



Extended rail services to
**Beijing's Daxing
district**
on 30 December

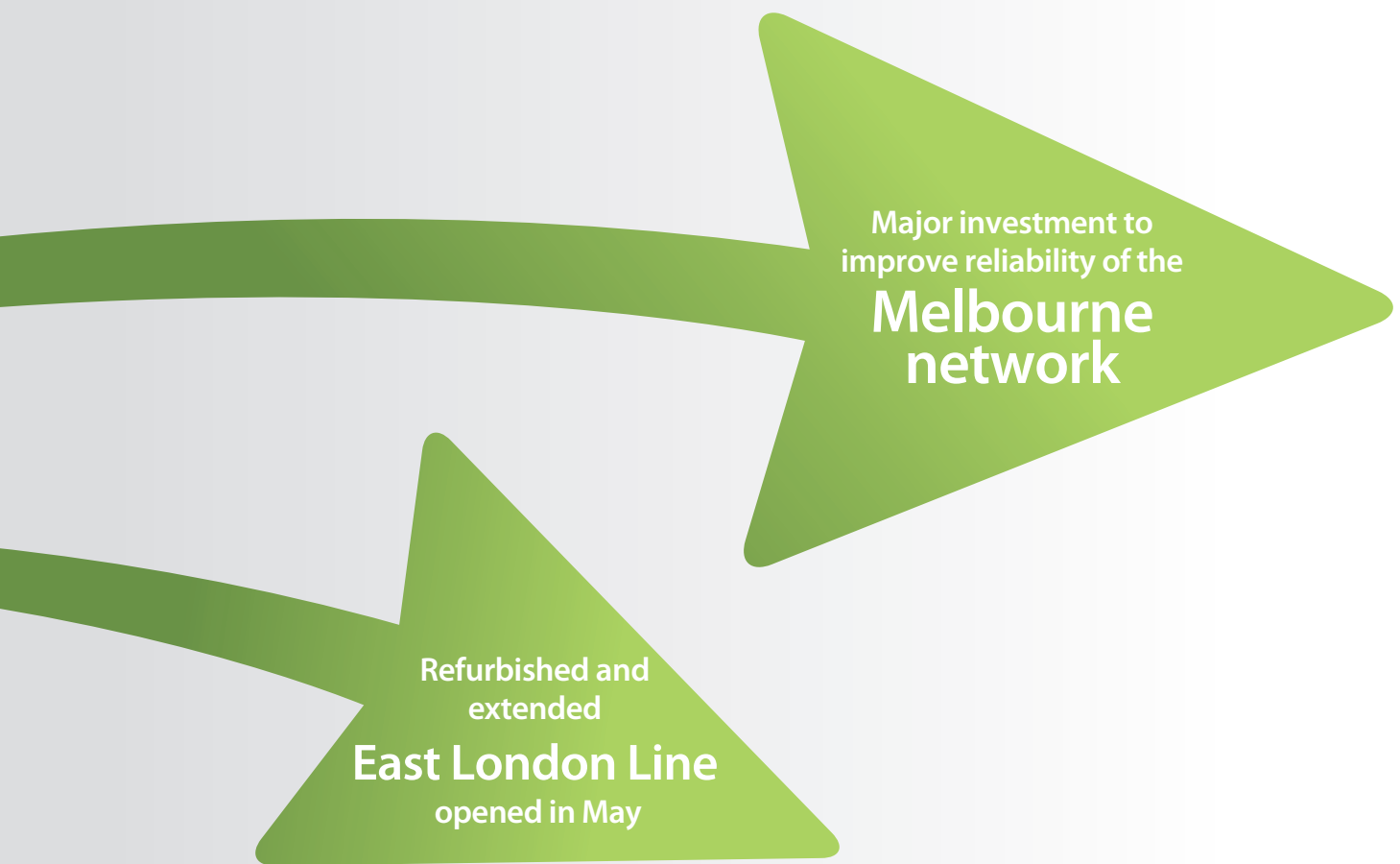
AN EVER EXPANDING HORIZON



Took over
operations of Phase 1 of
**Shenzhen
Metro Line 4**
on 1 July

644.5 km
of total route length of
railway operations
outside of Hong Kong

Mainland and Overseas Growth



“Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was close to 850 million in 2010.”

The Company's rail businesses outside of Hong Kong represent an opportunity to enhance profits and expand operations.

In 2010, our operating railway businesses outside of Hong Kong comprised of our 49% interest in Beijing MTR Corporation Limited (BJMTR), which operates the Beijing Metro Line 4 (BJL4), and our 100% interest in MTR Corporation (Shenzhen) Limited (SZMTR) which operates the Shenzhen Metro Line 4 (SZL4), both in the Mainland of China, our 60% interest in Metro Trains Melbourne Pty. Ltd. (MTM) in Australia, our 100% interest in

MTR Stockholm AB (MTRS) in Sweden, our 50% interest in Tunnelbanan Teknik Stockholm AB (TBT), which maintains rolling stock for MTRS, and our 50% interest in London Overground Rail Operations Limited (LOROL) in the UK.

Revenue from railway subsidiaries outside of Hong Kong, MTM, MTRS and SZMTR, was HK\$10,144 million. Operating costs were HK\$9,865 million, yielding an operating profit of HK\$279 million and an operating profit margin of 2.8%. As operation and maintenance franchises, MTM and MTRS require modest capital investment and hence operating margins will typically be much lower than more capital intensive projects. SZMTR, which commenced operations of SZL4 Phase 1 on 1 July 2010 made an operating loss of HK\$41 million in 2010. This was as expected, since the scale of business will be sub-optimal until the opening of Phase 2, which is expected in the middle of 2011. Although financial performance for MTM has been encouraging, with an operating profit of HK\$326 million, MTRS has not met expectations financially. MTRS incurred an operating loss in the



EXPLORING NEW DESTINATIONS

year of HK\$6 million, and measures have been implemented to enhance profitability. BJMTR, LOROL and TBT are accounted for as associates, and contributed a total of HK\$22 million in post-tax profit in 2010, ahead of expectations. Our share of the post-tax profits from LOROL was HK\$18 million, while BJMTR and TBT contributed profits of HK\$1 million and HK\$3 million respectively.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was close to 850 million in 2010.

Mainland of China

BJL4's ridership in 2010 exceeded 250 million passenger trips, higher than expected. On 1 May 2010, the line reported a record ridership of 1 million passenger trips.

Performance in terms of average train service availability and punctuality has exceeded targets. In August, we were honoured by the visit of Chinese Vice President Xi Jinping, Beijing Party Secretary Liu Qi and Beijing Mayor Guo Jinlong, who joined regular commuters on the line to experience the train service.

Preparation works progressed well throughout the year on the 22-km Daxing Line, the extension of BJL4 to the district of Daxing, enabling it to open as planned on 30 December 2010. BJMTR has an operating and maintenance contract for the Daxing Line.

In November 2010, a Memorandum of Understanding (MOU) was signed with Beijing Infrastructure Investment Company Limited and Beijing Airport Express Rail Company Limited to provide a study on using wider Type A train cars and related facilities for the future Beijing Metro Line 16.

In Shenzhen, SZMTR took over the operations of the five-station 4.5-km Phase 1 of SZL4 on 1 July 2010, following finalisation of the concession agreement in March 2009. Performance in terms of average train service delivery and punctuality rates was above target. The average daily passenger trips of 65,000 was also above expectation.

Construction work on the ten-station 16-km Phase 2 of SZL4 has made good progress with rolling stock manufacturing well under way. Full line operation, encompassing Phase 1 and Phase



LOROL in London provides excellent services and enhances connectivity in the area

2, is expected to commence in the middle of 2011. In July 2010, the Company signed an MOU with Shenzhen Line 3 Investment Company to participate in the feasibility, land and planning study, and investment study for the future Shenzhen Metro Line 6.

In March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, signed a concession agreement with the Hangzhou Municipal Government to undertake a Public-Private-Partnership (PPP) project for the investment in, construction and operation of the 48-km Hangzhou Metro Line 1 (HZL1) for a term of 25 years. The total investment required is RMB22 billion, 37% (or RMB 8.3 billion) of which will be provided by a joint venture company in which MTR Corporation has an effective interest of 49%, with the remaining 51% owned by a subsidiary of the Hangzhou Metro Group Company Limited. The balance of the total investment will be funded by the Hangzhou Municipal Government. As the joint venture company will be leveraged, MTR Corporation's equity investment is estimated to be RMB2.2 billion. Civil construction work commenced on HZL1 in March 2007 and the line is expected to open in 2012. The agreement is currently pending regulatory approval from the Central Government.

With key personnel changes at our major stakeholders in Shenyang, including its municipal Government, our 49% owned Shenyang operation and maintenance joint venture has been presented with serious obstacles and is prevented from delivering on the proposed scope of its contract. We are in discussions with the relevant Shenyang parties to resolve this matter, which will lead to our withdrawal from Shenyang. Our



SZMTR took over the operations of the five-station 4.5-km Phase 1 of SZL4 on 1 July 2010

investment relating to the joint venture comprise mainly staff costs employed by or supporting the joint venture company and is written off in the 2010 accounts.

Overseas

In the UK, the introduction of new trains on all routes during the year contributed to further service improvements at LOROL, whilst performance remains above target. In May 2010, LOROL started full passenger services on the refurbished and extended East London Line, from Dalston Junction to West Croydon and Crystal Palace, increasing the overall route length from 85 km to 110 km. A station investment programme is under way to upgrade and renovate stations, and to counter fare evasion, ticket inspections have been stepped up, and follow-up procedures against offenders tightened. LOROL carried approximately 200,000 passengers a day in 2010.

MTRS in Stockholm has steadily improved operational performance since the start of operations in November 2009. Performance in terms of average train service punctuality and the number of service stoppages was above target. MTRS carries approximately 1.1 million passengers per day.

In Melbourne, MTM encountered a number of operational issues in the first half of the year, leading to poor operational performance. Measures were immediately taken to rectify this situation, resulting in improved performance in the second half



In December, the Daxing Line was opened as the extension of BJL4

of the year. These actions included operational changes such as the introduction of new dwell time management procedures at key locations, as well as asset related measures designed to enhance the infrastructure and train fleet reliability. MTM carried an average of 700,000 passengers a day in 2010.

Also in Australia, we submitted a bid in November 2010 to operate and maintain a light rail project in Australia's Gold Coast. The bid was submitted in conjunction with a consortium comprising John Holland Pty. Ltd., ITOCHU Corporation and The Royal Bank of Scotland Group (Australia) Pty. Ltd., with the consortium being responsible for the construction of the system.

Mainland of China and Overseas Railway Businesses at a Glance

	In Operation						Pending Finalisation of Agreement
	Beijing Metro Line 4 (BJL4), Mainland of China	Daxing Line of BJL4, Mainland of China	Shenzhen Metro Line 4, Mainland of China	London Overground, United Kingdom	Stockholm Metro, Sweden	Melbourne Metro, Australia	Hangzhou Metro Line 1, Mainland of China [#]
MTR Corporation Shareholding	49%	49%	100%	50%	100%	60%	49%
Business Model	Public-Private-Partnership (PPP)	Operations and Maintenance (O&M) Concession	Build-Operate-Transfer (BOT) [^]	O&M Concession	O&M Concession*	O&M Concession	PPP
Commencement of Franchise/Expected date of commencement of operation	Sep 2009	Dec 2010	Phase 1: Jul 2010 Phase 2: Mid 2011	Nov 2007	Nov 2009	Nov 2009	2012
Franchise/Concession Period	30 Years	10 Years	30 Years	7 Years	8 Years	8 Years	25 Years
Number of Stations	24	11	Phase 1: 5 Phase 2: 10	55	100	213	31
Route length (km)	28	22	Phase 1: 4.5 Phase 2: 16	110	108	372	48

* Rolling stock maintenance under a 50:50 joint venture between MTR Stockholm and Mantena AS.

The Concession Agreement with Hangzhou Municipal Government is subject to approval by relevant authorities in the Mainland of China.

[^] Shenzhen Metro Line 4 Phase 1 assets are owned by the Shenzhen Municipal Government and MTR Corporation (Shenzhen) Ltd took over the operation of Phase 1 in Jul 2010.