

Executive Management's Report

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.

During the year, 31 new trades/brands were added to the station retail network 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.

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). Intense price competition and cannibalisation of call minutes by 3G mobile services continued to affect our business. However, our fixed network services provider, TraxComm Limited, achieved higher revenue and sold more than 220 Gbps of bandwidth services to carrier customers, an increase of 40% from the end of 2006.

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. The Company joined with a telecoms operator to provide Wi-Fi internet access for passengers at 20 stations in the merged network.

With the Rail Merger, we took over the telecoms business of the KCR System, which is similar to that of our Company and our existing fibre network coverage expanded 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 relatively small freight business into the Mainland of China. This

business comprises ancillary services for warehouse and pier licensing, and a 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

We made progress in our strategy of focusing on consultancies that could lead to new investment opportunities. These activities generated a revenue of HK\$193 million in 2007, a decrease of 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).

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, and we opened a branch office in Dubai.

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.

Property and Other Businesses

Our property business benefited from broad based growth in the Hong Kong property market. Expanding demand and limited supply meant that the office market enjoyed low vacancy rates and high rentals, while the strong retail market was driven by consumer and tourist spending. The total transaction volume and value in the "first hand" private residential market increased by 37% and 106% respectively as compared to 2006.

Property Development

Profit for the year from property development increased to HK\$8,304 million, mainly due to surplus proceeds from

developments along the Airport Express and Tseung Kwan O Line, and deferred income from the newly opened Elements shopping centre in Kowloon Station, and Coastal Skyline and Caribbean Coast in Tung Chung.

Pre-sale commenced at Crystal Cove in Tung Chung and was well received. Sales were re-launched at the Harbourside, Harbour Green, La Rossa of Coastal Skyline and Le Point to good response, whilst Occupation Permits were obtained for Phase One of International Commerce Centre, the two towers of The

Cullinan at Kowloon Station, Phase 2 of Elements, Le Point at Tiu Keng Leng Station, and the last phase of the development in Coastal Skyline in Tung Chung.

In February, the tender for Area 56 in Tseung Kwan O town centre was awarded to a subsidiary of Sun Hung Kai Properties Limited, with plans to develop a hotel, residential, office and retail complex. In November, a subsidiary of Cheung Kong (Holdings) Limited was awarded Package Three of LOHAS Park, a residential development of up to 1,648 units.

As part of the Rail Merger, the Company acquired a property package that comprised property development rights, investment properties and property management rights. The property development rights acquired comprise eight sites of 1.2 million square metres GFA. The Company also took on KCRC's role as development agent for Government in respect of a number of West Rail property projects, which have an estimated total gross floor area of 2.3 million square metres, for which the Company will receive a fee.

Property Rental, Management and Other Businesses

Revenue from our property rental, management and other businesses, benefiting from rental rate increases and additions to the rental portfolio, increased by 24.3% to HK\$1,834 million as compared to 2006.

Property Rental

Property rental income rose by 25.2% over last year to HK\$1,581 million (a 23.5% increase to HK\$1,560 million excluding the Rail Merger effect from 2 December to the end of 2007), driven by positive rental renewals and new lettings, contributions from the opening of Phase 1 of Elements and Ginza Mall in Beijing.

Our commitment to the continuous enhancement of our shopping centres and other investment properties enabled us to capitalise on Hong Kong's strong economy. The average rise in rental reversions for renewal of leases and re-letting was 21.7%.

Rising demand from retailers for high quality retail space increased rents for prime locations and enabled the Company to maintain 100% occupancy at all pre-Merger MTR Corporation shopping centres, except for retail spaces at Luk Yeung Galleria repossessed for renovation. The five KCRC shopping centres that we acquired had an average occupancy of 91%.

Elements Phase 1, which opened on 1 October 2007, was very well received by the public and continued to be "talk-of-the-town", attracting local shoppers and tourists. Many brands

and services that are new to Hong Kong opened their flagship stores there. Renovations were also completed in November at Luk Yeung Galleria, increasing that shopping centre's competitiveness and product offerings.

In the Mainland of China, following refurbishment and re-branding, Ginza Mall in Beijing opened in January and by the end of December was 95% let. This mall marked the first step in applying our experience and know-how of operating shopping centres to the Mainland.

The Company acquired certain investment properties from KCRC as part of the Rail Merger, increasing our investment properties portfolio by a lettable area of 40,957 square metres. The investment property portfolio acquired comprises five shopping centres in New Territories totalling 36,487 square metres lettable, 20 residential units at Royal Ascot and an office at Hung Hom of 1,686 square metres lettable.

At the year end, the Company's attributable share of investment properties were 200,921 square metres of lettable floor area of retail properties, 41,215 square metres of lettable floor area of offices and 10,203 square metres for other usage.

Property Management

Our property management business, benefiting from additions to the portfolio, achieved revenue growth of 12.8% to HK\$168 million. During the year, 3,121 residential units were added to our property management portfolio, which together with the 9,854 units under agency management acquired in the Rail Merger, brings the total number of residential units in the property management portfolio of the Company in Hong Kong to 71,851 units at the end of 2007.

Total commercial properties managed by the Company increased by 81,457 square metres mainly due to the inclusion of Elements Phase 1 prior to Merger. With the Rail Merger, an additional 30,530 square metres of commercial area directly managed by the Company as well as 62,496 square metres managed by agents were added to our property management portfolio to give a total of 756,556 square metres at the year end.

There was also a marked increase in the managed property portfolio in the Mainland of China, with a total new intake of 480,000 square metres, including Jian Wai SOHO Phase 7, SOHO Shangdu Phases 1 and 2, and Chao Wai SOHO all in Beijing as well as Mei Li Shan Shui Phase 1 in Chongqing. Altogether, total management contracts in hand in the Mainland amounted to 820,254 square metres.

Executive Management's Report

Other Businesses

Ngong Ping 360

The Ngong Ping 360 cable car and associated theme village on Lantau Island carried some 1.5 million guests from its opening in September 2006 to June 2007. In June 2007, during the annual testing outside of operation hours, one of the gondolas dislodged from the cable. There were no injuries and operations were immediately suspended. In September, the Company took over the management and operation of the cable car system from the previous contractor through the acquisition of its Hong Kong subsidiary. After many rigorous rounds of inspection and testing, the system was confirmed to be safe and the cable car service resumed on 31 December 2007. The revenue contributed for the year was HK\$85 million.

Octopus Holdings Limited

The Company's share of Octopus' net profit for the year was HK\$97 million, a 42.6% increase over 2006. The increase was

partly the result of an increase in average daily Octopus usage of 11.7% to HK\$81.9 million per day in 2007, brought about by a rise in the number of retail service providers and improvements in the general economy.

The "Portable Octopus Processor" (POP), which enables Octopus to extend its reach into the small to medium-sized market sector, was a driver of Octopus retail merchant expansion. Other new products included the launch of the Mini Octopus, which has become a "hot" accessory in town, underscoring Octopus' innovation in product design.

Cards in circulation rose to 16.5 million and average daily transaction volume rose to 10.2 million. By the end of 2007, over 1.7 million cardholders had registered as members of the Octopus Rewards Programme with 14 participating Rewards merchants.

Hong Kong Network Expansion

2007 was a milestone year for the planning and construction of projects to enhance or extend the existing network.

Network Extensions

In his October 2007 Policy Address, Hong Kong SAR's Chief Executive highlighted the South Island Line (East), the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the Shatin-to-Central Link as priority rail infrastructure projects, indicating Government's long-term commitment to developing Hong Kong's rail system as the backbone of passenger transport system.

On-going Projects

As the first in the wave of extension projects for the future, the West Island Line achieved major milestones including the gazetting of the scheme under the Railways Ordinance in October 2007, approval by the Legislative Council of Hong Kong (LegCo) of HK\$400 million of design funding in December 2007 and the signing of a preliminary project agreement in February 2008.

The Kowloon Southern Link (KSL) is part of the Rail Merger and will connect the existing East Rail Line with West Rail Line. All capital costs for KSL will be funded by KCRC and on commissioning this extension will form part of the Service Concession under the Rail Merger.

New Projects

South Island Line (East), a medium capacity railway service, will connect Admiralty Station to South Horizons via Ocean

Park, Wong Chuk Hang and Lei Tung. A revised proposal with updated financial data and enhanced interchange arrangements at Admiralty Station was submitted to Government in June 2007. The Government has since requested the Company to proceed with preliminary planning and design.

The Government announced on 11 March 2008 its decision for the Company to proceed with the further planning and design of Shatin-to-Central Link and the Kwun Tong Line extension to Whampoa. The 17-km Shatin-to-Central Link, which will be based on the scheme proposed by the Company under the Rail Merger, will run from Tai Wai to Hong Kong Island connecting a number of rail lines to provide more convenient rail services to passengers. The Company will continue discussions with Government on the operation of Shatin-to-Central Link by way of a Service Concession. The 3-km Kwun Tong Line extension will run from the existing Yau Ma Tei Station via Ho Man Tin to Whampoa. The Company will discuss the implementation details of this project with Government based on the ownership approach.

Feasibility studies for the Northern Link and the Express Rail Link were completed in 2007. The 26-km Express Rail Link will provide cross-boundary high speed rail service connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed national intercity rail network. The Northern Link will provide a cross-boundary link for the West Rail Line and will also create a new railway corridor between the northeast and the northwest New Territories.