

growing broader

The RMB4.6 billion **Beijing Metro Line 4** and RMB6 billion **Shenzhen Metro Line 4** projects, both major milestones on our overseas expansion, saw significant progress

Overseas growth

MTR Corporation made significant strides in our international expansion in 2005, achieving a number of major milestones in the Mainland of China.

Mainland of China

MTR Corporation's entry into the rail market in the Mainland of China was heralded by the signing of an Agreement in Principle in January 2004 with the Shenzhen Municipal Government to build Phase 2 of the Shenzhen Metro Line 4 and to operate both Phase 1 and Phase 2 of the line for 30 years. With total project cost of Phase 2 estimated at RMB6 billion, the project also envisages significant property development at stations and depots along the new extension with an aggregate gross floor area of 2.9 million square metres of residential and commercial space based on the Company's well proven "rail and property" business model in Hong Kong.

During 2005, the Company achieved several major milestones on this build-operate-transfer project. In May, the feasibility study report was submitted to NDRC for approval, and the Concession Agreement was initialled with the Shenzhen Municipal Government, following which detailed design work began in earnest. This was followed in November by ground breaking on a trial section of Phase 2, with full project construction planned to commence once the Concession Agreement is signed.

Bank financing for the project, representing approximately 60% of the total project cost, was secured in June when a detailed term sheet providing for a RMB 3.6 billion 25-year non-recourse bank loan was initialled with China Development Bank.

These positive developments in the Shenzhen Metro Line 4 project were mirrored by further progress in our investment in Beijing. In February, the PPP 49% owned by MTR Corporation, 2% by Beijing





Detailed design work for the Shenzhen Metro Line 4 railway and property developments has begun in earnest

Infrastructure Investment Co. Ltd. and 49% by Beijing Capital Group, through its partners initialled the Concession Agreement with the Beijing Municipal Government for investment in, and construction and operation of the Beijing Metro Line 4 for 30 years.

Beijing Metro Line 4 is approximately 29 kilometres long with 24 stations running from Ma Jia Lou Station on the South Fourth Ring Road to Long Bei Cun Station in the northwestern Hai Dian District. With an estimated total investment of RMB15.3 billion, the project involves investment of approximately RMB4.6 billion, or 30% of the total project cost, by the PPP company for provision of trains and related mechanical and electrical systems, with the remaining 70% to be borne by the Beijing Municipal Government to finance land acquisition and civil construction.

A major milestone was achieved in September when formal approval of the project by NDRC was obtained. The PPP partners formally signed the Joint Venture Agreement and Company Articles of Association in November and these were approved in December by Ministry of Commerce, followed by issuance of a business license by the State Administration of Industries and Commerce, thus completing all company registration requirements. In the meantime, preparation work, including preliminary work on tenders for the provision of trains and electrical and mechanical systems, was initiated.

The RMB4.6 billion investment by the PPP company will be financed by 30% equity provided by the partners and 70% by bank debt. Debt financing for the project, of RMB3.2 billion, was obtained in the form of two RMB1.6 billion 25-year non-recourse bank loans provided by the Industrial and Commercial Bank of China and China Development Bank with loan agreements initialled in August and September respectively.

The Company continues to explore other investment opportunities in the Mainland of China, particularly in Shenzhen, Beijing and Wuhan. In this connection, the Company signed two MOU in relation to two additional projects in May.

The first was signed with the Shenzhen Municipal Government covering co-operation on investment, construction and operation for Shenzhen Metro Line 3. Line 3 is a 32.9-kilometre line serving 21 stations and running in a north-easterly direction to connect Honglingzhonglu in Luohu district with Longxingjie in Longgang district. Since signing the MOU, significant progress has been made in negotiations.

The second MOU was signed with the Wuhan Urban Construction Investment and Development Group Co. Ltd. and Wuhan Municipal Development Planning Commission covering the development of the metro network in Wuhan, a metropolis of nearly 7 million people that is also a major transport hub for Central China. At present, Wuhan's metro network comprises a 10-kilometre metro line, Line 1 Phase 1, operating from Zongguan Station to Huangpu Station, and



With all approvals and company registration requirements met, work has begun on the Beijing Metro Line 4 project

is planned to expand to 70 kilometres by 2011. A pre-investment study is underway and discussions are continuing with the municipal government.

Europe

The Company's approach in Europe is to bid for train operating franchises involving both heavy rail and metro.

In 2005 the Company participated in bids for three franchises: the Pendeltåg network in Sweden; the Integrated Kent Franchise and Thameslink/Great Northern Franchise in the UK. Although the Company did not succeed in these bids, significant experience was gained which should prove valuable in the future.

For 2006 and 2007, the Company has identified and will explore several franchising opportunities in the UK and Scandinavia, particularly those train operation contracts for franchises that the UK Government has recently announced for reorganisation and refranchising.

In the UK, MTR Corporation together with our partner GNER have been pre-qualified for a bid for the South Western Trains Franchise, one of the largest UK franchises, serving Greater London and several southern counties. The existing South Western Trains Franchise serves 213 stations, operates 1,367 rail cars and generates an annual

revenue of GBP420 million. Operations of the new South Western Trains Franchise are expected to commence in early 2007. The Company is also in partnership with Laing Rail to seek prequalification and bid for a gross cost service contract for the newly formed North London Railway Franchise. North London Railway Franchise will use an inner suburban commuter network serving the western, northern and eastern extremities of Greater London. The new franchise will serve 62 stations with the proposed services requiring a fleet of 26 trains. The new franchise is expected to begin operations in November 2007.