

“...we intend to accelerate the pace of growth in the Mainland of China and overseas, while continuing to invest in Hong Kong...”



Dear Shareholders and other Stakeholders,

MTR continued to perform strongly in the first half of 2012, with our businesses delivering good results despite economic uncertainties. In our recurrent businesses, Hong Kong transport operations further increased patronage as well as market share, while our station commercial and property rental businesses also fared well. Property development profits, which were mainly derived from the sale of inventory units at Festival City in Tai Wai, were lower during the first half of this year than the same period in 2011.

The Company's operating profit before property development, depreciation, amortisation and variable annual payment increased by 8.6% to HK\$6,519 million, with recurrent profits after tax, being all underlying profits before property development, increasing 17.6% to HK\$3,597 million. However, as a result of the lower property development profits, our underlying profits before revaluation of investment property decreased by 5.7% to HK\$4,121 million compared to the first half of 2011 while underlying earnings per share dropped by 6.6% to HK\$0.71. Including investment property revaluation, net profit attributable to shareholders was HK\$5,861 million. Your Board has declared an interim dividend of HK\$0.25 per share.

FARE AND FARE CONCESSIONS

Our fares are determined by the annual Fare Adjustment Mechanism (FAM), which resulted in a 5.4% fare increase in June 2012.

The FAM is an open, objective and transparent formula, which is based solely on Government published figures. It is designed with fairness and affordability in mind, since it aligns fare adjustments to economic conditions. Specifically, it references annual changes in inflation as measured by the composite consumer price index as well as wage levels in the transportation sector.

Having an objective and transparent mechanism by which to adjust fares was one of the five parameters set down by Government for the Rail Merger in 2007. After extensive discussions, including in the Legislative Council, MTR agreed to give up its autonomy to set fares, which was later accepted by our independent shareholders. The result is that we have one of the most open and transparent fare adjustment systems in the world, that ensures fairness in pricing for passengers while allowing MTR sufficient resources to ride out economic cycles and to invest for the future.

In line with the June fare increase this year, we announced our largest ever package of fare promotions, which gives back

to passengers the estimated value of the additional revenue MTR will receive in the first year of implementation of this fare adjustment. This equates to estimated savings of about HK\$670 million for passengers. The concessions introduced include our popular "Ride 10 Get 1 Free", free travel for children on weekends and public holidays, a 10% discount for every second journey taken on the same day, the Tung Chung Line Monthly Pass and HK\$20 MTR Shop coupons for Monthly Pass purchasers. These promotions are in addition to the numerous other fare concessions we already offer, which include discounted fares for children, the elderly, persons with disabilities and students.

Overall, the fare concessions offered by MTR, including the ones just introduced or announced, will amount to an estimated HK\$2.3 billion in the coming year. We also worked closely with the Government to implement the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities on 28 June 2012.

It is through a combination of operational efficiency, the FAM and our strong commitment to corporate responsibility that we have been able to ensure that travel on our network remains affordable to the general public.

The FAM is subject to review every five years, and we have been encouraged by its effectiveness thus far. The earliest time for the first such review will be later this year, and we will use this opportunity to work closely and constructively with the new Government for the long-term interest of Hong Kong.

CREATION OF LONG-TERM VALUE

We undertook a comprehensive review of our strategy in the first half of the year, which re-affirmed our vision for MTR's future. Following our review, we intend to accelerate the pace of growth in the Mainland of China and overseas, while continuing to invest in Hong Kong through the enhancement of services and the development of new rail lines as well as further creation of value from our Hong Kong businesses.

We made good progress on the five major railway projects in Hong Kong during the first six months of 2012. At the beginning of the year, four of these projects were already under construction, namely the West Island Line, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, South Island Line (East) and Kwun Tong Line

Extension. These have advanced according to programme. We have also begun construction of the Shatin to Central Link, for which an Entrustment Agreement was signed in May this year. This project is funded largely by Government. Studies estimate that the line will create about 15,000 jobs throughout the construction period, until 2020.

Beyond these five new rail lines, we are excited about the opportunities which will be created from the Review and Update of the Second Railway Development Study (RDS-2U). Following completion of the Public Engagement undertaken by Government, we look forward to receiving positive feedback from the community in support of sustainable rail development in Hong Kong to meet future demand in domestic and cross-boundary travel, which calls for more comprehensive rail network coverage, better connectivity and higher capacity.

Outside of our home markets, all our businesses continue to perform well. Approval from the National Development and Reform Commission of the Chinese Central Government was obtained in June 2012, allowing us to proceed with the Hangzhou Metro Line 1 joint venture. The line's opening is anticipated to take place in the fourth quarter of this year. We continue to explore opportunities to build and operate additional rail lines in the Mainland, and on 10 August our 49% owned associate, Beijing MTR Corporation Limited, submitted a bid to invest in a Public-Private-Partnership project for the 47-km Beijing Metro Line 14. Internationally, we have been shortlisted to bid for two rail operating franchises in the UK, namely the Essex Thameside and Thameslink.

SUSTAINABILITY AND CORPORATE RESPONSIBILITY

Our approach to Sustainability is guided by our goal of "Transport at its Best." We continue to work towards creating social, environmental and economic value by building long-lasting, sustainable communities for generations to come. This includes optimising energy efficiency, improving customer service and ensuring safe and healthy work environments while also integrating the needs of our community in decision-making processes. Our Sustainability Report 2011, published in June 2012, discusses our strategic priorities and how we are progressing towards our goal.

CHAIRMAN'S LETTER

MTR is one of the first Hong Kong companies to require all our future residential developments meet the Hong Kong BEAM Plus Gold Standard. Our first achievement is a BEAM Plus Gold provisional certification for Austin Station Residential Developments. This is the highest rating for residential buildings that has been issued by the Hong Kong Green Building Council to date.

We also take the environmental impact of our railway construction work very seriously, and we work closely with contractors to optimise results from an environmental point of view. We have carefully considered and reviewed electrical and mechanical systems that have potential for energy savings and efficiencies for our future new rail lines, including water-cooled air-conditioning systems and the adoption of new technologies to optimise rolling stock efficiencies. For our existing railway operations, our Energy Management Committee has been looking for better asset performance and optimisation, for example through the installation of LED lighting in our trains and in advertising panels in certain stations.

COMMUNITY CARE ACTION

Our Community Care Action programme focuses on Youth Development, Art & Culture, Green & Healthy Living and Community Outreach.

The "More Time Reaching Community" Scheme has been lent additional impetus by the strong community focus of Mr Jay Walder, our new CEO. In January, Jay and staff volunteers led some 100 children from the HKGGA Tin Shui Wai Pansy Ho Activity Centre and Mong Kok Kai Fong Association Chan Hing Social Services Centre on a visit to the Kowloon Bay Depot. The 120 secondary school students participating in the "'Friend' for life's journeys" programme, meanwhile, completed their activities in May this year.

Our "art in station architecture" programme saw a dramatic addition at Tuen Mun Station in March with the unveiling of a six-metre-long exhibit called "Dragon Boat", reflecting the traditional culture of the area.

Art and community care came together in Sai Wan Ho and Tiu Keng Leng stations in March and April with a display of Japanese SAORI hand-weaving, a collaboration between students of the Hong Kong Design Institute and people with disabilities from the rehabilitation service of The Salvation Army.

As we build five new railway lines for the city, we are taking the opportunity to further embrace public art throughout our rail system. The first ever MTR open art competition was launched to invite proposals for original art pieces from local and overseas artists to help decorate and enrich the appearance of our new railway stations. We have also reserved spaces in many new stations for artwork to be produced jointly by artists and local communities so the public can participate in enhancing our station environments.

For the eighth consecutive year, MTR athletes joined the annual Green Power Hike run to promote green and healthy living, and we are pleased to note that one of our teams won the 10-km Corporation/Organisation Cup. As many as 70 staff and their families turned out as volunteers to assist with logistics and crowd control.

We continued to reach out to communities throughout the period in a variety of ways. MTR organised 97 community projects under the "More Time Reaching Community" Scheme, which involved more than 2,500 volunteers and raised over HK\$166,000 through staff donations for the Community Chest. A Community Recruitment Programme was also launched in Tung Chung to provide employment opportunities for those living in remote districts.

RECOGNITION FOR CORPORATE RESPONSIBILITY

Our achievements in Sustainability and Corporate Responsibility have been recognised internationally. In January 2012, Sustainable Asset Management and PricewaterhouseCoopers recognised our efforts in Sustainability by awarding us the SAM Bronze Class award. We also retained our listings on the FTSE4Good Index, the Dow Jones Sustainability Indexes and Hong Kong's Hang

Seng Corporate Sustainability Index. In the area of Corporate Responsibility, we have received the “5 Years Plus Caring Company Logo” from the Hong Kong Council of Social Service for two consecutive years and the “Prime Awards for Eco-Business 2012” from MetroBox Magazine.

MANAGEMENT TRANSITIONS

In the last 12 months, we have made significant changes at the senior management level, including the appointment of Mr Jay Walder as our new CEO. I am pleased to report that the transition has been exceedingly smooth and that the new team is diligently building on the excellent work of its predecessors.

I would like to welcome Professor Anthony Cheung Bing-leung and Ms Susie Ho Shuk-ye, who joined the Board in July 2012, on taking up the office of Secretary for Transport and Housing and Commissioner for Transport respectively. I would also like to thank their respective predecessors, Ms Eva Cheng and Mr Joseph Lai, for their contributions to the work of the Board during their tenures.

CONCLUSION

The first half of 2012 saw MTR continue to make good progress towards delivering sustainable value to stakeholders by connecting and growing communities through excellent service. As ever, I wish to thank my fellow directors for their counsel, our staff for their hard work during the past six months, as well as our other stakeholders for their invaluable support.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 13 August 2012