Consultancy contracts in 22 cities

Beijing Metro Line 4 public-private-partnership

Shenzhen Metro System Line 4 BOT project

New London office

Pursuing operating franchises in Europe

Joint-venture bids in UK

international expansion

bringing our expertise to overseas markets

> Major step forward for Beijing Line 4 with the initialling of Concession Agreement
> Planning and seeking Government approval in progress for Shenzhen Line 4
> European strategy focuses on train operation franchises

Mainland China

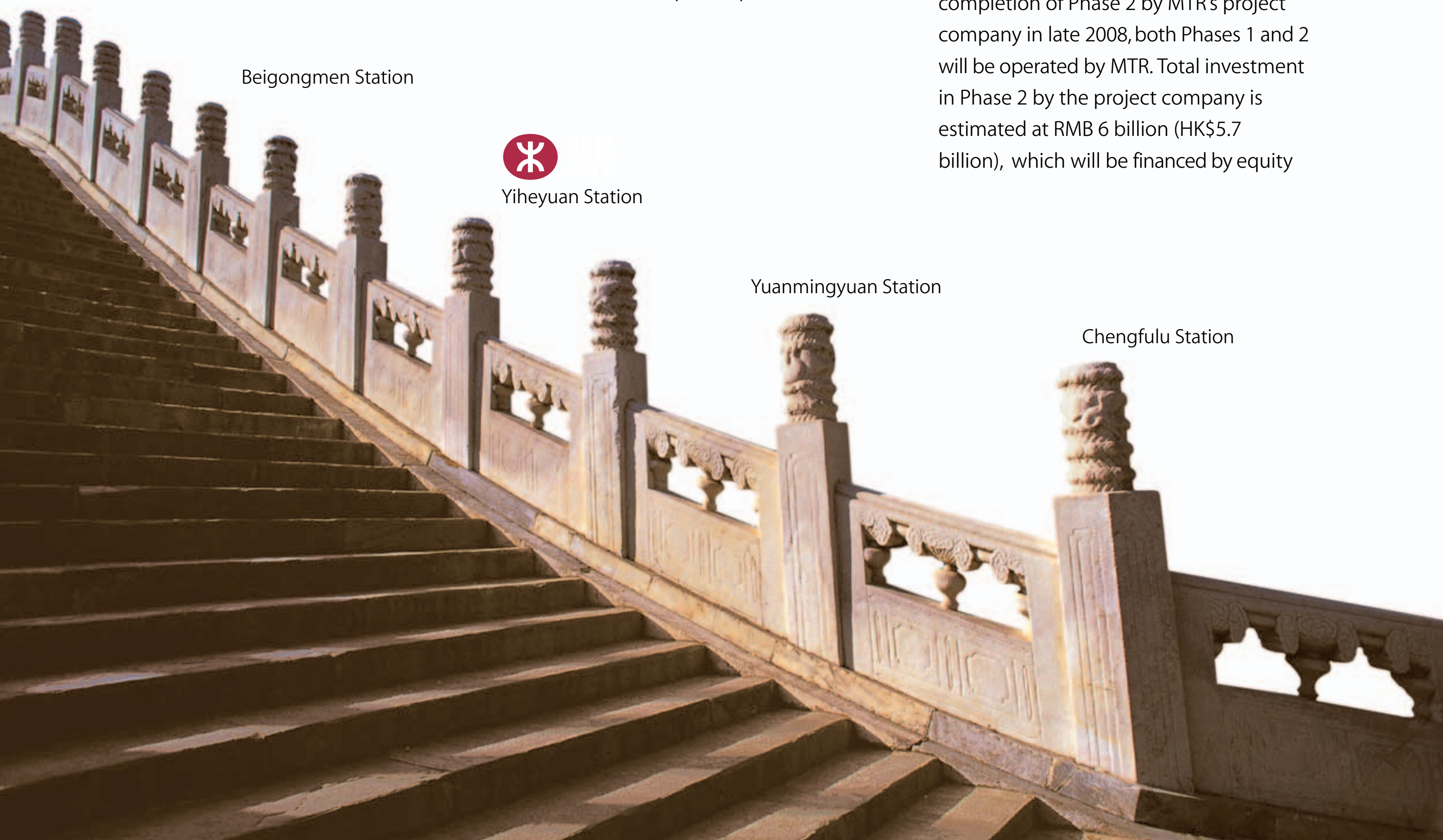
In the Mainland, our investment strategy focuses on the major cities of Beijing, Shanghai and Shenzhen. In these cities, the demand for mass rapid transit systems and hence potential for profit, is greatest due to expanding populations, heightened environmental concerns and deteriorating traffic conditions. In executing this strategy, the Company has adopted a gradual approach and is leveraging the experience and expertise gained from one project to others.

MTR's drive to invest in suitable projects in the Mainland saw two landmark developments during the year.

In January, the Company entered into an Agreement in Principle for a Build-Operate-Transfer (BOT) project with the Shenzhen Municipal People's Government for the construction of Phase 2 of Line 4 of the proposed Shenzhen Metro System and the operation of the entire line for a term of 30 years.

Line 4 is a 21-kilometre double-track urban railway running from Huanggang, at the boundary between Hong Kong and Shenzhen, to Longhua New Town in Shenzhen, with a total of 14 stations. It will form the major north-south railway corridor linking Hong Kong SAR, through Shenzhen Special Economic Zone with potential connections to other parts of the Mainland. Phase 1 of Line 4, an approximately 4.5 kilometre section between Huanggang and Shouniangong, is targeted for full completion before the end of 2008. Some sections of Phase 1 are already complete and being operated by Shenzhen Metro Company Ltd. Upon completion of Phase 2 by MTR's project company in late 2008, both Phases 1 and 2 will be operated by MTR. Total investment in Phase 2 by the project company is estimated at RMB 6 billion (HK$5.7 billion), which will be financed by equity

When completed, Beijing Metro Line 4 will be the main north-south rail artery of Beijing



capital of RMB 2.4 billion (HK$2.3 billion), with the balance by non-recourse bank loans in Renminbi. The project will be implemented based on our proven "rail and property model" in Hong Kong, with associated property developments comprising 2.9 million square metres of commercial and residential space along the railway.

Since signing the Agreement in Principle, MTR has set up a project office in Shenzhen to undertake preliminary design of the railway and property works. We have also entered into negotiations with the Shenzhen Municipal People's Government on a Concession Agreement and other related agreements which would give MTR's project company the right to construct Phase 2 and to operate the entire line, together with the right to use the Phase 1 facilities. These agreements are subject to the approval of the Central Government.

Planning for property developments associated with the Shenzhen Line 4 project achieved good progress, despite a delay in the approval process as a result of the macroeconomic control measures imposed by the Central Government. In October, a proposal for a sustainable planning concept for the Longhua Extension Area was submitted to and received endorsement from the Shenzhen Municipal People's Government. A preliminary master plan for the four development sites in this area is currently under discussion with the Shenzhen authorities, and we plan formally to submit this plan in early 2005, with target development completion from 2008 onwards.

In April, MTR signed a Memorandum of Understanding with Beijing Infrastructure Investment Co. Ltd. (BIIC) and Beijing Capital Group (BCG), both subsidiaries of the Beijing Municipal People's Government, with the intention of forming a public-private-partnership for the Beijing Metro Line 4 project. After in-depth discussions, in December we entered into an Agreement in Principle with BIIC and BCG to form a PPP company for the investment, construction and operation of the Beijing Metro Line 4. This line will form one of the core transport infrastructure projects for China's capital.

The Agreement in Principle sets out the framework of the partnership for the investment, construction and operation of the line subject to a Concession Agreement with the Beijing Municipal People's Government, for a term of 30 years.

In February 2005, together with our partners, we initialled the Concession Agreement with the Beijing Municipal People's Government and now await approval from the National Development and Reform Commission. The total investment for the project is approximately RMB 15.3 billion (HK$14.4 billion), 70% of which, comprising mainly land acquisition and civil construction works, will be funded by the Beijing Municipal People's Government. The partnership project company will invest approximately RMB 5 billion (HK$4.7 billion) to finance the provision of trains and related electrical and mechanical systems, and will be responsible for the operation and management of the new line for a period of 30 years.

MTR and BCG will each own 49% of the joint venture company, with BIIC owning the remaining 2%. The joint venture company will seek non-recourse bank loans to finance over 60% of the project with the remainder to be funded by equity capital.

This new 29-kilometre underground metro line will run from Majialou Station on the South Fourth Ring Road to the north west Haidian District and terminate at Longbeicun Station, forming a main north-south traffic artery of Beijing. The 24 stations along the line include major stops at Beijingnan, Xuanwumen, Xidan, Xizhimen, Xueyuannanlu, Zhongguancun, Yuanmingyuan and Yiheyuan.

The Company is carrying out railway assessments of other investment opportunities in Beijing, Shenzhen and Shanghai, in line with those cities planning future extensions to their metro networks. In addition to the three cities which are our principal focus, MTR has explored opportunities in cities such as Chengdu, Wuhan, Tianjin and Nanjing.

Europe

Our growth strategy in Europe differs from that in the Mainland in that it concentrates on train operation franchises, which do not require significant capital expenditure. MTR will seek to enter into joint-venture partnerships with experienced local firms to bid for operation and maintenance franchises and contracts as the deregulation of railway industries in Europe continues to unfold. The Company will initially focus on the highly deregulated UK market, and build on this experience to explore other opportunities in Continental Europe.

In November, the Company signed a joint-venture agreement with the UK's Great North Eastern Railway Holdings Limited to bid for a service contract to operate and maintain the trains for the Integrated Kent Franchise (IKF), with MTR owning 29% in the joint-venture company. IKF is a suburban commuter network in Kent, southeast England operating through 179 stations, 1,600 rail cars and with annual revenue of about £300 million. It will also include the high speed railway service from the Kent Coast to London which will operate over the Channel Tunnel Rail Link. Since December, MTR has been working to pursue a similar opportunity for the Thameslink / Great Northern Franchise, which serves London north and south of the River Thames.

To support these initiatives, we opened an office in London in July 2004 as our first step towards building a permanent presence in Europe, where we aim to partner with local companies to pursue similar new business opportunities.