



summary financial report 2002

This Summary Financial Report 2002 only gives a summary of the information and particulars of MTR's Annual Report 2002 from which this Summary Financial Report is derived. Both documents are available (in both English and Chinese versions) in electronic form on the Company's website at www.mtr.com.hk

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vision MTR – Hong Kong’s fast track to a world class city. **mission** to develop and manage a world class railway together with property and other related businesses, to enhance the quality of life in Hong Kong.

wider horizons



A rail network spanning the length and breadth of Hong Kong. Property developments that offer new ways of living and working. A future cable car with breathless vistas over land and sea. An expanding array of businesses, in more and more markets around the world.

Ever wider horizons, for MTR, its customers and shareholders.

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Key figures

Financial highlights <i>in HK\$ million</i>	2002	2001	% Increase/ (Decrease)
Revenue			
– Fare	5,720	5,728	(0.1)
– Non-fare	1,966	1,864	5.5
Operating profit from railway and related operations before depreciation	4,014	4,053*	(1.0)
Profit on property developments	3,755	3,248	15.6
Operating profit before depreciation	7,769	7,301*	6.4
Profit attributable to shareholders	4,212	4,278*	(1.5)
Total assets	101,120	98,126*	3.1
Loans, obligations under finance leases and bank overdrafts	33,508	31,385	6.8
Shareholders' funds	56,827	53,893*	5.4
Financial ratios <i>in %</i>			
Operating margin			
– before project study and deferred expenditures written-off	55.1	53.6*	1.5% pt.
– after project study and deferred expenditures written-off	52.2	53.4*	(1.2)% pt.
Gross debt-to-equity ratio	59.0	58.2*	0.8% pt.
Return on average shareholders' funds	7.6	8.2	(0.6)% pt.
Interest cover <i>in times</i>	4.5	3.8	18.4
Share information			
Basic earnings per share <i>in HK\$</i>	0.83	0.85	(2.4)
Dividend per share <i>in HK\$</i>	0.42	0.42	–
Share price at 31 December <i>in HK\$</i>	8.25	10.20	(19.1)
Market capitalisation at 31 December <i>in HK\$ million</i>	42,560	51,563	(17.5)
Operations highlights			
Total passenger boardings			
– MTR Lines <i>in millions</i>	777.2	758.4	2.5
– Airport Express Line <i>in thousands</i>	8,457	9,022	(6.3)
Average number of passengers <i>in thousands</i>			
– MTR Lines <i>weekday</i>	2,261	2,231	1.3
– Airport Express Line <i>daily</i>	23.2	25.5	(9.0)
Fare revenue per passenger <i>in HK\$</i>			
– MTR Lines	6.65	6.81	(2.3)
– Airport Express Line	65.43	62.50	4.7
Proportion of franchised public transport boardings <i>in %</i>			
– All movements	23.5	23.5	–
– Cross-harbour	58.2	57.4	0.8% pt.
Proportion of transport boardings travelling to/from the airport <i>in %</i>			
– Airport Express Line	25	27	(2)% pt.

* Restated to include retrospective adjustments due to changes in accounting policies

Chairman's statement

We opened the Tseung Kwan O Line in August, four months ahead of schedule, 47.5% below the original project budget, and were awarded both the Penny's Bay Rail Link and the Tung Chung Cable Car projects. We successfully tendered out three development packages along the Tseung Kwan O Line and continued to make good progress on development of other property projects along the Airport Railway. Despite the poor business environment, the Group achieved satisfactory profits of HK\$4,212 million, a slight decrease of 1.5% over 2001. Correspondingly, earnings per share were HK\$0.83 compared with HK\$0.85 in 2001.

The Board of Directors has proposed a final dividend of HK\$0.28 per share which, when combined with the interim dividend of HK\$0.14 per share, would result in total dividends for the year of HK\$0.42 per share. As in previous years, shareholders will be given an option to receive dividends in either cash or scrip. The Government has undertaken to elect to receive its entitlement in scrip form in such amount as to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash. Furthermore, under the project agreement for the Penny's Bay Rail Link, the Government has undertaken to waive all amounts of cash dividends payable to it up to an amount of HK\$798 million at net present value. Therefore, there will be no cash payment of the final dividend to the Government for the year.

An eventful 2002

The key objectives for 2002, which I highlighted in our annual report last year, were achieved. Despite continued economic weakness and severe competition from buses, total patronage increased by 2.5% to 786 million as the new Tseung Kwan O Line increased our catchment area and helped reverse the recent declining trend. Indeed, on Christmas Eve 2002, MTR patronage reached a record 3.1 million.

One strategy to increase ridership included improvement of linkages with other modes of transport and to this end, we extended our trial intermodal fare discount scheme for passengers using feeder buses and installed "Fare Saver" machines in five shopping arcades near MTR stations to allow passengers with longer walks to stations to obtain fare discounts. We also increased patronage through other well-received discount initiatives such as the "Ride 10 Get One Free" scheme, group tickets and concession fares on the Airport Express Line (AEL).

During the year, MTR continued to maintain very high standards of service, which surpassed both the Government's requirements under the Operating Agreement and the Company's own more stringent Customer Service Pledges. We initiated a number of service enhancements, including a morning express service from Tsing Yi Station to Hong Kong Station using the rapid and comfortable AEL trains, while progress on the Platform Screen Door and Station Improvement programmes brought a more modern and pleasant look to more MTR stations. Our ability to raise service quality whilst keeping costs down is particularly noteworthy considering the Tseung Kwan O Line was opened without corresponding increase in staff levels.

The Tseung Kwan O Line marked another milestone for the Company. The early opening and savings of over HK\$14.5 billion against the original budget testify to the Company's track record of delivering new lines on time and within budget. Despite some initial "teething" problems with the new train control system immediately after commissioning, the extension is offering an excellent service to the residents of Tseung Kwan O and we are pleased with the resultant incremental patronage.

After carefully reviewing economic conditions in Hong Kong and in the overall interest of the Company, the Board of Directors decided not to implement a fare increase of 2.3% originally scheduled for April 2002.

Our non-fare revenues continued to grow. External consulting business experienced another year of strong growth in revenues and scope particularly in Mainland China, where we secured assignments in Tianjin, Shanghai, Nanjing and Shenzhen. While advertising was affected by the weak economy, station commercial revenues rose as floor space increased following the opening of the Tseung Kwan O Line and the completion of the project to increase the range and quality of retail outlets at Central and Kowloon Bay stations, including the introduction for the first time of food and beverage outlets. In telecommunications, increased mobile phone usage generated higher revenues and we established a new subsidiary, TraxComm Limited, to exploit the opportunities expected to arise from the recent liberalisation of the Hong Kong fixed line telephone market. Octopus Cards Limited achieved further penetration in the transport market and expansion in the non-transport sector, with the number of cards in circulation increasing to 9.3 million.

We were disappointed that the Government decided not to award MTR the Shatin-Central Link project despite our very competitive proposal, but were pleased to reach agreement with the Government on the Penny's Bay Rail Link and, on a provisional basis, the Tung Chung Cable Car project, which are planned for completion in 2005. With the reduced population forecast for Hong Kong and adequate capacity in our system serving the northern part of Hong Kong and cross harbour routes, we agreed with the Government's decision in early 2003 to defer completion of the North Island Link until after 2016.

Despite the weak property market, we achieved a 15.6% increase in profits from property development to HK\$3,755 million in 2002, the bulk of which was derived from transfers from deferred income and the recognition of profit sharing in kind from Kowloon Station Package Two. During the year, we awarded to developers three more residential property development projects on the Tseung Kwan O Line at Area 55b in Tseung Kwan O Station, Hang Hau Station and Tiu Keng Leng Station. Good progress was made in the development and sale of Airport Railway property projects, including construction of the 88-storey Two International Finance Centre (Two IFC), which is due for completion in mid 2003. Our portfolio of investment properties also delivered increased revenues of 9.8% and enjoyed 100%

occupancy levels. The property management division was awarded the first management contracts in Mainland China. In November, the Government announced new measures to stabilise the housing market, including a suspension of land auctions in 2003. The Company, as a significant developer of residential properties in joint venture with our partners, supports these initiatives and has agreed in consultation with the Government to postpone property development tenders until after 2003.

Despite the challenging operating environment, MTR achieved satisfactory financial results. While total fare revenues for the MTR Lines increased only marginally, to HK\$5,167 million, and those of AEL declined by 2.0% to HK\$553 million, station commercial and other revenues rose 0.6% to HK\$979 million, resulting in revenues from railway operations being virtually unchanged from 2001 at HK\$6,699 million. Combined with higher rental and property management income, total revenue increased by 1.2% to HK\$7,686 million. Cost savings and productivity gains continued. Excluding a one-time write-off largely relating to project study and deferred expenditures for the Shatin-Central Link and North Island Link, operating costs decreased by 2.0% to HK\$3,454 million, despite the opening of the new Tseung Kwan O Line. As a result, operating margin before depreciation, interest and write-offs increased to 55.1% from 53.6% (as restated). Correspondingly, after taking into account of the write-offs, operating profit before depreciation and interest decreased marginally to HK\$4,014 million from HK\$4,053 million last year. However, with the increased property development profits, operating profit before depreciation increased by 6.4% to HK\$7,769 million.

After the opening of the Tseung Kwan O Line, depreciation and interest charges increased significantly by 13.4% and 28.7% respectively. The year-end profit after depreciation and interest reduced slightly to HK\$4,212 million, almost the same as 2001. However, we continued to take advantage of the low interest rate environment to launch an extremely successful HK\$3.5 billion retail bond, which attracted subscriptions of more than HK\$5.6 billion from over 18,000 investors.

Wider horizons

Although outlook for 2003 remains uncertain, the Company foresees a number of opportunities for business and revenue growth.

With the opening of the Tseung Kwan O Line and a larger catchment area, we look forward to a further rise in patronage. We also expect a further passenger increase when the Kowloon-Canton Railway Corporation's West Rail opens in late 2003 and begins feeding passengers from the western New Territories into our system via our new Nam Cheong interchange station and pedestrian link at Mei Foo Station. The attractiveness of travelling on MTR will be enhanced with the progress of both our Platform Screen Door and Station Improvement projects.

Construction of the Penny's Bay Rail Link and, subject to formalisation of a project agreement, the Tung Chung Cable Car project, will proceed in earnest during 2003. Presently, all major contracts have been awarded for the Penny's Bay Rail Link, which when completed in 2005 will provide a convenient and

swift access to the future Hong Kong Disney Theme Park via a new station at Yam O on the Tung Chung Line. The Tung Chung Cable Car project together with a theme village will transform travel to the Big Buddha on Lantau Island, creating a new tourist attraction. In early 2003, the Government requested the Company to proceed with the planning of the South Island Line and West Island Line Phase I. We welcome the Government's request and will work closely with the Government to pursue the most cost effective transport solution for the western and southern districts of Hong Kong Island.

On the property side, Two IFC is on target to be available for occupation in the third quarter of 2003 and we expect increasing momentum in tenant leasing as the year progresses. Anchor tenant marketing will begin for MTR's fifth shopping centre at Union Square in Kowloon Station whilst our existing shopping centres are expected to continue to perform well. Property management business will grow as more properties come under management, particularly along the Airport Railway, and as we provide other value-added services and expand further into Mainland China.

Mainland China will be a major focus in our rapidly expanding rail consulting business, given the country's substantial need for urban rail networks. In telecommunications, TraxComm Limited positions the Company well to capture the opportunities in the fixed line telephone market. In advertising, we will continue to examine new formats of station and in-train advertising to enhance our revenue. Renovation work on five more stations will be completed in 2003 and this will enable us to maximise station commercial revenue through better trade mix and retail environments. We expect Octopus Cards to penetrate further into the transport and non-transport markets, with increasing card circulation and transaction volumes.

The Company's financial position remains strong. We will continue our policy of cost control, increase productivity and improve efficiency, thereby further strengthening our financial position. With capital expenditures projected to be modest in the coming years, our financial health and substantial financing capacity will enable us to take advantage of new business opportunities.

The Government announced in June 2002 that it is undertaking a study on the possible merger of MTR and the Kowloon-Canton Railway Corporation.

Although the results of this study are still not yet known, at this preliminary stage, the Company's position is that, if properly structured and implemented on acceptable terms, a merger would be beneficial to all our stakeholders including our investors, our passengers, our employees and the overall Hong Kong rail transport system. We recognise the importance that financial terms of any possible merger must be value enhancing to the Company. We look forward to the conclusion of the Government's study on this matter. We will ensure that the Company will comply with all relevant requirements under the Rules Governing the Listing of Securities on the Exchange.

I would stress that if terms acceptable to the Company cannot be reached, MTR will continue to succeed as a "standalone" company without the merger.

Sustainable development

MTR is helping to deliver the vision of sustainable development by providing equitable access to affordable, safe, reliable and highly energy efficient transportation. We play a significant role in reducing the environmental impacts of moving millions of people, as road traffic produces vastly more atmospheric pollution per passenger than MTR. By establishing new communities along railways, MTR also maximises the use of Hong Kong's scarce land resources, improves its quality of life and allows its passengers to enjoy more time for life.

In 2002, we became the first Hong Kong company to publish a Sustainability Report, which detailed performance against targets on sustainability criteria. Our efforts in this area were rewarded by recognition from the international investment community and inclusion in both the Dow Jones Sustainability World Index and the FTSE4Good Global Index, making MTR one of the few Asian companies to meet the globally recognised standards required.

Commitment to high standards of corporate governance and disclosure practices

The Company is committed to high standards of corporate governance, and disclosure and transparency in the interests of shareholders and lenders. In recognition of our success in this area, we were voted the "Best in Corporate Governance" in the Hong Kong transportation industry by *Asiamoney* Magazine. Our 2001 Annual Report also won the Gold Award under the General Category in the Hong Kong Management Association's 2002 Best Annual Reports Competition, the fourteenth consecutive time since 1988 that our annual report has been recognised by the Association.

Well positioned for 2003

The world is facing political and economic uncertainties, and Hong Kong its own structural adjustments, and 2003 will be a challenging year. With a strong platform of tightly integrated businesses, sound finances and a highly skilled and motivated workforce, MTR is well positioned to meet these challenges and to capture opportunities that will arise in Hong Kong and other markets.


Our key objectives for 2003 will be to:

- Maintain tight control on costs, so as to further improve productivity and efficiency.
- Increase patronage by taking advantage of our expanded network and tighter linkage with other modes of transport, as well as through enhanced service quality and other value-added products and services.
- Achieve the published customer pledges for the railway.
- Progress work on the Penny's Bay Rail Link and Tung Chung Cable Car projects to ensure timely completion within budget.
- Work closely with the Government to plan for the design, construction and finance of the South Island Line and West Island Line Phase I.
- Forge ahead with sales and construction work of tendered property projects on the Airport Railway and Tseung Kwan O Line.

- Await and respond promptly to Government's decision on the possible merger between the Company and the Kowloon-Canton Railway Corporation.
- Continue to expand consultancy services and project operations into Mainland China.
- Continue to grow non-fare revenue from businesses such as Octopus Cards, advertising, station retail and telecommunications.

I informed the Board of Directors in February this year that I will not seek to renew my contract as Chairman and Chief Executive Officer of MTR when my contract expires in September 2003. This decision was made for personal reasons. In the last eight years during my tenure as Chairman and Chief Executive Officer, the Company has made a lot of progress, which I would attribute to the dedication and hard work of all the employees of MTR and the support of our business partners. The Board of Directors is in the process of finalising a course of action on succession.

Finally, I would like to take this opportunity to express my gratitude once again to my fellow directors, senior managers and all staff for their hard work and commitment during this challenging period. I also thank our shareholders, financiers and business partners for their invaluable support.



Jack So Chak-kwong, *Chairman*
Hong Kong, 6 March 2003

2002 Business review

business environment

Recovery postponed

The year 2002 began with anticipation of a significant turnaround in the world economy and financial markets. In the event, a series of accounting and governance scandals in the United States, coupled with terrorism and escalating tension with Iraq, badly undermined confidence. Major stock indices fell sharply. Investor sentiment and business investment remained weak. Consumers reined in spending.

Hong Kong additionally experienced further structural adjustment, unleashed by the bursting of its asset bubbles and China's rapid integration into the world economy. Average residential property prices fell another 6% and the *Hang Seng Index* finished the year 18% lower. Consumer prices saw their fourth consecutive year of decline. Unemployment rose to 7.8%, its highest level since 1981. Consequently, consumer demand and investment growth were weak, despite ample banking liquidity and record low interest rates.

Hong Kong nevertheless benefited from Mainland China's impressive performance. Air cargo volumes and container throughput rose strongly. Exports and re-exports registered combined growth of 5.4%. Tourism was boosted by Mainland visitors. As a result, Hong Kong registered 2.3% GDP growth for 2002, against 0.6% in 2001.

Transport benefits from more visitors

After modest growth of 1.5% in 2001, the franchised public transport industry posted a 2.1% increase in 2002.

Total public transport demand for the year was 4,083 million journeys, up from 4,017 million in 2001, of which franchised operators carried 3,347 million.

Despite strong competition, MTR's market share was maintained at 23.5% with the opening of the Tseung Kwan O Line.

Overseas tourist arrivals increased by 20.7% to 16.6 million, owing to a 53.4% surge in Mainland visitors. Air passenger traffic rose 2% to 23.5 million. The market share of the Airport Express Line fell marginally from 27% to 25%, however, due to the elimination of the 10% fare discount.

Property remains weak

Property prices and rentals continued their downward adjustment. Office demand remained weak as financial firms cut back on space requirements. Leasing activity was very subdued, with little demand for new space. New supply put pressure on rents, which fell substantially. The retail sector suffered from the poor economy and an outflow of shoppers to the Mainland. The residential market was affected by worsening sentiment and an overhang of supply, and the value of transactions decreased by 3.8% from 2001 to HK\$185 billion, marking a 12-year low.

The Government's new housing policy, announced in November, officially ends the 70% home ownership target set in 1997 and includes the suspension of land auctions and development tenders by Hong Kong's railway companies in 2003.

Despite this, little immediate improvement is expected. The office sector needs higher business volumes in financial services. Brighter employment and earnings prospects are required to buoy the residential market. The retail sector may, however, see some improvement, as the price differential with Shenzhen narrows.

railway operations

In August, the new Tseung Kwan O Line extended the MTR's safe, reliable, fast and environmentally friendly service to eastern Kowloon. As a result, patronage on MTR rose, which combined with cost controls contributed to higher operating margins and profitability.

Higher patronage

A key challenge in 2002 was to maintain ridership and revenues. We achieved this through continuous service improvements and fare incentives designed to retain existing passengers and attract new ones.

The opening of the Tseung Kwan O Line in August boosted ridership in 2002, with the MTR Lines recording total passenger volume of 777 million, against 758 million in 2001. This represents 23.5% of the total franchised public transport market, the same as for 2001. The Company increased its share of cross-harbour traffic to 58.2%. Fare revenues from operations rose marginally to HK\$5,167 million from HK\$5,164 million.

On the Airport Express Line (AEL), the discontinuation of fare discounts led to lower passenger volume, which fell 6.3% to 8.5 million, representing 25% of the total market. The average fare, however, rose from HK\$62.50 in 2001

to HK\$65.43 in 2002. Fare revenues were recorded at HK\$553 million, a small decrease of 2.0% from 2001.

A core strategy was to promote better linkage between MTR and other transport services. The trial inter-modal fare discount scheme, which gives feeder bus passengers discounted bus fares, was extended to Tung Chung, Discovery Bay, Tseung Kwan O and Kwun Tong. We installed dedicated bus stops in Western District for all potential MTR feeder bus routes and Citybus reorganised routes accordingly. To coincide with the opening of the Tseung Kwan O Line, feeder buses were introduced on several bus and minibus routes. A discount was offered to passengers using the new stations during the first two weeks.

To provide greater incentive to passengers with longer walks to MTR stations, "Fare Saver" machines were installed in five shopping arcades, offering fare discounts via Octopus Cards. Other fare promotion schemes included shareholder discounts on AEL, while new ticket types were introduced on AEL for groups, children, students, seniors and tourists.

In October, MTR inaugurated a morning express service from Tsing Yi to Central on the Airport Express Line, using the highly comfortable Airport Express trains.

High reliability

The opening of the Tseung Kwan O Line four months ahead of the original schedule was a major achievement. Despite initial teething problems, the service has received much praise and brings an additional 150,000 plus passengers daily into the MTR system.

Overall, the Company maintained its very high standards of safety, reliability, comfort, and customer satisfaction in 2002, surpassing the levels required by the Government's Operating Agreement and the MTR's more stringent Customer Service Pledges. Of particular note, MTR's safety performance has been on an uptrend for three consecutive years since 1999.

The reliability of fare collection equipment and tickets increased, while that of other equipment remained high. This contributed to high levels of customer satisfaction. In 2002, the Service Quality Index for the MTR and AEL stood at 68 and 82 respectively on a 100-point scale. MTR also performed well according to the 10-member Community of Metros (CoMET) report.

Enhanced service

MTR devotes considerable effort to improving its infrastructure and services to maintain high levels of customer satisfaction, reliability, patronage and operating efficiency.

In 2002, commissioning of a new Station Management System was completed in twelve stations. The system integrates different station control equipment and systems, simplifying the operational process, enhancing efficiency and reducing the likelihood of human errors.

The extensive station improvement project, designed to create a brighter, more modern appearance, saw new entrances added at two stations and additional escalators and lifts at four stations. Installation of platform screen doors continues and was completed at five stations. Throughout this process, MTR achieved timely completion without affecting train service reliability.

The signalling system was improved through a new system that gives flexibility to operations staff to control train service whilst assuring the highest safety levels. We also installed new trackside signalling for the Tseung Kwan O Line. Improvements were made to track reliability and ride, as well as train energy efficiency and noise emission.

Electronic display boards were installed in all stations, displaying important safety and train service information as well as other information such as weather conditions, the air pollution index and advertisements. Additions were also made to the Company's Art in Stations initiative, making journeys more enjoyable for a wider range of passengers.

Increased productivity

MTR continued to make gains in productivity, supported by a hiring freeze and its multi-skilled workforce. Maintenance services for the Tseung Kwan O Line were successfully outsourced. We also completed implementation of the "total operation" approach to station and depot management, which has trimmed costs without compromising safety or service quality. Energy conservation initiatives included lighting rewiring at our headquarters and traction energy savings through Automatic Train Regulation and timetable improvement. Standardising station furniture design has lowered installation and maintenance costs.

other businesses

Many of our non-fare businesses performed well in 2002 despite the difficult environment.

Strong results from Octopus Cards

Octopus Cards Limited went from strength to strength, with cards in circulation and service providers increasing, and total daily transaction value reaching HK\$50 million. Minibuses accepting Octopus nearly doubled to 2,300, while car parks increased from 33 to 85, and the scheme was introduced on cross border shuttle services. Large retail chains which fully launched Octopus included Park'n Shop, Watson's, Circle K and Café de Coral. Octopus applications on campus were enriched by the introduction of mobile phone messages to parents. Moreover, property access control via Octopus expanded to the commercial sector and more residential properties were added, including Mainland China.

The profit contribution from Octopus Cards Limited rose to HK\$39 million in 2002, 34.5% higher than 2001.

New advertising opportunities

During 2002, two new journals for MTR patrons provided additional scope for advertising. The 265,000 daily circulation *Metro* newspaper reaches 550,000 readers. *Recruit* magazine was replaced by *Jiu Jik*, with 180,000 copies twice weekly. Enlarged concourse poster panels and improved trackside advertising panel lighting added to the network's attraction.

Affected by the weak economy, advertising revenues fell by 6.8% to HK\$399 million.

Looking to fixed line in telecoms

Revenues from mobile telecommunications increased and we began to explore areas such as 3G and wireless LAN. Wholly-owned subsidiary TraxComm Limited was established, to exploit liberalisation of the fixed network telecommunication market, targeting new operators and service providers.

Telecommunications revenue rose 7.5% to HK\$186 million.

Higher station commercial revenues

By year end, 17,405 square metres of station floor area were allocated for commercial facilities, 2,281 square metres more than in 2001. A major achievement was the on-time opening of all retail units along the Tseung Kwan O Line. In addition, we completed renovation of Central and Kowloon Bay stations and added trades, including take-away food and beverages. Throughout this work we minimised the impact on patrons.

A marginal decline in average rents was more than offset by volume increases, and income from station commercial properties rose 7.7% to HK\$238 million.

Impressive growth in consulting

During 2002, we secured consultancy contracts in Shanghai, Tianjin, Nanjing and Shenzhen in Mainland China as well as Taipei and Kaohsiung in Taiwan. We also established four overseas offices and secured a further three-year plus three-year option operation and maintenance contract for the Automated People Mover system at Hong Kong International Airport, extending our involvement until 2008.

Revenues from consultancy rose 96.9% in 2002 to HK\$63 million.

property review

The development of properties linked to the MTR network has played an important role in creating new living and working communities in Hong Kong. The property market remained weak in 2002 and MTR's improved results reflect the strength of this approach. We work in joint venture with experienced developers and combine excellent locations with a high quality of design, finish and management.

Strong property development gains

Securing the commitment of developers at projects along the Tseung Kwan O Line and the launch of major residential projects along the Airport Railway, together with continued construction progress, resulted in a 15.6% increase in property development profit over 2001 to HK\$3,755 million.

Three residential projects totalling 4,025 flats were launched along the Airport Railway to a positive market response: Phase 1 of Coastal Skyline and Seaview Crescent at Tung Chung Station and Phase 2 of Sorrento at Kowloon Station. Other Airport Railway development sales included Phase 1 of Sorrento at Kowloon Station, Island Harbourview, Central Park and Park Avenue at Olympic Station, and Tung Chung Crescent and Phase 1 of Caribbean Coast at Tung Chung Station. Construction at Kowloon and Tung Chung stations progressed according to plan, with 6,382 flats obtaining occupation permits. In response to changing market conditions and forecasts, adjustments were made to several schemes, to improve marketability and add value.

Construction progressed on the 88-storey Two International Finance Centre (Two IFC) at Hong Kong Station and by year-end, the curtain wall reached the 69th floor. Completion is scheduled for mid-2003 and marketing began for the MTR's 18 floors, located on levels 33 to 52, branded "Central 18 Zone at Two IFC". We have entered into initial discussions with several potentially large tenants. We also prepared the pre-lease marketing for the new retail centre at Union Square, MTR's fifth shopping centre.

Along the Tseung Kwan O Line, property development rights were awarded for three new residential projects: Area 55b in Tseung Kwan O Station to a consortium led by New World Development Company Limited; the Hang Hau Station development to a consortium of Sino Land Company Limited and Kerry Properties Limited; and the Tiu Keng Leng Station development to Cheung Kong (Holdings) Limited.

In May, the Agreement for Lease was signed for Area 86 in Tseung Kwan O, an extensive development that will contain some 21,500 flats in a garden environment to become Hong Kong's first-ever "green city".

The Town Planning Board approved a further 1,132 square metres gross of residential space at the Choi Hung Park and Ride Development, in addition to the 2,122 square metres gross of bonus floor area previously approved.

100% occupancy at investment properties

Our shopping centres performed well, despite the economic pressure on retailers and landlords. Rentals and retail sales recorded strong growth, resulting in a 9.8% increase in rental income to HK\$897 million.

We maintained a 100% occupancy rate at Telford Plaza, Maritime Square, Paradise Mall and Luk Yeung Galleria. This results from our close partnerships with retailers, who we support through strategic promotional campaigns.

Our "Total Quality Service Regime" programme was well received by tenants, who recognised its relevance in today's competitive conditions. It aimed to raise awareness of the importance of service quality, increase competitiveness through implementing industry-leading service standards and establish benchmarks to promote better tenant selection and management.

Expanded property management and agency portfolio

Income from property management rose 16.4% to HK\$85 million, the result of managers' remuneration income from newly completed Airport Railway properties and income from other property management services.

Our property management-related business continued to expand and diversify, bringing into its portfolio a total of 2,461 residential flats at the Olympic Station's Central Park development and Seaview Crescent in Tung Chung Station, thereby increasing residential units managed to 42,074 from 39,613, in addition to 370,022 square metres of retail space.

The Octopus Card Building Access Control system was adopted in commercial car parks at three MTR shopping malls and at One International Finance Centre, as well as all Airport Railway residential developments. This system now extends to properties not managed by MTR.

MTR Property Agency Company Limited, our one-stop service to residents of the developments we manage, added HK\$5 million in revenue.

Breaking into overseas markets

We took our first successful steps in capitalising on our property skills outside Hong Kong.

In Shenzhen, we signed contracts to manage the East Pacific Garden Clubhouse and the King's Lodge residential development. We also provided pre-leasing and pre-management advisory services to East Pacific (Holdings) Limited, the developer of East Pacific Garden, and pre-management advisory services to Beijing Century Sun Real Estate Development Company for its Palm Springs International Apartments in Beijing.

In Singapore, we won our first property development consultancy contract. MTR was selected by the Land Transport Authority to provide consultancy services for the packaging and marketing of a site above a proposed Singapore Mass Rail Transit station.

future projects

The MTR's vast rail expertise is being applied to rail extensions, associated property developments and other projects. For every project, MTR conducts detailed evaluations of viability and cost, in partnership with contractors. The Tseung Kwan O Line, which opened in August 2002 four months ahead of schedule and HK\$14.5 billion below original budget, powerfully demonstrates the effectiveness of our project management style.

Work begun on Penny's Bay Rail Link

In July, the Company signed the project agreement with the Government for the 3.5-kilometre Penny's Bay Rail Link to the Hong Kong Disney Theme Park. The HK\$2.0 billion project involves a new station at Yam O in North East Lantau, as an interchange with the Tung Chung Line. We target completion by July 2005, comfortably ahead of the theme park opening.

Foundation work for Yam O Station is underway, together with preparatory work for the Tai Yam Teng tunnel connection, and all major engineering contracts have been awarded, including those for Disneyland Station. To save costs, we will convert some existing MTR trains for the rolling stock.

Preparing for the Tung Chung Cable Car

Also in July, the Provisional Project Agreement was signed with the Government for the Tung Chung Cable Car project. This HK\$750 million project will link Tung Chung with Ngong Ping, the nearby Big Buddha and Po Lin Monastery. Construction is planned to start in August 2003 and be completed by August 2005. MTR has signed a memorandum of understanding for the operating and maintenance contract, and has tendered or awarded all other major consultancies and contracts.

Tung Chung Line ridership should be boosted by the facility, which is forecast to attract 1.25 million people in its first year. MTR will also derive revenue from the terminal complexes, with commercial areas totalling 16,000 gross square metres.

Planning for the Island Line Extensions

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, while deferring the North Island Link.

The West Island Line will extend the MTR network beyond Sheung Wan, by 2009 to Sai Ying Pun and Belcher Station, and later to Kennedy Town. From a proposed interchange at Belcher Station, the South Island Line envisages seven intermediate stations from Cyberport to Happy Valley before connecting with the Island Line at Wan Chai. The North Island Link would extend the Tung Chung Line from Hong Kong Station to connect with the Island Line at Fortress Hill.

Concepts for transit links

MTR has also been planning for less expensive, environmentally friendly above-ground light rail links that would extend MTR's services into less densely populated areas. In 2002, we submitted a concept to the Government for an Environmentally Friendly Transport System to serve the Kai Tak redevelopment area, connecting with Ngau Tau Kok Station on the Kwun Tong Line.

More pedestrianisation

Pedestrianisation of streets adjacent to MTR entrances and pedestrian links increase the attraction of MTR stations and support patronage. Over a dozen such schemes have been completed in co-operation with private developers, the Urban Renewal Authority, the Housing Authority and other bodies. In 2002, work began on pedestrian links at Mong Kok and Kwun Tong stations, both to be completed in 2003, with three more projects planned for later in 2003.

human resources

MTR recognises the vital role played by its employees in contributing to its continuous success in operations and new business development, and in 2002 launched initiatives that contributed to higher productivity, enhanced performance orientation as well as leadership and staff development.

Enhancing productivity

Our consistent ability to enhance the value of our human assets was exemplified in the opening of the new Tseung Kwan O Line. A Corporate Staff Redeployment Programme was launched to redeploy employees voluntarily across disciplines and departments, resulting in higher productivity and promoting a multi-skilled workforce. The staffing requirement of the new line was met entirely via redeployment within a short time frame and in support of this, 45,000 trainee days were recorded for the year.

Productivity was further enhanced by implementation of phase two of our comprehensive Human Resource Management System, which covers all employees, contains interactive features and provides timely employee

information to managers and staff. The performance-oriented culture at MTR was reinforced by the introduction of a more rigorous performance-based pay review mechanism for general staff.

Leadership development

To groom talent for future leadership needs, a Manager Accelerated Development Programme was launched. This broadens managers' experience and exposure through specially designed training modules and action learning projects.

Leveraging human resources expertise

With a broad base of expertise in railway related training, MTR's human resource and training departments support the Company's external consulting role through provision of its professional railway operations training packages and strategic human resource management services.

financial review

Financing achievements

Groundbreaking retail bond

2002 saw continuing strong liquidity in the Hong Kong dollar debt market and the rapid development of its retail bond market. We took advantage of this to become the first Hong Kong listed company to launch a retail bond in May, attracting record subscriptions of more than HK\$5.6 billion from over 18,000 applicants. The issue size was increased from HK\$1.0 billion to HK\$3.5 billion. At year-end, MTR had undrawn committed banking facilities totalling HK\$6 billion, sufficient to cover its forward funding requirements until early 2004.

Lower borrowing costs

Lower interest rates and MTR's ability to secure cost effective funding helped reduce the Group's average borrowing cost from 6.6% in 2001 to 5.4%, resulting in a HK\$157 million reduction in gross interest expense. Interest expense charged to the profit and loss account, however, increased from HK\$874 million to HK\$1,125 million in 2002 as, following the opening of the Tseung Kwan O Line, related borrowing costs were no longer capitalised to the project.

Sound risk management

The Company continued to manage its financing activities and debt portfolio on a prudent basis in accordance with its well-established Preferred Financing Model, resulting in a well-diversified debt portfolio being maintained throughout the year in terms of maturities, type of instruments, as well as currency and interest rate risks, with adequate forward coverage.

Strong credit ratings

As the first Hong Kong corporate borrower to obtain international credit ratings, MTR maintained strong credit ratings on par with the Hong Kong SAR Government throughout 2002. Our short-term and long-term domestic/foreign currency ratings were reaffirmed by Moody's at P-1 and Aa3/A3, and by R&I at a-1+ (local currency) and AA/AA-. Standard & Poor's also reaffirmed our long-term domestic/foreign currency ratings at AA-/A+ and short-term domestic/foreign currency ratings at A-1+/A-1.

Funding capacity for new projects

In July 2002, we were awarded the Penny's Bay Rail Link and the Tung Chung Cable Car projects, with estimated project costs of respectively HK\$2 billion and HK\$750 million. Taking into account these two projects and other capital works, we anticipate a modest capital expenditure programme between 2003 and 2005 estimated at HK\$7.2 billion, and this should leave MTR with sufficient financing capacity to capture future project and investment opportunities.

Review of financial results

Profit and loss

Total patronage for the MTR Lines increased by 2.5% from 758 million in 2001 to 777 million in 2002. Average weekday patronage increased to 2.26 million, compared to 2.23 million. Our overall market share of the Hong Kong public transport stayed at 23.5%, with cross-harbour share increasing from 57.4% to 58.2%.

Total fare revenue for the MTR Lines was HK\$5,167 million, slightly higher than in 2001. The average fare decreased from HK\$6.81 in 2001 to HK\$6.65, as a result of promotions.

Airport Express Line (AEL) average daily patronage declined by 9.0% to 23,200 due to the removal of fare discounts and severe competition. Market share of airport passengers fell from 27% to 25%. Total AEL revenue dropped 2.0% to HK\$553 million, the average fare increasing from HK\$62.5 to HK\$65.4.

Non-fare revenues increased by 5.5% to HK\$1,966 million, comprising HK\$987 million from property rental and management and HK\$979 million from station commercial and other revenues.

Operating expenses before depreciation increased by 3.8% to HK\$3,672 million due to write-offs of project study and deferred expenditures of HK\$218 million in respect of the Shatin-Central Link and North Island Link, partly offset by a HK\$68 million reduction in staff cost. Had the write-offs been excluded, the operating expenses before depreciation would have been decreased by 2.0% compared with 2001 despite opening of the Tseung Kwan O Line.

Operating profit from railway and related operations before depreciation was HK\$4,014 million, a decrease of 1.0% and representing a 52.2% margin compared with 53.4% (as restated) in 2001.

Profit on property developments was higher at HK\$3,755 million, mainly from Airport Railway developments.

Operating profit before depreciation increased by 6.4% to HK\$7,769 million. Depreciation and amortisation charges increased by 13.4% to HK\$2,470 million following capitalisation of the Tseung Kwan O Extension project costs, and operating profit after depreciation increased by 3.4% to HK\$5,299 million.

Net interest expense increased from HK\$874 million to HK\$1,125 million, as Tseung Kwan O Line interest expenses being charged to the profit and loss account after its opening. Interest cover increased to 4.5 times from 3.8 times last year, however.

Net profit for the year decreased by 1.5% to HK\$4,212 million and earnings per share were HK\$0.83.

Balance sheet

Total fixed assets increased from HK\$79,243 million in 2001 to HK\$94,270 million as a result of capitalisation of the Tseung Kwan O Line assets.

Railway construction in progress reduced by 99.2% to HK\$109 million, following transfer of Tseung Kwan O Extension project construction costs to fixed assets.

Property development in progress amounted to HK\$2,870 million, a reduction of 14.6%, mainly due to the offset of property development costs against upfront payments received from property developers.

Cash and cash equivalents stood at HK\$1,718 million compared to HK\$215 million, mainly due to proceeds from property sales and upfront payments received from developers in the last quarter of 2002.

Total loans outstanding amounted to HK\$33,508 million, an increase of HK\$2,123 million, mainly to finance the Tseung Kwan O Extension and ongoing capital works.

Deferred income decreased from HK\$8,411 million to HK\$6,226 million, as amounts were recognised as profit from developments according to construction progress and pre-sale programmes.

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

Total shareholders' funds stood at HK\$56,827 million, an increase of HK\$2,934 million, mainly attributable to retained profits. The gross debt-to-equity ratio increased marginally to 59.0%, in line with our financial plan. However, the net debt-to-equity ratio decreased to 55.9%.

Cash flow

Net cash inflow from operations increased slightly to HK\$4,228 million on 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 dividend payments, amounted to HK\$7,347 million. The resulting cash shortfall was satisfied mainly by net loan drawdown and receipts from property developers.

* Note: Comparisons refer to the 2001 financial year. Balance sheet figures refer to 31 December year end.

Ten-year statistics

	2002*	2001*	2000*	1999	1998	1997	1996	1995	1994	1993
Financial										
Profit and loss account										
<i>in HK\$ million</i>										
Turnover	7,686	7,592	7,577	7,252	6,981	6,574	6,253	5,737	5,188	4,573
Operating profit before depreciation	7,769	7,301	7,290	5,523	4,720	3,805	3,342	3,143	2,901	2,557
Depreciation	2,470	2,178	2,091	2,039	1,426	927	850	658	594	571
Interest and finance charges	1,125	874	1,143	1,104	475	95	957	1,289	1,269	1,251
Profit	4,212	4,278	4,069	2,116	2,819	2,783	1,535	1,196	1,038	735
Dividend proposed and declared	2,161	2,118	500	–	–	1,252	647	–	–	–
Earnings per share <i>in HK\$</i>	0.83	0.85	0.81	0.42	–	–	–	–	–	–
Balance sheet										
<i>in HK\$ million</i>										
Total assets	101,120	98,126	92,565	87,250	82,104	75,428	64,644	45,356	35,487	31,686
Loans, obligations under finance leases and bank overdrafts	33,508	31,385	27,203	23,177	16,897	10,875	12,696	14,736	18,121	18,591
Deferred income	6,226	8,411	10,403	13,776	15,970	16,705	9,094	1,056	–	–
Shareholders' funds	56,827	53,893	50,355	45,115	42,601	41,815	35,473	25,261	12,363	11,258
Financial ratios										
<i>in percentage</i>										
Operating margin	52.2	53.4	51.7	48.2	47.3	53.7	53.4	54.8	55.8	55.9
Non-fare revenue as a percentage of turnover	25.6	24.6	24.6	22.2	22.1	21.0	18.8	17.8	16.8	16.4
Gross debt-to-equity ratio	59.0	58.2	54.0	51.4	39.7	26.0	35.8	58.3	146.6	165.1
Gross debt-to-equity ratio (excluding revaluation reserves)	66.5	66.4	62.2	58.5	45.0	31.3	43.8	73.4	251.9	302.0
Interest cover <i>in times</i>	4.5	3.8	3.8	3.7	5.1	15.7	4.0	2.9	2.1	2.0
Employees										
Corporate management and service departments	886	930	966	1,031	1,317	1,104	1,069	1,075	1,042	996
Operations	4,836	4,756	4,943	5,132	5,890	4,575	4,499	4,490	4,345	4,237
Engineering and project	551	978	904	918	1,111	2,380	1,871	1,444	729	515
Property development and management	618	567	519	456	468	427	405	388	366	359
Total	6,891	7,231	7,332	7,537	8,786	8,486	7,844	7,397	6,482	6,107

	2002*	2001*	2000*	1999	1998	1997	1996	1995	1994	1993
Railway operations										
Revenue car km operated										
<i>in thousands</i>										
MTR Lines	103,318	96,751	92,199	94,704	94,260	84,258	83,769	82,472	80,012	77,437
Airport Express Line	19,467	19,458	19,557	19,394	9,011	–	–	–	–	–
Total number of passengers										
<i>in thousands</i>										
MTR Lines	777,210	758,421	767,416	779,309	793,602	811,897	816,572	812,519	804,062	778,509
Airport Express Line	8,457	9,022	10,349	10,396	3,928	–	–	–	–	–
Average number of passengers										
<i>in thousands</i>										
MTR Lines – weekday average	2,261	2,231	2,240	2,284	2,326	2,382	2,379	2,377	2,335	2,258
Airport Express Line – daily average	23	25	28	29	22	–	–	–	–	–
Average passenger km travelled										
MTR Lines	7.6	7.4	7.3	7.4	7.4	7.4	7.5	7.5	7.5	7.5
Airport Express Line	29.9	29.8	29.7	29.9	31.2	–	–	–	–	–
Average car occupancy										
MTR Lines	57	58	61	61	62	71	73	74	76	75
Airport Express Line	13	14	16	16	14	–	–	–	–	–
Proportion of franchised public transport boardings										
<i>in percentage</i>										
All movements	23.5	23.5	24.1	25.2	25.7	25.9	26.7	27.4	27.8	27.8
Cross-harbour movement	58.2	57.4	57.9	60.3	61.9	64.2	66.5	67.6	67.1	65.6
Proportion of transport boardings										
<i>in percentage</i>										
To/from the Airport	25	27	28	32	25	–	–	–	–	–
HK\$ per car km operated (all services)										
Fare revenue	46.6	49.3	51.1	49.4	52.7	61.6	60.6	57.2	53.9	49.4
Railway operating costs	22.8	24.6	26.8	27.3	29.2	29.5	29.1	26.0	23.9	24.4
Railway operating profit	23.8	24.7	24.3	22.1	23.5	32.1	31.5	31.2	30.0	25.0
HK\$ per passenger carried (all services)										
Fare revenue	7.28	7.46	7.35	7.14	6.82	6.39	6.22	5.80	5.37	4.91
Railway operating costs	3.57	3.72	3.85	3.94	3.78	3.06	2.99	2.64	2.38	2.43
Railway operating profit	3.71	3.74	3.50	3.20	3.04	3.33	3.23	3.16	2.99	2.48
Safety performance										
Number of incidents	690	686	748	859	842	814	869	716	794	766
Incidents per million passengers carried	0.88	0.89	0.96	1.09	1.05	1.00	1.06	0.88	0.99	0.98
Number of staff and contractors' staff accidents	24	39	36	49	65	54	40	42	61	52

* Consolidated results

Board and Executive Directorate

Members of the Board

Jack So Chak-kwong 57, was appointed Chairman and Chief Executive in 1995. Mr. So began his career with the Hong Kong Government. He joined the private sector in 1978, serving in various posts in securities, finance and properties. Mr. So also served as Executive Director of the Hong Kong Trade Development Council from 1985 to 1992. He is also a Director of Cathay Pacific Airways Limited, CNOOC Limited and The Hongkong and Shanghai Banking Corporation Limited.

Professor Cheung Yau-kai 68, was appointed to the Board on 1 March 1999. Professor Cheung is Honorary Professor of Engineering and Special Adviser to Vice-Chancellor of The University of Hong Kong.

Dr. Raymond Ch'ien Kuo-fung 51, was appointed to the Board in July 1998. Dr. Ch'ien is Executive Chairman of chinadotcom corporation and Chairman of the Hong Kong/Japan Business Cooperation Committee. He is also a non-executive Director of HSBC Holdings plc.

David Gordon Eldon 57, joined the Board on 1 May 1999. He is the Chairman of The Hongkong and Shanghai Banking Corporation Limited and a Director of HSBC Holdings plc.

Edward Ho Sing-tin 64, has been a Board Member since 1991. He is an architect and is Deputy Chairman and Managing Director of Wong Tung & Partners Limited.

Members of the Executive Directorate

Jack So Chak-kwong Brief biographical details are set out above.

Russell John Black 56, is a civil engineer. He initially worked for the Company from 1976 to 1984 and, prior to rejoining the Company in 1992 as Project Director, he was Project Director on the London Underground Jubilee Line Extension.

William Chan Fu-keung 54, joined the Company as Human Resources Manager in 1989. He joined the Executive Directorate in 1996 as Divisional Manager, Human Resources & Administration and became Human Resources Director in August 1998.

Philip Gaffney 55, was appointed Operations Director in July 1998. He joined the Company in 1977 and was previously Deputy Director, Operations Engineering. Mr. Gaffney is a railway signalling engineer.

Lo Chung-hing 51, joined the Board in 1995. Mr. Lo is currently General Manager of Bank of China (Hong Kong) Ltd, after the restructuring of the Bank of China Group in October 2001.

T Brian Stevenson 58, was appointed to the Board on 1 October 2002. Previously Chairman of Ernst & Young (Hong Kong & China), he is a non-executive Director of The Hongkong and Shanghai Banking Corporation Limited, the Securities and Futures Commission and the Ocean Park Corporation.

Commissioner for Transport (Robert Charles Law Footman 50, joined the Board in June 2000. He is the Commissioner for Transport of the Government of the Hong Kong SAR. Mr. Footman had previously served as Postmaster General, Head of the Efficiency Unit and Deputy Director-General of Trade of the Hong Kong Government.)

Secretary for the Environment, Transport and Works

(Dr. Sarah Liao Sau-tung 51, joined the Board in August 2002 after her appointment as the Secretary for the Environment, Transport and Works of the Government of the Hong Kong SAR on 1 July 2002.)

Frederick Ma Si-hang 51, became a Board Member on 1 July 2002 upon his appointment as Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR.

Thomas Ho Hang-kwong 52, has served as Property Director since joining the Company in 1991. Between 1971 and 1990, he worked for the Hong Kong Government specialising in land administration. Mr. Ho is a chartered surveyor.

Lincoln Leong Kwok-kuen 42, is a Chartered Accountant and graduated from Cambridge University. Prior to joining the Company as Finance Director in February 2002, he worked in both the accountancy and investment banking industries.

Leonard Bryan Turk 53, is a solicitor admitted to practice both in England and Wales and in Hong Kong. He joined the Company in 1981 and has been Legal Director and Secretary to the Board since 1988.

Report of the Members of the Board

The members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2002.

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

- A** the operation of a mass transit railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line) and from Hong Kong to the Hong Kong International Airport at Chek Lap Kok (Airport Express Line);
- B** property development at locations relating to the railway system including the Tseung Kwan O Extension;
- C** related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway system, property management and leasing management of investment properties, property agency and Octopus Card Building Access System services;
- D** the construction of the Tseung Kwan O Extension;
- E** the design and construction of the Penny's Bay Rail Link;
- F** the design, construction and operation of the Tung Chung Cable Car Project and related tourist development;
- G** the planning and construction of future extensions to the railway system and other related infrastructure projects;
- H** consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues; and
- I** the operation of a smart card system by Octopus Cards Limited, a subsidiary of the Company, for the collection of payments for both transport and non-transport applications.

Dividend

The Directors have recommended a final dividend of HK\$0.28 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 2 April 2003. Subject to the passing of the necessary resolution at the forthcoming Annual General Meeting, such dividend will be payable on or about 12 June 2003, in cash in Hong Kong dollars, with a scrip dividend alternative.

Members of the Board

Members of the Board who served during the year were Jack So Chak-kwong (Chairman and Chief Executive), Cheung Yau-kai, Raymond Ch'ien Kuo-fung, David Gordon Eldon, David Wylie Gairns (resigned on 31 August 2002), T Brian Stevenson (appointed on 1 October 2002), Edward Ho Sing-tin, Lo Chung-hing, the Commissioner for Transport (Robert Charles Law Footman), the Secretary for Transport (Nicholas Ng Wing-fui until retirement on 2 April 2002) and Denise Yue Chung-ye. Following the reorganisation within the Government and with effect from 1 July 2002, the Secretary for Transport (acting by Paul Tang Kwok-wai) and Denise Yue Chung-ye were replaced by the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) and Frederick Ma Si-hang respectively.

The Chairman informed the Board on 12 February 2003 that he would not seek to renew his contract as Chairman and Chief Executive of the Company when his current contract expires in September 2003.

Raymond Ch'ien Kuo-fung and Lo Chung-hing retired by rotation at the Annual General Meeting on 16 May 2002 and were re-elected as members of the Board.

Cheung Yau-kai, Edward Ho Sing-tin, T Brian Stevenson and Frederick Ma Si-hang will retire by rotation at the forthcoming Annual General Meeting (in accordance with the Company's Articles of Association) and offer themselves for re-election.

Brief biographical details for Board Members are set out on page 12.

Alternate Directors

The Alternate Directors in office during the year were (i) Martin Mckenzie Glass (for Denise Yue Chung-ye), (ii) the Deputy Secretary for Transport (for the Secretary for Transport), (iii) Martin Mckenzie Glass and Alan Lai-nin (both for Frederick Ma Si-hang with effect from 24 July 2002), (iv) both the Permanent Secretary for the Environment, Transport & Works (Rita Lau Ng Wai-lan) with effect from 8 August 2002 and the Deputy Secretary for the Environment, Transport & Works (Paul Tang Kwok-wai, Arthur Ho Kin-wah and Margaret Fong Shun-man) on 1 July 2002 (for the Secretary for the Environment, Transport & Works), and (v) Dorothy Chan [replaced by the Deputy Commissioner for Transport/Transport Services and Management (Judy Li Wu Wai-lok) on 30 September 2002] (for the Commissioner for Transport).

Martin Mckenzie Glass and the Deputy Secretary for Transport ceased to be Alternate Directors to Denise Yue Chung-ye and the Secretary for Transport respectively following their cessation as Members of the Board.

Executive Directorate

The members of the Executive Directorate who served during the year were Jack So Chak-kwong (Chairman and Chief Executive), a member of the Board of Directors, and Russell John Black, William Chan Fu-keung, Philip Gaffney, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen and Leonard Bryan Turk.

Lincoln Leong Kwok-kuen was appointed as the new Finance Director on 1 February 2002 following the resignation of Clement Kwok King-man who resigned as Finance Director on 31 January 2002.

Brief biographical details for members of the Executive Directorate during the year are set out on page 12.

Corporate Governance

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices.

The overall management of the Company's business is vested in the Board of Directors. Pursuant to the Company's Articles of Association and the Protocol adopted by the Board of Directors, the Board of Directors has delegated the day-to-day management of the Company's business to the Executive Directorate, and focuses its attention on matters affecting the Company's finances and shareholders.

The Company takes care to ensure the Board is in a position to exercise its powers in an informed manner. The Board of Directors meets regularly and members of the Board receive information between meetings about developments in the Company's business. All members of the Board of Directors have full and timely access to relevant information and may take independent professional advice if necessary. The Board of Directors held 14 meetings in 2002 and the average attendance rate was 82.06%.

As an integral part of good corporate governance the following committees have been established. All the members of those committees are non-executive Directors.

Audit Committee

The Audit Committee meets four times each year to review the completeness, accuracy and fairness of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control. Internal control systems have been designed to allow the Board of Directors to monitor the Company's overall financial position and to protect its assets. The purpose is to guard against material financial misstatement or loss. The Board of Directors is responsible for these systems and appropriate authorisations and guidelines are in place. The Audit Committee Chairman also prepares an annual report to the Board of Directors covering its activities for the year and highlighting issues which the Chairman deems significant.

The members of the Audit Committee are T Brian Stevenson (chairman), Cheung Yau-kai and the Commissioner for Transport (Robert Charles Law Footman), two of whom are independent non-executive Directors. There were four meetings of the Audit Committee in year 2002 and the average attendance rate was 91.7%. The external auditors, the Finance Director and the Head of Internal Audit Department attended to answer questions on the reports or their work.

Remuneration Committee

The Remuneration Committee meets regularly to consider human resources issues, including the terms and conditions of employment, remuneration and retirement benefits of the Chairman and Chief Executive and members of the Executive Directorate. The members of the Remuneration Committee are Raymond Ch'ien Kuo-fung (chairman), Edward Ho Sing-tin and Frederick Ma Si-hang, two of whom are independent non-executive Directors. There were three meetings of the Remuneration Committee in year 2002 and the attendance rate was 100%.

Nominations Committee

The Nominations Committee carries out the process of recommending and nominating candidates to fill vacancies on the Board of Directors. A person may be appointed as a member of the Board of Directors at any time either by the shareholders in general meeting or by the Board of Directors upon the recommendation of the Nominations Committee. Directors who are appointed by the Board of Directors must retire at the first annual general meeting after their appointment. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or such number as is nearest to and less than one third) are required to retire from office by rotation (excluding the Directors appointed by the Chief Executive of the Hong Kong SAR under the Mass Transit Railway Ordinance).

The members of the Nominations Committee are David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung), two of whom are independent non-executive Directors. There was only one meeting of the Nominations Committee in year 2002 and the attendance rate was 66.67% (due to the absence of a Director who was away from Hong Kong).

Code of Best Practice

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association.

U.S. Sarbanes-Oxley Act 2002

This legislation which seeks to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting, was signed into law by the President of the United States on 30 July 2002.

As the Company is a U.S. Securities and Exchange Commission reporting company, it is generally bound by this new legislation.

The Company is in the process of reviewing the existing internal systems and practices and taking other steps to comply with the relevant provisions.

Internal Audit

The Company's Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the Department include:

- Assessments on the adequacy and effectiveness of the Company's system of internal control for controlling its activities and managing its risks.
- Identification of opportunities for improving management control, resources utilisation and profitability.
- Special reviews and/or investigations as commissioned by Company management.

The Company's Internal Auditor reports directly to the Chairman and has direct access to the Audit Committee.

Ethical Culture

The Company is committed to high standard of business ethics and integrity.

Following the publication of the MTR's Code of Conduct in 2002, the Company has carried out an extensive training and communication campaign to ensure all levels of staff understand the content of the Code and the philosophy behind an ethical working culture. All employees were issued a personal copy of the Code of Conduct and in addition, each manager was issued a Corporate Guidebook for Managers containing illustrative examples for better communication with employees.

To promote similar practices with contractors and make the Code available for interested shareholders, customers and other interested parties, the Company has placed the Code of Conduct on the MTR website for public access.

Policies

The Board has adopted risk strategies on the following matters:

- A** Construction and insurance;
- B** Finance;
- C** Treasury risk management;
- D** Safety risk management;
- E** Security management;
- F** Environmental management.

No changes to such policies may be made without the approval of the Board of Directors.

Summary Financial Statements

The state of affairs of the Group as at 31 December 2002 and of its results for the year are set out in the summary financial statements on pages 18 to 23.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 10 to 11.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in Note 4 to the summary financial statements.

Movements in Reserves

Movements in reserves during the year are set out in Note 6 to the summary financial statements.

Share Capital

As at 31 December 2001, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,055,229,742 of which were issued and credited as fully paid. During the year, the Company issued a total of 103,518,913 Ordinary Shares. Of this number:

- A** 4,362,000 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercising share option holder paid HK\$8.44 to the Company;
- B** 63,322,970 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2001 (for which the cash dividend was HK\$0.28 per Ordinary Share); and
- C** 35,833,943 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2002 (for which the cash dividend was HK\$0.14 per Ordinary Share).

As at 31 December 2002, the authorised share capital of the Company was HK\$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,158,748,655 of which were issued and credited as fully paid.

Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2002.

Donations

During the year, a total of HK\$273,650 was donated, of which HK\$245,650 went to the Community Chest of Hong Kong.

To demonstrate our commitment to supporting charitable causes and promoting 'Green' initiatives, the Company provided 30,000 free tickets for the Community Chest Green Day in 2002.

Internal Control

The Board of Directors is responsible for ensuring that there is in place a satisfactory system of internal control. The main objectives are to ensure adherence to management policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information.

A function of the Audit Committee is to review the effectiveness of the system of internal control from information provided by the Executive Directorate and management of the Company and by the auditors.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board of Directors. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board of Directors and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile according to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions including credit risk management framework are approved at the Board level.

Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditure over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

Bonds and Notes Issued

The Group issued retail bonds during the year ended 31 December 2002, details of which are set out in Note 5 to the summary financial statements.

Such bonds were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

Computer Processing

There are defined procedures and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support has been certified under ISO 9002.

Interests in Contracts of Members of the Board and the Executive Directorate

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a member of the Board or a member of the Executive Directorate had a material interest (whether direct or indirect), subsisted at the end of the year or at any time during the year.

Board Members' and Executive Directorate's Interests in Shares

At 31 December 2002, the interests of the members of the Board of Directors and the Executive Directorate in the equity securities of the Company as recorded in the register required to be kept under section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("SEHK") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:-

Ordinary Shares

Member of the Board of Directors or Executive Directorate	Number of Ordinary Shares		
	Personal interests	Family interests	Total interests
Jack So Chak-kwong	80,358	–	80,358
T Brian Stevenson	4,102	–	4,102
Russell John Black	47,187	–	47,187
William Chan Fu-keung	46,233	–	46,233
Philip Gaffney	46,358	588	46,946
Thomas Ho Hang-kwong	48,226	2,358	50,584
Leonard Bryan Turk	46,554	2,329	48,883

Bond

Member of the Executive Directorate	Personal interests
William Chan Fu-keung	HK\$101,010 MTR 201 3.75 per cent. Notes due 2004
	HK\$50,740 MTR 301 4.50 per cent. Notes due 2005

Options to subscribe for Ordinary Shares granted under the Share Option Scheme, as referred to in Note 2B to the summary financial statements

Member of Board of Directors or Executive Directorate	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2002	Options vested during the year	Options lapsed during the year	Options exercised during the year	Price per share paid on exercise of options	Options outstanding as at 31 Dec 2002	Weighted average closing price of shares immediately before options were exercised
Jack So Chak-kwong	20/9/2000	1,599,000	5/4/01 – 11/9/10	1,599,000	533,000	–	–	–	1,599,000	–
Russell John Black	20/9/2000	1,066,000	5/4/01 – 11/9/10	1,045,000	355,500	–	23,000	\$8.44	1,022,000	\$9.20
William Chan Fu-keung	20/9/2000	1,066,000	5/4/01 – 11/9/10	1,045,000	355,500	–	23,000	\$8.44	1,022,000	\$9.15
Philip Gaffney	20/9/2000	1,066,000	5/4/01 – 11/9/10	1,045,000	355,500	–	23,000	\$8.44	1,022,000	\$9.15
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/01 – 11/9/10	1,044,000	355,500	–	23,000	\$8.44	1,021,000	\$9.05
Leonard Bryan Turk	20/9/2000	1,066,000	5/4/01 – 11/9/10	1,045,000	355,500	–	22,500	\$8.44	1,022,500	\$9.20
Other eligible employees	20/9/2000	40,343,000	5/4/01 – 11/9/10	36,324,500	12,341,000	2,104,500	4,165,000	\$8.44	30,055,000	\$10.36

Save as disclosed above:

A there were no interests held as at 31 December 2002 by any members of the Board of Directors or Executive Directorate of the Company in securities of the Company and its associated corporations (within the meaning of the SDI);

B during the year ended 31 December 2002, no member of the Board of Directors or Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them, as recorded in the register kept by the Company under section 29 of the SDI or otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies; and

C out of 1,066,000 options granted on 20 September 2000 to Clement Kwok King-man, Finance Director (resigned on 31 January 2002), 793,000 options remained outstanding as at 1 January 2002. During the year ended 31 December 2002, 82,500 options were exercised and 710,500 options lapsed. The weighted average closing price of shares immediately before those options were exercised was HK\$10.20 per share.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 10 per cent. or more of the nominal value of the share capital of the Company and the respective relevant numbers of shares in which it was interested as at 31 December 2002 as recorded in the register kept by the Company under Section 16 (1) of the SDI:

Name	No. of Ordinary Shares
Financial Secretary Incorporated (in trust on behalf of the Government)	3,928,221,249

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2002 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2002 was attributable to the Company's five largest customers combined by value.

Going Concern

The summary financial statements on pages 18 to 23 have been prepared on a going concern basis. The Board of Directors has reviewed the Company's budget for 2003, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

By order of the Board

Leonard Bryan Turk
Secretary to the Board
Hong Kong, 6 March 2003

Consolidated profit and loss account

for the year ended 31 December in HK\$ million	2002	2001 (Note 1)
Fare revenue		
– MTR Lines	5,167	5,164
– Airport Express Line	553	564
Station commercial and other revenue	979	973
Rental and management income	987	891
Turnover	7,686	7,592
Staff costs and related expenses	(1,579)	(1,647)
Energy and utilities	(502)	(501)
Operational rent and rates	(87)	(78)
Stores and spares consumed	(121)	(119)
Repairs and maintenance	(435)	(437)
Railway support services	(89)	(110)
Expenses relating to station commercial and other businesses	(185)	(197)
Property ownership and management expenses	(167)	(159)
General and administration expenses	(184)	(179)
Project study and deferred expenditures written off	(218)	(16)
Other expenses	(105)	(96)
Operating expenses before depreciation	(3,672)	(3,539)
Operating profit from railway and related operations before depreciation	4,014	4,053
Profit on property developments	3,755	3,248
Operating profit before depreciation	7,769	7,301
Depreciation	(2,470)	(2,178)
Operating profit before interest and finance charges	5,299	5,123
Interest and finance charges:		
Interest expense	(1,153)	(896)
Interest income	28	22
	(1,125)	(874)
Share of profit of non-controlled subsidiary	39	29
Profit before taxation	4,213	4,278
Taxation	(1)	–
Profit attributable to shareholders	4,212	4,278
Dividends		
Interim dividend declared and paid during the year	717	703
Final dividend proposed after the balance sheet date	1,444	1,415
	2,161	2,118
Earnings per share:		
– Basic	HK\$0.83	HK\$0.85
– Diluted	HK\$0.83	HK\$0.85

The notes on pages 20 to 23 form part of these summary financial statements.

Consolidated balance sheet

at 31 December in HK\$ million	2002	2001 (Note 1)
Assets		
Fixed assets		
– Investment properties	10,267	10,363
– Other property, plant and equipment	84,003	68,880
	94,270	79,243
Railway construction in progress	109	12,873
Property development in progress	2,870	3,361
Deferred expenditure	106	326
Interest in non-controlled subsidiary	88	49
Staff housing loans	84	127
Properties held for sale	794	689
Stores and spares	259	261
Debtors, deposits and payments in advance	727	830
Amounts due from the Government and other related parties	95	152
Cash and cash equivalents	1,718	215
	101,120	98,126
Liabilities		
Bank overdrafts	34	49
Short-term loans	–	394
Creditors, accrued charges and provisions	3,760	3,160
Contract retentions	496	798
Amounts due to the Government and other related parties	209	401
Loans and obligations under finance leases	33,474	30,942
Deferred liabilities	85	78
Deferred income	6,226	8,411
Taxation	1	–
	44,285	44,233
Minority interests	8	–
Net assets	56,827	53,893
Shareholders' funds		
Share capital, share premium and capital reserve	33,910	32,807
Other reserves	22,917	21,086
	56,827	53,893

Approved and authorised for issue by the Members of the Board on 6 March 2003

Jack So Chak-kwong

Raymond Ch'ien Kuo-fung

Lincoln Leong Kwok-kuen

The notes on pages 20 to 23 form part of these summary financial statements.

Notes to the summary financial statements

1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of the Company and all its subsidiaries (the "Group") for the year ended 31 December 2002.

The same accounting policies adopted in the 2001 annual accounts have been consistently applied except for adoption of the following new accounting pronouncements in 2002:

- Statement of Standard Accounting Practice ("SSAP") 34 "Employee Benefits";
- SSAP 35 "Accounting for Government Grants and Disclosure of Government Assistance";
- SSAP 1 (revised) "Presentation of Financial Statements"; and
- SSAP 15 (revised) "Cash Flow Statements".

2 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

The aggregate emoluments of the Members of the Board and the Executive Directorate of the Company disclosed pursuant to section 161 of the Hong Kong Companies Ordinance were as follows:

<i>in HK\$ million</i>	2002	2001
Fees	2	2
Salaries, allowances and benefits-in-kind	32	33
Retirement scheme contributions	4	4
	38	39

Included in salaries, allowances and benefits-in-kind are realised gains on exercise of share options amounting to HK\$0.2 million (2001: HK\$0.6 million) in respect of certain Members of the Executive Directorate. Details of the share options granted to the Executive Directorate are disclosed in note 2B. Allowances and benefits-in-kind also include housing, medical and education allowances.

Non-executive directors of the Company are not appointed for a specific term but are subject (save as those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association.

The gross emoluments of the Members of the Board and the Members of the Executive Directorate were within the following bands:

Emoluments	2002 Number	2001 Number
HK\$0 – HK\$250,000	13	9
HK\$500,001 – HK\$1,000,000	1	–
HK\$3,500,001 – HK\$4,000,000	1	–
HK\$4,500,001 – HK\$5,000,000	5	5
HK\$5,000,001 – HK\$5,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	1
	21	16

The information shown in the above table includes the five highest paid employees. The independent non-executive directors' emoluments are included in the first remuneration band.

B Share options

Under the Company's Pre-Global Offering Share Option Scheme ("Share Option Scheme"), Mr. Jack So Chak-kwong and each of the other Members of the Executive Directorate, except Mr. Lincoln Leong Kwok-kuen, were granted options on 20 September 2000 to acquire 1,599,000 and 1,066,000 shares respectively. Mr. Lincoln Leong Kwok-kuen joined the Company on 1 February 2002 and is not a beneficiary of the Share Option Scheme.

Under the vesting terms of the Share Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 40,000 shares in the case of the Chairman and at least 23,000 shares in the case of other Members of the Executive Directorate, and (ii) at all times after 26 October 2002, at least 80,000 shares in the case of the Chairman and at least 46,000 shares in the case of other Members of the Executive Directorate.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2002 are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

3 Segmental information

The results of major business activities are summarised below:

<i>in HK\$ million</i>	Turnover		Contribution to profits from operations	
	2002	2001	2002	2001
Railway operations	5,720	5,728	577	819
Station commercial and other businesses	979	973	688	679
Property ownership and management	987	891	819	730
Property developments	–	–	3,755	3,248
	7,686	7,592	5,839	5,476
Corporate expenses net of other income			(1,627)	(1,198)
Profit for the year			4,212	4,278

No geographical analysis is shown as substantially all the principal activities of the Company and its subsidiaries are carried out in Hong Kong.

4 Fixed assets and railway construction in progress

A Fixed assets

<i>in HK\$ million</i>	Investment properties	Leasehold land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2002	10,363	1,603	36,191	43,423	3,024	94,604
Additions	16	–	–	62	1,928	2,006
Disposals/Write-offs	–	–	(3)	(122)	(91)	(216)
Deficit on revaluation (Note 6)	(112)	(115)	–	–	–	(227)
Reclassification	–	–	(13)	13	–	–
Tseung Kwan O Extension Project commissioned (Note 4B)	–	150	8,374	7,279	–	15,803
Other assets commissioned	–	–	543	1,864	(2,407)	–
At 31 December 2002	10,267	1,638	45,092	52,519	2,454	111,970
At Cost	–	731	45,092	52,519	2,454	100,796
At 31 December 2002 Valuation	10,267	907	–	–	–	11,174
Aggregate depreciation						
At 1 January 2002	–	73	1,969	13,319	–	15,361
Charge for the year	–	34	357	2,079	–	2,470
Written back on disposal	–	–	(2)	(106)	–	(108)
Written back on revaluation (Note 6)	–	(23)	–	–	–	(23)
At 31 December 2002	–	84	2,324	15,292	–	17,700
Net book value at 31 December 2002	10,267	1,554	42,768	37,227	2,454	94,270
Net book value at 31 December 2001	10,363	1,530	34,222	30,104	3,024	79,243

4 Fixed assets and railway construction in progress (continued)

B Railway construction in progress

<i>in HK\$ million</i>	Balance at 1 Jan 2002	Transferred from deferred expenditure	Expenditure during the year	Capitalised on commissioning (Note 4A)	Balance at 31 Dec 2002
Tseung Kwan O Extension Project					
Construction costs	8,861	–	2,199	(11,060)	–
Consultancy fees	801	–	36	(837)	–
Staff costs and general expenses	1,742	–	312	(2,054)	–
Finance costs	1,429	–	423	(1,852)	–
	12,833	–	2,970	(15,803)	–
Tseung Kwan O Extension Further Capital Works Project					
	40	–	3	–	43
Penny's Bay Rail Link Project					
	–	68	217	–	285
Government grant received					(219)
					66
Total	12,873	68	3,190	(15,803)	109

5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2001 and 2002 comprise:

<i>in HK\$ million</i>	2002		2001	
	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	–	–	2,650	2,648
HK dollar retail bonds	3,500	3,553	–	–
HK dollar notes	–	–	2,350	2,347
	3,500	3,553	5,000	4,995

The net proceeds from the above issues were used for general working capital, refinancing or other corporate purposes.

None of the Group's issued debt securities was redeemed during the year ended 31 December 2002.

6 Reserves

<i>in HK\$ million</i>	Share premium	Capital reserve	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
2002						
Balance as at 1 January 2002 as previously reported	564	27,188	6,518	116	14,608	48,994
Prior period adjustments in respect of annual leave and passage expenses	–	–	–	–	(156)	(156)
	564	27,188	6,518	116	14,452	48,838
Prior period adjustments in respect of pension expenses	–	–	–	–	(45)	(45)
Balance as at 1 January 2002 as restated	564	27,188	6,518	116	14,407	48,793
Employee share options exercised	33	–	–	–	–	33
Shares issued under Scrip Dividend Schemes	966	–	–	–	–	966
Dividends paid	–	–	–	–	(2,132)	(2,132)
Deficits on revaluation	–	–	(112)	(92)	–	(204)
Profit for the year	–	–	–	–	4,212	4,212
Balance as at 31 December 2002	1,563	27,188	6,406	24	16,487	51,668
2001						
Balance as at 1 January 2001 as previously reported	–	27,188	6,501	139	11,527	45,355
Prior period adjustments in respect of annual leave and passage expenses	–	–	–	–	(150)	(150)
Balance as at 1 January 2001 as restated	–	27,188	6,501	139	11,377	45,205
Employee share options exercised	16	–	–	–	–	16
Shares issued under Scrip Dividend Schemes	548	–	–	–	–	548
Dividends paid	–	–	–	–	(1,203)	(1,203)
Surplus/(Deficit) on revaluations	–	–	17	(23)	–	(6)
Profit for the year (as restated)	–	–	–	–	4,278	4,278
Balance as at 31 December 2001	564	27,188	6,518	116	14,452	48,838

7 Other information

This summary financial statements is only a summary of information in the Group's 2002 Annual Accounts. It is not the Group's statutory financial statements and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2002 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2002 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed in the inside back cover of this Summary Report.

Auditors' statement on the summary financial report

To the shareholders of MTR Corporation Limited
(Incorporated in Hong Kong with limited liability)

We have examined the summary financial report of MTR Corporation Limited for the year ended 31 December 2002 on pages 1 to 23 and the front and back cover pages.

Respective responsibilities of directors and auditors

Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditors' report thereon and the directors' report for the year ended 31 December 2002, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion to you. We are also required to state whether the auditors' report on the annual accounts for the year ended 31 December 2002 is qualified or otherwise modified.

Basis of opinion

We conducted our engagement in accordance with Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Society of Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2002, and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion

Based on the foregoing, in our opinion the summary financial report on pages 1 to 23 and the front and back cover pages:

(a) is consistent with the annual accounts and the auditors' report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2002 from which it is derived; and

(b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of MTR Corporation Limited for the year ended 31 December 2002 and have issued an auditors' report thereon dated 6 March 2003 which is unqualified or otherwise unmodified.

Certified Public Accountants
Hong Kong, 6 March 2003

Key shareholder information

Financial calendar 2003

Announcement of 2002 results	6 March
Last day to register for 2002 final dividend	25 March
Book closure period	26 March to 2 April
Annual General Meeting	15 May
2002 final dividend payment date	12 June
Announcement of 2003 interim results	Late July/Early August
2003 interim dividend payment date	October
Financial year end	31 December

Registered office

MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong
Telephone: (852) 2993 2111 Facsimile: (852) 2798 8822

Website

<http://www.mtr.com.hk>

Share information

Listing

MTR Corporation Limited's shares are listed on The Stock Exchange of Hong Kong. In addition, shares are traded in the U.S.A. through an American Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Chase Bank. They are also quoted on the London SEAQ International System.

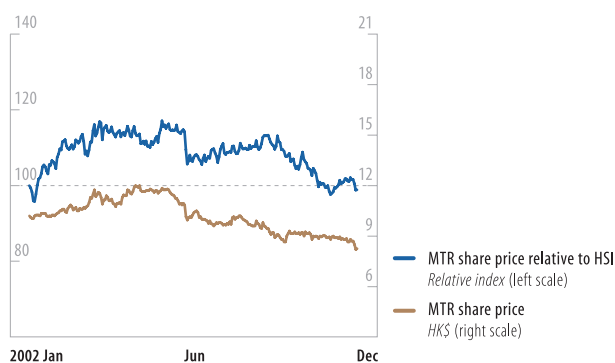
Ordinary shares (as at 31 December 2002):

Shares outstanding: 5,158,748,655 shares
Hong Kong SAR Government shareholding: 3,928,221,249 shares (76.1%)
Free float: 1,230,527,406 shares (23.9%)

Nominal value HK\$1 per share

Market capitalisation (as at 31 December 2002): HK\$42,560 million

Share Price Performance



Dividend policy

Subject to the financial performance of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively, with the interim dividend representing approximately one third of the total dividends to be paid for the entire year.

Dividend per share (in HK\$)

2001 Final Dividend	0.28
2002 Interim Dividend	0.14
2002 Final Dividend	0.28

ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depository Bank	JP Morgan Chase Bank 40th Floor, One Chase Manhattan Plaza New York, NY 10081 USA

Index constituent

MTR Corporation Limited is a constituent of the following indices:

Hang Seng Index
Hang Seng Hong Kong Composite Index
Hang Seng London Reference Index
MSCI Index Series
FTSE All-World Hong Kong Index
FTSE4Good Global Index
Dow Jones Sustainability World Index

Stock codes

Ordinary shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK
CUSIP Reference Number	Y5896Y104
Sedol Reference Number	6290054

ADR Level 1 Programme MTRUY

Annual report 2002

Our annual report is available in both English and Chinese. Shareholders can obtain copies by writing to:

Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

If you are not a shareholder, please write to:

Corporate Relations Department, MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website at <http://www.mtr.com.hk>

Shareholder services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:

Computershare Hong Kong Investor Services Limited, Rooms 1901-1905, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone: (852) 2862 8628 Facsimile: (852) 2529 6087

Shareholder enquiries

Our enquiry hotline is operational during normal office hours:
Telephone: (852) 2881 8888

Investor relations

For enquiries from institutional investors and securities analysts, please contact:
Corporate Finance Department, MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong
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