



S U P P O R T S  
S T R A T E G Y  
M E R G E R C O  
B E N E F I T S  
F I N A N C E S  
S T R O N G E R  
P R O J E C T S  
G R O W T H

“As a result, the Rail Merger delivered on its promise by strengthening our business and financial performance in the first full financial year of reporting.”

## Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2008.

They reflect three major successes. The Merger integration process progressed well both in terms of physical integration and alignment of resources. As a result, the Rail Merger delivered on its promise by strengthening our business and financial performance in the first full financial year of reporting. Secondly we made further advances in the approval, planning and design of five new rail lines in Hong Kong and in the construction of Kowloon Southern Link, representing the most significant network expansion in Hong Kong in the Company's history. Thirdly our projects in the Mainland of China and overseas made good progress. Despite the onset of volatile and uncertain economic conditions in the second half of the year, we maintained our pursuit of prudent growth based on a strong balance sheet, good liquidity and steady recurrent income generated by our core businesses.

The impact of the Rail Merger and buoyant economic conditions in the first half of the year enabled us to increase total revenue for 2008 by 64.9% to HK\$17,628 million. Operating profit from railway and related businesses before depreciation and amortisation also increased by 57.7% to HK\$9,325 million. However, property development profits in 2008 of HK\$4,670 million were lower than in 2007 by HK\$3,634 million due to the very significant development profits booked relating to Le Point in Tseung Kwan O in 2007. Hence, excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders decreased by 4.5% to HK\$8,185 million. Including investment property revaluation deficit of HK\$146 million (HK\$99 million surplus net of deferred tax after accounting for the reduction in Hong Kong Profits Tax rate), our net profit attributable to equity shareholders for 2008 was HK\$8,284 million and earnings per share were HK\$1.47. Your Board has declared a final dividend of HK\$0.34, giving a full year dividend of HK\$0.48 per share, which is an increase of 6.7% compared to 2007.

## Rail Merger

The merger integration process made strong progress throughout 2008. With the removal of the interchange ticket gates at Kowloon Tong, Mei Foo and Nam Cheong stations completed in November, passengers were able to enjoy truly seamless travel on the enlarged MTR network using only one ticket.

The year was also successful for the alignment of systems, divisional integration and training necessary for the full realisation of the Rail Merger. Increased patronage of the network saw the Company take the lead position in the public transport market in Hong Kong, while also becoming one of the largest employers with over 12,000 Hong Kong staff.

A new grading and salary structure for staff with aligned terms and conditions was implemented in March. We continued to work on creating harmonious staff relations, and we developed a new set of the Vision, Mission and Values for the Company. A large-scale review of energy efficiency was launched through benchmarking of best practices from both pre-merger rail operations, and we undertook a broad spectrum of training and development courses in the areas of railway safety and operations, multi-skilling and redeployment. Overall, we continued to achieve merger synergies, which when fully realised at the end of a three-year period are estimated at HK\$450 million per year.

## Growth Strategy

Our post-merger growth strategy is focused on significant new rail development in Hong Kong and our continued expansion into the Mainland of China and overseas.

In Hong Kong, the Government's approval, in March and April, for the planning and design of the Shatin to Central Link, the Kwun Tong Line Extension to Whampoa and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link gave fresh impetus to our rail development plans. Together with the South Island Line (East) and West Island Line, for which approval to proceed with planning and design had previously been given by Government, these new lines together with the substantially completed Kowloon Southern Link (incorporating the new Austin Station) will add approximately 60 kilometres to our network. When completed, they will represent the largest home based network expansion in the history of our company. In Hong Kong, with the development of these five new rail lines, the Company will be better positioned to reach new catchment areas, capturing new customers and extending our service to even more communities.

In the Mainland of China, we made steady progress on the Beijing Metro Line 4 (BJL4) project, with train testing and production, and operations training proceeding on schedule

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for the opening of the line in the fourth quarter of 2009. In November 2008, a Memorandum of Understanding was signed for the operation and maintenance of the Daxing Line, which is the extension of BJL4. In Shenzhen, approval for the Shenzhen Metro Line 4 (SZL4) project has been obtained from the National Development and Reform Commission. We are now completing final regulatory procedures to sign the Concession Agreement in the near future. Projects works will be expanded to cover the whole line. Meanwhile, preparation works for taking over SZL4 Phase 1 are also underway. During the year, we continued to pursue further investment opportunities in other key cities in the Mainland of China. In November 2008, we entered into three non-binding Agreements in Principle with Shenyang Municipal Government and Shenyang Metro Group Company Limited for the operations and maintenance of Shenyang Metro Lines 1 and 2 for a term of 30 years, exploring investment in future lines and for investigatory property development opportunities along Lines 1 and 2. In Hangzhou, we entered into a non-binding Principle Agreement with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for the investment, construction and operation of Hangzhou Metro Line 1, as well as an agreement to explore property development opportunities along metro corridors, in January 2009.

In Europe, our UK joint venture London Overground Rail Operations Limited (LOROL) steadily improved the operations of the London Overground following takeover of the concession in November 2007. London Overground serves West, East and North London and will provide a significant link for the 2012 Olympic Games. In Sweden, we were awarded the concession rights to operate for eight years the Stockholm Metro concession in January 2009.

To meet the significant demand on our human resources in supporting this phase of growth both in and outside of Hong Kong, we have embarked on a number of programmes to hire, train and retain personnel. These programmes include

the recruitment of Hong Kong and Mainland graduates under the Graduate Trainee Programme and the Executive Associate Scheme.

## Sustainability

Concerns over the environment and the effects of unrestrained development on both social cohesion and the climate have become key business considerations for companies around the world. The Company continues to expand our commitment to fostering sustainable development and the well-being of the communities wherever we operate. As our new rail lines reach out to more communities in Hong Kong and our operations expand into the Mainland of China and overseas, we remain committed to becoming one of the most resource-efficient and ecologically sustainable railways and property service providers in the world.

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). As Chair of the Sustainable Development Commission within the UITP, the Company played a significant role in developing these initiatives.

Several of the key actions under the Policy have been adopted and measured for impact under our internal Enterprise Risk Management Framework, particularly in regard to electricity consumption. The Rail Merger prompted a large-scale review of energy efficiency and synergy opportunities within the ex-Kowloon-Canton Railway Corporation's (KCRC) network as benchmarked against MTR Corporation's best practices, and a programme of enhancing asset efficiency began during the year. We also introduced energy efficiency as a major factor in the design of our capital works projects, beginning with our South Island Line (East) project. In addition, we have integrated life-cycle environmental concerns into the planning, design and construction of our new railway projects and property developments.

Our efforts to incorporate sustainability, environmental respect and best practice into all our business decisions continued to attract international recognition. In February, we were recognised as a Sustainability Leader within the global travel and tourism industry sector, and we won a Silver Class Award from SAM (Sustainable Asset Management). We also continued to be listed on the internationally recognised Dow Jones Sustainability Indexes and FTSE4Good Index series.

In May 2008 we published our seventh annual Sustainability Report 2007, *Building Capability*, which reflects our culture of continuous improvement. The Report offers our vision of the future challenges to our business from the changing physical environment and the benefits derived for the communities we serve. Our Sustainability Report 2007 was accredited the "Commendation for Excellent Communication Using the Internet" by the Association of Chartered Certified Accountants (ACCA) Hong Kong. This is the sixth consecutive year that our reporting has won an ACCA award.

In addition, we won the Hang Seng Pearl River Delta Environmental Award organised by the Federation of Hong Kong Industries and Hang Seng Bank. The award recognised our efforts in protecting the environment and embracing sustainability through our launching of a series of initiatives, including energy saving programmes in stations, recycling of industrial rechargeable batteries, construction of noise barriers and sustainability reporting.

## Care for the Community

The Company's vision has always been to grow with the communities that we serve. In this spirit, we launched many volunteering activities during the year and further expanded our established "art in mtr" programme, which stages cultural shows and exhibitions by local artists at stations to enhance the travelling experience. A community art and viaduct beautification programme for the Kwun Tong Line was completed in May, and temporary exhibitions were set up throughout 2008 at different MTR stations to promote the appreciation of art to our passengers. As the East Rail Line approaches its 100th birthday, a new architectural theme – "In touch with Nature" – was developed to guide major station improvement works in the future.

We continue to encourage MTR colleagues to take part in community service. During the year, there were 87 volunteering projects in our "More Time Reaching Community" scheme involving a total of 2,000 volunteers. In April, the fourth MTR HONG KONG Race Walking event was held in Central to

encourage Hong Kong people to integrate regular exercise into their daily lives. The event raised HK\$1.3 million for health education. Further community initiatives included a variety show presented by schoolchildren, the elderly and executives of the Corporation for 350 members of the Shek Kip Mei community, and our MTR Volunteers' participation in a rice dumpling delivery day to the lonely elderly. Once more, six social organisations nominated us for the Caring Company Logo 2008/09 in recognition of the Company's contributions to society through community involvement, staff volunteering and providing a safe and family friendly environment for our employees.

Natural disasters in the Mainland in 2008 were a severe blow to everyone. In February, we donated HK\$1 million to the Hong Kong Red Cross to provide clothing and emergency supplies for the victims of the record snow falls in Central China, and HK\$1 million to the All-China Federation of Railway Trade Unions to show our care and concern. In response to the tragic Sichuan earthquake in May, following an initial early donation of HK\$1 million by the Company, MTR colleagues raised another HK\$5.6 million, which was "dollar matched" in donation by the Company, bringing the total to HK\$11.27 million. Moreover, our colleagues working in various offices in the Mainland raised a further RMB300,000, while in our shopping centres in Hong Kong, customers contributed an additional HK\$2 million. Overall, donations from MTR Corporation, our employees and our customers reached more than HK\$14.6 million for those struggling in the aftermath of the Sichuan earthquake.

The excellence of our Board governance, management and staff, the loyalty of our customers and the trust of our shareholders underpin the continuing successful performance of the Company.

As we build on our legacy in the post-Rail Merger era, I would like to extend my warmest thanks to my fellow directors, our staff and all our stakeholders for their continued support in furthering our vision of sustainable growth. I would also like to express my gratitude to Professor Cheung Yau-kai, who will retire as an independent non-executive Director of the Company at our Annual General Meeting on 4 June 2009, for his significant contributions and long service to the Company.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*,  
Hong Kong, 10 March 2009