

Property business

Profit from property developments decreased slightly from the very strong profit recognised in 2005, while revenue from property investment and management increased by 7.3%

UPWARD MOMENTUM

The Hong Kong property market was steady in 2006, benefiting our property development business. The Company's investment portfolio saw rising rentals and positive rent reversions as demand for high quality and well located office and retail space was supported by the strong economy and vibrant tourism.

Property development

Profit for the year from property developments was HK\$5,817 million. The bulk of property development profit was recognised from surplus proceeds relating to The Grandiose, Central Heights and Metro Town (Tiu Keng Leng Phase 1) in Tseung Kwan O as well as deferred income from Airport Railway projects.

Airport Railway

During 2006, profit recognised from Airport Railway projects comprised mainly deferred income recognition, in line with construction progress, at Harbour Green (Olympic Package Three), Coastal Skyline and Caribbean Coast (respectively, Tung Chung Packages Two and Three), as well as fit-out works at Elements in Kowloon Station. We also recognised profit from the receipt of the shell of an additional gross floor area of 7,609 square metres of retail space at Elements.

Sales and pre-sales during the year saw good progress, including those for Harbour Green at Olympic Station Package Three and the December pre-sales for La Rossa in Coastal Skyline, Tung Chung Package Two.



MAIN IMAGE Our 18 floors at Two IFC remained fully let

RIGHT Excellent management of our investment properties adds to their attraction





LEFT The majority owned The Edge in Tseung Kwan O became MTR Corporation's sixth shopping centre

Several major developments were completed. Elements, the upscale retail development at Kowloon Station obtained its Occupation Permit for the first phase in December 2006. Units of The Arch, also at Kowloon Station, were handed over to individual owners in June, while Harbour Green, Crystal Cove (Towers 15 and 16) in Caribbean Coast obtained their Occupation Permits in September and La Rossa in Coastal Skyline in October.

At Caribbean Coast in Tung Chung, the Master Layout Plan for garden houses was approved by the Town Planning Board and foundation works began in October. This development will meet the demand for such units in the area. At Maritime Square, Tsing Yi, the Company's proposal to convert part of the adjacent lorry park and transport interchange to retail use, which would provide about 10,500 square metres gross floor area of shopping space, was approved by the Town Planning Board in September.

Tseung Kwan O Line and others

For 2006, development profit along Tseung Kwan O Line came primarily from surplus proceeds from Metro Town (Tiu Keng Leng Phase 1), The Grandiose (Area 55b), as well as Central Heights (Area 57a).

Pre-sales of Le Point, Phase 2 of Tiu Keng Leng, drew a very good response from the market. Likewise, good progress of sales and

sales completion was achieved at The Grandiose and Metro Town (Tiu Keng Leng Phase 1) Towers One, Two, Three and Five, which saw handovers to individual owners in June and November respectively.

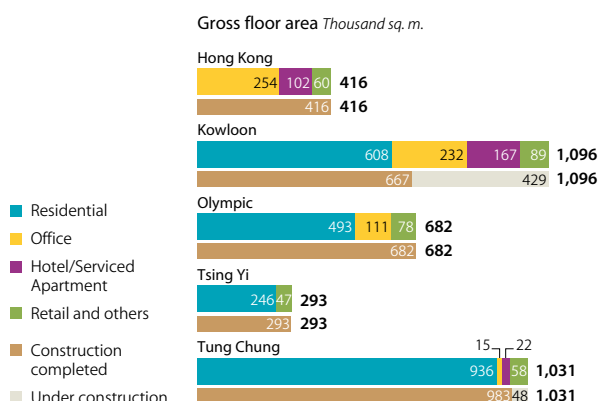
Two major developments were completed, starting in January with The Grandiose, followed in June by Metro Town (Tiu Keng Leng Phase 1). The Edge, a majority owned shopping centre located at the podium floors of The Grandiose, the Tseung Kwan O Station development in Area 55b, was completed in January and held its grand opening in November, becoming MTR Corporation's sixth shopping centre.

In January, the Company awarded the tender of Package Two of Tseung Kwan O Area 86 (gross floor area of 309,696 square metres) to Rich Asia Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited, and the Development Agreement was executed in February. To balance risk and reward, and in light of market conditions, the Company decided to advance an interest-free loan of HK\$4 billion to Rich Asia Investments Limited in return for an increased sharing in kind of the development. The loan is backed by a parent company guarantee from Cheung Kong (Holdings) Limited.

In November, the shopping centre at Tiu Keng Leng Station development was sold to a subsidiary of Cheung Kong (Holdings) Ltd.

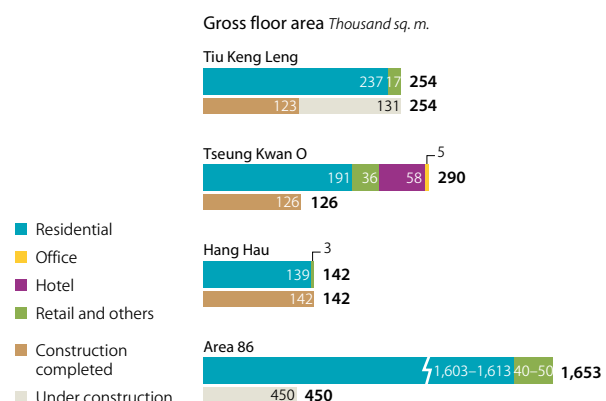
Airport Railway property development plan and progress

Elements and Harbour Green were major projects completed in 2006.



Tseung Kwan O Line property development plan and progress

Area 86 will see considerable activity, following two successful tenders and acceptance of the revised plan.



We continued to work hard on improving the development plan of Area 86 to accommodate changes in market conditions and purchaser preferences. A revised master layout plan including conversion of schools, now surplus to requirements, to additional open space, better pedestrian connections and more design flexibility for subsequent packages was accepted by the Town Planning Board in November.

In January 2007, tenders were invited for Area 56 of Tseung Kwan O. It was awarded in February to Lansmart Ltd, a subsidiary of Sun Hung Kai Properties Ltd. The proposed development will be a mixed-use project comprising hotel, office, residential, commercial and car parking accommodations with a total gross floor area of not more than 168,537 square metres (including 5,407 square metres for a public transport interchange and associated facilities).

Investment properties

Revenue from investment properties increased by 6.8% to HK\$1,263 million as rental rates increased and we added the new majority owned shopping centre at Tseung Kwan O, The Edge, with a lettable floor area of 7,683 square metres, to the portfolio. As in previous years, continuous enhancements have enabled our shopping centres to capitalise on the positive factors in the retail environment such as stronger consumer demand, an improved employment market, the positive wealth effect from the stock market rally, as well as tourism development on Lantau Island. On average, rental reversions for renewal of leases and reletting increased by 16%.

With the economy strong and vibrant tourism sector, especially in the first half of the year, demand from retailers for high quality retail space enabled the Company to maintain 100% occupancy levels at all of our shopping centres, except Luk Yeung Galleria, where 427 square metres of lettable retail space were repossessed in preparation for renovation work in 2007.

Our wholly owned wet market with a lettable floor area of 508 square metres opened in Tung Chung in February. Phase 1 of Elements, our majority owned upscale mall with gross floor area of 82,750 square metres at Kowloon Station, is expected to open by the end of 2007. Pre-letting has been met with a good response from both overseas and local retailers. As at March 2007, 90% of the retail space in Phase 1 had been committed.

The Choi Hung Park n' Ride Carpark, in which the Company has a 51% share, opened in March.

In total at year end, the Company's attributable share of the overall investment property portfolio comprises 133,927 square metres lettable floor area of retail properties, 39,529 square metres lettable floor area of offices and 1,460 square metres lettable floor area of other usage.

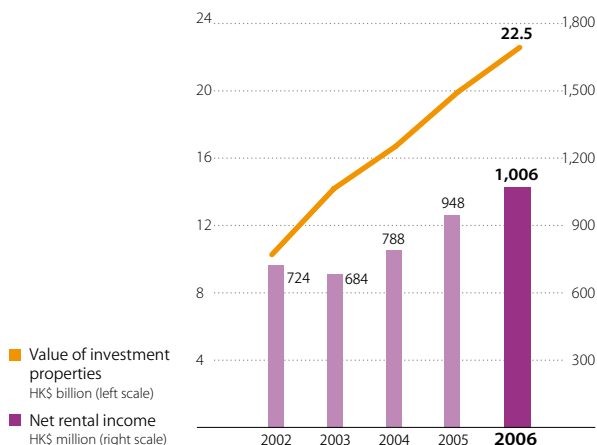
Enhancement of the retail environment of our shopping centres through renovations and well planned marketing campaigns is a hallmark of MTR Corporation properties and efforts in these areas continued throughout 2006 with positive market response.

The major renovation programme to refurbish the shopfronts, atrium, arcade, floor and ceiling finishes at Telford Plaza I was completed in December. In addition, the Heng Fa Chuen wet market was re-opened in August, following renovation works.

Exciting promotional programmes throughout the year that take full advantage of festivals and holidays continued to raise the profile of MTR Corporation shopping centres among both retailers and shoppers, further strengthening their competitiveness. These were supported by refinements to the trade mix in our shopping centres based on research into shopper preferences. New tenants added to the portfolio during the year include HMV, Hallmark, Ecco, MacLook, mi-tu, Giusto Dama, Panash, Mioggi, Fruits & Passion, Yamada

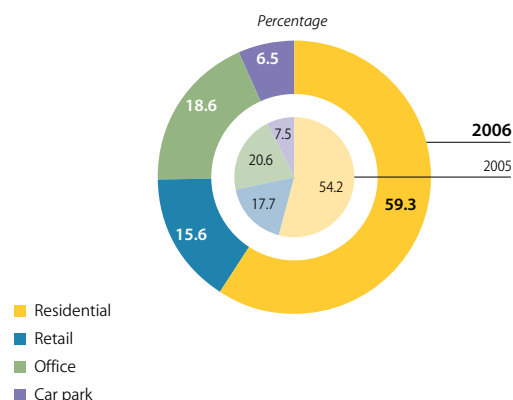
Investment properties

Revenue from investment properties increased as rentals rose and we added The Edge to the portfolio.



Distribution of property management income

During the year 4,518 residential units were added to our management portfolio, and 16,546 square metres of commercial properties.





ABOVE Our property management business continued to expand

Miyura, Viet Deli Vietnamese Restaurant, 2% casual wear, Akamaru Udon and Viva Halia Deli. Supported by strong demand for Grade A office space in core Central business district, our 18 floors at Two International Finance Centre remained fully let throughout the year.

Property management and other services

Our property management business benefited from additions to the portfolio, to achieve revenue growth of 12.0% over last year to HK\$149 million. During the year, 4,518 residential units were added to our management portfolio, bringing the total number of residential units managed by the Company to 58,876 at the end of 2006. A total of 16,546 square metres of commercial properties were also added in the year. These commercial properties, together with the wet market in Tung Chung and

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. Henderson Land Development Co. Ltd. The Hong Kong & China Gas Co. Ltd.	Office	254,186		Completed by phases from 1998–2005	
		Retail	59,458			
		Hotel	102,250			
		Car park		1,344		
Sub-total			415,894			
Kowloon Station	Wing Tai Holdings Ltd. Temasek Holdings (Pte) Ltd. Singapore Land Ltd. Keppel Land Ltd. Lai Sun Development Co. Ltd. Worldwide Investment Co. (Bermuda) Ltd.	Residential	147,547		Completed in 2000	
		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	210,319		Completed by phases from 2002–2003
			Car park		1,270	
	Package Three (The Arch)	Sun Hung Kai Properties Ltd.	Residential Cross border bus terminus Car park	100,000 5,113		Completed in 2005
					412	
	Package Four (The Harbourside)	Hang Lung Properties Ltd.	Residential Car park	128,845		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			21,300			
		Kindergarten		1,050		
		Car park		1,743*		
Sub-total			1,096,174			

* The number of car parking spaces is subject to review.

24-hour passage walkway at The Edge, gives a total commercial and office area of 582,073 square metres under MTR Corporation management in Hong Kong.

Business in the Mainland of China

MTR Corporation's property consultancy, management and related businesses in the Mainland of China saw further progress in 2006.

Three new property management contracts for office/commercial developments were committed during the year by SOHO China Ltd, all located in Beijing's central business district: SOHO Shangdu, a 170,000 square metres gross floor area commercial-cum-office development; Jian Wai SOHO Phase 7, a 60,000 square metres gross floor area commercial and office development; and

Chao Wai SOHO a 170,000 square metres gross floor area commercial and office complex. This brings to seven the number of property management contracts in the Mainland of China with a total area of 1,020,254 square metres.

Also in Beijing, MTR Corporation entered into a long-term head lease of 47 years for the operation of Oriental Kenzo, a shopping centre with a lettable floor area of 19,349 square metres in the city's Dong Cheng district. Following extensive refurbishment and re-positioning, it was renamed Ginza Mall and as at year end close to 90% of shops had been let. The mall opened in January 2007. The Company has an option to acquire the property at a pre-set price during the first five years of the lease and a right of first refusal thereafter.

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 (Island Harbourview, HSBC Centre, Bank of China Centre and Olympian City One)	Sino Land Co. Ltd.	Office	111,000	1,380	Completed in 2000
	Bank of China Group Investment Ltd.	Retail	14,900		
	Kerry Properties Ltd.	Residential	169,950		
	China Overseas Land and Investment Ltd. Capitaland Residential Ltd.	Indoor sports hall Car park	13,219		
Package Two (Park Avenue, Central Park and Olympian City Two)	Sino Land Co. Ltd.	Retail	47,500	932	Completed in 2001
	Kerry Properties Ltd. Bank of China Group Investment Ltd.	Residential Market	220,050 1,100		
	China Overseas Land and Investment Ltd.	Car park			
Package Three (Harbour Green)	Sun Hung Kai Properties Ltd.	Residential Kindergarten Car park	103,152 1,300	264	Completed in 2006
Sub-total			682,171		
Tsing Yi Station					
(Tierra Verde and Maritime Square)	Cheung Kong (Holdings) Ltd.	Retail	46,170	920	Completed in 1999
	Hutchison Whampoa Ltd.	Residential	245,700		
	CITIC Pacific Ltd.	Kindergarten Car park	925		
Sub-total			292,795		
Tung Chung Station					
Package One (Tung Chung Crescent, Citygate and Seaview Crescent)	Hang Lung Group Ltd.	Office	14,913	2,037	Completed by phases from 1999-2005
	Henderson Land Development Co. Ltd.	Retail	48,298		
	New World Development Co. Ltd. Sun Hung Kai Properties Ltd.	Hotel Residential	21,986 275,479		
	Swire Properties Ltd.	Kindergarten Car park	855		
Package Two (Coastal Skyline)	HKR International Ltd.	Retail	2,499	617	By phases from 2002-2007
	Hong Leong Holdings Ltd. Recosia Pte Ltd.	Residential Kindergarten Car park	253,100 350		
Package Three (Caribbean Coast)	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd.	Retail	4,996	1,185	By phases from 2002-2008
		Residential	407,300		
		Wet market	508*		
		Kindergarten Car park	350		
Sub-total			1,030,634		
Grand Total:			3,517,668	14,300	

* Lettable floor area

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.	Residential	26,005		Awarded in July 2000	Completed in 2005
	Nan Fung Development Ltd. Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Retail Car park	3,637	74		
Area 55b (The Grandiose and The Edge)	New World Development Co. Ltd. Chow Tai Fook Enterprises Ltd.	Residential Retail	84,920 11,877		Awarded in January 2002	Completed in 2006
	Wee Investments Pte. Ltd.	Car park		249		
Area 56	Sun Hung Kai Properties Ltd.	Residential	80,000		Awarded in February 2007	2011
		Hotel	58,130			
		Retail	20,000			
		Office Car park	5,000	363		
Hang Hau Station						
(Residence Oasis and The Lane)	Sino Land Co. Ltd. Kerry Properties Ltd.	Residential	138,652		Awarded in June 2002	Completed in 2004
		Retail Car park	3,500	369		
Tiu Keng Leng Station						
(Metro Town)	Cheung Kong (Holdings) Ltd.	Residential Retail Car park	236,965 16,800		Awarded in October 2002	By phases from 2006–2007
Tseung Kwan O South Station						
Area 86 Package One	Cheung Kong (Holdings) Ltd.	Residential	136,240		Awarded in January 2005	2008
		Retail Car park Residential Care Home for the Elderly	500 3,100	325		
Area 86 Package Two	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800		Awarded in January 2006	By phases from 2009–2010

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

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Expected No. of parking spaces	Period of package tenders	Expected completion date
Tseung Kwan O South Station Area 86*	6–11	Residential	1,153,764– 1,163,764		2007–2011	2015
		Retail	39,500–49,500			
		Car park		3,653 (max.)		

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

Investment property portfolio (as at 31 December 2006)

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	12,054	–	100%
	Car park	–	651	100%
Paradise Mall, Heng Fa Chuen, Hong Kong	Shopping centre	18,710	–	100%
	Wet Market	1,216	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	28,931	–	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%
The Edge, Tseung Kwan O	Shopping centre	7,683	–	70%
	Car park	–	50	70%
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	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%
Caribbean Coast, Tung Chung, New Territories	Wet market	508	–	100%
Choi Hung Park & Ride Public Car Park, No. 8 Clear Water Bay Road, Choi Hung, Kowloon	Car park	–	54	51%
	Motorcycle park	–	10	51%
	Park & Ride	–	450	51%

Note: 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, Choi Hung Park & Ride where the lease expires on 11 November 2051, The Lane where the lease expires on 21 October 2052 and The Edge where the lease expires on 27 March 2052.

Properties held for sale (as at 31 December 2006)

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	6,042*	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%
Sorrento, No. 1 Austin Road West, Kowloon	Car park	–	76	67.05%
The Arch, No. 1 Austin Road West, Kowloon	Residential	16,829	–	38.5%
	Car park	–	133	38.5%
Residence Oasis, No. 15 Pui Shing Road, Hang Hau, Tseung Kwan O	Car park	–	196	71%
	Motorcycle park	–	18	71%
The Grandiose, 9 Tong Chun Street, Tseung Kwan O	Residential	2,869	–	70%
	Car park	–	154	70%
	Motorcycle park	–	25	70%
Metro Town, 8 King Ling Road, Tseung Kwan O	Residential	18,360	–	72%
	Car park	–	217	72%
	Motorcycle park	–	33	72%
Central Heights, 9 Tong Tak Street, Tseung Kwan O	Residential	8,308	–	35%
	Car park	–	54	35%
	Motorcycle park	–	4	35%

* Lettable floor area

Managed properties (as at 31 December 2006)

Number of managed residential flats	58,876 units
Area of managed commercial and office space	582,073 sq. m.