





Integrating

ONE Seamless Operation

The newly merged operation will deliver more comprehensive and aligned services, enhanced efficiency and reduced fares

Executive Management's Report

Railway Operations



Patronage increased on the Domestic Service lines and Airport Express

Total fare revenue for the Company in 2007 increased by 9.1% to HK\$7,115 million as a result of increase in patronage from the economic growth in Hong Kong as well as the Rail Merger effect from 2 December to the end of 2007.

The Rail Merger

The Rail Merger was a very significant event for our railway operations. On the Appointed Day of 2 December, not only did we have to integrate two railway networks but we also had to provide a fare reduction with effect from that day. The many changeovers on the Appointed Day went smoothly due to the considerable amount of preparation prior to the Rail Merger with various integration committees and working groups at all levels of the two rail companies working together as one team.

Examples of some of these integration tasks include an integrated ticketing system which was developed to facilitate passengers using Octopus cards to enjoy fare reductions

throughout the integrated network from the Appointed Day. The integration also involved changes to 1,325 entrance and exit gates, 1,016 ticket issuing machines and 405 add value machines to take into account the new fare table with reduced fares. This was all completed in less than five non-traffic hours preceding 2 December. Over 150,000 logos and signs and a significant number of public address and passenger information display messages were also updated to ensure unified messages to passengers. The changeover of the ticketing system was successful with high level of ticket gate reliability maintained.

Common radio systems, joint operations procedures and contingency plans were in place for interchange stations at Nam Cheong, Mei Foo, Kowloon Tong and Tsim Sha Tsui/East Tsim Sha Tsui for day-to-day operations. A Communication Coordination Centre was established to monitor vital systems in different operations control centres and to ensure that train services information is disseminated to external parties in a

consistent and well-coordinated manner. Over 17,000 man hours of training and 17 drills and exercises were conducted at stations to enable a smooth transition in operations.

Patronage

For the year as a whole, total patronage on the Integrated MTR System increased by 8.2% to 948.3 million, after including the Rail Merger effect from 2 December to the end of 2007.

Our Domestic Service, which includes the MTR Lines (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O and Disneyland Resort lines) and after the Rail Merger, the KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), recorded total patronage of 915.8 million for 2007.

For the period before the Rail Merger, from the beginning of 2007 to 1 December, total patronage increased by 2.9% to 814.6 million compared to the equivalent period last year. For the remaining period after the Rail Merger from 2 December, total patronage on Domestic Service was 101.2 million, after adjusting for interchange passengers. With the Rail Merger, passengers who interchange between MTR and KCR lines are only counted as one passenger whereas before the Rail Merger, both the Company and KCRC would have counted that one passenger. Hence market share and total passenger numbers for the Company after the Rail Merger may seem lower than a simple addition of previous MTR Corporation and KCRC individual statistics would suggest.

Passengers using 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 the 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 as compared to 2006, of which 8.2 million was attributable to the Company for the period after the Rail Merger on 2 December.

Passenger volume on the other newly added post-Merger services of Light Rail, Bus and Intercity totalled 14.1 million for the period from 2 December to end of the 2007.

Average weekday patronage on the Domestic Service before the Rail Merger on 2 December 2007 increased by 3.3% to 2.6 million compared to the comparable period last year, and after the Rail Merger, average weekday patronage rose to 3.5 million. For the year as a whole, average weekday patronage on our Domestic Service was 2.7 million, an increase of 5.5% from 2006.

41.6% Share

of Franchised Public Transport Market in December 2007

3.5 Million Average Weekday Patronage

for Domestic Services in December 2007

HK\$7.50 Average Fare

Per Passenger for all Services in 2007

HK\$3.39 Operating Costs

Per Passenger for all Services in 2007

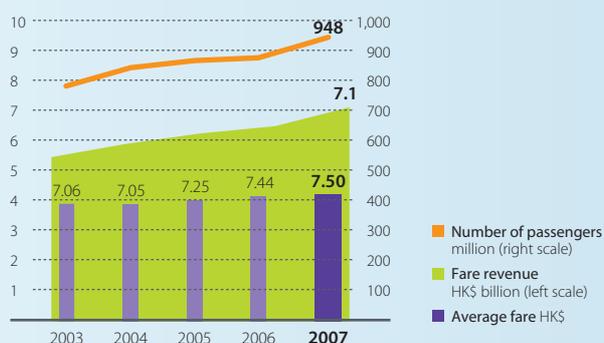
99.9% Passenger Journeys On Time

for MTR System (Pre-Merger)

Total fare revenue from Domestic Service rose to HK\$6,213 million, 5.1% higher than HK\$5,911 million reported in 2006

Passengers and Fares

MTR again achieved record patronage and average fares also rose, yielding a 9.1% increase in fare revenue.



The Rail Merger required careful and detailed planning at interchange stations such as Nam Cheong

Overall, after the Rail Merger, average weekday patronage from all rail and bus passenger services on the Integrated MTR System was 4.3 million.

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%. Within this total, our estimated share of passengers travelling to and from the airport (excluding those travelling to and from the AsiaWorld-Expo Station) remained at 23% in 2007, while our share of cross-harbour traffic rose from 60.9% to 61.8%. The Cross-boundary Service market share decreased to 57.0% in 2007 from 58.3% in 2006.

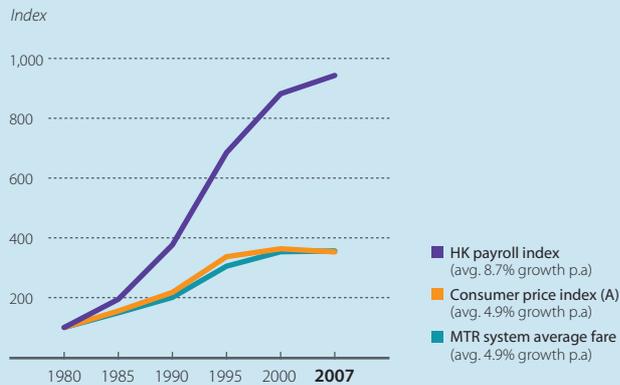
Fare Revenue

Total fare revenue in 2007 from the Domestic Service was HK\$6,213 million, an increase of 5.1% as compared to HK\$5,911 million reported in 2006. Fare revenue from the Airport Express in 2007 increased by 7.0% to HK\$655 million. Fare revenue contributions from Cross-boundary Service was HK\$201 million and HK\$46 million from Light Rail, Bus and Intercity services for the period from 2 December to the end of 2007. Overall, this gives a total fare revenue for the year from all passenger services of HK\$7,115 million, an increase of 9.1% from 2006.

Average fares per passenger on Domestic Service for the year was HK\$6.78, which represents a decrease of 0.6% over 2006. In the period prior to the Rail Merger, average fare per passenger on the MTR Lines was HK\$6.83, which was similar to

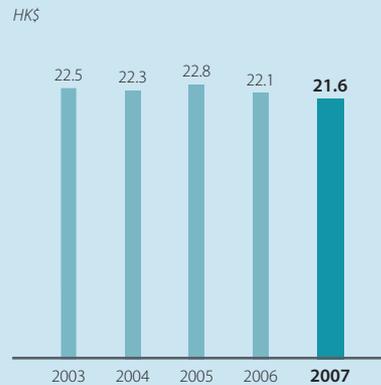
Fare Trend

In recent years, MTR fares have consistently lagged wage growth but were in line with the long-term changes in consumer prices in Hong Kong.



Railway Operating Costs Per Car-km Operated

With the enlarged post-Merger network, operating cost per car kilometre decreased by 2.3% to HK\$ 21.6.



the comparable period in 2006. However, after the Rail Merger, average fare per passenger on Domestic Service decreased to HK\$6.39 as a result of the fare reduction given as part of the Rail Merger and the lower average fares on KCR Lines as compared to MTR Lines.

Average fare per passenger on 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. No fare reduction was given for Airport Express and Cross-boundary services in the Rail Merger.

Service Promotions

One of the key contributors of our incremental patronage growth has been the effectiveness of the Company's service promotions, which also heightens the awareness of our brand and demonstrates our commitment to service excellence at all levels.

In 2007, we launched a number of highly effective station events and segment promotions including MTR Hello Kitty Dream Wedding on 14 February in the Central subway of Hong Kong Station, MTR Hello Kitty Heroes Redemption Programme and the Ride 5 Get Free Breakfast Promotion.

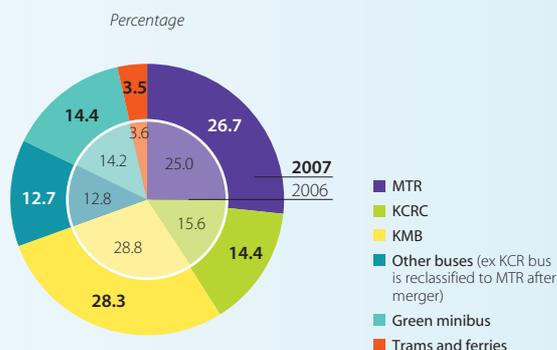
To improve the engagement and enthusiasm of MTR Club members, we launched the MTR Club Column in Metro Daily, inviting Club members to submit articles on special topics regarding the MTR and its services, as well as the MTR Club Customer Panel, to provide discussion groups and input on the Rail Merger.



Passenger volume for the Cross-boundary Service at Lo Wu and Lok Ma Chau continues to grow

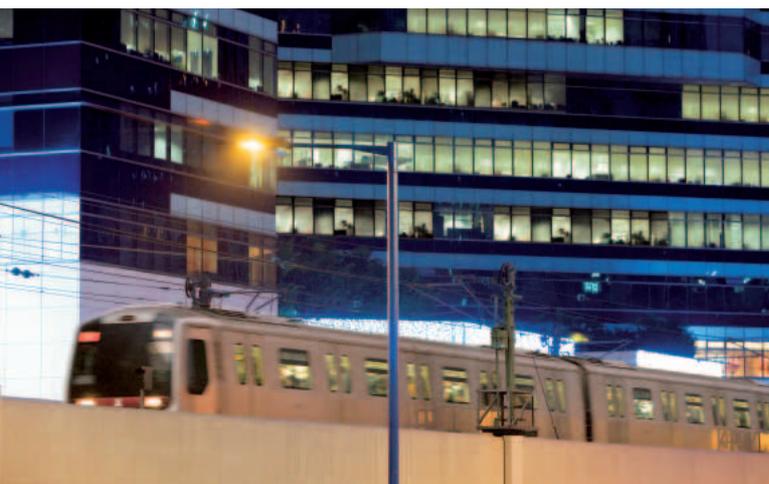
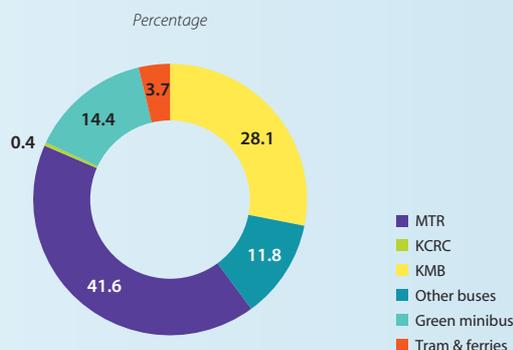
Market Shares of Major Transport Operators in Hong Kong

MTR's overall market share for 2007 increased to 26.7%, mainly as a result of the Rail Merger effect from 2 December to the end of 2007.



Market Shares of Major Transport Operators in Hong Kong (December 2007 only)

MTR's market share in December 2007 reached 41.6% as a result of the Rail Merger.



The Integrated MTR System is the backbone of Hong Kong's public transport

In a strategic partnership with the Hong Kong Tourism Board, a tailor-made shopping guide entitled "MTR Easy Ride to Hong Kong Shopping Festival" was developed and distributed to tourists who purchased a MTR 1-day Pass or Tourist Octopus during the promotion period in July and August 2007. This programme increased sales of these two products by 48% compared to the same period last year.

For Airport Express, discounts on tickets were offered to MTR shareholders from April onwards, accompanied by dining offers at SkyPlaza restaurants. The popular "Ride to Rewards" programme was enhanced with new rewards for registered

members that accumulated four journeys on Airport Express. For AsiaWorld-Expo, we joined with trade show organisers to arrange same-day return trips on Airport Express as well as discounted prices for visitors.

In 2007, the flourishing economy of the Pearl River Delta resulted in a higher demand for cross-boundary traffic, which continued to benefit the Cross-boundary and through train businesses that we took over from KCRC on the Appointed Day. For long-haul Intercity services to Beijing and Shanghai, a fare promotion for both single trip and round trip passengers during non-peak periods continued. To promote the new Lok Ma Chau Station of 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 this new station.

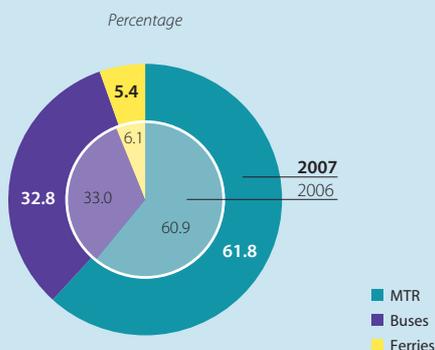
For East Rail Line, West Rail Line and Ma On Shan Line, most of the promotion activities which were in place before the Appointed Day continued, such as the Monthly Pass for the East Rail Line and West Rail Line and Day Pass for the West Rail Line.

Service Connectivity

Improved connectivity with other forms of transport remains an important driver of MTR patronage growth. Prior to the Rail Merger, two more feeder bus routes offering inter-modal fare discounts were added, bringing the number to 34. After the Rail Merger, the total number of feeder bus routes offering inter-modal fare discounts for the integrated network amounted to 61.

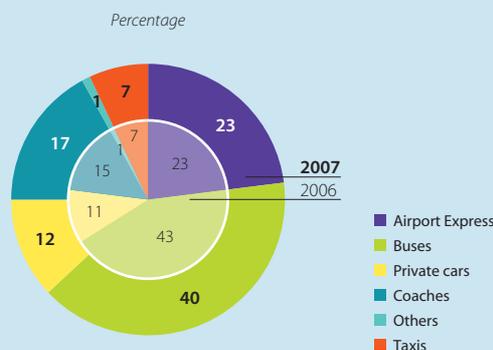
Market Shares of Major Transport Operators Crossing the Harbour

The Company's market share of cross-harbour traffic rose to 61.8%.



Market Shares of Major Transport Operators to/from the Airport

The proportion of people travelling to and from the Hong Kong International Airport on MTR remained stable.



We also gained 1,400 car park spaces from the Rail Merger (in Hung Hom and Kam Sheung Road stations), which increased our number of car park spaces at stations to 2,900 at the year end.

Market Recognition

Once more, our efforts in marketing, branding and increasing passenger awareness received widespread recognition in 2007. We won the "Sing Tao Excellent Services Brand 2006 – Category Award of Public Transportation" and our 2006 Train Door Safety TV Commercial received "The Top Ten Most Popular TV Commercials Award" in the 13th Annual Most Popular TV Commercial Awards hosted by ATV. Our print campaign on escalator safety was voted one of Hong Kong's Top Ten Most Creative Advertisements in the "Metro Creative Awards 2007" organised by Metropolis Daily.

Service Performance

Continuity of, and improvement in, performance is essential in an era of transformation. In 2007, we continued to enhance our customer services to provide the highest levels of customer satisfaction, passenger comfort, reliability and safety.

For the period before the Rail Merger, i.e. from 1 January 2007 to 1 December 2007, we exceeded all the minimum performance levels required by the Government and our own more stringent Customer Service Pledge targets for the MTR System. Passenger journeys on time were 99.9% (Airport Express 99.9%), supported by 99.9% reliability for train service delivery and 99.8% train punctuality (Airport Express 99.9%). With the Rail Merger, a new Operating Agreement was established with effect from

2 December 2007 to include the East Rail Line, West Rail Line, Ma On Shan Line and Light Rail. The performance levels in the post-Merger period from 2 December to end of 2007 will be incorporated into the next period for reporting purposes.

These results underpinned our "We serve from the heart" campaign, which was launched during the year to further enhance passenger service. This year-long campaign was supplemented by other monthly campaigns promoting train door and escalator safety, as well as general safety, and by a series of one-minute TV real-life stories on TVB Jade from April to May.

Training our staff and platform assistants to understand the needs and feelings of our passengers continued to be an ongoing priority in 2007, particularly with the Rail Merger in mind. In terms of safety, we set out to identify and minimise the Rail Merger transitional risks while adopting a common safety management framework to achieve a single Safety Management System. Railway Safety Rules for Operations personnel were rationalised and published to cope with the increasing complexity of operations. We also implemented a Human Factors programme to drive the application of human factors techniques to improve staff performance.

Customer satisfaction levels recorded during the year by our regular surveys remained high. In 2007, the Service Quality Index for the MTR Lines and Airport Express stood at 72 and 81 respectively, while the Fare Index, which indicates the level of satisfaction of customers with our fares, stood at 61 and 62 respectively. This performance also received international



We continued to enhance our customer services to provide the highest standards of customer satisfaction

recognition. In the benchmarking performed by the 11-member Community of Metros (CoMET) for 2006, we continued to hold a leading position in the areas of customer service, service reliability, business performance, and safety and security.

The sustained excellence of our service performance was again reflected in the winning of numerous awards. In Hong Kong, we won East Week magazine's "Hong Kong Service Awards" in the Public Transport category for the third consecutive year. We also won Next Magazine's "Top Service Award" – Public Transport Category for the ninth consecutive year. Mr Tony Tse, Station Officer of Tsing Yi Station won the "Best Staff Award" in the Top Service Awards 2007 among various industries. International recognition for our railway asset management came in the form of the Gold Asset Management Excellence Award, and the Steve Maxwell Leadership Award for our Operations Director, awarded jointly by the Asset Management Council and Maintenance Engineering Society of Australia at the 2007 International Asset Management Conference.

Service Improvements

To support the MTR network as the backbone of public transport in Hong Kong, we continued to enhance train services and network infrastructure.

The new platform serving SkyPlaza at Hong Kong International Airport Terminal 2 was opened and put into operation on 28 February 2007.

During the year, the opening of new pedestrian links at various stations further enhanced accessibility to the MTR System. Three Pacific Place Link was completed in February and provided a linkage between Admiralty Station and Three Pacific Place. Two new entrances at Kowloon Station were opened to link up with Elements shopping centre.

Also on the West Rail Line, Tuen Mun Station will enhance its linkage with the nearby passenger transport interchange and new residential development at Ho Pong Street by the construction of three new footbridges. One of the three footbridges will be completed in 2009 and the other two are scheduled for 2012.

Station improvement initiatives continued to upgrade the ambience and design of MTR stations to the levels expected by our ever more discerning customers. During 2007, 46 stations on the merged network underwent renovations and enhancements of various kinds to enrich station environment and provide more shopping outlets. These include an air-conditioning and ventilation system improvement at the Hung Hom Station Intercity Passenger Services departure and arrival halls which was completed in December 2007.

Two new "Self-Service Point" prototype machines were installed for trial use in Hong Kong Station starting from July and performance monitoring progressed well. The Self-Service Point machine is another new service channel for passengers, providing them with a more convenient and straightforward way of resolving ticketing issues. The machine is fitted with a call for assistance facility to speak directly to staff if passengers have any questions.

To improve passenger comfort on the existing network, five new trains are being procured for use on the Tsuen Wan, Kwun Tong, Island and Tseung Kwan O lines.

The noise enclosure project in the Tung Chung area was completed, which brought reduction in the level of train noise in the area. Improvement work was also in progress in the Tsing Yi area. A six-year programme to replace some sections of rail in north Lantau with rail of lower hardness was completed, which will significantly minimise the chances that surface cracks will develop on the rail head and will also help to reduce rail noise.

Access to the Network for the Disabled

The Company has a long track record of careful investment in facilities for the disabled, including ramps, portable ramps, wheelchair aids, stairlifts, passenger lifts etc.

Benchmarking Comparisons

MTR Corporation maintained its strong position, particularly in service reliability, against international benchmarks.

MTR performance vs. best performance

Service reliability passenger journeys on time



Punctuality percentage of trains on time



System utilisation passenger km per capacity km



Density number of passengers per track km



■ 2006
■ 2005

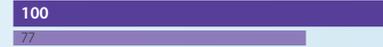
Best performance = 100

Staff Efficiency and Cost Efficiency

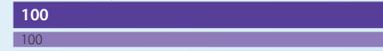
New initiatives will further be introduced to enhance operating efficiency.

MTR performance vs. best performance

Staff efficiency number of passengers per staff hour



Cost efficiency fare revenue per total cost



■ 2006
■ 2005

Best performance = 100



Our maintenance staff contribute to our very high standards of reliability and punctuality

During 2007, installation of internal passenger lifts was completed at Lai Chi Kok and Tai Wo Hau stations and works are in progress at Admiralty Station. Self-operated stairlifts were completed at Sham Shui Po, Cheung Sha Wan and Yau Ma Tei stations, while those in Diamond Hill, Jordon, Admiralty and Tsim Sha Tsui stations are scheduled to open for use in 2008.

Productivity

Improving efficiency and productivity remained a key priority for the Company in 2007. In March, we completed the replacement of 469 motor alternator sets on the 78 trains on the MTR Lines

with state-of-the-art static inverter units, thereby achieving energy savings of HK\$7.7 million per year, which is equivalent to a 1.5% reduction in energy costs for the year, whilst also reducing noise levels. The static inverter replacement work also started for trains on the East Rail Line with planned completion in 2010 and estimated energy cost savings of HK\$5.1 million per year. Operating costs per car kilometre for the MTR System were successfully maintained at similar levels to 2006. For the enlarged post-Merger network, operating cost per car kilometre decreased by 2.3% to HK\$21.6.

System and Market Information

Railway operation data	2007		2006	
Total route length <i>in km</i>	211.6		91	
Number of rail cars	1,871		1,074	
Number of "e-Instant Bonus" machines in stations	24		22	
Number of station kiosks and mini-banks in stations	1,230		552	
Number of advertising media in stations	20,564		15,206	
Number of advertising media in trains	27,011		9,036	
Daily hours of operation				
Island, Tsuen Wan, Kwun Tong, Tseung Kwan O, Tung Chung, Disneyland Resort & West Rail lines, Airport Express and Light Rail	19		19	
East Rail Line and Ma On Shan Line	19.5		N/A	
Minimum train headway in seconds	Morning peak	Evening peak	Morning peak	Evening peak
– Tsuen Wan Line	128	140	128	140
– Kwun Tong Line	128	144	128	144
– Island Line	124	156	124	156
– East Rail Line				
East Tsim Sha Tsui to Sheung Shui	180	210	N/A	N/A
East Tsim Sha Tsui to Lo Wu	327	327	N/A	N/A
East Tsim Sha Tsui to Lok Ma Chau	600	600	N/A	N/A
– Tseung Kwan O Line	160	180	160	180
– Tung Chung Line				
Hong Kong – Tung Chung	360	480	360	480
Hong Kong – Tsing Yi	240	240	240	240
– Airport Express	720	720	720	720
– West Rail Line	210	270	N/A	N/A
– Disneyland Resort Line	270	270	270	270
– Light Rail	270	300	N/A	N/A

Note: 2007 figures cover the Integrated MTR System

International Performance Comparisons: The 11-member Community of Metros (CoMET)

Metro system network data (2006)	MTR* Lines	Metro A	Metro B	Metro C	Metro D	Metro E	Metro F	Metro G	Metro H	Metro I	Metro J
Passenger journeys <i>in million</i>	867	466	1,014	1,417	657	2,476	1,499	1,410	452	630	564
Car kilometres <i>in million</i>	116	122	500	335	151	680	546	227	100	69	94
Route length <i>in km</i>	84	153	443	201	233	279	480	212	115	90	60
Number of stations	51	170	275	147	196	157	424	297	66	66	54

* For the data year 2006, MTR Lines included in the CoMET metro benchmarking programme are Kwun Tong Line, Tsuen Wan Line, Island Line, Tung Chung Line, Tseung Kwan O Line and Disneyland Resort Line. The Airport Express is excluded from the benchmarking.

Note: The other metros in the comparison are Berliner Verkehrsbetriebe, London Underground Limited, New York City Transit, Sistema de Transporte Colectivo, Régie Autonome des Transports Parisiens Metro, Régie Autonome des Transports Parisiens Réseau Express Régional, Metropolitano de São Paulo, Moscow Metro, Metro de Madrid and Shanghai Metro Operation Corporation. The benchmarking agreement prohibits specifically identifying the data by metro system.



Operations Control Centre at Tsing Yi

Operations Performance in 2007

Service performance item	Performance Requirement	Customer Service Pledge target	Actual performance in 2007**
Train service delivery	98.5%	99.5%	99.9%
Passenger journeys on time			
– MTR Lines	98.5%	99.5%	99.9%
– Airport Express	98.0%	99.0%	99.9%
Train punctuality			
– MTR Lines	98.0%	99.0%	99.8%
– Airport Express	98.0%	99.0%	99.9%
Train reliability: train car-km per train failure causing delays \geq 5 minutes	N/A	500,000	1,762,621
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	8,000	14,243
Add value machine reliability	98.0%	98.5%	99.5%
Ticket issuing machine reliability	97.0%	98.0%	99.4%
Ticket gate reliability	97.0%	99.0%	99.8%
Escalator reliability	98.0%	99.0%	99.9%
Passenger lift reliability	98.5%	99.0%	99.9%
Temperature and ventilation			
– Trains: to maintain a cool, pleasant and comfortable train environment generally at a temperature at or below 26°C	N/A	97.0%	99.9%
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	90.0%	99.9%
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	100.0%
– Train body: washed every 2 days	N/A	98.0%	99.9%
Passenger enquiry response time within 7 working days	N/A	99.0%	99.9%

** The actual performance figures are for the operating period from 1st January to 1st December 2007 as per the pre-merger Operating Agreement.