

## Chairman's statement

Dear Shareholders,

In the Company's second year as a publicly listed company, MTR achieved satisfactory profits despite the poor economic environment in Hong Kong. This achievement was made possible by further improvements in efficiency and productivity whilst at the same time maintaining or exceeding the high operational standards achieved in previous years. The results testify to our successful business model that integrates our railway business with the development of substantial properties connected to our railway stations and depots.

Total net profit for the year reached HK\$4,284 million, an increase of 5.3% over 2000. Earnings per share increased by 4.9% to HK\$0.85.

The Board of Directors has proposed a final dividend of HK\$0.28 per share which combined with the interim dividend of HK\$0.14 per share would bring total dividends for the year to HK\$0.42 per share. As in the previous year, shareholders will be given an option to receive dividends in either cash or in scrip. The Government has undertaken to elect to receive its entitlement in scrip form in such amount as to ensure that no more than half of the total dividend will be paid in cash, thus demonstrating its continued support for the Company and providing us with capital for future development.

### 2001 achievements

Economic weakness in Hong Kong together with continued migration of population from urban areas to the New Territories and competition from other transport modes contributed to a 1.3% year-on-year decline in total patronage to 767 million, although total fare revenue increased marginally by 0.2% to HK\$5,728 million. Patronage on the Airport Express Line was particularly affected by the tragic events of 11 September 2001 in the United States.

To counter the strong competition, we increased our initiatives to attract people to use the MTR and worked closely with the Government to improve the integration of our network with those of other transport operators. We refurbished stations to create a livelier environment and increased train service on the Urban Lines during off-peak hours and at evening peak times. The train modernisation programme, which was completed ahead of schedule, also improved the attraction of the MTR by providing customers with more comfortable trains, better lighting and ventilation, more comfortable seats and additional space for luggage or wheelchair use. The September opening of the new cross-platform interchange between the Kwun Tong Line and the Island Line at North Point Station resulted in significant time savings for passengers. New marketing initiatives, such as Hello Kitty & Snoopy model trains and other loyalty programmes were also introduced to promote ridership.

Our non-fare revenues increased marginally by 0.1% to HK\$1,864 million, resulting in total revenues from railway and other businesses of HK\$7,592 million, an increase of 0.2% over 2000. Notable achievements in our other businesses were significant increases in external consultancy business and continued good results from our property investment and management businesses. Our ongoing programme of increasing efficiency and productivity through cost control saw operating costs before depreciation decrease by 3.5% when compared to last year, a saving of HK\$130 million. This allowed operating profit from railway and related operations to increase by 3.7% to HK\$4,059 million. The operating margin of 53.5% was the highest since 1998.

During the year good progress was made in the construction and pre-sales of residential property units, particularly in Tung Chung, allowing the Company to realise property development profits of HK\$3,248 million despite the soft property market.

MTR also benefited from declining interest rates with interest expenses decreasing to HK\$874 million from HK\$1,143 million. We took full advantage of the low interest rate environment to re-finance less cost effective borrowings as well as to take on additional net borrowings to finance our capital expenditure programme. Depreciation, however, increased by 4.2% to HK\$2,178 million mainly as a result of the capitalisation of the Quarry Bay Congestion Relief Works costs during the year.

### Outlook

Despite the challenging business environment, we see a number of exciting opportunities for our future development.

In our railway business, we take pride in our record of delivering major railway projects on time and within budget. The Tseung Kwan O Extension project is now well advanced, with the major civil construction works for the entire line completed in June last year and remaining works progressing satisfactorily. I am pleased to report that the latest estimated cost for the project has been revised to HK\$18 billion, a reduction of more than 40% compared to the original budget and 14% below last year's revised budget. We are targeting to open the line for public service around mid August 2002, four months ahead of our project obligation to the Government.

As I reported last year, the Government's long-term policy commitment to promote rail as the backbone of Hong Kong's public transport network, as embodied in its Railway Development Strategy 2000, is of long-term importance to MTR. During the year, we continued our discussions with the Government regarding a number of Railway Development Strategy 2000 projects as well as the Penny's Bay Rail Link. We submitted several proposals to undertake new projects and extensions on the basis of a commercial return, which the Government has recognised to be typically calculated at a margin of between 1% and 3% above our weighted average cost of capital.

In response to the Government's invitation, in July 2001 we submitted a competitive proposal for the Shatin to Central Link. This is an important project for the Company and the Government has assured us that the proposal will be assessed in both its financial and technical aspects on a "level playing field" basis as between the Company and Kowloon-Canton Railway Corporation, which we understand has also submitted a proposal. We believe that our proposal is highly competitive in respect of cost, programme and customer service features. The tender is currently under consideration by the Government.

Separately, we have also submitted proposals to construct, finance and operate the Island Line Extensions, comprising the North Island Link and the West Island Line, which are regarded as natural extensions of the MTR system. We expect progress in discussions with the Government on these proposals during 2002. On the Penny's Bay Rail Link, we continued our discussions with the Government on the project agreement which we expect to finalise in 2002 and for construction work to begin thereafter. We also submitted a proposal to build a cable car system on Lantau Island, linking Tung Chung with Ngong Ping and the nearby Big Buddha statue and Po Lin Monastery. We have been

shortlisted by the Government for final negotiations on this project, which would establish a major new tourist attraction in Hong Kong.

In our real estate business, with all development projects of the Airport Railway awarded by the end of year 2000, the focus now is to ensure the timely construction, completion and, as appropriate, leasing or sale of these properties. With respect to property developments along the Tseung Kwan O Extension, our tender for Area 55b in December 2001 attracted strong interest and the development was awarded in January 2002 to a consortium led by New World Development Company Ltd. We anticipate tenders for more Tseung Kwan O development packages during 2002. The refurbishment undertaken during 2001 at Paradise Mall and Telford Boulevard, as well as the adjustment of trade mix at Maritime Square, should enhance rental yields in 2002. Our property management business will continue to expand, as further developments on the Airport Railway projects are completed.

We continue to examine new ways to build on MTR's goodwill and image, and its large customer base. Usage of Octopus cards continued to expand in 2001, with 8.2 million cards in issue by year-end, an increase for the year of 15.5%. The management of Octopus Cards Limited is committed to expanding card usage further as well as exploring other revenue enhancing initiatives.

In our advertising business, the Company will strive to increase revenues despite poor market conditions. The "e-Instant Bonus" system launched in the year will be extended whilst new advertising formats and panels will be installed. Refurbishment and re-merchandising of stations will continue.

I reported last year that we are always mindful of opportunities outside of Hong Kong. As at the end of 2001 we were involved in external rail consultancy contracts in Bangkok, Kaoshiung, Taipei, Singapore, Delhi and Sydney as well as cities in Mainland China such as Shanghai, Guangzhou and Shenzhen. We continue to look for consultancy contracts that leverage our skill base and enhance our revenue.

To support our future development, the Company continues to maintain a strong balance sheet with comfortable financial ratios. Our capital expenditures on committed projects and existing systems will fall significantly after completion of the Tseung Kwan O Extension. We therefore have substantial capacity to raise capital to finance new projects or businesses.

The current difficult economic environment and competition from other modes of transport continue to challenge our existing operations. We will therefore continue our efforts to control costs, increase productivity and improve efficiency where possible. Inevitably this will affect our staff and I extend to them my sincere thanks for their co-operation, understanding and commitment. Cost control balanced with the need to continue providing excellent levels of service is firmly embedded in the minds of everyone at the Company. A good example of this will be the opening of the Tseung Kwan O Extension, where we intend to meet the additional operational requirement without increasing overall staffing levels; with all staff being required for the operation of this line to be re-deployed from other parts of our business.

Economic considerations have also led the Board of Directors to decide not to raise fares in 2002, following a similar decision in 2001.

### Our commitment to stakeholders

The Company, as a unique railway organisation managing diverse businesses, is committed to its Core Values of Service, Respect and Value for all stakeholders, including our nearly half million shareholders, the 2.23 million passengers served each weekday and our 7,231 staff members. These core values underlie our commitments and lay the

foundation for our business and social objectives. We are determined to meet those objectives by maintaining high standards of disclosure, transparency, strong corporate governance and building an ethical culture within the Company. We continue to strive to be a socially responsible organisation, placing emphasis on social sustainability and taking the lead in promoting environmental and safety awareness. The Company became a founding member of the Association for Socially Responsible Investment in Asia last year and our achievements in environmental initiatives were recognised by our winning the "Hong Kong Eco-Business Grand Award".

Our 2001 staff attitude survey revealed that the majority of our employees regards MTR as a progressive company, where safety and working conditions, communication and employee involvement are areas of strength. Externally, we are viewed as a leading company in Hong Kong providing high quality services, according to the "Review 2001" survey conducted last year by the *Far Eastern Economic Review*. Guided by our vision, mission and core values, we aim to remain at the forefront of promoting social and environmental awareness, good corporate governance and open investor communications.

### Optimism in a challenging environment

The global economy continues to perform poorly, although there are some early signs of a recovery in the United States. Hong Kong's economic growth slowed substantially in 2001 while entering its third consecutive year of deflation. We nevertheless remain optimistic concerning the outlook for our Company. With costs tightly contained, a healthy balance sheet, excellent people and a culture of transparency, strong risk management and control, MTR is soundly positioned to meet future challenges.

To achieve our mission in 2002, MTR will focus on the following objectives:

- Achieve further cost control through increased efficiencies and re-deployment of staff.
- Improve patronage.
- Commission the Tseung Kwan O Extension with a target opening date of August.
- Pursue new rail projects in Hong Kong including the Shatin to Central Link and the Penny's Bay Rail Link.
- Further develop the planning of the Island Line Extensions in conjunction with the Government.
- Continue the tendering process for Tseung Kwan O Extension property developments and strengthen revenue from our investment properties.
- Continue to expand our consultancy services and project operations outside Hong Kong.
- Enhance revenue from rail related businesses such as Octopus, advertising, station retail and telecommunications.

Finally, I extend my gratitude to my directors and all staff for their commitment and hard work in these difficult times. I wish to further thank our shareholders, financiers and business partners for their continued support.



Jack So Chak-kwong *Chairman*  
Hong Kong, 28 February 2002