

Executive Management's Report

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK\$156 million of revenue in 2008, with visitor numbers reaching more than 1.6 million. After its re-opening on 31 December 2007, the cable car system achieved a reliability rate of over 99% for the year.

Awards received included the "Gold Award – Website Category" from the Pacific Asia Travel Association (PATA), and the "Globe Award 2008" from the British Guild of Travel Writers. Ngong Ping 360 also holds the Guinness record for "Most people playing wood Chinese block", which took place at the Ngong Ping Buddha's Birthday Celebration event in May 2008.



Hong Kong Network Expansion

2008 was again a milestone year for the design and planning of the Company's future Hong Kong rail projects.

New Hong Kong Projects

Planning and design are underway for five new rail projects in Hong Kong, which together with the substantially completed Kowloon Southern Link (incorporating the new Austin Station), will extend our network by approximately 60 kilometres when completed.

In March, the Government gave approval for the planning and design of the Shatin to Central Link. The Shatin to Central Link comprises two sections that will add 17 kilometres to the railway network, creating a number of new interchanges and connections and forming both a north-south and an east-west rail corridor. The preliminary design of the new link was started in September with a view to developing a scheme to be gazetted under the Railways Ordinance in late 2009.

The 3-km Kwun Tong Line Extension, the planning and design for which was also approved in March, will run from the existing Yau Ma Tei Station of the Kwun Tong Line to Whampoa via Ho Man Tin, which will be an interchange station with the Tai Wai to Hung Hom section of the Shatin to Central Link. Preliminary design started in June, and will be completed in early 2009. The current plan is to gazette the scheme under the Railways Ordinance and to proceed with the detailed design in the second half of 2009.

In April, the Government asked the Company to proceed with planning and design of the Express Rail Link, which will provide cross-boundary high speed rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed inter-city rail network. Preliminary design and planning made significant progress during the year. The project was gazetted under the Railways Ordinance on 28 November 2008.

The South Island Line (East) will be a medium capacity railway service connecting Admiralty Station to South Horizons on

Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung. Following the announcement of Government's support for the planning and design of the line in December 2007, preliminary design commenced in February 2008. Extensive consultation with the local community, District Councils and other stakeholders has been undertaken and the final plan will be issued to Government for review and gazetting in early 2009.

On-going Projects

The West Island Line will extend the Island Line with three new underground stations at Sai Ying Pun, University (at The University of Hong Kong) and Kennedy Town. The West Island Line was gazetted under the Railways Ordinance in October 2007. Detailed design was commenced in early 2008 and the Environmental Impact Assessment report for the project has been approved. Tendering for advance works contracts has begun. The line is planned to commence in 2009 for completion in 2014.

Satisfactory progress was made during 2008 on the Kowloon Southern Link, which will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station. Both ends of the project are now fully connected to the existing West Rail and East Rail lines and trial operations will commence in the second quarter of 2009. The line is expected to open in the second half of 2009.

Project Funding

The funding model for these new Hong Kong rail projects will take different forms, appropriately designed for each project. For the West Island Line, Government has indicated that it will consider a capital grant model whereby Government grants to the Company a sum of money to establish the financial viability of the project. The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach. A third model for future rail lines is the Service Concession model established in the Rail Merger, whereby Government or KCRC pays for the initial capital costs

of the rail line. The Company will pay an annual concession payment to operate the line following its completion as well as being responsible for maintenance and replacement costs. The Kowloon Southern Link has adopted this approach, and Shatin to Central Link and the Express Rail Link will also adopt this approach.

Completion of Projects

Phase 2 of the Tseung Kwan O Line, which provides a new station at LOHAS Park, is on schedule for completion in the second quarter of 2009 to coincide with occupancy of The Capitol at LOHAS Park.

Subways and Pedestrian Links

Development of the integrated entrance within the new development at No. 63 Nathan Road at Tsim Sha Tsui station (Entrance C) made good progress during the year. Structural breakthrough and electrical and mechanical modifications will be carried out in 2009. Civil construction began on the new subway connection to Liberte, the residential property in Lai Chi Kok, and new entrances at Cheung Lai Street at Lai Chi Kok Station with the opening date scheduled for the second quarter of 2010.

Mainland and Overseas Growth

2008 saw good progress in our mainland and overseas business.

Mainland of China

In Beijing, the Public-Private-Partnership (PPP) company 49% owned by MTR Corporation advanced steadily with the BJL4 project.

20 trains were constructed and tested by January 2009 and the first 10 trains were delivered to Beijing. Electrical & mechanical installation began in 24 stations, with equipment design and manufacturing well on track. 271 train operator trainees and station controller trainees had completed their training by January 2009.

We, together with our PPP company partners, also signed a Memorandum of Understanding on 27 November 2008 with Beijing Metro Daxing Line Investment Company Limited, a wholly owned subsidiary of Beijing Municipal Government, for the operation and maintenance of the Daxing Line of the Beijing Metro Network.

In Shenzhen, approval has been obtained from the National Development and Reform Commission for the SZL4 project comprising investment and construction of Phase 2 of Line 4, and the operation of Phase 1 and Phase 2 for a term of 30 years. Project works will be expanded to cover the whole line. Meanwhile, preparation works for taking over SZL4 Phase 1 are also underway.

Elsewhere in the Mainland, the Company entered into a Principle Agreement in January 2009 for a PPP project with Hangzhou Municipal Government and Hangzhou Metro Group Company Limited for the investment, construction and operation of Hangzhou Metro Line 1.

In November 2008, we entered into Agreements in Principle with Shenyang Municipal Government and Shenyang Metro Group Company Limited for the operation and maintenance of the 50-km Shenyang Metro Lines 1 and 2 for a term of 30 years, and for further developments and extensions.

Overseas

Our strategy overseas continues to be "asset light". In the UK, our 50:50 joint venture, London Overground Rail Operations Limited brought steady improvements to the London Overground following our takeover of the concession in November 2007. In Sweden, we were awarded the Stockholm Metro concession in January 2009. In Australia, a joint venture 60% owned by MTR Corporation was short-listed to submit a bid in April 2009 for the Melbourne Train franchise. In Ireland, we submitted a bid for the operations of the Dublin Metro North in February 2009.