

Station commercial and other businesses

NEW DIMENSIONS

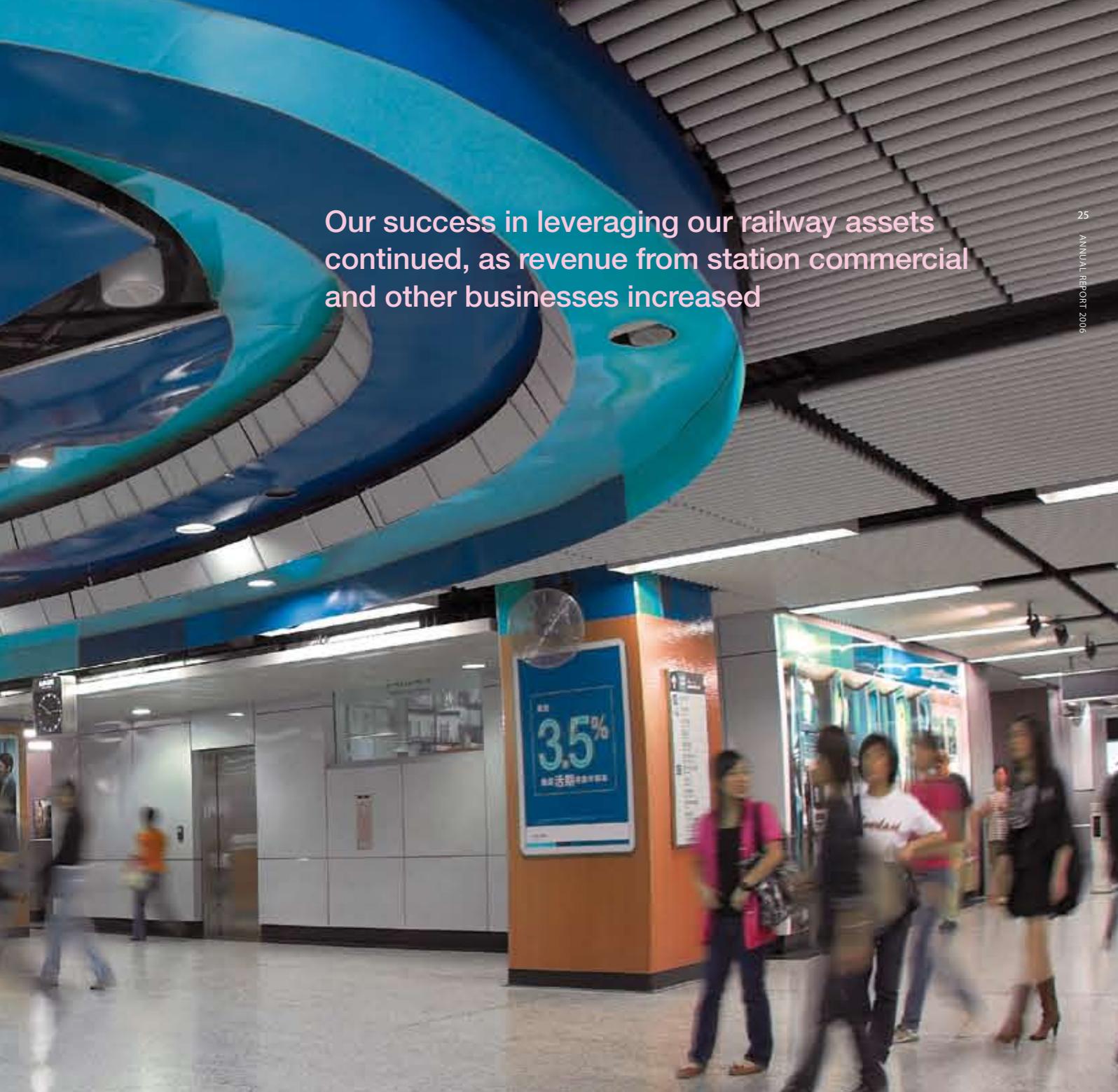
Revenue from the Company's station commercial and other businesses increased by 3.3% in 2006 over 2005 to HK\$1,606 million. Excluding the one-off gain in 2005 relating to the termination of a telecommunications contract and a much smaller one-off gain in 2006 also relating to telecommunications, revenue would have increased by 8.0% over 2005. The revenue increase was supported by the strong economy and the contribution from Ngong Ping 360, which opened in September.

Advertising

During the year, advertising revenue rose by 4.7% to HK\$534 million. The Company continued to enhance the attractiveness of its advertising media through format refinements and

innovation, although the growth of the advertising market slowed in the second half of 2006.

Among new formats introduced, Real Time Projection Zones were introduced in eight MTR stations in May. In June, a new advertising train, the "Spectacular Mobile Showcase", made its debut during off-peak hours. New 6-sheet scrolling units were introduced at Causeway Bay and Kowloon Tong stations, giving advertisers another venue for product display or poster advertising.



Our success in leveraging our railway assets continued, as revenue from station commercial and other businesses increased



MAIN IMAGE New plasma rings were installed at three stations
RIGHT MTR offers an increasing variety of channels to advertisers



The MTR Plasma TV network expanded considerably, with the total number of trackside plasmas increasing from 68 to 100 by year end. Three new Plasma Rings were installed at Tsim Sha Tsui, Central and Mong Kok stations during the year. The backend system of the Concourse Plasma Network was upgraded to provide real-time updates on the Hang Seng Index, so passengers would not miss a beat in stock movements when using the MTR network.

On the Airport Express, the seatback TV in carriages was replaced by a multimedia system that offers more information and entertainment to passengers, as well as more creative media to advertisers. A new infotainment magazine, "metropop", joined the Company's successful portfolio of free publications in April. Positive feedback was received from both passengers and advertisers.

In February, a new service was introduced allowing CLP Power customers to settle their bills at all Customer Services Centres in MTR stations.

Telecommunications

Revenue from telecommunications services decreased by 22.5% to HK\$259 million as compared with 2005. However, excluding the one-off items in 2005 and 2006 mentioned earlier, revenue would have decreased by 3.2%.

Due to the migration of mobile subscribers from 2G to 3G as well as intense competition leading to price reductions, call minutes and corresponding revenue generated by the 2G platform continued to experience a steady decline. This migration has led to revenue reduction for the Company. However, other telecommunications business, such as rooftop site rental, continued to show positive growth, partially offsetting this revenue shortfall.

During the year, TraxComm Limited recorded higher revenue as it expanded its presence in the market. The company's optical fibre network now covers 40 locations, whilst the capacity of its bandwidth services has increased to over 180 Gbps.

Station commercial

Station commercial facilities revenue benefited from higher rental rates, which offset a temporary net loss of retail space, to rise by 13.7% over 2005 to HK\$391 million.

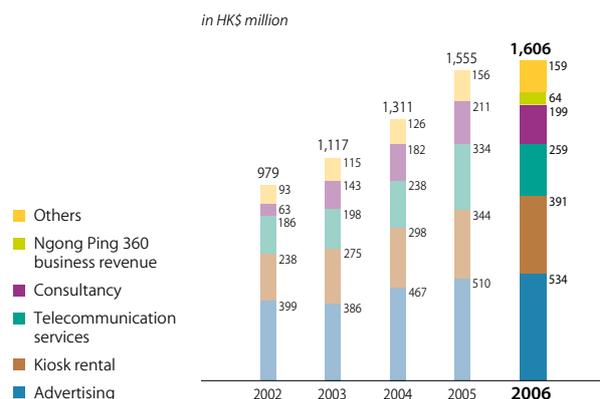
During the year, renovations were completed in the retail zones of 11 stations: Admiralty, Fortress Hill, Tin Hau, Quarry Bay, Ngau Tau Kok, Choi Hung, Kowloon Tong, Shek Kip Mei, Lai Chi Kok, Po Lam and Tsing Yi. This brings to 38 the number of stations in the MTR system which have undergone renovation.

BELOW Higher rental rates boosted station commercial revenue



Revenue from station commercial and other business activities

Growth in revenue from station commercial and other activities was led by advertising income and kiosk rental.





LEFT In all, 32 new shops and 15 new trades joined the railway retail network

A total of 468 square metres of new retail area came into operation as a result of the renovations. However, the temporary loss of 2,671 square metres of retail space at Kowloon Station to facilitate station integration works with the new shopping centre, Elements, resulted in total station retail area decreasing by 12% or 2,203 square metres to 16,867 square metres.

In all, 32 new shops and 15 new trades or brands were added to the station retail network, including LUSH, CEU, AEON, Sanrio Gift Gate and Durance.

We also expanded our cross-selling promotions to include a scheme of instant scratch cards offering discount offers and cash coupons for use in MTR network shops, with a grand lucky draw to win prizes worth up to HK\$50,000, with the objective of enhancing the MTR shop brand and stimulating sales for our tenants.

Miscellaneous business revenue including car park rental, souvenir ticket sales, new station connections and publications registered an increase of 1.9% over the previous year, reaching HK\$159 million.

Ngong Ping 360

Ngong Ping 360, the cable car running from Tung Chung to the Big Buddha and temple complex at Ngong Ping on Lantau Island, together with a theme village offering various tourist attractions, opened in September and recorded revenue of HK\$64 million up to the end of 2006.

Although the launch was delayed some weeks by teething problems, the response of the Hong Kong public and tourists to this important new attraction has been enthusiastic and patronage has been very encouraging with local and overseas visitors reaching over 1 million in March 2007.

Octopus Holdings Limited

During the year, Octopus Holdings Limited (OHL) built on its success in providing payments services to the transport and non-transport sectors in Hong Kong. MTR Corporation's share of the profit in OHL rose by 70% over 2005 to HK\$68 million.

As in previous years, business growth was driven by an increasing number of service providers and higher Octopus card usage. As at 31 December 2006, the total number of service providers had risen to 431 from 349 a year earlier. Cards in circulation and average daily transaction value had respectively risen from 13.2 million to 14.7 million, and from HK\$64.7 million to HK\$73.3 million during the same period. Financial institutions providing Octopus automatic add-value service rose from 19 to 22 over the year with five institutions now offering the increase per add-value of HK\$500.

By year end, a further 59 green minibuses were accepting Octopus card, bringing the total to 2,806, which represents virtually the entire fleet, whilst the number of red minibuses accepting the card increased to 215 from 171 in 2005. The number of car parks that participate in the Octopus payment system rose from 203 to 231 in total.

In the retail and public service sectors, retail chains participating in the Octopus system during the year included supermarket, biscuit shops and bakeries. The system also gained entry into several new sectors in 2006 including churches, exhibitions, skating rinks, children's clothing stores and laundry services.



ABOVE Ngong Ping 360 has had an encouraging start since opening in September

The Octopus Rewards Programme, through which people can earn and redeem rewards points with their registered Octopus cards, continued to thrive. As at year end, over 1.2 million Octopus cardholders had registered their cards for the programme, enabling them to enjoy benefits at ten participating partners.

External consultancy

The Company's strategy for consultancy business remains focused on key cities where such work may lead to investment opportunities in the Mainland of China or in Europe, or consultancies which can enhance the skill sets of our staff. Such activities generated revenue of HK\$199 million in 2006. During the year, we saw good progress on existing projects and secured valuable new contracts that are in line with our strategy.

In Shanghai, the project management consultancy work on Shanghai Metro Line 9 proceeded well. The civil works from Songjiang New Town Station to Guilin Road Station were completed in October and the opening of Phase 1 by the end of 2007 is on schedule.

Several consultancy projects in the Mainland of China were completed satisfactorily during the year, including management training contracts for Shenzhen Metro and Tianjin Metro, an operation and management consultancy service for Tianjin Binhai Mass Transit, as well as a rolling stock consultancy for the CSR Ziyang Locomotive Works.

Among new contracts signed, the Company secured a contract in Beijing to provide consultancy for the Integrated Supervision Control System for Beijing Metro Line 5. In Chengdu, we entered into an agreement with Chengdu Metro Corporation to provide consultancy service on Reliability, Availability, Maintainability and Safety for five years. We also renewed our contract with Motorola Asia Pacific Ltd. to support the system design for a digital trunked radio system for the Guangzhou Metro.

In Hong Kong, the project to construct an Automated People Mover System to connect the Hong Kong International Airport to SkyPlaza and the SkyPier saw good progress. Major milestones achieved included the reliability demonstration period for both the new vehicles and the new signalling systems.

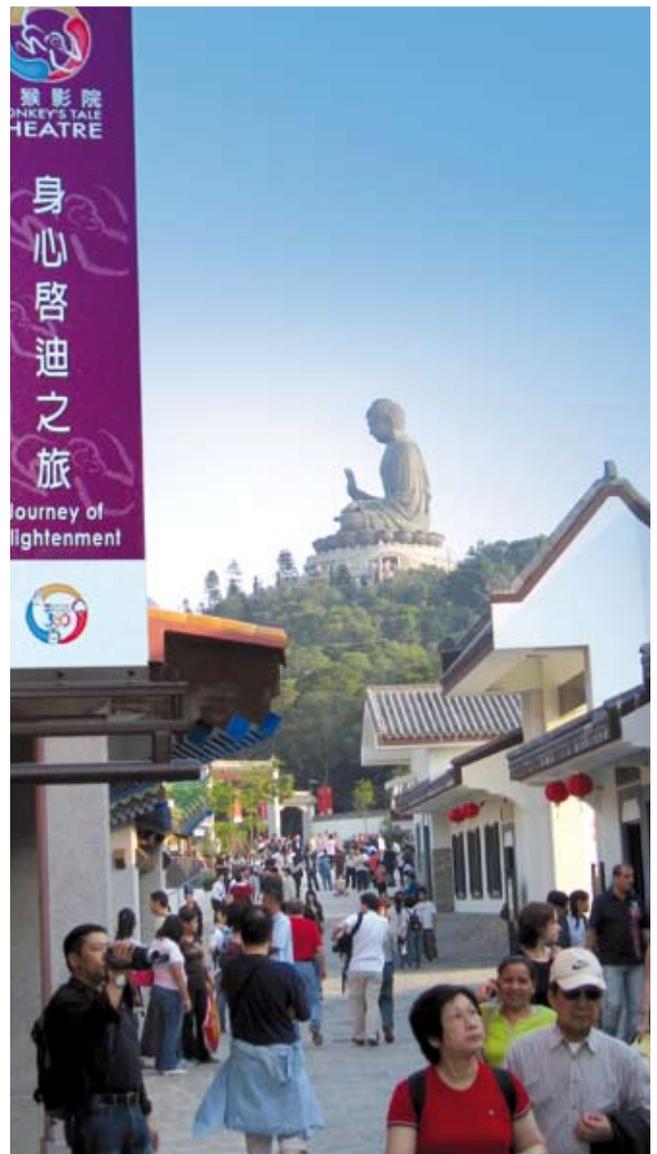
In Taiwan, two new contracts started in early 2006. Under the first, we will provide operational and maintenance support for three years to 2009 to the Kaohsiung Rapid Transit Corporation. The second contract is with the Taiwan High Speed Rail Company and covers station, train service and operation control centre management, as well as signalling system maintenance for two years to 2008.

In Dubai, we were awarded a contract to provide engineering advice to the Roads and Transport Authority on the city state's Green Line and Red Line, which are currently being designed and constructed.

In the UK, we secured consultancy assignments with Metronet Rail, Tube Lines, Network Rail and Cross London Rail Links Limited.

Rail Sourcing Solutions

In 2004, we set up a wholly owned subsidiary Rail Sourcing Solutions (International) Ltd with a view to building a business in the sourcing of rail related components. The business had faced a variety of challenges and following a review of its business and prospects in the middle of 2006, we took the decision to exit the business.



ABOVE The cable car and theme village have proven popular with local and overseas visitors