



underground crystal

MTR leases a total of 15,124 square metres of commercial space in stations, with a tenant mix ranging from art galleries to banks. These businesses enhance the passenger experience while generating additional revenues to the Company from rentals.

other BUSINESSES

- Revenues fell 2.2% to HK\$973 million, affected by the weak economy
- HK\$71 million of new external consultancy contracts signed
- Expansion of Octopus network

The Company continued its efforts during the year to develop other businesses. The 2.23 million people from all walks of life who use the MTR network every weekday and the railway infrastructure itself together offer abundant possibilities to generate revenues from commercial ventures, advertising and services. In

addition, the Company's 20-year track-record of operating one of the world's best mass transit systems and our international reputation present significant opportunities for securing fees for external consultancy services. Our success in these fields has seen revenues from other businesses rise by 27% over the past five years.

Octopus Card

Our decision in 1994 to form a joint venture company, Creative Star Limited (now Octopus Cards Limited) to develop a smart card for fare collection on the transport operation has proven to be far-sighted. Today, around 88% of passenger journeys on the MTR use this highly convenient method of access. We have expanded its use rapidly to cover other modes of transport and, more recently, retail operations such as 7-Eleven and on a trial basis, McDonald's. Octopus is possibly the most successful form of plastic "cash" in the world today, with an average of 6.9 million transactions each day.

By the end of 2001, 8.2 million cards had been issued, representing a growth rate of 15.5% over 2000. Average daily transaction value grew from HK\$41 million at the start of the year to HK\$47 million by year end, as the user network expanded. The system was rolled out to all 161 cabs of Hong Kong Tramways in August and the number of maxicabs taking Octopus rose to 1,300. Car parks continued to join the system and trials were successfully completed in September on parking meters. A large number of non-transport organisations also adopted or fully implemented the card system, including photocopiers at universities, Vitasoy vending machines, public swimming pools and Maxim's fast-food restaurants. Trial runs

for gate entry at the Shatin and Happy Valley racecourses were also successful.

Eight new banks, as well as Circle K convenience stores, began offering add value services, further increasing the attraction of Octopus cards. Expansion of automatic add-value services via bank issued credit cards will promote greater Octopus usage in the growing non-transport segment, as cardholders' concerns that their electronic "purses" may run out are eliminated. Over the year, the number of such automatic add-value accounts grew 120% to 308,000.

In 2001, profit contribution from the investment in Octopus Cards Limited rose to HK\$29 million, an increase of 123% over 2000.

Advertising

Both passenger carriages and stations are ideal locations for advertising. Increasingly popular with advertisers are the trackside video projection systems which offer full motion video viewing at station platforms. During the year, 20 such systems were installed. Special advertising on station walls and train bodies also continued to see strong demand, despite a generally soft market

enabling the Company to retain more than 50% share of the competitive outdoor advertising market.

In September, following successful trials, a new interactive electronic coupon advertising system, e-Instant Bonus, was launched. The system allows advertisers to promote their discount offers to millions of passengers a day. Users can obtain discount coupons using their Octopus cards. All offers can be updated instantaneously via MTR's data network. This initiative was followed in November by the launch of a free weekly magazine *Hui Guide Guide*, containing both lifestyle and MTR-related information. The magazine has been well received by advertisers and end-users.

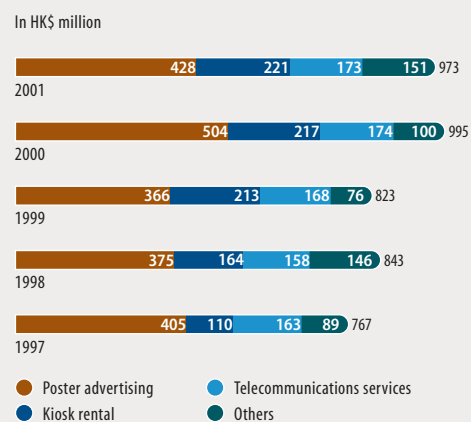
Nevertheless, advertising revenue for the year was affected by the weak economy, falling by 15% to HK\$428 million.

Telecommunications

Over recent years, the rising penetration rate of wireless telecommunications in Hong Kong has led to a shift in the Company's telecommunications revenue, with the mobile component increasing as fixed-line declines. Mobile phone usage has become the main driver for telecommunications income, with the number of calls made within the MTR system rising to 215 million and call minutes to 435 million. However, the increased penetration was partly offset by the reduction in paging and payphone rental income, whose usage is declining in Hong Kong. Rental income relating to the installation of mobile base stations also contributed a new source of income.

Total telecommunications revenue in 2001 fell 0.6% to HK\$173 million.

Revenues from other business activities



We have been very successful in using our infrastructure and experience to generate additional revenues, which fell marginally in 2001 owing mainly to the weak advertising market.

adformation

We leverage on our infrastructure to capture additional revenues. The 2.23 million people using the MTR each weekday are a sought after consumer group to which we offer access through an increasing number of channels, including InfoPanels inside our trains.



Station commercial facilities

In agreement with the Government, MTR allocates certain floor areas at its stations for commercial facilities. At year end, a total of 15,124 square metres of such space was taken up. Services provided by these commercial facilities, such as ATM machines, bakeries, convenience stores and confectionery shops enhance passenger experience while generating additional revenues to the Company from rentals. During the year we began work on refurbishing commercial facilities at certain stations, notably at Central Station. This involves expanding new layouts and adjusting the trade mix, in order to improve the attractiveness of the outlets. We are also adding commercial outlets to maximise the permitted commercial floor space.

Despite the weaker economy, income from station commercial facilities rose slightly by 2% to HK\$221 million in 2001.

External consultancy

2001 saw a dramatic expansion of the Company's external rail consultancy business. A total of 69 overseas consultancy contracts were awarded to MTR. Over the life of these projects they will earn a total of HK\$71 million in fees and contributed strongly to the increase in consultancy revenue during the year.

In February, we were selected for a contract to assist in supplying the Electrical & Mechanical systems for the new underground mass transit in Bangkok. A total of four contracts were signed for work in Singapore, including one with Montgomery Watson to design

tunnel alignments for the new Circle Line. In Mainland China, we are now working in Shenzhen and Guangzhou, while in Taiwan we are providing consultancy services on railway operations, maintenance and system assurance to the Kaoshiung Rapid Transit Corporation and on railway maintenance to the Taipei Rapid Transit Corporation.

Work on existing contracts proceeded well. The contract in UK with Westinghouse Signals Ltd. was completed ahead of schedule, confirming the Company's expertise, professionalism and efficiency. Work for the Delhi Metro Rail Corporation Limited on the development of its smart card system and rolling stock design also continued on schedule and to the satisfaction of the client.

In addition to overseas work, we were awarded a contract by the Airport Authority to operate and maintain the Automated People Mover at Hong Kong International Airport. As a result, our technical expertise has been recognised at home as well as abroad.

Revenues from consultancy rose 300% in 2001 to HK\$32 million.

Outlook

The prospect of a weak economy may subdue growth in non-core revenues especially during the first half of 2002. Nevertheless,

we are committed to maximising the considerable potential our resources offer in this area.

The Octopus network will continue to expand. Trials are planned for taxis and we will continue to spread the system across the transportation and mass retail sectors. Octopus Cards Limited is also exploring the possibility of its cards being used for payment of Government services and for effecting payment over the Internet.

Following the successful introduction of *Hui Guide Guide*, we intend in 2002 to distribute a free daily newspaper, to capture more advertising dollars. Although competition in outdoor advertising is increasing, we will leverage our unique advantage in offering a controlled advertising environment. New formats and panels will be installed to improve returns.

Refurbishments and additional commercial facilities at stations, together with an improved tenant mix, will support commercial revenues, which should be increased by contributions from the new Tseung Kwan O Extension.

Overseas, the Company is developing relationships with a number of railway organisations and we confidently expect to add more contracts to our expanding portfolio of external consultancy business.