



A New Era

Summary Financial Report 2007



This Summary Financial Report 2007 only gives a summary of the information and particulars of MTR's 2007 Annual Report from which this Summary Financial Report is derived. Both documents are available (in both English and Chinese versions) in electronic form on the Company's website at www.mtr.com.hk

You may obtain a printed copy of the 2007 Annual Report free of charge by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or our Corporate Relations Department. Their details are set out on page 69 of this Summary Financial Report.

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You may at any time choose to receive summary financial reports or annual reports in printed form or to rely on their versions posted on the Company's website. You may also at any time choose to receive (a) summary financial reports or annual reports in place of the other and (b) the English version only, the Chinese version only or both the English and the Chinese versions of the Company's summary financial reports or annual reports. You may make the above choices notwithstanding any wish to the contrary has previously been conveyed to the Company. You may change your choice on these matters by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, whose details are set out on Page 69.

If you have already chosen to rely on the versions of the summary financial reports and annual reports posted on the Company's website or have difficulty in having access to those documents, you will, promptly upon written request, be sent those documents in printed form free of charge. Please send your request to the Company's share registrar, Computershare Hong Kong Investor Services Limited.

Looking to the Future

The Rail Merger places the Company in an excellent position to further promote the sustainable development of Hong Kong's economy and society. Leveraging on our enhanced expertise and resources, we are investing in exciting new expansion opportunities for the future.

As one dynamic team, we are preparing for the future as an international enterprise while continuing to provide Hong Kong with a world-class railway infrastructure and good quality of life.



MTR Corporation at a Glance

The size, scale and geographic coverage of the business activities of the Company have been significantly expanded as a result of the Rail Merger completed on 2 December 2007. Our share of the Hong Kong franchised public transport market has increased to 41.6% and our property land bank and rental portfolio have both been increased with the Rail Merger.



Railway Operations

Business Description

We operate a pre-dominantly rail based transportation system in Hong Kong, comprising Domestic and Cross-boundary services, a dedicated high-speed Airport Express and a light rail system, which in total stretches 211.6 kilometres with 82 stations and 68 stops. The Integrated MTR System is one of the most intensively used systems in the world, known for its reliability, safety and efficiency. We also provide intercity services to the Mainland of China as well as a bus operation in Hong Kong providing convenient feeder services.

2007 Highlights

- Successfully completed the integration of two railway networks on the Appointed Day of 2 December, together with fare reductions with effect from that day
- Exceeded Performance Requirements under the pre-Rail Merger Operating Agreement and Customer Service Pledges and entered into a new post-Rail Merger Operating Agreement on Appointed Day
- Customer satisfaction levels for service quality and fares remained high
- Internationally received the Gold Asset Management Excellence Award and Steve Maxwell Leadership Award for outstanding railway asset management practices

Station Commercial and Rail Related Businesses

Business Description

We leverage our railway assets and expertise into additional businesses, including rental of station retail units (including Duty Free shops), advertising in trains and stations, telecommunications, rail consulting and freight services.

2007 Highlights

- Renovations to commercial areas at nine stations were completed
- Replacement of seatback TV with new multimedia system in the Airport Express was completed
- New advertising formats including "Interactive Panel", "Shopping Guide Map" and "12-sheet Scrolling Units" were introduced to strengthen our market leadership position
- Advertising, station retail and telecommunications businesses included those of the KCR System after 2 December 2007, together with rental of space to Duty Free shops as well as freight services to Mainland China



Property and Other Businesses

Business Description

We develop mainly residential properties in conjunction with property developers. We own investment properties, principally shopping centres and offices, and manage our properties and others. Our investment portfolio includes 12 shopping centres and 18 floors of the Two International Finance Centre office tower.

Overseas Growth

Business Description

We continue our strategy to grow outside of Hong Kong by investing in urban rail networks in the Mainland of China, and pursuing "asset-light" operating concessions in European markets that are privatised or opening to new entrants.

2007 Highlights

- Tender of Area 56 of Tseung Kwan O awarded in February 2007 to a subsidiary of Sun Hung Kai Properties Limited
- Tender of Package Three of LOHAS Park awarded in November 2007 to a subsidiary of Cheung Kong (Holdings) Limited
- Elements Phase 1, our majority owned newest flagship shopping centre above Kowloon Station, opened on 1 October 2007
- Enlarged investment property portfolio with Elements and new intake of KCRC properties after the Rail Merger
- Opening of Ginza Mall in Beijing in January 2007

2007 Highlights

- Our joint venture with Laing Rail won the London Overground concession and successfully took it over on 11 November 2007
- Project progress and operational preparation of Beijing Metro Line 4 were satisfactory
- Training of 268 operations staff for Beijing Metro Line 4 commenced in September 2007 in cooperation with Beijing Communication School
- Preparatory work and expanded trial section work for Shenzhen Metro Line 4 continue while awaiting approval from the National Development and Reform Commission of Mainland China

Chairman's Letter



"The successful completion of the Rail Merger on 2 December 2007, the winning of the London Overground concession in the United Kingdom and the very successful opening of Elements shopping centre in Hong Kong were some of the highlights of the year"

Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2007, which continue to reflect the momentum of our core businesses and of our growth strategy at home and abroad. The successful completion of the Rail Merger on 2 December 2007, the winning of the London Overground concession in the United Kingdom and the very successful opening of Elements shopping centre in Hong Kong were some of the highlights of the year.

For the year, buoyant economic conditions led to continued growth in our businesses, which when combined with the effect of the Rail Merger since 2 December, enabled MTR Corporation to increase total revenue for 2007 to HK\$10,690 million, 12.0% higher than 2006. The operating profit from railway and related businesses before depreciation and amortisation also rose by 13.7% to HK\$5,912 million. Property development profit realised in the period was HK\$8,304 million, mainly from surplus proceeds at developments such as Le Point at Tiu Keng Leng Station. Excluding investment property revaluation and related deferred tax, profit from underlying businesses attributable to equity shareholders was HK\$8,571 million, 43.8% higher than 2006, largely due to the magnitude of property development profit as well as continued strong performance from our recurring businesses. Including investment property revaluation of HK\$8,011 million (HK\$6,609 million net of deferred tax), reported net profits for 2007 were HK\$15,182 million with earnings per share of HK\$2.72. With the strong financial results, your Board has recommended a final dividend of HK\$0.31, giving a full year dividend of HK\$0.45, which is an increase of 7.1% compared to 2006.

Rail Merger: A Milestone Achieved

2 December 2007 saw the completion of the Rail Merger between the Company and Kowloon-Canton Railway Corporation (KCRC), which followed the approval of the Rail Merger Bill by the Legislative Council of Hong Kong (LegCo) in June, and of independent shareholders at an Extraordinary General Meeting in October. In the Rail Merger, the Company has taken over KCRC's rail and related businesses under a concession arrangement and also acquired a property portfolio.

The Rail Merger increases significantly the scale and profitability of our rail and related businesses whilst at the same time enhances our property development land bank and rental property portfolio. Patronage on Domestic Service, which includes KCR Lines after the Rail Merger, grew from 2.6 million passengers per weekday before the Rail Merger, to 3.5 million passengers per weekday in December after the Rail Merger. Our property development land bank increased by 1.2 million square metres GFA while our investment property portfolio increased by 40,957 square metres lettable with the Rail Merger. The Rail Merger benefits all our stakeholders with fare reductions and improved network co-ordination for our passengers, increased opportunities for our staff and enhanced value for our shareholders. With the completion of the Rail Merger we are now working diligently on the further integration of the Company as well as the achievement of synergies, which when fully realised in three years' time are estimated at HK\$450 million per year.

Under the guiding principle of "One Company, One Team", the integration of staff from the Company and KCRC has progressed smoothly, for which I would like to thank management and all staff of the merged Company.

Growth Strategy

With the completion of the Rail Merger, our future growth strategy rests with the significant new rail development in Hong Kong and our continued expansion into the Mainland of China and Europe.

In Hong Kong, the year saw good progress being made on the Kowloon Southern Link, a KCRC project managed by the Company, and a new station at LOHAS Park (in Tseung Kwan O South), while planning and detailed design continued for the new 3-km West Island Line after approval was received from Government. In addition, the Chief Executive of Hong Kong SAR announced in his October Policy Address that the Government was pledging its support to a number of priority rail infrastructural developments, including the 7-km South Island Line (East), the 26-km Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link), and

"With the completion of the Rail Merger, our future growth strategy rests with the significant new rail development in Hong Kong and our continued expansion into the Mainland of China and Europe"

the Shatin-to-Central Link. Approval has already been obtained to proceed with preliminary planning and design for the South Island Line (East), Shatin-to-Central Link and the 3-km Kwun Tong Line extension whilst we are in active discussion with Government on the design and implementation proposal for the Express Rail Link.

In the Mainland of China, steady progress was made on the Beijing Metro Line 4 project, while we continued with preparations for the approval of the Shenzhen Metro Line 4 (SZL4) project. The approval process for SZL4 has taken a protracted length of time since it requires a breakthrough in certain policy areas. 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 a satisfactory return to its shareholders. During the year, we also continued to pursue further investment opportunities in key cities such as Hangzhou, Suzhou, Tianjin and Wuhan, as well as in Beijing and Shenzhen.

In Europe, we continued with our "asset-light" approach to bid for new operating concessions in privatised markets. The highlight of the year was the winning of the London Overground concession by our UK joint venture, London Overground Rail Operations Ltd (LOROL). London Overground is an important rail network in the UK's capital serving West, North and East London and will be a vital link for the 2012 Olympic Games. Under the concession, LOROL will operate train services in Greater London for seven years.

Sustainability and Community

In our drive to achieve growth, an important priority for us is to ensure that our business and growth are sustainable. This has become even more crucial as the consequences of climate change, and social and environmental complacency

have become ever more apparent. As our new rail extensions reach out to a larger part of Hong Kong and our operations extend beyond Hong Kong into the Mainland of China and the UK, we remain determined to enhance the quality of life of our passengers, customers, tenants and employees. We aim to do this not only by providing the best possible railway infrastructure and services, but also by focusing on the needs of the community, by involving ourselves in its well-being, and above all by investing in resources to enhance efficiency and ecological sustainability.

The Company is in full support of the Government's clean-air initiatives and is committed to making a leading contribution to the Action Blue Sky Campaign launched by the Chief Executive of the Hong Kong SAR. As one of the largest electricity users in the Pearl River Delta, we are a signatory to and have been implementing the Clean Air Charter, which requires the Company to adopt energy-efficient measures in its operations and monitor its emissions of air pollutants.

In 2006, the Company adopted the MTR Corporation Climate Change Policy, which is modelled on the policy developed by the International Association of Public Transport (UITP), whose Sustainable Development Commission we currently chair.

The Company has undertaken a thorough assessment of the enterprise risk associated with exposure to climate change issues and concluded these are significant enough to require ongoing monitoring. We are in the process of reviewing how climate change can be taken into account in our design, construction, and asset management to prepare more definitively an adaptation-based scenario for future years. Our aim is to become one of the most resource efficient and ecologically responsible public transport companies in the world.

Our efforts in sustainability, corporate governance, service culture and management processes have continued to attract international recognition, both locally and internationally. We

have received the SAM (Sustainable Asset Management) Sector Leader award and Silver Class Award for recognising our ability to manage related risks and to seize associated opportunities. During the year, our Sustainability Report 2006, Convergence, was accredited the "Runner Up - Best Sustainability Report" by the Association of Chartered Certified Accountants (ACCA) Hong Kong. Our world-class professionalism, safety standards and cost efficiency are the backbone of our sustainability drives. The Company was honoured to receive the Gold Asset Management Excellence Award at the 2007 International Asset Management Conference in Melbourne for our results-driven and robust railway asset management system and focus on continuous improvement, which the panel of international judges considered the "best ever seen".

During the year, many of our employees took part in programmes and events to reach out to the less fortunate in our community.

There were 86 community volunteer initiatives involving more than 1,800 volunteers. Most of the volunteering services were for the elderly, the physically and mentally challenged, and underprivileged children and families. The MTR HONG KONG Race Walking 2007, which was co-organised with the Hong Kong Amateur Athletic Association, raised over HK\$1 million for the Hospital Authority's health education campaign. In 2007, we were once more nominated by eight social organisations for the Caring Company Logo 2007/08 in recognition of the Company's contributions to society through employee volunteering, community giving and providing a safe and family friendly environment for our staff.

To help the victims of the severe snowstorm in the Mainland of China, we donated HK\$1 million on 4 February 2008 to provide warm clothing and emergency supplies via the Hong Kong Red Cross. In addition, we set up donation counters at our twelve

shopping centres over Lunar New Year holidays. The funds received were donated through Oxfam Hong Kong to provide food supplies and warm clothing for the snowstorm victims.

Board Transitions

Mr David Gordon Eldon and Mr Lo Chung-hing will retire as independent non-executive Directors of the Company at our Annual General Meeting on 29 May 2008. I would like to thank Mr Eldon, who is also currently the chairman of our Nominations Committee, and Mr Lo for their long service and significant contributions to the Company.

I would like to welcome Ms Eva Cheng and Professor Chan Ka-keung, Ceajer, who both joined the Board in July 2007 on taking up the offices of Secretary for Transport and Housing, and Secretary for Financial Services and Treasury respectively. I would further welcome Mr Ng Leung-sing and the Honourable Abraham Shek Lai-him who joined the Board in December 2007 as independent non-executive Directors.

The successful performance of the Company is built on the excellence of our Board governance, management and staff, the trust of our customers, and our shareholders. As we enter a new era in the Company's history, I would like to extend my heartfelt thanks to my fellow Board Members, management and all staff for all their efforts in making 2007 a milestone year in advancing our vision of sustainable growth.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 March 2008

CEO's Review of Operations and Outlook



"2007 also saw strong financial results for MTR Corporation as we continued to make steady progress in all our businesses"

Dear Stakeholders,

2007 was a successful year for the Company. Firstly, on 2 December, we completed the merger of our rail operations with those of the Kowloon-Canton Railway Corporation (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 Address 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 UK joint venture 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 Bill 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

“...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”

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. Passenger journeys 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 optimising 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 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

CEO's Review of Operations and Outlook

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, Wealth Pine Investment 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, increasing 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.

"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"

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 over 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)

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"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"

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 businesses 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 predominantly 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 an 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

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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 a result of the fare reduction and also the lower margin of the KCR System. Station commercial and rail 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.



C K Chow, Chief Executive Officer
Hong Kong, 11 March 2008

Key Figures

	2007 [#]	2006	% Increase/ (Decrease)
Financial Highlights <i>in HK\$ million</i>			
Revenue			
– Fare	7,115	6,523	9.1
– Non-fare	3,575	3,018	18.5
Operating profit from railway and related businesses before depreciation and amortisation	5,912	5,201	13.7
Profit on property developments	8,304	5,817	42.8
Operating profit before depreciation and amortisation	14,216	11,018	29.0
Profit attributable to equity shareholders	15,180	7,759	95.6
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	8,571	5,962	43.8
Total assets	155,668	120,421	29.3
Loans, obligations under finance leases and bank overdrafts	34,050	28,152	21.0
Obligations under service concession	10,685	–	N/A
Total equity attributable to equity shareholders	91,014	76,767	18.6
Financial Ratios <i>in %</i>			
Operating margin	55.3	54.5	0.8% pt.
Net debt-to-equity ratio	48.5	36.3	12.2% pts.
Return on average equity attributable to equity shareholders	18.1	10.6	7.5% pts.
Return on average equity attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	10.2	8.1	2.1% pts.
Interest cover <i>in times</i>	9.0	6.7	2.3 times
Interest cover (excluding impact of change in fair value of derivative instruments) <i>in times</i>	9.3	6.7	2.6 times
Share Information			
Basic earnings per share <i>in HK\$</i>	2.72	1.41	92.9
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) <i>in HK\$</i>	1.54	1.08	42.6
Dividend per share <i>in HK\$</i>	0.45	0.42	7.1
Share price at 31 December <i>in HK\$</i>	28.70	19.56	46.7
Market capitalisation at 31 December <i>in HK\$ million</i>	161,037	108,531	48.4
Operations Highlights			
Total passenger boardings			
– Domestic Service <i>in millions</i>	915.8	866.8	5.7
– Cross-boundary Service <i>in thousands</i>	8,243	–	N/A
– Airport Express <i>in thousands</i>	10,175	9,576	6.3
– Light Rail <i>in thousands</i>	11,100	–	N/A
Average number of passengers <i>in thousands</i>			
– Domestic Service <i>weekday</i>			
– pre-merger	2,595	2,513 [^]	3.3
– post-merger	3,544	–	N/A
– Cross-boundary Service <i>daily</i>	274.8	–	N/A
– Airport Express <i>daily</i>	27.9	26.2	6.5
– Light Rail <i>weekday</i>	380.0	–	N/A
Fare revenue per passenger <i>in HK\$</i>			
– Domestic Service	6.78	6.82	(0.6)
– Cross-boundary Service	24.45	–	N/A
– Airport Express	64.34	63.85	0.8
– Light Rail	2.68	–	N/A
Proportion of franchised public transport boardings (December)* <i>in %</i>	41.6	25.7	15.9% pts.

* Proportions of franchised public transport boardings for the full year of 2007 and 2006 are 26.7% and 25.0% respectively.

[#] Before the Rail Merger on 2 December 2007, the Company's rail operations comprised MTR Lines and Airport Express. After the Rail Merger, our Domestic Service comprised MTR Lines and KCR Lines (East Rail Line excluding Cross-boundary, West Rail Line and Ma On Shan Line). Also after the Rail Merger we gained new passenger services for Cross-boundary Service, Light Rail, Bus and Intercity.

[^] The figure covered the period from 1 January 2006 to 1 December 2006 for like-with-like comparison.

Executive Management's Report

Railway Operations

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.

Patronage

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

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. Fare revenue increased by 5.1% to HK\$6,213 million.

Airport Express' passenger volume rose 6.3% to 10.2 million. For the Cross-boundary Service at Lo Wu and Lok Ma Chau, a total patronage of 8.2 million was recorded for the period from 2 December to the year end. Fare revenue from the Airport Express increased by 7.0% to HK\$655 million whilst Cross-boundary, Light Rail, Intercity and Bus services contributed total revenue of HK\$247 million after the Rail Merger.

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%.

Service Promotions

One of the key contributors of our incremental patronage growth is the effectiveness of our service promotions. A number of station events and segment promotions were launched, including MTR Hello Kitty Heroes Redemption Programme and the Ride 5 Get Free Breakfast Promotion.

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 distributed to tourists who purchased a MTR 1-day Pass or Tourist Octopus during the promotion period. This programme increased sales of these two products by 48% compared to the same period last year.

For Airport Express, the popular "Ride to Rewards" programme was enhanced with new rewards for registered members that accumulated four journeys on Airport Express. For Asia

World-Expo, we joined with trade show organisers to arrange same-day return trips on Airport Express as well as discounted prices for visitors.

The flourishing economy of the Pearl River Delta 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. For Cross-boundary Service, we launched promotions by offering free rides to Lok Ma Chau Station in the New Year and Lunar New Year holidays.

For East Rail Line, West Rail Line and Ma On Shan Line, most of the promotion activities that 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 Performance

Continuity of good performance is essential in an era of transformation. For the period before the Rail Merger in 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 came into effect from 2 December 2007 to include the East Rail Line, West Rail Line, Ma On Shan Line and Light Rail. The performance levels of the integrated network for the post-Merger period from 2 December to the 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 campaign was supplemented by other monthly campaigns promoting train door and escalator safety, as well as general safety.

Customer satisfaction levels 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 recognition. In the benchmarking performed by the 11-member Community of Metros (CoMET) for 2006, we continued to hold a leading position.

The 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. International recognition came in the form of the Gold Asset Management Excellence Award, awarded jointly by the Asset Management Council and Maintenance Engineering Society of Australia at the 2007 International Asset Management Conference.

Service Improvements

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.

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 the Elements shopping centre. On the West Rail Line, three new footbridges are under construction at Tuen Mun Station, which will link with a nearby passenger transport interchange and new residential development.

The station improvement initiatives continued to upgrade the ambience and design of MTR stations. 46 stations on the merged network underwent renovations and enhancements of various kinds to enrich station environment and provide more shopping outlets.

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.

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

The noise enclosure project in the Tung Chung area was completed, which brought a reduction in the level of train noise in the area. Improvement work was also in progress in the Tsing Yi area.

Productivity

Improving efficiency and productivity remained a key priority for the Company. 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 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 decreased by 2.3% to HK\$21.6 for our enlarged network.

Station Commercial and Rail Related Businesses

Revenue from the Company's station commercial and rail related businesses increased by 12.9% in 2007 to HK\$1,741 million. The revenue increase was driven by a strong economy, rising patronage and the Rail Merger effect from 2 December to the end of 2007. Excluding the Rail Merger effect, such revenues would have increased by 4.8% in 2007 to HK\$1,616 million.

Advertising

Advertising revenue grew by 11.0% to HK\$593 million (a 9.6% increase to HK\$585 million excluding the Rail Merger effect), supported by higher passenger volumes and advertising innovations.

The MTR Plasma TV network continued to be enhanced. We successfully replaced 68 units of trackside plasmas and their

back-end system by the end of March 2007 for maintaining the best viewing quality for our passengers.

On Airport Express, the replacement of seatback TV with a new multimedia system was completed in May 2007. At the end of May, we launched rental payment services for Hong Kong Housing Authority tenants at Customer Service Centres in stations on the Kwun Tong, Island, Tsuen Wan, Tung Chung and Tseung Kwan O lines.

With the Rail Merger, advertising coverage now extends to the enlarged network including the cross-boundary market. The scale of our advertising business also increased, with the number of advertising media in stations and trains totalling 20,564 and 27,011 respectively at the year end.

Executive Management's Report

Station Retail

Station retail revenue increased by 27.6% to HK\$499 million (a 9.7% increase to HK\$429 million excluding the Rail Merger effect) due to growth in rental rates and retail sales volumes.

During the year, 31 new trades/brands were added to the station retail network 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.

Telecommunications

Revenue from telecommunications services decreased by 10.0% to HK\$233 million as compared to 2006 (a 11.2% decrease to HK\$230 million excluding the Rail Merger effect). Intense price competition and cannibalisation of call minutes by 3G mobile services continued to affect our business. However, our fixed network services provider, TraxComm Limited, achieved higher revenue and sold more than 220 Gbps of bandwidth services to carrier customers, an increase of 40% from the end of 2006.

The rental revenue of rooftop sites for mobile base stations of various mobile operators grew by 13.6% as compared to 2006 due to the Rail Merger, which increased the number of sites from 22 to 34. The Company joined with a telecoms operator to provide Wi-Fi internet access for passengers at 20 stations in the merged network.

With the Rail Merger, we took over the telecoms business of the KCR System, which is similar to that of our Company and our existing fibre network coverage expanded from 156 kilometres to 324 kilometres and bringing about cross-boundary business potential.

Freight Services

With the Rail Merger, we have gained the right to operate KCRC's relatively small freight business into the Mainland of China. This

business comprises ancillary services for warehouse and pier licensing, and a core railway transport business of containers, general cargoes and livestock. Revenue from the freight business from 2 December to the end of 2007 was HK\$3 million.

External Consultancy

We made progress in our strategy of focusing on consultancies that could lead to new investment opportunities. These 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.

In the Mainland of China, we were engaged by Asia Development Bank in a consultancy project to provide technical assistance to the Ministry of Finance for a study on Public Private Partnerships (PPP).

In Thailand, the Company signed a consultancy project with Bangkok Mass Transit System Public Company Limited (BTS) to act as their technical advisor in BTS's re-signalling project. We also secured new projects in the UK, India and Australia, and we opened a branch office in Dubai.

Project management consultancy work continued on Shanghai Metro Line 9 and Phase 1 (12 stations) opened on 29 December 2007. Our existing consultancy works for Kaohsiung Rapid Transit Corporation in Taiwan and the works for the Roads and Transport Authority in Dubai also proceeded well. We successfully delivered the power supply and signalling systems for the Automated People Mover extension at the Hong Kong International Airport, which was opened in February 2007.

Property and Other Businesses

Our property business benefited from broad based growth in the Hong Kong property market. Expanding demand and limited supply meant that the office market enjoyed low vacancy rates and high rentals, while the strong retail market was driven by consumer and tourist spending. The total transaction volume and value in the "first hand" private residential market increased by 37% and 106% respectively as compared to 2006.

Property Development

Profit for the year from property development increased to HK\$8,304 million, mainly due to surplus proceeds from

developments along the Airport Express and Tseung Kwan O Line, and deferred income from the newly opened Elements shopping centre in Kowloon Station, and Coastal Skyline and Caribbean Coast in Tung Chung.

Pre-sale commenced at Crystal Cove in Tung Chung and was well received. Sales were re-launched at the Harbourside, Harbour Green, La Rossa of Coastal Skyline and Le Point to good response, whilst Occupation Permits were obtained for Phase One of International Commerce Centre, the two towers of The

Cullinan at Kowloon Station, Phase 2 of Elements, Le Point at Tiu Keng Leng Station, and the last phase of the development in Coastal Skyline in Tung Chung.

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

As part of the Rail Merger, the Company acquired a property package that comprised property development rights, investment properties and property management rights. The property development rights acquired comprise eight sites of 1.2 million square metres GFA. The Company also took on KCRC's role as development agent for Government in respect of a number of West Rail property projects, which have an estimated total gross floor area of 2.3 million square metres, for which the Company will receive a fee.

Property Rental, Management and Other Businesses

Revenue from our property rental, management and other businesses, benefiting from rental rate increases and additions to the rental portfolio, increased by 24.3% to HK\$1,834 million as compared to 2006.

Property Rental

Property rental income rose by 25.2% over last year to HK\$1,581 million (a 23.5% increase to HK\$1,560 million excluding the Rail Merger effect from 2 December to the end of 2007), driven by positive rental renewals and new lettings, contributions from the opening of Phase 1 of Elements and Ginza Mall in Beijing.

Our commitment to the continuous enhancement of our shopping centres and other investment properties enabled us to capitalise on Hong Kong's strong economy. The average rise in rental reversions for renewal of leases and re-letting was 21.7%.

Rising demand from retailers for high quality retail space increased rents for prime locations and enabled the Company to maintain 100% occupancy at all pre-Merger MTR Corporation shopping centres, except for retail spaces at Luk Yeung Galleria repossessed for renovation. The five KCRC shopping centres that we acquired had an average occupancy of 91%.

Elements Phase 1, which opened on 1 October 2007, was very well received by the public and continued to be "talk-of-the-town", attracting local shoppers and tourists. Many brands

and services that are new to Hong Kong opened their flagship stores there. Renovations were also completed in November at Luk Yeung Galleria, increasing that shopping centre's competitiveness and product offerings.

In the Mainland of China, following refurbishment and re-branding, Ginza Mall in Beijing opened in January and by the end of December was 95% let. This mall marked the first step in applying our experience and know-how of operating shopping centres to the Mainland.

The Company acquired certain investment properties from KCRC as part of the Rail Merger, increasing our investment properties portfolio by a lettable area of 40,957 square metres. The investment property portfolio acquired comprises five shopping centres in 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.

At the year end, the Company's attributable share of investment properties were 200,921 square metres of lettable floor area of retail properties, 41,215 square metres of lettable floor area of offices and 10,203 square metres for other usage.

Property Management

Our property management business, benefiting from additions to the portfolio, achieved revenue growth of 12.8% to HK\$168 million. During the year, 3,121 residential units were added to our property management portfolio, which together with the 9,854 units under agency management acquired in the Rail Merger, brings the total number of residential units in the property management portfolio of the Company in Hong Kong to 71,851 units at the end of 2007.

Total commercial properties managed by the Company increased by 81,457 square metres mainly due to the inclusion of Elements Phase 1 prior to Merger. With the Rail Merger, an additional 30,530 square metres of commercial area directly managed by the Company as well as 62,496 square metres managed by agents were added to our property management portfolio to give a total of 756,556 square metres at the year end.

There was also a marked increase in the managed property portfolio in the Mainland of China, with a total new intake of 480,000 square metres, including Jian Wai SOHO Phase 7, SOHO Shangdu Phases 1 and 2, and Chao Wai SOHO all in Beijing as well as Mei Li Shan Shui Phase 1 in Chongqing. Altogether, total management contracts in hand in the Mainland amounted to 820,254 square metres.

Executive Management's Report

Other Businesses

Ngong Ping 360

The Ngong Ping 360 cable car and associated theme village on Lantau Island carried some 1.5 million guests from its opening in September 2006 to June 2007. In June 2007, during the annual testing outside of operation hours, one of the gondolas dislodged from the cable. There were no injuries and operations were immediately suspended. In September, the Company took over the management and operation of the cable car system from the previous contractor through the acquisition of its Hong Kong subsidiary. After many rigorous rounds of inspection and testing, the system was confirmed to be safe and the cable car service resumed on 31 December 2007. The revenue contributed for the year was HK\$85 million.

Octopus Holdings Limited

The Company's share of Octopus' net profit for the year was HK\$97 million, a 42.6% increase over 2006. The increase was

partly the result of an increase in average daily Octopus usage of 11.7% to HK\$81.9 million per day in 2007, brought about by a rise in the number of retail service providers and improvements in the general economy.

The "Portable Octopus Processor" (POP), which enables Octopus to extend its reach into the small to medium-sized market sector, was a driver of Octopus retail merchant expansion. Other new products included the launch of the Mini Octopus, which has become a "hot" accessory in town, underscoring Octopus' innovation in product design.

Cards in circulation rose to 16.5 million and average daily transaction volume rose to 10.2 million. By the end of 2007, over 1.7 million cardholders had registered as members of the Octopus Rewards Programme with 14 participating Rewards merchants.

Hong Kong Network Expansion

2007 was a milestone year for the planning and construction of projects to enhance or extend the existing network.

Network Extensions

In his October 2007 Policy Address, Hong Kong SAR's Chief Executive highlighted the South Island Line (East), the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the Shatin-to-Central Link as priority rail infrastructure projects, indicating Government's long-term commitment to developing Hong Kong's rail system as the backbone of passenger transport system.

On-going Projects

As the first in the wave of extension projects for the future, the West Island Line achieved major milestones including the gazetting of the scheme under the Railways Ordinance in October 2007, approval by the Legislative Council of Hong Kong (LegCo) of HK\$400 million of design funding in December 2007 and the signing of a preliminary project agreement in February 2008.

The Kowloon Southern Link (KSL) is part of the Rail Merger and will connect the existing East Rail Line with West Rail Line. All capital costs for KSL will be funded by KCRC and on commissioning this extension will form part of the Service Concession under the Rail Merger.

New Projects

South Island Line (East), a medium capacity railway service, will connect Admiralty Station to South Horizons via Ocean

Park, Wong Chuk Hang and Lei Tung. A revised proposal with updated financial data and enhanced interchange arrangements at Admiralty Station was submitted to Government in June 2007. The Government has since requested the Company to proceed with preliminary planning and design.

The Government announced on 11 March 2008 its decision for the Company to proceed with the further planning and design of Shatin-to-Central Link and the Kwun Tong Line extension to Whampoa. The 17-km Shatin-to-Central Link, which will be based on the scheme proposed by the Company under the Rail Merger, will run from Tai Wai to Hong Kong Island connecting a number of rail lines to provide more convenient rail services to passengers. The Company will continue discussions with Government on the operation of Shatin-to-Central Link by way of a Service Concession. The 3-km Kwun Tong Line extension will run from the existing Yau Ma Tei Station via Ho Man Tin to Whampoa. The Company will discuss the implementation details of this project with Government based on the ownership approach.

Feasibility studies for the Northern Link and the Express Rail Link were completed in 2007. The 26-km Express Rail Link will provide cross-boundary high speed rail service connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed national intercity rail network. The Northern Link will provide a cross-boundary link for the West Rail Line and will also create a new railway corridor between the northeast and the northwest New Territories.

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

Funding Models for New Projects

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

Completion of Projects

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

Subways and Pedestrian Links

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

Overseas Growth

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

Mainland of China

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

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

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

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

Europe

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

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

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

Human Resources

The Company's success has been built on the commitment, caring service and professionalism of our staff. The Rail Merger created a significant opportunity for us to achieve "One Company, One Team".

During 2007, one of our top priorities was to prepare for the enlarged post-Rail Merger company and the key challenge was to maintain a stable workforce for the period leading up to the Appointed Day while also ensuring that staff resourcing for our growth business remained uninterrupted.

An internal newsletter was published regularly to give information on major milestones and merger issues, and staff were kept abreast of progress through various channels. A series of Cultural Integration Programmes was also launched for over 12,000 staff.

The Company takes its commitment to the community seriously. During the year, 86 activities were organised involving the elderly, the physically and mentally challenged, underprivileged children and families. In recognition of the Company's contributions to society, we were again awarded the Caring Company Logo 2007/08.

2007 was a particularly intensive year for the provision of training for the challenges of a new era. A series of training courses was organised to cultivate a mutual support working culture. Several major initiatives were undertaken to develop management talents. We trained 2,000 senior and junior supervisors in empathetic listening and conducted a series of seminars on doing business in China for senior supervisors.

In the CoMET Staff Exchange Programme, two senior supervisory staff were selected for a six-month secondment to London Underground in order to acquire experience of working in a country with a different culture and to benchmark best practices in their respective functional areas.

We continued to provide proactive training support to overseas projects such as Shenzhen Metro Line 4, Beijing Metro Line 4 and external consultancy. To support the new franchise of London Overground, we have stepped up resourcing efforts for the timely mobilisation of manpower.

To develop local metro industry talents in the Mainland of China, the Company signed cooperation agreements with Beijing Communication School in December to co-run a Training Centre to train quality personnel for the metro industry.

Financial Review

Review of 2007 Financial Results

Profit and Loss

Total revenues for 2007 increased by 12.0% to HK\$10,690 million driven by the strong Hong Kong economy, continued expansion of our businesses and the Rail Merger effect from 2 December to the year end.

Fare revenue from Domestic Service (including KCR Lines after the Rail Merger) increased by 5.1% in 2007 to HK\$6,213 million as a result of a 5.7% growth in patronage to 915.8 million and 0.6% decrease in average fare to HK\$6.78. Fare revenue from Airport Express increased by 7.0% to HK\$655 million with patronage growth of 6.3% to 10.2 million and average fare increasing 0.8% to HK\$64.34. The Cross-boundary, Light Rail, Intercity and Bus services, which were part of the Rail Merger, contributed total revenue of HK\$247 million and patronage of 22.4 million. Total fare revenues for the Company therefore increased by 9.1% to HK\$7,115 million.

Revenues from station commercial and rail related businesses increased by 12.9% in 2007 to HK\$1,741 million. With the Rail Merger and riding on the growing economy and increased patronage, revenues from advertising and station retail rose by 11.0% to HK\$593 million and 27.6% to HK\$499 million respectively. However, income from telecommunications decreased by 10.0% to HK\$233 million. Consultancy income decreased slightly by 3.0% to HK\$193 million.

Rental, management and other revenues increased by 24.3% in 2007 to HK\$1,834 million, comprising HK\$1,749 million of property rental and management income and HK\$85 million of revenues from Ngong Ping 360. With the continued increase in rental rates, the opening of Phase 1 of Elements at Kowloon Station and Ginza Mall in Beijing, the expansion of our property management portfolio and the Rail Merger effect, property rental and management income recorded a strong growth of 23.9%.

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. Costs relating to staff, energy and utilities and stores and spares increased by 9.0%, 6.9% and 8.3% respectively mainly due to the Rail Merger. Operational rent and rates increased by 52.3% mainly as a result of the Rail Merger and a one-off income in 2006 from settlement with the Government on rateable value assessment related to the Tseung Kwan O Line. Expenses relating to property ownership, management and other businesses increased by 56.5% mainly due to business expansion, additional costs for the opening of new shopping malls, the cable car operation at Ngong Ping 360 and the Rail Merger effect.

Operating profit from railway and related businesses before depreciation, amortisation and merger related expenses therefore increased by 13.7% to HK\$5,912 million. Operating margin increased from 54.5% in 2006 to 55.3%.

Property development profit for 2007 increased significantly to HK\$8,304 million from HK\$5,817 million in 2006. This mainly comprised surplus proceeds from Le Point at Tiu Keng Leng Station and Harbour Green at Olympic Station, and deferred income mainly from Coastal Skyline and Caribbean Coast at Tung Chung Station and the fit-out works for Elements at Kowloon Station.

Operating profit before depreciation and amortisation therefore increased 29.0% to HK\$14,216 million. Depreciation and amortisation charges for 2007 increased by 2.4% to HK\$2,739 million due to the additional amortisation charge on Service Concession assets related to the Rail Merger as well as the full year depreciation charge on Ngong Ping 360 and other assets added to the network.

Due to substantial cash inflows during the early part of the year, interest and finance charges for 2007 declined by 5.9% to HK\$1,316 million despite an increase in borrowings to fund the Rail Merger in December 2007 and an increase in average borrowing cost to 5.6% as compared to 5.5% in 2006. The gain from the increase in market value of investment properties amounted to HK\$8,011 million before tax, which included HK\$311 million of value appreciation on the investment properties acquired in the Rail Merger.

As part of the Rail Merger, the Company acquired certain property holding and other subsidiaries from KCRC and this combined with the takeover of operations of Ngong Ping 360 resulted in a net gain of HK\$187 million. The Company's share

of net profit of associates amounted to HK\$99 million, including HK\$97 million from Octopus Holdings Limited and HK\$2 million from London Overground Rail Operations Ltd. Tax expenses, comprising mainly non-cash deferred tax provision, amounted to HK\$3,083 million. Net profit for the Group in 2007 increased by 95.7% to HK\$15,182 million, of which HK\$15,180 million was attributable to equity shareholders. Earnings per share correspondingly increased from HK\$1.41 in 2006 to HK\$2.72 in 2007.

Excluding investment property revaluation and the related deferred tax provision, the underlying profit for the Group increased by 43.8% from HK\$5,962 million in 2006 to HK\$8,571 million. Earnings per share based on underlying profit increased by 42.6% from HK\$1.08 in 2006 to HK\$1.54 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. The final dividend, amounting to HK\$1,740 million in total, offers a scrip dividend option to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. 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.

Balance Sheet

The Group's balance sheet strengthened further in 2007. Total fixed assets increased to HK\$132,417 million, mainly attributable to the addition of Service Concession assets and investment properties from the Rail Merger together with the surplus from investment property revaluation. Stores and spares increased from HK\$272 million in 2006 to HK\$642 million again mainly due to the acquisition of inventories from KCRC in the Rail Merger.

Railway construction in progress increased from HK\$232 million in 2006 to HK\$424 million as a result of the additional construction works on the new station at LOHAS Park project, partly offset by the transfer-out of the project costs on the SkyPlaza Platform at Airport Terminal Two upon its completion in February 2007.

Property development in progress increased significantly to HK\$9,066 million, mainly due to the acquisition costs of property development rights in the Rail Merger. Properties held for sale amounted to HK\$756 million, comprising mainly unsold residential units at Harbour Green in Olympic Station and The Arch at Kowloon Station.

Executive Management's Report

Property management rights acquired in the Rail Merger amounted to HK\$40 million, which was carried as an asset on the balance sheet subject to amortisation charge over the duration of the management contracts acquired.

Derivative financial assets and liabilities, representing the fair value of derivative financial instruments, were recorded at HK\$273 million and HK\$192 million respectively as compared to HK\$195 million and HK\$151 million respectively in 2006. The movements were mainly due to lower US interest rates and the weaker Hong Kong dollar forward exchange rates during the period.

Debtors, deposits and payments in advance increased significantly to HK\$5,167 million primarily due to the increase in amounts receivable from pre-sale of residential units in Le Point at Tiu Keng Leng Station.

Total loans outstanding increased from HK\$28,152 million in 2006 to HK\$34,050 million mainly due to increased borrowing to fund the initial payments for the Rail Merger.

The amount due to KCRC at the year end was HK\$975 million mainly in connection with the cost of property enabling works for KCRC property development sites that have not been tendered as well as a small amount of provision for the HK\$750 million fixed annual payment for the Service Concession accrued for 2007. Reimbursement for such property enabling works will be received from developers on tender and will be paid over to KCRC.

Creditors, accrued charges and provisions increased from HK\$3,639 million in 2006 to HK\$5,412 million mainly attributable to the transfer of deposits on leases and certain other liabilities from KCRC in accordance with the Rail Merger agreements.

Deferred income decreased to HK\$515 million, which relates primarily to profit to be recognised from Tung Chung and Kowloon station development packages in accordance with the progress of property construction and pre-sales.

With the recognition of tax on the profit for the year, including deferred tax provision for property revaluation, deferred tax liabilities increased to HK\$12,574 million.

Share capital, share premium and capital reserve increased by HK\$1,189 million to HK\$39,828 million at the end of 2007 as a result of shares issued for scrip dividend and share options exercised. Together with increases in fixed asset revaluation and other reserves of HK\$214 million and retained earnings net

of dividends of HK\$12,844 million, total equity attributable to equity shareholders increased to HK\$91,014 million. Including the obligations under the Service Concession 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

The Company's cash position remained strong with net cash inflow generated from railway and related activities increasing to HK\$5,965 million for the year, while cash receipts from developers and purchasers in respect of property development projects also increased to HK\$5,824 million. Outflows for capital project payments, interest expenses, working capital and dividend payments amounted to HK\$5,667 million. Hence, the Company recorded a net cash inflow of HK\$6,122 million. After including the upfront payments of HK\$12,040 million for the Rail Merger, and receipts of HK\$786 million in respect of net cash for the assumption of certain KCRC assets and liabilities on the Appointed Day, there was a cash deficit of HK\$5,132 million, which was financed by an increase in debt of HK\$5,401 million. Cash balances at the year end increased by HK\$269 million.

Financing Activities

New Financings

The Group's main financing activity was a HK\$10 billion syndicated loan facility signed in October with a group of 19 major banks from Hong Kong, Mainland of China, Japan, Europe and the U.S., to meet our general corporate funding requirements, including partial settlement of the upfront payment to KCRC for the Rail Merger. This dual-tranche facility comprised a HK\$3 billion 3-year term loan facility and a HK\$7 billion 5-year revolving/term loan facility. The pricing and terms of the loan facility were amongst the most favourable in the Hong Kong dollar syndicated loan market, reflecting the strong financial position of the Group and the banking community's confidence in the Group's prospects.

As at the end of 2007, the Group had total undrawn committed facilities of HK\$6.3 billion, which together with projected strong positive operating cash flows during 2008 and 2009, would provide sufficient coverage for contingency purposes or to meet unexpected demands.

Cost of Borrowing

Despite higher interest rates in the first half of the year, average borrowing cost in 2007 rose only slightly to 5.6% from 5.5% in 2006 due to the Group's prudent use of fixed and floating rate debt, as well as lower interest rates towards the year end.

Gross interest and finance charges (before interest income and impact from derivative financial instruments) decreased to HK\$1,580 million, which also includes HK\$60 million of notional interest relating to the capitalisation of the total fixed annual payments from the Rail Merger.

Risk Management

The cornerstone of our financing and risk management practices is our well-established Preferred Financing Model, which specifies the preferred mix of fixed and floating rate debt, the permitted level of currency exposure, a well-balanced spread of maturities, the use of different types of financing instruments, and an adequate length of financing horizon. With this disciplined approach, the Group was able to maintain a well diversified debt portfolio with adequate forward coverage of our future funding requirements.

We remain an active corporate user of derivative financial instruments, which are used solely for hedging purposes to reduce exposure to interest rate and currency risks. To control counterparty risk exposure, we deal only with counterparties that have a minimum credit rating of A-/A3, and assign limits of exposure to these counterparties in accordance with their credit ratings. In addition, the Company adopts a risk monitoring framework based on the widely accepted "value-at-risk" and "expected loss" concepts to further quantify and monitor those exposures.

Credit Ratings

We were the first Hong Kong corporate entity to obtain internationally recognised credit ratings and have since maintained strong ratings on a par with the Government.

In May, our foreign currency issuer and senior unsecured debt ratings of Aa3 were placed on review for possible upgrade by Moody's following its decision to place the Government's Aa3 rating on review for possible upgrade. Following the passage of the primary legislation for the Rail Merger Bill by LegCo, our ratings were upgraded to Aa2 with a stable outlook in July.

Standard & Poor's also affirmed our local and foreign currency long-term credit ratings at AA with a stable outlook and our A-1+ short-term corporate credit rating after considering the terms of the merger transaction and the strong support from the Government. Subsequently, the rating agency upgraded the outlook of our AA ratings to positive from stable, in line with its revision of the outlook on the Government's sovereign rating.

Rating & Investment Information, Inc. of Japan also affirmed our

foreign currency and Hong Kong dollar issuer ratings at AA and short-term rating at a • 1+. and subsequently revised our ratings outlook to positive.

Financial Planning

We continued to use our comprehensive long-term financial planning model to plan our railway operations and to evaluate new projects and investments. This model subjects all investment proposals to rigorous evaluations that take into account our weighted average cost of capital and required rate of return. To ensure our assumptions are realistic and robust, we carefully review all key assumptions used in the model regularly and conduct sensitivity analyses on key scenarios. To manage our cost of capital effectively, we regularly conduct detailed assessment of our funding requirements and capital structure.

Financing Capacity

The Group's current projected capital expenditure programme comprises three parts – railway projects in Hong Kong, property projects in Hong Kong, and overseas investments. Based on the current programmes, total capital expenditures for the next three years between 2008 and 2010 are estimated at HK\$11.2 billion for railway projects in Hong Kong, HK\$1.1 billion for property investment in Hong Kong, and HK\$5.9 billion for overseas investments, the bulk of the latter relates to Shenzhen Metro Line 4 if and when it is approved. These estimates, however, have not included the project costs of South Island Line (East) and the Kwun Tong Line extension in Hong Kong, where the bulk of such costs will be incurred after 2010.

With our strong financial position and robust cash flows, we are of the view that we will have sufficient financing capacity to fund the projected capital expenditure and to capture other potential investment opportunities.

Ten-Year Statistics

	2007*	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999	1998
Financial										
Profit and loss account in HK\$ million										
Turnover	10,690	9,541	9,153	8,351	7,594	7,686	7,592	7,577	7,252	6,981
Operating profit before depreciation and amortisation	14,216	11,018	11,246	9,097	9,116	7,769	7,301	7,290	5,523	4,720
Depreciation and amortisation	2,739	2,674	2,682	2,499	2,402	2,470	2,178	2,091	2,039	1,426
Interest and finance charges	1,316	1,398	1,361	1,450	1,539	1,125	874	1,143	1,104	475
Increase in fair value (net of deferred tax) on investment properties [†]	6,609	1,797	2,310	2,051	—	—	—	—	—	—
Profit	15,182	7,758	8,463	6,543	4,450	3,579	4,278	4,069	2,116	2,819
Dividend proposed and declared	2,522	2,328	2,299	2,259	2,215	2,161	2,118	500	—	—
Earnings per share in HK\$	2.72	1.41	1.55	1.23	0.85	0.70	0.85	0.81	0.42	—
Balance sheet in HK\$ million										
Total assets	155,668	120,421	113,666	106,674	102,366	101,119	98,126	92,565	87,250	82,104
Loans, obligations under finance leases and bank overdrafts	34,050	28,152	28,264	30,378	32,025	33,508	31,385	27,203	23,177	16,897
Obligations under service concession	10,685	—	—	—	—	—	—	—	—	—
Deferred income	515	1,682	3,584	4,638	5,061	6,226	8,411	10,403	13,776	15,970
Total equity attributable to equity shareholders	91,014	76,767	69,785	61,892	57,292	53,574	53,893	50,355	45,115	42,601
Financial ratios in percentage										
Operating margin	55.3	54.5	55.7	54.2	49.3	52.2	53.4	51.7	48.2	47.3
Non-fare revenue as a percentage of turnover	33.4	31.6	31.4	29.0	27.7	25.6	24.6	24.6	22.2	22.1
Net debt-to-equity ratio	48.5	36.3	39.9	48.6	55.2	59.3	57.8	53.7	51.2	37.8
Net debt-to-equity ratio (excluding revaluation reserves)	49.2	36.7	40.3	48.9	62.6	67.4	66.0	61.8	58.3	42.9
Interest cover in times	9.0	6.7	7.6	6.1	5.6	4.5	3.8	3.8	3.7	5.1
Employees										
Corporate management and support departments	1,530	823	810	792	793	824	870	911	967	1,203
Station commercial and rail related businesses	305	82	82	67	61	62	60	55	64	114
Operations	8,770	4,521	4,600	4,669	4,730	4,836	4,756	4,943	5,132	5,890
Projects	942	260	242	362	398	546	973	898	912	1,105
Property and other businesses	1,141	832	688	660	642	618	567	519	456	468
China and international businesses	135	112	83	—	—	—	—	—	—	—
Offshore employees	1,311	733	486	5	5	5	5	6	6	6
Total	14,134	7,363	6,991	6,555	6,629	6,891	7,231	7,332	7,537	8,786

* Consolidated results

[†] New accounting standard requirement

	#2007*	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999	1998
Railway Operations										
Revenue car km operated <i>in thousands</i>										
Domestic and Cross-boundary	128,041	115,784	114,449	114,364	112,823	103,318	96,751	92,199	94,704	94,260
Airport Express	19,956	20,077	17,122	16,081	15,227	19,467	19,458	19,557	19,394	9,011
Light Rail	755	—	—	—	—	—	—	—	—	—
Total number of passengers <i>in thousands</i>										
Domestic Service	915,755	866,754	857,954	833,550	770,419	777,210	758,421	767,416	779,309	793,602
Cross-boundary Service	8,243	—	—	—	—	—	—	—	—	—
Airport Express	10,175	9,576	8,493	8,015	6,849	8,457	9,022	10,349	10,396	3,928
Light Rail	11,100	—	—	—	—	—	—	—	—	—
Bus	2,757	—	—	—	—	—	—	—	—	—
Intercity	285	—	—	—	—	—	—	—	—	—
Average number of passengers <i>in thousands</i>										
Domestic Service – weekday average										
– pre-merger	2,595**	2,523	2,497	2,403	2,240	2,261	2,231	2,240	2,284	2,326
– post-merger	3,544	—	—	—	—	—	—	—	—	—
Cross-boundary Service – daily average	275	—	—	—	—	—	—	—	—	—
Airport Express – daily average	28	26	23	22	19	23	25	28	29	22
Light Rail – weekday average	380	—	—	—	—	—	—	—	—	—
Bus – weekday average	98	—	—	—	—	—	—	—	—	—
Intercity – daily average	10	—	—	—	—	—	—	—	—	—
Average passenger km travelled										
Domestic and Cross-boundary	7.9	7.7	7.6	7.7	7.7	7.6	7.4	7.3	7.4	7.4
Airport Express	29.5	29.7	30.4	30.2	29.7	29.9	29.8	29.7	29.9	31.2
Light Rail	3.0	—	—	—	—	—	—	—	—	—
Bus	4.6	—	—	—	—	—	—	—	—	—
Average car occupancy <i>number of passengers</i>										
Domestic and Cross-boundary	58	58	57	56	53	57	58	61	61	62
Airport Express	15	14	15	15	13	13	14	16	16	14
Light Rail	45	—	—	—	—	—	—	—	—	—
Proportion of franchised public transport boardings <i>in percentage</i>										
HK\$ per car km operated (all services)	41.6**	25.0	25.2	24.8	24.3	23.5	23.5	24.1	25.2	25.7
Fare revenue	47.8	48.0	47.7	45.5	42.9	46.6	49.3	51.1	49.4	52.7
Railway operating costs	21.6	22.1	22.8	22.3	22.5	22.8	24.6	26.8	27.3	29.2
Railway operating profit	26.2	25.9	24.9	23.2	20.4	23.8	24.7	24.3	22.1	23.5
HK\$ per passenger carried (all services)										
Fare revenue	7.50	7.44	7.25	7.05	7.06	7.28	7.46	7.35	7.14	6.82
Railway operating costs	3.39	3.43	3.47	3.45	3.70	3.57	3.72	3.85	3.94	3.78
Railway operating profit	4.11	4.01	3.78	3.60	3.36	3.71	3.74	3.50	3.20	3.04
Safety Performance										
Domestic, Cross-boundary and Airport Express										
Number of reportable events [^]	989	826	748	701	641	690	686	748	859	842
Reportable events per million passengers carried [^]	1.05	0.94	0.86	0.83	0.82	0.88	0.89	0.96	1.09	1.05
Number of staff and contractors' staff accidents	26	23	31	25	33	24	39	36	49	65
Light Rail										
Number of reportable events [^]	6	—	—	—	—	—	—	—	—	—
Reportable events per million passengers carried [^]	0.54	—	—	—	—	—	—	—	—	—
Number of staff and contractors' staff accidents	0	—	—	—	—	—	—	—	—	—

** The figure covers the pre-merger MTR Lines up to 1 December 2007.

^^ The figure is for December 2007. Proportion of franchised public transport boardings for the full year of 2007 is 26.7%.

[^] Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for Transport and Housing, Government of the Hong Kong SAR under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.

Before the Rail Merger on 2 December 2007, the Company's rail operations comprised MTR Lines and Airport Express. After the Rail Merger, our Domestic Service comprised MTR Lines and KCR Lines (East Rail Line excluding Cross-boundary, West Rail Line and Ma On Shan Line). Also after the Rail Merger we gained new passenger services for Cross-boundary Service, Light Rail, Bus and Intercity.

* Consolidated results

Corporate Governance Report

Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices. This Report describes how the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company has complied throughout the year ended 31 December 2007 with the Code Provisions 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 (Chapter 556 of the Laws of Hong Kong) ("MTR Ordinance")) 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 ("Articles of Association"). As there are currently 11 Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Directorate, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, risk management strategies, treasury policies and fare structures.

The Board comprises 13 members, consisting of one executive Director (the Chief Executive Officer) and 12 non-executive Directors, of whom eight are independent non-executive Directors. In this regard, the Company well exceeds the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

On 8 August 2007, the Government of The Hong Kong Special Administrative Region of the People's Republic of China ("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. 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 KCRC.

On 8 August 2007, the Government of the 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.

Two of the other non-executive Directors (being the Secretary for Transport and Housing and the Commissioner for Transport) are appointed by the Chief Executive of the HKSAR. The office of the Secretary for Transport and Housing has replaced the office of the Secretary for the Environment, Transport and Works to become a non-executive Director of the Company with effect from 1 July 2007. Another non-executive Director, Professor Chan Ka-keung, Ceajer who took over the post of the Secretary for Financial Services and the Treasury of the Government of the HKSAR from Mr. Frederick Ma Si-hang with effect from 1 July 2007, has been appointed as a non-executive Director of the Company in place of Mr. Ma with effect from 10 July 2007. The Government of the HKSAR through The Financial Secretary Incorporated ("FSI"), holds approximately 76% of the issued share capital of the Company.

Coming from diverse business and professional backgrounds, the non-executive Directors actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. On the other hand, the independent non-executive Directors contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subjected to objective and dispassionate consideration by the Board. The Company has received confirmation from each independent non-executive Director about his/her independence under the Listing Rules, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. They are requested to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity to the Company twice a year.

Biographies of the Members of the Board and the Executive Directorate are set out on pages 43 to 46. None of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although the Secretary for Transport and Housing (Ms. Eva Cheng) and Commissioner for Transport (Mr. Alan Wong Chi-kong) were appointed by the Chief Executive of the HKSAR, and Professor Chan Ka-keung, Ceajer was appointed by FSI, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

As permitted under its Articles of Association, the Company has arranged Directors' and Officers' Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess.

Chairman and Chief Executive Officer

The posts of Chairman and Chief Executive Officer are distinct and separate (please refer to the respective appointment of Dr. Raymond Ch'ien Kuo-fung as the non-executive Chairman of the Company, and Mr. Chow Chung-kong as the Chief Executive Officer of the Company and a Member of the Board on page 30). The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the Chief Executive Officer and Members of the Executive Directorate. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also ensures that the non-executive Directors make an effective contribution at Board meetings. As head of the Executive Directorate, the Chief Executive Officer is responsible to the Board for managing the business of the Company.

The Chairman held a meeting on 13 March 2007 with a majority of the non-executive Directors (or their alternates) without the presence of Members of the Executive Directorate (including the Chief Executive Officer) to discuss a new share option scheme proposed by the Remuneration Committee to the Board, succession plan of Members of the Executive Directorate, and impact of the extended legislative process of the then Merger Bill and other related Regulations and By-laws that might have on staff morale.

Another meeting has been scheduled to be held by the Chairman in April 2008.

Board Proceedings

The Board meets in person regularly, and all Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures. The draft agenda for regular Board meetings is prepared by the Legal Director & Secretary and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Legal Director & Secretary not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The date of the Board meetings for the following year is usually fixed by the Legal Director & Secretary and agreed by the Chairman some time in the third quarter of each year.

At each regular Board meeting, Members of the Executive Directorate together with senior managers report to the Board on their business, including the operations, project progress, financial performance, corporate governance and outlook. The Chief Executive Officer also submits his Executive Summary, which focuses on the overall strategies and principal issues of the Company, to the Board. These reports, together with the discussions at Board meetings, provide information to enable all Members of the Board to make informed decisions for the benefit of the Company. The agenda together with board papers is sent in full at least 3 days before the intended date of the Board Meeting.

All Members of the Board have access to the advice and services of the Legal Director & Secretary, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. The Members of the Board also have full access to all Members of the Executive Directorate as and when they consider necessary.

Unless specifically permitted by the Articles of Association, a Director cannot cast a vote on any contract, transaction, arrangement or any other kind of proposal in which he has an interest and which he knows is material. For this purpose, interests of a person who is connected with a Director (including any of his associates) are treated as the interests of the director himself. Interests purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. A Director may not be included in the quorum for such part of a meeting that relates to a resolution he is not allowed to vote on but he shall be included in the quorum for all other parts of that meeting. This reduces potential conflicts which might otherwise arise between the Company's business and an individual Director's other interests or appointments.

Corporate Governance Report

In 2007, the Board held eight meetings. The then proposed Rail Merger was discussed at six of the Board meetings. At these six meetings, updates on matters such as Day One readiness, Legislative Council's Bills Committee meetings, staff selection and voluntary separation scheme design, Rail Merger Circular and other Rail Merger related documents, and financing were provided by relevant Members of the Executive Directorate. When matters which might result in conflicts of interest between the Company and Government of the HKSAR were discussed at Board meetings, the Government-nominated Members of the Board, who during the course of 2007 consisted of the then Secretary for the Environment, Transport and Works, the Secretary for Transport and Housing, Mr. Frederick Ma Si-hang (the then Secretary for Financial Services and the Treasury), Professor Chan Ka-keung, Ceajer, the Secretary for Financial Services and the Treasury, and the Commissioner for Transport (or their respective alternates) either did not attend the relevant Board meetings, or where they did attend, they declared their interests and did not vote in any relevant motion and were not included in the calculation of the relevant quorum.

The attendance record of each Member of the Board is set out below:

Directors	Attendance of Board meetings in 2007
Non-executive Directors	
Dr. Raymond Ch'ien Kuo-fung (Chairman)	8/8
Commissioner for Transport (Alan Wong Chi-kong) 2 meetings were attended by his alternate director	8/8
Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) (Note 1) 3 meetings were attended by her alternate directors	4/4
Secretary for Transport and Housing (Eva Cheng) (Note 2) 1 meeting was attended by her alternate director	4/4
Frederick Ma Si-hang (Note 3) 1 meeting was attended by his alternate director	4/4
Professor Chan Ka-keung, Ceajer (Note 4) 2 meetings were attended by his alternate director	4/4
Independent non-executive Directors	
Professor Cheung Yau-kai	7/8
David Gordon Eldon	7/8
Christine Fang Meng-sang	6/8
Edward Ho Sing-tin	8/8
Lo Chung-hing	7/8
T. Brian Stevenson	7/8
Ng Leung-sing (Note 5)	1/1
Abraham Shek Lai-him (Note 5)	1/1
Executive Director	
Chow Chung-kong (Chief Executive Officer)	8/8

Notes

- 1 Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) ceased to be non-executive Director with effect from 1 July 2007.
- 2 Secretary for Transport and Housing (Ms. Eva Cheng) has been appointed as non-executive Director with effect from 1 July 2007.
- 3 Mr. Ma ceased to be non-executive Director with effect from 10 July 2007.
- 4 Professor Chan has been appointed as non-executive Director with effect from 10 July 2007.
- 5 Messrs Ng and Shek have been appointed as independent non-executive Directors with effect from 18 December 2007.

The minutes of Board meetings are prepared by the Secretary of the meeting with details of the matters considered by the Board and decisions reached, including any concerns raised by the Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comment within a reasonable time after the meeting. The approved procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comment on the draft minutes, they will discuss it at that meeting, followed by a report on what has been agreed in the minutes of that meeting. Minutes of Board Meetings are kept by the Legal Director & Secretary and open for inspection by all Members of the Board at the Company's registered office.

Material Interests and Voting

All Directors are required to comply with their common law duty to act in the best interests of the Company and have particular regard to the interest of the shareholders as a whole. The Government of the HKSAR is a substantial shareholder of the Company and the Chief Executive of the HKSAR, may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Each Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government of the HKSAR through its shareholding must, like any other Director, act in the best interests of the Company.

Directors are required to declare their interests, if any, in any transaction, arrangement or other proposal to be considered by the Board at Board Meetings and to abstain from voting on any related resolutions. As a result, if a conflict arises between the interests of the Company and those of the Government of the HKSAR, a Director appointed by the Chief Executive of the HKSAR pursuant to Section 8 of the MTR Ordinance or by the Government of the HKSAR, would not be included in the quorum of part of a meeting that relates to the transaction, arrangement or other proposal being considered by the Board and would not be allowed to vote on the related resolution.

There are a number of contractual arrangements that have been entered into between the Company and the Government of the HKSAR (and its related entities), some of which are continuing in nature. As the Government of the HKSAR is a substantial shareholder of the Company, such contractual arrangements are connected transactions (and in some cases continuing connected transactions) for the purposes of the Listing Rules. The section headed "Connected Transactions" explains how, in accordance with the Listing Rules, these transactions are treated.

Appointment, Re-election and Removal of Members of the Board

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nominations Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional directors" are treated for all purposes in the same way as other Directors and are, therefore, subject to the normal common law duties of directors, including to act in the best interests of the Company. The Chief Executive of the HKSAR has appointed the office of the Secretary for Transport and Housing and the office of Commissioner for Transport as "additional directors". As there are currently 11 Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

Each of the Directors, on appointment to the Board, is given a comprehensive induction programme on key areas of business operations and practices of the Company, as well as a Directors' Manual. Amongst other things, the Manual not only sets out

the general and specific duties of the Directors under general law (common law and legislation) and the Listing Rules, but also includes the Terms of Reference of the Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas.

To assist their continuous professional development, the Legal Director & Secretary recommends Directors to attend relevant seminars and courses. The costs for such training are borne by the Company.

Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2007, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2007, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 68.

In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements, as well as changes in accounting policies adopted by the Company have been discussed and approved at the Audit Committee before adoption by the Company.

Board Committees

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of these Committees comprises non-executive Directors who have been invited to serve as members. Each of the Audit, Remuneration and Nominations Committee is governed by its respective Terms of Reference, which are available on the Company's website: www.mtr.com.hk.

In respect of the Rail Merger between the Company and KCRC, and for the purpose of looking after the interest of independent shareholders and ensuring good corporate governance, the Board has established an Independent Committee of the Board

Corporate Governance Report

("IBC"). Governed by its Terms of Reference, the IBC comprises six independent non-executive Directors of the Company and has set out its advice to the independent shareholders regarding the Rail Merger in the Rail Merger Circular.

All Committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of four non-executive Directors, three of whom are independent non-executive Directors. The Members of the Committee are T. Brian Stevenson (chairman), Professor Cheung Yau-kai, the Commissioner for Transport (Alan Wong Chi-kong), and Ng Leung-sing who has been appointed as a member of the Audit Committee with effect from 18 December 2007. None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance Director, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee normally meets four times a year, and the External Auditor or the Finance Director may request a meeting if they consider it necessary.

The Terms of Reference of the Audit Committee have been revised and approved by the Board in December 2007. Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the Company's External Auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal procedures. The Committee discusses with the External Auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services for complying with relevant legal requirements. The Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the External Auditor, and approving the remuneration and terms of such engagement. With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate (including the Finance Director), and the Chairman of the Committee further meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management. Apart

from considering issues arising from the audit, the Committee discusses any matters that auditor(s) may wish to raise either privately or together with executive director and any other person. The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. The Committee reviews and approves the annual Internal Audit Plan which includes audits on the efficiency of chosen activities or operations of the Company. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended, and puts forward recommendations to the Board where appropriate.

The Chairman of the Committee summarises activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

The minutes of the Audit Committee meetings are prepared by the secretary of the meeting with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to the Committee Members for comments and the final version of the minutes is sent to the Committee Members for their records within a reasonable time after the meeting and the minutes are open for inspection by the Committee Members at the Company's registered office. A framework of the agenda items for the meetings for the following year is set out for the Committee Members' reference and comment in the last quarter of each year. The chairman of the Committee makes the final determination on the agenda for the regular Committee meetings.

In 2007, the Audit Committee held four meetings. The major work performed by the Committee in 2007 included:

- Reviewed and recommended for the Board's approval the draft 2006 Annual Report and Accounts and 2007 Interim Report and Accounts;
- Reviewed the Company's internal control systems;
- Approved the 2007 Audit Plan and reviewed the periodic report prepared by the Internal Audit Department; and
- Pre-approved the audit and non-audit services provided by KPMG, External Auditor, for 2007.

The attendance record of each Audit Committee Member is set out below. Representatives of the External Auditor, the

Finance Director and the Head of Internal Audit attended all those meetings for reporting and answering questions about their work. Further to that and by invitation, the Operations Director, the Property Director, the China & International Business Director and the Legal Director & Secretary (or their representatives) had respectively provided an overview of the Company's railway operations, property business, the Mainland of China and international businesses as well as outstanding litigation, compliance and enterprise risk management matters to the Members at their meetings.

Directors	Attendance of Audit Committee meetings in 2007
T. Brian Stevenson (chairman)	4/4
Professor Cheung Yau-kai	4/4
Commissioner for Transport (Alan Wong Chi-kong) 2 meetings were attended by his alternate director	3/4
Ng Leung-sing (Note)	–

Note: Mr. Ng Leung-sing has been appointed as a member of the Audit Committee with effect from 18 December 2007. There was no Committee meeting held in 2007 after his appointment.

Remuneration Committee

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Remuneration Committee are Edward Ho Sing-tin (chairman), T. Brian Stevenson and Professor Chan Ka-keung, Ceajer. Professor Chan took over the post of the Secretary for Financial Services and the Treasury from Mr. Frederick Ma Si-hang with effect from 1 July 2007 and was appointed as a non-executive Director of the Company and a Member of the Remuneration Committee in place of Mr. Ma with effect from 10 July 2007. Mr. Ho and Mr. Stevenson are independent non-executive Directors.

The principal responsibilities of the Remuneration Committee include formulating a remuneration policy and practices that facilitate the employment of top quality personnel, recommending to the Board the remuneration of the Members of the Board who are non-executive Directors, determining the remuneration packages of the Members of the Board who are executive Directors and other Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

In 2007, the Remuneration Committee held three meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2006 Remuneration Report as incorporated in the 2006 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2006 performance period;
- Approved the 2007 Share Option Scheme following the expiry of the New Joiners Share Option Scheme, which was subsequently approved and adopted by shareholders at the Annual General Meeting held on 7 June 2007;
- Conducted an annual review of the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate which took effect in 2007;
- Reviewed the remuneration for the Chief Executive Officer and other Members of the Executive Directorate upon their appointment following the Rail Merger;
- Reviewed the remuneration for non-executive Directors following the Rail Merger;
- Reviewed and amended the Variable Incentive Scheme to take effect in 2008, reflecting changes to the Company's scope, objectives and performance expectations following the Rail Merger; and
- Reviewed and approved share options and discretionary awards for Members of the Executive Directorate.

The attendance record of each Committee Member is set out below:

Directors	Attendance of Remuneration Committee meetings in 2007 (Note 2)
Edward Ho Sing-tin (chairman)	3/3
T. Brian Stevenson	3/3
Frederick Ma Si-hang The meeting was attended by his alternate director	1/1
Professor Chan Ka-keung, Ceajer (Note 1)	1/1

Notes

- Professor Chan was appointed as a non-executive Director of the Company and a Member of the Remuneration Committee in place of Mr. Ma with effect from 10 July 2007.
- Only two Committee Members attended the July Remuneration Committee meeting due to the transition of Mr. Ma.

The Remuneration Committee also met on 3 March 2008 to approve the 2007 Remuneration Report, which is set out on pages 40 to 42 and includes a description of the remuneration policy of the Company.

Corporate Governance Report

Nominations Committee

The Terms of Reference of the Nominations Committee have been revised and approved by the Board in December 2007. The Committee consists of seven non-executive Directors, four of whom are independent non-executive Directors. The Members of the Nominations Committee are David Gordon Eldon (chairman), Dr. Raymond Ch'ien Kuo-fung, Christine Fang Meng-sang, Lo Chung-hing, Abraham Shek Lai-him, Professor Chan Ka-keung, Ceajer and the Secretary for Transport and Housing (Eva Cheng). Dr. Ch'ien, Ms. Fang, Mr. Shek and Professor Chan were appointed as Members of the Nominations Committee on 18 December 2007.

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of Chief Executive Officer ("CEO"), Finance Director ("FD") and Chief Operating Officer ("COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates).

In 2007, the Nominations Committee held two meetings. The major work performed by the Committee in 2007 included:

- 1 Nomination and recommendation to the Board the appointment of Professor Chan Ka-keung, Ceajer, the Secretary for Financial Services and the Treasury to succeed Mr. Frederick Ma Si-hang as a non-executive Director; and
- 2 Nomination and recommendation to the Board the appointment of Messrs Ng Leung-sing and Abraham Shek Lai-him as independent non-executive Directors.

The attendance record of each Committee Member is set out below:

Directors	Attendance of Nominations Committee meetings in 2007
David Gordon Eldon (chairman)	2/2
Dr. Raymond Ch'ien Kuo-fung (Notes 1 and 2)	-
Secretary for Transport and Housing (Eva Cheng)	2/2
Lo Chung-hing	1/2
Professor Chan Ka-keung, Ceajer (Note 1)	-
Christine Fang Meng-sang (Note 1)	-
Abraham Shek Lai-him (Note 1)	-

Notes

- 1 Dr. Ch'ien, Professor Chan, Ms. Fang and Mr. Shek were appointed as Members of the Nominations Committee on 18 December 2007. There was no Committee meeting held in 2007 after their appointment.
- 2 Dr. Ch'ien attended both meetings in 2007 in the capacity of Chairman of the Company pursuant to the then Terms of Reference of the Committee.

Independent Committee

The IBC consists of six independent non-executive Directors. Chaired by Edward Ho Sing-tin, the other Members are Professor Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Lo Chung-hing and T. Brian Stevenson.

The principal responsibilities of the IBC include advising the Company's independent shareholders as to whether the terms of the Rail Merger are fair and reasonable, whether the Rail Merger is in the interests of the Company and its shareholders as a whole, and on how to vote after taking into account the recommendations of the independent financial adviser ("IFA") required to be appointed by the Company under the Listing Rules. The extraordinary general meeting held on 9 October 2007 approving the Rail Merger was completed.

In 2007, the IBC held five meetings to discuss, among others, the letter from the IFA and the IBC letter to the independent shareholders in relation to the Rail Merger.

Internal Controls

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls. Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the following:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations
- effectiveness of risk management functions

Pursuant to the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

Supported by the Members of the Executive Committee, the Chief Executive Officer who chairs the Executive Committee is responsible to the Board for the conduct of the business

of the Company. The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board and designs, operates and monitors a suitable system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as to ensure appropriate insurance coverage.

The Company has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks. The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organization and thereby improves visibility on risk. The framework has been in operation since early 2006 and its application at divisional level has been further refined in 2007. Structured cross-discipline processes and organizations have been put in place at corporate and divisional levels for risk identification, mitigation and monitoring. A standard rating system is employed to establish a consistent set of risk measurement criteria across the Company and to prioritise risks for effective monitoring and reporting to the Executive Committee and the Board. A manual that governs the working of the ERM framework has been issued, and regular briefing sessions are conducted, to promulgate the application and ensure consistent understanding of ERM.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee, is underpinned by line management taking direct risk management responsibilities as risk owners. Changes to existing risks and the emergence of new risks are regularly reviewed by line management. Risks associated with major changes and new businesses such as the merger and local and overseas railway construction and investment projects have been assessed in 2007. The Enterprise Risk Management Department plays a central role in facilitating the risk workshops and reviewing existing and emerging business risks. The Enterprise Risk Committee reviews the operation of the ERM framework and key risks every three months.

The Executive Committee reviews significant risks half-yearly and the Board annually to ensure that such risks are under satisfactory control.

The Board also periodically reviews the implementation and the ERM organization and processes that have been put in place.

To ensure the efficient and effective operation of business units and functions, and safety of operating railway and construction works in railway projects, Corporate General Instructions ("CGIs"), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to achieve, monitor and enforce internal controls and evaluate their effectiveness.

CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorized expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information.

All Department Heads, including Business and Project Managers for overseas projects, are responsible for ensuring the compliance with statutes and regulations applicable to their own functional units. They are required to identify any new or updated statutes, to assess their impact on the Company's operations, and to review at least once a year that relevant statutes/regulations are complied with.

Members of the Board and the Executive Committee, and other nominated managers who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions by Directors of Listed Issuers. In addition, every employee is also bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price-sensitive information in strict confidence.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes. On a regular basis, it conducts audits on financial, operational and compliance controls, and effectiveness of risk management functions of all business and functional units as well as subsidiaries. Management is responsible for ensuring that control deficiencies highlighted in internal audits are rectified within a reasonable period. The Department produces an annual internal audit plan derived from risk assessment for the

Corporate Governance Report

Audit Committee's approval. On a half-yearly basis, the Head of Internal Audit reports to the Audit Committee his audit findings and his opinion on the system of internal controls.

On behalf of the Board, the Audit Committee evaluates annually the effectiveness of the Company's system of internal controls, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations and effectiveness of risk management functions. This is achieved primarily through approving the annual internal audit plan and reviewing the findings of internal audit work, in addition to reviewing the annual and interim financial statements, and the nature, scope of work, and report of the external auditors, and consideration of the following:

- the changes in the nature and extent of significant risks since the previous review and the Company's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and the system of internal controls, the work of Internal Audit Department, and the assurance provided by the Executive Committee;
- the extent and frequency with which the results of monitoring are communicated, enabling the Audit Committee to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance.

The processes in assessing internal controls by the Audit Committee have included: regular interviews with Members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit reports and external audit report, and private sessions with internal and external auditors. The Audit Committee has also reviewed the papers prepared by the Executive Committee and Internal Audit Department covering: 2006 Annual Report and Accounts, Preview of 2007 Interim and Year End Accounting issues, 2007 Interim Accounts, 2007 Internal Audit Plan, Internal Audit's Half-yearly Reports, Annual Report on Staff Complaints,

Reporting of Internal Control Systems, Reporting of Outstanding Litigation and Compliance Issues, Annual Insurance Programme, Compliance audit on mandatory and statutory filings and registration for Beijing MTR Corporation Limited and Evaluation of Effectiveness of Internal Audit Department. The Chairman of the Committee meets on an ad hoc basis with the Head of Internal Audit, representatives of the External Auditor and Management of the Company as appropriate. He summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2007, covering all material financial, operational and compliance controls, and risk management function, and concluded that adequate and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code and, having made specific enquiry, confirms that Members of the Board and the Executive Directorate complied throughout the year with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

Business Ethics

The Company is committed to a high standard of business ethics and integrity. The contents of the Company's Code of Conduct and the Corporate Guidebook for All Staff are reviewed every two years by Human Resources to ensure appropriateness and compliance with legislation. Commitment to our Code of Conduct and Guidebook is reinforced by biennial certification programme, which requires all staff to acknowledge their understanding of and agreement to abide by the Code. In November 2007, the Code of Conduct and Guidebook were issued to all pre-merger KCRC staff and they have completed the certification.

To uphold the ethical culture of our subsidiaries in Mainland of China, briefing on the Company's Code of Conduct and Guidebook is included in the Induction Programme. For other joint venture companies, guidelines on business ethics have also been published for staff's observation and compliance.

US Sarbanes-Oxley Act 2002

The Company terminated its reporting obligation under the U.S. Securities Exchange Act of 1934, as amended, in September 2007, and is generally no longer subject to the provisions of the Sarbanes-Oxley Act of 2002.

External Auditor

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out below:

<i>in HK\$ million</i>	2007	2006
Auditor's remuneration		
– audit services	5	5
– tax services	1	1
– other services	–	–
	6	6

In addition to the above auditors remuneration, HK\$5 million (2006: nil) was incurred on audit and tax related services in respect of the Rail Merger.

Communication with Shareholders

Annual General Meeting ("AGM")

The Company's AGM is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The Chairman of the Company and the Chairmen of the Board Committees were present at the 2007 AGM.

At the 2007 AGM, the Chairman started the formal business by outlining the categories of persons who were entitled to demand a poll in accordance with Article 67 of the Company's Articles of Association on any resolution to be proposed at the AGM. Separate resolutions were proposed for each substantially separate issue at the AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the Meeting under Article 67 of the Company's Articles of Association to call a poll on all resolutions. The Company conducted the poll voting electronically at the AGM, the first time in Hong Kong. The poll results were published in an English and a Chinese newspaper and posted on the websites of the Company and HKSE on the day after the AGM. The webcast of the AGM was posted on the Company's website on the following day after the AGM.

Extraordinary General Meeting ("EGM")

The Company may also communicate with its shareholders through EGMs if and when appropriate. For example, an EGM was held on 9 October 2007 to consider approving the Rail Merger.

If shareholders want to convene an EGM of the Company, those shareholders may requisition the Directors of the Company to do so, provided that at the date of requisition they hold, in aggregate, not less than one-twentieth of the paid-up capital of the Company. The shareholders' requisition must state the objects of the meeting requested and must be deposited at the registered office of the Company. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If, within 21 days from the date of the deposit of the requisition, the Directors of the Company do not proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the relevant shareholders, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that any EGM so convened is held within 3 months from the date of the original requisition.

Remuneration Report

This Remuneration Report has been reviewed and approved by the Remuneration Committee of the Company.

Remuneration Policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To this end, the Company considers a number of relevant factors including salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel, and recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

The Board has established a Remuneration Committee consisting of three non-executive Directors, two of whom are independent non-executive Directors. It considers and recommends to the Board the Company's remuneration policy and has a delegated authority to review and determine the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate.

As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues.

A summary of the work performed by the Remuneration Committee during 2007 is set out in the "Corporate Governance Report" on pages 30 to 39.

The Remuneration Committee also ensures that no individual Director or any of his associates is involved in deciding his own remuneration.

Non-Executive Directors, Chief Executive Officer and the Executive Directorate

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. To ensure that non-executive Directors are appropriately paid for their time and responsibilities devoted to the Company, the Committee considers factors such as fees paid by comparable companies, time commitment, responsibilities of the non-executive Directors, and employment conditions elsewhere in the Company.

The Remuneration Committee is responsible for establishing policies, and reviewing and determining the remuneration of the Members of the Board who are executive Directors (namely, the Chief Executive Officer) and the Executive Directorate in accordance with the Company's remuneration policy. In the case of the Chief Executive Officer, the Committee will consult with the Chairman and in the case of other Members of the Executive Directorate, the Committee will consult with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Remuneration Structure for Employees

The Company's remuneration structure for its employees, including Members of the Board who are executive Directors and Members of the Executive Directorate, comprises fixed compensation, variable incentives, discretionary awards, long-term incentives, and retirement schemes. The specifics of these components are described below.

Fixed Compensation

Fixed compensation comprises base salary, allowances and benefits-in-kind (e.g. medical). Base salary and allowances are set and reviewed annually for each position taking into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed regularly taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by the return on fixed assets and operating profit on an annual and rolling three-year basis.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of base pay. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually.

The scheme rules have been reviewed and amended for implementation in 2008 to reflect changes to the Company's scope, objectives and performance expectations following the Rail Merger.

In addition, the Company operates other sales and business-related incentive schemes to motivate the staff concerned to reach specific business targets of the Company.

Discretionary Awards

In 2007, special discretionary awards were provided to staff with competent or above performance as a recognition of their contribution to the Company's good performance in the past year and to motivate staff to strive for continuous business growth.

Long-Term Incentives

The Company operates three share option schemes, namely the Pre-Global Offering Share Option Scheme (the "Pre-IPO Scheme"), the New Joiners Share Option Scheme (the "New Option Scheme") and the 2007 Share Option Scheme (the "2007 Scheme").

The 2007 Scheme was approved and adopted by shareholders at the Company's Annual General Meeting on 7 June 2007. The 2007 Scheme is intended to provide employees of the Company and of its subsidiaries the opportunity to participate in the growth and success of the Company. Awards under this Scheme were granted to the Chief Executive Officer, other Members of the Executive Directorate and selected employees of the Company in December 2007.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2007 under the three Schemes are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

Details of the three Schemes and options granted to Members of the Executive Directorate and selected employees of the Company under the Schemes are set out in note 3 to the summary financial statements.

The Chief Executive Officer does not participate in the Pre-IPO and New Option Schemes. He is entitled to receive an equivalent value in cash of 418,017 Shares on completion of his three-year contract on 30 November 2009.

Retirement Schemes

The Company operates five retirement schemes, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement

Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS"), the Kowloon-Canton Railway Corporation Retirement Benefit Scheme (the "KCRC Retirement Benefit Scheme") and two Mandatory Provident Fund Schemes (the "MTR MPF Scheme" and the "KCRC MPF Scheme"). Employees who are eligible to join the MTR Retirement Scheme can choose between the MTR Retirement Scheme and the MTR MPF Scheme, while other employees are required to join the MTR MPF Scheme. The MTR RBS is a top-up scheme to supplement the MTR Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms. Former KCRC employees who were eligible to join the KCRC Retirement Benefit Scheme can choose between the KCRC Retirement Benefit Scheme and the KCRC MPF Scheme.

(a) MTR Retirement Scheme

The MTR Retirement Scheme contains a hybrid benefit section and a defined contribution section. It is a registered scheme under the Occupational Retirement Schemes Ordinance (Cap. 426) and has been granted an MPF Exemption so that it can be offered to employees as an alternative to the MTR MPF Scheme. The hybrid benefit section provides benefits based on the greater of a multiple of final salary times service or the accumulated contributions with investment returns. Members' contributions to the hybrid benefit section are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

The hybrid benefit section has been closed to new employees since 31 March 1999. All employees joining the Company on or after 1 April 1999 who would have been eligible to join the MTR Retirement Scheme can choose to join either the defined contribution section or, commencing 1 December 2000, the MTR MPF Scheme.

The defined contribution benefit section is a member investment choice plan which provides benefits based on accumulated contributions and investment returns. Both members' and the Company's contributions to the defined contribution section are based on fixed percentages of members' base salary.

(b) MTR RBS

The MTR RBS is a registered scheme under the Occupational Retirement Schemes Ordinance. It provides benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the MTR Retirement Scheme. Members are not required to contribute while the

Remuneration Report

Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(c) KCRC Retirement Benefit Scheme

The KCRC Retirement Benefit Scheme is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted an MPF Exemption so that it can be offered to former employees of KCRC as an alternative to the KCRC MPF Scheme. All benefits payable under the KCRC Retirement Benefit Scheme are calculated by reference to the Company's contributions and members' own contributions, together with investment returns on these contributions. Both members' and the Company's contributions are based on fixed percentages of members' base salary.

(d) MTR MPF Scheme

The MTR MPF Scheme which has been registered with the Mandatory Provident Fund Schemes Authority, covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance ("the MPF Ordinance"). Additional contributions above the mandatory level may be provided subject to individual terms of employment.

(e) KCRC MPF Scheme

The KCRC MPF Scheme, which has been registered with the Mandatory Provident Fund Schemes Authority, covers those former KCRC employees who did not opt for or who were not eligible to join the KCRC Retirement Benefit Scheme. Both members and the Company each contribute to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

The executive Directors who have been employed by the Company before 1 April 1999 are eligible to join the hybrid benefit section of the MTR Retirement Scheme.

The executive Directors who are hired on or after 1 April 1999 are eligible to join the defined contribution benefit section of the MTR Retirement Scheme.

The Chief Executive Officer participates in the MTR MPF Scheme. Both the Company and the Chief Executive Officer each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

Remuneration of Non-Executive and Executive Directors

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 3 to the summary financial statements.

<i>in HK\$ million</i>	2007	2006
Fees	3	3
Base Salaries, allowances and other benefits-in-kind	32	31
Variable remuneration related to performance	16	11
Retirement scheme contributions	1	2
	52	47

(ii) The gross remuneration of non-executive and executive Directors (excluding share-based payments) were within the following bands:

<i>Remuneration</i>	2007 Number	2006 Number
HK\$0 – HK\$500,000	13	9
HK\$500,001 – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$4,500,001 – HK\$5,000,000	1	7
HK\$5,000,001 – HK\$5,500,000	3	–
HK\$5,500,001 – HK\$6,000,000	2	–
HK\$6,000,001 – HK\$6,500,000	1	–
HK\$10,000,001 – HK\$10,500,000	–	1
HK\$10,500,001 – HK\$11,000,000	1	–
	22	18

The information shown in the above table includes the five highest paid employees. The independent non-executive Directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the third remuneration band.

Edward Ho Sing-tin, *Chairman, Remuneration Committee*
MTR Corporation Limited
Hong Kong, 3 March 2008

Board and Executive Directorate

Members of the Board

Dr. Raymond Ch'ien Kuo-fung 56, was appointed Non-Executive Chairman in July 2003. He has been a member of the Board since 1998. Dr. Ch'ien is chairman of CDC Corporation and its subsidiary, China.com Inc. He is also chairman and independent non-executive director of Hang Seng Bank Limited, as well as non-executive chairman of HSBC Private Equity (Asia) Limited. He serves on the boards of The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, Convenience Retail Asia Limited, VTech Holdings Limited and The Wharf (Holdings) Limited. Dr. Ch'ien is chairman of the Hong Kong/European Union Business Cooperation Committee, a Hong Kong member of the APEC Business Advisory Council, and a member of the Standing Committee of the Tianjin Municipal Committee of the Chinese People's Political Consultative Conference. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002 and chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 1 January 1998 to 31 December 2006. Dr. Ch'ien was appointed a Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. Dr. Ch'ien received a doctoral degree in economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006.

Chow Chung-kong 57, was appointed Chief Executive Officer on 1 December 2003. He was formerly chief executive officer of Brambles Industries Ltd, a global support services company. From 1997 to 2001, Mr. Chow was chief executive of GKN PLC, a leading engineering company based in the United Kingdom. Mr. Chow is a chartered engineer. He holds Bachelor of Science and Master of Science degrees in Chemical Engineering from The University of Wisconsin and The University of California respectively. He also holds a Master of Business Administration degree from The Chinese University of Hong Kong and was a graduate of the Advanced Management Program of Harvard Business School. He was awarded an Honorary Doctor of Engineering degree by The University of Bath. Mr. Chow was knighted in the United Kingdom in 2000 for his contribution to industry. He is currently a member of the Hong Kong Tourism Board and the Council of The Chinese University of Hong Kong. He is also a member of the General Committee of The Hong Kong General Chamber of Commerce, a member of both the

Commission on Strategic Development and the Standing Committee on Directorate Salaries and Conditions of Service of the HKSAR Government, and a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Chow is a non-executive director of Standard Chartered PLC and the non-executive chairman of Standard Chartered Bank (Hong Kong) Limited.

Professor Cheung Yau-kai 73, is an independent non-executive Director and has been a member of the Board since 1999. Professor Cheung is Honorary Professor of Engineering and Special Adviser to the Vice-Chancellor of The University of Hong Kong. He was Taikoo Professor of Engineering and Acting Deputy Vice-Chancellor of The University of Hong Kong until 30 June 2000. Professor Cheung began his academic research career at the University College of Swansea, Wales. He was appointed Professor of Civil Engineering at Calgary in 1970 and moved to the University of Adelaide in 1974 as Professor and Chairman of the Department of Civil Engineering. In 1977, he took up the Chair and Headship of the Department of Civil Engineering in The University of Hong Kong. In addition to his academic appointments, Professor Cheung was the former first Senior Vice-President of the Hong Kong Institution of Engineers and the Ex-Chairman of its Accreditation Board. He has been awarded several honorary degrees at educational institutions, including, an honorary Doctor of Science by The University of Hong Kong and an honorary Doctor of Laws by the University of Wales. He has also been elected a member of the Chinese Academy of Sciences, and is a fellow of the Royal Academy of Engineering, a fellow of the Royal Society of Canada and immediate past President of the Hong Kong Academy of Engineering Sciences.

David Gordon Eldon 62, is an independent non-executive Director and has been a member of the Board since 1999. He is based in Hong Kong and is Senior Advisor to PricewaterhouseCoopers. He is Chairman of both the Dubai International Financial Centre Authority and the Noble Group Ltd. He retired as Chairman of The Hongkong and Shanghai Banking Corporation Limited in May 2005, after 37 years with the HSBC Group. He was an Executive Director of HSBC Holdings plc, non-executive Chairman of Hang Seng Bank Limited, and a board member of Swire Pacific Limited. Mr. Eldon is a Vice Patron of The Community Chest of Hong Kong, having previously been Chairman of the Executive Committee. He is an Honorary Steward of the Hong Kong Jockey Club from 10 March 2008 (formerly Deputy Chairman), a member of the Advisory Board of Unisys and an independent non-executive director of Eagle Asset Management (CP) Limited and China Central Properties Limited.

Board and Executive Directorate

Mr. Eldon was appointed a member of the Capital Adequacy Review Tribunal in 2007 and holds a number of other public and private community service appointments. Mr. Eldon is a fellow of the Chartered Institute of Bankers and a fellow of the Hong Kong Institute of Bankers. He is a Justice of the Peace.

Christine Fang Meng-sang 49, is an independent non-executive Director and has been a member of the Board since 2004. Ms. Fang has been the chief executive of the Hong Kong Council of Social Service since 2001. Prior to joining the Hong Kong Council of Social Service, she worked for the Hong Kong Red Cross from 1989 to 2001 and held the position of Secretary General from 1993 to 2001. By training, Ms. Fang is a social worker and has a strong background in community service. She sits on various government advisory committees, including the Social Welfare Advisory Committee (until 30 November 2007), the Manpower Development Committee, the Sustainable Development Council and the Digital 21 Strategy Advisory Committee. She is also a member of the Commission on Strategic Development.

Edward Ho Sing-tin 69, is an independent non-executive Director and has been a member of the Board since 1991. He is an architect and the deputy chairman and managing director of Wong Tung & Partners Limited. Mr. Ho was an elected member of the Legislative Council of Hong Kong from 1991 to 2000, representing the architectural, surveying and planning functional constituency. He was president of the Hong Kong Institute of Architects in 1983 and 1984 and was chairman of the Hong Kong Industrial Estates Corporation from 1992 to 2001. Mr. Ho serves on a number of statutory boards and advisory committees including the Board of Hong Kong Hospital Authority. He is also chairman of the Board of Governors of the Hong Kong Philharmonic Society Ltd. and chairman of the Antiquities Advisory Board.

Lo Chung-hing 56, is an independent non-executive Director and has been a member of the Board since 1995. Mr. Lo began his banking career in 1969 and he is general manager of Bank of China (Hong Kong) Limited since October 2001. He is a director of the Urban Renewal Authority. Mr. Lo was appointed as a board member of the Provisional Airport Authority in 1994 and served as vice chairman of the Airport Authority from 1996 to May 1999. He was also a board member of the Hospital Authority from December 1997 to November 2005. Mr. Lo was awarded the Silver Bauhinia Star medal in 1998.

Ng Leung-sing 58, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Ng is vice chairman of Chiyu Banking Corporation, general manager, Bank-wide Operation Department of Bank of China (HK) Ltd and an independent non-executive director of Smartone Telephone Holdings Ltd. He is a director of the Bank of China (Hong Kong) Charitable Foundation and a Member of the Court of Lingnan University. Mr. Ng is also a Hong Kong Deputy to the 10th and 11th National People's Congress, People's Republic of China. Mr. Ng is a graduate of University of East Asia, Graduate College, Macau and holds a diploma in Chinese Law.

Abraham Shek Lai-him 62, joined the Board as an independent non-executive Director on 18 December 2007. Mr. Shek is an independent non-executive director and an audit committee member of each of Midas International Holdings Limited, Paliburg Holdings Limited, Lifestyle International Holdings Limited, Chuang's Consortium International Limited, NWS Holdings Limited, See Corporation Limited, Regal Portfolio Management Limited, Titan Petrochemicals Group Limited, Eagle Asset Management (CP) Limited, ITC Corporation Limited, Country Garden Holdings Company Limited and is also an independent non-executive director of each of Hop Hing Holdings Limited, SJM Holdings Limited and Hsin Chong Construction Group Ltd (with effect from 23 January 2008). Mr. Shek was appointed as Justice of the Peace in 1995 and was awarded the Silver Bauhinia Star in 2007. He is a Member of the Council of The Hong Kong University of Science & Technology and the Court of the University of Hong Kong. Mr. Shek is a graduate of the University of Sydney and holds a Bachelor of Arts degree and a Diploma in Education.

T. Brian Stevenson 63, is an independent non-executive Director and has been a member of the Board since October 2002. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, a member of the Asia Pacific Advisory Board of BT and a member of the Public Service Commission. He is Deputy Chairman of the Hong Kong Jockey Club with effect from 10 March 2008. Mr. Stevenson was previously the Senior Partner of Ernst & Young, Hong Kong from 1981 to 1999. He served on the Council of the Hong Kong Society of Accountants from 1991 to 1997 and was president of the Society in 1996. Mr. Stevenson is a chartered accountant and holds law degrees from Glasgow and Hong Kong Universities. He was awarded the Silver Bauhinia Star medal in 1998. He is also a Justice of the Peace.

Commissioner for Transport (Alan Wong Chi-kong 52, joined the Board as a non-executive Director appointed as an “additional director” under section 8 of the MTR Ordinance by virtue of his appointment to the post of the Commissioner for Transport of the Government of the Hong Kong SAR on 18 June 2005. Prior to that, Mr. Wong has served in various bureaux and departments of the Government of the Hong Kong SAR including the Home Affairs Bureau, Civil Service Bureau, the former Urban Services Department, the former City and New Territories Administration, the former Health and Welfare Branch, the former Recreation and Culture Branch, the former Secretariat of the University and Polytechnic Grants Committee, the former Trade and Industry Branch, the Office of the Commissioner of Insurance from August 1996 to January 2000, the Mandatory Provident Fund Schemes Authority from January 2000 to June 2001, the former Information Technology Services Department from July 2001 to July 2004, and the Office of the Government Chief Information Officer from July 2004 to January 2005. As Commissioner for Transport, Mr. Wong is also a director of several transport-related companies, including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The Star Ferry Company Limited, The New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate’s Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited.)

Secretary for Transport and Housing (Eva Cheng 47, joined the Board as a non-executive Director appointed as an “additional director” under section 8 of the MTR Ordinance on 1 July 2007 upon her appointment as the Secretary for Transport and Housing of the Government of the Hong Kong SAR. Ms. Cheng has served in various bureaux and departments of the Government of the HKSAR since 1983. Before joining the Transport and Housing Bureau, Ms. Cheng was the Permanent Secretary for Economic Development. She is a graduate of the University of Hong Kong and holds a Bachelor of Social Science degree.)

Professor Chan Ka-keung, Ceajer 51, joined the Board as a non-executive Director on 10 July 2007 after his appointment as the Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR with effect from 1 July 2007. He received his bachelor’s degree in economics from Wesleyan University in the US and both his M.B.A. and Ph.D. in finance from the University of Chicago. Professor Chan sits on the boards of several public bodies including the Mandatory Provident Fund Schemes Authority and The Hong Kong Mortgage Corporation Limited and is the Chairman of the

Kowloon-Canton Railway Corporation in his official capacity. Before joining the Government, Professor Chan was Dean of Business and Management of the Hong Kong University of Science and Technology from 1 July 2002. He was also an independent non-executive Director of Shui On Construction and Materials Limited from 1 June 2005 to 30 June 2007.

Members of the Executive Directorate

Chow Chung-kong Biographical details are set out on page 43.

Russell John Black 61, has been the Projects Director of the Company since 1992. He is responsible for the planning and implementation of all major railway extension and upgrade projects, which have included the Airport Railway project and the Tseung Kwan O Extension project. Currently under construction is the Kowloon Southern Link, and under planning and design are the West Island Line, the South Island Line, the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Shatin to Central Line. He also provides project management expertise to the Company’s railway projects in the Mainland of China. Mr. Black initially worked for the Company from 1976 to 1984 and, prior to rejoining the Company in 1992, he was the Project Director of London Underground’s Jubilee Line Extension project. He also worked on Singapore’s underground railway and on the Eastern Harbour Crossing. Mr. Black served on the Vocational Training Council from 1998 to 2002, the Construction Advisory Board from 1993 to 1999, the Provisional Construction Industry Coordination Board from 2001 to January 2007 and the Construction Industry Council since February 2007. Mr. Black holds an honours degree in civil engineering from the University of Canterbury in New Zealand. In 2006, he was elected an International Fellow of The Royal Academy of Engineering. He is also a Fellow of the Hong Kong Academy of Engineering Sciences, the Hong Kong Institution of Engineers and the Institution of Professional Engineers, New Zealand. He was awarded the Public Service medal (PBM) in Singapore in 1986 and the Bronze Bauhinia Star medal in 1999.

William Chan Fu-keung 59, has been the Human Resources Director since August 1998. He joined the Company as Human Resources Manager in 1989. He is responsible for human resource management, people development, operations and management training, administration and security management. Prior to joining the Company, Mr. Chan held senior managerial positions both in the commerce and in the utility sectors in Hong Kong, including the Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. He is a fellow member of the Hong Kong Institute of Human Resource Management since 1985 and is also the Vice President of the Institute. He is a Council member of Employers’ Federation

Board and Executive Directorate

of Hong Kong, a member of the Remuneration Committee of the Hong Kong Housing Society, the Standing Committee on Disciplined Services Salaries and Conditions of Service and the Career Development and Advisory Board for a number of universities. Mr. Chan received a Bachelor of Social Science degree from The University of Hong Kong in 1971, majoring in economics.

Thomas Ho Hang-kwong 57, has served as the Property Director since joining the Company in 1991. He is responsible for the development and management of all properties above and adjacent to MTR stations and depots. He leads a multi-disciplinary team of managers involved in the planning, design, construction and management of large-scale property developments. Between 1971 and 1990, Mr. Ho worked for the Hong Kong Government specialising in land administration and latterly held a directorate post in the Lands Department, responsible for formulating policies and procedures to make land available for the airport and the Airport Railway project. Mr. Ho was qualified in 1974 as a chartered surveyor in Hong Kong. He is serving The Community Chest of Hong Kong as a Member of the Campaign Organising Committee and a Co-Chairman of the Corporate and Employee Contribution Programme.

Lincoln Leong Kwok-kuen 47, has served as the Finance Director since February 2002. He is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting and the treasury function. In addition, he has responsibility for the Company's information technology function and serves as chairman of both Octopus Holdings Limited and the board of trustees of the Company's retirement schemes. Mr. Leong graduated from Cambridge University in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. Prior to joining the Company as Finance Director, he worked in both the accountancy and investment banking industries. Mr. Leong has also worked as an accountant in London and Vancouver, Canada and for a number of years as an investment banker in Hong Kong. Mr. Leong is the chairman of the executive committee of the Hong Kong Society for the Protection of Children, a member of the supervisory board of the Hong Kong Housing Society, a board member of the Community Chest and a non-official member of the Family Council. He also serves on the Board of Governor of the Chinese International School and is a trustee of the Hospital Authority Pension Fund Scheme. Mr. Leong is also a non-executive director of both Hong Kong Aircraft Engineering Company Limited and Tai Ping Carpets International Limited.

Francois Lung Ka-kui 49, has served as the China & International Business Director since September 2005. He heads the Company's growth-business efforts, including investments in Mainland of China, operating franchises in Europe and international consultancy. Dr. Lung has held various positions in a number of Royal Dutch Shell affiliates since 1997 and joined the Company from Shell Eastern Petroleum (Pte) Ltd. He was the General Manager, China, with responsibility for strategy development, governance and business performance of Shell's gas and power business in China. From 1994 to 1997, he held positions at Duke Energy Asia Limited, an affiliate of Duke Energy International, becoming Vice-President in 1996. Prior to this, Dr. Lung spent approximately five years at PowerGen plc, a major generator, distributor and retailer of electricity in the United Kingdom, and three years at the Central Electricity Generating Board before the privatisation of the electricity industry in the United Kingdom. Dr. Lung holds a Bachelor of Science degree in Mechanical Engineering from the University of Hong Kong, a PhD in Combustion from the University of Leeds in the United Kingdom, a Master of Science degree in Management from the University of Southampton in the United Kingdom and a Bachelor of Law degree from the University of London. Dr. Lung was admitted to the Bar of the United Kingdom in 1992.

Andrew McCusker 62, has served as the Operations Director since December 2005. Mr. McCusker has more than 40 years of experience in the operating, engineering and projects fields in Defence, Power, Water and Rail Industries. He joined the Company as Operations Engineering Manager in 1987, and since then has been posted to other responsible positions, including Operations Engineering Design Manager, Project Manager (Operations) and General Manager (Operations). He was appointed Deputy Operations Director in March 2004 and Acting Operations Director in October 2005. Mr. McCusker holds a degree in Mechanical Engineering from the Kensington University in the United States and is a chartered member of both the Institution of Mechanical Engineers of the United Kingdom and the Chartered Institute of Personnel and Development (U.K.). In 2007, he was awarded the prestigious Steve Maxwell Leadership Award from the Australian Asset Management Council.

Leonard Bryan Turk 58, is a solicitor admitted to practise both in England and Wales and in Hong Kong. He joined the Company in 1981 and has been Legal Director & Secretary to the Board since 1988. Mr. Turk is responsible for legal advice, corporate secretarial services, insurance, procurement and enterprise risk management functions within the Company. His responsibilities include matters of corporate governance as well as construction contracts, contract administration and dispute resolution. Before joining the Company, Mr. Turk worked in England, concentrating particularly on commercial property development and the financing of large projects.

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2007.

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

- A** the operation of a modern railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (Airport Express Line), from Sunny Bay to Disneyland Resort (Disneyland Resort Line), from East Tsim Sha Tsui to the boundary at Lo Wu and Lok Ma Chau (East Rail Line), from Tai Wai to Wu Kai Sha (Ma On Shan Line), from Nam Cheong to Tuen Mun (West Rail Line), the North-west Railway (commonly known as Light Rail) in the North-West New Territories of Tuen Mun, Tin Shui Wai and Yuen Long, an intercity railway system between Hong Kong and some major cities in the Mainland of China, and a freight railway system along East Rail Line from the boundary at Lo Wu to Sheung Shui Abattoir and Hung Hom;
- B** property development, either as owner or as agent for KCRC, at locations relating to the railway system including the Tseung Kwan O Line, the Ma On Shan Line, the East Rail Line, the Light Rail and the West Rail Line;
- C** related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres and offices), and Octopus Card Building Access System services;
- D** the operation of the 7-year London Overground Concession, in which the Company has a 50% equity share, consisting of 107.2 route kilometres of commuter railway lines connecting London's suburbs into the London Underground network;
- E** the design and construction of a station at LOHAS Park (in Tseung Kwan O South) as an extension of the Tseung Kwan O Line;
- F** project management for the Kowloon Southern Link as an extension of the West Rail Line;
- G** the planning and construction of future extensions to the railway system and other related infrastructure projects, in particular the West Island Line and the South Island Line for which Government has confirmed policy support;

H the operation of the Tung Chung to Ngong Ping Cable Car System and the Theme Village in Ngong Ping, Lantau Island, Hong Kong;

I consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;

J investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;

K equity investments and long term operation and maintenance contracts outside of Hong Kong;

L property management, shopping centre investment and railway related property development business in the Mainland of China; and

M the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30 year concession agreement with the Beijing Municipal Government.

In addition to the above, a Feasibility Study Report for Shenzhen Line 4 has been submitted to National Development and Reform Commission for approval. The Company continues the discussion of the Report with Shenzhen Municipal Government.

Dividend

The Directors have recommended a final dividend of HK\$0.31 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 15 April 2008. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 18 June 2008, in cash in Hong Kong dollars, with a scrip dividend alternative. 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.

Report of the Members of the Board

Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Edward Ho Sing-tin, Lo Chung-hing, Ng Leung-sing and Abraham Shek Lai-him [both appointed with effect from 18 December 2007], T. Brian Stevenson, Frederick Ma Si-hang [resigned with effect from 10 July 2007], Chan Ka-keung, Ceajer [appointed with effect from 10 July 2007], the Secretary for the Environment, Transport and Works (Sarah Liao Sau-tung) [ceased to be a Member of the Board with effect from 1 July 2007], the Secretary for Transport and Housing (Eva Cheng) [appointed by the Chief Executive of the HKSAR with effect from 1 July 2007] and the Commissioner for Transport (Alan Wong Chi-kong).

In July 2007, Raymond Ch'ien Kuo-fung 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 KCRC. On 8 August 2007, the Government of HKSAR appointed Raymond Ch'ien Kuo-fung as the non-executive Chairman for a term of 24 months and selected Chow Chung-kong as the Chief Executive Officer of the Company, with effect from the Rail Merger. The Rail Merger took effect on 2 December 2007.

At the Annual General Meeting on 7 June 2007 and pursuant to the Articles of Association, Chow Chung-kong, David Gordon Eldon and Christine Fang Meng-sang retired under the Articles of Association and were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Edward Ho Sing-tin and Lo Chung-hing will retire by rotation. Chan Ka-keung, Ceajer, Ng Leung-sing and Abraham Shek Lai-him, who were appointed by the Board after the 2007 Annual General Meeting, will retire under Article 85 of the Articles of Association.

Biographical details for Board Members are set out on pages 43 to 45.

Alternate Directors

The Alternate Directors in office during the year were:

- for Frederick Ma Si-hang (until he resigned as a Member of the Board on 10 July 2007): Alan Lai Nin, Martin McKenzie Glass [ceased on 19 April 2007] and Leung Cheuk-man [with effect from 19 April 2007];
- for Chan Ka-keung, Ceajer (who became a Member of the Board with effect from 10 July 2007): Alan Lai Nin [ceased on 5 November 2007], Ying Yiu-hong [with effect from 5 November 2007] and Leung Cheuk-man;
- for the office of the Secretary for the Environment, Transport and Works (until the office ceased to be a Member of the Board on 1 July 2007): (i) the Permanent Secretary for the Environment, Transport and Works (Joshua Law Chi-kong) and (ii) the Deputy Secretary for the Environment, Transport and Works (Patrick Ho Chung-kei, Chu Man-ling, Annie Choi Suk-han [who ceased to be the Deputy Secretary for the Environment, Transport and Works and accordingly ceased to be an alternate director to the office of the Secretary for the Environment, Transport and Works], Yung Wai-hung and Lee Lai-yeo [with effect from 2 May 2007]);
- for the office of the Secretary for Transport and Housing (the office became a Member of the Board with effect from 1 July 2007): (i) the Permanent Secretary for Transport and Housing (Transport) (Joshua Law Chi-kong [who ceased to be the Permanent Secretary for Transport and Housing (Transport) and accordingly ceased to be an alternate director to the office of the Secretary for Transport and Housing] and Ho Suen-wai [with effect from 15 August 2007]) and (ii) the Deputy Secretary for Transport and Housing (Transport) (Patrick Ho Chung-kei [who ceased to be the Deputy Secretary for Transport and Housing (Transport) and accordingly ceased to be an alternate director to the office of the Secretary for Transport and Housing], Chu Man-ling, Yung Wai-hung and Lee Lai-yeo); and
- for the Commissioner for Transport: the Deputy Commissioner for Transport/Transport Services and Management (Carolina Yip Lai-ching).

Executive Directorate

The Members of the Executive Directorate who served during the year were Chow Chung-kong (Chief Executive Officer and a Member of the Board), 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.

Biographical details for Members of the Executive Directorate during the year are set out on pages 45 and 46.

Internal Audit

The Company's Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the Department include:

- Assessment of the adequacy and effectiveness of the Company's system of internal controls over its activities and risk management.
- Identification of opportunities for improving management control, resources utilisation and profitability.
- Special reviews and/or investigations as commissioned by Company management or the Audit Committee.

The Head of Internal Audit reports directly to the Chief Executive Officer and has direct access to the Audit Committee.

Business Ethics

Please refer to page 38.

Policies

The Board has adopted the following risk management strategies and policies:

- A** Construction and Insurance Risk Management Strategy;
- B** Finance Risk Management Strategy;
- C** Treasury Risk Management Strategy;
- D** Safety Risk Management Strategy;
- E** Enterprise Risk Management Strategy;
- F** Security Risk Management Policy; and
- G** Environmental Risk Management Policy.

Public Float

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granted to the Company, at the time of its listing on the Main Board of the Stock Exchange in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total issued share capital of the Company. Based on the

information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required by the Public Float Waiver.

Summary Financial Statements

The state of affairs of the Group as at 31 December 2007 and of its results for the year are set out in the summary financial statements on pages 56 to 67.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 28 to 29.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in note 5 to the summary financial statements.

Movements in Reserves

Movements in reserves during the year are set out in note 7 to the summary financial statements.

Share Capital

As at 31 December 2006, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,548,613,951 of which were issued and credited as fully paid. During the year, the Company issued a total of 62,443,084 Ordinary Shares. Of this number:

- A** 2,562,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK\$8.44 to the Company;
- B** 129,000 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options are HK\$9.75, HK\$15.45 and HK\$19.104 to the Company;
- C** 39,183,554 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2006 (for which the cash dividend was HK\$0.28 per Ordinary Share); and

Report of the Members of the Board

D 20,568,030 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2007 (for which the cash dividend was HK\$0.14 per Ordinary Share).

As at 31 December 2007, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,611,057,035 of which were issued and credited as fully paid.

Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2007.

Donations

During the year, the Company donated a total of HK\$193,000 to charitable organisations.

The MTR HONG KONG Race Walking 2007 raised over HK\$1 million for the Hospital Authority Health InfoWorld health education campaign.

The Company helped raise funds for the Community Chest with a total cash donation of over HK\$1 million through different activities such as CARE Scheme, Skip Lunch Day and Dress Special Day.

In early 2008, the Company donated HK\$1 million to the Hong Kong Red Cross and HK\$1 million to the All-China Federation of Railway Trade Unions for the relief work in relation to the snowstorms on the Mainland. Charity counters were set up at its shopping malls to help raise funds for this cause.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's

financing requirements and market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions including credit risk management framework are approved at the Board level.

Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditure over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

Syndicated Loan Raised

In October 2007, the Group signed a HK\$10 billion syndicated loan facility with a group of 19 major banks from Hong Kong, Mainland China, Japan, Europe and the US to meet the Group's general corporate funding requirements, including partial payment of the HK\$12.04 billion upfront payment to KCRC on the Appointed Day for the Rail Merger.

Computer Processing

There are defined procedures, controls and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2000. Disaster recovery rehearsal on critical applications is conducted annually.

Interests in Contracts of Members of the Board and the Executive Directorate

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2007, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

Member of the Board or Executive Directorate	Number of Ordinary Shares held			Derivatives			Percentage of aggregate interests to total issued share capital
				Share Options		Other	
	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	
Raymond Ch'ien Kuo-fung	50,369	–	–	–	–	50,369	0.00090
Chow Chung-kong	–	–	–	720,000 (Note 1)	418,017 (Note 2)	1,138,017	0.02028
T. Brian Stevenson	4,790	–	–	–	–	4,790	0.00009
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	55,152	–	–	170,000 (Note 1)	–	225,152	0.00401
William Chan Fu-keung	46,960	–	–	(i) 217,500 (Note 3) (ii) 170,000 (Note 1)	–	434,460	0.00774
Thomas Ho Hang-kwong	55,037	2,541	–	(i) 321,000 (Note 3) (ii) 170,000 (Note 1)	–	548,578	0.00978
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 1,043,000 (Note 5) (ii) 170,000 (Note 1)	160,000 (Note 6)	1,419,000	0.02529
Francois Lung Ka-kui	46,000	2,500	–	(i) 1,066,000 (Note 5) (ii) 130,000 (Note 1)	–	1,244,500	0.02218
Andrew McCusker	–	–	–	170,000 (Note 1)	–	170,000	0.00303
Leonard Bryan Turk	–	–	–	170,000 (Note 1)	–	170,000	0.00303
Ho Suen-wai (Note 7)	681	1,371	–	–	–	2,052	0.00004

Notes

- 1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.
 - 2 Chow Chung-kong has a derivative interest in respect of 418,017 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).
 - 3 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the Pre-Global Offering Share Option Scheme.
 - 4 The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.
 - 5 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.
 - 6 Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.
 - 7 The office of the Permanent Secretary for Transport and Housing (Transport) is an Alternate Director to the office of the Secretary for Transport and Housing (Eva Cheng). The Secretary for Transport and Housing is a non-executive Director of the Company. Ho Suen-wai is the holder of the post of the Permanent Secretary for Transport and Housing (Transport).
- * Interests as beneficial owner
† Interests of spouse or child under 18 as beneficial owner

Report of the Members of the Board

Options to Subscribe for Ordinary Shares Granted under the Pre-Global Offering Share Option Scheme, as Referred to in Note 3B(i) to the Summary Financial Statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007				Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
				Options vested during the year	Options lapsed during the year	Options exercised during the year	Options outstanding as at 31 December 2007			
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	217,500	–	–	–	8.44	217,500	–
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	321,000	–	–	–	8.44	321,000	–
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	7,291,000	–	–	2,562,500	8.44	4,728,500	23.14

Notes

- 1 The Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") is valid and effective for a period of ten years after 12 September 2000. No option may be offered to be granted under the Pre-IPO Option Scheme on or after the commencement of dealings in shares of the Company on Stock Exchange on 5 October 2000.
- 2 The number of shares to which the option granted to each participant under the Pre-IPO Option Scheme does not exceed 25% of the number of the shares issued and issuable under the Pre-IPO Option Scheme.

Options to Subscribe for Ordinary Shares Granted under the New Joiners Share Option Scheme, as Referred to in Note 3B(ii) to the Summary Financial Statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007				Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)	
				Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year				
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,043,000	–	–	–	9.75	1,043,000	–	
Francois Lung Ka-kui	22/3/2007	1,066,000	19/3/2008 – 19/3/2017	–	1,066,000	–	–	19.404	1,066,000	–	
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	268,200	–	–	–	66,000	9.75	202,200	21.51
	12/1/2006	94,000	9/1/2007 – 9/1/2016	94,000	–	31,500	–	31,500	15.45	62,500	22.90
	13/9/2005	94,000	9/9/2006 – 9/9/2015	94,000	–	31,500	–	–	15.97	94,000	–
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	71,000	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	31,500	–	–	18.05	94,000	–
	4/7/2006	94,000	19/6/2007 – 19/6/2016	94,000	–	31,500	–	–	18.30	94,000	–
	17/11/2006	94,000	13/11/2007 – 13/11/2016	94,000	–	31,500	–	31,500	19.104	62,500	24.20
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	31,500	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	89,000	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	213,000	–	71,000	–	–	20.66	213,000	–
	12/5/2006	213,000	2/5/2007 – 2/5/2016	213,000	–	71,000	–	–	21.00	213,000	–

Notes

- 1 No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 16 May 2002.
- 2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the New Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme.

Options to Subscribe for Ordinary Shares Granted under the 2007 Share Option Scheme, as Referred to in Note 3B(iii) to the Summary Financial Statements

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK\$)	Options outstanding as at 31 December 2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK\$)
Chow Chung-kong	13/12/2007	720,000	10/12/2008–10/12/2014	–	720,000	–	–	–	27.60	720,000	–
Russell John Black	12/12/2007	170,000	10/12/2008–10/12/2014	–	170,000	–	–	–	27.60	170,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008–10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008–10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008–10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Francois Lung Ka-kui	12/12/2007	130,000	10/12/2008–10/12/2014	–	130,000	–	–	–	27.60	130,000	–
Andrew McCusker	12/12/2007	170,000	10/12/2008–10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008–10/12/2014	–	170,000	–	–	–	27.60	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008–10/12/2014	–	45,000	–	–	–	27.60	45,000	–
	12/12/2007	1,750,000	10/12/2008–10/12/2014	–	1,750,000	–	–	–	27.60	1,750,000	–
	13/12/2007	915,000	10/12/2008–10/12/2014	–	915,000	–	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008–10/12/2014	–	1,005,000	–	–	–	27.60	1,005,000	–
	15/12/2007	435,000	10/12/2008–10/12/2014	–	435,000	–	–	–	27.60	435,000	–
	17/12/2007	835,000	10/12/2008–10/12/2014	–	835,000	–	–	–	27.60	835,000	–
	18/12/2007	445,000	10/12/2008–10/12/2014	–	445,000	–	–	–	27.60	445,000	–
	19/12/2007	115,000	10/12/2008–10/12/2014	–	115,000	–	–	–	27.60	115,000	–
	20/12/2007	190,000	10/12/2008–10/12/2014	–	190,000	–	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008–10/12/2014	–	45,000	–	–	–	27.60	45,000	–
	22/12/2007	35,000	10/12/2008–10/12/2014	–	35,000	–	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008–10/12/2014	–	118,000	–	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008–10/12/2014	–	35,000	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008–10/12/2014	–	130,000	–	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008–10/12/2014	–	75,000	–	–	–	27.60	75,000	–
	3/1/2008	40,000	10/12/2008–10/12/2014	–	40,000	–	–	–	27.60	40,000	–
	4/1/2008	65,000	10/12/2008–10/12/2014	–	65,000	–	–	–	27.60	65,000	–
	7/1/2008	125,000	10/12/2008–10/12/2014	–	125,000	–	–	–	27.60	125,000	–

Notes

- 1 No option may be exercised later than seven years after its date of offer and no option may be offered to be granted more than seven years after the adoption of the 2007 Share Option Scheme ("2007 Option Scheme") on 7 June 2007.
- 2 Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the 2007 Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 0.2% of the shares of the Company in issue at the date of offer in respect of such option under the 2007 Option Scheme.
- 3 Share options granted during the period from 11 December 2007 to 7 January 2008 were offered to Members of the Executive Directorate and selected employees of the Company on 10 December 2007. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. Options granted in January 2008 have not been accounted for in the accounts for the year ended 31 December 2007.

Report of the Members of the Board

During the year ended 31 December 2007, 1,066,000 options to subscribe for shares of the Company were granted to a Member of the Executive Directorate under the New Joiners Share Option Scheme. In addition, 1,870,000 and 6,403,000 options to subscribe for shares of the Company were granted to 8 Members of the Executive Directorate and 131 employees respectively under the 2007 Share Option Scheme during the period from 11 December 2007 to 7 January 2008. Details of the grant under these two Schemes are set out in the tables above.

The respective closing price per share immediately before the respective date of grant of the options under the two Schemes are set out below. Pursuant to the terms of both Schemes, each grantee undertakes to pay HK\$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the respective date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK\$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK\$)	Weighted average value per option granted (HK\$)
22/3/2007	19.32	3.96	5	0.21	0.42	3.79
11/12/2007	27.60	2.44	3.5	0.22	0.42	4.65
12/12/2007	27.90	2.48	3.5	0.22	0.42	4.85
13/12/2007	28.00	2.53	3.5	0.22	0.42	4.93
14/12/2007	27.30	2.67	3.5	0.22	0.42	4.55
15/12/2007	27.35	2.74	3.5	0.22	0.42	4.61
17/12/2007	27.35	2.74	3.5	0.22	0.42	4.61
18/12/2007	26.85	2.72	3.5	0.22	0.42	4.29
19/12/2007	27.00	2.73	3.5	0.22	0.42	4.39
20/12/2007	27.60	2.68	3.5	0.22	0.42	4.73
21/12/2007	27.95	2.78	3.5	0.22	0.42	4.99
22/12/2007	28.25	2.83	3.5	0.22	0.42	5.20
24/12/2007	28.25	2.83	3.5	0.22	0.42	5.20
28/12/2007	28.05	2.90	3.5	0.22	0.42	5.09
31/12/2007	28.05	2.86	3.5	0.22	0.42	5.07

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the year ended 31 December 2007, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 31 December 2007 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,301,750,382	76.67

The Company has been informed by the Government that, as at 31 December 2007, approximately 0.90% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2007 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2007 was attributable to the Company's five largest customers combined by value.

Going Concern

The summary financial statements on pages 56 to 67 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2008, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

By order of the Board

Leonard Bryan Turk
Secretary to the Board
Hong Kong, 11 March 2008

Consolidated Profit and Loss Account

<i>for the year ended 31 December in HK\$ million</i>	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
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
	2,522	2,328
Earnings per share:		
– Basic	HK\$2.72	HK\$1.41
– Diluted	HK\$2.72	HK\$1.41

Consolidated Balance Sheet

<i>at 31 December in HK\$ million</i>	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	–
	132,417	106,943
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
	155,668	120,421
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
	64,631	43,635
Net assets	91,037	76,786
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

Approved and authorised for issue by the Members of the Board on 11 March 2008

Raymond K F Ch'ien

C K Chow

Lincoln K K Leong

The notes on pages 58 to 67 form part of these summary financial statements

Notes to the Summary Financial Statements

1 Statement of Compliance

These summary financial statements have been prepared from the audited financial statements of MTR Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and the Group's interest in non-controlled subsidiaries and associates for the year ended 31 December 2007.

These summary financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, and accounting principles generally accepted in Hong Kong. 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 HKAS 1 "Presentation of financial statements – Capital disclosures" in 2007. The adoption of both HKFRS 7 and the amendment to HKAS 1 do 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. Details of the adoption are described in note 2 below.

2 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, 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.

2 Rail Merger with Kowloon-Canton Railway Corporation (continued)

- 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.

Notes to the Summary Financial Statements

3 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of the Members of the Board and the Executive Directorate of the Company were as follows:

<i>in HK\$ million</i>	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2007					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.0	–	–	–	1.0
– Cheung Yau-kai	0.2	–	–	–	0.2
– David Gordon Eldon	0.2	–	–	–	0.2
– Christine Fang Meng-sang	0.2	–	–	–	0.2
– Edward Ho Sing-tin	0.3	–	–	–	0.3
– Lo Chung-hing	0.2	–	–	–	0.2
– Ng Leung-sing (appointed on 18 December 2007)	–	–	–	–	–
– Abraham Shek Lai-him (appointed on 18 December 2007)	–	–	–	–	–
– T. Brian Stevenson	0.3	–	–	–	0.3
– Ceajer Chan Ka-keung (appointed on 10 July 2007)	0.1	–	–	–	0.1
– Eva Cheng (appointed on 1 July 2007)	0.1	–	–	–	0.1
– Sarah Liao Sau-tung (retired on 1 July 2007)	0.1	–	–	–	0.1
– Frederick Ma Si-hang (retired on 10 July 2007)	0.1	–	–	–	0.1
– Alan Wong Chi-kong	0.2	–	–	–	0.2
Members of the Executive Directorate					
– Chow Chung-kong	–	5.9	–*	5.1	11.0
– Russell John Black	–	3.8	0.1	1.7	5.6
– William Chan Fu-keung	–	3.7	0.1	1.7	5.5
– Thomas Ho Hang-kwong	–	3.8	0.1	1.6	5.5
– Lincoln Leong Kwok-kuen	–	3.8	0.5	1.7	6.0
– Francois Lung Ka-kui	–	3.5	0.5	0.8	4.8
– Andrew McCusker	–	3.7	0.1	1.4	5.2
– Leonard Bryan Turk	–	3.7	0.1	1.7	5.5
	3.0	31.9	1.5	15.7	52.1

* C K Chow is a member of the Company's Mandatory Provident Fund Scheme. The total contributions paid by the Company in each of the years 2006 and 2007 were HK\$12,000.

3 Remuneration of Members of the Board and the Executive Directorate (continued)

A Remuneration of Members of the Board and the Executive Directorate (continued)

<i>in HK\$ million</i>	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2006					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.0	–	–	–	1.0
– Cheung Yau-kai	0.2	–	–	–	0.2
– David Gordon Eldon	0.2	–	–	–	0.2
– Christine Fang Meng-sang	0.2	–	–	–	0.2
– Edward Ho Sing-tin	0.3	–	–	–	0.3
– Lo Chung-hing	0.2	–	–	–	0.2
– T. Brian Stevenson	0.3	–	–	–	0.3
– Sarah Liao Sau-tung	0.2	–	–	–	0.2
– Frederick Ma Si-hang	0.2	–	–	–	0.2
– Alan Wong Chi-kong	0.2	–	–	–	0.2
Members of the Executive Directorate					
– Chow Chung-kong	–	5.9	–*	4.2	10.1
– Russell John Black	–	3.7	0.3	1.0	5.0
– William Chan Fu-keung	–	3.5	0.3	1.0	4.8
– Thomas Ho Hang-kwong	–	3.6	0.3	0.9	4.8
– Lincoln Leong Kwok-kuen	–	3.5	0.5	1.0	5.0
– Francois Lung Ka-kui	–	3.4	0.4	0.9	4.7
– Andrew McCusker	–	3.5	0.3	0.9	4.7
– Leonard Bryan Turk	–	3.5	0.3	1.0	4.8
	3.0	30.6	2.4	10.9	46.9

The above emoluments do not include the fair value of share options, as estimated at the date of granting, awarded to Members of the Executive Directorate whose entitlements are as follows:

(a) Options granted under the New Joiners Share Option Scheme (the "New Option Scheme")

The options granted to Francois K K Lung on 27 September 2005 lapsed on 17 October 2006 in accordance with the terms of the New Option Scheme. He was granted options in respect of 1,066,000 shares on 22 March 2007 and the respective fair value of the share-based payments recognised for the year ended 31 December 2007 was HK\$1.1 million.

The options granted to Lincoln K K Leong under the New Option Scheme were fully vested in 2006. No share-based payment was recognised for the year ended 31 December 2007 (2006: HK\$0.3 million) in respect of his shares granted under this scheme.

Notes to the Summary Financial Statements

3 Remuneration of Members of the Board and the Executive Directorate (continued)

A Remuneration of Members of the Board and the Executive Directorate (continued)

(b) Options granted under the 2007 Share Option Scheme (the "2007 Option Scheme")

Share options were granted to all Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option. The entitlements of each of the Members are as follows:

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007, and the respective fair value of the share-based payments recognised for the year ended 31 December 2007 was HK\$0.071 million;
- Russell J Black, Thomas H K Ho, Lincoln K K Leong, Andrew McCusker and Leonard B Turk were each granted options in respect of 170,000 shares on 12 December 2007, and the respective fair value of the share-based payments recognised for the year ended 31 December 2007 was HK\$0.017 million for each respective Member of the Executive Directorate;
- William F K Chan was granted options in respect of 170,000 shares on 13 December 2007, and the respective fair value of the share-based payments recognised for the year ended 31 December 2007 was HK\$0.017 million; and
- Francois K K Lung was granted options in respect of 130,000 shares on 12 December 2007, and the respective fair value of the share-based payments recognised for the year ended 31 December 2007 was HK\$0.013 million.

The details of directors' interest in the Company's shares are disclosed under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

(ii) C K Chow has a derivative interest in respect of 418,017 shares within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). The derivative interest represents C K Chow's entitlement to receive an equivalent value in cash of 418,017 shares on completion of his three-year contract ending on 30 November 2009.

On 12 April 2007, Lincoln K K Leong was granted a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. The derivative interest represents Lincoln K K Leong's entitlement to receive an equivalent value in cash of 160,000 shares on 9 April 2010.

The arrangements were offered to C K Chow and Lincoln K K Leong in order to provide a competitive level of compensation which is also closely tied to the performance of the Company.

(iii) The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK\$53.4 million (2006: HK\$60.6 million).

(iv) 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 (Chapter 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. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years. In July 2006, he was re-appointed as the non-executive Chairman of the Company until 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. On 8 August 2007, he was appointed as the non-executive Chairman of the Company after the Rail Merger for a term of two years commencing from the Appointed Day. All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

B Share Options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2007 are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme"), each Member of the Executive Directorate, except C K Chow, Lincoln K K Leong, Francois K K Lung and Andrew McCusker, was granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong and Francois K K Lung joined the Company on 1 December 2003, 1 February 2002 and 26 September 2005 respectively, and are not beneficiaries of the Pre-IPO Option Scheme. Andrew McCusker was granted 266,500 options on 20 September 2000 under the Pre-IPO Option Scheme and no additional share options were granted upon his appointment as a Member of the Executive Directorate on 1 October 2005.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 23,000 shares; and (ii) at all times after 26 October 2002, at least 46,000 shares, in each case, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

3 Remuneration of Members of the Board and the Executive Directorate (continued)

B Share Options (continued)

(ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme, Lincoln K K Leong and Francois K K Lung, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 27 September 2005 respectively.

Under the vesting terms of the New Option Scheme, Lincoln K K Leong must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

Under the vesting terms of the New Option Scheme, Francois K K Lung was required to beneficially own at all times on and after 17 October 2006, at least 23,000 shares up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier). Francois K K Lung's options lapsed on 17 October 2006 in accordance with the terms of the New Option Scheme.

On 22 March 2007, Francois K K Lung was granted options to acquire 1,066,000 shares under the New Option Scheme. Under the vesting terms of the New Option Scheme, Francois K K Lung was required to beneficially own (i) at all times on and after 9 April 2008, at least 23,000 shares; and (ii) at all times on and after 9 April 2009, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

(iii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme, all Members of the Executive Directorate were granted options to acquire shares in December 2007. C K Chow was granted options to acquire 720,000 shares; Russell J Black, William F K Chan, Thomas H K Ho, Lincoln K K Leong, Andrew McCusker and Leonard B Turk were each granted options to acquire 170,000 shares; and Francois K K Lung was granted options to acquire 130,000 shares.

Under the vesting terms of the options granted in December 2007, the options granted will be evenly vested in respect of their underlying shares over a period of three years from 10 December 2007.

4 Segmental Information

Segmental information is presented in accordance with the Group's business segments, which comprise the following:

Railway operations: 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: Commercial activities including 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: Property rental, property management and, commencing from September 2006, operations relating to Ngong Ping 360.

Property developments: Property development at locations relating to the railway system.

Notes to the Summary Financial Statements

4 Segmental Information (continued)

The results of major business activities are summarised below:

in HK\$ million	Turnover		Contribution to profit	
	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
Profit on 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)
Profit for the year			15,182	7,758

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.

5 Fixed Assets and Railway Construction in Progress

A Investment Properties

in HK\$ million	2007	2006
Valuation		
At 1 January	22,539	19,892
Additions through Rail Merger	2,840	-
Transfer from assets under construction (note 5B)	4,027	-
Other additions	364	469
Change in fair value	8,011	2,178
Transfer to self-occupied land and buildings (note 5B)	(58)	-
At 31 December	37,723	22,539

5 Fixed Assets and Railway Construction in Progress (continued)

B Other Property, Plant and Equipment

in HK\$ million	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation					
At 1 January 2007	1,989	46,544	57,767	4,905	111,205
Additions	–	–	44	1,387	1,431
Capitalisation adjustments *	–	(42)	(49)	–	(91)
Disposals/Write-offs	–	(4)	(371)	–	(375)
Surplus on revaluation	193	–	–	–	193
Reclassification	–	(61)	61	–	–
Transfer from deferred expenditure	–	–	59	44	103
Transfer from/(to) investment properties (note 5A)	58	–	–	(4,027)	(3,969)
SkyPlaza Platform Project commissioned (note 5D)	–	–	71	–	71
Other assets commissioned	–	34	1,238	(1,272)	–
At 31 December 2007	2,240	46,471	58,820	1,037	108,568
At Cost	–	46,471	58,820	1,037	106,328
At 31 December 2007 Valuation	2,240	–	–	–	2,240
Aggregate depreciation					
At 1 January 2007	–	3,864	22,937	–	26,801
Charge for the year	52	387	2,279	–	2,718
Capitalisation adjustments *	–	(1)	(3)	–	(4)
Written back on disposal	–	(2)	(337)	–	(339)
Written back on revaluation	(52)	–	–	–	(52)
Reclassification	–	(12)	12	–	–
At 31 December 2007	–	4,236	24,888	–	29,124
Net book value at 31 December 2007	2,240	42,235	33,932	1,037	79,444
Cost or Valuation					
At 1 January 2006	1,705	46,188	56,339	3,661	107,893
Additions	–	–	69	2,152	2,221
Disposals/Write-offs	–	(20)	(370)	(2)	(392)
Surplus on revaluation	284	–	–	–	284
Tung Chung Cable Car Project commissioned (note 5D)	–	375	824	–	1,199
Other assets commissioned	–	1	905	(906)	–
At 31 December 2006	1,989	46,544	57,767	4,905	111,205
At Cost	–	46,544	57,767	4,905	109,216
At 31 December 2006 Valuation	1,989	–	–	–	1,989
Aggregate depreciation					
At 1 January 2006	–	3,492	21,018	–	24,510
Charge for the year	45	380	2,249	–	2,674
Written back on disposal	–	(8)	(330)	–	(338)
Written back on revaluation	(45)	–	–	–	(45)
At 31 December 2006	–	3,864	22,937	–	26,801
Net book value at 31 December 2006	1,989	42,680	34,830	4,905	84,404

* Capitalisation adjustments relate to certain railway assets capitalised at time of commissioning based on contractors' claimed values. Such assets' final values have been adjusted downward following finalisation of contract claims with contractors at lower final contract values during the year.

Depreciation charge for the year was HK\$2,714 million (2006: HK\$2,674 million), comprising depreciation for the year of HK\$2,718 million (2006: HK\$2,674 million) less capitalisation adjustments of HK\$4 million (2006: nil).

Notes to the Summary Financial Statements

5 Fixed Assets and Railway Construction in Progress (continued)

C Service Concession Assets

<i>in HK\$ million</i>	Initial concession property	Additional concession property	Total
2007			
Cost			
At 1 January 2007	–	–	–
Additions through the Rail Merger			
– Upfront payment *	3,924	–	3,924
– Principal element of fixed annual payments	10,687	–	10,687
– Others	226	31	257
Additions during the year	–	18	18
Transfer from deferred expenditure	389	–	389
At 31 December 2007	15,226	49	15,275
Accumulated amortisation			
At 1 January 2007	–	–	–
Charge for the year	25	–	25
At 31 December 2007	25	–	25
Net book value at 31 December 2007	15,201	49	15,250

* Upfront payment for service concession is represented by payment on the Appointed Day, amounting to HK\$4,250 million, net of stores and spares of HK\$326 million acquired.

D Railway Construction in Progress

<i>in HK\$ million</i>	Balance at 1 Jan	Expenditure	Capitalised on commissioning (note 5B)	Transfer to stores and spares	Balance at 31 Dec
2007					
Tseung Kwan O South Project	175	249	–	–	424
SkyPlaza Platform Project	57	14	(71)	–	–
Total	232	263	(71)	–	424
2006					
Tseung Kwan O South Project	43	132	–	–	175
Tung Chung Cable Car Project	933	271	(1,199)	(5)	–
SkyPlaza Platform Project	30	27	–	–	57
Total	1,006	430	(1,199)	(5)	232

6 Bonds and Notes Issued and Redeemed

Bonds and notes issued during the year ended 31 December 2007 and 2006 comprise:

<i>in HK\$ million</i>	2007		2006	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	–	–	1,500	1,499

The net proceeds from the above issues were used for general working capital, refinancing or other corporate purposes.

None of the Group's unlisted debt securities was redeemed during the year ended 31 December 2007 (2006: HK\$2,450 million).

None of the Group's listed debt securities was redeemed during the year ended 31 December 2007 and 2006.

7 Reserves

in HK\$ million	Attributable to equity shareholders of the Company							
	Share premium	Capital reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
2007								
Balance as at 1 January 2007	5,902	27,188	968	(10)	5	17	37,148	71,218
Employee share options exercised	20	-	-	-	-	-	-	20
Shares issued under Scrip Dividend Schemes	1,107	-	-	-	-	-	-	1,107
Cash flow hedges:								
Effective portion of changes in fair value, net of deferred tax	-	-	-	(13)	-	-	-	(13)
Transfer from equity								
– to profit and loss account	-	-	-	-	-	-	-	-
– to initial carrying amount of non-financial hedged items	-	-	-	(2)	-	-	-	(2)
– to deferred tax	-	-	-	-	-	-	-	-
2006 final dividend	-	-	-	-	-	-	(1,554)	(1,554)
2007 interim dividend	-	-	-	-	-	-	(782)	(782)
Surplus on revaluation, net of deferred tax	-	-	202	-	-	-	-	202
Employee share-based payments	-	-	-	-	2	-	-	2
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	-	-	25	-	25
Profit for the year	-	-	-	-	-	-	15,180	15,180
Balance as at 31 December 2007	7,029	27,188	1,170	(25)	7	42	49,992	85,403
2006								
Balance as at 1 January 2006	4,780	27,188	697	24	2	4	31,698	64,393
Employee share options exercised	32	-	-	-	-	-	-	32
Shares issued under Scrip Dividend Schemes	1,090	-	-	-	-	-	-	1,090
Cash flow hedges:								
Effective portion of changes in fair value, net of deferred tax	-	-	-	(18)	-	-	-	(18)
Transfer from equity								
– to profit and loss account	-	-	-	(17)	-	-	-	(17)
– to initial carrying amount of non-financial hedged items	-	-	-	(2)	-	-	-	(2)
– to deferred tax	-	-	-	3	-	-	-	3
2005 final dividend	-	-	-	-	-	-	(1,535)	(1,535)
2006 interim dividend	-	-	-	-	-	-	(774)	(774)
Surplus on revaluation, net of deferred tax	-	-	271	-	-	-	-	271
Employee share-based payments	-	-	-	-	3	-	-	3
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	-	-	13	-	13
Profit for the year	-	-	-	-	-	-	7,759	7,759
Balance as at 31 December 2006	5,902	27,188	968	(10)	5	17	37,148	71,218

8 Other Information

These summary financial statements are only a summary of information in the Group's 2007 Annual Accounts. They are not the Group's statutory financial statements and do not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2007 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2007 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed on page 69 of this Summary Report.

Auditor's Statement on the Summary Financial Report to the Shareholders of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

We have examined the summary financial report of MTR Corporation Limited for the year ended 31 December 2007 on pages 1 to 67 and the front and back cover pages.

Respective Responsibilities of Directors and Auditors

Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2007, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the auditors' report on the annual accounts for the year ended 31 December 2007 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

Basis of Opinion

We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Institute of Certified Public Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2007, and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion

Based on the foregoing, in our opinion the summary financial report on pages 1 to 67 and the front and back cover pages:

- (a) is consistent with the annual accounts and the auditors' report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2007 from which it is derived; and
- (b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of MTR Corporation Limited for the year ended 31 December 2007 and have issued an auditors' report thereon dated 11 March 2008 which is unqualified or otherwise unmodified.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
11 March 2008

Key Shareholder Information

Financial Calendar 2008

Announcement of 2007 results	11 March
Last day to register for 2007 final dividend	7 April
Book closure period	8 to 15 April (both dates inclusive)
Annual General Meeting	29 May
2007 final dividend payment date	On or about 18 June
Announcement of 2008 interim results	August
2008 interim dividend payment date	October
Financial year end	31 December

Principal Place of Business and Registered Office

MTR Corporation Limited, incorporated and domiciled in Hong Kong
MTR Headquarters Building, Telford Plaza, Kowloon Bay, Kowloon, Hong Kong
Telephone: (852) 2993 2111
Facsimile: (852) 2798 8822

Share Information

Listing

MTR Corporation Limited's shares are listed on the Stock Exchange of Hong Kong. In addition, shares are traded in United States through an American Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Depositary Receipts.

Ordinary Shares (as at 31 December 2007):

Shares outstanding	5,611,057,035 shares
Hong Kong SAR Government Shareholding:	4,301,750,382 shares (76.67%)
Free float:	1,309,306,653 shares (23.33%)

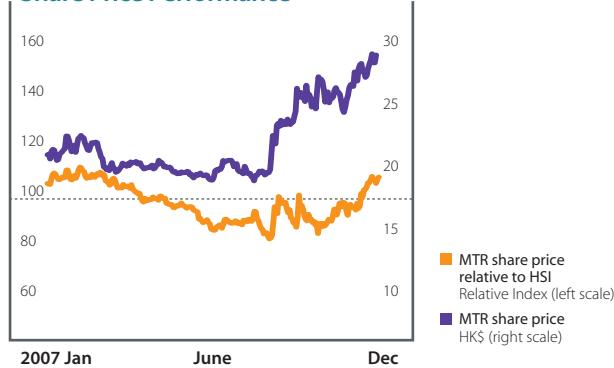
Nominal Value

HK\$1 per share

Market Capitalisation (as at 31 December 2007)

HK\$161,037 million

Share Price Performance



Dividend Policy

Subject to the financial performance of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively.

Dividend per share (in HK\$)

2006 Final Dividend	0.28
2007 Interim Dividend	0.14
2007 Final Dividend	0.31

ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depository Bank	JP Morgan Depositary Receipts
	4 New York Plaza, 13th Fl. New York, NY 10004

Stock Codes

Ordinary Shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK

ADR Level 1 Programme

MTRJY

Annual Report 2007

Shareholders can obtain copies of our annual report by writing to:

Computershare Hong Kong Investor Services Limited,
Rooms 1806-1807, 18th Floor, Hopewell Centre,
183 Queen's Road East, Wan Chai, Hong Kong

If you are not a shareholder, please write to:

Corporate Relations Department, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website at <http://www.mtr.com.hk>

Shareholder Services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai, Hong Kong

Telephone: (852) 2862 8628
Facsimile: (852) 2529 6087

Shareholder Enquiries

Our enquiry hotline is operational during normal office hours:
Telephone: (852) 2881 8888

Investor Relations

For enquiries from institutional investors and securities analysts, please contact:

Investor Relations Department, MTR Corporation Limited
MTR Headquarters Building, Telford Plaza, Kowloon Bay,
Kowloon, Hong Kong
Email: investor@mtr.com.hk



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