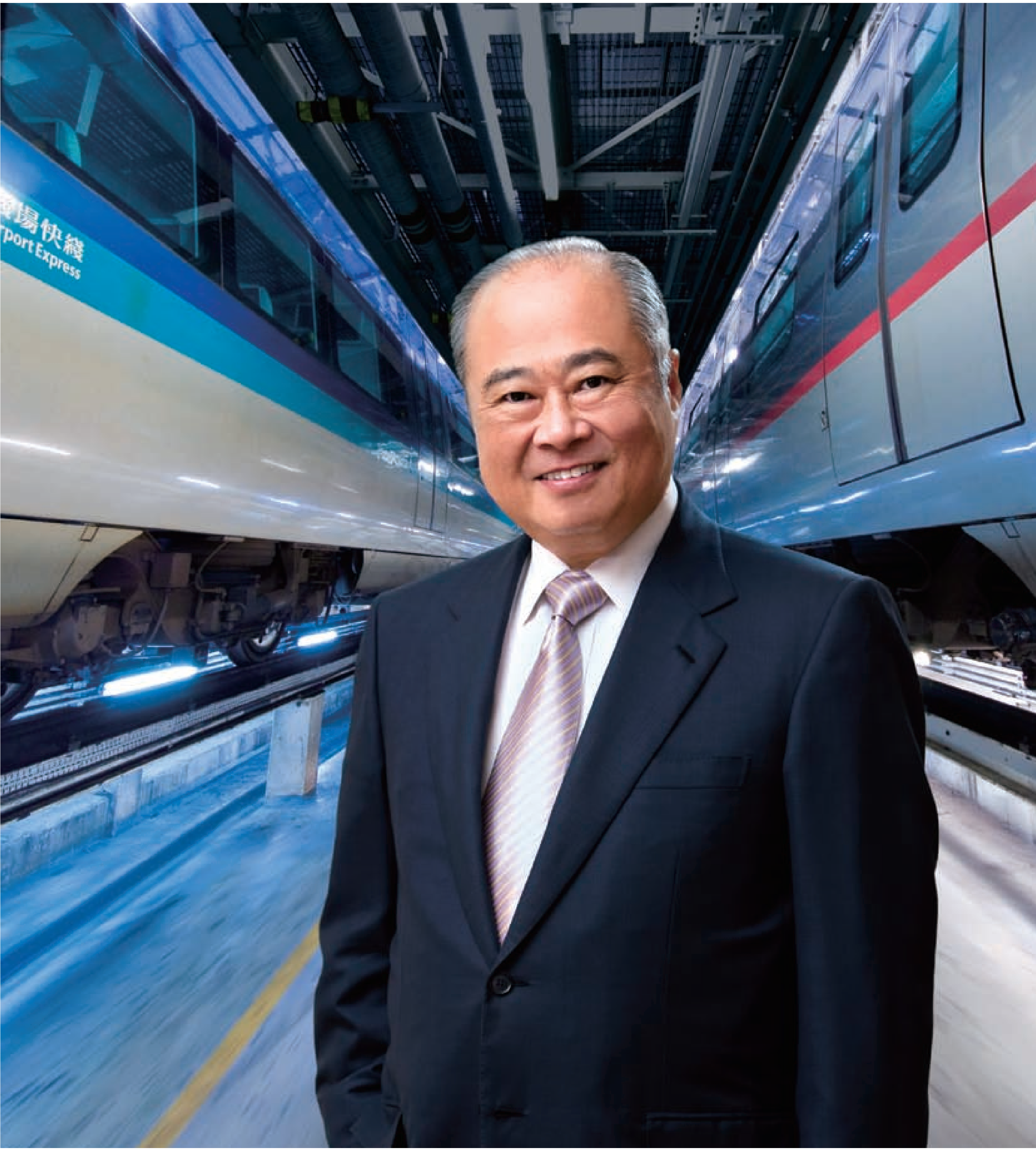
"The growth of our businesses in Hong Kong and overseas accelerated, with new milestones achieved."

Dear Stakeholders,

I am pleased to report that 2009 was another successful year for MTR Corporation. Despite challenging economic conditions and the threat posed by human swine influenza, our recurrent businesses, comprising passenger transport services, station commercial and rail related businesses along with property rental and management, registered satisfactory performance while our property development business also achieved good results. The growth of our businesses in Hong Kong and overseas accelerated, with new milestones achieved.

Good progress was made during the year on the five new Hong Kong rail projects, which, together with the opening of both the Kowloon Southern Link and the final phase of the Tseung Kwan O Line, represent a new chapter in the Company's history. Through this extensive network expansion, we are building connections throughout Hong Kong and to the Mainland of China that will both strengthen the Company's growth opportunities and enhance connectivity for our customers.

In the Mainland of China, we signed Concession Agreements for the Shenzhen Metro Line 4 (SZL4) Build-Operate-Transfer (BOT) project in March 2009 and for the operation and maintenance of Shenyang Metro Lines 1 and 2 in May 2009. On 28 September 2009, our Public-Private-Partnership (PPP) project, Beijing Metro Line 4 (BJL4), opened for passenger service in the capital city. We were honoured that President Hu Jintao travelled on the line to personally experience the service. On 30 December 2009, our joint venture company Beijing MTR Corporation Limited signed a Concession Agreement for the operation and maintenance of the Daxing Line, an extension of BJL4. 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 under a PPP project for the investment, construction and operations of the Hangzhou Metro Line 1. The Concession Agreement with Hangzhou Municipal Government is subject to approval by relevant authorities in the Mainland.


機場快綫
Airport Express

Overseas, our wholly-owned subsidiary in Sweden commenced operation of the Stockholm Metro on 2 November 2009, while our 60% owned subsidiary, Metro Trains Melbourne (MTM), took over the operation of the Melbourne metropolitan train network in Australia on 30 November 2009.

The Company's results in 2009 reflected the defensive nature of our recurrent businesses. Revenue, which now includes revenue from our new overseas concessions, increased by 6.6% to HK$18,797 million while operating profit from railway and related businesses before depreciation and amortisation increased by 1.9% to HK$9,502 million. Excluding our overseas rail subsidiaries, revenues increased by 0.7%, operating profit increased by 1.8% and operating margin improved by 0.6 percentage point to 53.5%. Property development profit was HK$3,554 million compared to HK$4,670 million in 2008. The 2009 property development profit came mainly from final profit recognition relating to The Harbourside at Kowloon Station, recognition of profit from Lake Silver as well as additional profit recognition from The Capitol and The Palazzo. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders decreased by 10.8% to HK$7,303 million due to lower property development profit and the one-off reduction in deferred tax balances as a result of the reduction in Hong Kong Profits Tax rate in 2008. Gain in revaluation of investment properties was HK$2,798 million pre-tax (HK$2,336 million post-tax) compared with a property revaluation deficit of HK$146 million pre-tax in 2008. Therefore, net profit attributable to equity shareholders was HK$9,639 million, an increase of 16.4% from 2008, with reported earnings per share of HK$1.28 before investment property revaluation and HK$1.69 after such revaluation. Your Board has recommended a final dividend of HK$0.38 per share, bringing the full year dividend to HK$0.52 per share, an increase of 8.3% compared with the previous year.

Hong Kong Passenger Services

Our Hong Kong fare revenue, including both rail and bus passenger services, was HK$11,498 million in 2009, an increase of 0.3% over 2008.

Patronage

In 2009, total patronage for all of our rail and bus passenger services in Hong Kong increased by 1.4% to 1,506.6 million as compared to last year.

Our Domestic Service, comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines, recorded total patronage of 1,218.8 million. This represents an increase of 1.1% when compared with patronage in 2008, partly due to the opening of the LOHAS Park Station on 26 July 2009 and Kowloon Southern Link on 16 August 2009. Average weekday patronage for the Domestic Service in 2009 was 3.5 million, which represents an increase of 0.9% over 2008.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 94.0 million in 2009, representing an increase of 0.7% compared to 2008.

Passengers using the Airport Express in 2009 fell by 6.9% to 9.9 million when compared with 2008, mainly due to a marked reduction in air travel as a result of the impact of human swine influenza and the economic downturn.

Passenger volume on Light Rail, Bus and Intercity was 183.9 million in 2009, an increase of 4.7% compared with 2008. Overall, average weekday patronage on the Hong Kong rail and bus passenger services was 4.3 million in 2009.

Market Share

Our overall share of the franchised public transport market in Hong Kong rose to 42.6% in 2009 as compared to 42.0% last year. Within this total, our share of cross-harbour traffic increased to 64.0% from 63.4% whilst our market share in the Cross-boundary business declined to 55.3% from 56.2% due to increased competition.

Fare Revenue

Of total Hong Kong fare revenue of HK$11,498 million in 2009, Domestic Service revenue accounted for HK$7,986 million, an increase of 0.7%. Average fare per passenger on our Domestic Service decreased by 0.4% to HK$6.55 due to the full year impact of extending student half fares to the East Rail, West Rail and Ma On Shan lines in September 2008.

Fare revenue of the Cross-Boundary Service was HK$2,327 million in 2009, which represents an increase of 1.9% when compared with 2008. Fare revenue of the Airport Express was HK$617 million in 2009, which represents a decrease of 8.3% over 2008.

■ Our overall share of the franchised public transport market in Hong Kong rose to 42.6% in 2009 as compared to 42.0% last year. ■

In our Cross-boundary Service, average fare per passenger was HK$24.75 in 2009, an increase of 1.2% when compared with 2008. Average fare per passenger for the Airport Express decreased by 1.6% to HK$62.48 mainly due to changes in passenger mix.

The first application of the Fare Adjustment Mechanism took place in July 2009. In accordance with the agreed methodology, the calculated fare increase of 0.7%, based on the change in Composite Consumer Price Index and Transport Wage Index in 2008, was below the trigger point for a fare adjustment of ±1.5%. Hence fares were not changed and the 0.7% will be carried forward to the fare adjustment calculation in 2010.

Attracting Patronage

During a year of slow economic activities, we continued to offer attractive promotions to stimulate patronage growth. Fare promotions included the provision of 28 fare saver machines offering discounts to attract more passengers, a Lucky Draw for Octopus users, discount flat fares for senior citizens on special days, MTR shop discounts, and a series of offers under the MTR Club Bonus Points Scheme. Several campaigns were also launched to increase ridership on the Cross-boundary Service, as well as discounted rides on the Airport Express. To further meet passenger demand following the opening of the Kowloon Southern Link, the first two of 22 new Light Rail vehicles began service in December. Also, refurbishment of the interior of all Airport Express trains was completed by the middle of the year. To further improve passenger service, at least one wide gate was installed at every East Rail Line station (except Racecourse Station). Passengers also enjoyed enhanced connectivity to our network with new pedestrian links at four other stations.

Service and Performance

We continue to exceed both the minimum performance levels as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges. Train service delivery, passenger journeys on time and train punctuality were at 99.7% level or above.

Our devotion to service excellence was once again reflected in the winning of a wide array of prestigious awards, including the Gold Award in The Hong Kong Association for Customer Service Excellence Limited's "Customer Service Excellence Award – Grand Award 2008". The effectiveness of our marketing efforts was recognised with our Rail Merger campaign winning the Gold Prize in the HKMA/TVB Awards for Marketing Excellence 2009.

Station Commercial and Rail Related Businesses

Revenue from our station commercial and rail related businesses in 2009 was HK$3,328 million representing a decrease of 3.5% over 2008 due mainly to lower advertising revenue as well as a one-off receipt in 2008 from an operator on termination of a telecommunications license, which was not repeated in 2009. Excluding this one-off impact, revenue would have decreased by 1.0%.

Station retail revenue in 2009 was HK$1,605 million, 3.8% above the previous year. This improvement was largely due to expanded new retail areas, new rental contracts being awarded at higher rents, and the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations. Renovation of 80 shops was completed during the period at 13 stations and 23 new retailers were also added. The total number of station shops at the end of 2009 was 1,228 with total retail area of 52,788 square metres.

Advertising revenue in 2009 was HK$597 million, representing a decrease of 19.4% when compared with 2008. The main cause of this decrease was a marked reduction in advertising spending due to the economic downturn. To address this challenge, more aggressive sales packages and incentive schemes to advertisers were launched. A series of new advertising formats were also introduced in our system including a Digital Panel Network of plasma televisions installed at ten strategic stations in the first half of the year. In total, there are now 20,742 advertising points in our stations, 26,823 in trains (including 4,545 Liquid Crystal Displays) and 67 exhibition and display sites in 42 stations.

Revenue from our telecommunications services in 2009 was HK$273 million, representing a reduction of 23.3% due to the one-off receipt in 2008 mentioned above. Excluding this one-off receipt in 2008, revenue from this business would have increased by 1.1%. In March 2009, an advanced 2G/3G mobile network was launched by one of Hong Kong's leading telecom operators, offering passengers high data transmission speed of up to 21Mbps in our railway system. In August 2009, 3G mobile phone coverage was fully enabled along all West Rail Line stations. In addition, 43 new contracts were concluded during the year for the renting of our railway premises' rooftops to house Mobile Phone, Global Positioning Systems and Microwave Antennae.

Revenue from external consultancy was HK$159 million during 2009, an increase of 0.6% when compared with 2008, with consultancy projects in Hong Kong, the Mainland of China, Thailand, Taiwan, Dubai, Delhi and Brazil.

Property and Other Businesses

In the beginning of 2009, the Hong Kong property market saw some consolidation. However, as confidence improved and with low interest rates, market sentiment returned by mid year and property activities rose.

Property Development

Profit from property development for 2009 was HK$3,554 million, with major contributors being final profit recognition 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 reported in our interim results, pre-sales of Lake Silver at Wu Kai Sha were launched in May 2009. Over 90% of the 2,169 units are now sold and the Occupation Permit was obtained in July 2009.

All 1,688 units of Le Prestige of LOHAS Park Package Two were sold by August 2009 with the Occupation Permit being issued on 29 January 2010. Pre-sales were also launched for Le Prime, also at LOHAS Park Package Two, in November 2009 with good results. We do not have any financial interest in Le Prime. In September, we sold all the units which we received as final profit sharing with the developer at The Harbourside in Kowloon Station.

Pre-sales will commence shortly for Phase 1 of Festival City in Tai Wai Maintenance Centre.

Along the Airport Railway, the sale of the town house development which is the last phase of Caribbean Coast shall commence shortly. In February 2009, unit sales were launched for The Cullinan. We have no financial interests in The Cullinan.

In our property tendering activity, we successfully awarded Austin Station Sites C and D to Fast New Limited, a consortium formed by New World Development Company Limited and Wheelock Properties Limited, on 2 March 2010. In this development, we will be contributing approximately HK$3.9 billion as part of the land premium for the sites.

Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses in 2009 was HK$2,928 million, an increase of 8.0% over 2008.

Our property rental income increased by 8.6% to HK$2,548 million, due mainly to the addition of another 988 square metres of space at Elements in November 2008 as well as an average increase on rental reversion of 7% across our retail shopping mall portfolio. At the end of December 2009, we maintained close to 100% occupancy of our shopping malls and the Company's 18 floors at Two International Finance Centre were fully leased out.

Elements, our premium shopping mall in Hong Kong, won the 2009 Distinguished Market Leadership Award and Award for Marketing Excellence from the Hong Kong Management Association. Elements continued to receive international recognition by winning the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and an Official Honouree distinction in the 13th Annual Webby Awards while Telford Plaza's "Sichuan Relief Programme" won the Silver Award in the Community Relations Category of the 2009 Asia Shopping Centres Awards organised by the International Council of Shopping Centres (ICSC).

Ginza Mall in Beijing, with 18,720 square metres of lettable floor area, continues to raise the bar for service and quality standards in the capital city. Amongst the awards and honours received in its second full year of operation was an Outstanding Contribution Award for the 60th National Anniversary Celebration sponsored by the Beijing Dongcheng District People's Government Dongzhimen Jiedao Office.

At the end of December 2009, the Company's attributable share of Hong Kong investment properties included lettable floor area of 223,047 square metres of retail properties, 41,059 square metres of offices and 10,402 square metres of real estate for other usage.

Property management revenue in 2009 was HK$207 million with the number of residential units under our management increasing to 79,449 as at the end of December, whilst commercial space under management was 742,414 square metres.

Octopus

Octopus continued its expansion in the retail sector by recruiting more small-to medium-sized retail merchants. By the end of December, there were over 3,000 service providers in Hong Kong which utilised Octopus payment service. Cards in circulation were 20.6 million and average daily transaction volume and value were 10.9 million and HK$97.6 million respectively. The Company's share of Octopus' net profit for 2009 was HK$149 million, an increase of 9.6% from 2008.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island generated HK$173 million of revenue in 2009, a 10.9% increase over 2008 despite the decline in tourist arrivals in Hong Kong. As a result of a series of innovative promotions, visitor numbers exceeded 1.4 million. In April 2009, Ngong Ping 360 launched the Crystal Cabins, the world's first cable car cabins to be fitted with a full-width transparent floor, which were met with enthusiastic responses. For the Mid-Autumn Festival on 3 October, Ngong Ping 360 introduced its first-ever night service.

Future Growth

Hong Kong

The Kowloon Southern Link with the new Austin Station opened for service on 16 August 2009, strategically connecting the existing East Rail Line with the West Rail Line at Hung Hom Station.

■ The Company's growth strategy in the Mainland of China and overseas achieved a number of milestones during the year. ■

The final phase of the Tseung Kwan O Line was completed with the opening of LOHAS Park Station on 26 July 2009 to coincide with the occupancy of The Capitol at LOHAS Park. The opening marked the full completion of the Tseung Kwan O Line, enabling a growing young community to benefit from the railway service.

The West Island Line, a 3-km extension of our Island Line from Sheung Wan to Kennedy Town, is a "Community Railway" incorporating significant input from local district residents. It contains many features that preserve local heritage and provide urban renewal opportunities. On 13 July 2009, the Project Agreement was signed between the Company and Government and construction commenced shortly afterwards. The line is targeted to open in 2014, reducing travelling time from Kennedy Town to Sheung Wan to only eight minutes, and from Kennedy Town to Tsim Sha Tsui to fourteen minutes.

The planning and design of other new railway projects made good progress. The South Island Line (East) was gazetted under the Railways Ordinance on 24 July 2009, and further public consultations began in September in advance of Government authorisation of the scheme.

Preliminary design of the Kwun Tong Line Extension was completed in June 2009, with gazettal and commencement of detailed design following in November and December respectively. The 3-km Kwun Tong Line Extension 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 East West Corridor of the Shatin to Central Link.

The Express Rail Link (Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link) was authorised by the Government on 20 October 2009. The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the 16,000-km new high speed intercity rail network in the Mainland of China. Following funding approval on 16 January 2010, construction commenced in the same month. The Express Rail Link is expected to start service in 2015 and the Government has agreed to invite the Company to operate this service on a concessionary basis.

The preliminary design of the Shatin to Central Link was completed in 2009. This rail project comprises two sections. The 11-km East West Corridor will extend the Ma On Shan Line from Tai Wai, via Diamond Hill, to Hung Hom where it will connect with the West Rail Line. The 6-km North South Corridor will form Hong Kong's fourth rail harbour crossing, extending the East Rail Line from Hung Hom to Hong Kong Island.

Hong Kong Project Funding

The funding model for these new rail projects will take different forms, each appropriately designed for the project. For the West Island Line, which will use the capital grant model, we received the initial part of this grant of HK$400 million in February 2008 with the balance of HK$12,252 million to be received in the first quarter of 2010.

The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach.

The Service Concession model used successfully in the Rail Merger was adopted for Kowloon Southern Link and will be adopted for the Shatin to Central Link and the Express Rail Link. On 26 January 2010, we signed an Entrustment Agreement with Government entrusting MTR Corporation with the construction of the Express Rail Link. The Company will act as the project manager in the construction phase and the Government will invite the Company to operate the railway after its completion. Operational requirements relating to the Express Rail Link are still under discussion with the Government and entities from the Mainland of China. For the Shatin to Central Link, we continue with further planning and design work funded by Government under an Entrustment Agreement signed in November 2008. Funding arrangements for the construction of this system will be subject to future agreement with Government.

Mainland and Overseas Growth

The Company's growth strategy in the Mainland of China and overseas achieved a number of milestones during the year. 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 such as those of the Stockholm and Melbourne train 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. BJL4 (which started service on 28 September 2009), 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, as investment projects of this nature, with relatively large depreciation and interest cost, will take a few years to achieve profit.

Mainland of China

In Beijing, BJL4 successfully opened on 28 September 2009. The investment and construction of the line was undertaken by Beijing MTR Corporation Limited, a joint venture comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group Ltd. (49%). Initial reaction from the Beijing public and media to the train service, station design and customer service was positive and patronage has been very encouraging.

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 BJL4 to the district of Daxing.

In Shenzhen, good progress has been made following the signing of the Concession Agreement for the SZL4 BOT project in March 2009. Our takeover of the operations of Phase 1 of SZL4, which is 4.5 km long, is expected to occur in mid-2010. Full line operations, including Phase 2, are expected to commence in the middle of 2011.

■ In Beijing, BJL4 successfully opened on 28 September 2009. ■

Our discussions with the Shenyang Municipal Government on the operation and maintenance of Shenyang Metro Lines 1 and 2 resulted in the signing of a Concession Agreement in May 2009. A management team for the joint venture has been established, and preparation works and training are now underway.

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 PPP project for the investment, construction and operations of 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, 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, 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.

Overseas

In the UK, our 50:50 joint venture, LOROL, continues to meet targets and to introduce service improvements to the London Overground following takeover of the concession in November 2007.

In Sweden, on 21 January 2009, our wholly-owned subsidiary was selected as the operator of the Stockholm Metro system under an eight-year concession and we took over operation of the concession on 2 November 2009. 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 MTM, comprising MTR Corporation (60%), John Holland 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 and MTM took over the operation of the concession on 30 November 2009.

Financial Review

Total Hong Kong fare revenue from our rail and bus passenger services increased marginally by 0.3% to HK$11,498 million while non-fare revenue, comprising station commercial and rail related businesses as well as rental, management and other revenue, increased by 1.5% to HK$6,256 million. Hence, total revenue before accounting for the railway franchise revenue outside of Hong Kong, Stockholm and Melbourne rail concessions, both of which started towards the end of the year, increased by 0.7% to HK$17,754 million. Including the revenues from the two franchises of HK$1,043 million, total revenue in 2009 increased by 6.6% to HK$18,797 million. Total operating costs increased by 11.9% to HK$9,295 million due mainly to the operating costs of the two international railway franchises, excluding which total operating costs would have decreased by 0.5%. Operating profit from railway and related businesses before depreciation and amortisation increased by 1.9% to HK$9,502 million (an increase of 1.8% to HK$9,494 million if the international franchises are excluded). Excluding the international franchises, operating margin would have increased by 0.6 percentage point from 52.9% to 53.5% and, including the lower margin international franchises, operating margin was 50.6%.

Owing to the different timing of profit bookings, property development profit decreased by 23.9% to HK$3,554 million. Operating profit before depreciation and amortisation therefore decreased by 6.7% to HK$13,056 million. Depreciation and amortisation increased by 1.7% to HK$2,979 million with additional depreciation on the newly opened LOHAS Park Station while the remaining expenses for merger integration were HK$12 million. Interest and finance charges decreased by 24.7% to HK$1,504 million, reflecting the decrease in average cost of borrowing and reduced level of debt outstanding. Including the non-cash revaluation gains on investment properties of HK$2,798 million as well as the share of profits from Octopus Holdings Limited, LOROL, BJL4 and TBT totalling HK$160 million, profit before taxation in 2009 increased by 27.6% to HK$11,519 million. Income tax increased by 151.7% to HK$1,880 million mainly due to the one-off reduction in deferred tax balances resulting from the reduction in Hong Kong Profits Tax rate from 17.5% to 16.5% in 2008. Net profit attributable to shareholders of the Company in 2009 therefore increased by 16.4% to HK$9,639 million, or HK$1.69 per share as compared with HK$1.47 per share in 2008.

Excluding investment property revaluation, the more representative net profit from underlying business attributable to shareholders of the Company decreased by 10.8% to HK$7,303 million, or HK$1.28 per share as compared with HK$1.45 in 2008, primarily due to the reduction in property development profit and the prior year reduction in corporate tax rate.

The Group's balance sheet further strengthened with an 8.8% increase in net assets to HK$106,453 million as at the end of 2009. Total assets increased from HK$159,338 million to HK$176,494 million mainly attributable to the funding support receivable from the Government for the West Island Line, investment property revaluation gains as well as further investment in SZL4. Total liabilities increased from HK$61,516 million to HK$70,041 million mainly due to the un-utilised funding support for the West Island Line set off against a reduction in debt. 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 improved from 42.1% at 2008 year end to 25.8% at 2009 year end.

During the year, the Group generated substantial cash inflow. Although cash inflow from operating activities (excluding property development) after tax payments decreased by 9.1% to HK$8,107 million as a result of higher cash tax paid following the full-utilisation of cumulative tax losses in 2008, cash received in respect of property development was substantial at HK$13,784 million, including HK$2,000 million of scheduled loan repayment from a property developer. Including the net cash receipts in respect of non-controlled subsidiaries and associates, the net sale of investment in securities as well as fixed asset disposal, total cash inflow generated in 2009 amounted to HK$22,344 million. After netting off total cash outflows of HK$8,690 million mainly for capital projects, property developments, settlement of the fixed annual payment to KCRC (Kowloon-Canton Railway Corporation) as well as interest and dividend payments, net cash inflow of HK$13,654 million was generated, of which HK$7,294 million was used to reduce debt.

The Board has recommended a final dividend of HK$0.38 per share, which, when added to the interim dividend of HK$0.14, will give a total dividend of HK$0.52 per share for the year, representing an increase of HK$0.04 or 8.3% as compared to last year. Our financial year ended 31 December 2009 marks the last year in which the Financial Secretary Incorporated 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.

Human Resources

As the Company continues to grow, our ability to employ, retain and motivate staff to meet our strategic ambitions has become more important than ever.

Throughout the year, a carefully developed human resources plan was rolled out to meet the increase in manpower requirements for the new extensions in Hong Kong and our growth business beyond Hong Kong. At the same time, we strengthened our training and development programmes to develop future leaders who can take the Company to its next stage of development.

Although we have implemented vigorous cost control programmes in a year of economic recession, we continued to provide a stable employment environment for all of our colleagues and we continued with our annual intake programme of graduate trainees from Hong Kong, the Mainland of China and overseas universities.

Outlook

Although economic conditions are improving, recovery may be slow and there remains the risk of further volatility in the global economy.

In Hong Kong, improvements in the economy and the full year impact of the Kowloon Southern Link and the LOHAS Park Station should benefit rail patronage. Fare review will be conducted in June 2010 in accordance with the Fare Adjustment Mechanism.

Our advertising business should benefit from economic recovery whilst our station retail and property rental businesses will be subject to market rates at the time of rental renewals and reversions.

2010 will see the full year impact of a number of our businesses in the Mainland of China and overseas which commenced operations in 2009. We will also take over the operation of Phase 1 of SZL4. As indicated previously, the investment projects generally take a few years from commencement of operation to break even. Hence, we expect BJL4 and SZL4 to show small losses in 2010.

Though significant in revenue terms, operating margins of operation and maintenance franchises are lower as they do not require much investment. Hence on a consolidated basis, we would expect these businesses to contribute to operating profit but will also result in lower operating margins for MTR Corporation in 2010 as a result of the full year impact of these businesses. However, continual efficiency enhancement and patronage improvements should allow us to maintain healthy margins in our Hong Kong recurrent businesses.

In our property development business, the Occupation Permit for Le Prestige at LOHAS Park Package Two was issued in January 2010 allowing for booking of profit in 2010. We do not have any financial interests in the remaining phases of LOHAS Park Package Two, including Le Prime. Also in Tseung Kwan O, we would expect to receive the Occupation Permit for the small retail shopping mall in Area 56 in the second half of 2010 and since it is a "sharing in kind" project, we would book profit based on our share of that mall on receipt of such permit.

Pre-sales will commence shortly for Phase 1 of Tai Wai Maintenance Centre. However, as I have noted previously, we do not expect to book any profit on this development until 2011.

In our property tendering activities, following the successful award of the property tender for Austin Station sites C and D in March 2010, depending on market conditions, we will tender Nam Cheong Station site and LOHAS Park Package 4 over the next six months. The Nam Cheong Station site is a West Rail Property Development site where we only act as agent.

Finally, I take this opportunity to thank my fellow directors and all my colleagues for their dedication, energy and hard work in the past year. They are the heroes of MTR.

C K Chow, *Chief Executive Officer*
Hong Kong, 9 March 2010