable frequency drives for air conditioning systems and heat rejection window films have been installed as a pilot project at Olympic Station.

STATION COMMERCIAL AND RAIL RELATED BUSINESSES

"Revenue from our station commercial and rail related businesses increased by 11.4% over the first half of 2010 to HK$1,930 million."

Revenue from our station commercial and rail related businesses increased by 11.4% over the first half of 2010 to HK$1,930 million. This strong performance reflects a further upturn in the advertising business as well as good rental reversions at our station shops and an increase in floor area.

Station retail revenue in the period was HK$922 million. The 8.6% rise over the first half of last year came from an increase in the number of shops and higher rental rates as we continued to refine the trade mix. Revenue growth benefited further from higher turnover rent.

The number of station shops increased by 11 during the first half of 2011, bringing the total to 1,265 by the end of June. The total area of station retail space increased by 541 square metres from 53,880 square metres at the end of 2010 to 54,421 square metres at the end of June this year. In total, 17 new merchants were introduced to the portfolio.

Advertising revenue in the first half of 2011 was HK$382 million, 18.6% higher than the comparable period in 2010. Our launch of new sales packages and innovative advertising concepts was timely and captured the upturn in the advertising market. The number of advertising points in the network at 30 June 2011 stood at 44,876, of which 21,059 were in stations and 23,817 were in trains. During the six months, we introduced a new advertising concept, the "Power Station", in which all advertising space and formats at Tsim Sha Tsui Station were taken up by a single advertiser during the contract period.

Revenue from our telecommunications business in the first half of 2011 rose by 19.9% to HK$163 million, mainly due to the receipt of more one-off project administration fees from telecom projects, as well as additional revenue from 3G service. During the period, we facilitated telecom operators to improve 3G mobile data capacity at 15 prime stations and upgrade their equipment to strengthen their mobile phone service quality.

Revenue from external consultancy in the first half of 2011 was HK$46 million, a decrease of 23.3% over the first half of last year mainly due to substantial completion of the Delhi Airport Metro Express Line project.

PROPERTY AND OTHER BUSINESSES

"Profit from property development for the first six months of 2011 was HK$1,445 million... Revenue of our property rental, property management and other businesses in the first six months of 2011 was HK$1,676 million..."

The Hong Kong property market remained active, although some consolidation was seen in April after further mortgage tightening and the introduction by Government of measures to increase land supply. However, the market continued to benefit from prolonged low interest rates.

Central prime office and retail leasing again performed well as a result of increased numbers of Mainland shoppers and the expansion of activities in Hong Kong by Mainland companies and international financial institutions.

Property Development

Profit from property development for the first six months of 2011 was HK$1,445 million, which comprised our share of the shopping mall at Tseung Kwan O Area 56 and the guaranteed receipt from the developer, net of relevant costs, from Festival City at Tai Wai. Good results were achieved in the sale of flats of Phases 1 and 2 of Festival City, and by 30 June 2011, approximately 97% of the 2,728 units had been sold.

For West Rail development sites, where we only act as agent for Government, Master Layout Plans (MLPs) were approved by the Town Planning Board on 17 June 2011 for the Nam Cheong station and Tsuen Wan West (TW5) development projects, paving the way for tender invitation in the second half of the year. We also submitted a revised MLP for the West Rail site at Long Ping (North) in May 2011 and Town Planning Board's approval was given on 22 July 2011.

For the Wong Chuk Hang and Ho Man Tin development projects on the South Island Line (East) and Kwun Tong Line Extension respectively, broad development parameters have been confirmed with Government. Development of both sites will commence after railway construction is completed.

Property Rental, Property Management and Other Businesses

Revenue of our property rental, property management and other businesses in the first six months of 2011 was HK$1,676 million, a rise of 5.7% over the same period of 2010.

Property Development Packages Awarded and to be Completed

Location	Developers	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Period of package tenders	Expected completion date
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	By phases from 2011-2012
LOHAS Park Station						
Package Two (Le Prestige, Le Prime)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800	905	Awarded in January 2006	By phases from 2010-2012
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2013
Tai Wai Maintenance Centre						
Festival City	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	745	Awarded in April 2006	By phases from 2010-2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	232	Awarded in April 2008	2012
Austin Station						
Sites C and D	New World Development Co. Ltd. Wheelock Properties Limited	Residential Car park	119,116	592	Awarded in March 2010	2014
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail Car park	119,512 25,000	339	Awarded in August 2006	By phases from 2012-2013
Tsuen Wan West Station TW7#	Cheung Kong (Holdings) Ltd.	Residential Car park	113,064	433	Awarded in September 2008	2013

as 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)	2012-2016	2020
Tai Wai Station	1	Residential Retail Car park	190,480 62,000	801	2011	2016-2017
Tin Shui Wai Light Rail (Tin Wing Road)	1	Residential Retail Car park	91,051 205	232	2011	2016
Wong Chuk Hang Station	3	Residential Retail Car park	357,500 47,000	866	2015-2020	2024
Ho Man Tin Station	2	Residential Car park	128,400	480	2015-2018	2021

Notes:
1. Property development packages for which we are acting as 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.

Total property rental income in Hong Kong and the Mainland of China increased by 6.5% to HK$1,465 million. For our retail shopping mall portfolio in Hong Kong, an average 15% increase in rental reversion was achieved in the period. At the end of June 2011, the occupancy of our 12 shopping malls in Hong Kong remained close to 100%, while the Company's 18 floors at Two International Finance Centre were fully leased out.

As at 30 June 2011, the Company's attributable share of investment properties in Hong Kong was 225,625 square metres of lettable floor area of retail properties, 41,000 square metres of lettable floor area of offices, and 11,202 square metres of property for other use.

We continued to invest in our retail properties. Repartitioning works for the retail floor of Citylink Plaza have entered their final phase, for completion by August 2011.

Effective marketing again underpinned the portfolio's performance, with Elements, Telford Plaza and the MTR Malls i-Catch iPhone App all securing a number of awards.

Property management revenue in the first six months of 2011 decreased by 10.4% to HK$95 million as we have adjusted our managers' remuneration to ensure that high quality services are provided at competitive prices. At the end of June 2011, the number of residential units under our management in Hong Kong had risen to 83,378, mainly through the addition of 1,360 units at Festival City Phase 1. Commercial space under management was virtually unchanged at 744,214 square metres.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island reported a 11.5% rise in revenue for the first six months of 2011 to HK$116 million. Visitor numbers for the period were 743,733 and premium Crystal Cabins rides accounted for nearly 32% of total rides. The cable car system maintained its reliability rate at over 99% during the six months. In March 2011, Ngong Ping 360 Limited passed the ISO9001 surveillance audit. The increased patronage was supported by a variety of promotional programmes, and the business again secured a number of service related awards.

Octopus

Octopus continued its expansion in the retail sector and by the end of June 2011, over 3,000 service providers in Hong Kong had adopted the Octopus service. Cards in circulation were 24.3 million, including active cards in circulation of 18.7 million, and average daily transaction volume and value reached 11.7 million and HK$112.7 million respectively. The Company's share of Octopus' net profit for the first half of 2011 was HK$81 million, an increase of 5.2% over the same period last year.

FUTURE GROWTH – HONG KONG

"Significant progress was made on the five major projects to expand our railway network in Hong Kong."

Significant progress was made on the five major projects to expand our railway network in Hong Kong. Three of these, namely the West Island Line, the South Island Line (East) and the Kwun Tong Line Extension, will be financed and owned by the Company. The remaining two, namely the Express Rail Link and the Shatin to Central Link, will be financed and owned by Government and the Company will be invited to operate and maintain these lines under the "Service Concession" model. In the design and implementation of each of these projects, we have drawn extensively on the views of local communities and incorporated many of their suggestions.

The 3-km West Island Line, which is an extension of the Island Line, is targeted to open in 2014, and will greatly reduce travel time from Kennedy Town to Sheung Wan. All civil works contracts and Electrical and Mechanical (E&M) contracts for this extension have been awarded. During the past six months, as part of the West Island Line works, the new David Trench Rehabilitation Centre was handed over to the Hospital Authority, while Phase 1 of the new Kennedy Town Swimming Pool was handed over to the Leisure and Cultural Services Department. Both facilities have therefore started providing services to the community. Drill and blast works for the tunnels, and excavation work on the future Sai Ying Pun, Hong Kong University and Kennedy Town stations, are in progress. To achieve financial viability, the West Island Line uses a capital grant model and the total amount of this grant, of HK$12,652 million, has already been received from Government.

In May 2011, the Company entered into Project Agreements with Government for the South Island Line (East) and the Kwun Tong Line Extension. These projects will use the "Rail plus Property" model to achieve financial viability, under which property development rights for a site in each of Wong Chuk Hang and Ho Man Tin respectively, have been granted to the Company.

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District with a train depot located in Wong Chuk Hang. The 2.6-km Kwun Tong Line Extension will run from Yau Ma Tei Station on the Kwun Tong Line to the new Whampoa Station via the new Ho Man Tin Station. Contracts were awarded for the major civil works on 18 May 2011 and construction works started immediately.

The Express Rail Link will use the "Service Concession" model and the Finance Committee of the Legislative Council (LegCo) approved funding of HK$66.9 billion for construction of both the railway and non-railway works on 16 January 2010. Out of this total, the Company will be paid a project management fee of HK$4,590 million and will be invited to operate the railway service on a concession basis upon completion. The operational arrangements and business model are under active discussion with Government and with Mainland entities.

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's high speed intercity passenger rail network. Services are expected to start in 2015.

Tunnel blasting commenced in Kwai Chung in February 2011, and the diaphragm walls and foundations at the West Kowloon Terminus were substantially completed in June 2011 to allow excavation work to begin.

The coordinated design process between the West Kowloon Terminus and the West Kowloon Cultural District started after the appointment of the West Kowloon Cultural District Authority's design consultant in April 2011.

The Shatin to Central Link will also adopt the "Service Concession" model and planning and design work has been funded by Government under an Entrustment Agreement signed in November 2008. On 18 February 2011, the Finance Committee of LegCo approved the advanced funding for the construction of the Shatin to Central Link's share of enhancements to Admiralty Station as well as the new Ho Man Tin Station. An Entrustment Agreement for the design and construction of such works was signed at the same time as the Project Agreements for the South Island Line (East) and the Kwun Tong Line Extension were concluded. The works include related construction for the expanded Admiralty Station and the new Ho Man Tin Station, the re-provisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other ancillary works.

The Shatin to Central Link comprises two sections. An 11-km extension of the Ma On Shan Line will run from Tai Wai to Hung Hom, where it will connect with the West Rail Line to form an East West Corridor. A 6-km extension of the East Rail Line from Hung Hom to Hong Kong Island will become Hong Kong's fourth rail harbour crossing and form a North South Corridor. Detailed design of the Tai Wai to Hung Hom section is in progress and the scheme designs of system-wide E&M systems are in hand.

FUTURE GROWTH – MAINLAND OF CHINA AND OVERSEAS BUSINESSES

"Railway franchise revenue outside of Hong Kong from our three rail subsidiaries, namely MTM, MTRS and SZMTR, increased by 27.2% to HK$6,171 million as compared to the same period last year."

The Company's operating railway businesses outside of Hong Kong comprised our 49% interest in Beijing MTR Corporation Limited (BJMTR) and 100% interest in MTR Corporation (Shenzhen) Limited (SZMTR), both in the Mainland of China, our 60% interest in Metro Trains Melbourne Pty. Ltd. (MTM), our 100% interest in MTR Stockholm AB (MTRS), our 50% interest in Tunnelbanan Teknik Stockholm AB (TBT), the rolling stock maintenance company in Stockholm, and our 50% interest in London Overground Rail Operations Ltd (LOROL).

Railway franchise revenue outside of Hong Kong from our three rail subsidiaries, namely MTM, MTRS and SZMTR, increased by 27.2% to HK$6,171 million as compared to the same period last year. Operating costs rose by 27.6% to HK$5,925 million, resulting in an operating profit of HK$246 million, an increase of 18.8% over the same period last year, and an overall operating profit margin of 4.0%. The business model of MTM and MTRS, which are operation and maintenance franchises, requires only modest capital investment. Operating margins are typically much lower than for those rail projects requiring significant capital outlays. SZMTR, which commenced its full line operations on 16 June 2011, made an operating loss of HK$46 million, as expected, in the first half of 2011. BJMTR, LOROL and TBT are accounted for as associates, and contributed a total of HK$74 million in post-tax profit in the first half of 2011. BJMTR's profit contribution was one year ahead of our expectation.

Mainland of China

In the Mainland of China, Beijing Metro Line 4 (BJL4) and the Daxing Line, which opened on 30 December 2010, exceeded their performance and reliability targets. Total ridership for the first six months of 2011 for BJL4 and the Daxing Line were 147.9 million passenger trips and 27.2 million passenger trips respectively, with daily averages of approximately 817,000 and 150,000 respectively. The combined patronage for the integrated BJL4 and the Daxing Line, which eliminates the double counting of those passengers who travel on both BJL4 and the Daxing Line on the same trip, was 150.8 million in the first half of 2011 with a daily average of approximately 833,000 integrated trips.

In Shenzhen, SZMTR took over the operation of the 4.5-km Phase 1 of SZL4 on 1 July 2010. Operational performance has been good and average train service delivery and punctuality rates have exceeded targets. Total ridership for the first six months of 2011 was 13.5 million passenger trips, with a daily average of 74,557. The 16-km Phase 2 SZL4 was completed and opened on schedule on 16 June 2011.

We continue to await approval of the Hangzhou Metro Line 1 project by the National Development and Reform Commission.

Overseas

In the UK, the operations of LOROL continued to improve and it was rated as the UK's top performing train operating company for the year ending April 2011. The opening of another phase of the East London Line on 28 February 2011 enhanced the connectivity of the network.

The performance of MTRS in Stockholm was impacted by major temporary line closures, as part of the infrastructure works co-ordinated by the local authorities, and we adjusted staffing levels accordingly. To achieve the increasing performance targets stipulated in the concession contract, various initiatives are underway to identify and implement continuous improvements. The first phase of these initiatives has been implemented successfully and contributed to improved results.

In Melbourne, following changes to operational procedures and asset related enhancement measures, MTM's performance had improved and was above target in January 2011. However, predominately due to industrial relations issues involving train drivers, performance dropped below target between February and April 2011, before recovering in May and June 2011. Severe flooding in February 2011 also adversely affected signalling system performance on parts of the network. Sustained commitment to asset renewals and new projects works is helping to drive the increased reliability of the network, whilst introduction of a new train timetable in May is producing tangible reliability improvements.

FINANCIAL REVIEW

Continued business momentum led to good performance in the Group's recurrent businesses for the first half of 2011. Hong Kong fare revenue increased by 7.7% over the same period last year to HK$6,392 million due to strong patronage growth as well as fare changes in accordance with the Fare Adjustment Mechanism. Station commercial and rail related revenue increased by 11.4% to HK$1,930 million as our advertising and station commercial businesses leveraged off continued economic growth. Rental, management and other revenue rose by 5.7% to HK$1,676 million mainly due to positive rental reversions and higher turnover rents from retail tenants. Excluding railway subsidiaries outside of Hong Kong, total revenue grew by 8.1% to HK$9,998 million. Revenues from our railway subsidiaries in Mainland China, namely SZMTR, and internationally, in Stockholm and Melbourne, totalled HK$6,171 million, an increase of 27.2% over the same period last year. The Group's total revenue for the first half of 2011 therefore increased by 14.7% to HK$16,169 million.

Operating expenses before depreciation, amortisation and variable annual payment to the Kowloon-Canton Railway Corporation (KCRC) relating to the Rail Merger increased by 18.1% to HK$10,168 million. Expenses relating to Hong Kong fare revenue increased by 5.9%. This was less than the increase in applicable revenues as the impact of Statutory Minimum Wage requirement and increased maintenance expenditures were offset by effective cost control on staff and energy expenses. For station commercial and rail related businesses as well as property ownership, management and other businesses, operating expenses increased by 13.1% and 14.2% respectively.

This was mainly due to extra project management costs relating to the Express Rail Link, extra cost for Statutory Minimum Wage compliance and the increases in advertising agency fees and promotional expenses required to support revenue growth. Excluding railway subsidiaries outside of Hong Kong, operating expenses increased by 7.0%, less than the 8.1% increase in applicable revenues. This resulted in an 8.9% growth in operating profit (before taking into account non-Hong Kong railway subsidiaries) to HK$5,755 million, and a 0.5 percentage point improvement in operating margin to 57.6%. Including railway subsidiaries outside of Hong Kong, where revenue and operating expenses grew by 27.2% and 27.6% respectively, total operating profit from railway and related businesses increased by 9.3% to HK$6,001 million. The operating margin was 37.1%, a decrease of 1.8 percentage points compared with 38.9% recorded for the same period last year. The reduction was due to the increased contributions from the "asset-light" international railway subsidiaries, which have a lower margin than the Hong Kong business, as well as the initial operating loss of SZMTR.

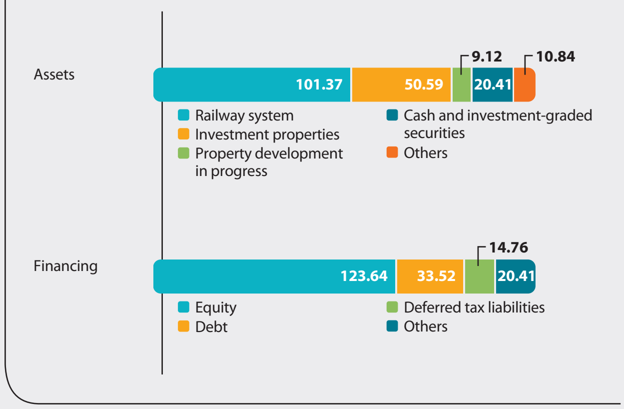
Property development profit for the first half of 2011 was HK$1,445 million, mainly coming from the share of the fair value of the shopping centre at Tseung Kwan O Area 56, a guaranteed non-refundable receipt from the developer, less related costs, for Festival City in Tai Wai, as well as profits from the sale of units in inventory primarily at The Palazzo in Fo Tan and Lake Silver in Wu Kai Sha. As property development profit bookings in the first half of this year were much lower than those in the first half of last year, due mainly to timing differences in profit bookings, operating profit before depreciation, amortisation and variable annual payment decreased by 19.0% to HK$7,446 million.

After deducting depreciation and amortisation charge of HK$1,611 million, which increased by 4.8% due to new assets commissioned including those from SZL4, and variable annual payment relating to the Rail Merger of HK$301 million, operating profit before interest and finance charges decreased by 27.7% to HK$5,534 million. With a reduction in our net debt position as well as a lower proportion of higher cost fixed rate debt in our debt portfolio, interest and finance charges decreased by 30.0% to HK$459 million, with the weighted average cost of borrowing decreasing from 4.4% to 3.1%. The increase in fair value of investment properties since the end of 2010 was HK$4,408 million pre-tax and HK$3,681 million post-tax.

Share of profits from non-controlled subsidiaries and associates increased by 89.0% to HK$155 million mainly due to higher profit contribution of HK$61 million from BJMTR. Octopus Holdings Limited, LOROL and TBT contributed profits of HK$81 million, HK$12 million and HK$1 million respectively. After deducting

Simplified Balance Sheet

As at 30 June 2011
(HK$ billion)

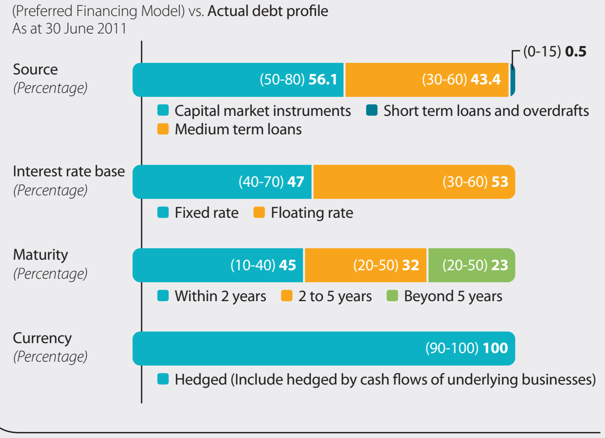


income tax of HK$1,502 million and the share of profit by non-controlling interests of HK$86 million, net profit attributable to shareholders for the first half of 2011 was HK$8,050 million, an increase of 21.3% over the same period last year. Reported earnings per share increased from HK$1.16 to HK$1.39. Excluding investment property revaluation and the related deferred tax, net profit decreased by 23.6% to HK$4,369 million, with earnings per share on the same basis decreasing by 24.0% to HK$0.76, due to lower property development profits. The Board has declared an interim dividend of HK$0.25 per share.

The Group's balance sheet has strengthened further, with net assets increasing by 5.4% from HK$117,293 million as at the end of 2010 to HK$123,636 million as at 30 June 2011. Total assets increased by 5.9% to HK$192,327 million mainly due to the investment property revaluation gain and further capital expenditure on SZL4, South Island Line (East) and the Kwun Tong Line Extension. During the half year, expenditures previously incurred for the South Island Line (East) and the Kwun Tong Line Extension were transferred from Deferred Expenditure to Railway Construction in Progress and Property Development in Progress upon signing of the respective project agreements. The remaining outstanding interest free loan to the property developer relating to Le Prestige was also repaid by the developer in the half year. Total liabilities increased by 6.7% to HK$68,691 million mainly due to the issue of Renminbi denominated notes (Dim Sum Bond) of RMB1 billion in June 2011 to finance part of the SZL4 construction project, the provisions for fixed and variable annual payments to KCRC as

Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.



well as the increase in tax liabilities for the profits earned during the period. These increases in liability were partially offset by the continued utilisation of the West Island Line Government grant as well as profit recognition from Deferred Income relating to Festival City. Total loans outstanding as at 30 June 2011 increased from HK$21,057 million to HK$22,628 million. The resulting debt-to-equity ratio decreased from 27.2% to 27.1% while the net debt-to-equity ratio decreased from 12.8% as at the end of 2010 to 10.9% as at 30 June 2011.

Our cash position remained strong in the first half of 2011. The Group generated HK$5,820 million of cash, a 3.9% increase over the same period last year, from our railway and related businesses after deducting cash tax payments. Other major cash receipts included HK$2,000 million for the settlement of the remaining loan balance from the property developer relating to Le Prestige and HK$1,018 million from property development activities. Total cash inflow during the first half of 2011 amounted to HK$8,904 million. Total cash outflow in the period was HK$7,296 million, comprising capital expenditures of HK$4,450 million mainly for Hong Kong operational railway assets, the new railway extensions in Hong Kong and SZL4, net interest payment of HK$248 million, dividend distribution of HK$2,325 million, variable annual payment of HK$45 million and various other payments of HK$228 million mainly relating to property developments. As a result, the Group generated net cash inflow of HK$1,608 million for the first half of 2011. Including net loan drawdown of HK$1,520 million mainly from the RMB1 billion Dim Sum Bond issued, the Group's cash, bank balances and deposits, net of bank overdrafts, increased by HK$3,128 million to HK$16,446 million as at 30 June 2011.

Financing Activities

Interest rates remained soft and trended slightly lower during the period as recovery in the U.S. appeared to stall and the Federal Reserve signalled its intention to maintain an accommodative monetary policy for an extended period of time.

On the Mainland, controlling inflation and property prices remained a top policy priority of the Central Government and the People's Bank of China continued to tighten monetary conditions by restricting loan growth and increasing reference lending rates. The resulting entry of Mainland and related borrowers seeking alternative debt capital in Hong Kong caused increased competition for funds, leading to a widening of credit spreads and higher overall borrowing costs.

During the period, the Renminbi offshore market in Hong Kong grew at a fast pace with total deposits soaring to RMB549 billion at the end of May, from RMB315 billion at year-end 2010, whilst Dim Sum Bond issuance increased to RMB77 billion, double the RMB39 billion issued in the whole of 2010. Despite this significant increase, the development of RMB investment products continued to lag behind growth in RMB deposits, sustaining the strong demand for Dim Sum Bonds and depressing their yields further.

The Group took advantage of these conditions and came to the market with a debut 2-year RMB1.0 billion issue in June 2011. Issued with a coupon of 0.625% per annum, the transaction was Hong Kong's first ever Dim Sum Bond issued by a quasi-Government entity and carried the lowest coupon compared with other Dim Sum Bond issuance of the same maturity. Proceeds from the issuance were remitted as shareholder's loan to SZMTR to finance the balance of the funding requirement of the SZL4 project.

As a result of the new bond issue and additional bank borrowings by SZMTR, consolidated debt increased from HK$21,057 million at year-end 2010 to HK$22,628 million at the end of June. Liquidity remained strong, however, with total cash and investment-grade securities amounting to HK$20,413 million as at 30 June 2011 which, together with projected cash flows, are expected to provide sufficient cover for the Group's cash requirements well into 2012.

Owing to continuing low interest rates and significant reduction of higher cost, fixed rate debts, the Group's average borrowing cost fell to 3.1% per annum, from 4.4% per annum during the first half of 2010.

HUMAN RESOURCES

"Our excellent services were recognised through prominent international awards and we have a number of staff motivational schemes in place to recognise and reward staff contributions."

Together with our controlled subsidiaries, we employ 14,135 people in Hong Kong and 6,631 outside of Hong Kong. In the first half of 2011, we recruited 540 new hires to support our business expansion. Competitive remuneration and promising career opportunities ensured that our overall turnover rate has remained at a low level of around 2.9%, despite the active employment market.

Our excellent services were recognised through prominent international awards and we have a number of staff motivational schemes in place to recognise and reward staff contributions. Dedicated development programmes continued to develop talent at different levels. We also continued our intake of Graduate Trainees and other Functional Associates to support business growth in Hong Kong and the Mainland of China.

A wide variety of training and motivational courses were held, with a total of 2,851 courses covering 2.8 trainee man-days per employee. Constant staff communication was conducted through various channels. To enhance dialogue with employees, over 2,500 sessions of the Enhanced Staff Communication Programme were organised involving more than 25,000 participants in the first half of 2011.

OUTLOOK

The global economic recovery remains fragile. With uncertainties in Europe and the U.S., we are cautious but still remain optimistic for the second half of 2011. With our businesses being sensitive to the local economy, continued economic growth in Hong Kong will benefit our transportation, advertising and rental businesses.

In our property development business, we currently expect to receive the Occupation Permit for the final phase, Phase 3, of Festival City at Tai Wai towards the end of the year. As enough units have now been sold in Phases 1 and 2 of this development to cover all development costs for this project, the receipt of the Occupation Permit will allow us to book profits for all phases of this development.

In our property tendering activity, depending on market conditions, we expect to tender the Nam Cheong Station, Tsuen Wan West (TW5), Tin Shui Wai Light Rail (Tin Wing Road) and Tai Wai Station sites over the next six months. The Nam Cheong Station and Tsuen Wan West sites are West Rail development sites where we only act as agent for Government.

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

C K Chow, *Chief Executive Officer*
Hong Kong, 11 August 2011