

Building Connections to

# REACH NEW HORIZONS AND NEW BUSINESS OPPORTUNITIES





# Mainland and Overseas Growth

**O**ur growth strategy outside of Hong Kong remained firmly on track. Our investments in the Mainland of China and projects overseas made substantial progress during the year with the commencement of service or takeover of franchises in a number of cities.



Railway franchise revenue outside of Hong Kong was HK\$1,043 million derived from the Stockholm and Melbourne rail concessions after we took over their operations in November 2009. Operating costs for these two franchises were HK\$1,035 million, with a resultant operating profit margin of 0.8% in line with our expectations for the early months after takeover. The business model for operation and maintenance franchises, like those of the Stockholm and Melbourne trains systems, generally requires little capital investment. Their operating margins are therefore generally lower than other rail projects that require investment. However, due to the size of their businesses, they have significant revenue and operation costs. Beijing Metro Line 4 (BJL4), London Overground Rail Operations Ltd (LOROL) and the 50% owned rolling stock maintenance company in Sweden are accounted for as associates, and contributed a total of HK\$11 million post-tax profit (HK\$19 million pre-tax) in 2009. Our share of the profits of LOROL was HK\$17 million and BJL4 made a loss of HK\$5 million. The BJL4 loss is expected, since for investment projects of this nature with relatively large depreciation and interest cost, it will take a few years to achieve profit.

## Mainland of China

In Beijing, a ceremony was held to mark the commencement of operations of BJL4 on 28 September 2009. With the opening of the new line, Beijing MTR Corporation Limited, a joint venture comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group Ltd. (49%), celebrated the culmination of more than three years' intensive preparation and hard work since the signing of the Concession Agreement on 12 April 2006.

The response from the Beijing public and media to the line's performance, comfort and customer service was positive. Average train service availability and punctuality rates in the first month of operation exceeded planned targets, while average daily patronage reached 563,000 in the National Day



President Hu Jintao rides B JL4 in October.

Golden Week holiday. On 7 October 2009, President Hu Jintao experienced at first hand B JL4's performance by travelling from Xidan Station to Xiyuan Station. He praised Hong Kong's railway management and expertise, and looked forward to further cooperation between Hong Kong and Mainland of China.

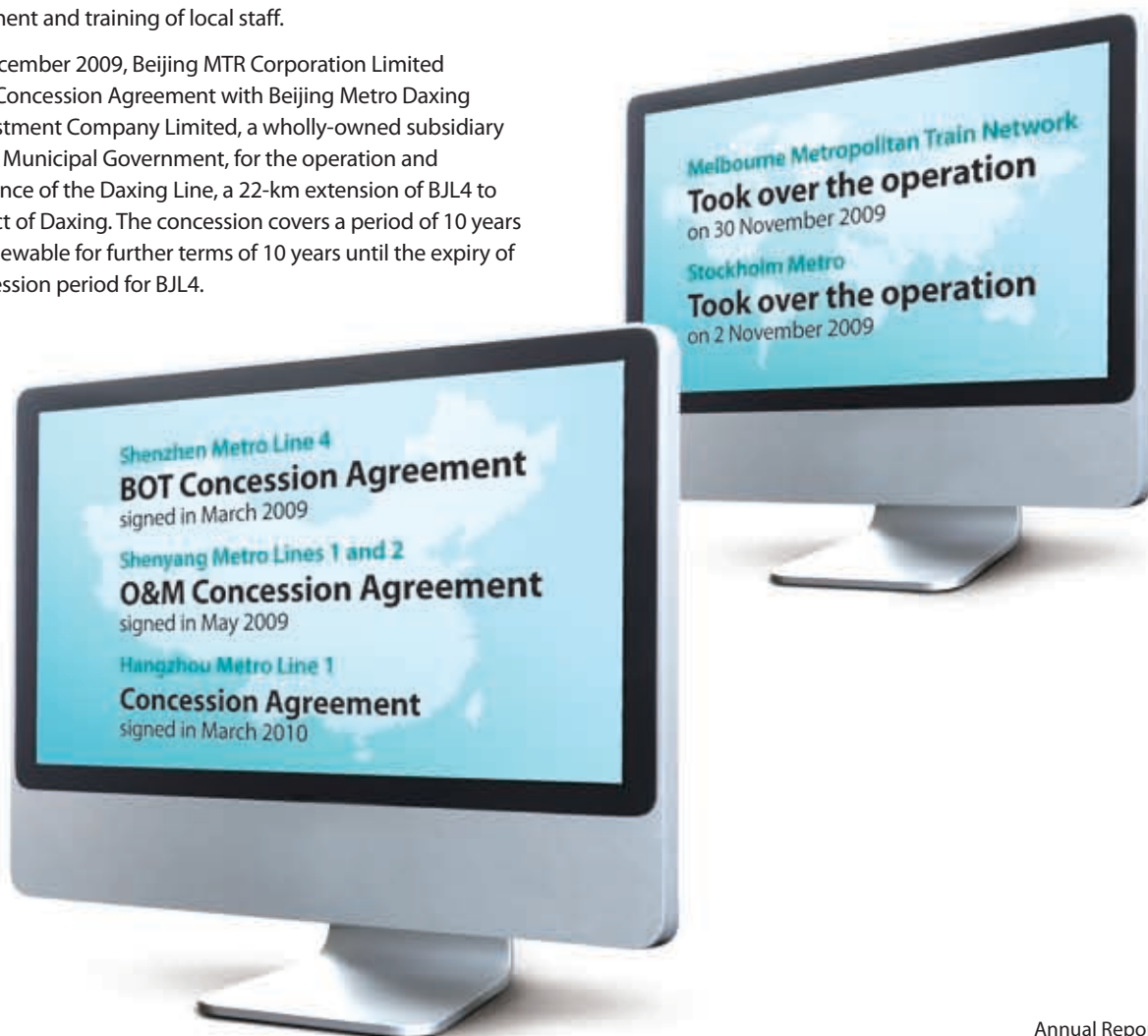
Around 60 Hong Kong colleagues worked in Beijing to support the initial period of service including planning, operational management and training of local staff.

On 30 December 2009, Beijing MTR Corporation Limited signed a Concession Agreement 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, a 22-km extension of B JL4 to the district of Daxing. The concession covers a period of 10 years and is renewable for further terms of 10 years until the expiry of the concession period for B JL4.

On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government for a Public-Private-Partnership (PPP) project for the investment, construction and operations of the Hangzhou Metro Line 1 for a term of 25 years. The Concession Agreement is subject to approval by relevant authorities in the Mainland.

The PPP project will be undertaken by a Joint Venture Company in which MTR Corporation has an effective interest of 49% with the balance owned by a subsidiary of the Hangzhou Metro Group Company Limited.

The 48-km Hangzhou Metro Line 1 project is divided into Part A and Part B of the project, representing approximately 63% and 37% respectively of the total investment of approximately RMB22 billion. Part A involves the civil construction of the project which is being undertaken by Hangzhou Metro Group Company Limited, whilst Part B, which covers the electrical and mechanical system and rolling stock,



## Mainland and Overseas Growth



The Melbourne public makes approximately 0.7 million trips on the metropolitan train network on each weekday.

### ■ The Melbourne metropolitan train network spans 15 lines and 213 stations covering 372 kilometres, with an average weekday patronage of approximately 0.7 million. ■

will be provided by the Joint Venture Company. The Joint Venture Company will be funded by a combination of debt and equity with MTR Corporation's equity investment being approximately RMB2.2 billion.

Civil construction work commenced in March 2007 and the line is expected to open in 2012.



Recruitment and operations training begin for SZL4.

In Shenzhen, the Concession Agreement for the Shenzhen Metro Line 4 (SZL4) Build-Operate-Transfer (BOT) project was signed in March 2009 with the Shenzhen Municipal Government. By the end of 2009, approximately 93% of civil works for the 16-km SZL4 Phase 2 were finished and all electrical and mechanical contracts were awarded. The operation of the 4.5-km Phase 1 of SZL4 is set to begin in the middle of 2010 with full line operations, including Phase 2, by the middle of 2011. A management team has now been established and recruitment of operations staff and training has commenced in both Shenzhen and Hong Kong.

In Shenyang, a Concession Agreement was signed in May 2009 between our Joint Venture Company comprising MTR Corporation (49%) and Shenyang Metro Group Company Limited (51%) and the Shenyang Municipal Government for the operation and maintenance of the 50-km Shenyang Metro Lines 1 and 2 for a term of 30 years. A management team for the joint venture has been established and preparation works has started, including project interfacing, operation and maintenance planning, recruitment and training. Lines 1 and 2 are expected to begin service by 2010 and 2012 respectively.

### Overseas

We continue to develop our "asset light" strategy overseas, focusing on operating concessions in the railway and metro markets that show significant potential for growth.

In the UK, following takeover of the concession in November 2007, our 50:50 joint venture, LOROL, brought an ongoing series of service improvements to the London Overground. The

## ■ Mainland of China and Overseas Railway Businesses at a Glance

	In Operation				Confirmed Projects to be in Operation			
	Beijing Metro Line 4 (BJL4), Mainland of China	London Overground, United Kingdom	Stockholm Metro, Sweden	Melbourne Metro, Australia	Shenyang Metro Line 1 and 2, Mainland of China	Daxing Line of BJL4, Mainland of China	Shenzhen Metro Line 4, Mainland of China	Hangzhou Metro Line 1, Mainland of China <sup>#</sup>
Effective interest of MTR Corporation	49%	50%	100%	60%	49%	49%	100%	49%
Business Model	Public-Private-Partnership (PPP)/Build-Operate-Transfer (BOT)	Operation and Maintenance (O&M) Concession	O&M Concession*	O&M Concession	O&M Concession	O&M Concession	BOT <sup>^</sup>	PPP/BOT
Commencement of Franchise/Expected date of commencement of operation	Sep 2009	Nov 2007	Nov 2009	Nov 2009	Line 1: 2010 Line 2: 2012	End 2010	Phase 1: 2010 Phase 2: 2011	2012
Franchise/Concession Period	30 Years	7 Years	8 Years	8 Years	30 Years	10 Years	30 Years	25 Years
Number of Stations	24	55	100	213	Line 1: 22 Line 2: 19	11	Phase 1: 5 Phase 2: 10	31
Route length (km)	28	107.2	108	372	Line 1: 28 Line 2: 22	22	Phase 1: 4.5 Phase 2: 16	48

\* Rolling Stock maintenance under a 50:50 joint venture between MTR Stockholm and Mantena AS.

# The Concession Agreement with Hangzhou Municipal Government is subject to approval by relevant authorities in the Mainland of China.

^ Shenzhen Metro Line 4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Ltd will take over the operation of Phase 1 in 2010.

programme of station renovations continued. A new station staffing arrangement was introduced and ticketless travel was reduced. The semi-orbital route connects West, North and East London and will constitute a significant transport link for the 2012 Olympic Games. In order to assist Transport for London in its plans for the expansion of public transport services, ten new trains were launched into passenger service.

In Sweden, our wholly-owned subsidiary was selected in January 2009 as the operator of the Stockholm Metro for eight years beginning on 2 November 2009 with an optional six-year extension. The Company took over operation of the concession on 2 November 2009. The Stockholm Metro links the Swedish capital's central areas with the surrounding suburbs. Approximately 1.2 million passenger trips are made each day on the three rail lines measuring a total of 108 km and served by a network of 100 stations. The Company was chosen to operate the concession from a shortlist of six international bidders. For the maintenance of the rolling stock, we formed a 50:50 joint venture company, Tunnelbanan Teknik Stockholm AB (TBT), with Mantena AS, a rolling stock maintainer in Norway. Operational performance has been good, and plans are in place to further improve performance.

Both London Overground and Stockholm Metro provided good service to passengers despite the exceptionally heavy snow falls experienced in Europe in January 2010.

In Australia, our 60% owned subsidiary, Metro Trains Melbourne (MTM), comprising MTR Corporation (60%), John Holland



We now operate the Stockholm Metro. (photo by Hans Ekestang)

Melbourne Rail Franchise Pty Ltd (20%) and United Group Rail Services Ltd (20%), signed an agreement with the State of Victoria on 31 August 2009 for the operation and maintenance of the Melbourne metropolitan train network for an initial period of eight years beginning on 30 November 2009. The Melbourne metropolitan train network spans 15 lines and 213 stations covering 372 kilometres, with an average weekday patronage of approximately 0.7 million. Following signing of the agreement, the Premier of the State of Victoria visited the Company in late September 2009 to personally experience our service and to learn more about our train operations and reliability.