



地鐵公司
MTR Corporation

interim report

2002

vision mission

MTR – Hong Kong’s fast track to a world class city.

To develop and manage a world class railway together with property and other related businesses, to enhance the quality of life in Hong Kong.

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key figures

Financial highlights <i>in HK\$ million</i>	Half-year ended 30 June 2002	Half-year ended 30 June 2001	% Increase/ (Decrease)
Revenue			
Fare	2,752	2,795	(1.5)
Non-fare	964	911	5.8
Operating profit from railway and related operations before depreciation	2,054	2,021	1.6
Profit on property developments	1,314	827	58.9
Operating profit before depreciation	3,368	2,848	18.3
Profit attributable to shareholders	1,865	1,350	38.1
Total assets	100,915	98,128*	2.8
Loans, obligations under finance leases and bank overdrafts	33,883	31,385*	8.0
Shareholders' funds	55,028	53,895*†	2.1
Financial ratios <i>in %</i>			
Operating profit from railway and related operations before depreciation as a percentage of turnover	55.3	54.5	0.8% pt.
Debt/equity ratio	61.6	58.2*†	3.4% pt.
Interest cover <i>in times</i>	4.0	2.9	37.9
Share information			
Basic earnings per share <i>in HK\$</i>	0.37	0.27	37.0
Dividend per share <i>in HK\$</i>	0.14	0.14	–
Share price at 30 June <i>in HK\$</i>	10.10	13.35	(24.3)
Market capitalisation at 30 June <i>in HK\$ million</i>	51,721	66,995	(22.8)
Operations highlights			
Total passenger boardings			
MTR Lines <i>in millions</i>	371.4	369.5	0.5
Airport Express Line <i>in thousands</i>	4,114	4,655	(11.6)
Average number of passengers <i>in thousands</i>			
MTR Lines <i>weekday</i>	2,202	2,200	0.1
Airport Express Line <i>daily</i>	23	26	(11.5)
Fare revenue per passenger <i>in HK\$</i>			
MTR Lines	6.67	6.81	(2.1)
Airport Express Line	66.9	59.9	11.7
Proportion of franchised public transport boardings <i>in %</i>			
All movements	22.8	23.4	(0.6)% pt.
Cross-harbour	57.5	56.8	0.7% pt.
Proportion of transport boardings travelling to/from the airport <i>in %</i>			
Airport Express Line	26	28	(2)% pt.

* Figures are as at 31 December 2001

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

milestones 2002

january

- The tender for Area 55b at Tseung Kwan O Station was successfully awarded to a consortium led by New World Development Company Limited.
- MTR won the Green Office Grand Award in the '2001 Hong Kong Eco-Business Awards' recognising our achievement in environmental cause.



february

- Platform Screen Doors were brought into service at Tsim Sha Tsui Station. This is the first station to be completed in this major project.

march

- The Company welcomed the announcement by FTSE of including MTR as one of the constituent stocks in the FTSE All-World Hong Kong Index.

april

- The Company launched the *Metro* newspaper, the first free daily newspaper distributed in a railway system in Hong Kong.



- The first MTR Corporation Sustainability Report was issued, providing an overview on the Company's approach to sustainability covering its social, environmental and economic performance. It is believed that this is the first such report published in Hong Kong.



may

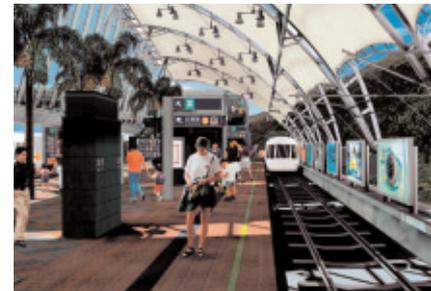
- The Company issued a three-tranche retail targeted bond, the first by a listed company in Hong Kong, which achieved record subscriptions of HK\$5.6 billion, from 18,162 investors.
- An Agreement for Lease for Tseung Kwan O Town Lot No. 70 was executed, marking a significant milestone in the development of the 'Dream City' at Area 86.

june

- The tender for Hang Hau Station Development in Tseung Kwan O was awarded to a consortium comprising Sino Land Company Limited and Kerry Properties Limited.
- As a further demonstration of MTR's support for the community, the Company sponsored the Community Chest Green Day for the second consecutive year. Specially designed souvenir tickets, which raised more than HK\$2.8 million for the Community Chest, entitled the holders unlimited free travel on the MTR on that day.

july

- The announcement by the Government of the award of the Penny's Bay Rail link to the Company was made on 9 July 2002. The link will provide quick access to the new Hong Kong Disneyland scheduled to open in 2005.



- The award of the Tung Chung Cable Car project to the Company linking Tung Chung Centre and Ngong Ping, near the site of the Big Buddha Statue, adds a new dimension to the Company's expanding array of businesses.



chairman's statement, review of operations and outlook

Dear Shareholders,

There were a number of noteworthy events for the MTR Corporation in the period under review. In particular, the Company is in the final stage of completing the Tseung Kwan O Extension, was awarded the Penny's Bay Rail Link, the first rail project awarded to us after our listing, as well as the Tung Chung Cable Car. However, we were disappointed not to be awarded the Shatin to Central Link project despite our highly competitive bid.

In its operations, the Company continued to experience a difficult operating environment in the first half of 2002, as a weak economy in Hong Kong and severe competition, particularly from other modes of transport, weighed on all its principal businesses. Despite these difficulties, the Company increased revenues by 0.3% to HK\$3,716 million, for the period to 30 June 2002, compared to HK\$3,706

million in the corresponding period of the prior year.

Further progress in construction and sales of property developments along the Airport Railway led to a significant increase in property development profits when compared with the same period last year. This substantial increase in property development profits together with continued control on operating costs and lower interest rates enabled the Company to achieve net profits of HK\$1,865 million for the first six months of 2002, a 38.1% increase compared with the HK\$1,350 million earned in the same period last year. Earnings per share were HK\$0.37 for the first six months of 2002, an increase of 37.0% compared to earnings per share of HK\$0.27 achieved in the same period last year.

Railway Operations

The MTR Lines recorded total patronage of 371.4 million for the first half of 2002, an increase of 0.5% from the same

Operations performance in the first half 2002

Service performance item	Performance requirement	Customer service pledge target	Actual performance
Train service delivery	98.5%	99.5%	99.9%
Passenger journeys on time			
▪ MTR Lines	98.5%	99.5%	99.9%
▪ Airport Express Line	98.0%	99.0%	99.8%
Train punctuality			
▪ MTR Lines	98.0%	99.0%	99.5%
▪ Airport Express Line	98.0%	99.0%	99.8%
Train reliability: train car-km per train failure causing delays \geq 5 minutes	N/A	500,000	664,634
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	7,000 ^{*1}	14,868
Add value machine reliability	95.5%	97.5% ^{*2}	99.1%
Ticket issuing machine reliability	93.0%	97.5% ^{*3}	99.3%
Ticket gate reliability	97.0%	99.0% ^{*4}	99.7%
Escalator reliability	98.0%	99.0%	99.9%
Passenger lift reliability	98.5%	99.0%	99.8%
Temperature and ventilation			
▪ Trains: to maintain a cool, pleasant and comfortable train environment generally at a temperature at or below 26°C	N/A	97.0% ^{*5}	99.9%
▪ Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for stations concourses, except on very hot days	N/A	90.0%	94.5%
Cleanliness			
▪ Train compartment: cleaned daily	N/A	98.0% ^{*6}	100%
▪ Train body: washed every 2 days	N/A	98.0% ^{*7}	99.9%

* New 2002 customer service pledge targets:

^{*1} Raised from 6,000 ^{*5} Raised from 95.0%

^{*2} Raised from 97.0% ^{*6} Raised from 97.0%

^{*3} Raised from 97.0% ^{*7} Raised from 97.0%

^{*4} Raised from 98.5%

period last year while average weekday patronage remained stable at 2.2 million. The Company's overall share of total franchised public transport in Hong Kong declined slightly to 22.8% from 23.4% in the comparable period last year, reflecting continued competitive pressure from buses. However, our share of the important cross-harbour trips increased from 56.8% to 57.5%, as the convenience of interchange at North Point Station continued to attract more passengers.

The number of Airport Express Line passengers declined by 11.6% as compared to the first half of last year. This was due to the removal of the remaining 10% fare discount on 1 July 2001, which resulted in average fares increasing to HK\$66.9 in the first half when compared with HK\$59.9 for the same period last year, and a 1.6% overall reduction in airport traffic which was severely affected by the tragic events of 11 September 2001 in the United States.

Patronage was supported by successful marketing initiatives, including the second phase of the 'More Time for Life' campaign. A number of promotions were launched in late 2001 and continued into 2002, including the 'Ride 10 Get 1 Free' campaign, which was well-received, and the Airport Express Group Ticket scheme.

After carefully reviewing the economic conditions in Hong Kong, the Board of Directors decided not to implement the 2.3% fare increase originally scheduled for 1 April 2002. In early July the Company announced fares for the Tseung Kwan O Extension.

I am pleased to report that the Company continued to meet or exceed all statutory and pledged targets for operations with certain targets, such as customer service pledges for ticket, add-value machine, ticket issuing machine reliability, ticket gate reliability, and temperature and ventilation of trains and train cleanliness, having been again raised since January 2002.

Train service frequencies were increased for three of the four MTR Lines. In particular, we increased weekday morning

peak hour train frequency by approximately 25% on the Tung Chung Line in response to rising demand.

The Company's long-term schemes to improve efficiency and comfort of the stations progressed well. Along the existing MTR Lines, the HK\$2.1 billion platform screen door retrofit programme saw new screen doors brought into full operation at Tsim Sha Tsui and Jordan stations. Installation works at the remaining 28 existing underground stations are on schedule for completion by 2006. Station improvement works continued at 38 MTR Lines stations. Passenger information displays were installed at all stations, providing timely essential information and an additional advertising medium. Work on refurbishing entrances and station control rooms, and the installation of new passenger lifts and escalators progressed well at Sham Shui Po, Yau Ma Tei, Prince Edward, Jordan and Central stations.

To further increase competitiveness and to provide better customer services, we continued to improve integration of the MTR network with other modes of public transport and with areas surrounding stations. Major modification works at Mei Foo, Kowloon Tong, Tsim Sha Tsui and the new Nam Cheong stations, to improve connectivity with Kowloon Canton Railway Corporation (KCRC) Lines proceeded according to schedule. Construction work also started on new pedestrian links to integrate stations with surrounding developments at Wong Tai Sin, Mong Kok, Choi Hung and Kwun Tong. Other initiatives included trials of inter-modal fare discount schemes for passengers using feeder buses and provision of 'fare saver' machines offering discounted MTR fares to passengers originating some walking distance from stations.

With our continued emphasis on cost control, we made further improvements in energy conservation and productivity. A multi-skilled workforce, flexible technical support resources and more effective work prioritisation led to gains in work efficiency. As a result, our staff costs reduced by 4.7% and energy and utilities costs by 6.1% when compared to the same period last year.

Projects

The Tseung Kwan O Extension was the major focus of new railway construction activity and final work is being completed for the opening of this new rail-line on 18 August 2002, over four months ahead of our project obligation to the Government.

We were disappointed not to have been awarded the Shatin to Central Link project despite our proposal, as stated by the Government, being 11.5% lower in capital cost and also cheaper in operating costs, than the competing proposal from KCRC. The Government noted in their assessment of the competing proposals that the KCRC proposal did not require any funding support whilst our proposal required such support in the form of property development rights. The Government also indicated that the lack of requirement for financial support in the KCRC proposal was due primarily to a transfer of passengers, and hence, revenue from the MTR system to KCRC when the line opens in 2008. We continue to hold the view that our proposal would have created greater value for Hong Kong. Despite not winning the Shatin to Central Link project, we continue to strive to increase shareholder value through

enhancements in our existing businesses as well as other new projects and initiatives.

We were pleased to have been awarded both the Penny's Bay Rail Link (PBRL) and the Tung Chung Cable Car projects in July 2002. The project agreement for PBRL was signed with the Government on 24 July 2002 and is the first rail project awarded to the Company after our listing in October 2000. The PBRL will connect the Tung Chung Line, via a new station at Yam O, with the new Hong Kong Disneyland and is expected to be completed by 1 July 2005 at a cost of approximately HK\$2 billion. Project work started immediately following the signing of the agreement. In order for the Company to achieve an appropriate commercial return on this project, the Government, through the Financial Secretary Incorporated as a shareholder, has agreed to provide financial support to the Company through the waiver of cash dividends totalling HK\$798 million at net present value. Together with the financial support from the Government, the expected internal rate of return from this project is 11.25%, which is within the range of returns for new rail projects, indicated at the time of listing, of the Company's weighted average cost of capital plus a premium of 1% to 3%.

Tseung Kwan O Extension Property Developments*

Location	No. of packages envisaged/ Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Expected period of package tenders	Expected completion date
Tiu Keng Leng Station	1 or 2	Residential	236,965	587	2002–2003	2006
		Retail	13,000			
		Car park				
Tseung Kwan O Station†	4	Residential	110,925	1,633	2001–2005	2007
		Retail	75,514			
		Office	103,130			
		Car park				
Area 86	14	Residential	1.6 million	4,329	2003–2009	2012
		Retail	40,000			
		Car park				
Hang Hau Station	Sino Land Co. Ltd. Kerry Properties Ltd.	Residential	138,652	350	Awarded in June 2002	2006
		Retail	3,500			
		Car park				
Grand total			2.3 million (25 million sq. ft.)	6,899		

* Subject to review, land grant conditions and completion of statutory processes.

† Include awarded packages at Tseung Kwan O Station with details as follows:

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Tseung Kwan O Station	Sun Hung Kai Properties Ltd.	Residential	26,005	80	Awarded in July 2000	2004
		Retail	3,637			
	Nan Fung Development Ltd. Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Car park				
Area 55b	New World Development Co. Ltd. Chow Tai Fook Enterprises Ltd. Wee Investments Pte. Ltd.	Residential	84,920	262	Awarded in January 2002	2005
		Retail	11,877			
		Car park				

Tseung Kwan O Extension railway project

in HK\$ million	Original budget	Revised budget	Expenditure up to 30 June 2002	Expenditure up to 31 December 2001
Construction costs				
Civil works	11,232	7,283	6,283	5,866
Electrical and mechanical works / rolling stock	7,206	3,670	3,032	2,360
Works entrusted to Government	207	526	378	378
Associated construction costs				
Site investigation and land costs	1,261	720	415	258
Non-construction costs				
Consultancy fees, corporate and financing costs	10,589	5,801	4,533	4,011
Total	30,495	18,000	14,641	12,873

The Tung Chung Cable Car on Lantau Island was awarded to the Company after a competitive tender by the Government, and will link Tung Chung with Ngong Ping and the nearby Big Buddha Statue and Po Lin Monastery. The project is budgetted to cost HK\$750 million and expected to complete by late 2005. In addition to fare revenues from the cable car, the project is expected to increase patronage on the Tung Chung Line as well as provide property income from tourist facilities developments at both the Tung Chung and Ngong Ping terminals and a theme village in Ngong Ping.

We continued our discussions with the Government on the Island Line Extensions comprising the North Island Link and West Island Line. In April 2002, we submitted a revised financial proposal for these two extensions to the Government in response to the release of revised population forecasts for Hong Kong. We also submitted an unsolicited pre-feasibility proposal to the Government in June on the South Island Line, a railway alternative to the transport needs of the south side of Hong Kong Island.

Property

Although the property market remained subdued, sentiment in the first half of the year turned marginally more positive, as interest rates fell and sales of residential units increased. Together with our property development partners, we took advantage of the market environment to market a number of our residential properties including developments at Kowloon and Olympic stations. These sales results further confirm the attractiveness of MTR development projects, which encompass excellent location, design and quality. The sales activities and continued construction progress resulted in property development profits of HK\$1,314 million for the first six months of 2002, a 58.9% increase over the HK\$827 million recognised in the same period last year. Much of the property development profits were recognised from deferred income primarily in relation to property developments at Tung Chung and Kowloon stations. Also along the Airport Railway, progress continues on the 88-storey Two International Finance Centre at Hong Kong Station, which is scheduled for completion in mid 2003. We have entered into initial discussions with several potential large office tenants to lease space in the 18 storeys of this building that will be handed over to us.

In Tseung Kwan O, the Company awarded a property development package at Area 55b in Tseung Kwan O Station to a consortium led by New World Development Company Limited in January 2002, and in June 2002, awarded another package in Hang Hau Station to a joint venture formed between Sino Land Company Limited and Kerry Properties Limited.

The signing of the Agreement for Lease for Tseung Kwan O Town Lot no. 70 in May 2002 marked the Company's first step towards developing Hong Kong's first-ever 'green city' at Area 86. The extensive 14-phase development will contain, on completion in 2012, some 21,500 flats set in a garden environment.

Revenues from property rental and management increased by 12.9% from HK\$435 million to HK\$491 million in the first half of 2002. Despite rising levels of unemployment and the poor economic environment, the Company maintained 100% occupancy rate in our four major shopping centres. Our property management business continued to expand and diversify. The Central Park development at Olympic Station was handed over to individual owners in March 2002, bringing the number of residential units now managed by the Company to 40,925.

The Company also succeeded in penetrating the property management market in Mainland China, where we see significant growth opportunities. We signed our first such contract for managing one residential tower, three clubhouses and a shopping arcade at the prestigious East Pacific Gardens in Shenzhen earlier this year.

Other Businesses

Station commercial and other revenues declined by 0.6% when compared to the same period last year. Although advertising revenues were negatively impacted by the economic environment, we continued to expand advertising media and in April 2002, we launched a free newspaper, *Metro*. Trials on tunnel advertising have commenced, which when implemented, will offer our passengers a new experience as well as provide the Company with more advertising revenues. Revenues from our station retail rental were unchanged from the same period last year. New layouts and refurbishments were undertaken at Central and Kowloon Bay stations, with some new shops opening for business at Central Station during the first half. We also enhanced the mix of tenants, making the stations livelier, with product offerings ranging from lifestyle accessories to take-away food and health goods. By the end of June 2002, all concessions at Tseung Kwan O Extension stations had been let.

We explored further ways of realising revenues from telecommunications and are now in the advanced stages of evaluating the use of our existing fibre-optic infrastructure to develop a fixed-line telecommunications business and have made an application to Office of the Telecommunications Authority for a licence to operate a fixed telecommunications network.

Consultancy again saw significant revenue increases when compared to the same period last year, as we continued to capitalise on growing world-wide demand for our design, operations, maintenance, project management and training services. In addition to winning contracts in major Mainland Chinese cities such as Shanghai, we were also awarded contracts in Singapore, Taiwan, Australia, Thailand and United Kingdom in the first half of the year. In Hong Kong, the Airport Authority also awarded the Company a three-year contract to maintain the Automated People Mover.

Octopus Cards Limited continued to expand within and beyond the transport industry, helped by the expanding coverage in the retail sector and the increasing ease with which value can be added to cards. By the end of June 2002, Octopus Cards could be used at 42 non-transport merchants, in addition to usage on all franchised public transport in Hong Kong. With over 8.6 million cards in circulation, daily transactions increased to 7.2 million equating to a daily transaction value of HK\$49.2 million on average. For the six months ended 30 June 2002, the Company's share of Octopus Cards Limited's earnings rose by 17.6% to HK\$20million.

Financial Review of Operations

Total revenue for the first half year was HK\$3,716 million, an increase of 0.3% from the same period last year. Total fare revenue amounted to HK\$2,752 million, a decrease of 1.5% compared with the same period last year, mainly as a result of patronage promotion campaign on the MTR Lines. Such campaign resulted in average fares on the MTR Lines reducing to HK\$6.67 in the first half of 2002 compared to HK\$6.81 for the same period last year.

Non-fare revenues were HK\$964 million, an increase of 5.8% when compared to the same period last year, reflecting increases in property rental, property management as well as external consultancy income which more than off-set the slight decline in station commercial income.

The Company continued to improve staff productivity and contain operating costs. Excluding a write-off of HK\$42 million in respect of the costs incurred for preparation of the Shatin to Central Link bid, operating costs before depreciation decreased by 3.9% to HK\$1,620 million when compared with the same period last year. Enhanced staff productivity through re-deployment and out-sourcing resulted in staff and related expenses being 4.7% less than the same period last year while considerable savings were also achieved in our energy and utilities costs as well as our railway support services. Therefore excluding the Shatin to Central Link bid expenses, operating profit from railway

and related operations before depreciation were HK\$2,096 million, an increase of 3.7% compared to the same period last year with a corresponding operating profit margin of 56.4%, an improvement of 1.9 percentage points when compared with the same period last year. With the Shatin to Central Link bid expenses write-off, operating profits from railway and related operations before depreciation were HK\$2,054 million and the operating margin was 55.3%.

Property development profits of HK\$1,314 million were recognised in the first half of 2002 mainly from deferred income as construction and sales progressed on property developments along the Airport Railway. As a result, operating profit before depreciation was HK\$3,368 million for the first six months of 2002, an increase of 18.3% compared with the same period last year.

Depreciation charges increased by 7.4% to HK\$1,143 million due to the opening of the North Point Interchange and the completion of the Train Modernisation Programme in the second half of 2001. Interest expenses decreased by 15.7% to HK\$380 million due to lower prevailing interest rates compared with same period in 2001. However, the opening of the Tseung Kwan O Extension will result in a significant increase in both depreciation and interest expenses starting from 18 August 2002 as the capitalisation of these costs ends. The Company's share of Octopus Cards Limited's earnings increased to HK\$20 million from HK\$17 million. Group profit attributable to shareholders for the period was HK\$1,865 million, an increase of 38.1% compared to the same period last year with earnings per share of HK\$0.37.

The Directors have declared an interim dividend of HK\$0.14 per share. As with the previous dividend payments, a scrip dividend option will be offered to all shareholders with a Hong Kong address to receive their dividends in scrip instead of cash.

During the period, the Group maintained a strong balance sheet. Shareholders' funds increased to HK\$55,028 million with the re-investment of scrip dividends by the Government and other shareholders, the exercise of stock options, as well as retained profits for the first half of 2002. Major capital outlays related to the expenditure on the Tseung Kwan O Extension, station modification works and other capital improvement projects. The Company's gross borrowings increased from HK\$31,385 million at year end 2001 to HK\$33,883 million at the end of June 2002 resulting in the gross debt to equity ratio increasing from 58.2% to 61.6%. However, including the cash balances on its balance sheet, the Company's net debt to equity ratio as at 30 June 2002 was 58.5%.

Financing

The Company continued the prudent management of its debt portfolio in accordance with its preferred financing model. Interest rate and currency swaps and hedges were implemented to maintain a conservative debt profile and reduce borrowing costs. Average interest rate paid by the Company for the first half of 2002 reduced to 5.4% from 7.1% during the same period last year.

The Group's major expenditures for the six months ended 30 June 2002 amounted to HK\$4.1 billion, which included capital payments for the Tseung Kwan O Extension and other capital projects, as well as interest and dividend paid. These payments were financed partly by the net cash inflow from operating activities, and partly through an increase in net borrowings.

In the second quarter of 2002, the Company took advantage of favourable market conditions to issue the first ever retail bond offered by a Hong Kong listed company. The Company raised HK\$3.5 billion via a highly successful, 3-tranche issue with maturities of two, three and four years. The offering attracted total subscriptions of over HK\$5.6 billion from 18,162 investors, making it also the largest such issue on record. The bonds were underwritten by three banks and sold by nine placing banks through an extensive branch network, supported by a successful marketing campaign. The transaction provided very cost-effective funding for the Company and diversified our funding sources. It also set an important benchmark and helped develop the Hong Kong retail bond market.

The HK\$3.5 billion raised in the first half completed a substantial portion of our financing programme for 2002. We expect our funding requirement in the coming year will be met by a combination of internal resources and new borrowings from various markets. As at 30 June 2002 we had HK\$6 billion in undrawn committed banking facilities with varying final maturities. These facilities, together with part of the proceeds from the bond issue, are sufficient to extend our financing horizon into the second half of 2003.

During the period, we continued to manage our debt portfolio under a well-established Preferred Financing Model to achieve a balanced debt profile with adequate risk diversification and forward coverage. As at 30 June 2002, our outstanding borrowings had a well-balanced spread of maturities, with 27% due within two years, 37% repayable between two and five years, and 36% maturing beyond five years. 61% of our borrowings were based on fixed interest rates, and 83% of our borrowings were either denominated in or hedged into Hong Kong dollars, with the remaining 17% held in US dollars. As in prior years, derivative instruments have been used solely for hedging purposes to manage our currency and interest rate exposures.

Apart from the issuance of scrip dividend shares, the Company has not issued any new equity for financing purposes during this reporting period.

People and Environment

The Company is recognised as having a strong sense of corporate social responsibility through a caring attitude towards people and the environment. We are currently undertaking a major project to help the visually impaired passengers make easier use of the MTR network. Two charity rides have been arranged in this reporting period, where over HK\$3 million were raised for the Community Chest. In April, we issued Hong Kong's first Corporate Sustainability Report, to increase our transparency in our social and environmental practice. Earlier this year the Company's environmental achievement was recognised by the award of the Green Office Grand Award in the '2001 Hong Kong Eco-Business Awards'.

Human Resources

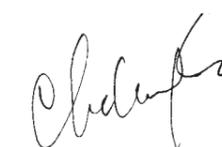
MTR remains a leading employer in Hong Kong, with 7,070 employees as at 30 June 2002. We continue to motivate our staff and reward their contribution through a flexible, performance-driven and competitive remuneration system. To foster an ethical culture at the workplace, we established a Code of Conduct for our staff and supported its launch and implementation with a successful promotional campaign.

The Company's achievements in executive development in 2001 were recognised by the 'Excellence in Practice Award' from the American Society for Training and Development. Our success in nurturing a multi-skilled workforce will enable us to meet the staffing requirements of the new Tseung Kwan O Extension through redeployment and without the need to hire any additional staff. A total of 12,000 trainee days were recorded in the first half of 2002 in support of operational strategies and the new line opening.

In our property business, we look forward to further completion and sale of properties along the Airport Railway as well as continued construction progress in Two International Finance Centre and the large shopping centre in Kowloon Station, now renamed Union Square. In Tseung Kwan O, pending market conditions, we will tender out additional property development packages.

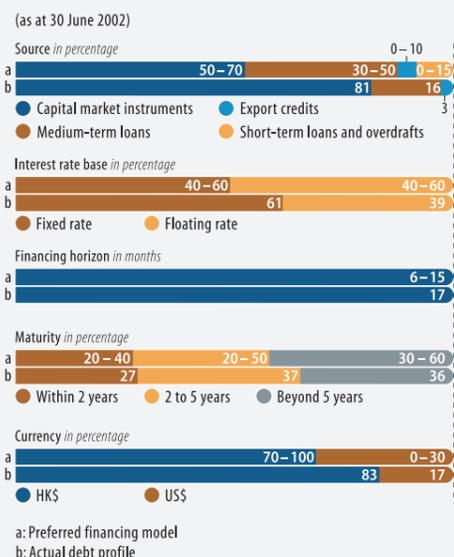
We note the announcement of the Government's feasibility study on the possible merger between the Company and KCRC, and we await further information from the Government on this important matter.

Finally, I would like to thank my directors and staff for their dedication, commitment, support and hard work in these difficult times. The challenges ahead also offer many opportunities, the Company will capitalise on these opportunities for the benefit of its stakeholders.

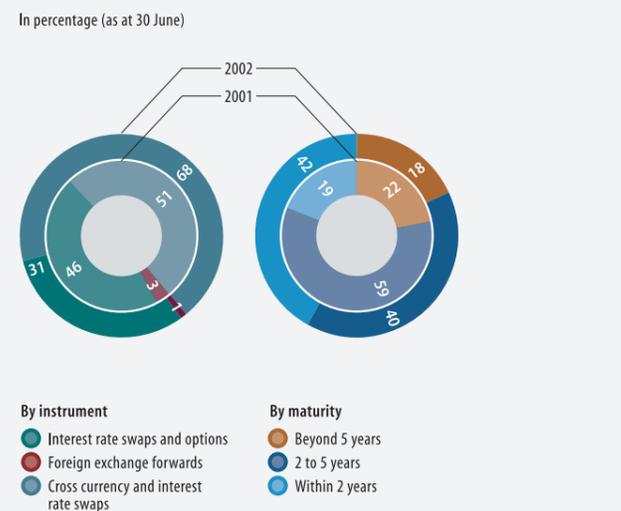


Jack So Chak-kwong
Chairman and Chief Executive
Hong Kong, 1 August 2002

Preferred financing model and debt profile



Use of interest rate and currency risk hedging products



Stable Outlook

The outlook for the Hong Kong economy remains uncertain. Unemployment is at historic highs, while deflation persists. Although interest rates remain at 40-year lows, business sentiment is weak. In this poor economic environment we continually look for ways to enhance revenues whilst at the same time increase efficiency and control cost.

We look forward to the opening of the Tseung Kwan O Extension, and the additional patronage which would result from this, as well as to start construction on the Penny's Bay Rail Link and the Tung Chung Cable Car. We continue to discuss with the Government the Island Line Extensions as well as South Island Line.

corporate governance and other information

Code of Best Practice

The Company has compiled throughout the half-year ended 30 June 2002 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 (HKSE), except that 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) 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.

Audit Committee

The Audit Committee meets regularly with the Company's senior financial, internal audit and compliance management and the external auditor to consider the Company's financial reporting, the nature and scope of audit review and the effectiveness of the systems of internal control and compliance. The members of the Audit Committee comprise David Wylie Gairns (chairman), Cheung Yau-kai and the Commissioner for Transport (Robert Charles Law Footman), all of whom are non-executive Directors.

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 comprise Raymond Ch'ien Kuo-fung (chairman), Edward Ho Sing-tin and Frederick Ma Si-hang (replaced

Denise Yue Chung-ye with effect from 1 July 2002), all of whom are non-executive Directors.

Nominations Committee

The Nominations Committee carries out the process of recommending and nominating candidates to fill vacancies on the Board of Directors. The members of the Nominations Committee are David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (replaced the Secretary for Transport with effect from 1 July 2002), all of whom are non-executive Directors.

Board Members' and Executive Directorate's Interests in Shares

At 30 June 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 HKSE 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
Jack So Chak-kwong	46,195
Russell John Black	23,722
William Chan Fu-keung	23,100
Philip Gaffney	23,743
Thomas Ho Hang-kwong	26,942
Leonard Bryan Turk	25,836

Options to subscribe for Ordinary Shares granted under the Share Option Scheme

Member of the Board of Directors or Executive Directorate	Date granted	Number of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2002	Options vested during the period	Options lapsed during the period	Options exercised during the period	Price paid on exercise of options	Options outstanding as at 30 June 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	-	-	-	-	1,599,000	-
Russell John Black	20/9/2000	1,066,000	5/4/01-11/9/10	1,045,000	-	-	-	-	1,045,000	-
William Chan Fu-keung	20/9/2000	1,066,000	5/4/01-11/9/10	1,045,000	-	-	-	-	1,045,000	-
Philip Gaffney	20/9/2000	1,066,000	5/4/01-11/9/10	1,045,000	-	-	-	-	1,045,000	-
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/01-11/9/10	1,044,000	-	-	-	-	1,044,000	-
Leonard Bryan Turk	20/9/2000	1,066,000	5/4/01-11/9/10	1,045,000	-	-	-	-	1,045,000	-
Other eligible employees	20/9/2000	40,343,000	5/4/01-11/9/10	36,324,500	511,500	906,000	2,287,500	HK\$8.44	33,131,000	HK\$11.22

The proportion of underlying shares in respect of which the above share options have vested or will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before 5 October 2001	None
5 October 2001 to 4 October 2002	One-third
5 October 2002 to 4 October 2003	Two-thirds
After 4 October 2003	All

None of the share options was cancelled during the period. The exercise price of the above share options is HK\$8.44 per share. A nominal amount of HK\$1, being the consideration for the option granted will be payable by eligible employees to the Company on demand.

Save as disclosed above:

A there were no interests held as at 30 June 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 six months ended 30 June 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, ex-Finance Director resigned on 31 January 2002, 793,000 options remained outstanding as at 1 January 2002. During the 6 months ended 30 June 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 percent 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 30 June 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)	3,924,710,623

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

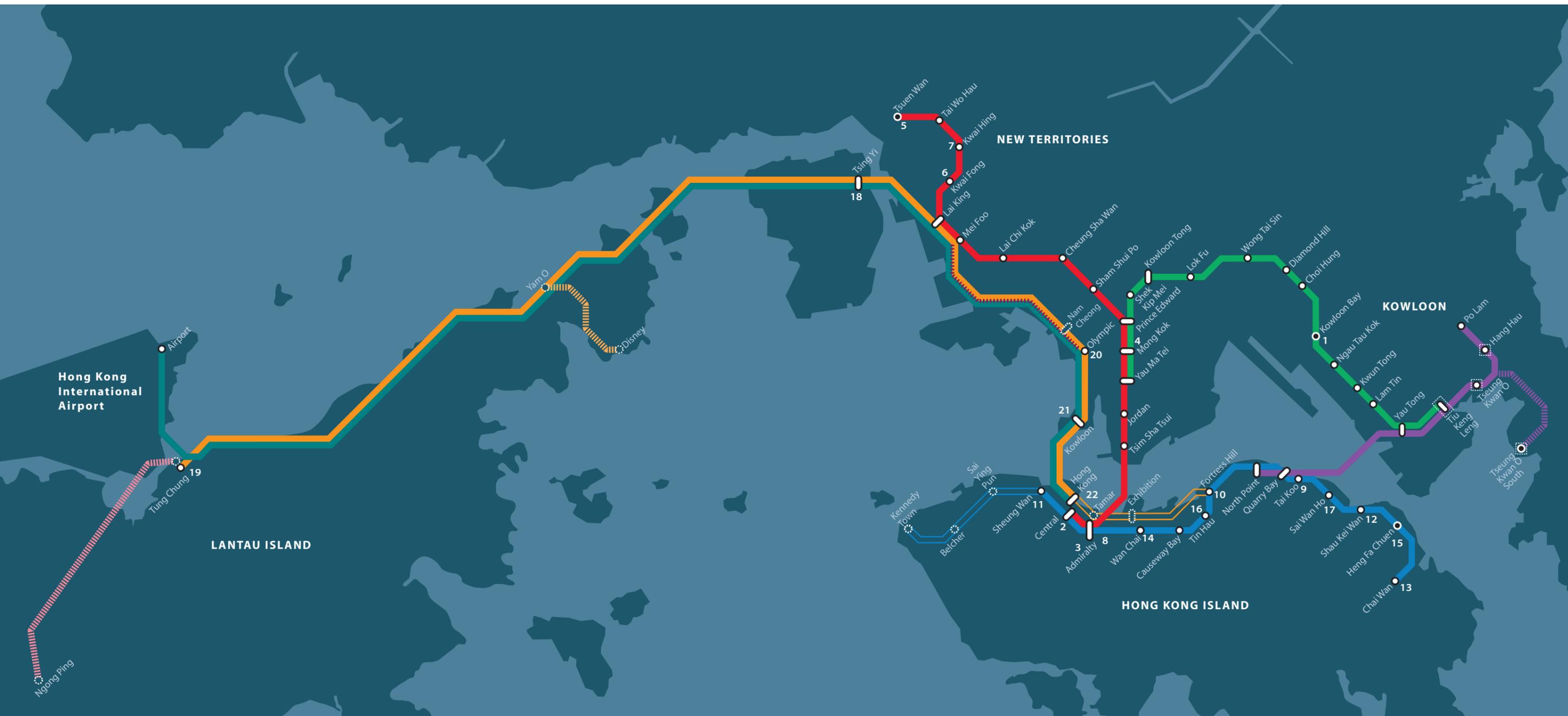
As at 30 June 2002, the Group had borrowings of HK\$33,171 million with maturities ranging from 2002 to 2018 and undrawn committed and uncommitted banking and other facilities of HK\$13,868 million, which were subject to the Government, being the Company's controlling shareholder, to own more than half in nominal value of the voting share of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of borrowings may be demanded and cancellation of undrawn facilities may be resulted.

Purchase, Sale or Redemption of Own Securities

During the six months ended 30 June 2002, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's securities.

Closure of Register of Members

The Register of Members of the Company will be closed from 28 August to 3 September 2002 (both dates inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:00 p.m. on 27 August 2002. The 2002 interim dividend will be paid on or about 29 October 2002 to shareholders whose names appear on the Register of Members of the Company on 3 September 2002.



operating network and potential extensions

Legend

- Station
- Station with Depot
- ◻ Interchange Station
- Proposed Station
- ◻ Proposed Interchange Station
- ◻ Property Developments along Tseung Kwan O Line

Project in progress

- ▬ Tseung Kwan O Line
- ▬ Airport Railway Four Tracking
- ▬ Penny's Bay Rail Link (extension to Disney Theme Park)
- ▬ Tung Chung Cable Car

Existing network

- ▬ Airport Express Line
- ▬ Tung Chung Line
- ▬ Kwun Tong Line
- ▬ Tsuen Wan Line
- ▬ Island Line
- ▬ Tseung Kwan O Line (will open on 18 August 2002)

Proposed extensions

- ▬ North Island Link
- ▬ West Island Line

Properties developed by the Company

- | | |
|--|--|
| 1 Telford Gardens / Telford Plaza | 13 New Jade Garden |
| 2 World-wide House | 14 Southorn Garden |
| 3 Admiralty Centre | 15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall |
| 4 Argyle Centre | 16 Park Towers |
| 5 Luk Yeung Sun Chuen / Luk Yeung Galleria | 17 Felicity Garden |
| 6 New Kwai Fong Gardens | 18 Tierra Verde / Maritime Square |
| 7 Sun Kwai Hing Garden | 19 Tung Chung Crescent / Citygate |
| 8 Fairmount House | 20 Central Park / Island Harbourview / Park Avenue / Bank of China Centre / HSBC Centre / Olympian Tower / Olympian City One / Olympian City Two |
| 9 Kornhill / Kornhill Gardens | 21 Waterfront |
| 10 Fortress Metro Tower | 22 One International Finance Centre / IFC Mall |
| 11 Hongway Garden / Vicwood Plaza | |
| 12 Perfect Mount Gardens | |

key shareholder information

Financial calendar 2002

Announcement of 2002 interim results	1 August
Last day to register for 2002 interim dividend	27 August
Book closure period	28 August to 3 September
2002 interim dividend payment date	29 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 USA through an American Depository Receipt (ADR) Level 1 Programme sponsored by Morgan Guaranty Trust Company. They are also quoted on the London SEAQ International System.

Ordinary shares (as at 30 June 2002)

Shares outstanding: 5,120,922,712 shares

Hong Kong SAR Government

shareholding: 3,924,710,623 shares (76.6%)

Free float: 1,196,212,089 shares (23.4%)

Nominal value: HK\$1 per share

Market Capitalisation (as at 30 June 2002): HK\$51,721 million

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 Interim Dividend	0.14
2001 Final Dividend	0.28
2002 Interim Dividend	0.14

ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depository Bank	Morgan Guaranty Trust Co. 60 Wall Street New York, NY 10260-0060, 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

Stock code

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

Interim report 2002

Our interim 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
Email: investor@mtr.com.hk

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consolidated profit and loss account

for the half-year ended 30 June <i>in HK\$ million</i>	Note	2002 (Unaudited)	2001 (Unaudited) (Note 14A)
Fare revenue			
– MTR Lines		2,477	2,516
– Airport Express Line		275	279
Station commercial and other revenue		473	476
Rental and management income		491	435
Turnover		3,716	3,706
Staff costs and related expenses		(783)	(822)
Energy and utilities		(230)	(245)
Operational rent and rates		(41)	(38)
Stores and spares consumed		(51)	(48)
Repairs and maintenance		(185)	(198)
Railway support services		(46)	(54)
Expenses relating to station commercial and other businesses		(85)	(71)
Property ownership and management expenses		(75)	(66)
General and administration expenses		(73)	(87)
Other expenses		(93)	(56)
Operating expenses before depreciation		(1,662)	(1,685)
Operating profit from railway and related operations before depreciation		2,054	2,021
Profit on property developments		1,314	827
Operating profit before depreciation		3,368	2,848
Depreciation		(1,143)	(1,064)
Operating profit before interest and finance charges		2,225	1,784
Interest and finance charges:			
– Interest expense		(389)	(469)
– Interest income		9	18
		(380)	(451)
Share of profit of non-controlled subsidiary		20	17
Profit for the period attributable to shareholders		1,865	1,350
Dividend	2		
– Interim dividend declared after the balance sheet date		717	703
Earnings per share:	3		
– Basic		HK\$0.37	HK\$0.27
– Diluted		HK\$0.37	HK\$0.27

consolidated statement of changes in equity

for the half-year ended 30 June <i>in HK\$ million</i>	Note	2002 (Unaudited)	2001 (Unaudited) (Note 14A)
Balance as at 1 January as previously reported		54,049	50,355
Change in accounting policy with respect to employee benefits	14A	(199)	(148)
Balance as at 1 January as restated		53,850	50,207
Net profit for the period		1,865	1,350
Dividend	2	(1,415)	(500)
Issue of share capital	10		
– share options		20	1
– scrip dividends		708	250
Balance as at 30 June		55,028	51,308

consolidated balance sheet

<i>in HK\$ million</i>	Note	At 30 June 2002 (Unaudited)	At 31 December 2001 (Audited) (Note 14A)
Assets			
Fixed assets			
– Investment properties		10,366	10,363
– Other property, plant and equipment		68,558	68,880
		78,924	79,243
Railway construction in progress		14,641	12,873
Property development in progress		3,527	3,361
Deferred expenditure		296	326
Interest in non-controlled subsidiary		71	51
Staff housing loans		105	127
Properties held for sale		634	689
Stores and spares		264	261
Debtors, deposits and payments in advance	7	591	830
Amounts due from the Government and other related parties	12	156	152
Cash at banks and in hand		1,706	215
		100,915	98,128
Liabilities			
Bank overdrafts		29	49
Short-term loans		1	394
Creditors, accrued charges and provisions	8	3,904	3,160
Contract retentions		690	798
Amounts due to the Government and other related parties	12	218	401
Loans and obligations under finance leases	9	33,853	30,942
Deferred liabilities		83	78
Deferred income		7,109	8,411
		45,887	44,233
Net assets			
		55,028	53,895
Shareholders' funds			
Share capital, share premium and capital reserve	10	33,535	32,807
Other reserves	11	21,493	21,088
		55,028	53,895

consolidated cash flow statement

for the half-year ended 30 June <i>in HK\$ million</i>	2002 (Unaudited)	2001 (Unaudited)
Cash flows from operating activities		
Operating profit from railway and related operations before depreciation	2,054	2,021
Adjustments for:		
Decrease in provision for staff housing loans	–	(2)
Loss on disposals of fixed assets	1	2
Gain on disposal of investment in a non-controlled subsidiary	–	(12)
Exchange gain	–	(4)
Operating profit from railway and related operations before working capital changes	2,055	2,005
(Increase)/Decrease in debtors, deposits and payments in advance	(6)	252
Increase in stores and spares	(3)	(10)
Increase in creditors, accrued charges and provisions	975	65
<i>Net cash from operating activities</i>	3,021	2,312
Cash flows from investing activities		
Capital expenditure		
– Airport Railway Project	(228)	(172)
– Tseung Kwan O Extension Project	(1,547)	(1,776)
– Purchase of assets and other capital projects	(1,037)	(1,288)
– Property development projects	(190)	(364)
Receipts from property developers	331	100
Receipts from properties sold	69	–
Decrease in investments in a non-controlled subsidiary	9	16
Loans made under Staff Housing Loan Scheme	–	(3)
Principal repayments under Staff Housing Loan Scheme	23	437
<i>Net cash used in investing activities</i>	(2,570)	(3,050)
Cash flows from financing activities		
Shares issued	20	1
Drawdown of loans	3,731	5,425
Repayment of loans	(1,092)	(3,309)
Reduction in capital element of finance lease	(70)	(65)
Collection/(Release) of refundable deposits and asset replacement reserve funds	4	(1)
Interest paid	(788)	(987)
Interest received	6	18
Interest element of finance lease rental payments	(30)	(36)
Finance charges paid	(13)	(30)
Dividend paid	(708)	(250)
<i>Net cash from financing activities</i>	1,060	766
Net increase in cash and cash equivalents	1,511	28
Cash and cash equivalents at 1 January	166	130
Cash and cash equivalents at 30 June	1,677	158
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	1,706	179
Bank overdrafts	(29)	(21)
	1,677	158

The notes on pages 20 to 27 form part of this interim financial report.

notes to the unaudited interim financial report

1 Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 'Engagements to review interim financial reports', issued by the Hong Kong Society of Accountants ('HKSA'). KPMG's independent review report to the Board of Directors is set out on page 28. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

This interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ('SSAP') 25 (revised) 'Interim financial reporting' issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2001, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 28 February 2002, are available from the Company's registered office.

The same accounting policies adopted in the 2001 annual accounts have been applied to the interim financial statements except as disclosed under note 14 below.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the 2001 annual accounts.

2 Dividends

<i>in HK\$ million</i>	Half-year ended 30 June 2002	Half-year ended 30 June 2001
Dividend paid		
2001 final dividend of 28 cents (2000: 10 cents) per share approved and paid in 2002	1,415	500
Dividend declared		
Interim dividend declared after the balance sheet date of 14 cents (2001: 14 cents) per share	717	703

3 Earnings per share

The calculation of basic earnings per share is based on the profit for the half-year period ended 30 June 2002 attributable to shareholders of HK\$1,865 million (2001: HK\$1,350 million, as restated) and the weighted average number of ordinary shares of 5,062,329,930 (2001: 5,000,527,531).

The calculation of diluted earnings per share is based on the profit for the half-year period ended 30 June 2002 attributable to shareholders of HK\$1,865 million (2001: HK\$1,350 million, as restated) and the weighted average number of ordinary shares of 5,072,272,412 (2001: 5,018,501,461) after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme calculated as follows:

	Half-year ended 30 June 2002	Half-year ended 30 June 2001
Weighted average number of ordinary shares used in calculating basic earnings per share	5,062,329,930	5,000,527,531
Number of ordinary shares deemed to be issued for no consideration	9,942,482	17,973,930
Weighted average number of ordinary shares used for calculating the diluted earnings per share	5,072,272,412	5,018,501,461

4 Taxation

No provision for Hong Kong profits tax has been made in the consolidated profit and loss account in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have

substantial accumulated tax losses brought forward which are available for set off against current period's assessable profits or have tax losses for the half-year ended 30 June 2002.

5 Segmental information

The Group's results of major business activities for the half-year ended 30 June 2002, with comparative figures for the half-year ended 30 June 2001, are summarised below:

<i>in HK\$ million</i>	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
Half-year ended 30 June 2002 (Unaudited)						
Revenue	2,752	473	491	3,716	–	3,716
Less: Operating expenses before depreciation	1,308	85	75	1,468	–	1,468
	1,444	388	416	2,248	–	2,248
Profit on property developments	–	–	–	–	1,314	1,314
Operating profit before depreciation	1,444	388	416	2,248	1,314	3,562
Less: Depreciation	1,085	44	1	1,130	–	1,130
	359	344	415	1,118	1,314	2,432
Unallocated corporate expenses						(207)
Interest and finance charges (net)						(380)
Share of profit of non-controlled subsidiary						20
						Profit for the period ended 30 June 2002
						1,865
Half-year ended 30 June 2001 (Unaudited)						
Revenue	2,795	476	435	3,706	–	3,706
Less: Operating expenses before depreciation	1,386	71	66	1,523	–	1,523
	1,409	405	369	2,183	–	2,183
Profit on property developments	–	–	–	–	827	827
Operating profit before depreciation	1,409	405	369	2,183	827	3,010
Less: Depreciation	1,004	47	1	1,052	–	1,052
	405	358	368	1,131	827	1,958
Unallocated corporate expenses						(174)
Interest and finance charges (net)						(451)
Share of profit of non-controlled subsidiary						17
						Profit for the period ended 30 June 2001
						1,350

No geographical analysis is shown as all the principal activities of the Group are carried out in Hong Kong.

Profit on property developments for the half-years ended 30 June 2001 and 2002 were mainly recognised from the deferred income account.

6 Investments in subsidiaries

The following are principal new subsidiary companies established or acquired during the half-year ended 30 June 2002:

Name of company	Issued ordinary / registered share capital	Interest in equity shares	Place of incorporation and operation	Activities
MTR Telecommunication Company Limited	HK\$100,000,000	100%	Hong Kong	Radio communication services
Shanghai Hong Kong Metro Construction Management Co. Ltd.	HK\$15,000,000	60%	The People's Republic of China	Railway construction management
Shenzhen Donghai Anbo Property Management Co. Ltd.	RMB3,000,000	51%	The People's Republic of China	Property management

7 Debtors, deposits and payments in advance

The Group's credit policy in respect of receivables arising from its principal activities is as follows:

i Rentals, advertising and telecommunications fees are billed monthly with due dates ranging from 7 to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

ii Amounts receivable under interest rate swap and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.

iii Debtors in relation to capital works entrusted to the Group, subject to any agreed retentions, are due within 21 days upon the certification of work in progress.

The ageing of debtors relating to the above activities is analysed as follows:

<i>in HK\$ million</i>	At 30 June 2002 (Unaudited)	At 31 December 2001 (Audited)
Amount not yet due	460	698
Overdue by 30 days	42	65
Overdue by 60 days	12	9
Overdue by 90 days	8	3
Overdue by more than 90 days	14	16
Total debtors	536	791
Deposits and payments in advance	55	39
	591	830

8 Creditors, accrued charges and provisions

Creditors, accrued charges and provisions are mainly related to capital projects which are settled upon certification of work in progress and swap interests payable. The Group has no significant

balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors by due dates is as follows:

<i>in HK\$ million</i>	At 30 June 2002 (Unaudited)	At 31 December 2001 (Audited) (Note 14A)
Due within 30 days or on demand	716	595
Due after 30 days but within 60 days	825	1,106
Due after 60 days but within 90 days	76	44
Due after 90 days	1,014	971
	2,631	2,716
Rental and other refundable deposits	1,086	290
Accrued employee benefits	187	154
	3,904	3,160

9 Bonds and notes issued and repaid

Bonds and notes issued by the Group during the half-years ended 30 June 2002 and 2001 comprise:

<i>in HK\$ million</i>	Half-year ended 30 June 2002		Half-year ended 30 June 2001	
	Principal Amount	Net consideration received	Principal Amount	Net consideration received
	(Unaudited)		(Unaudited)	
HK dollar retail bonds	3,500	3,553	–	–
HK dollar notes	–	–	2,850	2,846
	3,500	3,553	2,850	2,846

The notes and retail bonds issued during the half-years ended 30 June 2002 and 2001 were issued by a subsidiary, MTR Corporation (C.I.) Limited. The bonds and notes issued are unconditionally and irrevocably guaranteed by the Company, are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company

under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company. The net proceeds from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

The Company has fully repaid the Samurai yen bonds of ¥15,000,000,000 during the half-year ended 30 June 2001.

10 Share capital, share premium and capital reserve

<i>in HK\$ million</i>	At 30 June 2002 (Unaudited)	At 31 December 2001 (Audited)
Authorised:		
6,500,000,000 shares of HK\$1.00 each	6,500	6,500
Issued and fully paid:		
5,120,922,712 shares (2001: 5,055,229,742 shares) of HK\$1.00 each	5,121	5,055
Share premium	1,226	564
Capital reserve	27,188	27,188
	33,535	32,807

Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

New shares issued and fully paid up during the period comprise:

	Number of shares	Option / scrip price HK\$	Proceeds credited to Share capital account HK\$ million	Share premium account HK\$ million
Employee share options exercised	2,370,000	8.44	2	18
Issued as 2001 final scrip dividends	63,322,970	11.17	64	644
	65,692,970		66	662

During the half-year ended 30 June 2002, 511,500 options to subscribe for shares were vested and 2,370,000 share options previously vested have been exercised. The weighted average closing price in respect of the share options exercised during the period was HK\$11.18 per share. In addition, 1,616,500 share options lapsed as a result of the resignation of certain option holders

during the period. As at 30 June 2002, total options to subscribe for 39,954,000 shares remained outstanding. Details of the movements in respect of the Employee Share Option Scheme during the half-year ended 30 June 2002 are set out under the Corporate Governance and Other Information section on page 10.

11 Other reserves

<i>in HK\$ million</i>	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
30 June 2002 (Unaudited)				
Balance as at 1 January 2002 as previously reported	6,518	116	14,608	21,242
Prior period adjustments in respect of annual leave and passage expenses (Note 14A)	–	–	(154)	(154)
	6,518	116	14,454	21,088
Prior period adjustments in respect of pension expenses (Note 14A)	–	–	(45)	(45)
Balance as at 1 January 2002 as restated	6,518	116	14,409	21,043
Dividend paid	–	–	(1,415)	(1,415)
Profit for the period	–	–	1,865	1,865
Balance as at 30 June 2002	6,518	116	14,859	21,493
31 December 2001 (Audited)				
Balance as at 1 January 2001 as previously reported	6,501	139	11,527	18,167
Prior period adjustments in respect of annual leave and passage expenses (Note 14A)	–	–	(148)	(148)
Balance as at 1 January 2001 as restated	6,501	139	11,379	18,019
Dividends paid	–	–	(1,203)	(1,203)
Surplus/(Deficit) on revaluation	17	(23)	–	(6)
Profit for the year	–	–	4,278	4,278
Balance as at 31 December 2001	6,518	116	14,454	21,088

The investment property and fixed asset revaluation reserves are not available for distribution to shareholders because they do not constitute realised profits. As at 30 June 2002, the total amount of

reserves available for distribution to shareholders under the Hong Kong Companies Ordinance amounted to HK\$14,766 million (2001: HK\$14,391 million, as restated).

12 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 77% of the Company's issued share capital on trust for the Government of the Hong Kong SAR, is the majority shareholder of the Company. Transactions between the Group and Government

departments, agencies or Government controlled entities, other than those transactions arising in the normal dealings between the Government and the Group, are considered to be related party transactions pursuant to SSAP 20 'Related party disclosures' and are identified separately in this interim financial report.

A The Group has had the following material transactions with Government and other related parties during the half-year ended 30 June 2002:

<i>in HK\$ million</i>	Balance at 1 January 2002	Increased / (Decreased)	Balance at 30 June 2002
Amount due from related parties in respect of infrastructure entrustment works:			
– the Government	78	(27)	51
– the Housing Authority	65	30	95
– Kowloon-Canton Railway Corporation	3	7	10
Amount due from non-controlled subsidiary	6	(6)	–
	152	4	156
Amount due to related parties in respect of railway project works entrusted to:			
– the Government	282	(161)	121
– the Airport Authority	119	(37)	82
Amount due to non-controlled subsidiary	–	15	15
	401	(183)	218

<i>in HK\$ million</i>	Half-year ended 30 June 2002 (Unaudited)	Half-year ended 30 June 2001 (Unaudited)
Dividend paid to Government	1,084	385

During the half-year ended 30 June 2002, the Group also had the following transactions with its non-controlled subsidiary, Octopus Cards Limited ('OCL'):

<i>in HK\$ million</i>	Half-year ended 30 June 2002 (Unaudited)	Half-year ended 30 June 2001 (Unaudited)
Payment to OCL in respect of central clearing services	21	22
Fees received from OCL in respect of load agency services and management services	5	7

B In May 2002, the Group entered into the Agreement for the Lease for Tseung Kwan O Town Lot No. 70 with the Government. The leased property is the proposed development site over the MTR depot at Tseung Kwan O Area 86, which occupies a total area

of 32.6 hectares and is planned to be divided into 14 development packages. The land granted is subject to land premium at full market value and the entire development will house approximately 58,000 residents when fully completed in 2012.

13 Capital commitments

i Outstanding capital commitments as at 30 June 2002 not provided for in the accounts were as follows:

<i>in HK\$ million</i>	Railway operations	Tseung Kwan O Extension Project	Property development projects	Total
At 30 June 2002 (Unaudited)				
Authorised but not yet contracted for	695	3,249	1,929	5,873
Authorised and contracted for	1,537	152	83	1,772
	2,232	3,401	2,012	7,645
At 31 December 2001 (Audited)				
Authorised but not yet contracted for	854	4,142	1,985	6,981
Authorised and contracted for	1,760	1,025	154	2,939
	2,614	5,167	2,139	9,920

Included in the amounts authorised but not yet contracted for are costs that will not be subject to construction contracts such as staff costs, overhead expenses and capitalised interest.

ii The commitments under railway operations comprise the following:

<i>in HK\$ million</i>	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
At 30 June 2002 (Unaudited)			
Authorised but not yet contracted for	501	194	695
Authorised and contracted for	786	751	1,537
	1,287	945	2,232
At 31 December 2001 (Audited)			
Authorised but not yet contracted for	625	229	854
Authorised and contracted for	930	830	1,760
	1,555	1,059	2,614

iii Commitments in respect of jointly controlled operations have been included in the commitments for Property Development Projects above and were as follows:

<i>in HK\$ million</i>	At 30 June 2002 (Unaudited)	At 31 December 2001 (Audited)
Authorised but not yet contracted for	1,927	1,983
Authorised and contracted for	55	38
	1,982	2,021

14 Adoption of new accounting standards in Hong Kong

The following new SSAPs issued by the Hong Kong Society of Accountants, which became effective for accounting period beginning on or after 1 January 2002, were adopted for preparation of the Group's financial statements for the six-month period ended 30 June 2002:

- SSAP 34, Employee Benefits
- SSAP 1 (revised), Presentation of Financial Statements
- SSAP 15 (revised), Cash Flow Statements

A Adoption of SSAP 34, Employee Benefits

As a result of the first time adoption of SSAP 34 and the transitional provisions prescribed in the Standard, the Group has made the following adjustments to its financial results for the six-month period ended 30 June 2002 which are relevant to the Group:

i Short-term benefits – accrued liabilities on unused annual leave and leave passage expenses

Prior to the issuance of SSAP 34, the Group did not provide for the liabilities in respect of its staffs' vested annual leave and leave passage entitlements. SSAP 34 requires that obligations in respect of these entitlements should be accrued as soon as services are rendered. In accordance with this change in accounting policy and pursuant to SSAP 2 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current or prior periods presented), the Group has retrospectively restated the opening balances of the retained profits as at 1 January 2001 and 2002. The previously reported net profit for the six-month period ended 30 June 2001 and for the year ended 31 December 2001 have also been adjusted to reflect movements in the accrued annual leave and leave passage account during the periods. These effects are summarised as follows:

<i>in HK\$ million</i>	Balance as at 1 January 2001	Net movements in entitlements		Balance as at 1 January 2002
		6 months ended 30 June 2001	6 months ended 31 December 2001	
Retained profit as previously reported	11,527			14,608
Prior period adjustments in respect of:				
– unused annual leave entitlement	(137)	(1)	(1)	(139)
– leave passage entitlement	(11)	–	(4)	(15)
Retained profit as restated	11,379			14,454

ii Post-employment benefits – defined benefit plans

The Group operates two defined benefit plans, the Hybrid Section of the MTR Corporation Limited ('MTRCL') Retirement Scheme and the MTRCL Retention Bonus Scheme (the 'Schemes'). SSAP 34 prescribes the valuation methodology and accounting treatments in respect of defined benefit plans, which differs from those adopted by the Group in previous accounts. On adoption of SSAP 34, actuarial valuations were reconducted by independent professionally qualified actuaries to ascertain the Schemes' position as of 1 January 2002 according to the requirements of the new Standard. The results indicated that the Schemes' present value of the defined benefit obligations exceeded the fair value of the

Schemes' assets (transitional liabilities) by HK\$44 million and HK\$1 million respectively on the same date. Pursuant to the provisions of SSAP 34, the Group has chosen to recognise the entire transitional liabilities immediately at the time of first adoption. In accordance with this change in accounting policy and pursuant to SSAP 2, the total transitional liabilities of HK\$45 million has been recognised retrospectively against the opening balance of the retained profits as at 1 January 2002 (note 11) and the liabilities has been carried in the balance sheet as accrued pension expenses. Comparative information has not been restated as an independent actuarial valuation has not been conducted to ascertain the Schemes' position as of 1 January 2001.

The valuation also indicated that the pension expenses required to be recognised under SSAP 34 for the half-year ended 30 June 2002 in relation to the Hybrid Section of the Retirement Scheme and the Retention Bonus Scheme were HK\$106 million and HK\$2 million respectively.

The actuaries have also conducted interim valuations on the Schemes' position as of 30 June 2002, using the following principal long-term assumptions which are largely similar to the last valuation as at 31 December 2001:

	Retirement Scheme (Hybrid Section)	Retention Bonus Scheme
Average discount rate	6.0% p.a.	2.5% p.a.
Expected rate of return on plan assets	6.0% p.a.	2.5% p.a.
Expected long-term rate of salary increases	4.0% p.a.	4.0% p.a.

The results confirmed that as at 30 June 2002, there were no material changes in the Schemes' position compared with the last valuation at 31 December 2001. No amendment to the actuarial recommendations as of 31 December 2001 is therefore required.

B Adoption of SSAP 1 (revised), Presentation of Financial Statements

In order to comply with the revised requirements of SSAP 1 (revised), the Group adopts the new statement 'Consolidated Statement of Changes in Equity' which replaces the 'Consolidated Statement of Recognised Gains and Losses' included in previous accounts. The new statement reconciles the movement of key components of the shareholders' fund, including share capital, reserves and retained earnings, from the beginning to end of a period.

C Adoption of SSAP 15 (revised), Cash Flow Statements

The format of the Consolidated Cash Flow Statement has been revised to follow the new requirements of SSAP 15 (revised).

15 Post balance sheet events

A Tung Chung Cable Car Project (the 'Cable Car Project')

On 3 July 2002, the Government announced its selection of the Group to take forward the building and operation of the Cable Car Project, which will be a 5.5-kilometre cable car line linking Ngong Ping, near the Great Buddha Statue, with the Tung Chung Town Centre. The Cable Car Project Agreement will include, subject to land premium at full market value, the granting of land for the construction of a new terminal complex adjacent to the MTR Tung Chung Station together with the planned development of a Theme Village at the Ngong Ping terminal. A provisional project agreement was signed with the Government on 31 July 2002, and the Project is targeted to complete in 2005 with an initial projected investment of about HK\$750 million subject to the required land arrangements.

B Penny's Bay Rail Link Project (the 'PBL')

At a meeting of the Executive Council of Hong Kong Government held on 9 July 2002, the PBL was approved and a project agreement between the Group and the Government relating to the design, construction, financing and operation of the PBL by the Group was entered into on 24 July 2002. The PBL will comprise a 3.5-kilometre long single-track railway, providing a shuttle service between a new interchange station on the Tung Chung Line at Yam O, and a new station adjacent to the entrance of the Hong Kong Disneyland. The estimated construction costs of the PBL will be approximately HK\$2 billion (money of the day) including capitalised interest and the project is required to complete by 1 July 2005.

In order to reach an appropriate commercial rate of return required on the Group's investment in the PBL, the Government has agreed to provide financial support through waivers of its beneficial entitlement to interim and final cash dividends in respect of its shareholdings in the Group. Such waivers would begin with dividends in respect of the financial year ending 31 December 2002 and thereafter as is equivalent to an amount of HK\$798 million at net present value.

16 Comparative figures

Comparative figures have been restated and reclassified based on the change in accounting policy and adoption of new accounting standards as set out in note 14 in the interim financial report.

17 Approval of interim financial report

The interim financial report was approved by the Board on 1 August 2002.

independent review report

To The Board of Directors of MTR Corporation Limited

Introduction

We have been instructed by the company to review the interim financial report set out on pages 16 to 27.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 'Interim financial reporting' issued by the Hong Kong Society of Accountants.

The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 'Engagements to review interim financial reports' issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

KPMG

Certified Public Accountants

Hong Kong, 1 August 2002



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