

Our shopping malls were once again honoured with a variety of local and international awards. Our premium shopping mall Elements won the 2009 Distinguished Market Leadership Award and Award for Marketing Excellence from the Hong Kong Management Association. Elements continued to receive international recognition by winning the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and an Official Honouree distinction in the 13th Annual Webby Awards.

Ginza Mall in Beijing, our first shopping mall in Mainland China, continues to set new standards for service and quality in the retail sector in the capital city. Average rental increment on lease renewals and re-lettings rose 0.6% compared to 2008 and occupancy was close to 100%. Amongst the many awards and honours received in its second full year of operation was an Outstanding Contribution Award for the 60th National Anniversary Celebration sponsored by the Beijing Dongcheng District People's Government Dongzhimen Jiedao Office.

A number of attractive promotions were launched in our shopping malls to attract more shoppers. Elements introduced some of the most innovative tactical promotions in town including the exclusive presentation of the Sarah Brightman concert to Elements' shoppers. Various promotion campaigns were launched across MTR Malls including "21st Century Dr. Slump Exhibition", featuring the classic popular characters Dr. Slump and his friends, at Maritime Square and Paradise Mall during summer.

New tenants in our shopping malls included world-renowned luxury brands Louis Vuitton and Hermès. Both opened for business at Elements in the last quarter in 2009 enhancing Elements' range of exclusive luxury offerings.

#### **Property Management**

Our property management revenue in 2009 was HK\$207 million, a slight decrease of 1.4% over 2008. During the year, 1,375

residential units were added to our property management portfolio from The Palazzo, 524 units from Le Bleu Deux, 2,096 units from The Capitol and 2,169 units from Lake Silver, bringing the total number of residential units under our management to 79,449 as at the end of December, whilst total commercial space under management was 742,414 square metres. Our managed property portfolio in the Mainland of China amounted to 973,254 square metres.

#### **Other Businesses**

##### **Octopus**

The Company's share of Octopus' net profit for 2009 was HK\$149 million, a 9.6% increase from 2008 largely due to the ongoing increases in non-transport retail payments. Octopus continued its expansion in the retail sector by recruiting more small-to medium-sized retail merchants and introducing new application solutions to provide greater convenience to consumers and businesses. By the end of December, there were over 3,000 service providers (including those serviced by Octopus-appointed acquirers) in Hong Kong that utilised Octopus payment service. Cards in circulation were 20.6 million and average daily transaction volume and value were 10.9 million and HK\$97.6 million respectively.

##### **Ngong Ping 360**

The Ngong Ping cable car and associated theme village on Lantau Island generated HK\$173 million of revenue in 2009 with visitor numbers exceeding 1.4 million despite a challenging market.

A series of vigorous promotion initiatives included the launch of Crystal Cabins, the world's first cable car cabins to be fitted with a full-width transparent floor. Awards received included "Best Creative Search Award – Outstanding" from Yahoo! Hong Kong Limited and the Prime Award for Corporate Social Responsibility sponsored by Prime magazine. In April, Ngong Ping's cable car operations department received ISO 9001:2008 certification.

## **Hong Kong Network Expansion**

Following Government approvals, construction has commenced on the West Island Line and the Express Rail Link (Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link), the first two of our five new strategic extensions. Planning and design of the remaining three extensions, the South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link is well underway.

#### **Completed Projects**

On 16 August 2009, the Kowloon Southern Link with the new Austin Station opened for service. The final phase of the Tseung

Kwan O Line was completed with the opening of LOHAS Park Station on 26 July 2009 to coincide with occupancy of The Capitol at LOHAS Park.

#### **On-going Projects**

The Project Agreement with the Government was signed on 13 July 2009 for the financing, design, construction and operation of the West Island Line Project and a ground breaking ceremony was held in August. The West Island Line is a "Community Railway" with many features incorporating the results of detailed consultation with local stakeholders. The Company has awarded contracts for the first stage of construction with completion targeted in 2014.

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.