

A clear path for growth

The Company's strategy for future development is to undertake integrated railway and property development projects where they achieve an appropriate commercial rate of return on our investments. Under the Operating Agreement the Company has retained the right to continue with this strategy on all future projects. We have also agreed with Government that there should be a level playing field for the award of future railway projects and a clear framework for those awards.

In addition to the ongoing Tseung Kwan O Extension (TKE) project, we are currently in advanced stages of discussion with Government on the Penny's Bay Link (PBL) and expect to commence detailed design for this project during 2001. The PBL will connect the Tung Chung Line to the future Disney Theme Park on Lantau Island. Scheduled to open in mid-2005, this 3.5-kilometre extension will comprise two new stations and is estimated to cost some HK\$2.6 billion to build. The detailed project proposal was submitted to Government in early 2000.

Government's RDS-2000 has clearly defined the Company's future opportunities for railway expansion over the next 15 years. The North Island Line (NIL) and the West Island Line (WIL) have been identified as natural extensions to the MTR system and will be awarded to the Company for construction and operation. The WIL is designed to extend the reach of the existing MTR Lines to Kennedy Town via a new railway route with three new stations in addition to the Sheung Wan Station. The NIL will extend the Tung Chung Line across the north of Hong Kong Island to connect to the eastern half of the Island Line at Fortress Hill. With two new stations planned and with inter-changes at existing stations, the NIL will relieve congestion and redistribute cross-harbour trips between the Tsuen Wan Line and the Tung Chung and Tseung Kwan O lines. The implementation of the NIL will be timed to anticipate traffic build-up and is planned to be developed in coordination with Government's reclamation at

Central waterfront. Planning for the WIL will be affected by progress of the Western district reclamation project and the urban renewal process currently directed towards Western

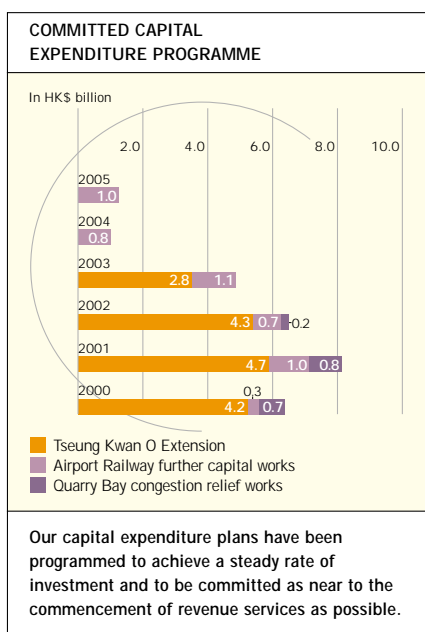
district. The Company is in advanced stages of feasibility studies for both these lines and expects to complete the projects within Government's planned opening time frame of 2008 to 2012. In January 2001 the Company received Government's invitation to submit formal proposals for these two projects by July 2001.

The Shatin to Central Link (SCL) is a key line in the next generation of railway extensions and constitutes a critical component of the long-term development of the MTR system. It has been identified in RDS-2000 as an independent project and accordingly Government will award the building and

operation of this new line based on an open tender. Invitations for tender were announced in January 2001 for submission in July 2001 and assessment of competing bids will be undertaken on a level playing field basis.

The alignment of the SCL as adopted in the RDS-2000 report is based on the alignment developed by the MTR during earlier feasibility studies under the planning for an East Kowloon Line. The SCL proposes a 15.5-kilometre route with ten stations, five of which are interchange stations, from Tai Wai through Diamond Hill and the Kai Tak Airport redevelopment site to cross the harbour at Hung Hom, linking with the NIL at a new station, Exhibition, the Island Line at Admiralty Station and terminating at Central West station. This route represents the most cost-effective alignment and is capable of being implemented in a shorter time scale than other proposed alternatives.

The Company is confident that it will be able to submit a very competitive bid for this new line. In addition to RDS-2000 having adopted a scheme based on the MTR alignment, our track record for completing four previous lines on time and within budget combined with our experienced project management team gives us a leading advantage.



LEGEND

Existing network

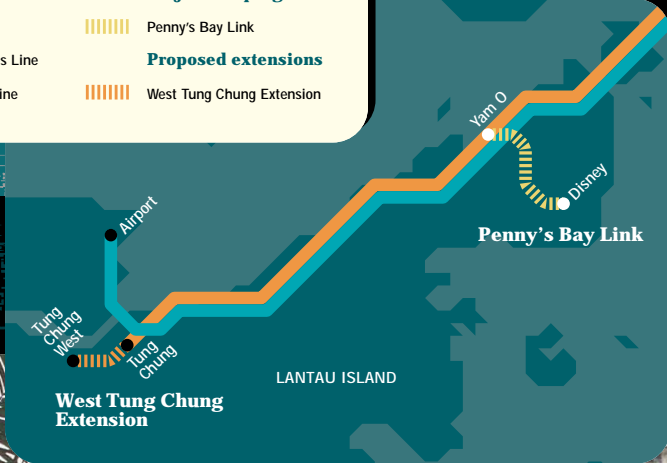
- Station
- Airport Express Line
- Tung Chung Line

Projects in progress

- Penny's Bay Link

Proposed extensions

- West Tung Chung Extension



to have 70%
of people
living within
1 kilometre
of a railway
station is a
shared
vision for our
future
generations



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TSEUNG KWAN O EXTENSION PROJECT

In HK\$ million	Original budget	Revised budget	Expenditure up to 31 December 2000	Expenditure up to 31 December 1999
Construction costs				
Civil works	11,232	7,457	4,465	2,127
Electrical and mechanical works/rolling stock	7,206	4,179	1,132	408
Works entrusted to Government	207	574	367	288
Associated construction costs				
Site investigation and land costs	1,261	1,005	222	131
Non-construction costs				
Consultancy fees, corporate and financing costs	10,589	7,785	3,008	2,042
Total	30,495	21,000	9,194	4,996

Tseung Kwan O project progresses

The TKE project, currently the largest MTR rail project under development, has progressed significantly during the year. Scheduled to open in late 2002, it will provide the communities of the South Eastern Kowloon peninsula with convenient and fast access to the MTR system and the commercial and employment districts on both sides of the harbour.

During the year, major infrastructure work milestones were completed early, significantly reducing associated contractual risks and related costs and allowing early access of contractors for subsequent works. Combined with the continued effects of the economic recession and through efficiencies achieved by the Company's project management team and partnering methodology in the design and construction processes, the budget for the TKE project was further reduced to HK\$21.0 billion, as compared to the original sum of HK\$30.5 billion. Laying of the rail track has commenced ahead of schedule, as has building services installation.

The partnering initiatives which the Company has entered into with contractors have improved delivery performance and reduced programme and commercial risks during the construction phase. The project management process also imposes strict environmental compliance practices that are monitored regularly by the Company. A system of performance and key indicators is identified with each contractor to ensure targets are met, with emphasis on continuous improvement by all parties involved.

Existing system enhancements

The Company undertakes projects to enhance the existing MTR system in order that our capacity remains consistent with demand and that future projects will integrate smoothly into existing routes.

The Quarry Bay Congestion Relief Works (QBR) will be completed and become operational in late 2001 to meet the requirements of increasing capacity loads on the Island and Kwun Tong lines and in future for the Tseung Kwan O Line. On the Kowloon peninsula, in order to accommodate future

interchange flows between the MTR and KCR systems, a new station, Nam Cheong, is under construction on the Tung Chung Line. Extensive modifications of Mei Foo Station are also in progress to link to KCR's West Rail and to receive cross-system commuter traffic. For KCR's Ma On Shan extension an additional underground walkway connecting the KCR and MTR stations at Kowloon Tong is in advanced design stage and will accommodate system interchange traffic at that station.

The structure for a second Airport Express platform located at the Hong Kong Station is under construction. Commencement of service is subject to Government's construction of the final phase of the Central Reclamation project. This platform project will provide for the anticipated increase in airport traffic and enhanced train frequency, and will allow for additional capacity on the Tung Chung Line which is likely to be required for the West Rail link up.

Focusing on the future

2001 will be a pivotal year for the Company as it bids for future rail projects as well as continuing to deliver the projects currently in progress according to schedule and budget. We expect to reach agreement with Government on the terms for building and operating the PBL and to move ahead with the construction and related property development planning. For the NIL and WIL we will submit formal project proposals to Government and progress to the preliminary design stage. For the SCL, we are focused on achieving a successful bid for this important project.

In relation to our existing works, we will continue to pursue cost and programme savings. We will complete the QBR project thus extending the operations of the Kwun Tong Line to North Point Station. On the TKE project, we expect to complete all rail track and civil construction works by the end of 2001 as well as commissioning the permanent power supply for the line. The first of the rolling stock for the TKE will be delivered in late 2001 and tested to assure readiness for the commencement of services in 2002.