

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.

In 2007, the Company continued discussions with Government with the aim of completing the preliminary design for Express Rail Link by the end of 2008 in order to get it gazetted as soon as possible.

Funding Models for New Projects

The funding model for new rail projects will take different forms, each appropriately designed for the project. For the West Island Line, the Government has indicated they would consider a capital grant model. The South Island Line (East) will likely follow the Company's traditional "Rail and Property" approach. A third model would be the Service Concession model used in the Rail Merger, whereby Government (or KCRC) pays for the initial capital costs of the rail line and the Company operates the line by paying an annual concession payment as well as being responsible for maintenance and upgrades; KSL has adopted this approach.

Completion of Projects

The civil and structural works for the new station at LOHAS Park (in Tseung Kwan O South) were substantially completed in October 2007, track installation was close to completion in December 2007, while installation works of the electrical and mechanical systems are on schedule for completion in 2009.

Subways and Pedestrian Links

Works for the two underground entrances linking the Tsim Sha Tsui concourse with the adjacent redevelopment of 63 Nathan Road are expected to commence in April 2008 while the pedestrian subway at Cheung Lai Street connecting Lai Chi Kok Station with the new developments at the south of Lai Chi Kok Road began in August 2007. Construction of the link from Jordan Valley to Kowloon Bay Station was also started in early 2007.

Overseas Growth

2007 saw progress in our overseas growth strategy, with the winning of the London Overground concession by London Overground Rail Operations Ltd (LOROL), our 50:50 joint venture with UK's Laing Rail, and further works on the Beijing Metro Line 4 (BJL4) project. Meanwhile, we continued to seek new opportunities in the Mainland of China and Europe.

Mainland of China

In Beijing, the Public-Private Partnership (PPP) company 49% owned by MTR Corporation made steady progress on the BJL4 project.

Tendering for the Electrical & Mechanical (E&M) Works contracts was substantially completed. We made good progress on the internal fitting out and equipment assembly works for the first two trains, for which testing and commissioning works commenced in December 2007. 14 stations have been handed over to the BJL4 PPP company to start E&M installation.

In Shenzhen, we continue to support the Shenzhen Municipal Government in obtaining final approval for the Shenzhen Metro Line 4 (SZL4) project from the National Development and Reform Commission. In the meantime, preparatory work and expanded trial section work continue, with undertakings from the Shenzhen Municipal Government to reimburse certain of the costs incurred if the project is not approved.

We continue to seek further investment opportunities in the Mainland of China. During the year, we pursued projects in Beijing such as the BJL4 Extension to Daxing District, as well as the development of new metro lines in Hangzhou, Suzhou, Tianjin and Wuhan.

Europe

Our strategy in Europe remains "asset light". In line with this, our 50:50 joint venture with the UK's Laing Rail (now being acquired by Deutsche Bahn group), LOROL, won the London Overground concession in June and we took over the concession in November.

Under this concession, LOROL operates train services on five existing lines in Greater London for seven years, with an option for a two-year extension at the discretion of Transport for London (TfL). The cost-based operating concession will be worth £700 million over the lifetime of the contract, which should cover operating costs and include an expected profit margin for LOROL.

London Overground is a semi-orbital route serving West, North and East London and will be a vital link for the 2012 Olympic Games. The total route network measures 107.2 kilometres and LOROL will eventually manage 55 of the 78 stations on the network.