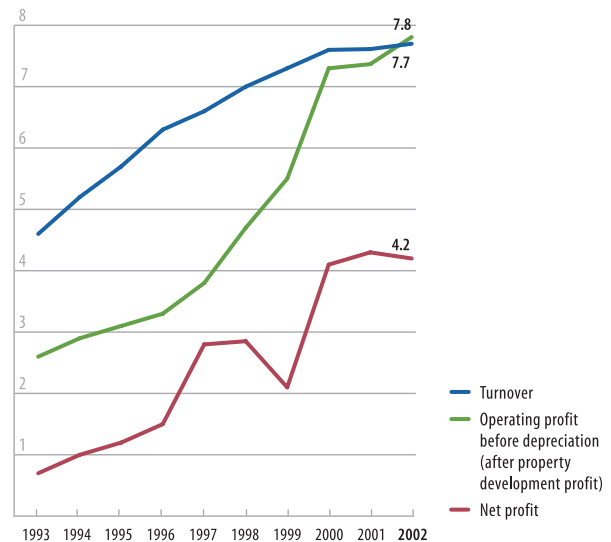


In HK\$ billion

Operating profit contributions

Operating profit remained stable in 2002 despite economic downturn, with significant improvement in property development profit.



HK\$ billion

Net results

Supported by strong property development gains, operating profit before depreciation continued to perform well while turnover and net profit held steady.

totalling HK\$798 million at net present value starting from the financial year 2002 onwards. Taking into account these two projects and our continuous efforts in streamlining future capital works, our capital expenditure programme for the three years between 2003 and 2005 will be modest, at an estimated HK\$7.2 billion. This should leave MTR with sufficient financing capacity to capture new project and investment opportunities in the future.

In January 2003, the Government announced its decision to allow MTR to proceed with the planning of West Island Line Phase 1 and the South Island Line, and to delay the North Island Link pending a further review of the growth in population. As these projects are still being discussed with the Government, they have not been included in the Company's latest financial plan and will be dealt with at the appropriate time.

Review of financial results

Profit and loss

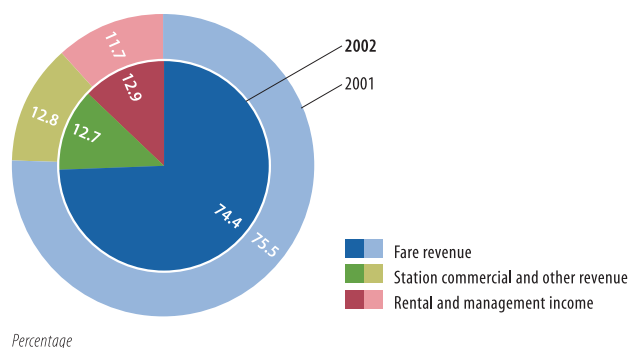
Total patronage for the MTR Lines, comprising the Urban Lines, the Tung Chung Line and the new Tseung Kwan O Line which commenced service on 18 August 2002, increased by 2.5% from 758 million in 2001 to 777 million in 2002. The average weekday patronage for the year increased to 2.26 million, compared to 2.23 million in 2001. After the opening of the Tseung Kwan O Line, average weekday passenger has increased significantly to 2.37 million. Our overall market share of Hong Kong public transport stayed at 23.5%, the same as 2001, and our cross-harbour market share increased from 57.4% in 2001 to 58.2%.

Total fare revenue for the MTR Lines amounted to HK\$5,167 million, which was slightly higher than the figure of HK\$5,164 million in 2001. The average fare decreased from HK\$6.81 in 2001 to HK\$6.65, mainly as a result of the promotional campaign on the MTR Lines. In light of the deflationary economic environment in Hong Kong and in the overall interest of the Company, the Board of Directors decided not to implement the 2.3% fare increase originally scheduled for 1 April 2002.

The average daily patronage on the Airport Express Line declined by 9.0% to 23,200 from 25,500 in 2001, following the removal of the remaining 10% fare discount from July 2001 and severe competition from buses and other modes of airport transportation. Our estimated market share of passengers travelling to and from the airport fell from 27% in 2001 to 25%. Total revenue from the Airport Express Line dropped by 2.0% to HK\$553 million, with the average fare increasing from HK\$62.5 to HK\$65.4 in 2002 as a result of removal of the fare discount.

Non-fare revenues increased by 5.5% from HK\$1,864 million in 2001 to HK\$1,966 million, comprising HK\$987 million from property rental and management and HK\$979 million from station commercial and other revenue. Property rental and management income increased by 10.8% compared with 2001 due to higher rental achieved following completion of renovations of Paradise Mall and Telford Boulevard. There was a reduction of 6.8% in advertising income as a result of the sluggish economy. This was more than offset by revenue increases in other commercial activities, however.

Operating expenses before depreciation increased by 3.8% from HK\$3,539 million in 2001 to HK\$3,672 million. A reduction in staff



Percentage

Turnover

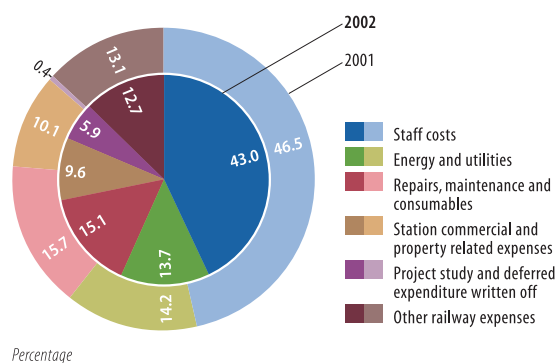
Growth in property rental and management income brought about proportionate change in revenue distribution during 2002, and non-fare revenue accounted for over 25% of turnover.

costs of HK\$68 million was achieved in 2002, from HK\$1,647 million in 2001 to HK\$1,579 million. Apart from further cost savings from continuous improvement in productivity and efficiency, the decrease in staff costs was also caused by the pension cost adjustment following adoption of a new accounting standard. These savings were, however, more than offset by the write-off of project study and deferred expenditures of HK\$218 million, mainly in respect of the unsuccessful Shatin-Central Link bid; and the North Island Link (NIL) together with its allied improvement works following the Government's decision to defer completion of the NIL to beyond 2016. Had these write-offs been excluded, the operating expenses before depreciation would have decreased by 2.0% compared with 2001, despite opening of the Tseung Kwan O Line in August. Other operating costs were generally in line with the previous year.

The operating profit from railway and related operations before depreciation amounted to HK\$4,014 million, a decrease of 1.0% from HK\$4,053 million in 2001. This represents a margin of 52.2% compared with 53.4% (as restated) in 2001. Had the write-offs on project study and deferred expenditures been excluded, the margin would have been 55.1%.

Profit on property developments amounted to HK\$3,755 million, as compared with HK\$3,248 million for the previous year, mainly from the profit recognition of deferred income and sharing of profits and assets in kind in respect of certain Airport Railway developments in line with their construction progress and the pre-sale of properties.

Operating profit before depreciation increased by 6.4% to HK\$7,769 million. However, depreciation and amortisation charges increased



Percentage

Operating expenses

Operating expenses before depreciation increased by 3.8% and would have declined by 2% on a net basis without project study and deferred expenditures write-offs.

by 13.4% to HK\$2,470 million following capitalisation of the Tseung Kwan O Extension project costs during the year. As a result, operating profit after depreciation increased by 3.4% from HK\$5,123 million in 2001 to HK\$5,299 million.

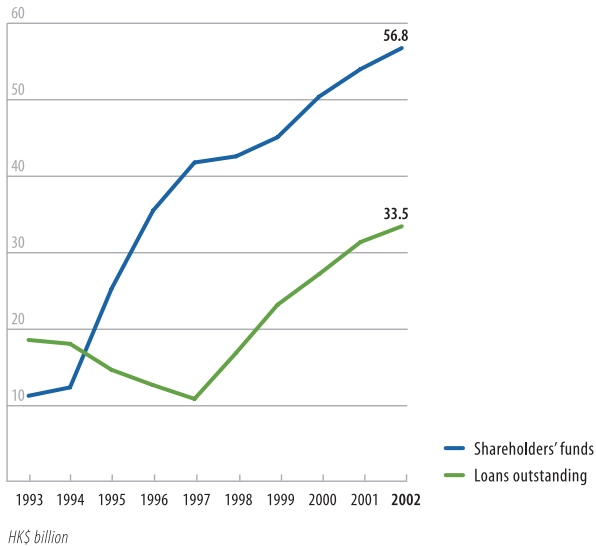
Net interest expense increased from HK\$874 million in 2001 to HK\$1,125 million, as a result of the Tseung Kwan O Line interest expenses being charged to the profit and loss account after its opening in August 2002. However, the interest cover increased to 4.5 times from 3.8 times in 2001.

Net profit for the year decreased by 1.5% from HK\$4,278 million in 2001 to HK\$4,212 million. Both basic and diluted earnings per share were HK\$0.83.

The Board has recommended a final dividend of 28 cents per share, amounting in total to HK\$1,444 million, with a scrip dividend option offered to all shareholders with Hong Kong address. The Government has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of MTR's total dividend will be paid in cash. Pursuant to the financing arrangement stipulated in the Penny's Bay Rail Link Project Agreement, the Government will waive its entitlement to receive the cash portion of the final dividend for the year.

Balance sheet

The Group's balance sheet remained strong, with the bulk of its assets invested in the railway system. Total fixed assets increased from HK\$79,243 million in 2001 to HK\$94,270 million as at 31 December 2002. This was a result of the capitalisation of the Tseung Kwan O Line assets upon its commissioning during the year.



Debt/equity profile

Retained profits and the scrip dividend saw shareholders' funds rise, supporting a marginally higher gross debt-to-equity ratio despite a HK\$2.1 billion increase in debt.

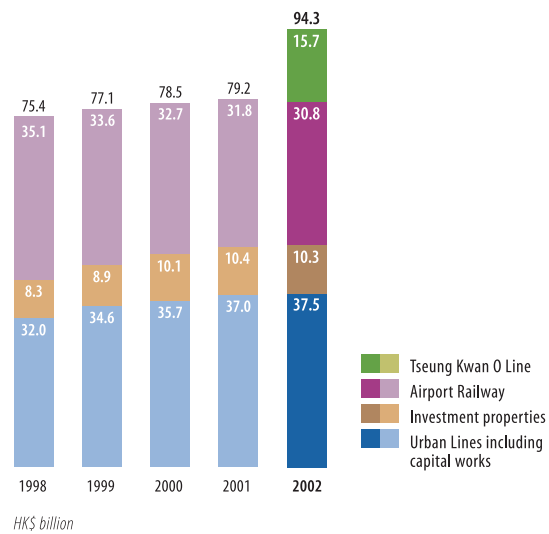
Following completion and transfer of the Tseung Kwan O Extension project construction cost to fixed assets, railway construction in progress was reduced by 99.2% from HK\$12,873 million in 2001 to HK\$109 million as at 31 December 2002, represented by further capital works for the Tseung Kwan O Extension and capital expenditures on the Penny's Bay Rail Link project.

Property development in progress represents the costs incurred in preparation of sites for property developments less reimbursements already received from developers. Property development in progress at the year-end amounted to HK\$2,870 million, a reduction of 14.6% from the previous year's HK\$3,361 million. This is mainly due to the offset of property development costs against the amount of HK\$785 million received from developers in respect of the Tseung Kwan O property projects during the year.

Cash and cash equivalents stood at HK\$1,718 million as at 31 December 2002 compared to HK\$215 million as at the same time the previous year, mainly due to the significant amount of proceeds received from property sales and upfront payments received from developers during the last quarter.

Total loans outstanding at the end of the year amounted to HK\$33,508 million, an increase of HK\$2,123 million from 2001. Loan drawdowns from existing and new facilities during the year were mainly used to finance the construction of the Tseung Kwan O Extension project and capital works for the MTR system.

Deferred income decreased from HK\$8,411 million in 2001 to HK\$6,226 million, as amounts were recognised as profit in accordance with the progress of construction and pre-sales of property



Fixed assets growth

Total fixed assets grew, as the Tseung Kwan O Line assets became capitalised.

development projects mainly at Kowloon and Tung Chung stations. The deferred income as at 31 December 2002 comprised mainly balances in respect of packages at the same development sites.

Our share capital of HK\$33,910 million was slightly higher than in 2001, as a result of shares issued from the scrip dividend and share options exercised.

As at 31 December 2002, total shareholders' funds stood at HK\$56,827 million, an increase of HK\$2,934 million from HK\$53,893 million as at 31 December 2001. The net increase was mainly attributable to the retained profit of HK\$2,080 million after dividend payments and the shares issued from scrip dividend of HK\$1,066 million, less reduction in revaluation reserve of HK\$204 million. As a result, our gross debt-to-equity ratio increased marginally from 58.2% a year ago to 59.0% at year-end 2002, in line with our longer-term financial plan. However, the net debt-to-equity ratio decreased from 57.8% to 55.9%.

Cash flow

The net cash inflow from operating activities increased slightly to HK\$4,228 million from HK\$4,155 million in 2001 mainly due to higher property rental revenues. The main cash outflow related to the Tseung Kwan O Extension and other capital work projects, which together with interest and dividends paid amounted to HK\$7,347 million. The net loan drawdown for the year was reduced from the previous year's HK\$4,310 million to HK\$2,332 million. After including receipts of HK\$2,646 million from property developers and net outflows of HK\$341 million from other activities, there were net cash inflow of HK\$1,518 million for the year compared to HK\$36 million for 2001.