

Overseas growth

We made steady progress in our international growth strategy in 2006

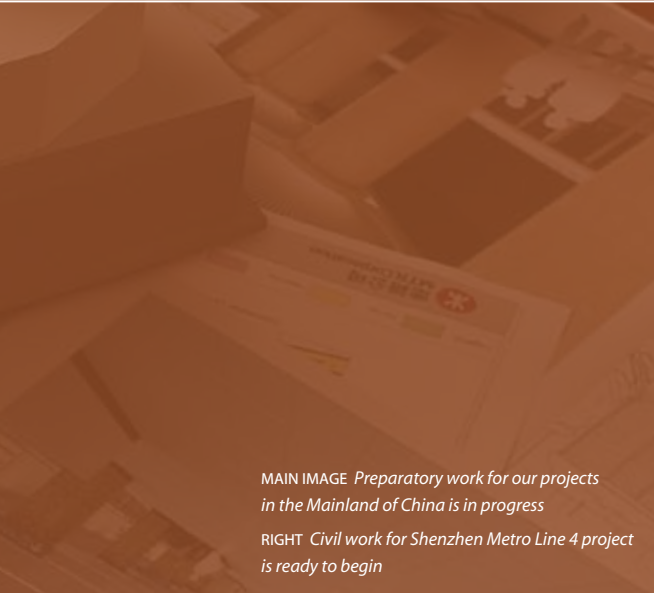
GOING PLACES

We made steady progress in our international growth strategy in 2006, with the final approval for the Beijing Metro Line 4 (BJL4) project and additional preparation work for our other projects in the Mainland of China, as well as further exploration of opportunities in the UK and continental Europe.

Mainland of China

Progress of our investment in BJL4 has been good. This is a RMB15.3 billion project, of which approximately RMB4.6 billion, or 30% of the capital cost, is being borne

by a Public-Private Partnership (PPP) company which is 49% owned by MTR Corporation, 2% by Beijing Infrastructure Investment Co. Ltd. and 49% by Beijing Capital Group. The remaining 70% of the capital cost is being funded by the Beijing Municipal Government to finance land acquisition and civil construction. The RMB4.6 billion investment by the PPP company will be financed 30% by equity from the partners and 70% by two RMB1.6 billion 25-year non-recourse bank loans provided by the Industrial and Commercial Bank of China and China Development Bank.



MAIN IMAGE Preparatory work for our projects in the Mainland of China is in progress

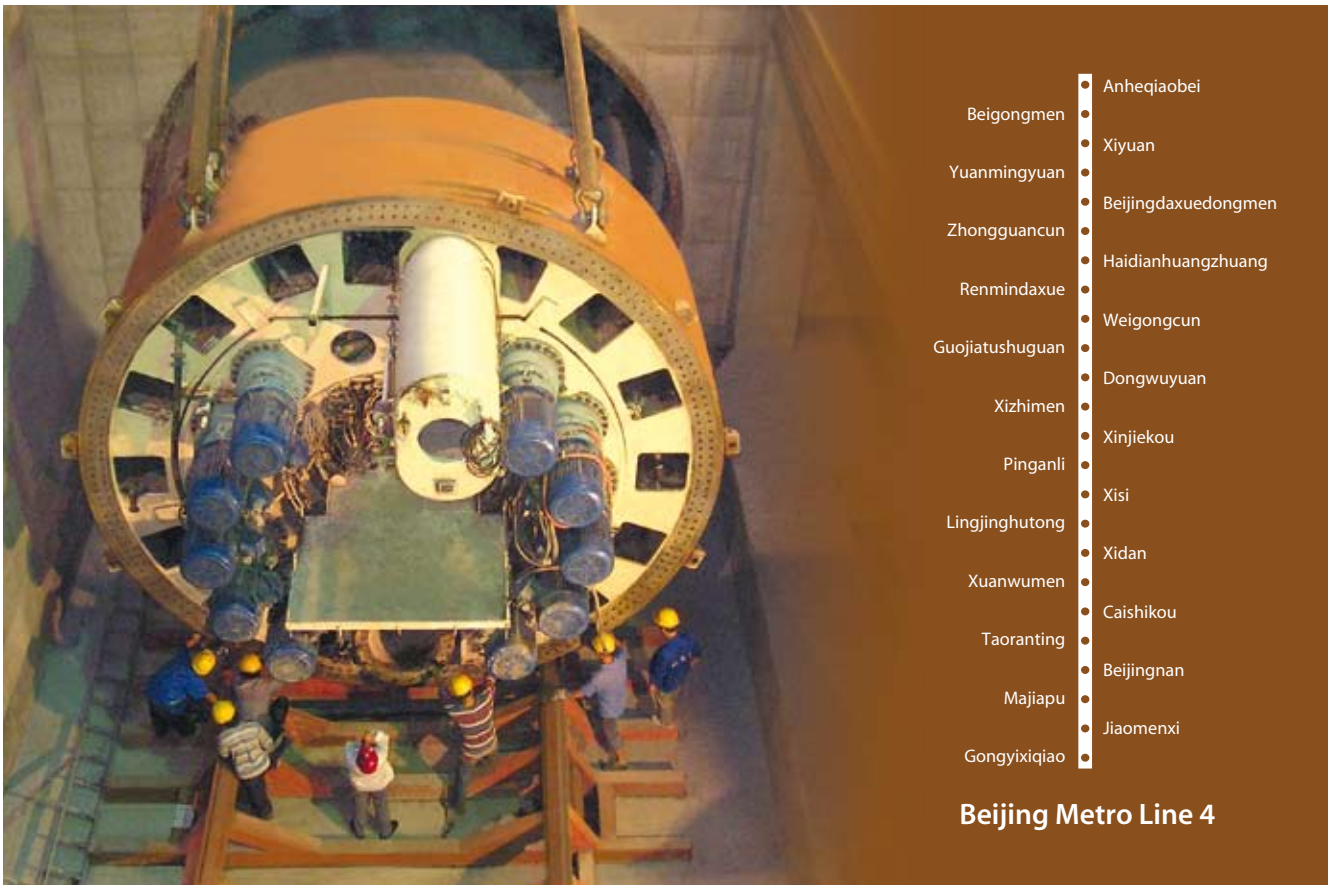
RIGHT Civil work for Shenzhen Metro Line 4 project is ready to begin



The PPP company has a Concession Agreement with the Beijing Municipal Government for investment in, and construction and operation of, the B JL4 for 30 years. A number of key milestones were achieved during the year. In January 2006, following the approval of the National Development and Reform Commission (NDRC), the business licence of the PPP company was granted and in April 2006 the Concession Agreement, Lease Agreement and Financing Agreement were signed. Contracts for the rolling stock, signalling and automatic fare collection systems were awarded. The 29km line comprises 24 stations, and the construction programme is well on target with 23 stations under construction. Operation Readiness Targets and Tasks Programmes have been finalised. Construction is expected to be completed by 2009.

In Shenzhen we are awaiting approval from the NDRC to build Phase 2 of Shenzhen Metro Line 4 and operate Phase 1 and Phase 2 for 30 years. Related utilities diversion and land resumption have begun. Initial preparatory work is near completion and civil work is ready to begin. Operations Readiness and Phase 1 take-over programmes are being finalised.

The Company also made further progress on similar potential projects in key cities such as Shenzhen, Beijing, Hangzhou, Wuhan and Suzhou.



ABOVE Construction progress on Beijing Metro Line 4 is well on target, with 23 stations now under construction



LEFT The Concession, Lease and Financing Agreements for Beijing Metro Line 4 were signed in April

Europe

Our strategy in Europe continues to pursue “asset-light” operating service contracts. The primary focus is in the UK and Scandinavian markets, where the privatisation of public transport is mature, and a number of new franchises, as well as franchise renewals, are coming up over the next few years. We will also seek opportunities in other European countries, such as Germany, where privatisation is expected to develop.

In October 2006, the Company and Laing Rail submitted a joint bid for a gross cost service contract for the newly formed London Rail Concession (LRC). LRC will use an inner suburban commuter network serving the western, northern and eastern extremities of Greater London. LRC currently serves 60 stations over 60 route miles in the Greater London region and carries approximately 23 million passengers per year. In December, Transport for London selected our partnership with Laing Rail as one of the two bidders to submit a Best and Final Offer for the concession. A decision on the preferred bidder is expected in mid 2007.

In November 2006, MTR Corporation entered into a 50/50 joint venture with Swedish railway company SJ, which is a state-owned passenger train operator in Sweden, to prepare a joint bid for submission in February 2007 for the Öresundståg concessions in Sweden and Denmark. The successful bidder will take over the concessions at the end of 2008.

Our earlier bid for the South Western Franchise in the UK was unsuccessful and the contract was awarded to the incumbent franchise holder.