

## Chairman's letter

Dear Stakeholders,

It is my good fortune to present MTR Corporation's (MTR) interim results for the first half of 2004, the 25th Anniversary of the commencement of MTR's rail services in Hong Kong.

During the period, the Company recorded net profit of HK\$1,175 million, a marked increase over last year. Earnings per share rose significantly to HK\$0.22. The rise in profit was due mainly to the strong economic recovery post SARS, which drove traffic based revenue higher, and stronger development profits, mostly from deferred income.

The most significant development during the period was Government's announcement on 24 February that it had asked the Company to begin discussions with the Kowloon-Canton Railway Corporation (KCRC) on a possible merger between the two companies. Since the announcement, the two companies have formed dedicated committees and working groups to move the discussions forward. These committees and working bodies are responsible for reviewing the financial, legal and technical aspects of a possible merger, as well as undertaking a comprehensive review of an integrated rail network in Hong Kong. I am pleased to report that significant progress has been made in these discussions, and we are on track to meet the 31 August deadline to submit a proposal to Government according to the parameters as set out by Government.

We firmly believe that the merger, if properly structured and implemented on acceptable terms, would be beneficial to all stakeholders, including our investors, our passengers, our employees and the overall Hong Kong rail transport system. We will continue to work closely with Government and KCRC to negotiate and implement this very complex transaction as expeditiously as possible, always with the interest of all shareholders and stakeholders as a priority.

After the submission of our proposal by the end of August, we expect there will be further discussions and negotiations which, if successful, will result in a legislative process, before any final proposal is put to the MTR's independent shareholders for approval. Throughout this process, we have and will continue to keep our shareholders and staff informed of progress and any significant developments which might affect their interests.

We are at the crossroads of challenging and exciting opportunities, but also uncertainty and risk. Regardless of the outcome of the merger discussions with KCRC, it is important that the Company continues to look to the future and forge ahead with clarity of vision and purpose. Going forward, we must continue to serve the citizens of Hong Kong to the same high standards expected of MTR. At the same time, we must broaden our horizon by reaching out beyond Hong Kong to build a sustainable, wider revenue base to underpin our future growth.

Our strategy is one that is grounded in our home base in Hong Kong whilst leveraging our brand name and core competencies to pursue opportunities overseas, with the Mainland and Europe as priorities. I am confident that this strategy will not only fulfill our responsibility to our shareholders, but also offer exciting growth opportunities and prospects for our staff.

To guide us into the future, we have revisited and formulated a clear Vision and Mission. At the same time, we have revised our Core Values, to help us build our future organisation and culture. These new Vision, Mission and Core Values, which are built on statements of intent and values that have guided us in the past, will now guide us as we face the new realities of increased competition and expansion overseas in the future.

Our 25 years of outstanding operating history in Hong Kong is the result of a great team at MTR who are talented and committed, bound together by their passion for what they do and a strong desire to serve the community. With the new Vision, Mission and Core Values, I have no doubt the MTR team will continue to scale greater heights and create an even more promising future.

At the end of March 2004, in response to Government request, we submitted a project proposal for the West Island Line and South Island Line. The proposal is now under Government study. The project is a natural extension of our existing network and if approved would provide a fast and reliable mode of transport between the Southern and Western districts and the north shore of Hong Kong Island. In addition to environmental benefits derived from less traffic congestion and pollution, the extension would bring substantial economic benefits by rejuvenating the older Western districts thereby benefiting both living standards and property prices. The extension would also generate employment and provide opportunities for tourism and commercial development.

I am excited about our prospects in Mainland China, where we are well on our way towards investing in our first ever railway project in Shenzhen after signing the Agreement in Principle with the Shenzhen Municipal People's Government on the Line 4 project in January this year. Negotiation of the concession and operating agreements for the project is continuing, with initial design and preparation for railway construction and related property development well underway. However, given the current investment climate in the Mainland, it is possible that the approval process may take longer than expected. In April, we signed a Memorandum of Understanding with Beijing Infrastructure Investment Company Limited and Beijing Capital Group for a possible investment in the Beijing Line 4 project, and are hopeful that current negotiations with the parties will eventually lead to our participation in this key investment project for the 2008 Olympic Games in Beijing.

With the possible merger and investments overseas, these are exciting times for the Company. I would like to take this opportunity to thank our fellow directors, the senior management and all employees of the Company for their dedication and hard work, and ask for their continued support as we embark on the process to build a bigger and even better company.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*  
Hong Kong, 3 August 2004