

Spectacular trackside plasmas are the latest popular advertising format from MTR

# station commercial & other businesses

## leveraging our infrastructure

- > Revenues from station commercial and other businesses increased 17.4% to HK\$1,311 million
- > Station renovations enhance retail environment
- > Strong contribution from Octopus

### Advertising

Our advertising business benefited from Hong Kong's economic rebound as well as our continuing strategy to upgrade advertising venues and introduce new formats to enhance their attractiveness. As a result, advertising revenue rose 21.0% to HK\$467 million.

Spectacular tunnel advertising was introduced in April between Wan Chai and Causeway Bay stations, allowing riders to view large, colourful displays during the journey. In June, a large billboard was installed on the external wall at Quarry Bay Station whilst a Bloomberg display showing real-time financial information was introduced at Hong Kong Station, part of the IFC complex. In December, a plasma ring was launched at Causeway Bay Station, adding a new format to the concourse and trackside plasma network, and bringing the number of plasma screens in the MTR system to a total of 124. The programme to install concourse 12-sheet advertising panels continued and 696 such panels were installed in 2004.

To provide accountable viewership statistics to advertisers, we commissioned Nielsen Media Research to conduct the first "Reach & Frequency Research of MTR Advertising", the first research of this type in the out-of-home advertising market in Hong Kong. The survey was completed in June 2004 and the results have helped in strengthening our media pricing strategy and in increasing advertisers' media planning with MTR.

### Telecommunications

Revenue from telecommunications including those of fixed-line subsidiary TraxComm, rose by 20.2% to HK\$238 million, mainly as a result of increased volumes of mobile phone calls.

The existing integrated radio system was successfully upgraded to support 3G service of UMTS standard along the Island Line, making it one of the first rail networks in the world to be 3G enabled. By the end of 2005, it is anticipated that passengers will be able to enjoy seamless 3G service anywhere within the MTR network.

In January 2004, TraxComm began operation and management of a 50 Gigabit bandwidth network. This serves a number of telecom service operators in Hong Kong and has extended the reach of the fibre-optic network to 26 locations including key commercial buildings, data centers, China gateways, the Hong Kong Internet Exchange and landing stations.

### Station commercial

Revenue from station commercial facilities increased by 8.4% to HK\$298 million, as the number of retail shops in our network increased and the retail market experienced a strong recovery.

The programme to renovate stations continued to deliver additional commercial floor area and enhance the retail environment. Renovation was completed at Choi Hung, Central, Shau Kei Wan, Tai Koo, Tsuen Wan, Po Lam, Mei Foo, Admiralty and Hong Kong stations, adding a total of 1,192 square metres to retail floor area. However, with retail space being reduced at Kowloon Station to facilitate station integration works with the future shopping centre at Union Square, on a net basis total station retail floor area increased by 268 square metres or 1.4% to 18,717 square metres.

During the year, renovation works began at nine other stations, which will be completed in 2005.

The Company continued to improve the retail mix, introducing a total of 69 new shops and 28 new trades including H<sub>2</sub>O, Yume, Lo Hang Ka, Q Q Rice, Pie & Tart and TCBY. Sales counters were also introduced in Tseung Kwan O Station for short-term leases to retailers, increasing the flexibility offered at this station.

**External consultancy**

The Company is currently engaged in consultancy contracts in 22 cities in 11 countries.

Revenues from external consultancy increased by 27.3% to HK\$182 million. During the year, MTR made a strategic decision to reorient this business by focusing on the areas of smartcard projects and those projects likely to lead to investment opportunities and/or retain our core competencies. Typically these projects are larger and of longer duration, and therefore provide more opportunities for growth and profitability, but they also involve a longer lead time.

In the area of smartcards, together with Octopus and our other partners, we again made good progress on the implementation of a national system for the Netherlands. Despite a challenging schedule, both hardware and software were delivered on time. The project is on track for completion of the Design, Build and Test phase in April 2005, following which the Company will provide support

services to its operations. The completion of this ambitious project, combined with our already established track record and expertise in smartcard technology, will enhance the competitive position of MTR and Octopus in pursuing similar business opportunities in other markets.

Our strategy is to pursue similar large scale smartcard projects worldwide providing hardware, software and consultancy support. In November, we submitted a tender for the Melbourne Smartcard project with partners Thales e-Transactions CGA S.A. and ADI, and are currently working with other partners on upcoming projects in Melbourne, Toronto and Los Angeles.

In the Mainland, MTR's external consultancy business continued to progress. Shanghai Hong Kong Metro Construction Management Co. Ltd., the Company's joint venture subsidiary in Shanghai, acting as the Owner's Representative for Phase 1 of Line 9 of the Shanghai Rail Transit, helped ensure that this RMB 11 billion (HK\$10.4 billion) project made substantial progress towards completion by the end of 2007. Site activities continued to progress satisfactorily and construction is presently 80% complete in Song Jiang District and 17% in Min Hang District. Construction activities also began before year end at Hong Mei Road Station in Xu Hui District. Line 9 is one of the new infrastructure projects to be built for the 2010 Shanghai EXPO.

**Rail Sourcing Solutions (International) Limited**

In August, we established Rail Sourcing Solutions (International) Limited as a wholly-owned subsidiary, to expand into global railway supply and sourcing services. The new subsidiary undertakes worldwide sourcing and marketing of components required for rail vehicles, infrastructure and maintenance, bridging the gap between manufacturers and buyers around the world.

**Octopus Cards Limited (Octopus)**

Octopus Cards Limited, the Company's smartcard subsidiary, achieved further progress in both the transportation and retail sectors. As a result of increased service providers, higher average daily usage and the economic recovery, pre-tax profit contribution to the Company from Octopus increased by 91.3% to HK\$44 million.

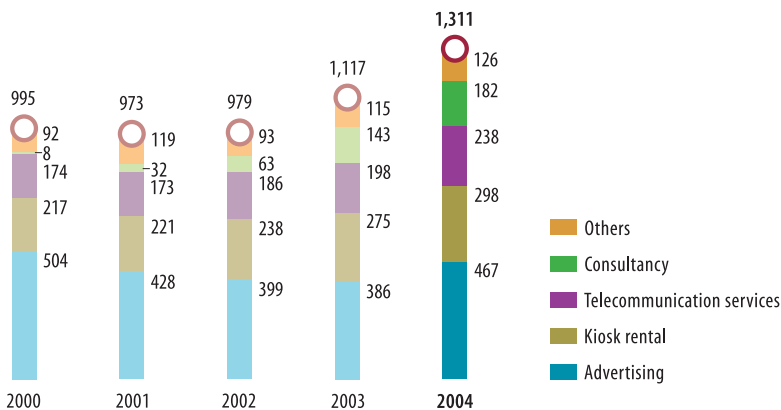
Average daily usage rose from HK\$50.7 million to HK\$57.5 million. Cards in circulation grew from 10.4 million at the end of 2003 to 11.8 million at the end of 2004, while the number of service providers increased from 253 to 299.

Continued penetration in the transport sector has seen almost all of Hong Kong's more than 2,600 Green Minibuses accept Octopus card as a mode of payment, along with 50 Red Minibuses, 167 car parks and all metered parking spaces.

Growth in retail usage continued and this was driven by the addition of new service providers such as Wing Wah Cake Shop, and full roll out to existing providers such as McDonald's and Mannings. To provide added convenience and flexibility, Octopus enables customers to link any type of Octopus card with the Automatic Add Value Service through a bank or credit card account at any participating financial institution. The number of such institutions increased to 19 in 2004 and now includes HSBC, Bank of China, Standard Chartered Bank and Citibank.

Overall usage was supported by year-round promotions, including "Rewards on the Go", a monthly lucky draw for frequent Octopus card users at retail outlets and car parks.

In HK\$ million



**Revenues from other business activities**

Non-fare revenues rose across the board in Hong Kong as the economy recovered.