

property

REVIEW

- Property development profit down slightly by 3.8% to HK\$3,248 million
- Strong performances from investment property and property management
- Solid progress on Airport Railway developments, Tseung Kwan O Extension property tender commenced

walking in paradise

The upgrading and renaming of Heng Fa Chuen shopping mall as Paradise Mall was the highlight of a good year for the Company's portfolio of retail investment properties, which are increasing their lead over their competitors.

In 2001 we recognised HK\$3,248 million in profits from property development, in line with expectations. The property development contributions were supported by strong performances from our investment portfolio and property management units.

A prudent and balanced approach

The Company plays a key role in the urban growth of Hong Kong by creating and supporting the development of new, well planned communities based around railway stations. A good example of this is Tung Chung, where we have played a leading role in establishing the new town.

We work in joint venture with established, qualified development companies selected through open tender. Our development agreements minimise the downside financial risk to MTR, through a variety of profit-sharing measures such as securing up-front profit, sharing by asset-in-kind or back-end profit. Land premium payments are the responsibility of the appointed developer. Our integrated approach has allowed the Company to combine revenues from property development with recurrent income from property investment and management, improving the quality of earnings.

Timing of new property development tenders is a key issue for the Company and necessarily reflects both general economic conditions and other factors, such as land premium and developer interest, that impact the property sector. We have been careful to avoid situations where market conditions may

Hong Kong's property market was generally weak throughout the year. Hence, we initiated only two new development projects, namely Choi Hung Park and Ride development and Tseung Kwan O Area 55b. Although we kept the market situation, including land premium indicators, under constant review, we decided it would not be prudent to tender further new projects.

The Airport Railway development packages completed in the year achieved a significant share of total property sales in Hong Kong. This indicates that MTR locations remain particularly attractive because of their convenience and good planning. The majority of sales were in the second half of the year, following successful financial and other incentives introduced by various developers to stimulate the general market. By year end, overall demand for flats in the urban areas was holding fairly steady, with the majority of buyers being end-users.



depress the realisation of the Company's potential asset value to an unacceptable level.

Through most of 2001, we took the view that Tseung Kwan O Extension related developments should not be brought to market given the prevailing environment. By late December, sentiment had improved and we tendered out Area 55b, a residential site of four towers. Following the successful tender, an award was made in January 2002 to a consortium led by

New World Development Company Ltd. We re-planned the remaining tender programme to align it with the anticipated economic recovery over the next two to three years.

Construction activity progressed well on both residential and commercial schemes at the remaining Airport Railway sites.

We undertook some fine-tuning of the construction programmes for certain packages, while keeping unchanged our core targets.

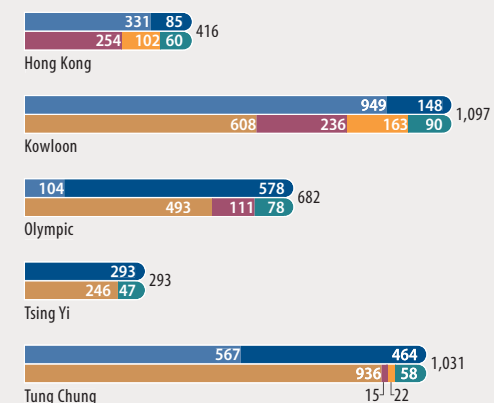
Since construction quality has become an issue of community

Airport Railway Property Developments (Packages awarded)

Location	Developers	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected completion date
Hong Kong Station	Sun Hung Kai Properties Ltd.	Office	254,190		By phases
	Henderson Land Development Co. Ltd.	Retail	59,460		from
	The Hong Kong & China Gas Co. Ltd.	Hotel	102,250		1998–2004
	Bank of China Group Investment Ltd.	Car park		1,344	
Sub-total			415,900		
Kowloon Station					
Package One (The Waterfront)	Wing Tai Holdings Ltd.	Residential	147,547		Completed in
	Temasek Holdings (Pte) Ltd. Singapore Land Ltd. Keppel Land Ltd. Lai Sun Development Co. Ltd. Worldwide Investment Co. (Bermuda) Ltd.	Car park		1,332	2000
Package Two (Sorrento)	The Wharf (Holdings) Ltd. Wheelock and Company Ltd. New Asia Realty and Trust Company Ltd. Realty Development Corporation Harbour Centre Development Ltd.	Residential Car park	210,319	1,313	By phases from 2002–2003
Package Three	Sun Hung Kai Properties Ltd.	Residential	100,000		2004
		Cross border bus terminus Car park	5,886	410	
Package Four	Amoy Properties Ltd.	Residential Car park	128,845	864	2003
Packages Five, Six and Seven	Sun Hung Kai Properties Ltd.	Retail	82,750		By phases
		Office *	235,778		from
		Serviced apartment *	68,472		2003–2007
		Hotel	95,000		
		Residential Kindergarten Car park	21,300 1,050	1,974	
Sub-total			1,096,947		
Olympic Station					
Package One (Island Harbourview)	Sino Land Co. Ltd.	Office	111,000		Fully
	Bank of China Group Investment Ltd.	Retail	14,900		completed in
	Kerry Properties Ltd.	Residential	169,950		2000
	China Overseas Land and Investment Ltd. Capitaland Commercial Ltd.	Indoor sports hall Car park	13,219	1,380	
Package Two (Park Avenue and Central Park)	Sino Land Co. Ltd.	Retail	47,500		By phases
	Kerry Properties Ltd.	Residential	220,050		from
	Bank of China Group Investment Ltd. China Overseas Land and Investment Ltd.	Market Car park	1,100	932	2001–2002
Package Three	Sun Hung Kai Properties Ltd.	Residential	103,152		2005
		Kindergarten Car park	1,300	300	
Sub-total			682,171		

Airport Railway property development plan and progress

Gross floor area in thousand sq.m.



Property development progress
 ● Under construction ● Construction completed or near completion

Property development plan
 ● Residential ● Office ● Hotels/Serviced apartment ● Retail and others

Despite a soft market MTR made good progress in the construction and sale of properties along the Airport Railway.

concern in Hong Kong we paid particular attention to improving the already high quality control standards of these projects.

Investment properties and the property management business both performed well, contributing in total HK\$891 million in revenues. Value-added residential estate services for owners were expanded and we invested in major shopping centre refurbishments at Paradise Mall and Telford Boulevard, while keeping costs under stringent control. Our success stood in marked contrast to an otherwise lacklustre retail property sub-sector, where many operators suffered from the economic downturn.

Development properties

Airport Railway

With the award of the final Airport Railway development package in 2000, 2001 was characterised by continuing construction activity and staged development completions from earlier packages.

Airport Railway Property Developments (Packages awarded) continued

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Expected completion date
Tsing Yi Station (Tierra Verde)	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd. CITIC Pacific Ltd.	Retail	46,170		Fully
		Residential	245,700		completed in
		Kindergarten Car park	925	920	1999
Sub-total			292,795		
Tung Chung Station					
Package One (Tung Chung Crescent)	Hang Lung Development Co. Ltd. Henderson Land Development Co. Ltd. New World Development Co. Ltd. Sun Hung Kai Properties Ltd. Swire Properties Ltd.	Office	15,000		By phases
		Retail	48,500		from
		Hotel	22,000		1999–2003
		Residential	275,510		
		Kindergarten Car park	700	2,037	
Package Two (Coastal Skyline)	HKR International Ltd. Hong Leong Holdings Ltd. Recosia Pte Ltd. Lippo China Resources Ltd.	Retail	2,500		By phases
		Residential	253,100		from
		Kindergarten Car park	350	618 [†]	2002–2005
Package Three (Caribbean Coast)	Cheung Kong (Holdings) Ltd. Hutchison Whampoa Ltd.	Retail	4,668		By phases
		Residential	407,300		from
		Wet market	508		2002–2005
		Kindergarten Car park	678	1,215	
Sub-total			1,030,814		
Grand Total:			3,518,627 (37 million sq. ft.)	14,591	

* This falls within the range of 231,778 to 235,778 sq. m. for offices and 68,472 to 72,472 sq.m. for serviced apartments as stipulated in the latest approved Master Layout Plan.

[†] This falls within the range of 637-745 as stipulated in the latest Master Layout Plan.

Completed properties became available in the Tung Chung, Olympic and Kowloon Station packages. Despite the weak market, reasonable sales of flats were recorded from Airport Railway development sites, by year-end totalling 12,700 units. Notable examples were the Caribbean Coast development at Tung Chung, which generated great public interest and solid sales when launched in October, and Sorrento at Kowloon Station, which was launched in November.

Our commercial schemes also moved ahead. The sale to Bank of China of the 28,000 square metres office block at Olympic Station Package One was completed in July. In October, the Hong Kong Monetary Authority agreed to purchase almost 30,000 square metres of offices in International Finance Centre Tower 2 for its headquarters, affirming the status of the Hong Kong Station site as the financial heart of the expanded Central Business District.

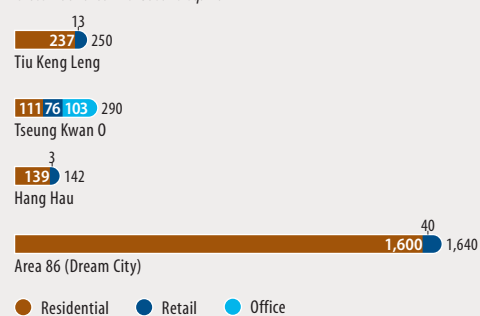
We worked closely with package developers to refine schemes in line with changing market conditions. Notably, we gained Town Planning Board approval in November to modify the Kowloon Station Packages 5, 6, and 7 development to improve the site layout and incorporate a changed design for the 480 metres tall Landmark Tower. These changes add value, reduce cost and improve marketing prospects for the Kowloon Station development as a whole. In this spirit, in November we and our package developers launched a new identity, Union Square, to give a clearer market positioning to the overall Kowloon Station development scheme.

Tseung Kwan O Extension

The Tseung Kwan O Extension project saw significant construction progress in property enabling works undertaken as part of the railway related works contracts. These include foundations and basements abutting the underground railway, together with the shell and related parts of the development scheme

Tseung Kwan O Extension property development plan

Gross floor area in thousand sq. m.



At the end of the year, the Company tendered out Area 55b of the Tseung Kwan O Extension and further tenders will be offered in 2002 if conditions are favourable.

superstructure necessary to provide public transport interchange facilities when the railway opens.

We devise schemes that limit these direct works to the practical minimum to reduce front-end enabling and holding costs. In this way, the Company minimises its up front capital commitments while developers, once appointed, still benefit from the ability to proceed quickly with construction. For instance, construction work for phase one of the Tseung Kwan O Extension depot at Area 86, provides for later development above the depot as part of the integrated planning for the area, thereby minimising the requisite property enabling works.

We continued to make progress with the Government towards finalising the land grants for sites along the Tseung Kwan O Extension. Despite the size and complexity of these sites, by year end an agreement was reached on Area 55b, within our planned timescale. We also worked with Government departments, utility companies and others to ensure that adequate provision of off-site infrastructure will be available.

We are well positioned to roll forward our tender programme through 2001 and into 2002. Having successfully tendered the Area 55b development as the market improved towards the end of the year, we anticipate further tenders during 2002 if market conditions are suitable. The opening of the railway will enhance community awareness of the benefits of Tseung Kwan O's convenient location.

Other development projects

In August we signed a contract with Chun Wo Holdings Ltd. to develop a site above Choi Hung Station. This is a strategic interchange location between the MTR and local transport. The scheme will enhance interchange facilities, add retail and residential units, as well as incorporating park and ride car parking facilities, in which we will retain majority ownership for investment purposes.

We deferred our intention to proceed, at initial planning level, with a development above the remaining open-air part of Chai Wan Depot. We nevertheless remain convinced of the benefits this will bring to the community and will review and update the concept when conditions turn more favourable.

Planning continued for the site adjacent to Tsing Yi Station, currently occupied by a transport interchange and lorry park. The many recent changes in the Tsing Yi area suggest we should consider a concept for the site different from that originally envisaged. We are now evaluating potential alternatives.

Investment properties

Income from investment properties was encouraging with a steady growth over 2000. This was achieved in the midst of renovation of two major shopping centres with a considerable percentage of retail floor space removed from productive use. The loss of revenue was compensated by a stronger than anticipated performance of the unaffected retail space.

This performance is attributable to our highly focused management of the trade mix, commercial arrangements and promotional activities of our shopping centres. These efforts, together with sound maintenance and good ambience,

made our four shopping centres, Telford Plaza, Maritime Square, Paradise Mall and Luk Yeung Galleria preferred destinations of the shopping public.

The major upgrading and renaming of Heng Fa Chuen shopping mall into Paradise Mall, with its first-of-a-kind "eatertainment" concept, set new standards in the local shopping centre scene. Supported by aggressive marketing and promotions, Paradise Mall has successfully enlarged the catchment area with increased traffic and business. Paradise Mall was near 100% pre-let upon opening and performed above our year-end expectations.

Tseung Kwan O Extension Property Developments (Packages to be awarded)*

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	No. of parking spaces	Expected period of package tenders	Expected completion date
Tiu Keng Leng Station	4	Residential Retail Car park	236,965 13,000	639	2002–2004	2006
Tseung Kwan O Station[†]	4	Residential Retail Office Car park	110,925 75,514 103,130	1,633	2001–2005	2007
Hang Hau Station	2	Residential Retail Car park	138,652 3,500	381	2002–2004	2006
Area 86	14	Residential Retail Car park	1.6 million 40,000	4,329	2002–2009	2012
Grand total			2.3 million (25 million sq. ft.)	6,982		

* Subject to review, land grant conditions and completion of statutory processes.

[†] Include awarded packages of Area 57a and Area 55b with details as follows:

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Tseung Kwan O Station						
Area 57a	Sun Hung Kai Properties Ltd. Nan Fung Development Ltd. Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Residential Retail Car park	26,005 3,637	80	Awarded in July 2000	2004
Area 55b	New World Development Co. Ltd. Chow Tai Fook Enterprises Ltd. Wee Investments Pte. Ltd.	Residential Retail Car park	84,920 11,877	262	Awarded in January 2002	2005

Choi Hung Park and Ride development

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Choi Hung Station	Chun Wo Holdings Ltd.	Retail Residential Car park Park and Ride	2,400 17,131	51 450	Awarded in July 2001 (construction in progress)	2005

Further improvement works to our highly successful Telford Plaza shopping centre in Kowloon East were completed with the opening of the renovated Telford Boulevard. This section spreads across the highest volume pedestrian route within the Plaza and the trade mix has been designed to capitalise on this strength to yield positive commercial results.

Maritime Square, our popular regional shopping centre at Tsing Yi Station, continued to perform well. At the close of the year, strategic merchandising and trade mix refinement were in place

to enhance the business and shopping environment of the retail centre. Our continuous efforts towards quality centre management help reinforce Maritime Square as the retail centre of choice in its district. Occupancy remains around 100%.

In managing our shopping centres, we operate in close partnership with our tenants and strive for innovative ideas and marketing concepts that appeal to our target shoppers. We carefully develop and implement marketing campaigns including advertisements, exhibitions, celebrity shows and

Investment Property portfolio (As at 31 December 2001)

Location	Type	Lettable floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Telford Plaza I, Kowloon Bay, Kowloon	Shopping centre	39,658	–	100%
	Car park	–	993	100%
Telford Plaza II, Kowloon Bay, Kowloon	Shopping centre	19,741	–	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, Chai Wan, Hong Kong	Shopping centre	18,588	–	100%
	Car park	–	415	100%
Maritime Square, Tsing Yi	Shopping centre	28,791	–	100%
	Kindergarten	920	–	100%
	Car park	–	220	100%
	Motorcycle park	–	50	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, Central, Hong Kong	Car park	–	136	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%

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, International Finance Centre and Olympian City where the leases expire on 30 June 2047.

Properties held for sale (As at 31 December 2001)

Location	Type	Saleable floor area (sq. m.)	No. of parking spaces	Company's ownership interest
Island Harbourview, No. 11 Hoi Fai Road, Kowloon	Residential	27,741 *	–	40%
	Car park	–	579	40%
Olympian City One, No. 11 Hoi Fai Road, Kowloon	Shopping centre	5,896	–	40%
	Car park	–	330	40%
Bank of China Centre, No. 11 Hoi Fai Road, Kowloon	Car park	–	117	40%

* This is expressed in gross floor area and comprises 267 units.

Managed properties (As at 31 December 2001)

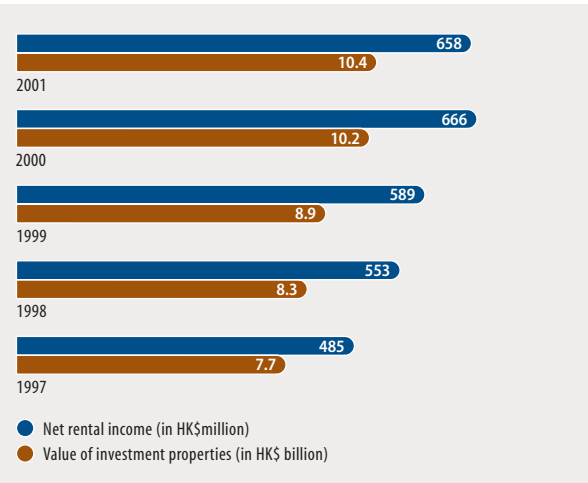
Number of managed residential flats	39,613 units
Area of managed commercial and office space	370,022 sq.m.



global
positioning

Prime locations and integration with the MTR network make the Company's properties sought after by investors and end-users. The Hong Kong Monetary Authority's decision to buy 30,000 m² of International Finance Centre Tower 2, confirms the site's location at the heart of the new Central Business District.

Investment properties



Despite major renovation work, income from investment properties held up well, a tribute to MTR's excellent management of its portfolio.

attractive shopping incentive schemes. We also operate free shuttle buses to maximise the accessibility of our centres to the community.

Looking ahead, we have given significant attention to the planning, design, interface arrangements and development of Union Square, the major mixed-use development in downtown Kowloon. At its heart will be a major retail centre of more than 80,000 square metres that we are positioning as MTR's flagship mall. This important development is the first downtown retail development in which the Company has a majority interest. Our objective is to bring innovation and unique retail advantages to both retailers and end-users. We will continue development work in cooperation with Sun Hung Kai Properties, whose subsidiary is the minority owner of the shopping centre and the developer of the interfacing schemes.

Property management

During the year, with further property completed along the Airport Railway coming under the Company's management, MTR has become one of the largest property management company in Hong Kong. By year end 39,613 residential units and 370,022 square metres of office and retail space were under our management. Income from property management rose by 21.7% to HK\$73 million. Further Airport Railway development properties will come under our management in the years ahead.

The weak economic climate meant we needed to keep costs under tight control, while at the same time offering high quality yet cost effective services. That we were able to retain all existing management mandates attests to our success in doing so. We devised a number of revenue generating value-added services for customers and enhanced convenience for users.

Our high-end Premier Management, which offers such attractions as 24-hour concierge service at selected developments, has been especially well received.

A similar success has been the introduction of personalised Octopus cards for residents for convenient access and for use with other interactive equipment. We have achieved market leadership in this area and intend to build further on this success. To enhance customer convenience and to increase operational efficiency, we continued to upgrade our informatics and on-line management services, which are sited on a dedicated MTR property portal via Superhome.net.

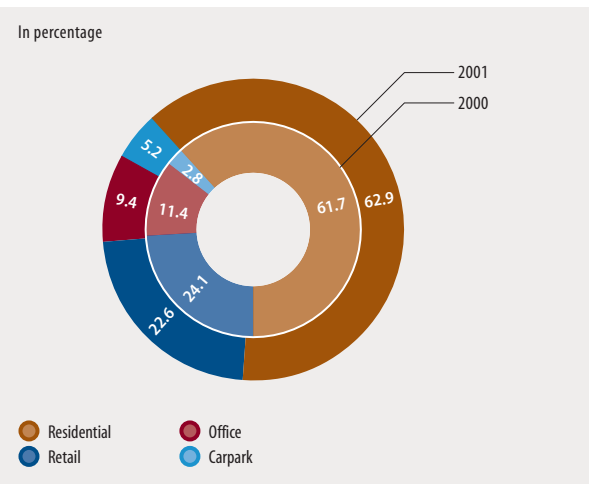
Outlook

The rapid fall in interest rates in the United States, which has been mirrored in Hong Kong, is clearly positive for the property sector. So too is the continued growth of Hong Kong's population, maintained by substantial annual immigration from Mainland China. Weighed against these factors are poor consumer sentiment resulting from the weak economy and employment uncertainties, as well as a temporary excess of property supply.

We maintain a cautious but optimistic view of the market. Good accommodations are still required as the population grows and new families are formed. Our well-located, well-planned and well-managed development schemes are ideally placed to support this demand. 2001 has shown clear evidence that flat buyers prefer urban locations with good public transport, preferably with rail access.

During 2002, we will move ahead with our leasing plans for the 47,000 square metres of International Finance Centre Tower 2 floor space that we have retained for investment purposes.

Distribution of property management income



There are 39,613 residential units under the Company's management, contributing to rising income from this business.

Currently under construction, the space will be available in 2003. We will begin active marketing when we consider conditions to be right.

The refurbished Paradise Mall and Telford Boulevard together with the improved retail trade mix at Maritime Square, all of which were completed around year end, should generate enhanced returns to our investment portfolio in 2002.

We will continue to expand our property management portfolio by absorbing further completed units and floor space from the Airport Railway projects. We expect steady growth in revenue from this source, since our development agreements provide for management charges to be levied on property as it is completed. Further introduction of Octopus card use in estates and the expansion of on-line and other user-support services should add value throughout the management portfolio.

We also intend to extend our property management services into Mainland China when suitable business opportunities arise.

MTR is one of the largest property managers in Hong Kong and income from this business rose 21.7 % to HK\$73 million. Our Premier Management, offering concierge service, proved especially popular.

five star living

