

Investment properties

The continuing economic recovery, supported by increases in inbound tourism from the Mainland, increased revenue from investment properties by 11.9% to HK\$994 million compared with 2003. The primary drivers were higher renewal rents, favourable turnover rental, better promotional counter income and higher rental income from Two IFC.

MTR again achieved 100% occupancy at our shopping centres, Telford Plaza, Maritime Square, Luk Yeung Galleria and Paradise Mall. Several large new tenants signed with the Company during 2004, most notably IKEA, which opened its largest store in Kowloon with a total floor area of some 7,800 square metres in Telford Plaza. As at year end, MTR's investment property portfolio totalled 176,020 square metres.

Demand for space at Two IFC continued to grow, as the building's superlative technical specification, quality and management standard attracted more local and international companies. By year end, the total floor area of MTR's 18 floors known as "Central 18 Zone at Two

IFC" was 100% leased. To further enhance service, a new technical services model was developed for the building, providing comprehensive round-the-clock technical services to tenants.

The Company worked on improving the retail environment to enhance the value of our shopping centres. In March, a 1,100 square metre area at Level 3 of Maritime Square was converted into a new theme zone that increased rental income and boosted the shopping centre's image. In August, Treasure Cove, located on the ground floor of Paradise Mall, was renovated into a new entertainment zone to include a game centre, a CD store and a bookstore.

All MTR's shopping centres benefited from the completion of an internal Fire Services Safety Assessment and upgrading of the existing Integrated Radio Network Systems for 3G mobile phone operations.

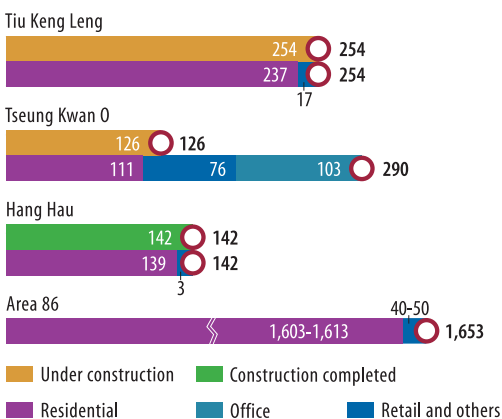
Throughout the shopping centres, the Company continued to support tenants by organising marketing and promotional campaigns such as lucky

draws, prize redemptions and artistic performances. Collectively, these promotional activities helped raise the image, patronage and retail sales of the shopping centres as did the regular weekend shopping tours organised for Mainland visitors. In addition, MTR's "Total Quality Service Regime", which is well-supported by tenants, was rolled out in all centres. The scheme regularly engages mystery shoppers to keep track of front line service quality and deliver feedback to tenants.

Property management and others

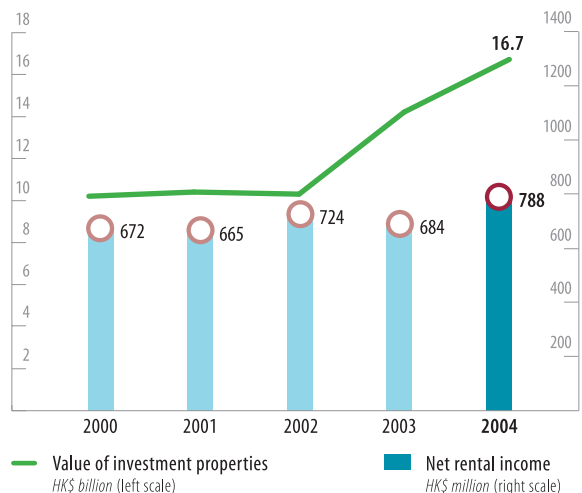
The year saw a steady growth in the MTR's property management portfolio, leading to a 14.9% rise in revenues from property management to HK\$108 million as compared to 2003. During the year, a total of 2,368 units were added to the portfolio, comprising 854 units from Sorrento, 1,122 units from The Harbourside, and 392 units from Coastal Skyline. As a result, MTR by year end had a total of 49,283 residential units and 558,796 square metres of commercial and office space under management.

Gross floor area *Thousand sq.m.*



Tseung Kwan O Line property development plan and progress

Developers responded enthusiastically to the tender for the Package One of "Dream City" at Area 86.



Investment properties

Full occupancy and rising rentals characterised MTR's investment properties.



A taskforce was set up during 2004 to work towards the ISO 9001:2000, ISO 14000:2004 and OHSAS 18001:1999 certifications by mid 2005. Formal experience sharing sessions were introduced during the year to enhance intra-departmental communications and to improve efficiency.

Revenue from property agency was stable at HK\$6 million.

The MTR's Octopus Access Control business continued to expand, with annual turnover increasing by 19% to HK\$10 million.

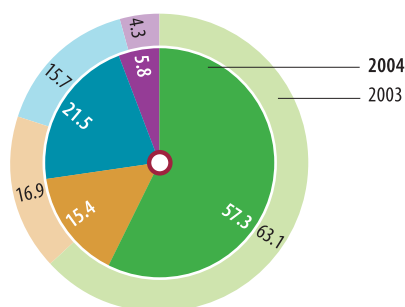
In the Mainland, Octopus Access Control was adopted by Shanghai Hong Kong Metropolis, a high-end serviced apartment and commercial complex

located in Shanghai's Central Business District, which will be completed in 2008. Other developers in the Mainland are also considering the application of Octopus Access Control in their developments.

Business in the Mainland

In the Mainland, MTR's expertise continued to translate into contracts for pre-management advisory and property

Percentage



■ Residential ■ Office
■ Retail ■ Carpark

Distribution of property management income

Units from Sorrento, The Harbourside and Coastal Skyline were added to the property management portfolio.

Shoppers and tenants enjoyed a range of promotional and marketing activities in our shopping centres, including Telford Plaza

management. Presently, MTR has under our pre-management contracts more than 800,000 square metres of residential and commercial space, and under our property management contracts 2,100 residential units with 400,000 square

metres and 22,000 square metres of commercial space.

New pre-management contracts were signed in Shanghai with the Shanghai Hong Kong Metropolis and in Chongqing

with the Mei Li Shan Shui development, both luxury type residential properties. In Beijing, MTR acquired a management contract for the Jianwai SOHO development, a new landmark in the Beijing Central Business District.

Airport Railway property developments (packages awarded)

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Actual or expected completion date
Hong Kong Station					
(International Finance Centre)	Sun Hung Kai Properties Ltd.	Office	254,186		By phases from 1998–2005
	Henderson Land Development Co. Ltd.	Retail	59,458		
	The Hong Kong & China Gas Co. Ltd.	Hotel	102,250		
	Bank of China Group Investment Ltd.	Car park		1,344	
Sub-total			415,894		
Kowloon Station					
(Union Square)					
Package One (The Waterfront)	Wing Tai Holdings Ltd.	Residential	147,547		Completed in 2000
	Temasek Holdings (Pte) Ltd. Singapore Land Ltd. Keppel Land Ltd. Lai Sun Development Co. Ltd. Worldwide Investment Co. (Bermuda) Ltd.	Car park		1,332	
Package Two (Sorrento)	The Wharf (Holdings) Ltd.	Residential	210,319		Completed by phases from 2002–2003
	Wheelock and Company Ltd. Wheelock Properties Ltd. Realty Development Corporation Ltd. Harbour Centre Development Ltd.	Car park		1,270	
Package Three (The Arch)	Sun Hung Kai Properties Ltd.	Residential	100,000		2005
		Cross border bus terminus Car park	5,886	412	
Package Four (The Harbourside)	Hang Lung Properties Ltd.	Residential Car park	128,845	864	Completed in 2003
Packages Five, Six and Seven	Sun Hung Kai Properties Ltd.	Retail	82,750		By phases from 2007–2010
		Office *	231,778		
		Serviced apartment *	72,472		
		Hotel *	95,000		
		Residential	21,300		
		Kindergarten Car park	1,050	1,743 *	
Sub-total			1,096,947		

* This falls within the range of 181,778 to 235,778 sq.m. for offices, 68,472 to 72,472 sq.m. for serviced apartments and 95,000 to 145,000 sq.m. for hotels as stipulated in the latest approved Master Layout Plan. The number of car parking spaces is subject to review.

Airport Railway property developments (packages awarded) continued

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Actual or expected completion date
Olympic Station					
Package One	Sino Land Co. Ltd.	Office	111,000		Completed in 2000
(Island Harbourview, HSBC Centre, Bank of China Centre and Olympian City One)	Bank of China Group Investment Ltd. Kerry Properties Ltd. China Overseas Land and Investment Ltd. Capitaland Residential Ltd.	Retail Residential Indoor sports hall Car park	14,900 169,950 13,219		
Package Two	Sino Land Co. Ltd.	Retail	47,500		
(Park Avenue, Central Park and Olympian City Two)	Kerry Properties Ltd. Bank of China Group Investment Ltd. China Overseas Land and Investment Ltd.	Residential Market Car park	220,050 1,100		
Package Three	Sun Hung Kai Properties Ltd.	Residential Kindergarten Car park	103,152 1,300	1,380 932	
Sub-total			682,171		By phases from 2005–2006
Tsing Yi Station					
(Tierra Verde and Maritime Square)	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd. CITIC Pacific Ltd.	Retail Residential Kindergarten Car park	46,170 245,700 925		Completed in 1999
Sub-total			292,795	920	
Tung Chung Station					
Package One	Hang Lung Development Co. Ltd. Henderson Land Development Co. Ltd. New World Development Co. Ltd. Sun Hung Kai Properties Ltd. Swire Properties Ltd.	Office Retail Hotel Residential Kindergarten Car park	14,999 48,331 22,000 275,501 855		By phases from 1999–2005
(Tung Chung Crescent, Citygate and Seaview Crescent)				2,041	
Package Two	HKR International Ltd. Hong Leong Holdings Ltd. Recosia Pte Ltd.	Retail Residential Kindergarten Car park	2,499 253,100 350		
Package Three	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd.	Retail Residential Wet market Kindergarten Car park	4,996 407,300 508 350		By phases from 2002–2007
(Coastal Skyline)				632 [†]	
Package Three					
(Caribbean Coast)					
Sub-total			1,030,789	1,211	
Grand Total:			3,518,596	14,360	

[†] This falls within the range of 632–745 as stipulated in the latest Master Layout Plan.

Tseung Kwan O Line property developments (packages awarded)

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Actual or expected completion date
Tseung Kwan O Station Area 57a (Central Heights)	Sun Hung Kai Properties Ltd. Nan Fung Development Ltd. Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Residential Retail Car park	26,005 3,637	74	Awarded in July 2000	2005
Area 55b (The Grandiose)	New World Development Co. Ltd. Chow Tai Fook Enterprises Ltd. Wee Investments Pte. Ltd.	Residential Retail Car park	84,920 11,877	249	Awarded in January 2002	2006
Hang Hau Station (Residence Oasis and The Lane)	Sino Land Co. Ltd. Kerry Properties Ltd.	Residential Retail Car park	138,652 3,500	369	Awarded in June 2002	Completed in 2004
Tiu Keng Leng Station	Cheung Kong (Holdings) Ltd.	Residential Retail Car park	236,965 16,800	587	Awarded in October 2002	By phases from 2006-2007
Tseung Kwan O South Station Area 86 Package One	Cheung Kong (Holdings) Ltd.	Residential Retail Car park Residential Care Home for the Elderly	136,240 500 3,100	325	Awarded in January 2005	2009

Tseung Kwan O Line property developments (packages to be awarded)*

Location	No. of packages envisaged	Type	No. of Gross floor area (sq. m.)	Expected parking spaces	Period of package tenders	Expected completion date
Tseung Kwan O Station	2	Retail Office Car park	60,000 103,130	1,291	2005-2006	2009
Tseung Kwan O South Station Area 86	7-13	Residential Retail Car park	1,463,460 49,500	4,438	2005-2010	2014

* Subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

Choi Hung Park and Ride development

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Choi Hung Station (No. 8 Clear Water Bay Road)	Chun Wo Holdings Ltd.	Residential Retail Car park Park and Ride	19,138 2,400	54 450	Awarded in July 2001	2005

Investment property portfolio (as at 31 December 2004)

Location	Type	Lettable floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,982	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,411	–	50%
	Car park	–	136	50%
Luk Yeung Galleria, Tsuen Wan, New Territories	Shopping centre	12,066	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	19,448	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	29,261	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
G/F, No. 308 Nathan Road, Kowloon	Shop unit	70	–	100%
G/F, No. 783 Nathan Road, Kowloon	Shop unit	36	–	100%
New Kwai Fong Gardens, Kwai Chung, New Territories	Kindergarten	540	–	100%
	Car park	–	126	100%
International Finance Centre (IFC), Central, Hong Kong – Two IFC – One and Two IFC	Office	39,529	–	100%
	Car park	–	1,308	51%
Phase I, Carpark Building, Kornhill, Quarry Bay, Hong Kong	Car park	–	292	100%
Roof Advertising Signboard, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Advertising signboard	–	–	100%
Ten Shop Units, First Floor Podium, Admiralty Centre, No. 18 Harcourt Road, Hong Kong	Shops	286	–	50%
Olympian City One, Tai Kok Tsui, Kowloon	Indoor sports hall	13,219	–	100%
Olympian City Two, Tai Kok Tsui, Kowloon	Shop unit	1,252	–	100%

Note: The above properties are let to tenants for commercial use except Heng Fa Chuen Residents' Club House. All properties are held by the Company under leases for over 50 years except for Telford Plaza I and II, Luk Yeung Galleria, Maritime Square, New Kwai Fong Gardens, IFC and Olympian City where the leases expire on 30 June 2047.

Properties held for sale (as at 31 December 2004)

Location	Type	Gross floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Residential	6,792	–	40%
	Car park	–	579	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,048*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
Sorrento, Union Square, No. 1 Austin Road West, Kowloon	Residential	3,998	–	36.22%
	Car park	–	149	67.05%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseng Kwan O	Residential	12,374	–	71%
	Car park	–	321	71%
	Motorcycle park	–	18	71%

* Lettable floor area

Managed properties (as at 31 December 2004)

Number of managed residential flats	49,283 units
Area of managed commercial and office space	558,796 sq. m.