

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