

growing faster

Our strategy of leveraging rail assets to expand non-fare revenue continued to pay off, boosting this revenue by **18.6%** to **HK\$1,555 million**



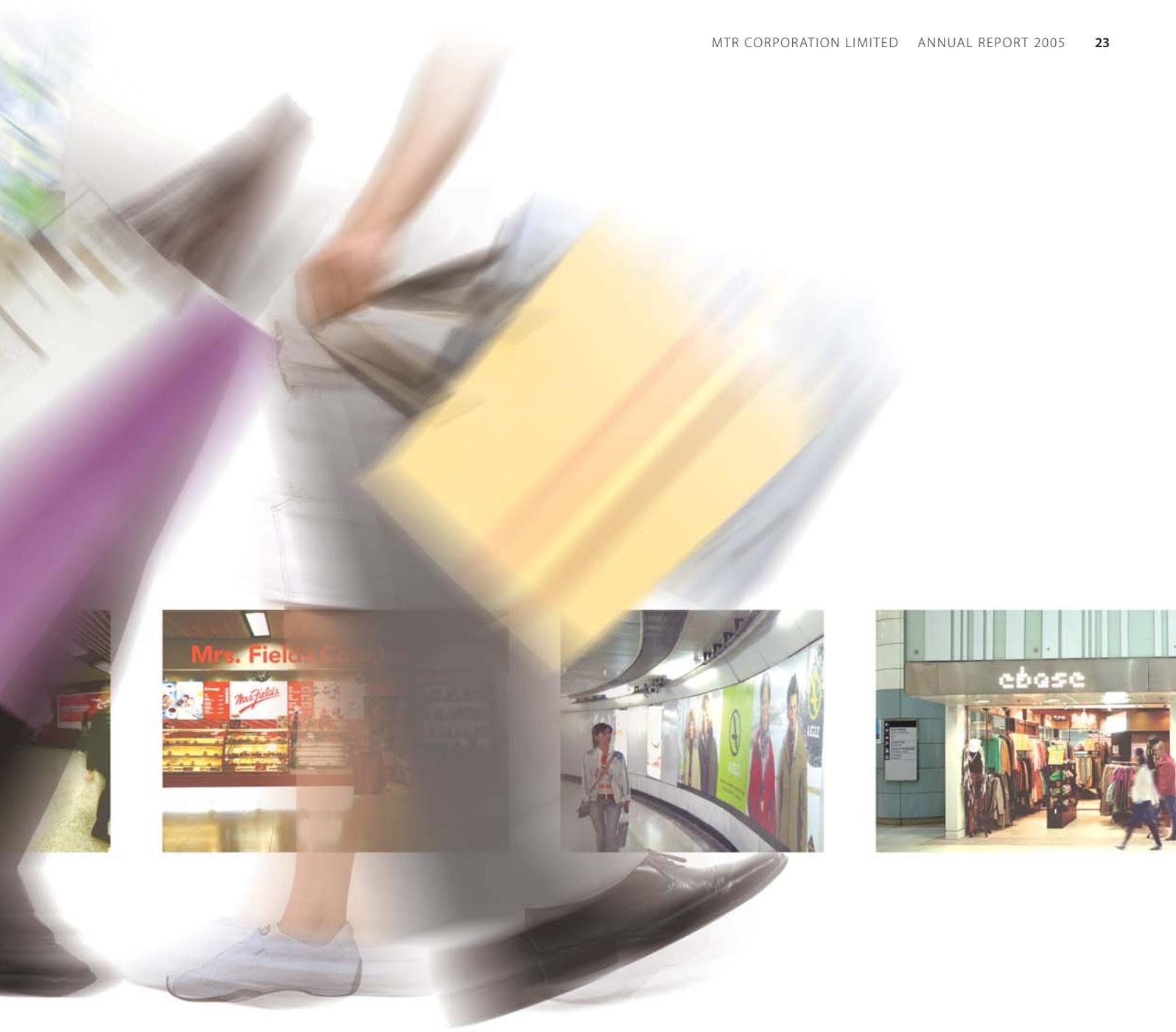
Station commercial and other businesses

The Company's station commercial and other businesses achieved growth of 18.6% in revenue over 2004 to HK\$1,555 million on the back of a strong economy, increasing patronage and higher consultancy income, supported by a Company strategy to leverage our railway assets through expansion of non-fare revenue businesses.

Advertising

During the year, advertising revenue increased by 9.2% to HK\$510 million as a result of a strong retail sector and a favourable response to the Company's offer of new advertising packages tied to the opening of DRL. This very strong result is also attributable to the Company's successful efforts in recent years in enhancing the attraction of our advertising venues through refinements and innovation in formats.

In 2005, these efforts included the introduction in August of audio advertising along the MTR Lines. This was made possible by the installation of audio systems in 15 locations, including corridors and



escalators, at Causeway Bay, Wan Chai, Taikoo, Tsim Sha Tsui, Sham Shui Po and Kowloon Tong stations, with the system capable of providing continuous audio output along the entire length of the location.

Also in August, a lit-up billboard was installed as part of the Company's advertising portfolio, above an entrance at Mong Kok Station, followed in September by similar billboards above two entrances at Tsim Sha Tsui Station.

This was followed by further expansion of our advertising formats in November when facilities for platform buntings (decorative flags) were installed in eight platforms at Central, Admiralty, Causeway Bay, Tsim Sha Tsui and Mong Kok stations as well as at one transfer concourse in Central Station.

During the year, improvements to existing advertising formats were also introduced. These included the introduction in June of enlarged advertising cards offering greater visual impact and by the end of 2005, some 106 trains running along the Island, Kwun Tong, Tsuen

Wan and Tseung Kwan O lines have been installed with these larger and more effective advertising cards.

The Company also replaced 18 plasmas at the e-Instant Bonus terminals as well as integrated their content management system with the concourse plasma network, to provide better viewing quality and simplify daily operation.

Telecommunications

Revenue from telecommunications services increased by 40.3% to HK\$334 million. However, the bulk of the increase was attributable to a one-off settlement received from a telecommunications service operator for early termination of an agreement.

With usage and demand for 3G mobile telecommunications services set to increase in Hong Kong, the Company completed upgrading of our existing integrated radio network to enable seamless 3G service provision by all four 3G operators across the entire MTR network in October, six months ahead of schedule.

During the year, TraxComm Limited recorded higher revenues as it expanded its presence in the market, and extended its optical fibre network to 30 locations to data centres and commercial buildings whilst increasing the capacity of bandwidth services to 80Gbps.

Station commercial

Station commercial facilities revenue rose by 15.4% to HK\$344 million, boosted by higher rental rates and the expansion of retail space under the station renovation programme which leveraged off the increase in patronage and retail sales.

During the year, renovations were completed in the retail zones of 20 stations: Causeway Bay, North Point, Sheung Wan, Chai Wan, Shau Kei Wan, Lok Fu, Kowloon Bay, Diamond Hill, Kwai Fong, Sham Shui Po, Yau Ma Tei, Tsim Sha Tsui, Kwai Hing, Jordan, Hang Hau, Tseung Kwan O, Olympic, Tsing Yi, Hong Kong and Tung Chung stations; so far a total of 30 stations in the MTR system have undergone renovation. Renovation works also began at Ngau Tau Kok and Admiralty stations.

As a result of station renovations and allowing for the repossession of 1,690 square metres of retail area in Kowloon Station to facilitate integration works with Union Square, retail floor area increased by 353 square metres or 2%, to 19,070 square metres. In total, 99 new shops and 28 new trades or brands were added, the latter including major pharmacy chain Watsons, popular restaurant Café de Coral, IP Zone, Ebase and Eu Yan Sang.

For the year, miscellaneous business revenue including car park rental, souvenir ticket sales, new station connections and publications registered an increase of 23.8% over the previous year, reaching HK\$156 million.

External consultancy

In external consultancy, our strategy remains focused in areas where consultancies may lead to investment opportunities in the Mainland of China or in Europe, as well as in areas where MTR Corporation can further develop and enhance our skill set. In 2005, revenue from this business increased to HK\$211 million.

In Mainland China, several new consulting and training contracts were signed for services ranging from reliability, availability, maintainability and safety (RAMS) system development to design support for a digital trunk radio for a metro system. These projects cover cities including Beijing, Changchun, Shanghai, Tianjin, Guangzhou and Zhuzhou, and for clients including Chinese companies and multinational firms such as Motorola. In Shanghai, Line 9 of Shanghai Rail Transit project management consultancy work progressed well. By year-end, construction works were 38% complete with 12 of the 13 stations targeted to open in January



The entire network was made fully ready for seamless 3G service six months ahead of schedule

2008. In the consultancy for Phase 1 of Line 11 (North), the Company has completed study packages for Shen-Jia Line Development Company and Jia Ding District Railway Development Company, and has signed a further contract for Line 11 Phase 2 (South) to provide consultancy services for the section in Nan Hui District. Currently, the Company is in discussion with the clients on their requests to extend our services.

In Hong Kong, we have secured renewal of the contract for maintenance of the Automated People Mover System at the Hong Kong International Airport for another three years from the Airport Authority, and are working with Ishikawajima-Harima Heavy Industries Co., Ltd. on extension of the system to SkyPlaza and the SkyPier.

Elsewhere in Asia, a detailed feasibility study carried out for the Macau SAR Government on the Macau Rapid Transit System was completed and the final report was delivered to the client in January 2006. Other completed contracts included a training contract for the Taiwan High Speed Rail Corporation, and a verification and validation contract for Nippon Sharyo Limited. In Asia, more than 30 new contracts were secured including a consultancy contract from Kaohsiung Rapid Transit Corporation in Taiwan covering operations and maintenance planning support.

In the Netherlands, the project to build a nation-wide Automatic Fare Collection system was commissioned on schedule, with the system ready for operations in April 2005, since which the Company, together with Octopus (Netherlands) Limited, has continued to provide support services for its operations.

Rail Sourcing Solutions (International) Limited

Rail Sourcing Solutions (International) Limited (RSS) is a wholly-owned subsidiary established by the Company in July 2004, to exploit opportunities in the sourcing of rail equipment. During 2005, RSS continued to expand its presence in the global railway parts and equipment market and is now active in the UK, Europe, North America and Australia. RSS focuses on China and other low cost countries as the supply base for components required for rail vehicles, infrastructure and maintenance. This strategy enables the business successfully to bridge the gap between manufacturers and buyers around the world.

Octopus Holdings Limited

To facilitate business expansion of Octopus, a corporate re-organisation was implemented in November which established Octopus Holdings Limited (OHL) as the holding company for the Octopus group of companies, including Octopus Cards Limited (OCL). The shareholding structure remained unchanged, with MTR Corporation holding 57.4% of OHL, the same proportion as previously of Octopus Cards Limited. In 2005, MTR Corporation's share of earnings from OHL was HK\$40 million, which was a 2.6% increase from 2004.

OHL continued its steady expansion in both the transport and non-transport markets in Hong Kong during 2005, with growth driven by an increasing number of service providers and in average daily Octopus card usage on the back of a buoyant economy. As at 31 December 2005, the total number of service providers had risen to 349 from 299 a year ago, whilst cards in circulation and average daily transaction value had risen respectively to 13.2 million from 11.8 million, and to HK\$64.7 million from HK\$57.4 million over the same one year period.

By year-end, 103 more green minibuses were accepting Octopus card, bringing the total to 2,747, which represents virtually the entire fleet of green minibuses in Hong Kong, whilst the number of red minibuses accepting Octopus card increased from 50 to 171. During the year, a further 37 car parks joined the Octopus payment system, bringing the total to 203. Octopus card has been accepted and in use on all cross border buses and coaches since November 2005.

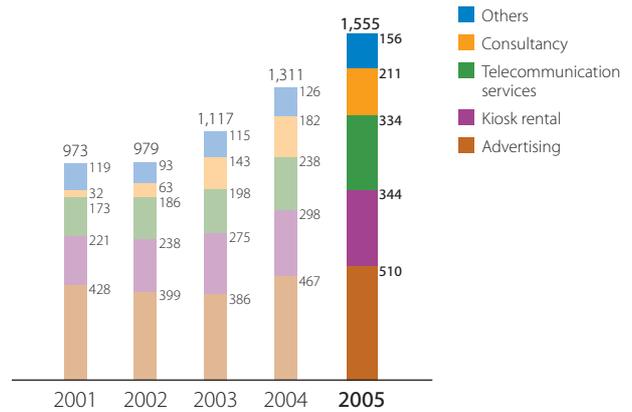
In the retail sector, in addition to fast food chains, supermarkets, convenience stores and cake shops, the Octopus card payment system gained entry into the clothing, telecommunications and the government sectors.

On 5 November 2005, a customer loyalty programme (Rewards Programme) was launched by Octopus Rewards Limited, a wholly owned subsidiary of OHL, using Octopus cards to record Reward

Revenue from other business activities

Advertising revenue grew strongly, supported by continuing refinements and innovations in advertising formats.

In HK\$ million



Dollars issued and redeemed respectively by participating partners and cardholders. Participating partners in the supermarket, theatre, financial institution and personal care store have been participating in the Rewards Programme since the launch. As at 31 December 2005, over 590,000 Octopus cardholders had registered and activated their cards for the Rewards Programme. Promotion activities to increase the number of participating partners and cardholders are continuing.

In August 2005, OCL reached agreement with the Hong Kong Monetary Authority on a new regulatory framework in respect of the supervision of multi-purpose stored value card operations. This has resulted in the relaxation of some of the previous regulatory restrictions on OCL in relation to the use and acceptance of Octopus cards in non-transport markets.

Despite the improved performance of the cards and payment business and on time delivery of the Octopus clearing house system for the nationwide Automatic Fare Collection project in the Netherlands, the increase in OHL group's consolidated profit for 2005 was curtailed by increase in operating costs due to the development and start-up of new businesses, particularly the Rewards Programme. As a result, MTR Corporation's share of earnings from OHL in 2005 registered only a modest increase over 2004.

