

Executive Management's Report

In September and October, a series of 1-minute TV segments was launched to reinforce the public's awareness of MTR Shops. To further stimulate customer spending, the finale of our 2008 consumer programmes was a MTR Shops Lucky Draw Promotion "Tokyo Group Shopping Extravaganza".

Advertising

Advertising revenue grew by 25.0% in 2008 to HK\$741 million when compared with 2007. In addition to the merger benefits, there were higher advertising rates and advertising innovations, which included the renovated "The Galleria" launched at the lower adit of Causeway Bay Station in May and the Digital Escalator Crown Bank at Causeway Bay, Tsim Sha Tsui and Central stations. At the end of 2008, there were 20,539 advertising points in stations, 26,619 in trains (including 4,341 Liquid Crystal Displays) and 228 on buses.

Telecommunications

Revenue from telecommunications services increased by 49.0% in 2008 to HK\$356 million as compared to 2007. A one-off payment received on termination of a telecommunications license was a key reason for the increase of revenue. Excluding this one-off income, revenue still grew by 13.0% to HK\$270 million as compared to 2007. 3G mobile phone coverage along the East Rail Line and Ma On Shan Line was fully launched in June and October respectively while preparation works for 3G coverage on the West Rail Line began. There was also an increase in one-off revenue generated from operators' mobile equipment migration projects along the stations.

During the year, TraxComm Limited achieved higher revenue with expanded growth in the market. The extension of Wi-Fi coverage to 9 MTR Lines stations, as well as all 5 Airport Express

stations and Airport Express train sets, making the total MTR stations with Wi-Fi coverage amounted to 30.

External Consultancy

In 2008, we made good progress with our focused strategy of using consultancies to enhance skill-sets and seek new investment opportunities. As a result, revenue from external consultancy activities was HK\$158 million, a decrease of 18.1% when compared with 2007, mainly due to the completion of the majority of works on Shanghai Metro Line 9 Phase 1, which was opened in December 2007.

In India, our consultancy business won an HK\$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. In addition, we secured a consultancy contract with Dubai Roads and Transport Authority (RTA) on the retail outlets leasing for the Red and Green lines of Dubai Metro Stations. Also we secured a consultancy project to provide technical advice to Metro Rio in Brazil for rolling stock procurement from China.

In 2008, we also extended the Automated People Mover operations and maintenance agreement with the Airport Authority of Hong Kong for five more years, whilst our existing consultancy works for Kaohsiung Rapid Transit Corporation in Taiwan proceeded well.

Freight Services

Revenue from freight services was HK\$37 million during 2008, a decrease of 10% over the equivalent Combined Non-fare Revenue.

Property and Other Businesses

Profit from property development was HK\$4,670 million in 2008, while revenue from property rental, management and other businesses grew by 47.9% to HK\$2,712 million.

Property Development

Profit on property development for 2008 was HK\$4,670 million, a decrease from the HK\$8,304 million recognised in 2007. This decrease was mainly due to very significant development profits booking in 2007, particularly for Le Point in Tseung Kwan O. The major contributors to property development profits were from

profit recognition relating to The Capitol at LOHAS Park and The Palazzo in Shatin, as well as the sale of units from inventory at Harbour Green and The Arch.

The pre-sale of all 2,096 units of The Capitol at LOHAS Park as well as about 80% or 1,100 units of the 1,375 units available at The Palazzo in Shatin was achieved. There was also a successful pre-sale of over 470 units at Le Bleu Deux in Tung Chung where the Company has a nominal financial interest.

In April, the development package for Che Kung Temple on the Ma On Shan Line was awarded to a subsidiary of New World Development Company Limited (Deluxe Sign Limited). As an agent for West Rail Line property development, Tsuen Wan West Station TW7 property development package was awarded to a subsidiary of Cheung Kong (Holdings) Limited (Queensway Investments Limited) in September.

Following the Government's decision to proceed with the planning and design of South Island Line (East) and the Kwun Tong Line Extension, consultancies commenced on the preliminary property scheme design for potential sites along these new lines.

Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses increased by 47.9% in 2008 to HK\$2,712 million.

Property Rental

Demand for both office and retail space was strong in the first half of the year, and property rental income was HK\$2,346 million, an increase of 48.4% over 2007. Our commitment to the continuous enhancement of our shopping centres and other investment properties enabled us to capitalise on Hong Kong's strong consumer sentiment and robust tourism growth.

The average increase in rental income of retail properties on renewal of leases or re-letting was 20% as compared to rental income achieved in the previous lettings. We maintained close to 100% occupancy of our shopping centres and the Company's 18 floors at Two International Finance Centre were fully rented out.

At the end of December 2008, the Company's attributable share of investment properties was 221,661 square metres of lettable floor area of retail properties, 41,059 square metres of lettable floor area of offices, and 10,402 square metres for other usage.

We continued to renovate our shopping centres in 2008 to enhance their market appeal and competitiveness. These works included the redevelopment of the cinema complex at Telford Plaza I to create an iconic building for the area. Our shopping centres were once again honoured with numerous local and international awards. Our flagship luxury shopping mall Elements, situated above Kowloon Station, won the Marché International des Professionnels d'Immobilier (MIPIM) Asia 2008 award for the best shopping centre at the world's premier real estate summit in Cannes, France, as well as the Urban Land Institute's 2008 Award for Excellence: Asia Pacific.

A number of innovative promotions were launched in our shopping centres to attract more shoppers. Elements organised a summer campaign that started with a redemption programme and finished with a Party on Ice and a jazz concert. Elements also joined hands with HSBC Platinum and Premier cards to offer attractive spending incentives including cash rebates and Asia Miles. Maritime Square lined up with Disney to launch "Mickey's Magic Chinese Palace" during Chinese New Year, exhibiting the largest gold Mickey Mouse in town.

In Mainland China, Ginza Mall, which opened in January 2007, continued to set new benchmarks for service and quality within the shopping centre industry in Beijing. Average rental income increment for leases renewal and re-letting was 15% compared to 2007 and occupancy was 100%. The shopping centre received many awards and honours in its first full year of operation. These included being ranked No. 2 amongst the 156 major shopping centres and department stores in Beijing in a Customer Satisfaction Survey conducted by the Beijing Municipal Commerce Bureau.

Property Management

Our property management business achieved revenue growth of 25.0% in 2008 to HK\$210 million. During the year, 2,096 residential units were added to our property management portfolio at Le Point (Phase 2 of Metro Town), bringing the total number of residential units under our management to 73,947 as at the end of December, whilst total commercial space under management was 770,556 square metres.

Our managed property portfolio in Mainland China amounted to 1,158,254 square metres. 338,000 square metres were added to our property management portfolio, including Mei Li Shan Shui Phase 2 in Chongqing and Rich Gate Shopping Mall Phase 1 in Shenyang.

Other Businesses

Octopus

The Company's share of Octopus' net profit for 2008 increased by 40.2% to HK\$136 million. The rise was mainly due to continued increase in the non-transport retail payment, helped by the "Portable Octopus Processor" (POP), which enables Octopus to extend its reach into the small to medium-sized retail market sector. By the end of December, the total number of service providers (including those serviced by Octopus-appointed acquirers) had risen to 2,459 from 1,440 at the end of December 2007.

"Auto-add value" customers who generally use Octopus for non-transport payment reached a record high of over 1 million customers. Total cards in circulation rose to 18.7 million and average daily transaction volume and value rose to 10.7 million and HK\$89.8 million respectively.

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Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK\$156 million of revenue in 2008, with visitor numbers reaching more than 1.6 million. After its re-opening on 31 December 2007, the cable car system achieved a reliability rate of over 99% for the year.

Awards received included the "Gold Award – Website Category" from the Pacific Asia Travel Association (PATA), and the "Globe Award 2008" from the British Guild of Travel Writers. Ngong Ping 360 also holds the Guinness record for "Most people playing wood Chinese block", which took place at the Ngong Ping Buddha's Birthday Celebration event in May 2008.

Hong Kong Network Expansion

2008 was again a milestone year for the design and planning of the Company's future Hong Kong rail projects.

New Hong Kong Projects

Planning and design are underway for five new rail projects in Hong Kong, which together with the substantially completed Kowloon Southern Link (incorporating the new Austin Station), will extend our network by approximately 60 kilometres when completed.

In March, the Government gave approval for the planning and design of the Shatin to Central Link. The Shatin to Central Link comprises two sections that will add 17 kilometres to the railway network, creating a number of new interchanges and connections and forming both a north-south and an east-west rail corridor. The preliminary design of the new link was started in September with a view to developing a scheme to be gazetted under the Railways Ordinance in late 2009.

The 3-km Kwun Tong Line Extension, the planning and design for which was also approved in March, will run from the existing Yau Ma Tei Station of the Kwun Tong Line to Whampoa via Ho Man Tin, which will be an interchange station with the Tai Wai to Hung Hom section of the Shatin to Central Link. Preliminary design started in June, and will be completed in early 2009. The current plan is to gazette the scheme under the Railways Ordinance and to proceed with the detailed design in the second half of 2009.

In April, the Government asked the Company to proceed with planning and design of the Express Rail Link, which will provide cross-boundary high speed rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed inter-city rail network. Preliminary design and planning made significant progress during the year. The project was gazetted under the Railways Ordinance on 28 November 2008.

The South Island Line (East) will be a medium capacity railway service connecting Admiralty Station to South Horizons on

Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung. Following the announcement of Government's support for the planning and design of the line in December 2007, preliminary design commenced in February 2008. Extensive consultation with the local community, District Councils and other stakeholders has been undertaken and the final plan will be issued to Government for review and gazetting in early 2009.

On-going Projects

The West Island Line will extend the Island Line with three new underground stations at Sai Ying Pun, University (at The University of Hong Kong) and Kennedy Town. The West Island Line was gazetted under the Railways Ordinance in October 2007. Detailed design was commenced in early 2008 and the Environmental Impact Assessment report for the project has been approved. Tendering for advance works contracts has begun. The line is planned to commence in 2009 for completion in 2014.

Satisfactory progress was made during 2008 on the Kowloon Southern Link, which will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station. Both ends of the project are now fully connected to the existing West Rail and East Rail lines and trial operations will commence in the second quarter of 2009. The line is expected to open in the second half of 2009.

Project Funding

The funding model for these new Hong Kong rail projects will take different forms, appropriately designed for each project. For the West Island Line, Government has indicated that it will consider a capital grant model whereby Government grants to the Company a sum of money to establish the financial viability of the project. The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach. A third model for future rail lines is the Service Concession model established in the Rail Merger, whereby Government or KCRC pays for the initial capital costs