

# growing brighter

Airport Railway projects contributed the bulk of the **34.5%** rise in property development profit, while higher rents drove investment property revenue up **19.0%**

## Property business

The Company's property businesses continued to register strong growth in 2005 on the back of a strong economy and positive sentiment in the property market, albeit with successive rise in interest rates, market sentiment was dampened towards the latter part of the year.

### Property development

For the year, profit on property developments registered an increase of 34.5% from 2004 to reach HK\$6,145 million, with profit mainly derived from profit recognition from developments along the Airport Railway.

### Airport Railway

In 2005, profit recognised from Airport Railway projects comprised mainly surplus proceeds from The Arch at Kowloon Station, sharing in kind from the second part of Phase 1 of the retail shell at Union Square (Elements) of 16,560 square metres gross of floor area, as well as deferred income recognition, in line with construction progress, at Harbour Green (Olympic Package Three), the hotel in Tung Chung Package One, as well as Coastal Skyline and Caribbean Coast (respectively, Tung Chung Packages Two and Three).

A number of major developments were completed along the Airport Railway, notably The Four Seasons Hotel & Four Seasons Place comprising a new luxury hotel and service apartments above Hong Kong Station, and The Arch (Kowloon Package Three) at Kowloon Station, which became one of the most popular high quality residential developments to have come to the market in recent years. At Tung Chung, Le Bleu (Package Two Phase 2) introduced the first low rise development in the area while Carmel Cove (Package Three Phase 3) brought additional choice to high rise residential buyers.

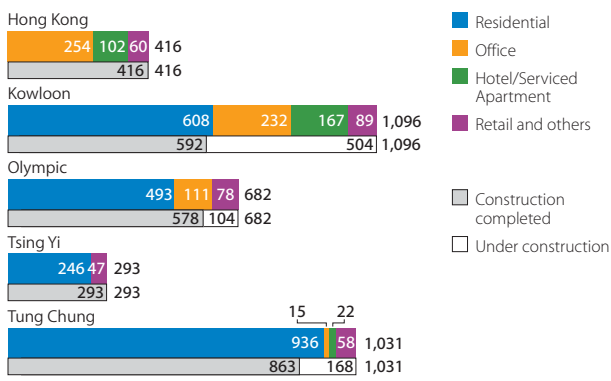




### Airport Railway property development plan and progress

Construction activities at Kowloon and Tung Chung stations continue following completion of the developments at Hong Kong Station.

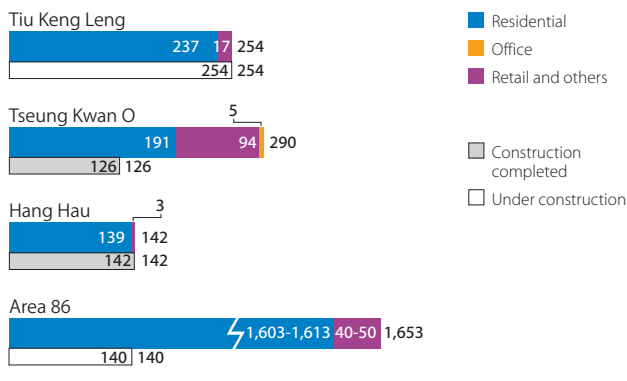
Gross floor area *Thousand sq.m.*



### Tseung Kwan O Line property development plan and progress

Revision was made to the development plan of Area 56 at Tseung Kwan O Station whilst construction at Area 86 has begun following the tender of Package One.

Gross floor area *Thousand sq.m.*



During the year, pre-sales of residential units were launched for Harbour Green, Carmel Cove at Caribbean Coast, Le Bleu at Coastal Skyline and The Arch, all meeting with strong response as a result of favourable market conditions. Occupation permits were granted for The Arch, the hotel in Tung Chung, Le Bleu and Carmel Cove.

#### Tseung Kwan O Line and others

In 2005, development profit along Tseung Kwan O Line was primarily derived from sharing in kind from The Lane, a 3,500-square metre shopping centre above Hang Hau Station, as well as further proceeds from Residence Oasis at Hang Hau Station and the sale of the small retail podium at Central Heights (Area 57a).

The year saw completion of Central Heights with Occupation Permit obtained in February and pre-sale launched in March. Pre-sale was also launched for The Grandiose and Metro Town (Tiu Keng Leng Station Phase 1), both achieving good market response. Occupation Permit for The Grandiose was later obtained in January 2006.

In January, the Company awarded the tender of Package One of Tseung Kwan O Area 86 to City Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited, and the Development Agreement was executed in February. The tender for Package Two of Area 86 was launched in December 2005 and the tender was awarded to Rich Asia Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited in January 2006. The format of the tenders of both Package One and Package Two of Area 86 deviated slightly from the Company's previous tender model. In Package One, given market conditions and weighing risk and reward, we decided to advance half of the land premium in 2005 with reimbursement upon sale of the development in return for a larger share of development profit. In Package Two, also weighing risk and reward, MTR Corporation

extended a HK\$4 billion interest free loan to the developer in 2006 in return for an increased sharing in kind of the development.

To align the development plan of Area 86 better to changes in market conditions and preferences, further improvements were made to the property development plan and the corresponding Master Layout Plan was submitted in January 2006. Separately, a town planning application to develop a hotel, residential, office and retail complex in Tseung Kwan O Town Centre (Area 56) was submitted and approved by the Town Planning Board in December.

In addition to developments along the Airport Railway and Tseung Kwan O Line, the Park & Ride project at No. 8 Clear Water Bay Road in Choi Hung was completed during the year, offering to the market additional choices in high rise living in the area.

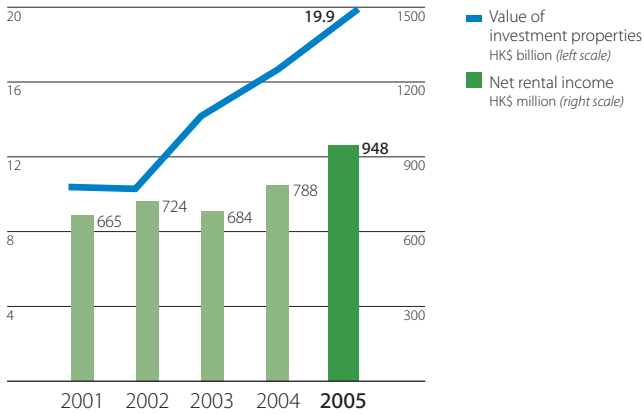
#### Investment properties

Revenue from investment properties increased by 19.0% over 2004 to HK\$1,183 million owing to higher rents. Retail customers using our centres continued to increase as a result of further improvement in the retail environment and our successful efforts in maintaining and enhancing the attractiveness of our shopping centres. Income was also boosted by the increased share of rental income from Telford Plaza II, in line with the commercial agreement relating to this centre starting from January 2005, and by the opening of The Lane on 1 April 2005.

During the year, growing demand from retailers for high quality retail space has enabled the Company to maintain 100% occupancy levels at all of our shopping centres, including The Lane, which achieved 100% occupancy from day one of operations.

### Investment properties

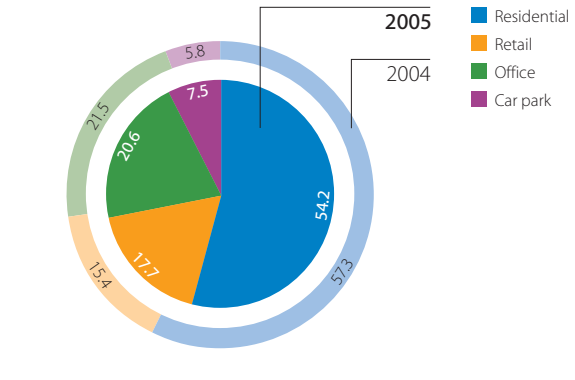
Revenue from investment properties was boosted by increased income sharing from Telford Plaza II and the opening of The Lane.



### Distribution of property management income

During 2005, 5,075 residential units from Caribbean Coast, Residence Oasis and Le Bleu were added to our property management portfolio.

Percentage



International marketing and pre-letting of Elements, the forthcoming upscale flagship mall of 82,750 square metres gross at Union Square, was launched in various overseas markets and pre-letting has progressed satisfactorily, generating good response from both overseas and local retailers. Pre-letting of The Edge, the new shopping centre at Area 55b of Tseung Kwan O Station of 11,877 square metres gross, also saw good progress.

During the year, we continued our efforts to enhance the retail environment of our shopping centres, including the launch in December of a major renovation programme to refurbish the shopfronts, ceiling and floor finishes at Telford Plaza I with target completion in 2006.

At all our shopping centres, we continued to support our tenants by organising a series of vigorous promotional programmes throughout the year, including image campaigns, sales stimulations, mega events, loyalty programmes and seasonal in-mall decorations. These programmes and activities not only helped draw additional patronage but also raised the image and maintained the competitive positions of our shopping centres.

The opening of Hong Kong Disneyland in September and the earlier start of operations of DRL have had a positive impact on Maritime Square shopping centre. Since September, this already popular shopping centre has been able to leverage off the Disneyland opening through effective thematic promotions to achieve year-on-year retail customer growth in excess of 30%.

During the year, we continued to implement the strategy of achieving a refined trade mix in our shopping centres in accordance with research results into shopper preferences to enhance their attractiveness and value. Based on this strategy, a significant number



"Premier" property management at developments such as The Harbourside is an important feature of MTR Corporation's integrated property business

of new tenants were added to the portfolio, including C'est Bon, La Parole, Izzue, the Federal Restaurant, b+ab, Arnold Palmer, 5 cm, ETE at Maritime Square, Ruby Tuesday, OZOC / INDIVI, Shiseido, Clarins and Commercial Press at Telford Plaza; and Tao Heung Super 88 and Cheers Chinese Restaurant at Paradise Mall.

Supported by strong demand for prime office space, our 18 floors at Two International Finance Centre maintained its fully let position throughout the year.

### Property management and other services

Our property management business experienced steady growth, with revenue rising 16.7% over the previous year to HK\$126 million. During the year, a total of 5,075 residential units were added to our management portfolio, including 2,904 units from Caribbean Coast Phases Three, Four and Five, 2,130 units from Residence Oasis and 41

houses from Le Bleu. This brought the total number of residential units managed by the Company to 54,358 at the end of 2005 with 562,296 square metres of commercial and office space also under our management in Hong Kong.

The property agency business generated HK\$7 million revenue which has increased by 16.7% over the previous year.

Expansion of the Octopus Access Control business continued, with revenue achieving a year-on-year growth of 30% to HK\$13 million.

### Business in the Mainland of China

MTR Corporation's property business experienced further growth in the Mainland of China in 2005 in the areas of property consultancy, management and related businesses.

During the year, two new property management contracts for high-end residential developments were concluded, for Northstar Bei Yuan B3 District and Jian Wai Soho Phases Five and Seven in

Beijing. One contract was secured in Chongqing, for Mei Li Shan Shui, another high-end residential development.

Also in Beijing, MTR Corporation signed a long-term head lease up to 47 years with a Beijing developer for the operations and property management of Oriental Kenzo, a 31,000 gross square metre shopping centre in the city's Dong Cheng district, with plans to re-decorate for opening and subletting in late 2006. The head lease is due to commence in the second quarter of 2006. There is an option for us to buy at a pre-set price within the first five years of the lease and a right of first refusal after the expiry of the first five years.

With the initialling of the Concession Agreement for Shenzhen Metro Line 4 in May, the Company continued to make preparations for the related property developments as the project awaited final NDRC approval. The Master Plan for the development, which will comprise 2.9 million gross square metres of residential and commercial space, is now largely finalised following our in-depth research into, and extensive consultation with, local participants in the Shenzhen property market.

### Airport Railway property developments (packages awarded)

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Actual or expected completion date
<b>Hong Kong Station</b>					
(International Finance Centre)	Sun Hung Kai Properties Ltd.	Office	254,186		completed 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		
<b>Kowloon Station</b>					
(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. Wheelock and Company Ltd. Wheelock Properties Ltd. Realty Development Corporation Ltd. Harbour Centre Development Ltd.	Residential Car park	210,319	1,270	Completed by phases from 2002–2003
Package Three (The Arch)	Sun Hung Kai Properties Ltd.	Residential	100,000		Completed in 2005
		Cross border bus terminus Car park	5,113	412	
Package Four (The Harbourside)	Hang Lung Properties Ltd.	Residential Car park	128,845	864	Completed in 2003
Packages Five, Six and Seven (Elements, International Commerce Centre)	Sun Hung Kai Properties Ltd.	Retail	82,750		By phases from 2006–2010
		Office*	231,778		
		Serviced apartment*	72,472		
		Hotel*	95,000		
		Residential Kindergarten Car park	21,300 1,050	1,743*	
Sub-total			1,096,174		

\* 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.



Maritime Square leveraged the opening of the Disneyland Resort Line to achieve 30% year-on-year growth in retail customers from September

### Airport Railway property developments (packages awarded) continued

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Actual or expected completion date
<b>Olympic Station</b>					
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.	Retail	14,900		
	Kerry Properties Ltd.	Residential	169,950		
	China Overseas Land and Investment Ltd.	Indoor sports hall	13,219		
	Capitaland Residential Ltd.	Car park		1,380	
Package Two	Sino Land Co. Ltd.	Retail	47,500		Completed in 2001
(Park Avenue, Central Park and Olympian City Two)	Kerry Properties Ltd.	Residential	220,050		
	Bank of China Group Investment Ltd.	Market	1,100		
	China Overseas Land and Investment Ltd.	Car park		932	
Package Three	Sun Hung Kai Properties Ltd.	Residential	103,152		2006
(Harbour Green)		Kindergarten	1,300		
		Car park		294	
Sub-total			682,171		
<b>Tsing Yi Station</b>					
(Tierra Verde and Maritime Square)	Cheung Kong (Holdings) Ltd.	Retail	46,170		Completed in 1999
	Hutchison Whampoa Ltd.	Residential	245,700		
	CITIC Pacific Ltd.	Kindergarten	925		
		Car park		920	
Sub-total			292,795		
<b>Tung Chung Station</b>					
Package One	Hang Lung Development Co. Ltd.	Office	14,999		By phases from 1999–2005
(Tung Chung Crescent, Citygate and Seaview Crescent)	Henderson Land Development Co. Ltd.	Retail	48,331		
	New World Development Co. Ltd.	Hotel	22,000		
	Sun Hung Kai Properties Ltd.	Residential	275,501		
	Swire Properties Ltd.	Kindergarten	855		
		Car park		2,041	
Package Two	HKR International Ltd.	Retail	2,499		By phases from 2002–2007
(Coastal Skyline)	Hong Leong Holdings Ltd.	Residential	253,100		
	Recoxia Pte Ltd.	Kindergarten	350		
		Car park		625	
Package Three	Cheung Kong (Holdings) Ltd.	Retail	4,996		By phases from 2002–2008
(Caribbean Coast)	Hutchison Whampoa Ltd.	Residential	407,300		
		Wet market	508		
		Kindergarten	350		
		Car park		1,203	
Sub-total			1,030,789		
Grand Total:			3,517,823	14,360	

### 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
<b>Tseung Kwan O Station</b>						
Area 57a (Central Heights)	Sun Hung Kai Properties Ltd.	Residential	26,005	74	Awarded in July 2000	Completed in 2005
	Nan Fung Development Ltd.	Retail	3,637			
	Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Car park				
Area 55b (The Grandiose and The Edge)	New World Development Co. Ltd.	Residential	84,920	249	Awarded in January 2002	Completed in January 2006
	Chow Tai Fook Enterprises Ltd. Wee Investments Pte. Ltd.	Retail Car park	11,877			
<b>Hang Hau Station</b> (Residence Oasis and The Lane)	Sino Land Co. Ltd.	Residential	138,652	369	Awarded in June 2002	Completed in 2004
	Kerry Properties Ltd.	Retail	3,500			
		Car park				
<b>Tiu Keng Leng Station</b>						
Metro Town	Cheung Kong (Holdings) Ltd.	Residential	236,965	609	Awarded in October 2002	By phases from 2006-2007
		Retail	16,800			
		Car park				
<b>Tseung Kwan O South Station</b>						
Area 86 Package One	Cheung Kong (Holdings) Ltd.	Residential	136,240	325	Awarded in January 2005	2008
		Retail	500			
		Car park				
		Residential Care Home for the Elderly	3,100			
Area 86 Package Two	Cheung Kong (Holdings) Ltd.	Residential	309,696	905	Awarded in January 2006	2009-2010
		Kindergarten	800			
		Car park				

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

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Expected parking spaces	Period of package tenders	Expected completion date
<b>Tseung Kwan O Station</b>						
Area 56	1-2	Residential	80,000	390	2006-2007	2011
		Hotel	58,130			
		Retail	20,000			
		Office	5,000			
		Car park				
<b>Tseung Kwan O South Station</b>						
Area 86	6-11	Residential	1,153,764 – 1,163,764	3,533	2006-2010	2014
		Retail	39,500 – 49,500			
		Car park				

\* 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
<b>Choi Hung Station</b> (No. 8 Clear Water Bay Road)	Chun Wo Holdings Ltd.	Residential	19,138	54 450	Awarded in July 2001	Completed in 2005
		Retail	2,400			
		Car park				
		Park & Ride				

**Investment property portfolio (as at 31 December 2005)**

Location	Type	Lettable floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	40,075	–	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	19,409	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	28,920	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	100%
The Lane, Hang Hau	Shopping centre	2,629	–	100%
	Car park	–	16	100%
	Motorcycle park	–	1	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%
Wet Market, Caribbean Coast, Tung Chung, New Territories	Wet market	444	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	51%
	Park & Ride	–	450	51%

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, Olympian City and Caribbean Coast where the leases expire on 30 June 2047 and Choi Hung Park & Ride where the lease expires on 11 November 2051.

**Properties held for sale (as at 31 December 2005)**

Location	Type	Gross floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Residential	301	–	40%
	Car park	–	579	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	6,047*	–	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	531	–	36.22%
	Car park	–	110	67.05%
The Arch, Union Square, No. 1 Austin Road West, Kowloon	Residential	18,170	–	38.5%
	Car park	–	140	38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Residential	445	–	71%
	Car park	–	213	71%
	Motorcycle park	–	18	71%

\* Lettable floor area

**Managed properties (as at 31 December 2005)**

Number of managed residential flats	54,358 units
Area of managed commercial and office space	562,296 sq. m.



