

MTR CORPORATION LIMITED

(香港鐵路有限公司)

(Incorporated in Hong Kong with limited liability)

(Stock code: 66)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

HIGHLIGHTS

Financial

- Results included the impact of the Rail Merger from 2 December 2007
- Revenue increased 12% to HK\$10,690 million
- EBITDA, excluding merger related expenses, increased 13.7% to HK\$5,912 million
- Property development profit increased 42.8% to HK\$8,304 million
- Net profit attributable to equity shareholders excluding investment property revaluations and related deferred tax (profit from underlying businesses) increased 43.8% to HK\$8,571 million
- Net profit attributable to equity shareholders including investment property revaluations and related deferred tax of HK\$15,180 million
- Net assets increased 18.6% to HK\$91,037 million at 2007 year-end
- Net debt / equity ratio increased from 36.3% at 2006 year-end to 48.5% at 2007 year-end
- Final dividend of HK\$0.31 per share recommended by the Board resulting in total dividend for the year of HK\$0.45 per share, representing a 7.1% increase

Operational

- Rail Merger completed on 2 December 2007
- Average weekday patronage of Domestic Service increased from 2.5 million in 2006 to 3.5 million after Rail Merger
- Ginza Mall in Beijing and Elements at Kowloon Station opened in January and October 2007 respectively
- Tseung Kwan O Area 56 and LOHAS Park Package Three developments awarded in February and November 2007 respectively
- West Island Line gazetted under Railway Ordinance in October and design funding granted in December 2007
- Government requested the Company to proceed with preliminary planning and design of South Island Line (East) in December 2007
- Government requested the Company on 11 March 2008 to proceed with further planning and design of Shatin-to-Central Link and the Kwun Tong Line extension to Whampoa
- Ngong Ping 360 resumed service on 31 December 2007

The Directors of MTR Corporation Limited (“the Company”) are pleased to announce the audited results of the Company and its subsidiaries (“the Group”) for the year ended 31 December 2007 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK\$ MILLION)

	Year ended 31 December	
	2007	2006
Fare revenue	7,115	6,523
Station commercial and rail related revenue	1,741	1,542
Rental, management and other revenue	1,834	1,476
Turnover	10,690	9,541
Staff costs and related expenses	(1,802)	(1,653)
Energy and utilities	(576)	(539)
Operational rent and rates	(99)	(65)
Stores and spares consumed	(130)	(120)
Repairs and maintenance	(521)	(511)
Railway support services	(86)	(80)
Expenses relating to station commercial and rail related businesses	(410)	(410)
Expenses relating to property ownership, management and other businesses	(540)	(345)
Project study and business development expenses	(268)	(267)
General and administration expenses	(183)	(192)
Other expenses	(163)	(158)
Operating expenses before depreciation and amortisation	(4,778)	(4,340)
Operating profit from railway and related businesses before depreciation and amortisation	5,912	5,201
Profit on property developments	8,304	5,817
Operating profit before depreciation and amortisation	14,216	11,018
Depreciation and amortisation	(2,739)	(2,674)
Merger related expenses	(193)	-
Operating profit before interest and finance charges	11,284	8,344
Interest and finance charges	(1,316)	(1,398)
Change in fair value of investment properties	8,011	2,178
Net gain on acquisition of subsidiaries	187	-
Share of profits less losses of non-controlled subsidiaries and associates	99	45
Profit before taxation	18,265	9,169
Income tax	(3,083)	(1,411)
Profit for the year	15,182	7,758
Attributable to:		
- Equity shareholders of the Company	15,180	7,759
- Minority interests	2	(1)
Profit for the year	15,182	7,758

	Year ended 31 December	
	2007	2006
Dividends paid and proposed to equity shareholders of the Company attributable to the year:		
- Interim dividend declared and paid during the year	782	774
- Final dividend proposed after the balance sheet date	1,740	1,554
	<u>2,522</u>	<u>2,328</u>
Earnings per share:		
- Basic	HK\$2.72	HK\$1.41
- Diluted	HK\$2.72	HK\$1.41

CONSOLIDATED BALANCE SHEET (HK\$ MILLION)

	As at 31 December	
	2007	2006
Assets		
Fixed assets		
- Investment properties	37,723	22,539
- Other property, plant and equipment	79,444	84,404
- Service concession assets	15,250	-
	<u>132,417</u>	<u>106,943</u>
Property management rights	40	-
Railway construction in progress	424	232
Property development in progress	9,066	3,297
Deferred expenditure	825	565
Prepaid land lease payments	581	594
Interests in non-controlled subsidiaries	268	171
Interests in associates	205	100
Deferred tax assets	4	1
Investments in securities	333	272
Staff housing loans	15	25
Properties held for sale	756	2,018
Derivative financial assets	273	195
Stores and spares	642	272
Debtors, deposits and payments in advance	5,167	1,894
Loan to a property developer	3,532	3,355
Amounts due from the Government and other related parties	544	177
Cash and cash equivalents	576	310
	<u>155,668</u>	<u>120,421</u>
Liabilities		
Bank overdrafts	2	5
Short-term loans	507	1,114
Creditors, accrued charges and provisions	5,412	3,639
Current taxation	3	1
Contract retentions	225	193
Amounts due to related parties	975	-
Loans and obligations under finance leases	33,541	27,033
Derivative financial liabilities	192	515
Obligations under service concession	10,685	-
Deferred income	515	1,682
Deferred tax liabilities	12,574	9,453
	<u>64,631</u>	<u>43,635</u>
Net assets	<u>91,037</u>	<u>76,786</u>

	As at 31 December	
	2007	2006
Capital and reserves		
Share capital, share premium and capital reserve	39,828	38,639
Other reserves	51,186	38,128
Total equity attributable to equity shareholders of the Company	91,014	76,767
Minority interests	23	19
Total equity	91,037	76,786

Notes: -

1. AUDITORS' REPORT

The results for the year ended 31 December 2007 have been audited in accordance with Hong Kong Standards on Auditing, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), by KPMG whose unmodified audit report is included in the annual report to be sent to shareholders. The results have also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

These consolidated accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRS) issued by the HKICPA. The accounting policies adopted in the preparation of these accounts are consistent with those used in the 2006 annual accounts except for changes in accounting policies made thereafter in adopting HKFRS 7 "Financial instruments: Disclosures" and the Amendment to Hong Kong Accounting Standard (HKAS) 1 "Presentation of financial statements – Capital disclosures" in 2007. The adoption of both HKFRS 7 and the amendment to HKAS 1 does not have any material impact on the operating results and financial position apart from the additional disclosures in the accounts.

In addition, as the merger of the Company with Kowloon-Canton Railway Corporation (KCRC) is considered to include a service concession arrangement under the Hong Kong (International Financial Reporting Interpretations Committee) (HK(IFRIC)) Interpretation 12, which provides guidance on the accounting by operators in service concession arrangements for reporting periods commencing on or after 1 January 2008, the Company has early adopted the Interpretation in the 2007 accounts.

3. RAIL MERGER WITH KOWLOON-CANTON RAILWAY CORPORATION

A. On 2 December 2007 (the Appointed Day), the Company's operations merged with those of KCRC (Rail Merger). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the Hong Kong Special Administrative Region (HKSAR), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger include the following:-

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance (MTR Ordinance) to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day (Franchise Period), which may be extended pursuant to the provisions of the MTR Ordinance;

- The Service Concession Agreement (SCA) pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the Concession Period), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as “additional concession property”). To the extent that such expenditure exceeds an agreed threshold (Capex Threshold), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted;
- With effect from the Appointed Day, staff of the Company and KCRC have been employed by the Company on their prevailing terms and conditions of employment. In connection with the Rail Merger, a Staff Voluntary Separation Scheme has been offered to eligible staff;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for frontline staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link (KSL) Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

B. The principal financial terms of the Rail Merger and their financial impact on the 2007 accounts are described in the following paragraphs.

For the acquisition of the service concession, the Company has settled or is liable to settle the following payments to KCRC in respect of the service concession:

- Upfront payment of HK\$4,250 million was paid on the Appointed Day, of which HK\$326 million was in respect of stores and spares, with the balance of HK\$3,924 million for the right to access, use and operate the KCRC system (initial concession property), which is capitalised as a service concession asset on the balance sheet and amortised on a straight-line basis over the Concession Period;

- Fixed annual payments of HK\$750 million are payable by the Company to KCRC throughout the Concession Period. The present value of the total fixed annual payments discounted at the Company's estimated long-term incremental borrowing rate of 6.75% amounting to HK\$10,687 million was capitalised as a service concession asset on the balance sheet and amortised on a straight-line basis over the Concession Period with a corresponding liability for obligations under the service concession recognised on the balance sheet; and
- Variable annual payments are payable by the Company to KCRC commencing after the third year from the Appointed Day to the end of the Concession Period. The payments are calculated on a tiered basis by reference to the revenues generated from the operation of the service concession over certain thresholds.

As at 31 December 2007, HK\$49 million was incurred on additional concession property which will be amortised over the shorter of the assets' useful lives and the remaining period of the service concession.

The assumption of the liability of deposits refundable to third parties and other liabilities subject to cash compensation by KCRC on the Appointed Day amounted to HK\$663 million. The assumption of other assets and liabilities not subject to compensation by KCRC on the Appointed Day amounted to a net liability amount of HK\$226 million, formed part of the cost of acquiring the service concession and was capitalised accordingly.

On the Appointed Day, the Company paid a total consideration of HK\$7,790 million for the transfer of the economic benefits of the property package from KCRC as follows:

- Acquisition of certain properties or property holding subsidiaries from KCRC at a consideration of HK\$2,840 million. The excess of the fair value of these properties at the balance sheet date over the consideration has been recognised as a gain in the profit and loss account;
- Acquisition of property development rights for eight development sites for a consideration of HK\$4,910 million, which was recognised at cost as property development in progress on the balance sheet. Pursuant to the transaction agreements, when the development sites which have not been awarded as at the Appointed Day are subsequently awarded, the Company is obliged to pay KCRC an agreed amount of HK\$875 million in respect of enabling works carried out by KCRC for such sites, which will be settled by the receipt of mandatory payments from property developers when the sites are awarded;
- Acquisition of certain property management rights from KCRC in respect of existing and future managed properties at a consideration of HK\$40 million. The amount was capitalised and subject to amortisation on a straight-line basis over the period of the management rights;
- Assumption of certain assets and liabilities with a net liability amount of HK\$123 million relating to the property package with corresponding cash settlement from KCRC; and
- Acquisition of certain other subsidiaries of KCRC.

The Rail Merger also gave rise to the following:

- The Company obtained a new loan financing facility of HK\$10 billion as part of the financing for the above arrangements; and
- Deferred expenditure of HK\$492 million incurred in connection with the acquisition of the respective assets was capitalised.

Income and expenditure and assets and liabilities in relation to the operation of the service concession are accounted for in the respective line items of the Group's profit and loss account and balance sheet.

4. RETAINED PROFITS

The movements of the retained profits during the years ended 31 December 2007 and 2006 were as follows:

HK\$ Million	2007	2006
Balance as at 1 January	37,148	31,698
Dividends declared or approved	(2,336)	(2,309)
Profit for the year attributable to equity shareholders of the Company	15,180	7,759
Balance as at 31 December	<u>49,992</u>	<u>37,148</u>

5. PROFIT ON PROPERTY DEVELOPMENTS

HK\$ Million	Year ended 31 December	
	2007	2006
Profit on property developments comprises:		
Transfer from deferred income on		
- up-front payments	861	1,213
- sharing in kind	363	555
Share of surplus from development	7,077	3,724
Income recognised from sharing in kind	21	342
Other overhead costs	(18)	(17)
	<u>8,304</u>	<u>5,817</u>

6. INCOME TAX

HK\$ Million	Year ended 31 December	
	2007	2006
Current tax – overseas	3	2
Deferred tax – origination and reversal of temporary differences on:		
- change in fair value of investment properties	1,402	381
- utilisation of tax losses	1,608	1,197
- others	70	(169)
	<u>3,080</u>	<u>1,409</u>
Income tax in the consolidated profit and loss account	<u>3,083</u>	<u>1,411</u>
Share of income tax of non-controlled subsidiaries	28	12
Share of income tax of associates	<u>1</u>	<u>-</u>

No provision for current Hong Kong Profits Tax has been made in the consolidated profit and loss account in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have accumulated tax losses brought forward which are available for set off against current year's assessable profits or have sustained tax losses for the year ended 31 December 2007. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at Hong Kong Profits Tax rate at 17.5% (2006: 17.5%).

7. DIVIDEND

The Board has recommended to pay a final dividend of HK\$0.31 per share. The Company proposes that a scrip dividend option will be offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be distributed on or about 18 June 2008 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 15 April 2008. The Company's majority shareholder, The Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK\$15,180 million (2006: HK\$7,759 million) and the weighted average number of ordinary shares of 5,573,736,592 in issue during the year (2006: 5,510,345,238).

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK\$15,180 million (2006: HK\$7,759 million) and the weighted average number of ordinary shares of 5,578,838,104 in issue during the year (2006: 5,516,115,460) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes.

Both basic and diluted earnings per share would have been HK\$1.54 (2006: HK\$1.08) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding increase in fair value of investment properties net of related deferred tax.

9. SEGMENTAL INFORMATION

HK\$ Million	Turnover		Contribution to profit	
	Year ended 31 December		Year ended 31 December	
	2007	2006	2007	2006
Railway operations	7,115	6,523	1,355	997
Station commercial and rail related businesses	1,741	1,542	1,258	1,050
	8,856	8,065	2,613	2,047
Property ownership, management and other businesses	1,834	1,476	1,226	1,109
	10,690	9,541	3,839	3,156
Property developments			8,304	5,817
			12,143	8,973
Unallocated corporate expenses			(666)	(629)
Merger related expenses			(193)	-
Interest and finance charges			(1,316)	(1,398)
Change in fair value of investment properties			8,011	2,178
Net gain on acquisition of subsidiaries			187	-
Share of profits less losses of non-controlled subsidiaries and associates			99	45
Income tax			(3,083)	(1,411)
			15,182	7,758

Railway operations comprise the operation of an urban mass transit railway system within Hong Kong and an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok and following the Rail Merger, with effect from 2 December 2007, the KCR System consisting of KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), Cross-boundary Service, Light Rail, Bus and Intercity passenger services.

Station commercial and rail related businesses comprise mainly letting of advertising and retail space, bandwidth services on the railway telecommunication system, railway consultancy services, freight and rail related subsidiaries' businesses.

Property ownership, management and other businesses comprise mainly property rental, property management and, commencing from September 2006, operations relating to Ngong Ping 360.

Property developments comprise property development at locations relating to the railway system.

As substantially all the principal operating activities of the Group were carried out in Hong Kong throughout the reporting periods, no geographical analysis is provided.

10. DEBTORS AND CREDITORS

A The Group's debtors, deposits and payments in advance amounted to HK\$5,167 million (2006: HK\$1,894 million), out of which HK\$3,774 million (2006: HK\$825 million) relates to property development which are mainly due according to terms of the sales and purchases agreements; and HK\$687 million (2006: HK\$608 million) receivable from rentals, advertising and telecommunication activities with due dates ranging from 7 to 50 days, swap interest receivable from debt portfolio management activities due in accordance with the respective terms of the agreements, and amounts receivable from consultancy services income due within 30 days. As at 31 December 2007, HK\$260 million (2006: HK\$276 million) were overdue out of which HK\$88 million (2006: HK\$174 million) were overdue by more than 30 days.

B Creditors, accrued charges and provisions amounted to HK\$5,412 million (2006: HK\$3,639 million), majority of which relate to capital project payments to be settled upon certification of work in progress and swap interest payable under the terms of respective swap agreements for debt portfolio management purposes. The Group has no significant balances of trade creditors resulting from its provision of transportation and related services. As at 31 December 2007, HK\$1,354 million (2006: HK\$645 million) were amounts either due within 30 days or on demand, and the remaining were amounts not yet due.

11. PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

During the year ended 31 December 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

12. CHARGE ON GROUP ASSETS

As at 31 December 2007, certain assets held by MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company, in the Mainland of China were pledged as security for a RMB400 million short-term bank loan facility granted to it.

Apart from the above, none of the other Group's assets was charged or subject to any encumbrance as at 31 December 2007.

13. ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 29 May 2008. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 25 April 2008.

14. CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2007 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association.

On 8 August 2007, the Government of HKSAR appointed Dr. Raymond Ch'ien Kuo-fung as the non-executive Chairman of the Company for a term of 24 months with effect from the Rail Merger. The Rail Merger took effect from 2 December 2007. Dr. Raymond Ch'ien, a Member of the Board since 1998, was first appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years, which was renewed in 2006 for a further term up to 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and Kowloon-Canton Railway Corporation.

On 8 August 2007, the Government of HKSAR selected Mr. Chow Chung-kong as the Chief Executive Officer of the Company after the Rail Merger. Mr. Chow was appointed as the Chief Executive Officer of the Company with effect from 1 December 2003 for a term of three years. He was also appointed as a Member of the Board on the same date. His contract as the Chief Executive Officer of the Company was renewed for a further term of three years with effect from 1 December 2006.

15. PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange. The Annual Report will also be available at the Company's and the Stock Exchange's website in late April 2008 and will be despatched to shareholders of the Company in late April 2008.

KEY STATISTICS

	Year ended 31 December	
	2007	2006
Total passenger boardings		
- Domestic Service (in millions) (full-year)	915.8	866.8
- Cross-boundary Service (in thousands) (post-merger)	8,243	-
- Airport Express (in thousands) (full-year)	10,175	9,576
- Light Rail (in thousands) (post-merger)	11,100	-
Average number of passengers (in thousands)		
- Domestic Service (weekday)		
- Pre-merger	2,595	2,513
- Post-merger	3,544	-
- Cross-boundary Service (daily) (post-merger)	274.8	-
- Airport Express (daily) (full-year)	27.9	26.2
- Light Rail (weekday) (post-merger)	380	-
Operating profit from railway and related businesses before depreciation, amortisation and merger related expenses as a percentage of turnover	55.3%	54.5%

MANAGEMENT REVIEW AND OUTLOOK

2007 was a successful year for the Company. Firstly, on 2 December, we completed the merger of our rail operations with those of the KCRC and acquired from KCRC a portfolio of properties (Rail Merger). Secondly, in Hong Kong, a number of new rail lines saw progress. The West Island Line was gazetted by the Hong Kong SAR Government, and good construction progress was made on the Kowloon Southern Link, which is part of the Rail

Merger. Hong Kong SAR's Chief Executive highlighted in his Policy Speech three additional rail lines as infrastructural priority projects, these being the South Island Line (East), the Shatin-to-Central Link and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link). We welcome Government's latest 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. Thirdly, outside of Hong Kong, we won the London Overground Concession together with our partner, Laing Rail, whilst work progressed in Beijing on the construction of Beijing Metro Line 4.

2007 also saw strong financial results for MTR Corporation as we continued to make steady progress in all our businesses. For the year, our revenue increased by 12.0% to HK\$10,690 million, due to the continued growth in our recurring businesses and the effect of the Rail Merger. Operating profit from railway and related businesses before depreciation, amortisation and merger related expenses rose by 13.7% to HK\$5,912 million. Property development profit recognised in the period was HK\$8,304 million. Excluding investment property revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders was HK\$8,571 million, 43.8% higher than 2006. This significant increase in underlying profits was primarily the result of the very significant property development profits recognised in 2007, in particular from Le Point at Tiu Keng Leng Station. Earnings per share were HK\$1.54 before investment property revaluation and HK\$2.72 after such revaluation. With the strong financial results, your Board has recommended a final dividend of HK\$0.31, which when combined with the interim dividend of HK\$0.14 per share, brings full year dividend to HK\$0.45, an increase of 7.1% over 2006.

The Rail Merger

Following the Memorandum of Understanding between the Company and the Hong Kong SAR Government on 11 April 2006, the Rail Merger Ordinance was approved by the Legislative Council of Hong Kong (LegCo) on 8 June 2007. Formal transaction documents were entered into between the Government, the Company and KCRC in August 2007, and independent shareholders of the Company approved the Rail Merger on 9 October. The completion of the Rail Merger on 2 December marked a new era not only for the Company but also for public transportation in Hong Kong.

For our customers, the Rail Merger brought fare reductions as well as better integration of the rail network in Hong Kong. For the Company and our shareholders, the Rail Merger represents a significant increase in the size and scale of our rail and property portfolio as well as growth opportunities in the form of new railway lines throughout Hong Kong and connecting to the Mainland of China. The expansion of our rail and rail related businesses together with the Rail Merger transaction structure increases our recurrent profitability and enhances the long term sustainability of the Company. This will benefit all stakeholders of the Company and will provide a platform for the sustainable development of Hong Kong's public transportation services.

Operational Review

Hong Kong Railway Operations

For the year, total patronage on the Integrated MTR System, including the effect of the Rail Merger since 2 December, increased by 8.2% to 948.3 million. For the period before the Rail Merger, total patronage increased by 2.9% as compared to the same period in 2006.

Average weekday patronage on pre-Merger MTR Lines increased by 3.3% to 2.6 million as compared to the same period last year. After the Rail Merger, our Domestic Service, which now also includes the KCR Lines (comprising the East Rail excluding Cross-boundary

Service, West Rail, and Ma On Shan lines), saw average weekday patronage increasing significantly to 3.5 million.

Patronage on the Airport Express rose 6.3% to 10.2 million in 2007, as the number of air travellers using Hong Kong International Airport continued to rise, and the number of exhibitions and other events at AsiaWorld-Expo increased.

For Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage for the full year recorded an increase of 4.7% to 92.1 million, of which 8.2 million was attributable to the Company from the Rail Merger for the period after 2 December. Light Rail, Bus and Intercity recorded patronage of 14.1 million for the period from 2 December to the end of 2007.

Our overall share of the franchised public transport market increased from 25.0% in 2006 to 25.3% in the period before the Rail Merger. After the Rail Merger including all rail and bus passenger services, our market share increased further to 41.6%.

In the period prior to the Rail Merger, average fare per passenger on the MTR Lines was HK\$6.83, which was similar to the comparable period in 2006. After the Rail Merger, average fare per passenger on Domestic Service was HK\$6.39 with the reduction in average fares being due to the fare reduction given as part of the Rail Merger and the lower average fares on KCR Lines as compared to the MTR Lines. Average fare per passenger for Airport Express was HK\$64.34 in 2007, an increase of 0.8% over 2006. Average fare per passenger on Cross-boundary Service was HK\$24.51 in 2007, similar to that of 2006. Total fare revenue from all passenger services for 2007 increased by 9.1% to HK\$7,115 million.

The successful integration of the two networks on 2 December 2007 reflected the very high level of integration planning, service and operational performance that was demonstrated throughout the year. Passengers on time performance on the pre-Merger MTR System achieved a level of 99.9%. A new operating agreement came into effect on 2 December 2007 as a result of the Rail Merger that will govern the performance levels of the Integrated MTR System.

To meet the constantly rising expectations of our customers, we invested not only in the expansion of the network but also in service and efficiency improvements. To enhance accessibility, we opened new pedestrian links and entrances at various stations including a pedestrian link at Admiralty Station connecting to Three Pacific Place, and two new entrances at Kowloon Station linking up to Elements shopping centre.

The new Airport Express platform serving SkyPlaza in Hong Kong International Airport Terminal 2 was put into operation. The noise enclosure project in the Tung Chung area to reduce noise impact for residents was completed and some rail sections along north Lantau were replaced for the same purpose. To improve passenger comfort, five new trains are being procured for the Tsuen Wan, Kwun Tong, Island and Tseung Kwan O lines.

To promote customer service and to help attract new patronage, various marketing programmes were launched, including the selection of a lucky couple to participate in the first MTR Hello Kitty Dream Wedding in Hong Kong Station, the MTR Hello Kitty Heroes Redemption Programme and the Ride 5 Get Free Breakfast Promotion. A tailor-made shopping guide entitled "MTR Easy Ride to Hong Kong Shopping Festival" was developed together with the Hong Kong Tourism Board for the use of overseas tourists in July and August.

On Airport Express, the popular "Ride to Rewards" programme was enhanced with new rewards. We also arranged same-day return trips on Airport Express as well as discounted prices for visitors travelling to private events or public concerts at AsiaWorld-Expo.

On the through train business to the Mainland of China, which we took on after the Rail Merger, the fare promotion on Intercity services to Beijing and Shanghai in non-peak periods continued. To promote the new Lok Ma Chau Station of the Cross-boundary Service, free ride promotions over the New Year and Lunar New Year holidays and weekly ticket promotions were provided to customers who used the new station.

Station Commercial and Rail Related Businesses

Revenue growth for our station commercial and rail related businesses benefited from a robust economy, rising patronage and the effect of the Rail Merger, resulting in revenue increasing 12.9% to HK\$1,741 million despite decreases in telecommunications and consultancy revenues. Excluding the Rail Merger effect from 2 December to the year end, such revenues would have increased by 4.8% to HK\$1,616 million.

Advertising revenue increased by 11.0% to HK\$593 million (9.6% to HK\$585 million excluding the Rail Merger effect), underpinned by higher passenger volumes, advertising innovations and station zone segmentation with the objectives of optimizing revenue for the Company and advertising impact for our customers. Revenue also benefited from the replacement of seatback TV with the new multimedia system on the Airport Express, and the enhancement of the MTR Plasma TV network. With the Rail Merger, our advertising coverage now extends to an integrated network with larger patronage, including the cross-boundary market.

Station retail revenue rose 27.6% to HK\$499 million (9.7% to HK\$429 million excluding the Rail Merger effect). Renovations and new layouts were completed in the retail zones of nine stations in 2007 and altogether, 41 stations in the MTR System have been renovated since 2001. 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.

Revenue from telecommunications services decreased by 10.0% to HK\$233 million as compared to 2006 due to the cannibalisation of the 2G service by the less profitable 3G service. However, our fixed network services provider TraxComm Limited achieved higher revenue and by the end of the year had sold more than 220 Gbps of bandwidth services to carrier customers. With the Rail Merger, we took over the telecoms business of the KCR System, which is similar to MTR Corporation's own telecoms business, and our fibre network coverage expanded from 156 kilometres to 324 kilometres.

As part of the Rail Merger, we also gained KCRC's relatively small freight transportation business, which generated revenue of HK\$3 million from 2 December to the year end.

In external consultancy, we made progress on existing consultancy projects and the signing of new contracts. Project management consultancy work continued on Shanghai Metro Line 9 and Phase 1 (12 stations) opened on schedule on 29 December 2007. Overall, external consultancy 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.

Property and Other Businesses

The Hong Kong property market was very active in 2007. The office and retail rental markets continued to enjoy good growth with supply being limited in the office market, and strong retail market driven by consumer and tourist spending.

The development rights for eight property development sites totalling 1.2 million square metres GFA were acquired as part of the Rail Merger. The Company will act as the Government's agent for property developments at West Rail sites. The Merger also

increased our investment property portfolio by 40,957 square metres lettable, particularly in the New Territories.

Profit for the year from property developments increased significantly to HK\$8,304 million. Amongst this, surplus proceeds contributed HK\$7,077 million, particularly from the sale of residential flats from Le Point at Tiu Keng Leng Station and to a lesser extent from Harbour Green at Olympic Station. Deferred income contributed HK\$1,224 million being profit recognition mainly from the newly opened Elements in Kowloon Station, and from Coastal Skyline and Caribbean Coast in Tung Chung.

In February 2007, the tender for Area 56 in Tseung Kwan O town centre was awarded to Lansmart Ltd, a subsidiary of Sun Hung Kai Properties Limited, with the plan to develop a hotel, residential, office and retail complex. In November, a subsidiary of Cheung Kong (Holdings) Limited was awarded Tseung Kwan O Area 86 Package Three, a residential development with up to 1,648 units. Area 86 was formally named LOHAS Park in September.

Revenues from our property rental, management and other businesses benefited from additions to the portfolio, increased by 24.3% to HK\$1,834 million as compared to 2006; the Rail Merger effect from 2 December to the end of 2007 contributed HK\$22 million to this total. Within this total, rental income rose by 25.2% over last year to HK\$1,581 million (23.5% to HK\$1,560 million excluding the Rail Merger effect), driven by positive rental renewals and new lettings, as well as contributions from Phase 1 of Elements with lettable area of 39,210 square metres and Ginza Mall in Beijing with lettable area of 19,307 square metres, both of which opened in 2007.

Our latest up-market flagship shopping centre, Elements on top of Kowloon Station, was successfully opened in October 2007. It quickly became a unique attraction for premier shopping and recreation both for Hong Kong residents and for visitors. Commercially, Elements was equally successful with 100% of its shops leased at the time of the opening.

The investment properties portfolio acquired as part of the Rail Merger comprises five shopping centres in the 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.

Property management income rose by 12.8% to HK\$168 million. During the year, 3,121 residential units were added to our property management portfolio at Coastal Skyline, Caribbean Coast and Harbour Green, which together with the 9,854 units under management acquired in the Rail Merger, brings the total number of residential units managed by the Company in Hong Kong to 71,851 units at the end of 2007.

Prior to the Rail Merger, total commercial properties managed by the Company increased by 81,457 square metres mainly due to the inclusion of Elements Phase 1. With the Rail Merger, an additional 93,026 square metres of commercial area was added to our property management portfolio to give a total of 756,556 square metres at year end.

Our managed property portfolio in the Mainland also increased in 2007, with a total new intake of 480,000 square metres. Altogether, total contracts in hand under management in the Mainland of China amounted to 820,254 square metres.

The Ngong Ping 360 cable car and associated theme village on Lantau Island, opened in September 2006. In June 2007, during the annual testing outside of operation hours, one of the gondolas dislodged from the cable. There were no injuries but operations were immediately suspended, followed by detailed investigations and a period of intensive testing of safety and operational procedures. 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, with a senior management team of our experienced engineers and international cable car professionals. After extensive testing,

the system was confirmed to be safe and reliable and the cable car service resumed on 31 December 2007. Patronage quickly returned to previous levels and we are optimistic about the future of this project. The revenue contributed for the year from Ngong Ping 360 was HK\$85 million.

The Company's share of Octopus' net profit for 2007 was HK\$97 million, a 42.6% increase over 2006. The increase was partly a 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 service providers and improvements in the general economy. Cards in circulation rose to 16.5 million and average daily transaction volume rose to 10.2 million. By the end of 2007, the total number of service providers had risen to 490 from 431.

Hong Kong Network Expansion

With the completion of the Rail Merger, our key focus will be directed to the construction of new rail lines over the next decade, which will significantly contribute to Hong Kong's future growth.

As the first of these new extension projects, the West Island Line (WIL) was gazetted under the Railways Ordinance in October 2007 followed by approval of design funding by Government in December 2007. WIL is a 'community railway' that aims to rejuvenate the Western District of Hong Kong by enhancing connectivity for the community through rail service, station exits, lifts and escalators.

Works on the Kowloon Southern Link (KSL) connecting the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station, continued throughout the year. Completion is scheduled for late 2009. The Company took the project management responsibility of KSL under the Rail Merger agreement. However, it will continue to be funded and owned by KCRC, and will form part of the Service Concession when it opens for service.

In his Policy Address in October 2007, the Chief Executive of Hong Kong SAR identified a number of new rail lines as priority infrastructure projects. These include the South Island Line (East), the Shatin-to-Central Link and the Hong Kong Section of the Express Rail Link.

A revised proposal for the South Island Line (East) with updated financial data and enhanced interchange arrangements at Admiralty Station was submitted to Government in June 2007. Government has since requested the Company to proceed with preliminary planning and design. In addition, feasibility studies were completed in 2007 for the Express Rail Link. The Express Rail Link will provide cross-boundary high speed train service connecting Hong Kong to the new high speed rail network in the Mainland of China.

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 section from Tai Wai to Hung Hom connecting Ma On Shan Line to West Rail Line is expected to be completed in 2015. The other section which will extend the existing East Rail Line from Hung Hom across the harbour to Hong Kong Island is expected to be completed in 2019. 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 and is expected to be completed by 2015. The Company will discuss the implementation details of this project with Government based on the ownership approach and has proposed to use property development rights relating to a site at the former Valley Road Estate site to bridge the funding gap.

The funding model for these new rail projects will take different forms, each appropriately designed for the project. As always, the Company will seek to create a commercial return on its investments above its cost of capital and at rates commensurate with the risk of the projects. For the West Island Line, the Government has indicated that it would consider a capital grant model whereby Government grants to the Company a sum of money, currently estimated at HK\$6 billion, to establish the financial viability of the project. The South Island Line (East) will likely follow the Company's traditional "Rail and Property" approach, whereby property development rights will be granted to us. A third model that could be used for future rail lines would be the Service Concession model used in the Rail Merger, whereby Government (or KCRC, which is wholly owned by the Government) 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.

For the new station at LOHAS Park (in Tseung Kwan O South), civil and structural works were substantially completed in October 2007, and track installation was substantially completed in December 2007. Design of the railway electrical and mechanical systems has been completed, manufacturing of major plant and equipment is in progress, and installation works are on schedule for completion of the station in 2009.

Construction Work for the pedestrian subway at Cheung Lai Street connecting Lai Chi Kok Station with the new developments to the south of Lai Chi Kok Road began in August 2007.

Overseas Expansion

Our overseas expansion took a step forward with the award of the London Overground concession to London Overground Rail Operations Ltd (LOROL), our 50:50 joint venture with UK's Laing Rail (now being acquired by Deutsche Bahn group). Works on the Beijing Metro Line 4 (BJL4) project made steady progress and the process to gain approval of the Shenzhen Metro Line 4 (SZL4) project continued.

In Beijing, tendering for the Electrical & Mechanical (E&M) Works Contracts of BJL4 was substantially completed. Design works and manufacturing for E&M equipment advanced smoothly. Testing and commissioning works of the first two trains commenced in December 2007.

In Shenzhen, we continued to support the Shenzhen Municipal Government in obtaining approval on the SZL4 project from the National Development and Reform Commission. 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. Under the current policy relating to property development in China, the public sector funding support to this project is likely to take other forms than the grant of property development rights. The Company will ensure that the project, if approved, will provide satisfactory returns to its shareholders. We continue to pursue other projects in the Mainland of China, such as the BJL4 Extension to Daxing District, as well as the development of new lines in Hangzhou, Suzhou, Tianjin and Wuhan.

In Europe, our joint venture with Laing Rail, LOROL, was awarded the London Overground concession on 19 June 2007. On 11 November, LOROL successfully took over the concession, which allows it to operate services on five existing lines in Greater London for seven years.

Financial Review

The Group achieved strong financial results in 2007. Total fare revenues increased by 9.1% from HK\$6,523 million to HK\$7,115 million with fare revenue from Domestic Service (including KCR Lines after the Rail Merger) increasing by 5.1% in 2007 to HK\$6,213 million.

Fare revenues from Airport Express increased by 7.0% to HK\$655 million whilst Cross-boundary, Light Rail, Bus and Intercity services contributed total revenue of HK\$247 million for the period after the Rail Merger. Non-fare revenues increased by 18.5% in 2007 to HK\$3,575 million comprising HK\$1,741 million of station commercial and rail related business incomes and HK\$1,834 million of property rental, management and other incomes. Total revenues for 2007 therefore increased by 12.0% to HK\$10,690 million. Total operating costs, excluding merger related expenses, increased by 10.1% in 2007 to HK\$4,778 million after accounting for the incremental operating costs following the Rail Merger in December. Operating profit from railway and related business before depreciation and amortisation therefore increased by 13.7% to HK\$5,912 million before accounting for merger related expenses. We estimate that the Rail Merger contributed approximately HK\$284 million to such operating profit from 2 December to the year end before merger related costs. Operating margin also increased from 54.5% in 2006 to 55.3%.

Property development profits for 2007 increased significantly from HK\$5,817 million to HK\$8,304 million mainly due to profit recognition from Le Point at Tiu Keng Leng Station. As noted in the 2006 Annual Report, costs relating to the Le Point property development had been accounted for in 2006 and hence profit recognition for Le Point in 2007 was based predominately on our share of the revenue from sales of units at the development, leading to significant profit booking in 2007. Depreciation and amortisation charges for 2007 increased by 2.4% to HK\$2,739 million while interest and finance charges declined by 5.9% to HK\$1,316 million as a result of substantial cash inflows during the early part of the year. With the Rail Merger, merger related expenses charged to the 2007 profit and loss account were HK\$193 million. Acquisitions of assets in 2007 included investment property subsidiaries from KCRC as part of the Rail Merger and the Ngong Ping 360 operation management company from the previous contractor; fair market adjustments for such assets produced a net gain of HK\$187 million.

Excluding investment property revaluation, net profit attributable to shareholders of the Company from underlying businesses for 2007 increased by 43.8% to HK\$8,571 million, or HK\$1.54 per share as compared with HK\$1.08 in 2006. After accounting for the revaluation of investment properties, reported earnings attributable to shareholders of the Company were HK\$15,180 million with earnings per share of HK\$2.72.

The Company's balance sheet showed an 18.6% increase in net assets from HK\$76,786 million as at 31 December 2006 to HK\$91,037 million as at 31 December 2007. Total assets increased from HK\$120,421 million in 2006 to HK\$155,668 million as at 31 December 2007 mainly attributable to the addition of the Service Concession assets and property package acquired in the Rail Merger as well as the appreciation in market values of investment properties. Total liabilities increased from HK\$43,635 million in 2006 to HK\$64,631 million at 2007 year end mainly due to the additional borrowings, obligations under the Service Concession and other liabilities arising from the Rail Merger. Including the obligations under the Service Concession of HK\$10,685 million as a component of debt, the Group's net debt-to-equity ratio increased from 36.3% at 2006 year-end to 48.5% at 2007 year end.

Cash flow of the Company remained strong during the year with net cash inflow of HK\$5,965 million generated from railway and related activities and HK\$5,824 million of cash receipts from our property development business. After payments for capital projects, interest expense, working capital and dividends, a net cash inflow of HK\$6,122 million was generated before payments for the Rail Merger. Upfront payments of HK\$12,040 million were incurred while reimbursement of HK\$786 million was received in respect of the assumption of certain KCRC assets and liabilities for the Rail Merger, resulting in a cash deficit of HK\$5,132 million for the year, which was financed by increase in debt of HK\$5,401 million.

In view of the strong financial performance in 2007, the Board has recommended a final dividend of HK\$0.31 per share which, when added to the interim dividend of HK\$0.14, will

give a total dividend of HK\$0.45 per share for the year, representing an increase of HK\$0.03 or 7.1% as compared to last year. As in previous years, the Financial Secretary Incorporated has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash.

Human Resources

The commitment, loyalty and professionalism of our staff have long been the foundation of our success. In the preparations for the Rail Merger, we consistently followed the principle of "One Company, One Team", and consulted our colleagues on all matters that affected their future. The Rail Merger was not simply a financial transaction involving physical assets and operational integration; it was a process that involved people. To help our colleagues to learn about the merger process, and to provide an opportunity for them to interact with each other, 99 Cultural Integration workshops were held. Every one of our colleagues attended at least one of these workshops. Their views were sought and they were kept abreast of developments through many different channels, including publications, newsletters and communication sessions. These programmes were designed to make the merger process more transparent and to reduce uncertainties.

Our numerous training and development programmes to enhance skills and maintain motivation continued throughout the year, with courses covering issues such as empathetic listening, empowerment and railway safety. In order to meet the future requirements of the Company, several major initiatives were undertaken to develop management and leadership talents, including an Executive Associate Scheme and a graduate trainee programme with graduates from both Hong Kong SAR and the Mainland of China. We also continued to devote resources to developing and resourcing staff for our expanding overseas business and to create our culture at our operations offshore.

Outlook

Uncertainties in the global economy continued in the latter part of 2007 and into 2008, with the risk of a slowdown in the U.S.. However, with continued growth in the Mainland of China and barring any further major external shocks, we hold a positive view on the economic prospects of Hong Kong in 2008.

The Rail Merger will have a positive full-year impact on our businesses in 2008. We remain confident of achieving the HK\$450 million per year in merger synergies over three years. In 2008, we are of the view that approximately HK\$130 million of such synergies could be achieved through energy optimisation, combined procurements and revenue enhancements through the enlarged network.

However rail operating margin is expected to be lower in 2008 as the result of the fare reduction and also the lower margin of the KCR System. Station commercial and related businesses will benefit from economic growth in Hong Kong as well as the full year impact of the Duty Free shop tenancies in Hung Hom, Lo Wu and Lok Ma Chau. However, we will continue to see pressure on our telecommunications business with further cannibalisation of 2G service by 3G.

In our property and other businesses, our property investment and management business will benefit from the full year effect of Elements Phase 1 as well as the expected opening of Elements Phase 2 of around 7,609 square metres gross towards the end of 2008. We should also benefit from the full year effect of the re-opening of Ngong Ping 360 and the acquired investment property portfolio under the Rail Merger.

In our property development business, depending on the progress of constructions and pre-sale, we expect to recognise most of our remaining property deferred income balance (before deduction of related cost) of HK\$400 million in the next 18 months, which mainly

relates to properties along the Airport Railway, such as Elements in Kowloon Station, Coastal Skyline and Caribbean Coast in Tung Chung Station. In Tseung Kwan O, pre-sales have been successfully completed for The Capitol, LOHAS Park Package 1, and depending on the issuance of the Occupation Permit, we may be able to recognise surplus proceeds from this development in the second half of 2008. Pre-sales should also commence this year for Ho Tung Lau, one of the eight property development projects acquired in the Rail Merger. Once again depending on the progress of pre-sales and with the Occupation Permit expected to be received before the year end, there is a possibility of profit recognition from this development in 2008. From an accounting perspective, our acquisition costs for the property developments (such as Ho Tung Lau) acquired under the Rail Merger will have to be accounted for before profits can be recognised. Another of the eight projects acquired in the Rail Merger, Wu Kai Sha, will likely start pre-sales in 2008 but as the Occupation Permit is not expected until after 2008, it is unlikely that profits will be recognised on the project in 2008. The magnitude of property development profits in 2007 were mainly the result of the profit accounting of Le Point in Tiu Keng Leng, whereby the costs for that project were already accounted for in 2006. Hence, we do not expect the magnitude of development profits in 2007 to be repeated in 2008. In our property tender activities, we are likely to tender the Che Kung Temple site in 2008, for which the Expression of Interest was launched in early March 2008. Meanwhile, as the development agent for West Rail property developments, we will recommend the sites at Tsuen Wan West (TW5 and TW7) for tender invitation within the next 12 months, subject to market conditions. These three railway related property development sites are planned to provide a total of about 6,200 flats.

Finally, I would like to take this opportunity to thank my fellow directors and all my colleagues for their tremendous energy and dedication in a truly memorable year for the Company.

By Order of the Board
C K Chow
Chief Executive Officer

Hong Kong, 11 March 2008

The financial information relating to the financial year ended 31 December 2007 set out above does not constitute the Group's statutory consolidated accounts for the year ended 31 December 2007, but is derived and represents an extract from those consolidated accounts. Statutory consolidated accounts for the year ended 31 December 2007, which contain an unqualified auditor's report, will be delivered to the Registrar of Companies.

Certain statements contained in this Announcement may be viewed as forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 8 April 2008 to 15 April 2008 (both dates inclusive). In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor,

Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 7 April 2008. It is expected that the final dividend will be paid on or about 18 June 2008.

Members of the Board: Dr. Raymond Ch'ien Kuo-fung (*Chairman*)**, Chow Chung-kong (*Chief Executive Officer*), Professor Cheung Yau-kai*, David Gordon Eldon*, Christine Fang Meng-sang*, Edward Ho Sing-tin*, Lo Chung-hing*, Ng Leung-sing*, Abraham Shek Lai-him*, T. Brian Stevenson*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury) **, Secretary for Transport and Housing (Eva Cheng) ** and Commissioner for Transport (Alan Wong Chi-kong) **

Members of the Executive Directorate: Chow Chung-kong, Russell John Black, William Chan Fu-keung, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Francois Lung Ka-kui, Andrew McCusker and Leonard Bryan Turk

* *independent non-executive Directors*

** *non-executive Directors*

This announcement is made in English and Chinese. In the case of any inconsistency, the English version shall prevail.

