

Chairman's letter

Dear Stakeholders,

I am pleased to present to you the interim results of MTR Corporation for the first six months of 2006.

MTR Corporation recorded net profit, before investment property revaluation gain and related deferred tax, of HK\$3,948 million, an increase of 123.2% over the same period last year. This significant increase was mainly due to very strong property development profit as well as continued growth in our recurring businesses. Net profit, including gain from property revaluation, was HK\$5,167 million, an increase of 98.3% from the same period last year with reported earnings per share of HK\$0.94, an increase of 95.8%. Your Board of Directors has declared an interim dividend of HK\$0.14 per share, unchanged from last year.

A significant event for the Company was the signing on 11 April of a Memorandum of Understanding with Government on the proposed merger with the Kowloon-Canton Railway Corporation ("KCRC"), thus opening a possible new chapter not only in the history of the Company itself but also in Hong Kong's public transport market.

The Memorandum of Understanding sets out the terms on which the Company would merge its rail operations with those of KCRC, together with the acquisition of a package of properties. The Memorandum of Understanding meets the five parameters set down by Government as pre-conditions for the merger. In my view the terms of the transaction are fair and balanced, offering benefits to all of the Company's stakeholders, including the travelling public, staff and shareholders.

The benefits to the travelling public include first and foremost a fare reduction, secondly a better integrated rail network in Hong Kong and thirdly the establishment of a transparent and objective fare adjustment mechanism. As for staff of both MTR Corporation and KCRC, the Memorandum of Understanding stipulates that job security for all frontline staff will not be affected due to the proposed merger and more importantly, the proposed merger will create new job opportunities for our colleagues.

As I mentioned in my letter to shareholders dated 27 June 2006, I am of the view that the proposed transaction marks an important milestone for MTR Corporation as it creates significant growth opportunities for our rail business, reinforces the "rail and property" business model through the acquisition of the property package, and is structured to provide the benefits of a merger whilst mitigating downside risk and reducing funding burden for the Company. The proposed transaction is subject to approvals from both the Legislative Council ("LegCo") of Hong Kong SAR and independent shareholders. An Independent Committee of the Board, chaired by Mr. Edward Ho Sing-tin, has been formed to advise independent shareholders on the transaction. Other members of this Committee are Professor Cheung Yau-kai, Mr. David Gordon Eldon, Ms. Christine Fang Meng-sang, Mr. Lo Chung-hing and Mr. T. Brian Stevenson. The Independent Board Committee ("IBC") will appoint, and be advised by, an Independent Financial Adviser.

The legislative approval process has started with the introduction of the Rail Merger Bill to LegCo on 5 July followed by the first meeting of the Bills Committee on 27 July. As I have mentioned before, the legislative and independent shareholder approval processes will take about a year from the announcement date of the Memorandum of Understanding.

Apart from the approval processes, MTR Corporation and KCRC have commenced work on the smooth integration of the operations of the two companies.

I have in my previous reports to stakeholders highlighted the importance which we place on sustainability, community involvement and corporate social responsibility. The first six months of 2006 saw further activities in these areas.

In April, we co-organised the second "MTR Hong Kong Race Walking 2006" with the Hong Kong Amateur Athletic Association, following the success of the inaugural event in 2005. With the objective of encouraging people to walk more as

a form of daily exercise, the event attracted more than 1,000 participants in 14 categories of competition. This was a 25% increase over the number of participants last year, making it the largest event of its kind in Hong Kong. More importantly, we raised more than HK\$1.2 million for the Hospital Authority Health InfoWorld's "Better Health for a Better Hong Kong" education campaign, again, about 25% more than last year's donations.

I am particularly proud of the work done by our employee volunteers through the "More Time Reaching Community" Scheme. Launched in November last year, the purpose of the Scheme is to encourage staff to contribute their time to initiate, organise and participate in volunteer activities, with funding support and Executive participation from the Company. Many of our colleagues have since contributed their time or sacrificed their holidays to organise and participate in such heart warming and meaningful events as outings with the elderly, mentally disabled and underprivileged children, as well as Chinese New Year food collection and birthday parties for handicapped children. In total, 33 such events have been held since the launch last November.

It is with volunteering programmes like this and the strong support and selfless participation from our staff that the Company has earned the reputation of being one of the most caring companies in Hong Kong. Thus, we are very pleased that in February the Company and MTR Property Management were bestowed the 2005/2006 Caring Company Award by Hong Kong Council of Social Service in recognition of our efforts and commitment to caring for the community.

For the fourth year in a row, the Company's Sustainability Report 2004 was awarded a Commendation for Sustainability Reporting by the Association of Chartered Certified Accountants ("ACCA"). The award was introduced by ACCA to identify and reward innovative efforts to communicate organisational performance in sustainability and environmental reporting. In receiving the award, we were honoured by the Association's recognition of the Company's continuous commitment to social responsibility, and its significant contribution to the development of social reporting in Hong Kong.

On 25 July, the Chief Executive of the Hong Kong SAR Government officially launched the Action Blue Sky Campaign and urged everyone in the community to get involved to combat air pollution. We welcome and support this initiative and will continue to do our part to improve Hong Kong's air quality by further increasing energy efficiency in our rail operations. Furthermore, to achieve an energy efficient yet comfortable office environment, we have introduced a more casual clothing standard for non-uniformed office staff.

I would take this opportunity to thank my fellow Board Members, management and all staff of the Company for their contribution and efforts.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 10 August 2006