





Building
ONE Customer
Experience for All

During the year, we continued to focus on the enrichment of the customer journey through enlarged scale and value-added customer services

Executive Management's Report

Station Commercial and Rail Related Businesses



High impact advertising formats – an unrivalled choice of media platform in MTR stations

Our station commercial and rail related businesses continued to benefit from the strong economy and rising patronage in 2007. The increased scale following the Rail Merger not only enhanced revenue growth but also brought about new business opportunities for MTR in the form of Duty Free shops and freight transportation.

Revenue Performance

Revenue from our station commercial and rail related businesses increased by 12.9% in 2007 to HK\$1,741 million. The revenue increase was driven by a strong economy, rising patronage and the Rail Merger effect from 2 December to the end of 2007. Excluding the Rail Merger effect, such revenues would have increased by 4.8% in 2007 to HK\$1,616 million.

Advertising

Advertising revenue grew by 11.0% to HK\$593 million (a 9.6% increase to HK\$585 million excluding the Rail Merger effect), supported by higher passenger volumes, advertising

innovations and increased spending by retailers on beauty and slimming products. We continued to strengthen our market leadership position by introducing new formats such as “Interactive Panel”, “Shopping Guide Map” and “12-sheet Scrolling Units” for product display or poster advertising, as well as additional zone packaging at stations to maximise revenue for the Company and advertising impact for our customers.

The MTR Plasma TV network continued to be enhanced. We successfully replaced 68 units of trackside plasmas and their back-end system by the end of March 2007 for maintaining the best viewing quality for our passengers.

On Airport Express, the replacement of seatback TV with a new multimedia system was completed in May 2007.

With the Rail Merger, advertising coverage now extends to the enlarged network including the cross-boundary market. The scale of our advertising business also increased, with the number of advertising media in stations and trains totalling 20,564 and 27,011 respectively at the year end.

At the end of May, in addition to bill payment services for CLP Power HK Ltd, we launched rental payment services for Hong Kong Housing Authority tenants at Customer Service Centres in stations on the Kwun Tong Line, Island Line, Tsuen Wan Line, Tung Chung Line and Tseung Kwan O Line.

Station Retail

Station retail revenue increased by 27.6% to HK\$499 million (a 9.7% increase to HK\$429 million excluding the Rail Merger effect), due to growth in rental rates and retail sales volumes as well as the Rail Merger effect. To enhance customer satisfaction and increase revenue, renovations and new layouts were completed in the retail zones of nine stations in 2007: Hong Kong, Kowloon, Tung Chung, Kwun Tong, Wong Tai Sin, Lai Chi Kok, Quarry Bay, Sai Wan Ho and Po Lam. This brings to 41 the number of stations in the MTR System that have undergone renovation since 2001. In addition, five new cross-selling promotion campaigns were launched to enhance the MTR Shops brand and stimulate tenants' sales.

During the year, 31 new trades/brands were added to the station retail network in the MTR System to enhance customer satisfaction. With the Rail Merger, the number of shops at stations totaled 1,230 at the end of the year, including nine Duty Free shops at Lo Wu, Lok Ma Chau, and Hung Hom stations.



A huge banner ad in Kowloon Station

Over 47,000 Advertising Media

in Stations and Trains

HK\$12,464 Advertising Revenue

Per Advertising Medium

HK\$7.23 Million Advertising Revenue

Per Station

1,230 Kiosks

in Stations

31 New Trades/Brands Added

in Station Kiosks (MTR System)

20 Stations with Wi-Fi Access

Station Commercial and Rail Related Revenue Comprised

16.3% of Total Revenue

for the Year 2007



Innovative displays included projection ads in Central Station



MTR shops continued to add exciting new brands

Telecommunications

Revenue from telecommunications services decreased by 10.0% to HK\$233 million as compared to 2006 (a 11.2% decrease to HK\$230 million excluding the Rail Merger effect), partly due to a one-off recognition of income from a mobile operator network upgrade in 2006 that was not repeated in 2007. Intense price competition among operators and cannibalisation of call minutes by 3G mobile services continued to affect our telecommunications income. However, our fixed network services provider, TraxComm Limited, achieved higher revenue. By the end of 2007, TraxComm had sold more than 220 Gbps of bandwidth services to carrier customers, an increase of 40% from the end of 2006, and its overall network availability had achieved close to 100%.

With effect from the Rail Merger date on 2 December, we took over the telecoms business in the KCR System, which is similar to that of MTR Corporation including public payphones, mobile phone coverage in stations, tunnels and along railway tracksides, and also optical fibre leasing. The rental revenue of rooftop sites for mobile base stations of various mobile operators grew by 13.6% as compared to 2006 due to the Rail Merger, which increased the number of sites from 22 to 34. A telecoms operator requested for capacity expansion of its 3G network within MTR System in order to enhance data and voice capacity

for 3G mobile phone usage, which was completed by the end of 2007. The Company joined with a telecoms operator to enable passengers to access the internet through Wi-Fi at 16 of our Domestic Service stations and 4 Airport Express Line stations.

With the Rail Merger, our existing fibre network was integrated with the KCRC fibre network, expanding coverage from 156 kilometres to 324 kilometres and bringing about cross-boundary business potential.

Freight Services

With the Rail Merger, we have gained the right to operate KCRC's freight business into the Mainland of China. This small business comprises two main business segments: (i) ancillary services for warehouse and pier licensing, and (ii) core railway transport business of containers, general cargoes and livestock. Revenue from the freight business from 2 December to the end of 2007 was HK\$3 million.

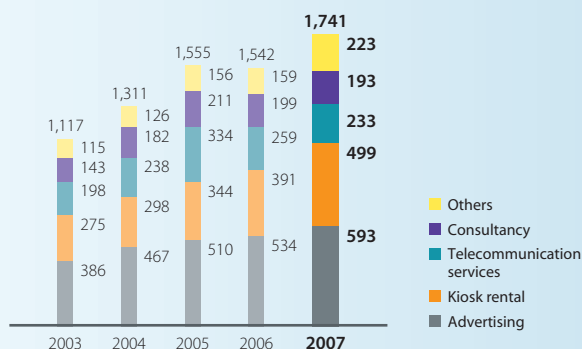
External Consultancy

During the year, in line with our strategy of focusing on consultancies that could lead to new investment opportunities, we made progress in existing consultancy projects and signed a number of new contracts. Overall, external consultancy activities generated a revenue of HK\$193 million in 2007, a decrease of

Revenue from Station Commercial and Rail Related Businesses

Growth in revenue from station commercial and other activities was led by advertising income and kiosk rental.

in HK\$ million



With the Rail Merger, our number of advertising media in stations and trains reached 20,564 and 27,011 respectively at the end of 2007

3.0% compared to 2006, which was mainly due to programme delays of some projects caused by the changing requirements of our customers.

In the Mainland of China, we were engaged by Asia Development Bank in a consultancy project to provide technical assistance to the Ministry of Finance for a study on Public Private Partnerships (PPP). The aim of the project is to develop PPP models that can be applied to urban rail projects in Mainland of China. In Chengdu, we secured a design review consultancy for Chengdu Metro.

In Thailand, the Company signed a consultancy project with Bangkok Mass Transit System Public Company Limited (BTS) to act as their technical advisor in BTS's re-signalling project. We also secured new projects in the UK, India and Australia, among other countries. To explore consultancy opportunities in the United Arab Emirates, we opened a branch office in Dubai.

During the year, the Company made significant progress and achieved several milestones in existing projects. Project management consultancy work continued on Shanghai Metro Line 9 and Phase 1 (12 stations) opened on 29 December 2007. Our existing consultancy works for Kaohsiung Rapid Transit Corporation in Taiwan and the works for the Roads and Transport Authority in Dubai also proceeded well. We

successfully delivered the power supply and signalling systems for the Automated People Mover extension at the Hong Kong International Airport, which was opened in February 2007. Phase 2 design work continued during the year and we will start the installation works once the Phase 2 site is ready for access, which is expected to be in May 2008.



Wi-Fi access is now available at 16 Domestic Service stations and 4 Airport Express Line stations