

The renovations at Mong Kok, Prince Edward and Mong Kok East stations were completed in October, and refurbishing of Tsing Yi Station was finished in December. Station ambience enhancements were completed and a wide gate for passengers with disabilities was installed at all East Rail Line stations (except Racecourse Station) by November. New integrated entrances were opened at Olympic, Tsim Sha Tsui, Tuen Mun and Tsing Yi stations.

We continue to provide additional value-added services for our frequent travellers. Following Wi-Fi coverage becoming fully available on all Airport Express trains in January, we extended 3G Mobile Phone coverage to all stations and tunnels on the line while also facilitating public Wi-Fi connectivity in 32 stations on the network, including all Airport Express stations.

Human Swine Influenza

The human swine influenza pandemic remains a threat to public health. In response to the serious alert from May to July 2009, the Company took extensive measures to educate both customers and staff about taking precautions and implemented a series of risk mitigation initiatives. These included enhanced procedures to ensure the maintenance of a hygienic environment,

the provision of personal protective equipment and the establishment of a command team responsible for monitoring and managing the situation.

Productivity

Improvement in efficiency and productivity continued to be a top priority for the Company in 2009. Over the past five years, we have successfully reduced our energy consumption by 18.2% from 5.94 kWh per revenue car-km in 2005 to 4.86 kWh in 2009, which is mainly attributable to the implementation of various energy saving initiatives such as the replacement of motor-alternators with static inverters for our trains, optimisation of train regulation, and optimisation of station environmental control systems. Overall, the operating costs per car-km were reduced by 7.5% from HK\$22.8 in 2005 to HK\$21.1 in 2009. Our staff productivity has also shown continuous improvement, with turnover per operating railway employee increasing from HK\$1.52 million in 2005 to HK\$1.62 million in 2009. Our environmental performance benefited from the replacement of diesel-powered locomotives with electric-powered locomotives on certain Guangzhou-Kowloon Through Trains.

Station Commercial and Rail Related Businesses

Revenue Performance

Revenue for 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

Station retail revenue, comprising duty free shops and kiosk rental, increased to HK\$1,605 million, 3.8% more than the previous year. This increase was mainly due to growth in the number of shops, increase of rental rates upon contract renewals, and the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations. Renovation works for 80 shops at 13 stations were completed and 23 new retailers were also added. The total number of shops, including Duty Free and other shops, was 1,228 as at 31 December 2009, with such retail area amounting to 52,788 square metres of which 9,540 square metres related to Duty Free businesses.

To celebrate the opening of LOHAS Park Station, coupon leaflets with discount offers from MTR shops at Tseung Kwan O Line stations were distributed to residents of major property estates along the rail line in mid-July 2009.

Advertising

Advertising revenue decreased by 19.4% to HK\$597 million in 2009 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, including a Digital Panel Network at ten stations and enlarging and standardising escalator crown panels on the East Rail Line and West Rail Line. At the end of 2009, there were 20,742 advertising points in stations, 26,823 in trains (including 4,545 Liquid Crystal Displays) and 67 exhibition and display sites in 42 stations.

Telecommunications

Revenue from telecommunications services decreased by 23.3% in 2009 to HK\$273 million 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 January, all Airport Express trains were fully Wi-Fi enabled. One of Hong Kong's leading telecom operators launched an advanced 2G/3G mobile network in March, enabling passengers to enjoy high data speed of up to 21Mbps in our railway system. With the completion of installation of 3G infrastructure along the West Rail Line in August, passengers with 3G-enabled devices were able to access streaming audio, video, and other high-speed internet services anywhere in our system. Full 2G and 3G mobile phone coverage was also enabled in Austin and LOHAS Park stations.

External Consultancy

In 2009, our external consultancy teams made good progress, enabling the Company to enhance skill-sets and to seek new investment opportunities abroad. Revenue from external consultancy activities 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.

In India, our consultancy team forged ahead with the HK\$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. Our consultancy team worked with Dubai Roads and Transport Authority on the retail outlets leasing for stations along the Red and Green lines of Dubai Metro and received high commendation from the Dubai Government for their work. Our consultancy project to provide technical advice to Metro Rio in Brazil for rolling stock procurement from China has also made good progress.

In 2009, we continued to operate the Automated People Mover at Hong Kong International Airport, whilst our consultancy work for Kaohsiung Rapid Transit Corporation in Taiwan came to a successful conclusion.

Freight Services

Revenue from freight services was HK\$32 million during 2009, a decrease of 13.5% over 2008. The Company decided to wind down its freight business over the next several months to better utilise train paths currently used for the freight business to provide greater flexibility for passenger train services.

Property and Other Businesses

Profit from property development for 2009 was HK\$3,554 million, while revenue from property rental, management and other businesses increased by 8.0% in 2009 to HK\$2,928 million.

Property Development

Profit from property development for 2009 was HK\$3,554 million, a decrease from the HK\$4,670 million recognised in 2008 mainly due to timing of profit recognition. The major contributors to property development profit in 2009 were the 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.

Over 90% of the 2,169 units at Lake Silver in Wu Kai Sha were sold and all 1,688 units of Le Prestige at LOHAS Park Package Two were sold by August. Pre-sales were launched for Le Prime, also at LOHAS Park Package Two, in November 2009 with good results.

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.

A major revision to the Nam Cheong Station scheme to provide a better living environment and amendments to the master plan for the Tai Wai Station site to achieve environmental benefits and value enhancement were approved by the Town Planning Board in May and December 2009 respectively.

Property Rental, Property Management and Other Businesses

Total revenue from property rental, property management and other businesses increased by 8.0% in 2009 to HK\$2,928 million.

Property Rental

Demand for both office and retail space remained subdued throughout 2009. However, property rental income rose to HK\$2,548 million, an increase of 8.6% over 2008, due mainly to the addition of another 988 square metres of rental space at Elements in November 2008 as well as an average increase in rental reversion of 7% across our retail shopping mall portfolio.

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