

Chairman's Letter



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Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2007, which continue to reflect the momentum of our core businesses and of our growth strategy at home and abroad. The successful completion of the Rail Merger on 2 December 2007, the winning of the London Overground concession in the United Kingdom and the very successful opening of Elements shopping centre in Hong Kong were some of the highlights of the year.

For the year, buoyant economic conditions led to continued growth in our businesses, which when combined with the effect of the Rail Merger since 2 December, enabled MTR Corporation to increase total revenue for 2007 to HK\$10,690 million, 12.0% higher than 2006. The operating profit from railway and related businesses before depreciation and amortisation also rose by 13.7% to HK\$5,912 million. Property development profit realised in the period was HK\$8,304 million, mainly from surplus proceeds at developments such as Le Point at Tiu Keng Leng Station. Excluding investment property revaluation and related deferred tax, profit from underlying businesses attributable to equity shareholders was HK\$8,571 million, 43.8% higher than 2006, largely due to the magnitude of property development profit as well as continued strong performance from our recurring businesses. Including investment property revaluation of HK\$8,011 million (HK\$6,609 million net of deferred tax), reported net profits for 2007 were HK\$15,182 million with earnings per share of HK\$2.72. With the strong financial results, your Board has recommended a final dividend of HK\$0.31, giving a full year dividend of HK\$0.45, which is an increase of 7.1% compared to 2006.

Rail Merger: A Milestone Achieved

2 December 2007 saw the completion of the Rail Merger between the Company and Kowloon-Canton Railway Corporation (KCRC), which followed the approval of the Rail Merger Bill by the Legislative Council of Hong Kong (LegCo) in June, and of independent shareholders at an Extraordinary General Meeting in October. In the Rail Merger, the Company has taken over KCRC's rail and related businesses under a concession arrangement and also acquired a property portfolio.

The Rail Merger increases significantly the scale and profitability of our rail and related businesses whilst at the same time enhances our property development land bank and rental property portfolio. Patronage on Domestic Service, which includes KCR Lines after the Rail Merger, grew from 2.6 million passengers per weekday before the Rail Merger, to 3.5 million passengers per weekday in December after the Rail Merger. Our property development land bank increased by 1.2 million square metres GFA while our investment property portfolio increased by 40,957 square metres lettable with the Rail Merger. The Rail Merger benefits all our stakeholders with fare reductions and improved network co-ordination for our passengers, increased opportunities for our staff and enhanced value for our shareholders. With the completion of the Rail Merger we are now working diligently on the further integration of the Company as well as the achievement of synergies, which when fully realised in three years' time are estimated at HK\$450 million per year.

Under the guiding principle of "One Company, One Team", the integration of staff from the Company and KCRC has progressed smoothly, for which I would like to thank management and all staff of the merged Company.

Growth Strategy

With the completion of the Rail Merger, our future growth strategy rests with the significant new rail development in Hong Kong and our continued expansion into the Mainland of China and Europe.

In Hong Kong, the year saw good progress being made on the Kowloon Southern Link, a KCRC project managed by the Company, and a new station at LOHAS Park (in Tseung Kwan O South), while planning and detailed design continued for the new 3-km West Island Line after approval was received from Government. In addition, the Chief Executive of Hong Kong SAR announced in his October Policy Address that the Government was pledging its support to a number of priority rail infrastructural developments, including the 7-km South Island Line (East), the 26-km Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link), and

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the Shatin-to-Central Link. Approval has already been obtained to proceed with preliminary planning and design for the South Island Line (East), Shatin-to-Central Link and the 3-km Kwun Tong Line extension whilst we are in active discussion with Government on the design and implementation proposal for the Express Rail Link.

In the Mainland of China, steady progress was made on the Beijing Metro Line 4 project, while we continued with preparations for the approval of the Shenzhen Metro Line 4 (SZL4) project. The approval process for SZL4 has taken a protracted length of time since it requires a breakthrough in certain policy areas. Under the current policy relating to property development in China, the public sector funding support to this project is likely to take other forms than the grant of property development rights. The Company will ensure that the project, if approved, will provide a satisfactory return to its shareholders. During the year, we also continued to pursue further investment opportunities in key cities such as Hangzhou, Suzhou, Tianjin and Wuhan, as well as in Beijing and Shenzhen.

In Europe, we continued with our “asset-light” approach to bid for new operating concessions in privatised markets. The highlight of the year was the winning of the London Overground concession by our UK joint venture, London Overground Rail Operations Ltd (LOROL). London Overground is an important rail network in the UK's capital serving West, North and East London and will be a vital link for the 2012 Olympic Games. Under the concession, LOROL will operate train services in Greater London for seven years.

Sustainability and Community

In our drive to achieve growth, an important priority for us is to ensure that our business and growth are sustainable. This has become even more crucial as the consequences of climate change, and social and environmental complacency

have become ever more apparent. As our new rail extensions reach out to a larger part of Hong Kong and our operations extend beyond Hong Kong into the Mainland of China and the UK, we remain determined to enhance the quality of life of our passengers, customers, tenants and employees. We aim to do this not only by providing the best possible railway infrastructure and services, but also by focusing on the needs of the community, by involving ourselves in its well-being, and above all by investing in resources to enhance efficiency and ecological sustainability.

The Company is in full support of the Government's clean-air initiatives and is committed to making a leading contribution to the Action Blue Sky Campaign launched by the Chief Executive of the Hong Kong SAR. As one of the largest electricity users in the Pearl River Delta, we are a signatory to and have been implementing the Clean Air Charter, which requires the Company to adopt energy-efficient measures in its operations and monitor its emissions of air pollutants.

In 2006, the Company adopted the MTR Corporation Climate Change Policy, which is modelled on the policy developed by the International Association of Public Transport (UITP), whose Sustainable Development Commission we currently chair.

The Company has undertaken a thorough assessment of the enterprise risk associated with exposure to climate change issues and concluded these are significant enough to require ongoing monitoring. We are in the process of reviewing how climate change can be taken into account in our design, construction, and asset management to prepare more definitively an adaptation-based scenario for future years. Our aim is to become one of the most resource efficient and ecologically responsible public transport companies in the world.

Our efforts in sustainability, corporate governance, service culture and management processes have continued to attract international recognition, both locally and internationally. We

have received the SAM (Sustainable Asset Management) Sector Leader award and Silver Class Award for recognising our ability to manage related risks and to seize associated opportunities. During the year, our Sustainability Report 2006, *Convergence*, was accredited the "Runner Up - Best Sustainability Report" by the Association of Chartered Certified Accountants (ACCA) Hong Kong. Our world-class professionalism, safety standards and cost efficiency are the backbone of our sustainability drives. The Company was honoured to receive the Gold Asset Management Excellence Award at the 2007 International Asset Management Conference in Melbourne for our results-driven and robust railway asset management system and focus on continuous improvement, which the panel of international judges considered the "best ever seen".

During the year, many of our employees took part in programmes and events to reach out to the less fortunate in our community.

There were 86 community volunteer initiatives involving more than 1,800 volunteers. Most of the volunteering services were for the elderly, the physically and mentally challenged, and underprivileged children and families. The MTR HONG KONG Race Walking 2007, which was co-organised with the Hong Kong Amateur Athletic Association, raised over HK\$1 million for the Hospital Authority's health education campaign. In 2007, we were once more nominated by eight social organisations for the Caring Company Logo 2007/08 in recognition of the Company's contributions to society through employee volunteering, community giving and providing a safe and family friendly environment for our staff.

To help the victims of the severe snowstorm in the Mainland of China, we donated HK\$1 million on 4 February 2008 to provide warm clothing and emergency supplies via the Hong Kong Red Cross. In addition, we set up donation counters at our twelve

shopping centres over Lunar New Year holidays. The funds received were donated through Oxfam Hong Kong to provide food supplies and warm clothing for the snowstorm victims.

Board Transitions

Mr David Gordon Eldon and Mr Lo Chung-hing will retire as independent non-executive Directors of the Company at our Annual General Meeting on 29 May 2008. I would like to thank Mr Eldon, who is also currently the chairman of our Nominations Committee, and Mr Lo for their long service and significant contributions to the Company.

I would like to welcome Ms Eva Cheng and Professor Chan Ka-keung, Ceajer, who both joined the Board in July 2007 on taking up the offices of Secretary for Transport and Housing, and Secretary for Financial Services and Treasury respectively. I would further welcome Mr Ng Leung-sing and the Honourable Abraham Shek Lai-him who joined the Board in December 2007 as independent non-executive Directors.

The successful performance of the Company is built on the excellence of our Board governance, management and staff, the trust of our customers, and our shareholders. As we enter a new era in the Company's history, I would like to extend my heartfelt thanks to my fellow Board Members, management and all staff for all their efforts in making 2007 a milestone year in advancing our vision of sustainable growth.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 March 2008