

The Government has made a clear policy commitment to the development of Hong Kong's railway infrastructure, giving MTR a firm mandate to explore options to expand the Company's network. We are currently engaged in the planning and construction of a number of new lines that will generate significant future cash flows from both railway operations and associated property developments.

early arrival

Construction of the Tseung Kwan O Extension is ahead of schedule and will open MTR services to a new part of Hong Kong. New trains for the line have been delivered for testing.

strategies FOR THE FUTURE

Tseung Kwan O Extension ahead of schedule, below budget

In every project we undertake, the Company takes great care to conduct a detailed evaluation to ensure project viability and minimise the capital costs involved. We spare no effort during construction to achieve completion on time and within budget.

Our success on the Tseung Kwan O Extension, now nearing completion, is one prominent example of our ability to manage such exacting tasks. This new line will bring areas of Tseung Kwan O

new town into the MTR network for rapid access to both Kowloon and Hong Kong Island, linking into the Kwun Tong Line. During 2001, we completed all rail track and civil construction works. The permanent power supply was commissioned and the first five trains were delivered for commissioning in Hong Kong.

When fully operational, the line will carry an estimated 56,000 passengers per hour per direction in the peak hour. Associated property developments scheduled for completion over the period 2004 to 2012 will involve construction of 2.1 million gross square

Tseung Kwan O Extension project

<i>in HK\$ million</i>	Original budget	Revised budget	Expenditure up to 31 December 2001	Expenditure up to 31 December 2000
Construction costs				
Civil works	11,232	7,283	5,866	4,465
Electrical and mechanical works / rolling stock	7,206	3,670	2,360	1,132
Works entrusted to Government	207	526	378	367
Associated construction costs				
Site investigation and land costs	1,261	720	258	222
Non-construction costs				
Consultancy fees, corporate and financing costs	10,589	5,801	4,011	3,008
Total	30,495	18,000	12,873	9,194



metres of residential units, 132,014 gross square metres of retail space and 103,130 gross square metres of offices, as well as 6,982 parking spaces. These developments will contribute to Company revenues and to the creation of a modern urban community in East Kowloon.

With excellent cooperation from our contractor partners we are comfortably ahead of schedule and have targeted an early commencement of operation in August 2002, four months ahead of our project obligations to the Government. The final outturn cost is predicted to be less than HK\$18 billion, representing a final cost of more than 40% below the original budget, reflecting the impact of the economic downturn and sizeable project management savings.

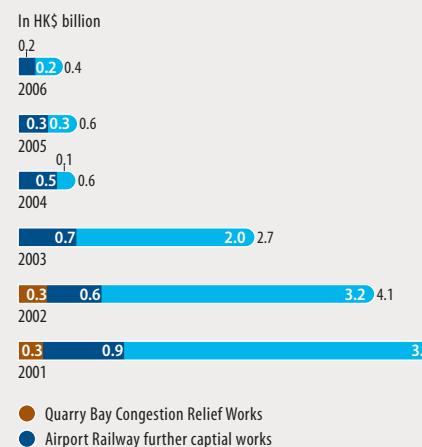
Shatin to Central Link

In January 2001, the Government invited MTR to submit a competitive tender for the Shatin to Central Link, a development for which we had first commissioned studies in 1995. Nearly 50 people worked for six months on the final proposal, which included many options for the Government to consider.

Our proposal was keenly competitive in respect of cost and programme. Given an early commitment from the Government on availability of land and certain items affecting existing facilities, we expressed confidence that the new link could be open for public use by early 2008. To safeguard the levels of financial return promised in the prospectus for our Initial Public Offering, the proposal included a modest number of property developments at or adjacent to stations on the new line.

At the time of this report going to print, the tender is still under consideration by the Government.

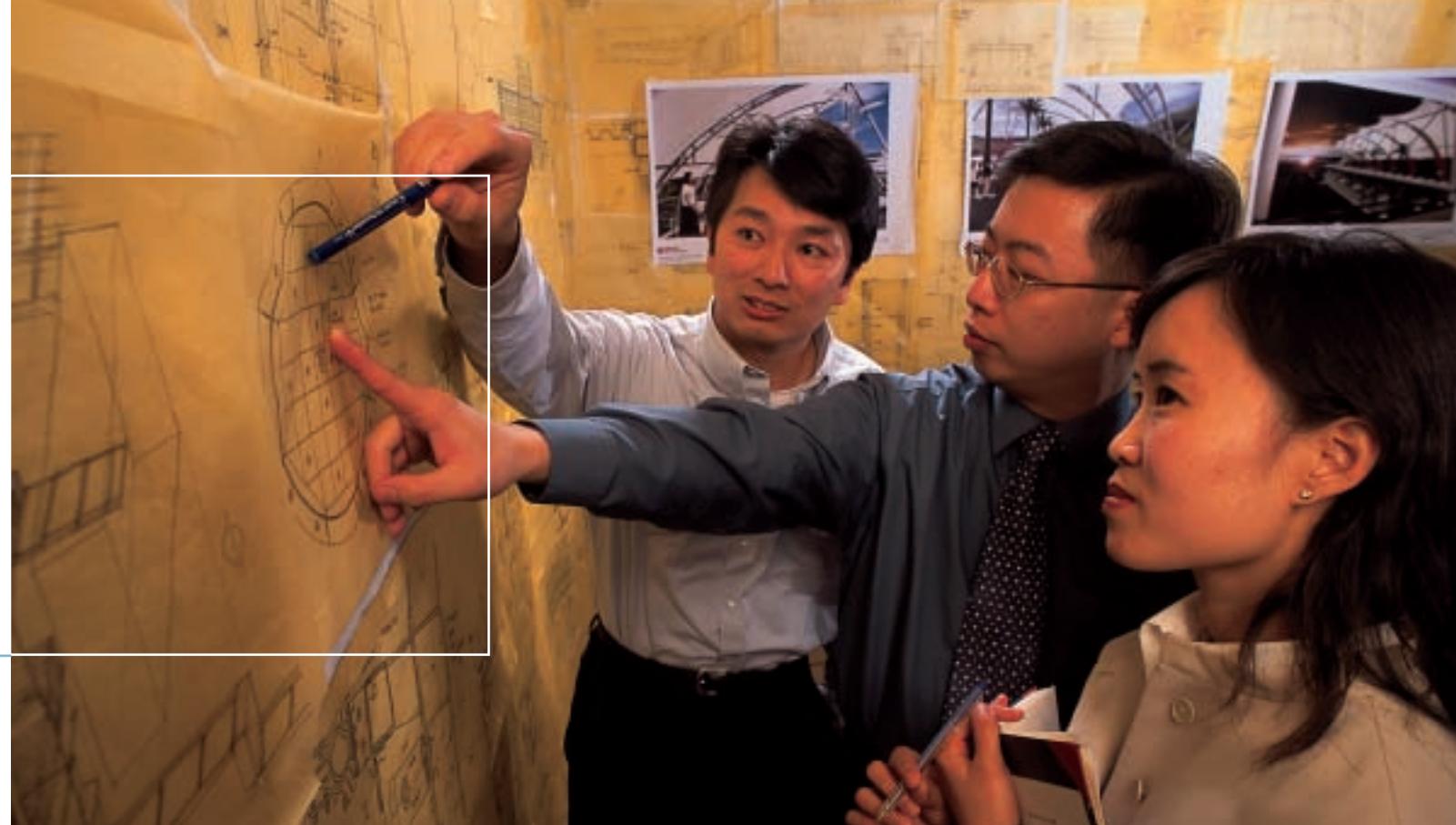
Committed capital expenditure programme



The Company's committed capital expenditure programme has shrunk significantly, benefiting from substantial savings arising from tightly managed project implementation.

dream works

Design work continues on the HK\$2.6 billion Penny's Bay Rail Link that will bring Hong Kong people and tourists to the new Disneyland, now under construction.



Penny's Bay Rail Link and proposed Island Line Extension

Construction work is planned to begin in mid 2002 on the Penny's Bay Rail Link that will connect the new Hong Kong Disneyland, currently under construction, with the MTR network. This project, with an estimated cost of HK\$2.6 billion, involves construction of a new station at Yam O in Lantau, as an interchange for the Tung Chung Line. In conjunction with this rail link to the new Hong Kong Disneyland, a tourism-related commercial development comprising about 100,000 square metres of gross floor area is proposed adjacent to the future Yam O Station.

Our proposals for the North Island Link and West Island Line, which were identified as natural extensions of the existing urban network in the Government's RDS-2000 strategy paper, are under consideration by the Government. The North Island Link will connect the Tung Chung Line to the Island Line at Fortress Hill, while the West Island Line will extend the network beyond Sheung Wan to Kennedy Town. We expect progress on these submissions during 2002 in order to ensure completion within the 2008–2012 time frame.

Tung Chung cable car

Our reputation for operating a transit system to the highest standards positions us well to explore related infrastructure that would benefit Hong Kong while providing new avenues of growth for the Company. Our proposed cable car on Lantau Island linking Tung Chung with Ngong Ping and the nearby Big Buddha statue and Po Lin Monastery would achieve just these results.

We were approached to take a lead on this initiative by the Government in 1998 and have since worked together with experienced consultants to devise a scheme that maximises the

potential of such a facility. Our proposal, if adopted, would create a major new tourist and leisure landmark. The 15-minute cable car ride rising 400 metres above sea level would give spectacular views over the Airport, the Tung Chung Valley and out to sea as far as Macau, followed by views of the Buddha and the monastery.

Terminal buildings at Tung Chung and Ngong Ping, in addition to housing the operation-related parts of the cable car, would contain retail provision for restaurant and other leisure facilities. The entire project has been aligned and designed to harmonise with the surroundings and to minimise the impact on the peaceful environment at Po Lin. Careful studies estimate that over one million people are expected to use the cable car in its first year of operation. A key contributor to its attraction would be convenient access via the Tung Chung Line.

A decision from the Government is expected shortly. If our proposal is accepted, we will work assiduously to complete the project by late 2005, ahead of the Government's original goal.

Transit links

We are working closely with the Government on other initiatives to ensure that Hong Kong continues to benefit from the world-class, environmentally friendly public transit system which it needs in order to maintain its attraction as a regional business and tourist hub. A focus will be on improving the integration of the MTR network itself and of this network with other modes of transport.

To enable these developments and to extend MTR services into less densely populated areas, we are examining suitable routes for above ground light rail links. These less expensive but

environmentally-sound systems could make a significant contribution to Hong Kong's quality of life.

Pedestrianisation

The promotion of pedestrianisation and improving pedestrian links between MTR stations and their surrounds will be important features of our activities in coming years. Such schemes enhance the attraction of MTR stations and hence support patronage.

Both the Hong Kong Institute of Planners and the Chartered Institute of Transport have highlighted the need for more pedestrianisation in Hong Kong to improve the urban landscape, so as to bring it more in keeping with the claims to being a "world city."

More directly, the Company has worked hard to create pedestrian links between MTR stations and neighbouring buildings. To this end, we cooperate closely with private developers, the Urban Renewal Authority, the Housing Authority and other bodies responsible for urban development. Over the past 10 years, more than a dozen pedestrian links, as between Causeway Bay Station and the Times Square commercial complex, have helped increase the convenience of the MTR network.

In 2002, two more such connections will be added at the Shau Kei Wan and Wong Tai Sin stations. Work has also begun on a pedestrian link at Mongkok as part of an Urban Renewal Authority redevelopment and at Kwun Tong, in a redevelopment project led by Sun Hung Kai Properties. Both will be completed by 2003. We are currently in discussion with various parties on a further eight links.