Profit from Underlying Businesses of
HK$7,303 million

Net Profit attributable to Equity Shareholders of
HK$9,639 million

Turnover Increased 6.6% to
HK$18,797 million

Profit Contribution from Property Development of
HK$3,554 million

Net Assets Increased 8.8% to
HK$106,453 million

Net Cash Inflow of
HK$13,654 million
Generated to Reduce Borrowings

RMB4,000 million
Project Financing Signed for Shenzhen Metro Line 4

Credit Ratings Affirmed at
AA+ and **Aa2 (Outlook Positive)**
on par with Hong Kong SAR

Review of 2009 Financial Results

Profit and Loss

The Group's recurring businesses remained resilient despite the global economic downturn. With the commencement of international railway concessions in Stockholm and Melbourne, total revenues in 2009 grew by 6.6% to HK$18,797 million while operating profit from railway and related businesses rose 1.9% to HK$9,502 million.

Total Hong Kong fare revenue for 2009 increased marginally by 0.3% to HK$11,498 million. Fare revenue from Domestic Service grew 0.7% to HK$7,986 million with patronage growth of 1.1% to 1,218.8 million partly offset by a drop in average fare of 0.4% to HK$6.55. The growth in patronage was partly due to the opening of LOHAS Park Station on 26 July 2009 and Kowloon Southern Link with the new Austin Station on 16 August 2009 while the decrease in average fare was due to the full year impact of extending student half fares to the East Rail, West Rail and Ma On Shan Lines on 28 September 2008. Fare revenue from Cross-boundary Service increased by 1.9% to HK$2,327 million with patronage and average fare increasing by 0.7% to 94 million and 1.2% to HK$24.75 respectively. Against the backdrop of the global economic downturn and the outbreak of human swine flu, Airport Express recorded a revenue decline of 8.3% to HK$617 million attributable to a 6.9% drop in patronage to 9.9 million and a 1.6% decrease in average fare to HK$62.48. Fare revenues from Light Rail, Bus and Intercity totaled HK$568 million, down 2.2% from last year due to the effects of the economic downturn and the human swine flu on our Intercity service.

Revenue from station commercial and rail related businesses decreased 3.5% to HK$3,328 million in 2009, mainly due to the impact of the economy on our advertising business and the one-off receipt from an operator on termination of a telecommunications license in 2008, which was not repeated in 2009. Excluding this one-off income in 2008, the decrease in station commercial and rail related business revenue would have been 1.0%. Advertising revenue in 2009 dropped by 19.4% to HK$597 million while revenue from station retail business increased by 3.8% to HK$1,605 million due to favourable rental reversions as well as rental increases from repartition and renovation of shop areas. Telecommunication income in 2009 dropped by 23.3% to HK$273 million. Excluding the one-off termination receipt in 2008, telecommunication income would have increased by 1.1% mainly from the expansion of commercial bandwidth business. Consultancy revenue was at a similar level to 2008 at HK$159 million. Other miscellaneous incomes from station commercial and rail related businesses recorded an increase of 7.1% to HK$694 million.

Rental, management and other revenue in 2009 increased by 8.0% to HK$2,928 million, with revenue from property rental and management rising 7.8% to HK$2,755 million mainly due to positive rental reversion and the full year income contribution from Elements Phase 2A, which opened in November 2008. Revenue from Ngong Ping 360 increased by 10.9% to HK$173 million due to a variety of marketing and commercial initiatives including the launch of the Crystal Cabin in April 2009.

The take-over of Stockholm Metro and Melbourne Train operations and maintenance in November 2009 generated additional revenue from these franchises of HK$494 million and HK$549 million respectively in 2009. Excluding these two revenue streams, total revenue in 2009 was marginally higher than last year by 0.7%.

Total operating costs before depreciation and amortisation in 2009 were HK$9,295 million, an increase of 11.9% mainly due to the costs incurred in the operations of Stockholm Metro and Melbourne Train after taking over these two franchises. Excluding the operating costs of these two international franchises, total operating expenses would have shown a decrease of 0.5%, mainly due to lower station commercial and rail related businesses expenditure in line with the drop in advertising revenue as well as reduced costs relating to the project management, for KCRC, of the Kowloon Southern Link on completion of the project. Cost control measures in place during the year limited the increases in a number of expenses such as staff costs and related expenses. The operating costs for Stockholm Metro and Melbourne Train in the period since takeover in November 2009, of HK$494 million and HK$541 million, were in line with original forecasts.

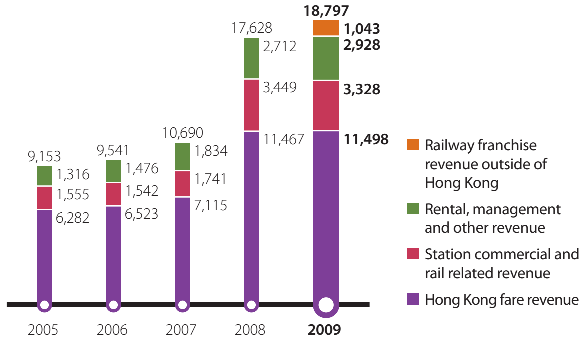
The resulting operating profit from railway and related businesses before depreciation and amortisation increased by 1.9% to HK$9,502 million. Owing to the inclusion of the asset-light, hence lower profit margin railway franchises of Stockholm Metro and Melbourne Train, operating margin decreased from 52.9% in 2008 to 50.6% in 2009. Excluding these two international railway franchises, operating margin would have increased by 0.6 percentage point to 53.5%.

Profits from property development were lower in 2009 by 23.9% when compared to 2008 due mainly to the timing of profit bookings. Property development profits in the year were HK$3,554 million mainly comprising the final profit split with the developer relating to The Harbourside at Kowloon Station, additional profit bookings from The Palazzo and The Capitol as well as surplus proceeds from Lake Silver at Wu Kai Sha Station. As a result of the lower property development profit, operating profit before depreciation and amortisation decreased by 6.7% to HK$13,056 million.

Turnover

Recurring businesses remained resilient with a marginal revenue increase of 0.7%. Including contribution from the new railway franchises outside of Hong Kong, total revenue grew 6.6%.

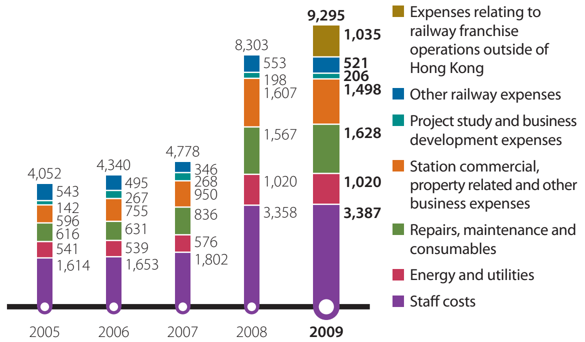
(HK$ million)



Operating Expenses

Effective cost control measures contained total operating costs excluding railway franchises outside of Hong Kong to 0.5% decrease from last year.

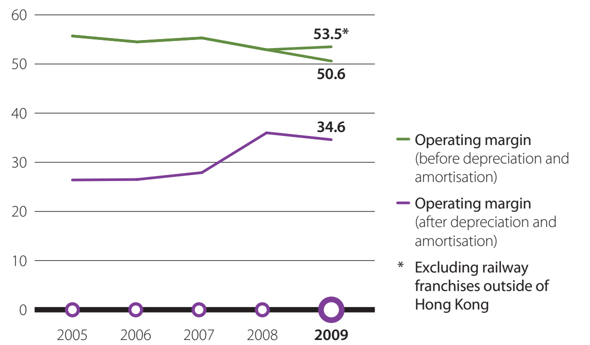
(HK$ million)



Operating Margin

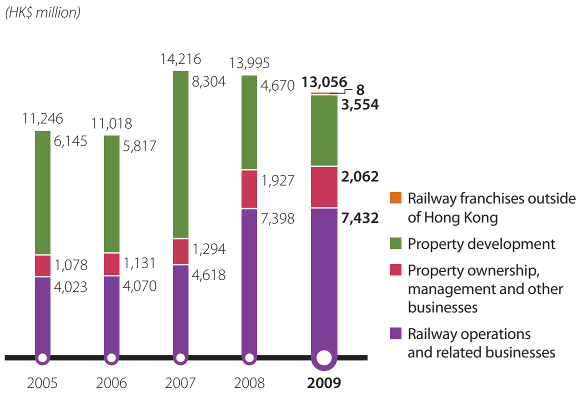
Excluding the lower profit margin railway franchises outside of Hong Kong, operating margin before depreciation and amortisation increased to 53.5%.

(Percentage)



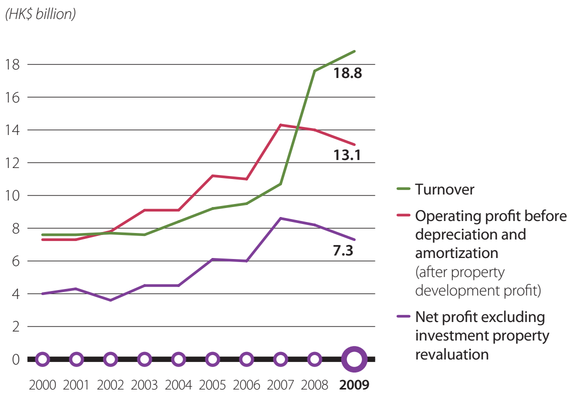
Operating Profit Contributions

Reduction in property development profit due to the timing of profit booking was partially compensated by profit growths in recurring businesses and the new railway franchises outside of Hong Kong.



Net Results from Underlying Businesses

Net profits excluding investment property revaluation decreased 10.8%, reflecting lower property development profit and the impact of tax rate reduction in 2008.



Depreciation and amortisation charges increased by 1.7% to HK$2,979 million, with the capitalisation of LOHAS Park Station, while remaining expenses relating to merger integration were HK$12 million.

Interest and finance charges decreased by 24.7% to HK$1,504 million, reflecting the decrease in the weighted average cost of borrowing from 4.8% per annum in 2008 to 3.7% per annum and the reduced level of debt outstanding. In light of positive sentiments on the property market, a net pre-tax gain in investment property revaluation of HK$2,798 million was recorded as compared with a net loss of HK$146 million in 2008. The Group's share of net profit from non-controlled subsidiaries and associates was HK$160 million, mainly comprising HK$149 million from Octopus Holdings Limited, HK$17 million from the London Overground Concession and a loss of HK$5 million from the first few months of service of Beijing Metro Line 4.

Profit before taxation increased by 27.6% to HK$11,519 million. Income tax amounted to HK$1,880 million, an increase of 151.7% due mainly to the impact of the one-off reduction in deferred tax balances as a result of the reduction in Hong Kong Profits Tax rate from 17.5% to 16.5% in 2008. Net profit attributable to equity shareholders increased by 16.4% to HK$9,639 million. Correspondingly, earnings per share increased from HK$1.47 in 2008 to HK$1.69 in 2009.

Excluding investment property revaluation and the related deferred tax provision, the underlying profit attributable to equity shareholders decreased by 10.8% from HK$8,185 million to HK$7,303 million, reflecting lower property development profits and the impact of the tax reduction in the prior year. Underlying earnings per share decreased by 11.7% from HK$1.45 to HK$1.28.

With good results and strong cash flow in our businesses, including our recurring businesses, the Board has recommended a final dividend of HK$0.38 per share, which, when added to the interim dividend of HK$0.14 per share, will bring full year dividend to HK$0.52 per share, an increase of HK$0.04 per share or 8.3% compared with 2008. The final dividend, amounting to HK$2,177 million in total, offers a scrip dividend option to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. Our financial year ending 31 December 2009 marks the last year in which the Financial Secretary Incorporated ("FSI") has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash. Going forward, subject to the financial conditions of the Company, the Board intends to follow a progressive dividend policy.

Balance Sheet

The Group's balance sheet strengthened further with an 8.8% increase in net assets from HK$97,822 million as at 31 December 2008 to HK$106,453 million as at 31 December 2009.

Total fixed assets increased from HK$131,004 million in 2008 to HK$137,634 million as at 31 December 2009. The major additions for the year included further investment in our SZL4 project as well as the revaluation gain in the Group's investment properties and the transfer of the construction costs of LOHAS Park Station from railway construction in progress upon opening of the station in July 2009.

Railway construction in progress had no balance at the end of 2009 as construction costs incurred in the West Island Line, amounting to HK$1,685 million as at 31 December 2009, were netted off against the Government funding support, and the total costs for LOHAS Park Station were transferred to fixed assets.

Property development in progress, including the costs of development rights acquired in the Rail Merger and other costs of development, decreased from HK$7,895 million in 2008 to HK$6,718 million as the acquisition costs of Lake Silver were taken to the profit and loss account upon development completion. Properties held for sale increased from HK$2,228 million to HK$3,783 million as unsold residential units at Lake Silver were added to inventory. Other than these units, inventory as at the end of 2009 comprised mainly the residential units at The Palazzo.

Interest in non-controlled subsidiaries increased from HK$381 million to HK$490 million following the continued net asset growth at Octopus Holdings Limited. Interest in associates also increased from HK$743 million to HK$823 million, reflecting mainly the equity injections into Shenyang Metro Lines 1 and 2 and the 50% owned Stockholm Metro rolling stock maintenance company of HK$56 million and HK$16 million respectively.

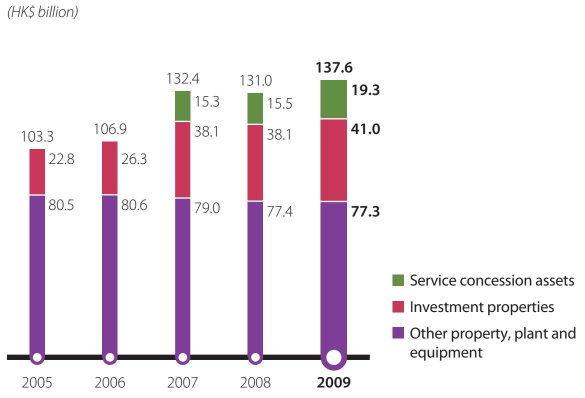
Investment in securities decreased from HK$471 million to HK$227 million due to disposal of investments. Derivative financial assets and liabilities, representing the fair value of derivative financial instruments, were recorded at HK$370 million and HK$237 million respectively as at 31 December 2009 as compared to HK$528 million and HK$305 million in 2008, mainly due to higher medium and long term interest rates, weaker Hong Kong dollar exchange rates, and maturity of certain derivative financial instruments.

Stores and spares increased from HK$690 million in 2008 to HK$1,040 million as higher levels of critical spares were maintained, and additional stores and spares of HK$140 million were taken up for the operations of the Stockholm Metro and Melbourne Train.

Debtors, deposits and payments in advance decreased from HK$7,190 million in 2008 to HK$2,428 million as at 31 December 2009 following cash receipts from purchasers of units at The Capitol and The Palazzo. Loan to a property developer decreased from HK$3,720 million in 2008 to HK$1,916 million as a result of a scheduled repayment made in December 2009 of HK$2,000 million. Amounts due from the Government and other related parties increased from HK$426 million in 2008 to HK$12,788 million due mainly to an amount of HK$12,252 million to be received from the Government later in March 2010 relating to funding support for the West Island Line.

Fixed Assets Growth

Fixed assets increased owing to further investment in SZL4 and investment property revaluation gains.



Total loans outstanding decreased from HK$31,289 million in 2008 to HK$23,868 million as surplus cash generated from our businesses was applied to repayment of loans.

Creditors and accrued charges increased from HK$5,334 million to HK$20,497 million, attributable mainly to the un-utilised portion of the Government funding support for the West Island Line and the deposits received from the sale of property development units at Le Prestige. The un-utilised portion of West Island Line funding support will be utilised as construction work progresses.

Amounts due to the Government and a related party included the Group's obligation to reimburse KCRC after tender award on the costs of property enabling works for certain KCRC property development sites, the accrued fixed annual payment for the service concession, and the additional land rent payable to the Government in relation to the West Island Line. The amount increased from HK$882 million in 2008 to HK$923 million as at 31 December 2009 mainly due to interest accrued on the costs of property enabling works.

Loan from minority shareholders of a subsidiary at the end of 2009 amounted to HK$136 million, representing the portion of shareholders' loan provided to MTM in 2009 by the 40% minority shareholders of MTM.

Deferred income increased from HK$156 million in 2008 to HK$167 million as at 31 December 2009, comprising HK$124 million relating to property development mainly for Kowloon Packages 5, 6 and 7 and LOHAS Park Package Two and HK$43 million relating to the telecommunication business.

Current tax liabilities decreased from HK$450 million to HK$430 million as at 31 December 2009. Deferred tax liabilities increased from HK$12,220 million in 2008 to HK$12,804 million mainly due to deferred tax provision on investment property revaluation.

Share capital, share premium and capital reserve increased by HK$1,378 million to HK$42,497 million at the end of 2009 as a result of shares issued for scrip dividend and share options exercised. Together with the increase in retained earnings, net of dividends paid, of HK$6,917 million and the increase in fixed assets revaluation reserve and other reserves of HK$291 million, total equity attributable to shareholders of the Company increased by HK$8,586 million to HK$106,387 million as at 31 December 2009. Including obligations under the service concession and loan from minority shareholders of a subsidiary as components of debt, the Group's net debt-to-equity ratio decreased from 42.1% at 2008 year end to 25.8% at 2009 year end.

Cash Flow

While recurring railway and related businesses generated a similar level of cash inflow as in 2008 at HK$9,479 million, tax payment in 2009, including income tax for 2008 and provisional income tax for 2009, was HK$795 million more than in 2008 as the cumulative tax losses of the Company had been fully utilised since the second half of 2008. As a result, net cash inflow from railway and related activities after tax payments decreased by 9.1% to HK$8,107 million. During the year, substantial amounts of cash in respect of property developments were received, including HK$11,784 million from purchasers of The Capitol, Le Prestige, The Palazzo and The Harbourside coupled with HK$2,000 million of scheduled loan repayment from the developer of LOHAS Park Package Two. Including net proceeds from sales of investment in securities of HK$236 million, dividend income and net cash receipts in respect of investments in non-controlled subsidiaries and associates of HK$174 million, as well as proceeds from disposal of fixed assets of HK$43 million, total cash inflow for 2009 was HK$22,344 million.

Cash outflows for capital projects and property developments were HK$5,391 million, principally for the purchase of railway operational assets and railway extension projects in Hong Kong, construction of SZL4 as well as property renovation and development projects. After settlement of the fixed annual payment of HK$750 million on service concession, equity injection of HK$72 million to the associates for Shenyang Metro Lines 1 and 2 and the Stockholm rolling stock maintenance company, payments of interest and dividends of HK$1,134 million and HK$1,362 million respectively as well as change in working capital, a net cash inflow of HK$13,654 million was generated before loan repayment and borrowings. After a net loan repayment of HK$7,294 million, cash balance of the Group increased by HK$6,360 million to HK$7,094 million as at 31 December 2009.

Financing Activities

New Financings

In 2009, governments worldwide continued to provide monetary and fiscal stimuli to counter the effect of a deep recession triggered by the global financial crisis. The US Federal Reserve held the Fed Funds target rate steady at 0 – 0.25% throughout the year and suppressed long-term interest rates through quantitative easing by buying back treasury and mortgage-backed bonds. By year end, the global economy had shown more concrete signs of recovery, and the US yield curve began to steepen, reflecting expectation of higher inflation and fear of a potentially large supply of treasury debts in later years.

Corporate borrowing activities in Hong Kong were slow in the first half of the year with credits being extended mostly to top-rated borrowers as major banks remained cautious. As economic conditions continued to improve, loan and debt issuance volume grew significantly in the second half.

Domestic liquidity remained strong, further boosted by significant funds flowing into Hong Kong. The very ample liquidity saw 3-month HIBOR declining from 1% per annum at the beginning of 2009 to 0.14% per annum at year end. However, yield of the 10-year Hong Kong Exchange Fund Notes rose to 2.6% from 1.2% during the period in line with the steepening US yield curve.

Throughout the year, the Group remained in a very strong liquidity position, enjoying significant cash surplus from operations and property development activities. With strong cash flows and substantial committed undrawn banking facilities, we did not undertake any significant debt issuance during the year, with the HK$500 million 5-year fixed rate medium term note issued earlier in the year being our only debt issuance in 2009.

In the Mainland of China, following the signing of the Concession Agreement for SZL4, the Group in May formally concluded a RMB4.0 billion financing agreement for the project that comprises a RMB3.6 billion 20-year term loan and other facilities.

Cost of Borrowing

The Group's average borrowing cost for 2009 fell to 3.7% from 4.8% in 2008. Net interest expense charged to the Profit and Loss Account, after interest capitalised of HK$139 million, fell to HK$1,504 million in 2009 from HK$1,998 million in 2008 due to reduced borrowings and lower interest rates.

Treasury Risk Management

The Board of Directors approves policies for overall treasury risk management including specific area, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative and non-derivative financial instruments, as well as investment of excess liquidity.

The Group's well established Preferred Financing Model (the "Model") is an integral part of these risk management policies. The Model specifies the preferred mix of fixed and floating rate debts, sources of funds from capital and loan markets, and debt maturity profile as well as a permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. During 2009, in accordance with the Model, the Group maintained a well diversified debt portfolio with adequate forward coverage of funding requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures forms an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculative purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

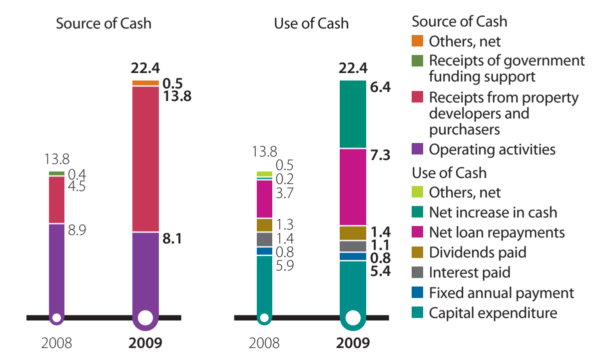
To control and diversify counterparty risks, the Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on

Cash Utilisation

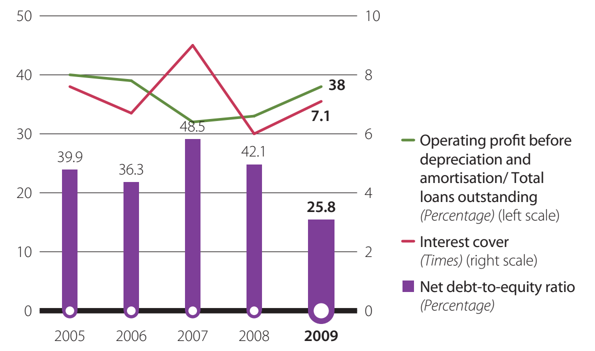
Net cash inflow generated in 2009 was used to reduce borrowings.

(HK$ billion)



Debt Servicing Capability

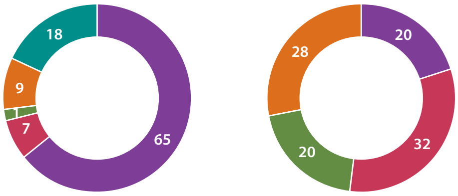
Total debt outstanding decreased in 2009, with a corresponding decrease in debt-to-equity ratio.



Sources of Borrowing

Although Hong Kong is our main market, our strategy is to diversify our funding sources and maintain ready access to other important international markets.

(Percentage) (As at 31 December 2009)



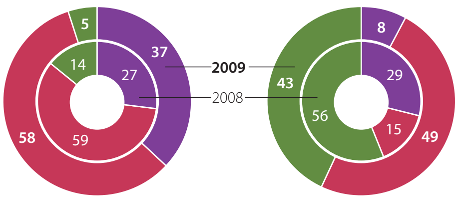
By market
- Hong Kong
- US
- Japan
- Europe
- Asia (excluding Japan)

By instrument
- US$ Global bonds
- Medium term notes
- US$ Eurobonds
- Bank loans & export credits

Use of Interest Rate and Currency Risk Hedging Products

The Company is an active user of derivative financial instruments, and has a strict policy of limiting their usage for hedging purposes only.

(Percentage)* (As at 31 December 2009)



By instrument
- Interest rate swaps
- Cross currency & interest rate swaps
- Foreign exchange forwards

By maturity
- Beyond 5 years
- 2 to 5 years
- Within 2 years

* Calculated based on nominal value

the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits are similarly subject to a separate counterparty limit based on the respective counterparty's credit ratings and/or status as Hong Kong's note issuing bank. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty based upon its credit ratings. Deposit outstanding and maturity profile are monitored on a frequent basis to ensure they are within the approved limits. In anticipation of continuing cash surplus in the next few years, the Group has recently revised the guidelines to allow for longer term investment.

The Group actively monitors credit ratings and credit related changes of all its counterparties using such additional information as the counterparties' credit default swap levels, and would on the basis of all such information adjust the maximum counterparty limits of, and/or credit exposure to, its counterparties.

The Group adopts a prudent approach to managing liquidity risk, and will maintain sufficient cash balance and undrawn committed banking facilities to provide forward coverage of at least 6 to 15 months of all projected cash requirements, including debt repayments and capital expenditures, as specified by the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if necessary should such stress tests reveal significant risk of material cash flow shortfall.

Credit Ratings

The Company was the first Hong Kong corporate entity to obtain internationally recognised credit ratings and has since maintained strong investment grade ratings on a par with the Hong Kong SAR Government, reflecting its strong financial position and support from the Government.

In June, Standard & Poor's placed the Company's AA+ long-term corporate and issue ratings on CreditWatch upon announcement of a revised methodology for rating government-related entities. In October, after further analysis, our AA+ ratings were affirmed by the agency with a stable outlook, which is the same as the Hong Kong SAR Government sovereign ratings.

In November, Moody's upgraded their outlook on the Company's Aa2 foreign currency issuer and senior unsecured debt ratings to positive from stable, following a similar decision to change the outlook on Hong Kong SAR Government's Aa2 sovereign bond ratings to positive.

Rating & Investment Inc. of Japan maintained the Company's issuer rating at AA+ and short-term debt rating at a • 1+, with a stable outlook.

Financing Capacity

The Group's capital expenditure programme consists mainly of three parts – railway projects in Hong Kong, property investment and development in Hong Kong, and investments outside of Hong Kong.

Capital expenditure for railway projects in Hong Kong comprises mainly investment in and expenditures relating to new railway projects, including ownership projects such as the West Island Line, South Island Line (East) and the Kwun Tong Line Extension, as well as outlays for maintaining and upgrading the existing rail lines. Concession projects such as the Shatin to Central Link and Express Rail Link will be fully funded by the Government.

Capital expenditure for property investment and development comprises mainly investments in shopping centres, including renovation works, investments for property development such as part payment of land premium, and payment for infrastructure and enabling works. Expenditure for investments outside of Hong Kong consists primarily of capital expenditure for SZL4 and equity injection for Hangzhou Metro Line 1.

Based on current programmes and before netting off the Government funding support for the West Island Line, total capital expenditures for the next three years of 2010, 2011 and 2012 are estimated at HK$32.5 billion for railway projects in Hong Kong, HK$8.2 billion for property investment and development in Hong Kong, and HK$6.8 billion for investments outside of Hong Kong, totalling HK$47.5 billion. Out of this total, an estimated amount of HK$17.6 billion is expected to be incurred in 2010, HK$16.5 billion in 2011, and HK$13.4 billion in 2012.

With a forward financing coverage extending to the second half of 2012, it is estimated that funding for capital expenditures estimated for 2010, 2011 and most of 2012 as well as for debt refinancing during the period would be adequately covered by the Group's existing cash surplus and undrawn committed facilities as well as future projected cash flows and the Government's funding support for the West Island Line.

Credit ratings	Short-term ratings*	Long-term ratings*
Standard & Poor's	A-1+/A-1+	AA+/AA+
Moody's	-/P-1	Aa2/Aa2
Rating & Investment Information Inc. (R&I)	a • 1+	AA+

* Ratings for Hong Kong dollar/foreign currency denominated debts respectively

Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.

(Preferred Financing Model) vs. **Actual debt profile** As at 31 December 2009