



Property Review

- Property development profit increased significantly by 43.0% to HK\$5,369 million mainly due to receipt of Two IFC
- Highly successful launch of Two IFC for lease and Residence Oasis at Hang Hau for sale
- Further inroads into China property market



Buildings of the highest standard for living, work and play, in an integrated network

Although the Company's diverse property businesses, integrated with the railway network, inevitably felt the effect of SARS, the successful completion of Two International Finance Centre (Two IFC) helped boost profits from property in 2003. The excellent response to the pre-sale launch in November of the first batch of flat supply from the Tseung Kwan O Line at Residence Oasis in Hang Hau marked the revival of the residential market and of developers' sentiment towards land tenders. The opportunity to enter into China property development market through the construction of Phase 2 of Line 4 of the Shenzhen Metro System opens a new horizon for the Company.

Property development

In 2002 amid excess supply of flats in the market, we agreed with Government policy to stabilise the market and did not tender out any property development packages in 2003. As a result, none of the remaining tenders for packages in Tseung Kwan O Town Centre and Area 86 was awarded during 2003. Instead, we focused our efforts on preparing for a possible resumption of tender activity in 2004, as well as completing and pre-selling developments under construction.

Mainly as a result of profit from sharing in kind from Two IFC, property development profit increased by 43.0% over 2002 to HK\$5,369 million.



The intelligent heart of an intelligent building – Two IFC's control centre

Airport Railway

The most significant event for our Airport Railway developments was completion of the Two IFC tower and the highly successful leasing and marketing launch of Central 18 Zone (33/F to 52/F) at Two IFC. This comprises about 46,600 square metres of prime office space in the 88-storey building that is redefining Hong Kong's central business district. The IFC Mall and more than 1,200 carparking spaces on the Northern Site were also completed in mid-2003, while work progressed on the two hotel towers, which are on target for completion in early 2005. Profit from sharing in kind of approximately HK\$3 billion from the 18 floors of Two IFC and some 1,200 carparking spaces was booked in July.

The technical complexity of the Two IFC tower and the need to meet many milestones within a very tight time frame made the on-time completion a major achievement. This testified to the strong teamwork between MTR, the developer and the contractor, as well as the success of the highly mechanised construction methods employed.

Elsewhere along the Airport Railway, the Union Square development above Kowloon Station continued to progress as a major new landmark in West Kowloon. Occupation permits were obtained in July and October respectively for The Harbourside and Sorrento Phase 2 developments. Sale of flats at The Harbourside is planned for early 2004. The foundation and basement excavation work for the 102-storey tower was completed towards year end and the construction of the main structural shell of the shopping centre is on schedule for handing over by the developer by the end of 2004.

At Olympic Station, we began refurbishment work at the Olympian City One shopping centre. At Tung Chung Station, a total of 1,627 flats were launched for public sale in June, comprising 387 flats from Seaview Crescent Phase Two and 1,240 flats from Caribbean Coast Phase Two.

Tseung Kwan O Line and Choi Hung Station

Along the Tseung Kwan O Line, efforts were concentrated on residential and retail developments. In November, our joint venture developer, Sino Land, successfully launched the pre-sale of Residence Oasis, a 2,130 unit-residential development above Hang Hau Station. We also began preparation of pre-lease marketing for the 3,500 square metre retail podium at Hang Hau Station which will be known as "The Link". On completion, this retail podium will become, together with the shopping centre at Union Square, our fifth and sixth shopping centres, adding to the strength and diversity of our investment portfolio.

At the Tiu Keng Leng Station Site A and Choi Hung Station developments the flat layouts were finalised, putting us on target to begin pre-sales in mid-2004. At Tseung Kwan O Town Centre Area 55b, the New World led consortium took care to examine market requirements and successfully modified the government lease terms to increase the permitted maximum number of units from 1,350 to 1,472, while reducing average flat size from 63 square metres to 57 square metres. This should increase the flexibility in designing flat-mix and thus enhance the marketability of the development when completed.

In preparation for property tenders in 2004, we have put substantial effort into revising and improving the Master Layout Plan for Area 86, the Dream City. The new layout will offer improved breezeways and more open space. We anticipate inviting tender for the first package based on this improved scheme in late 2004.

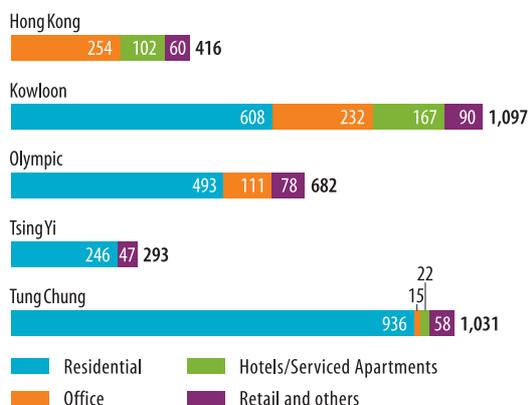
Investment properties

The Company's investment properties were inevitably impacted by the outbreak of SARS, and the still weak economy during the first half of the year. As a company dedicated to building a solid portfolio of tenants and adding value to their tenancies, we took particular care to support tenants during the SARS period, including offering temporary relief on rent.

Airport Railway property development plan

Despite the temporary cessation of tenders, MTR progressed projects along the Airport Railway.

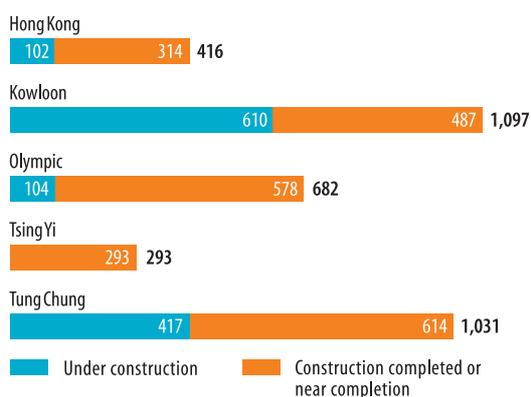
Gross floor area *Thousand sq.m.*



Airport Railway property development progress

Following completion of Two IFC, the focus of construction along the Airport Railway is Union Square in Kowloon Station and Tung Chung Station residential developments.

Gross floor area *Thousand sq.m.*



Tseung Kwan O Line property development plan and progress

Further progress was made on Tseung Kwan O Line developments in 2003, including pre-sales at Hang Hau Station.

Gross floor area *Thousand sq.m.*

