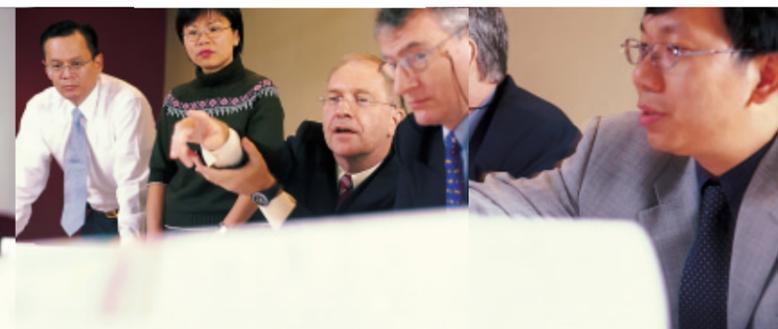


- Revenues maintained at HK\$979 million despite poor economic conditions
- External consultancy revenues increased 96.9%
- Contribution from Octopus Cards Limited again rose sharply



Another day and another exciting challenge for the team of consultants at MTR Tower.

other businesses

Many of the Company's non-fare businesses performed well in 2002 despite the difficult, deflationary operating environment, demonstrating once again the Company's ability to leverage its physical, employee and customer infrastructure even in adverse market conditions.

Octopus Cards Limited

In 2002, Octopus Cards Limited continued to go from strength to strength. As a result of the company's successful marketing efforts, the number of cards in circulation rose from 8.2 million at the end of 2001 to 9.3 million as at 31 December 2002, with the number of service providers increasing to 182 from 110. Daily transaction counts increased by 16.1% and transaction value by 14.5%, taking Octopus' total daily transaction amount to over 7 million transactions and HK\$50 million.

The company took the opportunity to reinforce its penetration in the transport sector, while expanding rapidly in the non-transport sector. The number of minibuses installed with Octopus machines rose from 1,200 at the start of 2002 to 2,300 by year end. Car parks accepting the card increased from 33 to 85. The scheme was also introduced on the cross border shuttle services operated between the Hong Kong SAR and Mainland China by four coach operators.

In the retail sector, supermarket shopping was made easier by the installation in February of Octopus machines at the express lane checkouts of all Park'n Shop stores, one of Hong Kong's two dominant supermarket chains. This was followed in July by all Watson's chemist stores and Circle K convenience stores. The popular Café de Coral restaurant chain also joined the increasing number of restaurants that are using the scheme and achieved strong usage. Octopus applications on campus were enriched by the introduction of mobile phone messengers to parents.

The success of translating card usage to the area of property security continued. Access Control via Octopus was expanded to the commercial sector, starting with the Hong Kong Convention Centre and Silvercord at Harbour City. In the residential sector, the number of properties covered by the service increased from seven in 2001 to twelve. This continuing success demonstrates the wide appeal of the system and its significant growth potential outside Hong Kong.

Profit contribution to the Company from Octopus Cards Limited rose to HK\$39 million in 2002, an increase of 34.5% over 2001.

Advertising

The millions of people who use our trains and pass through our stations every day are a valuable resource for companies wishing to advertise their products and services, and we seek to capitalise on these opportunities without interfering with passenger comfort or convenience.



Soon discussion is in full flow on the tender document for a lucrative overseas contract.

Success! And work begins in another city, on site and off, to meet the exacting deadlines.

In 2002, the launch of two new journals for MTR patrons provided additional scope for the Company to target and expand its advertising revenues. In April, distribution of the *Metro* newspaper, which provides general news and a variety of information commenced. Currently, 265,000 copies are distributed daily, excluding public holidays, reaching 550,000 readers daily. In July, we replaced the weekly *Recruit* recruitment magazine with *Jiu Jik*, which provides more information and editorial. In total, 180,000 copies are distributed twice weekly.

To improve their attractiveness to advertisers, we continued to upgrade our advertising facilities. This included enlarging a portion of our concourse poster panels and enhancing the lighting of all trackside advertising panels. We also tested new products designed to suit the needs of different advertisers, such as in-tunnel advertising and special forms of advertising.

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

Telecommunications

Revenues from mobile telecommunications increased during the year, following the opening of the Tseung Kwan O Line. The Company also carried out both standard maintenance and improvements to the infrastructure to ensure we met customers' expectations for quality, reliability and seamless service.

At the same time, we began to lay foundations for the future. In the mobile arena, this included exploring new service areas, such as 3G and wireless LAN networks. In the fixed line segment, we established a wholly-owned subsidiary, TraxComm Limited (TraxComm), to position ourselves to take advantage of the liberalisation of the fixed network telecommunication market. TraxComm's target customers are the new fixed line operators and service providers, who are currently under-served by the market owing to the absence of a neutral wholesale network operator. TraxComm's immediate

objective is to develop an infrastructure to support expansion of this wholesale customer base.

Telecommunications revenue in 2002 showed respectable growth, rising 7.5% to HK\$186 million.

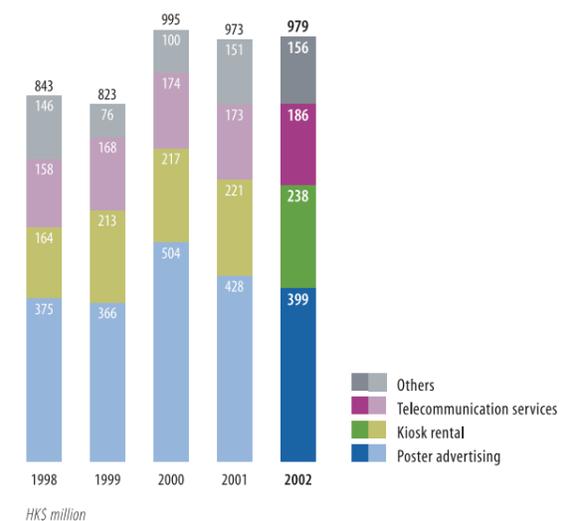
Station commercial facilities

We set aside certain floor areas at our stations for commercial facilities. At year-end, a total of 17,405 square metres of station floor area was allocated for such purposes. This is 2,281 square metres more than 2001, and is the result of the opening of the Tseung Kwan O Line, together with further progress on station renovation works.

A major achievement in relation to the station commercial facilities during the year was our ability to achieve on-time opening of all retail units along the new Tseung Kwan O Line in conjunction with its accelerated opening. This benefited our passengers and helped grow revenues.

In addition, during 2002 the Company continued to invest in its station assets, completing renovation of the Central and Kowloon Bay stations, which not only brought new life to the retail environment, but added over 431 square metres of shop floor area. A number of new trades were also added to the trade mix, of which the introduction of take-away food and beverages on the Urban Lines network was a "break-through" development. Led by the Starbucks coffee shop at Admiralty Station, these outlets now include a variety of take-away food shops, such as fast food, sandwiches, pastries and Chinese herbal tea shops. Throughout the renovation work, we took great care and were successful in minimising the impact on railway patrons.

Overall, although prospective new tenants displayed a marked caution in opening new outlets and the Company saw a marginal overall decline in average station rents, this was more than offset by volume increases at the Urban Lines and Tseung Kwan O Line.



Revenues from other business activities

Other business revenues rose, with the exception of advertising, as MTR continued to leverage its infrastructure and skills base.

As a result, income from station commercial properties rose 7.7% to HK\$238 million in 2002.

External consulting

To our demonstrated success in the design, construction, commissioning, operation and maintenance of the MTR system in Hong Kong, we have added an increasing number of such projects elsewhere.

In 2002, we secured consultancy contracts in Shanghai, Tianjin, Nanjing and Shenzhen in Mainland China as well as Taipei and Kaohsiung in Taiwan. Our clients consist of railway operators, consortia, systems suppliers and contractors. We are now working on projects in 22 cities in 12 countries around the world. To meet the needs of our growing international client base better, during the year we established offices in Shanghai, Shenzhen, Singapore and Taipei. The rapid growth in our consulting business again led to strong growth in revenue, following 2001's 300% increase.

In addition to these international consultancy contracts, the Company has leveraged its expertise and economies of scale to

expand into related business areas. In 2002, we successfully bid for a further three-year plus three-year option operation and maintenance services contract for the Automated People Mover system of Hong Kong Airport Authority, extending our involvement until 2008. This experience will help MTR in the future light-rail feeder network projects it plans to undertake.

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

Outlook

With recovery of the economy still looking uncertain, we expect growth in non-fare revenues, especially during the first half of 2003, to be modest. Nevertheless, we intend to build on our successes in this area to further diversify our revenue stream.

The Octopus network will continue to expand, with new initiatives planned in the transport, property access and other areas.

We will continue to examine new formats of station and in-train advertising while at the same time reviewing ways to become even more cost effective.

In the meantime, station commercial rentals will continue to be affected by economic weakness and our strategy is to increase floor area to drive revenue growth. Renovation work on five more stations will be completed between April and December 2003, which will help maximise revenues through improved tenant mix and a better retail environment. We also plan to let out currently unused station spaces, such as car parks.

Overseas, the Company is confident of adding more contracts to its expanding portfolio of consultancy business.