



Developing ONE Railway Network

With the merger, the combined existing network increased 132% from 91 to 211.6 kilometres. Committed and future railway projects will further increase the combined network length by 28% from 211.6 to 271.6 kilometres.



Executive Management's Report

Hong Kong Network Expansion



South Island Line (East) will connect Admiralty Station to Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung

A combination of the Rail Merger, the Government's declared commitment to a number of priority rail infrastructure projects and our continuing programme of asset enhancement and replacement made 2007 a milestone year for new rail projects for the Company. These dynamic factors also set the scene for 2008 to be a particularly vibrant year for the design and planning of future rail lines.

Network Extensions

In his October 2007 Policy Address indicating long-term Government commitment to developing Hong Kong's rail system as the backbone of passenger transport system, Hong Kong's Chief Executive highlighted three priority rail infrastructure projects: the South Island Line (East), the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the Shatin-to-Central Link. These are in addition to ongoing works for the West Island Line

and Kowloon Southern Link as well as proposals for the Kwun Tong Line extension, which we have previously submitted to Government. The result is that 2008 is set to be an especially active year both for the design of these new extension projects and the progress of works on existing extensions.

On-going Projects

West Island Line

As the first in the wave of extension projects for the future, the West Island Line made significant progress. This proposed extension of the Island Line consists of three underground stations at Sai Ying Pun, University and Kennedy Town. The scheme was gazetted under the Railways Ordinance in October 2007. We will continue to work closely with Government to address key technical and financial issues on the West Island Line in 2008.

The 3-km West Island Line is estimated to cost approximately HK\$8.9 billion for which Government will provide funding support estimated at approximately HK\$6.0 billion, by way of a capital grant in two stages. The first stage of HK\$400 million for design has already been approved. The second stage, which will be for the balance of the funding support, will require further approval by the Legislative Council of Hong Kong (LegCo). A preliminary project agreement was entered into with Government on 6 February 2008 for the detail design of the project. The line is expected to be completed in late 2013 or early 2014.

Kowloon Southern Link

The Kowloon Southern Link (KSL) is part of the Rail Merger and will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station. This new 3.8-km long rail link, which is scheduled to open for service in late 2009, will provide direct access for passengers between West Rail and East Rail Lines and will have one intermediate station, at West Kowloon. All capital costs for KSL will be funded by KCRC and on commissioning this extension will fall within the Service Concession, under which KCRC will own the line but the Company will be responsible for operations and maintenance. Service Concession fees payable on commissioning will be annual variable payments in accordance with the structure stipulated in the Rail Merger with no adjustment to be made to the fixed annual payments or upfront payment. As part of the Rail Merger, we have a project management contract from KCRC to oversee the construction of KSL in return for a fee.



The proposed West Island Line is an extension of the Island Line

Kowloon Southern Link (KSL)

1.6 km (76%)

of Tunnels Bored

Tseung Kwan O South (TKS)

3.3km of New Track

Laid for Station at LOHAS Park

West Island Line (WIL)

ExCo Decision

to Proceed With Further Planning and Detailed Design – Oct 2007

Gazette of WIL Scheme

under the Railways Ordinance – Oct 2007

LegCo Finance Committee

Approved Funding
– Dec 2007

South Island Line (East) (SIL(E))

ExCo Decision

to Proceed With Preliminary Planning and Design – Dec 2007

Shatin-to-Central Link and Kwun Tong Line Extension

ExCo Decision

to Proceed With further Planning and Design – Mar 2008

New Projects

South Island Line (East)

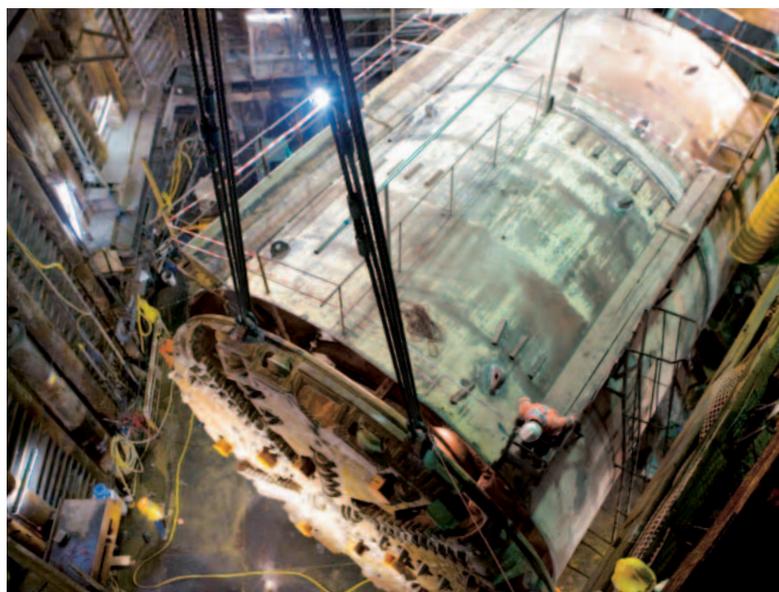
South Island Line (East) is envisaged to be a medium capacity railway service connecting Admiralty Station to South Horizons on Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung. A revised proposal with updated financial data and enhanced interchange arrangements at Admiralty Station to existing lines and the future Shatin-to-Central Link was submitted to Government in June 2007. The Government has since decided to proceed with preliminary planning and design for the 7-km South Island Line (East), construction of which is estimated to cost over HK\$7 billion. After representations from the Hong Kong Jockey Club, the Government has asked the Company to further review options for a Happy Valley Race Course Station. The Company will continue to discuss with Government on the detailed scope, implementation programme and financial arrangements for this line. It is intended that the "Rail and Property" approach will be used to bridge the funding gap for this line. Construction of the railway extension is expected to commence in 2011 for completion in 2015.

Shatin-to-Central Link

The Government announced on 11 March 2008 its decision for the Company to proceed with the further planning and design of Shatin-to-Central Link. The 17-km Shatin-to-Central Link, which will be based on the scheme proposed by the Company under the Rail Merger, will run from Tai Wai to Hong Kong Island connecting a number of rail lines to provide more convenient rail services to passengers. The section from Tai Wai to Hung Hom connecting Ma On Shan Line to West Rail Line is expected to be completed in 2015. The other section which will extend the existing East Rail Line from Hung Hom across the harbour to Hong Kong Island is expected to be completed in 2019. The Company will continue discussions with Government on the operation of Shatin-to-Central Link by way of a Service Concession.

Kwun Tong Line Extension

The Government announced its decision for the Company to proceed with the further planning and design of the Kwun Tong Line extension on 11 March 2008. The 3-km Kwun Tong Line extension will run from the existing Yau Ma Tei Station via Ho Man Tin to Whampoa and is expected to be completed by 2015. The Company will discuss the implementation details of this project with Government based on the ownership approach and has proposed to use property development rights relating to a site at the former Valley Road Estate site to bridge the funding gap.



Construction works on the Kowloon Southern Link

Express Rail Link

In February 2006, the Government invited KCRC to proceed with planning for the Northern Link and the Express Rail Link as a combined project. Feasibility studies were completed in 2007 under an integrated study team jointly managed by the Company and KCRC. The 26-km Express Rail Link will provide cross-boundary high speed rail service connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed national intercity rail network. The West Kowloon terminus is planned to become one of the main gateways to the Mainland, with good connectivity to neighbouring developments such as the West Kowloon Cultural District and developments above both the Kowloon and West Kowloon stations.

The Northern Link will provide a cross-boundary link for the West Rail Line. By joining the northern sections of West Rail and East Rail, it will also create a new railway corridor between the northeast and the northwest New Territories. Further planning for the Northern Link will be subject to the reviews by Government of the proposed new development areas in the North West New Territories and the opening up of the Frontier Closed Area.

In 2007, the Company continued discussions with Government with the aim of completing the preliminary design for the Express Rail Link by the end of 2008 in order that this railway scheme can be gazetted as soon as possible.

Funding Models for New Projects

The funding model for new rail projects will take different forms, each appropriately designed for the project. As always, the Company will seek to create a commercial return on its investments above its cost of capital and at rates commensurate with the risk of the projects. For the West Island Line, the Government has indicated that they would consider a capital grant model whereby Government grants to the Company a sum of money, currently estimated at HK\$6 billion, to establish the financial viability of the project. The Company will bear the balance of the capital cost and all of the operation, maintenance and asset replacement costs. The South Island Line (East) will likely follow the Company's traditional "Rail and Property" approach whereby property development rights will be granted to us. A third model that could be used for future rail lines would be the Service Concession model used in the Rail Merger, whereby Government (or KCRC, which is wholly owned by the Government) pays for the initial capital costs of the rail line and the Company operates the line by paying an annual concession payment as well as being responsible for maintenance and upgrades; KSL has adopted this approach. We are still in discussion with Government on which of these funding models will be used for the Express Rail Link.

Completion of Projects

The civil and structural works for the new station at LOHAS Park (in Tseung Kwan O South) were substantially completed in October 2007, track installation was close to completion in December 2007. Design of the new station's electrical and mechanical systems has been finalised and installation works are on schedule for completion of the station in 2009.

Subways and Pedestrian Links

Subways and pedestrian links increase the Company's catchment areas and extend rail benefits and customer services to more members of the community.

Construction works for the two underground entrances linking the Tsim Sha Tsui concourse with the basement of the adjacent redevelopment of 63 Nathan Road are expected to commence in April 2008.

Works for the pedestrian subway at Cheung Lai Street connecting Lai Chi Kok Station with the new developments to the south of Lai Chi Kok Road began in August 2007 for completion by end of 2009, while the developers started construction of the link from Jordan Valley to Kowloon Bay Station in early 2007 for completion by end of 2008. A further pedestrian link at Prince Edward Station has been planned, while design for Kwai Hing, Olympic and Choi Hung stations is well underway.



Computer graphic of the station at Hung Hom on the proposed Shatin-to-Central Link