



**MTR Corporation**

**2007 Annual Results**

**11 March 2008**



# Results highlights and business overview

Mr. CK Chow, CEO

# 2007 – A Milestone Year for MTR



## Merger

- Rail Merger completed on 2 Dec 2007
- Substantial enhancement to Rail and Property businesses
- Integration well underway

## Strong Financial Results

- Record patronage in our rail business
- Property development benefited from very significant surplus proceeds, particularly from Le Point in 2H 07
- Growth in property rental income with two new shopping centres
- Rail Merger contribution from 2 Dec

## Growth Opportunities

- Government policy support on West Island Line, South Island Line (E), Shatin to Central Link, as well as Kwun Tong Line Extension
- Kowloon Southern Link and the station at LOHAS Park construction in progress
- Proposal for Express Rail Link
- 6 new lines will add about 60km to our rail network
- Successful commencement of London Overground service in Nov 2007
- Good progress of Beijing Metro Line 4 construction

# Benefits of the Rail Merger

## Merger enhances both Rail and Property businesses



### Railway and Related Businesses

- **Rail Business:**
  - Market share increased from 25.3% to 41.6%
  - Direct Drive Fare Adjustment Mechanism – Objective, Transparent and Predictable
- **Station Commercial Businesses:**
  - Significant increase in scale including Duty Free Shops



### Property Businesses

- **Property Development:**
  - Acquired development rights for 1.2m sq m
  - Government's agent for West Rail property development
- **Investment Property and Property Management Portfolio**

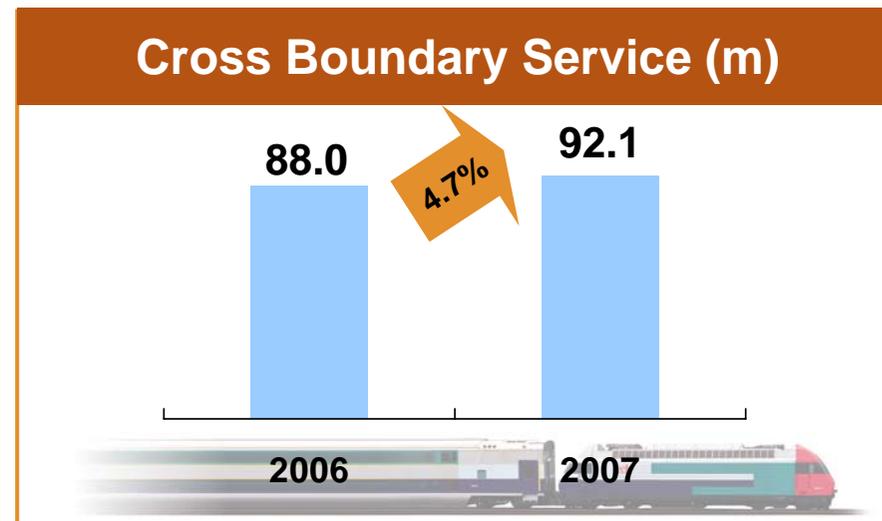
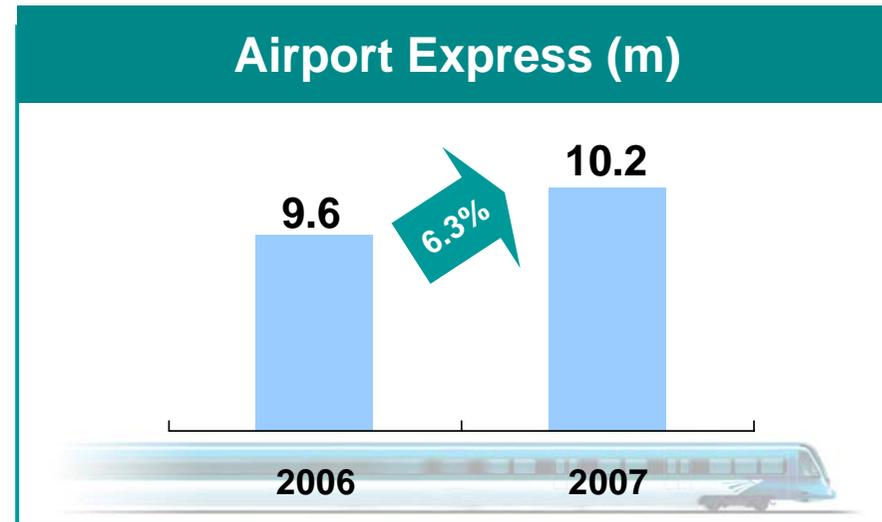
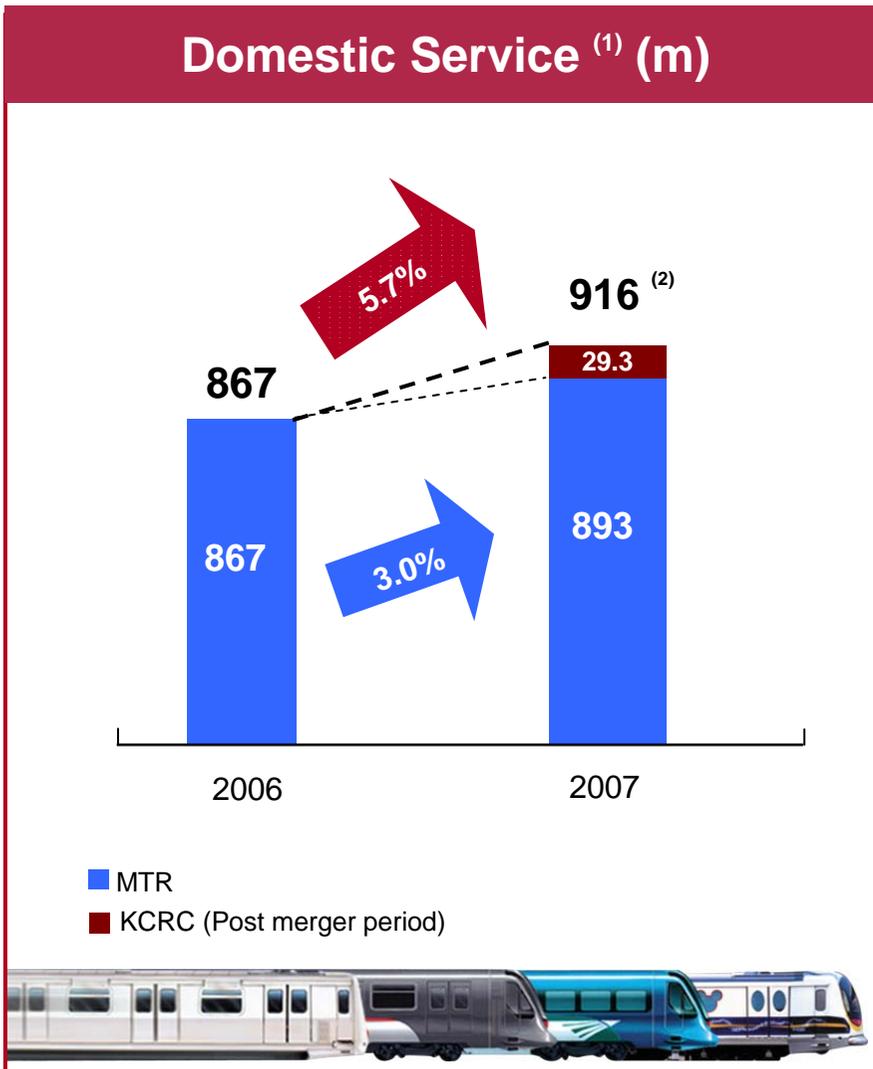
# Financial performance

(HK\$m)	2007	2006	Change
Total revenue	10,690	9,541	12.0%
EBITDA	5,912	5,201	13.7%
EBITDA margin	55.3%	54.5%	0.8%pt
Property development profit	8,304	5,817	42.8%
Underlying profit (excl post-tax investment property revaluation)	8,571	5,962	43.8%
Reported net profit attributable to equity shareholders	15,180	7,759	95.6%
Reported EPS (HK\$)	2.72	1.41	92.9%
Underlying businesses EPS (HK\$)	1.54	1.08	42.6%
Final dividend per share (HK\$)	0.31	0.28	
Interim dividend per share (HK\$)	0.14	0.14	
Total dividend per share (HK\$)	0.45	0.42	7.1%

# Business Review

## - Railway

# Patronage

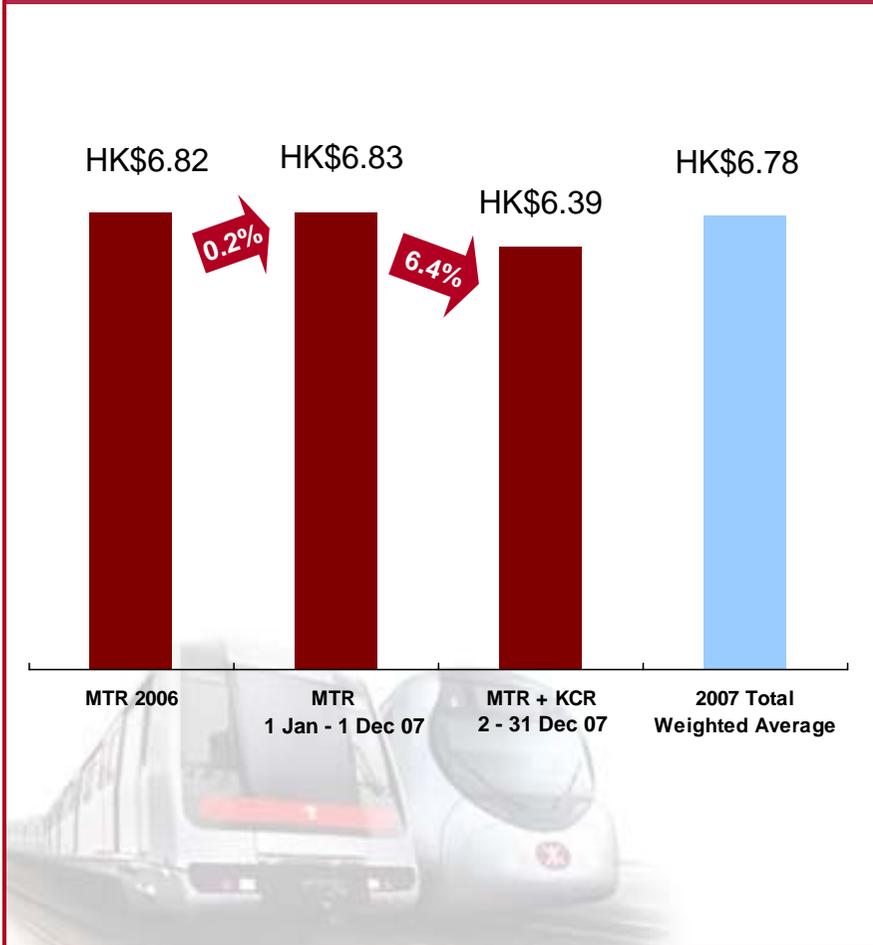


1. Domestic Service in 2007 include Tsuen Wan, Island, Kwun Tong, Tung Chung, Tseung Kwan O, Disneyland Resort as well as East Rail Lines (excluding Cross Boundary), Ma On Shan Line and West Rail Line with effect from 2 Dec 07

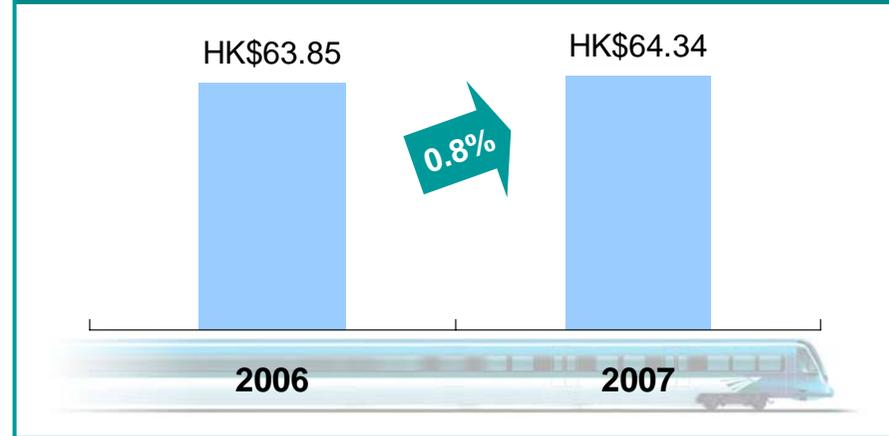
2. Excluded 6,273k passengers who interchanged between the MTR and KCRC networks effective from 2 Dec 07  
Before the Rail Merger, passengers who interchange between MTR and KCRC lines would have been counted as one passenger under respective MTR and KCRC systems. With the Rail Merger such interchange passengers is only counted as one passenger.

# Average fare

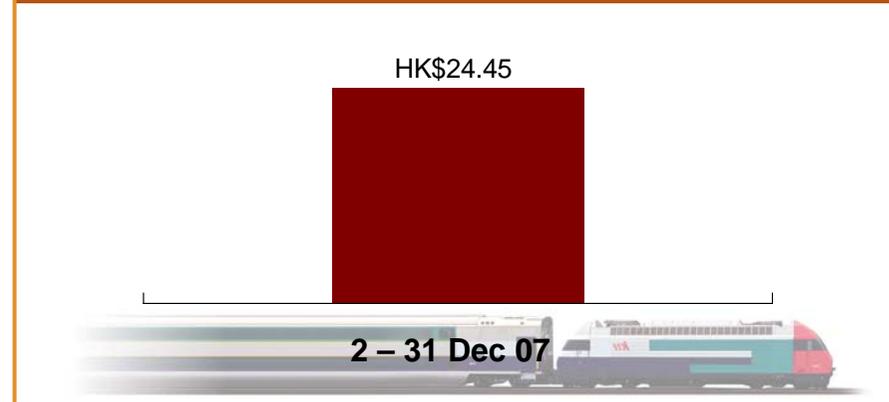
## Average Fare – Domestic Service <sup>(1)</sup>



## Average Fare – Airport Express



## Average Fare – Cross Boundary



1. Domestic Service in 2007 include Tsuen Wan, Island, Kwun Tong, Tung Chung, Tseung Kwan O, Disneyland Resort as well as East Rail Lines (excluding Cross Boundary), Ma On Shan Line and West Rail Line with effect from 2 Dec 07

## Business Review

- Station commercial and rail related businesses

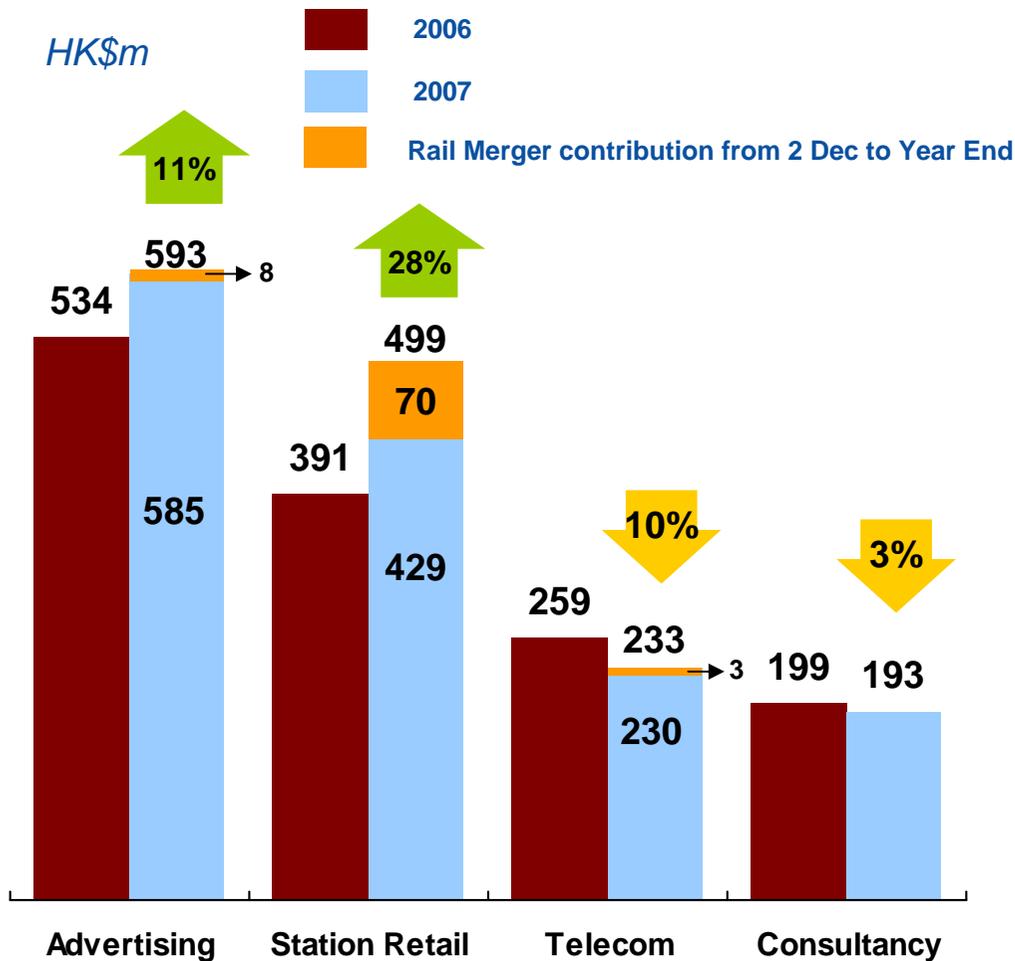
# Station commercial and rail related businesses

**Station commercial & rail related businesses:**  
**HK\$1,741m**

*Excluding Rail Merger impact  
 from 2 Dec to Year End*

↑ **12.9%**

↑ **4.8%**



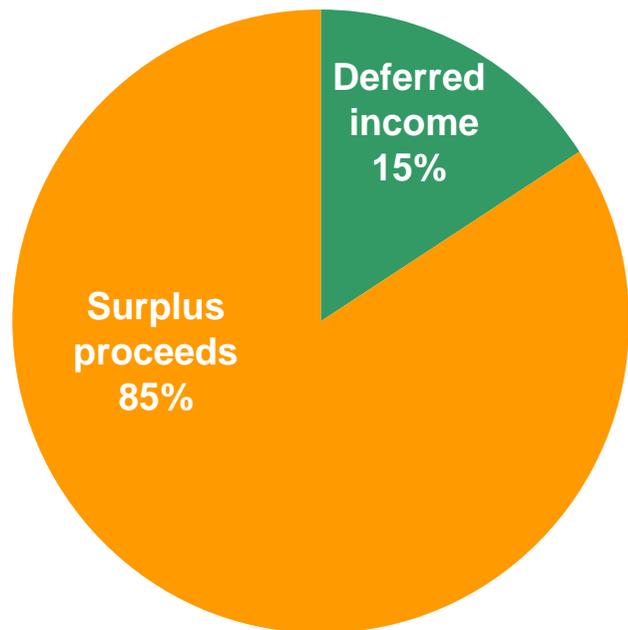
- Expansion of scope and scale due to addition of KCRC businesses
- Advertising
  - Strong growth in 2H07 from buoyant advertising market
- Station Retail
  - Higher rentals from increased trade space and additional KCRC retail space after the Rail Merger
  - Contribution from KCRC Duty Free shops after the Rail Merger
- Telecommunications
  - Negative impact from 2G rate reduction and 3G cannibalization
- External Consultancy
  - Slight drop of consultancy revenue due to project delay

# Business Review

- Property and other businesses

# Property development

Property development profit  
HK\$8,304m



2007

## ■ Major profit contributors:

- Surplus proceeds mainly from Le Point where costs were accounted for in 2006, Harbour Green at Olympic, and Caribbean Coast at Tung Chung; as well as disposal of Properties held for sale
- Deferred income from Tung Chung developments, Elements, and Harbour Green at Olympic

■ Area 56 in TKO was awarded to a subsidiary of Sun Hung Kai Properties in February 2007

■ LOHAS Park Package 3 was awarded to a subsidiary of Cheung Kong in November 2007

■ Presales of The Capitol (Package 1) of LOHAS Park was successfully completed earlier this month

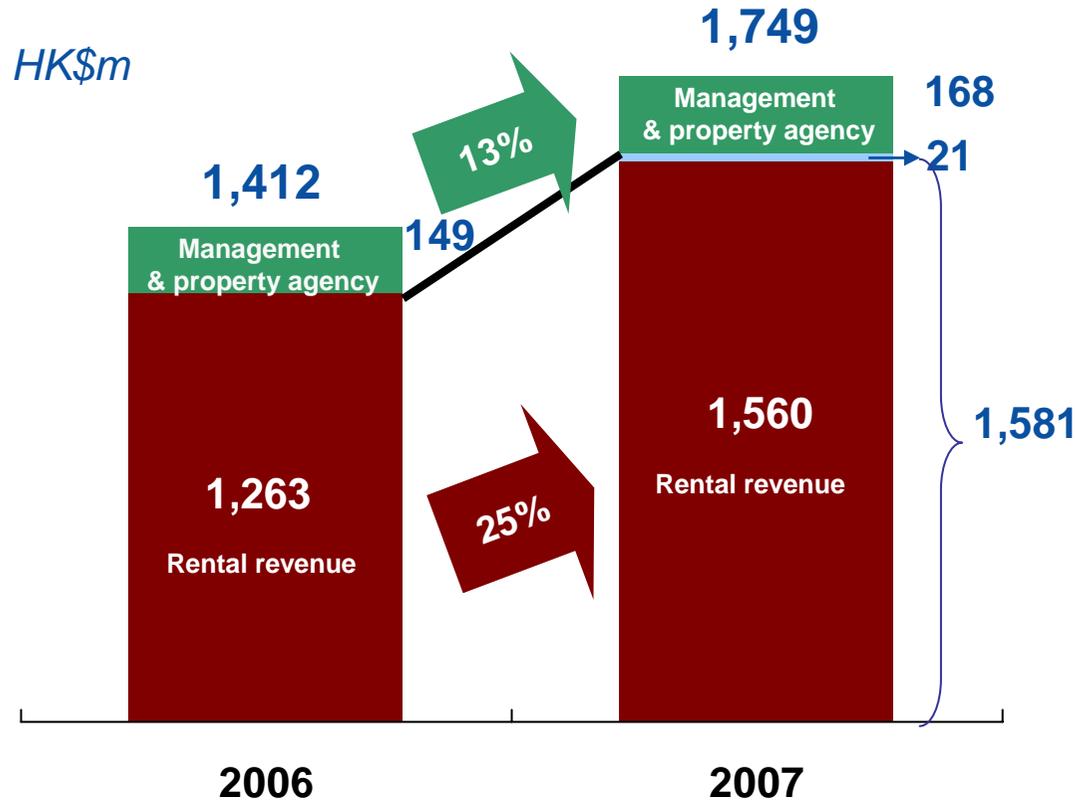
# Property rental and management

Property rental & management  
revenues: HK\$1,749m

↑ 24%

MTR

Rail Merger contribution from 2 Dec to Year End



- Opening of Elements in October 2007 and Ginza Mall in January

- Average of 22% increase on rental reversion at shopping centers

- Total investment portfolio at Dec 2007 attributable share of lettable floor area amounted to 252,339 sq m

- Retail: 12 shopping centres totalling 200,921 sq.m

- Office: 2 offices totalling 41,215 sq m

- Others: 10,203 sq.m

## Other businesses

### Ngong Ping 360



- Suspension of cable car service from 11 June 07
- MTR took over management of cable car from Skyrail-ITM (Hong Kong) Limited, and cable car service resumed on 31 Dec 07
- Over 380,000 guests carried since resumption of operations

### Octopus

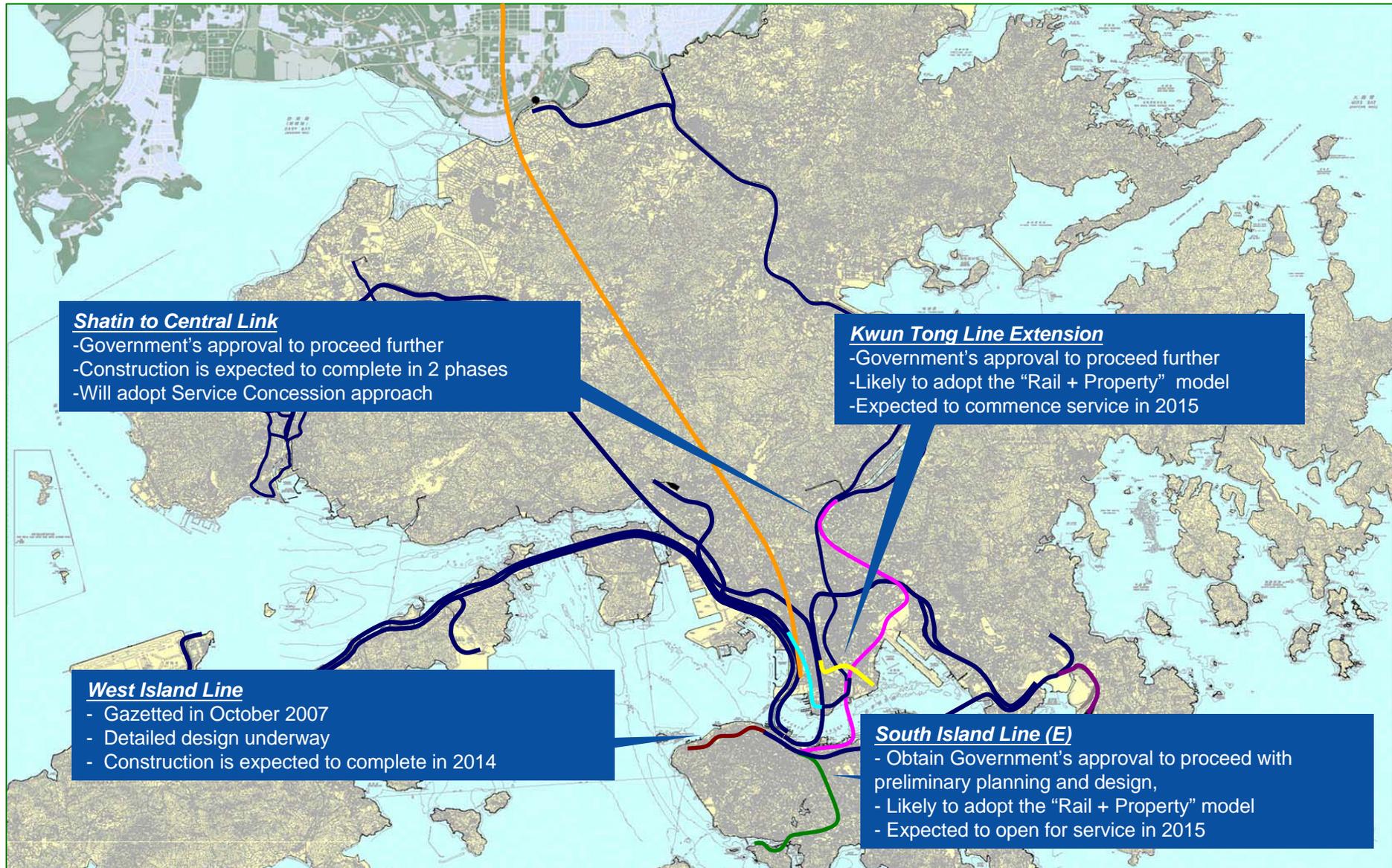


- Continued to extend operations into retail sector
- 16.5m cards in circulation with average daily transaction value of HK\$81.9m
- MTR's share of net profit amounted to HK\$97m, up 42.6%

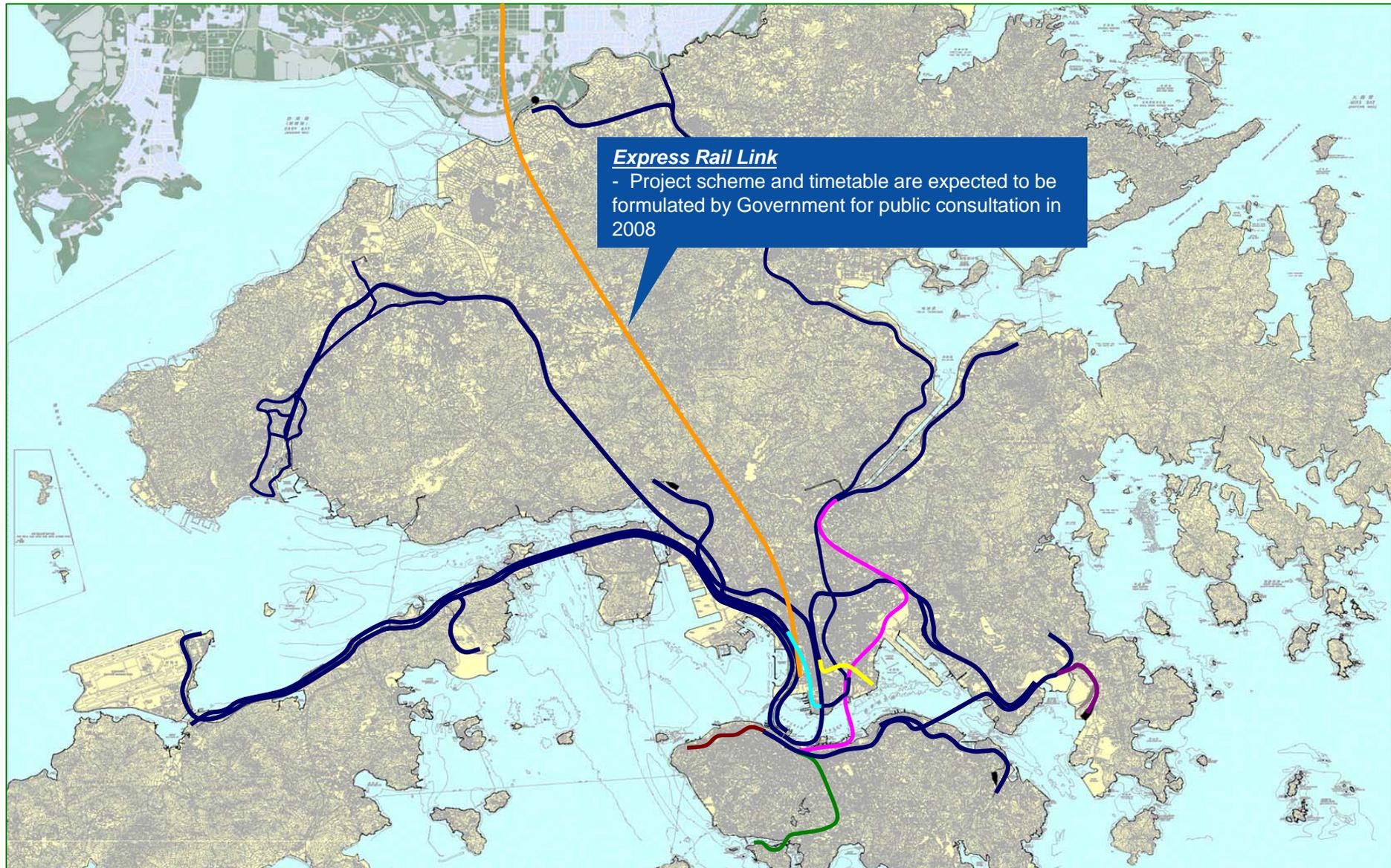
# Growth opportunities



# New projects in Hong Kong – With Government’s Policy Support



# New projects in Hong Kong – Under Review



# Growth outside of Hong Kong

## Mainland of China

### Beijing Metro Line 4

- Construction in progress as planned
- Target completion – end 2009

### Shenzhen Metro Line 4

- Supporting Shenzhen Municipal Government to seek approval from NDRC

### Other potential projects

- Continue to pursue opportunities in Beijing, Shenzhen, Wuhan, Hangzhou and Suzhou

## UK / Europe

- Awarded operating franchise for London Overground Rail Operations Ltd – 50/50 JV with Laing Rail
- Cost based operating concession for 7 years
- Successful commencement of service on 11 Nov 2007



# Financial Results

Mr. Lincoln Leong, Finance Director

# Income statement

(HK\$m)	<u>2007</u>	<u>2006</u>	<u>% change</u>
Fare revenue	7,115	6,523	9.1
Non-fare and rental and management income	3,575	3,018	18.5
Turnover	10,690	9,541	12.0
Operating expenses	(4,778)	(4,340)	(10.1)
<b>EBITDA</b>	<b>5,912</b>	<b>5,201</b>	<b>13.7</b>
Property development profit	8,304	5,817	42.8
Total operating profit	14,216	11,018	29.0
Depreciation & amortisation	(2,739)	(2,674)	(2.4)
Merger related expenses	(193)	-	NA
Interest	(1,316)	(1,398)	5.9
Investment properties revaluation gain	8,011	2,178	267.8
Net gain on acquisition of subsidiaries	187	-	NA
Share of profit of non-controlled subsidiaries & associates	99	45	120.0
Profit before tax	18,265	9,169	99.2
Taxation	(3,083)	(1,411)	(118.5)
Reported net profit attributable to equity shareholders*	15,180	7,759	95.6
Reported earnings per share (HK\$)	2.72	1.41	92.9
<b>Profit from underlying businesses (excl. inv. property revaluation net of deferred tax)</b>	<b>8,571</b>	<b>5,962</b>	<b>43.8</b>
<b>Underlying businesses EPS (HK\$)</b>	<b>1.54</b>	<b>1.08</b>	<b>42.6</b>
Final dividend per share (HK\$)	0.31	0.28	
Total dividend per share (HK\$)	0.45	0.42	7.1

\* Exclude minority interest of HK\$2 million

# Segmental income statement of underlying businesses

<i>(HK\$m)</i>	<u>2007</u>	<u>2006</u> <sup>(2)</sup>
Railway and related businesses	487	56
Property ownership, management and other businesses	1,226	1,109
Property developments	8,255	5,781
Tax and others <sup>(1)</sup>	(1,397)	(984)
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<b>Underlying net profit attributable to equity shareholders</b>	<b>8,571</b>	<b>5,962</b>
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*Note:*

*All segmental incomes shown are pre-tax profits. Interest cost relating to the interest-free loan to developer has been allocated to property development.*

*1. Excludes deferred tax on investment property revaluation*

*2. Reclassified 2006 segmental income statement to include NP360 in Property ownership, management and other businesses, instead of Rail and related businesses*

# Balance sheet

(HK\$m)

	<u>31 Dec 2007</u>	<u>31 Dec 2006</u>
<b><u>Assets</u></b>		
Investment properties	37,723	22,539
Other property, plant and equipment	79,444	84,404
Service concession assets	15,250	-
Property management rights	40	-
Railway construction in progress	424	232
Property development in progress	9,066	3,297
Cash and cash equivalents	576	310
Debtors, deposits and payments in advance	5,167	1,894
Loan to a property developer	3,532	3,355
Properties held for sale	756	2,018
Others	<u>3,690</u>	<u>2,372</u>
	<u>155,668</u>	<u>120,421</u>
<b><u>Liabilities</u></b>		
Debt	34,050	28,152
Obligations under service concession	10,685	-
Deferred income	515	1,682
Deferred tax liabilities	12,574	9,453
Others	<u>6,807</u>	<u>4,348</u>
	<u>64,631</u>	<u>43,635</u>
<b><u>Total equity</u></b>	<u><u>91,037</u></u>	<u><u>76,786</u></u>

# Cash flow

<i>(HK\$m)</i>	<u>2007</u>	<u>2006</u>
Cash from operations	5,965	5,387
Receipts from property	5,824	4,400
<b>Total inflows</b>	<b>11,789</b>	<b>9,787</b>
Capital expenditure	(2,481)	(2,903)
Net interest paid	(1,468)	(1,636)
Investment in Beijing Line 4	(103)	(100)
Merger related expenditures	(354)	(88)
Changes in working capital	(93)	(43)
Dividends paid	(1,168)	(1,155)
<b>Total outflows (*)</b>	<b>(5,667)</b>	<b>(5,925)</b>
<b>Net cash inflow before one-off loan to developer and merger related payment</b>	<b>6,122</b>	<b>3,862</b>
Merger related payment	(11,254)	-
Loan to a developer (LOHAS Park Package 2)	-	(4,000)
<b>Net cash used</b>	<b>(5,132)</b>	<b>(138)</b>
<b>Financed by:</b>		
Net facilities drawdown	5,401	98
<b>Increase / (decrease) in cash</b>	<b>269</b>	<b>(40)</b>

\*Cash outflows to meet financial obligations and capital investment

# Operating expenses

**Total operating expenses before interest, depreciation and amortisation in 2007: HK\$4,778m**

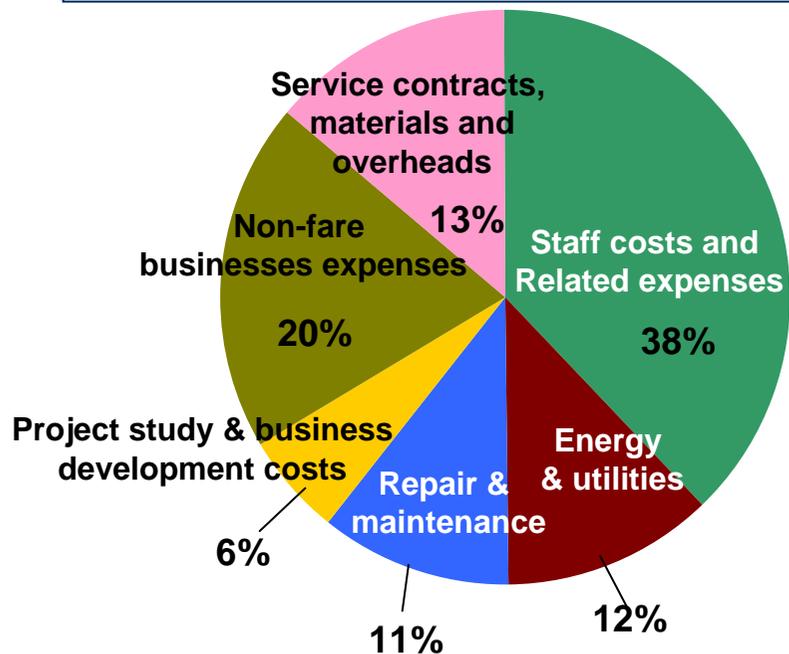
↑ 10.1%

Excluding Rail Merger impact from 2 Dec to Year End

↑ 4.4%

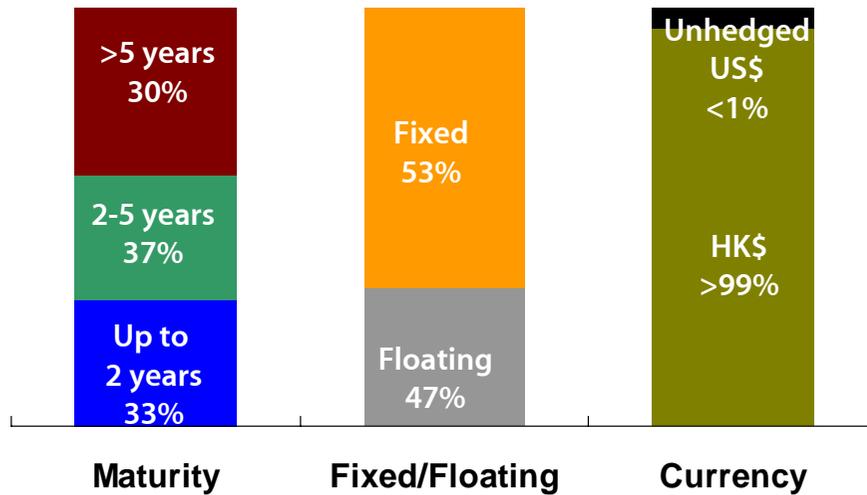
**Operating margin of 55.3%**

↑ 0.8% point



# Financing and credit ratios

## Debt profile (31 Dec 2007)



■ Total borrowings outstanding: HK\$34,050m increased HK\$5,898m from 31 Dec 2006

■ Average borrowing cost: 5.6%

0.1% point

■ Net interest expense : HK\$1,316m

5.9%

Compared to 2006 figures

Net Debt/Equity ratio
Interest coverage

	Dec 2007	Dec 2006
Net Debt/Equity ratio	48.5%	36.3%
Interest coverage	9.0x	6.7x

# 2008 Outlook

# Outlook for 2008

- Uncertainties in economic environment, but cautiously optimistic about Hong Kong
- Full year impact of the Rail Merger in 2008:
  - Despite fare reduction, which is partly offset by synergy, significant enhancement to rail and rail related businesses profit is expected
  - Synergy achievement is expected in 2008 from the area of procurement, energy optimization, revenue, staff, and others
  - Operating margins could be lower mainly due to lower operating margins of pre-merger KCRC businesses
- Rail businesses - Fare Adjustment Mechanism will apply after June 2009

# Outlook for 2008

- Property
  - Property development
    - Most of the property deferred income balance of HK\$ 400m will be recognised in the next 18 months
    - Possible surplus proceeds from The Capitol in LOHAS Park and Ho Tung Lau in Fo Tan
    - For pre-merger KCRC sites, profit recognition will be net of acquisition costs
    - EOI of Che Kung Temple site in Shatin was launched in early March
    - Tendering of Tsuen Wan West 5 & 7, which are West Rail property projects, may take place within the next 12 months. MTR will act as an agent only
  - Investment property revenue will benefit from full year impact of Elements Phase 1 and opening of Elements Phase 2, as well as expanded investment property and management portfolio from the Rail Merger

# Forward-looking statements

Certain statements contained in this presentation 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.