

The South Island Line (East) was gazetted on 24 July 2009, and a further period of public consultation began in September with the local communities, district councils and other stakeholders to integrate their needs in the railway's planning and design. The environmental impact assessment study is due to be completed in early 2010, followed by commencement of works in early 2011.

Preliminary design of the Kwun Tong Line Extension was completed in June 2009, with gazettal and commencement of detailed design in the following November and December respectively. Construction is expected to commence in 2011.

The Express Rail Link will be one of the most significant infrastructure developments in the history of Hong Kong, bringing Guangzhou within 48 minutes' travelling time, Shanghai eight hours and Beijing ten hours. Following the Government's decision to proceed with the planning and design in April 2008, public consultations were held, which resulted in an amended scheme being authorised by the Government on 20 October 2009. The Legislative Council approved funding on 16 January 2010, and the first major civil contracts were awarded.

Following funding approval from the Legislative Council in May 2008 for the further planning and design of the Shatin to Central Link, the Company carried out a series of activities to gather views from the public. Preliminary design was completed in 2009 and the draft environmental impact assessment will be submitted to the Government in early 2010.

Project Funding

The funding model for these new rail projects will take different forms, each appropriately designed for the project. The West Island Line will use the capital grant model. The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach whereby property development rights will be granted to us.

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. Under this model, the Kowloon-Canton Railway Corporation or Government will pay all the capital cost of the line with the Company being responsible for operations, maintenance and asset renewals and replacement.

Subways and Pedestrian Links

All structural works for the Middle Road Subway Extension were completed during the year. Electrical and mechanical works made good progress, with all six travelators delivered and installed, and the extension opened on 10 February 2010. Construction of the integrated entrances within the new development at No. 63 Nathan Road at Tsim Sha Tsui Station were completed and the entrances were opened on 17 December 2009. Civil construction of the new subway connection to Liberte, the residential property in Lai Chi Kok, and the new entrances at Cheung Lai Street at Lai Chi Kok Station progressed well with the opening date scheduled for mid-2010.

○ Mainland and Overseas Growth ○

Our growth strategy outside of Hong Kong remained firmly on track in 2009. 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. 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.

Mainland of China

In Beijing, a ceremony was held to mark the commencement of operations of BJL4 on 28 September 2009. The response from the Beijing public and media to the line's performance, comfort and customer service was positive.

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. The concession covers a period of ten years and is renewable for further terms of ten years until the expiry of the concession period for BJL4.

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.

In Shenyang, a Concession Agreement was signed in May 2009 with Shenyang Metro Group Company Limited and Shenyang Municipal Government for the operation and maintenance of the 50-km Shenyang Metro Lines 1 and 2 for a term of 30 years.

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.

Overseas

We continue to develop our "asset light" strategy overseas. In the UK, our 50:50 joint venture, LOROL, brought an ongoing series of service improvements to the London Overground. In Sweden, we took over the operations of the Stockholm Metro for eight years beginning on 2 November 2009. In Australia, our 60% owned subsidiary 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.

Human Resources

Our people are the key to our success both now and in the future. The aim of all our manpower resourcing, staff development, knowledge management and employee volunteering projects is to nurture both our staff and the community they serve.

In view of the significant manpower needs in the coming years arising from the anticipated growth of our businesses both in Hong Kong and overseas as well as succession planning, we continued with proactive planning and recruitment through the establishment of an integrated manpower resourcing mechanism. In order to support our business expansion in the Mainland of China in 2009, we launched a Mainland Graduate Engineer Scheme and a Mainland Operating Management Associate Scheme.

Supporting the health, quality of life and environment of the people of Hong Kong has long been one of the Company's key priorities. During the year, our colleagues took part in 167 volunteering projects involving the elderly, the physically and mentally challenged, young people and families in need, as well

as the environment. In recognition of the Company's excellent performance in contributing to society, we received three Caring Company Logos from the Hong Kong Council of Social Service.

With the Corporation's expansion plans both in Hong Kong and offshore, proactive people development continues to be a vital element to sustain the Company's business growth. During the year, a full range of railway and safety training was implemented successfully and in a timely manner for the opening of LOHAS Park Station, Austin Station in Hong Kong and BJL4 in Beijing.

A number of international and local professional associations extended their recognition of our strong performance in training and development. These recognitions included an American Society for Training and Development (ASTD) BEST Award, in which the Company finished first in Asia Pacific, second among 93 global competing entries, and was the only transportation company on the list. The Company also won an ASTD Excellence in Practice Award, a Gold Prize in the Hong Kong Management Association (HKMA) Award for Excellence in Training, and the Hong Kong Most Admired Knowledge Enterprise (MAKE) Award.