

- Property development profit rose strongly by 15.6% to HK\$3,755 million
- Successful tendering of three development sites along Tseung Kwan O Line
- Good results from investment property and property management



Alice Wong enjoys her easy commute to work by MTR. She's looking forward to moving to Two IFC, with its state-of-the-art facilities.

property review

Through its development of properties linked to the MTR network of stations, the Company has played an important role in the successful creation of new living and working communities in Hong Kong. We work in joint venture with experienced developers selected through open tender, under arrangements that allow us to share in profits initially and upon completion, as well as combining revenues from development with recurrent revenues from investment and management. We take particular care to phase developments to ensure maximum market acceptance.

The property market remained weak in 2002. In this context, the improved results for the year reflect the relative strength of this approach to our property business, combining excellent locations with a high quality of design, finish and management.

In the Grade A office sector, the protracted local economic downturn, coupled with a lacklustre performance in global equity markets, had a marked impact on the demand for office space, resulting in falling rents and rising vacancy rates. The mass housing market continued to be affected by high levels of unemployment and uncertainties over economic recovery. Mortgage financing costs fell markedly and the Government announced a series of initiatives in November designed to support the housing market that included a suspension of land auctions in 2003. There was not a noticeable

improvement in sentiment, however, and sales prices declined further from already depressed levels. The retail sector was also subdued, as price differentials between Hong Kong and neighbouring Shenzhen continued to drive shoppers over the border for low budget shopping, compounding the effects of the soft economy.

Property development

Despite the challenging market conditions, we succeeded in securing the commitment of developers at station developments along the Tseung Kwan O Line. Along the Airport Railway, several major residential developments were also launched, and together with continued construction progress, resulted in a 15.6% increase in property development profit over 2001 to HK\$3,755 million. The majority of development profits was recognised from deferred income primarily in relation to property developments at Tung Chung and Kowloon stations. In addition, profits were derived from the sharing of assets in kind at Phase 1 of Sorrento at Union Square in Kowloon Station.

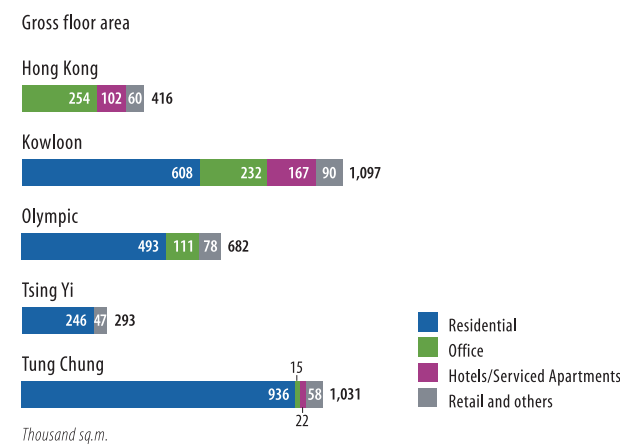
Airport Railway

In the second half of the year, three residential projects totalling 4,025 flats were launched along the Airport Railway. The sale of Phase 1 of Seaview Crescent at Tung Chung Station began in early



After work it's just minutes to her comfortable Tierra Verde apartment at Tsing Yi.

She can easily stop off at Maritime Square, where she can quickly browse the fascinating mix of shops.

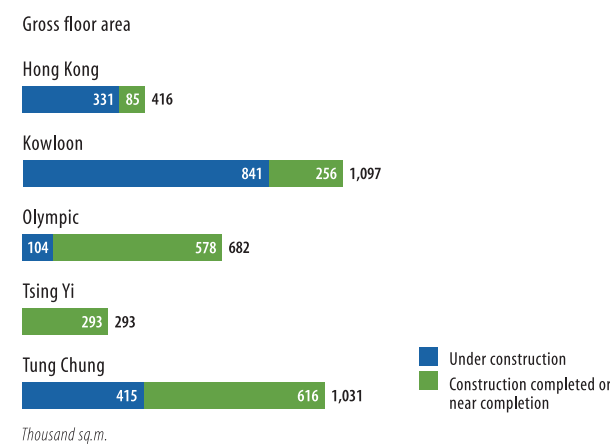


Airport Railway property development plan
 We responded to changing market conditions and made adjustments to several development schemes to improve marketability and add value.

August, followed in November by Phase 2 of Sorrento at Kowloon Station. In mid-December, Phase 1 of Coastal Skyline at Tung Chung Station was released for public sale. The market responded positively to these projects. Sales of residential units at other Airport Railway station developments continued throughout the year, including Phase 1 of Sorrento at Kowloon Station, Island Harbourview, Central Park and Park Avenue at Olympic Station, as well as Tung Chung Crescent and Phase 1 of Caribbean Coast at Tung Chung Station.

Construction of the various packages at Union Square in Kowloon Station and at Tung Chung Station progressed according to plan. A total of 6,382 flats in various packages were completed during the year and obtained occupation permits.

In response to changing market conditions and demand forecasts, further adjustments were made to several development schemes, to improve marketability and add value. The land use at Olympic Station Site D, for example, was successfully changed from hotel to residential, with the land exchange executed in March. General

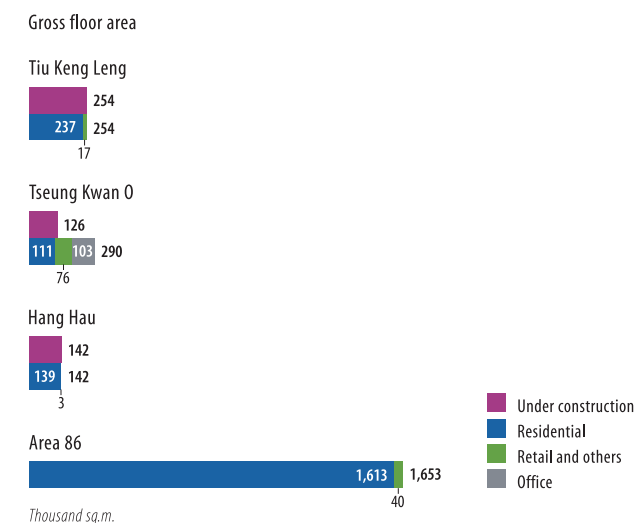


Airport Railway property development progress
 Further progress was made on the construction of Airport Railway property developments, including the 88-storey Two International Finance Centre office tower.

Building Plans for the development, which will now produce 1,896 residential units, were approved in October. Piling works are in progress and on schedule.

Construction of the structure and roof steel frames of the 88-storey Two International Finance Centre (Two IFC) at Hong Kong Station was completed in November, and by the end of December 2002, installation of the curtain wall had reached the 69th floor. Completion of this prestigious landmark at the heart of a new central business district is scheduled for mid-2003. Marketing of the 18 floors owned by MTR, located on floors 33 to 52 and branded as "Central 18 Zone at Two IFC," began during the year. We are currently at the initial stage of discussions with several potentially large office tenants.

We also began to prepare the pre-lease marketing for the major new retail centre at Union Square, which on completion will become our fifth shopping centre. This work involves the development of a global identity matching its "lifestyle" positioning and design theme, as well as other international market assessment efforts. Pre-leasing consent has been issued by the Government, subject to certain minor conditions.



Tseung Kwan O Line property development plan and progress
 Tseung Kwan O Line property development continues to make progress, with development rights for three new residential projects along the line awarded in 2002.

Tseung Kwan O Line
 Along the Tseung Kwan O Line, property development rights were awarded to developers for three new residential projects in 2002. Those at Area 55b in Tseung Kwan O Station were awarded in January to a consortium led by New World Development Company Limited. This was followed in June by the Hang Hau Station property development to a consortium comprising Sino Land Company Limited and Kerry Properties Limited. Finally, in October, Cheung Kong (Holdings) Limited was awarded the tender for the Tiu Keng Leng Station property development.

We continue to seek ways to add to the value of our property developments and the signing of the Agreement for Lease for Area 86 in Tseung Kwan O in May marked the first step towards developing Hong Kong's first-ever "green city". This extensive development will be built in 14 phases on a 32.6-hectare site. On completion in about 10 years time, it will contain some 21,500 flats set within a garden environment.

Other development projects

During the year, our efforts with the Town Planning Board were rewarded by approval for a further 1,132 square metres gross of residential space to be constructed at Choi Hung Station, as part of the Park and Ride Development. This is in addition to 2,122 square metres gross of bonus floor area previously approved for the mixed-use development.

We intended to proceed with a mixed-use scheme for the site next to the Tsing Yi Station, currently occupied by a transport interchange and a lorry park. The development concept is now being reviewed, taking into account the community's feedback.

Investment properties

Our shopping centres performed well, despite a deflationary environment that has seen retail prices fall for more than four years, placing intensive pressure on both retailers and retail landlords. Both rentals and retail sales recorded strong growth compared with 2001, resulting in a 9.8% increase in rental income to HK\$897 million.

We maintained a 100% occupancy rate at our four shopping centres, Telford Plaza, Maritime Square, Paradise Mall and Luk Yeung Galleria. In part, this achievement reflects the excellent location and high quality environment offered by these complexes. In addition, it is the result of the close partnerships we maintain with retailers. During the year, MTR gave support through strategic and effective promotional campaigns, which helped sustain shopping traffic, in turn protecting our rental revenue.