

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.