

Service Improvements

We continued to enhance train services and network infrastructure.

Five 7-car new trains were brought into passenger service on the West Rail Line in the fourth quarter of 2008. In addition, electric-powered rolling stock replaced the diesel-powered Beijing/Shanghai-Kowloon Through Trains in January, providing better services to passengers as well as offering benefits to the environment.

Renovation works commenced at Mongkok East Station, with 25 new commercial shops scheduled for opening in March 2009. The retrofitting of automatic platform gates for eight aboveground stations on the Island, Tsuen Wan and Kwun Tong lines began at the end of the year. A wide gate was installed at the Kwun Tong Line concourse of Kowloon Tong Station, while another wide gate was installed at Mei Foo Station Entrance D. In the first quarter of 2008, we completed the application of photocatalytic coating to all trains, buses and Airport Express shuttle buses to improve the hygiene level of our stations, trains and bus compartments.

For passengers with disabilities, we undertook the extension of the tactile guide path covering all platforms of Light Rail. Construction began at Tai Wo Hau on an external lift connecting the footbridge and street level to the station concourse, while planning for lifts at Sham Shui Po, Wong Tai Sin, Jordan, and Yau Ma Tei stations commenced and Braille maps were introduced at many stations.

Productivity

Efficiency and productivity remained a key priority for the Company in 2008. The multi-disciplinary Rapid Response Unit was extended to the West Rail, East Rail, Light Rail and Ma On Shan lines in 2008, improving response to incidents whilst achieving cost savings of approximately HK\$1 million per annum. Ticket sorting operations were outsourced and sorting centres at Kam Sheung Road Station and Tai Wai Station were shut down.

Supporting the Olympic Games

The Company was appointed the Olympic Games Equestrian Events Railway Passenger Services Associate. Drawing on strengths from many departments, the Company ensured spectators, athletes and their entourage travelled swiftly, safely and on time to the Equestrian events venues at Sha Tin and Beas River over the 10 days of dressage, jumping and eventing. An Equestrian Events Special Task Force was set up to ensure that the Company rose to the challenge of this special assignment.

Using additional portable ramps, station staff also helped disabled passengers enjoy smooth train journeys to Shatin to attend the Paralympic Equestrian Event from 7 to 11 September. Station lifts and stair lifts were checked to ensure that wheelchair passengers would not encounter any difficulties on the way to their events.

The Company also showed its support to the Beijing Olympic Games by sponsoring the 2008 Beijing Olympic Games Volunteers (HK Group) to travel by the Beijing-Kowloon Through Train in August.

Station Commercial and Rail Related Businesses

Revenue for our station commercial and rail related businesses increased by 98.1% in 2008 to HK\$3,449 million. The revenue increase was driven by rising patronage in 2008 and a robust economy, particularly in the first half of the year. The Rail Merger brought about increased scale and strengthened revenue growth as well as new business opportunities in the form of freight transportation and Duty Free shops.

Station Retail

Station retail revenue, comprising duty free shops and kiosk rental, increased by 209.8% in 2008 to HK\$1,546 million. This increase was mainly due to the inclusion of retail shops along

the KCR Lines, particularly the 10 duty free shops serving Cross-boundary customers. Further growth was provided by increased new retail area and new rental contracts being awarded at higher rents. 45 shops were renovated at 9 stations and 18 new trades were added. With repossession of shops to facilitate renovation works, the total number of shops as at 31 December 2008 was 1,186, with such retail area totaling 51,539 square metres of which 9,510 square metres relates to Duty Free businesses. Renovation works for shops at Ngau Tau Kok, Wong Tai Sin, Tai Po Market, Kowloon, Tiu Keng Leng, Kowloon Tong, Kwun Tong, Mong Kok East stations and Lo Wu Arrival Concourse were completed by the end of the year.

Executive Management's Report

In September and October, a series of 1-minute TV segments was launched to reinforce the public's awareness of MTR Shops. To further stimulate customer spending, the finale of our 2008 consumer programmes was a MTR Shops Lucky Draw Promotion "Tokyo Group Shopping Extravaganza".

Advertising

Advertising revenue grew by 25.0% in 2008 to HK\$741 million when compared with 2007. In addition to the merger benefits, there were higher advertising rates and advertising innovations, which included the renovated "The Galleria" launched at the lower adit of Causeway Bay Station in May and the Digital Escalator Crown Bank at Causeway Bay, Tsim Sha Tsui and Central stations. At the end of 2008, there were 20,539 advertising points in stations, 26,619 in trains (including 4,341 Liquid Crystal Displays) and 228 on buses.

Telecommunications

Revenue from telecommunications services increased by 49.0% in 2008 to HK\$356 million as compared to 2007. A one-off payment received on termination of a telecommunications license was a key reason for the increase of revenue. Excluding this one-off income, revenue still grew by 13.0% to HK\$270 million as compared to 2007. 3G mobile phone coverage along the East Rail Line and Ma On Shan Line was fully launched in June and October respectively while preparation works for 3G coverage on the West Rail Line began. There was also an increase in one-off revenue generated from operators' mobile equipment migration projects along the stations.

During the year, TraxComm Limited achieved higher revenue with expanded growth in the market. The extension of Wi-Fi coverage to 9 MTR Lines stations, as well as all 5 Airport Express

stations and Airport Express train sets, making the total MTR stations with Wi-Fi coverage amounted to 30.

External Consultancy

In 2008, we made good progress with our focused strategy of using consultancies to enhance skill-sets and seek new investment opportunities. As a result, revenue from external consultancy activities was HK\$158 million, a decrease of 18.1% when compared with 2007, mainly due to the completion of the majority of works on Shanghai Metro Line 9 Phase 1, which was opened in December 2007.

In India, our consultancy business won an HK\$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. In addition, we secured a consultancy contract with Dubai Roads and Transport Authority (RTA) on the retail outlets leasing for the Red and Green lines of Dubai Metro Stations. Also we secured a consultancy project to provide technical advice to Metro Rio in Brazil for rolling stock procurement from China.

In 2008, we also extended the Automated People Mover operations and maintenance agreement with the Airport Authority of Hong Kong for five more years, whilst our existing consultancy works for Kaohsiung Rapid Transit Corporation in Taiwan proceeded well.

Freight Services

Revenue from freight services was HK\$37 million during 2008, a decrease of 10% over the equivalent Combined Non-fare Revenue.

Property and Other Businesses

Profit from property development was HK\$4,670 million in 2008, while revenue from property rental, management and other businesses grew by 47.9% to HK\$2,712 million.

Property Development

Profit on property development for 2008 was HK\$4,670 million, a decrease from the HK\$8,304 million recognised in 2007. This decrease was mainly due to very significant development profits booking in 2007, particularly for Le Point in Tseung Kwan O. The major contributors to property development profits were from

profit recognition relating to The Capitol at LOHAS Park and The Palazzo in Shatin, as well as the sale of units from inventory at Harbour Green and The Arch.

The pre-sale of all 2,096 units of The Capitol at LOHAS Park as well as about 80% or 1,100 units of the 1,375 units available at The Palazzo in Shatin was achieved. There was also a successful pre-sale of over 470 units at Le Bleu Deux in Tung Chung where the Company has a nominal financial interest.