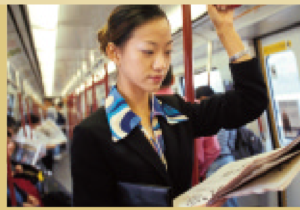
interim report 2003

地鐵公司
MTR Corporation

vision MTR – Hong Kong's fast track to a world class city. **mission** to develop and manage a world class railway together with property and other related businesses, to enhance the quality of life in Hong Kong.



Contents

Key figures

Financial highlights *in HK$ million*	**Half-year ended 30 June 2003**	Half-year ended 30 June 2002	% Increase/ (Decrease)
Revenue			
– Fare	**2,567**	2,752	(6.7)
– Non-fare	**1,000**	964	3.7
Operating profit from railway and related operations before depreciation	**1,814**	2,054	(11.7)
Profit on property developments	**678**	1,314	(48.4)
Operating profit before depreciation	**2,492**	3,368	(26.0)
Profit attributable to shareholders	**113**	1,612†	(93.0)
Total assets	**99,460**	101,119*†	(1.6)
Loans, obligations under finance leases and bank overdrafts	**32,503**	33,508*	(3.0)
Shareholders' funds	**52,980**	53,574*†	(1.1)
Financial ratios *in %*			
Operating margin	**50.9**	55.3	(4.4)% pt.
Gross debt-to-equity ratio	**61.3**	62.5*†	(1.2)% pt.
Interest cover *in times*	**2.8**	4.0	(30.0)
Share information			
Basic earnings per share *in HK$*	**0.02**	0.32†	(93.8)
Dividend per share *in HK$*	**0.14**	0.14	–
Share price at 30 June *in HK$*	**8.95**	10.10	(11.4)
Market capitalisation at 30 June *in HK$ million*	**46,921**	51,721	(9.3)
Operations highlights			
Total passenger boardings			
– MTR Lines *in millions*	**360.2**	371.4	(3.0)
– Airport Express Line *in thousands*	**2,894**	4,114	(29.7)
Average number of passengers *in thousands*			
– MTR Lines *weekday*	**2,145**	2,202	(2.6)
– Airport Express Line *daily*	**16.0**	22.7	(29.5)
Fare revenue per passenger *in HK$*			
– MTR Lines	**6.64**	6.67	(0.4)
– Airport Express Line	**60.94**	66.88	(8.9)
Proportion of franchised public transport boardings *in %*			
– All movements	**23.9**	22.8	1.1% pt.
– Cross-harbour	**58.2**	57.5	0.7% pt.
Proportion of transport boardings travelling to/from the airport *in %*			
– Airport Express Line	**23**	26	(3)% pt.

* Figures are as at 31 December 2002

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

Milestones 2003

The first fully integrated MTR/KCR station was completed at Nam Cheong

TraxComm Limited announced the inauguration of its wholesale bandwidth services

A new entrance at Kowloon Tong Station opened for public service

January

— The Government requested the Company to proceed with the planning of the South Island Line together with further planning of the West Island Line Phase 1.

February

— The Company won a CIO (Chief Information Officer) Award from CIO Asia, a regional magazine for information executives. The awards honour Asian enterprises that have effectively leveraged information technology to deliver tangible strategic business values to their operations. The Company was the only Hong Kong company named for the CIO Awards 2003.

— The Company was selected for the Review of the Feasibility Study for Hangzhou Metro Line One, a 52 km urban metro serving the city centre of Hangzhou, one of the most scenic tourist attractions in China. The Review will enhance the planning of route alignment, station locations, rolling stock, and other railway systems to be used, as well as future operations for the new line.

March

— The Company was accredited with the ISO 14001 certification in recognition of its commitment to responsible environmental management. Recognised as the most widely used international benchmark for environmental management, the ISO 14001 is an international standard introduced by the International Organisation for Standardisation (ISO) to promote a common approach to environmental management.

April

— On Earth Day, 22 April 2003, MTR published its second Corporate Sustainability Report on its home page, www.mtr.com.hk

— In April and May, the Company took advantage of favourable market conditions to tap the attractive local capital market by issuing a total of HK$1.1 billion in fixed rate 10-year Hong Kong dollar bonds.

May

— The Company entered into a Memorandum of Cooperation with the Shenzhen Planning Bureau to extend its consultancy service for the construction of Shenzhen Metro Line 4. The Shenzhen Metro Line 4 extension stretches 16.41 km from Shenzhen Culture Centre to Longhua New Town, serving Futian and Baoan Districts.

June

— Construction of the first fully integrated MTR/Kowloon-Canton Railway Corporation station was completed at Nam Cheong, now well on its way towards opening for public service later in the year.

— TraxComm Limited, a wholly-owned subsidiary of the Company, announced the inauguration of its wholesale bandwidth services offering a low investment option for retail telecommunication service providers in Hong Kong.

— A new entrance at Kowloon Tong Station opened for public service, three months ahead of schedule.

— The Company took advantage of record low interest rates and strong liquidity in the market to successfully launch a HK$500 million 15-year note with an annual coupon of 4.9%, the single largest 15-year bond in the Hong Kong dollar market.

Chairman's letter

Dear Stakeholder,

This is my first opportunity to address the various stakeholders of MTR Corporation (MTR) since my appointment as Chairman of the Company on 21 July 2003. I am honoured by the appointment and look forward to working with the management team of the Company ably led by Acting Chief Executive Officer, Mr. Phil Gaffney.

Firstly, a word of thanks to Mr. Jack So who left the Company on 20 July 2003. Under Jack's leadership MTR achieved many successes including the completion of both the Airport Railway and Tseung Kwan O Line, the development of the many property packages along the Airport Railway, the development of Octopus Cards, the successful expansion of our external consultancy businesses and, of course, the listing of the Company's shares on The Stock Exchange of Hong Kong. In the Company's operations, Jack and his management team were relentless in cutting costs to increase efficiency whilst at the same time providing enhanced levels of service; the station and train modernisation programme, the North Point Interchange, and platform screen doors are examples of such service enhancement. Leveraging off the Company's assets to increase revenues was another of Jack's priorities; the success of the Company's advertising and kiosk rental businesses at stations and the recent establishment of TraxComm Limited are testament to this focus on revenue enhancement. On behalf of MTR, I thank Jack for his leadership, devotion and hard work which has resulted in the Company being the success it is today.

In the first half of 2003, the Company recorded net earnings of HK$113 million, a significant reduction of 93% compared with the same period last year. Earnings per share were HK$0.02. As noted in the CEO's review of operations and outlook, besides the impact of SARS, the revision of an accounting standard on income tax, lower property development profits and higher depreciation and interest costs due to the opening of the Tseung Kwan O Line, all contributed to this decline. A number of these items, such as deferred tax, are non-cash charges. The second half of the year should see improvements in financial results, particularly in our property development profits with the receipt of our 18 floors in Two IFC. However, the Company's operating profit before depreciation, interest and taxes remains strong at HK$2,492 million in the first half.

Severe Acute Respiratory Syndrome (SARS) was a severely painful experience for the people of Hong Kong. On behalf of MTR we thank and salute Hong Kong's medical workers who fought so bravely against the disease. I would also thank all the staff of MTR, particularly our front-line staff, for their hard work and professionalism during the SARS crisis. SARS impacted every aspect of MTR's operations and the Company responded accordingly. From significantly increased cleaning in our trains, stations and rental properties to enhanced ventilation in both trains and stations, the Company ensured that customer health and safety was paramount whilst from a financial perspective, initiatives were undertaken to reduce costs. With the abatement of SARS, we launched a number of initiatives to regain revenue including promotions on our railway and our shopping centres. These promotions had their desired results and I am pleased to report that the average weekday patronage on our MTR Lines has recovered to 2.2 million in June from a low of 1.8 million recorded in April 2003, while "foot traffic" in our shopping centres has recovered to exceed pre-SARS levels. The Airport Express has shown reasonable recovery but patronage remains affected by the reduced airline business.

Longer term and in retrospect, the SARS crisis might well be seen as a harbinger of profound and positive societal changes that will underpin Hong Kong's dynamism and continuing success.

As a major public transport operator, we are often in the public and political lime-light. The last six months have seen much discussions in the public domain on two issues: namely the Company's property development and the possibility of fare reduction.

Property development, an integral part of MTR's business model enunciated in the Company's IPO Prospectus in 2000, has been criticised for contributing to excess supply.

The current general over-supply of residential units is a function of a number of factors, including the economic downturn, deflation, low consumer confidence, unemployment and the relatively high level of construction starts in the late 1990's. It is more a demand side problem, for which the solution will come eventually from demand recovery, given new land supply is held constant for the time being.

The Company's record demonstrates that the business model of "rail plus property development" has been successful and in fact is being emulated elsewhere. This model has provided Hong Kong with a first class metro system which has not required any subsidy from Government; almost unique in the world, and which has garnered international kudos for both Hong Kong and the Company. The Government has enjoyed reasonable financial returns from the equity investments it has made in the Company and benefited from the significant land premiums paid by the Company and our development partners. These land premiums have totalled HK$58 billion since 1995.

The Company has presented these facts to the Government and expressed the wish that Government be conservative regarding something that has consistently worked well over the long run.

The issue of fare discounts and fare setting mechanism have also aroused much public discussion. From its inception, the Company has been sensitive to the needs of the travelling public. After all, to be commercially successful, a company must serve its customers well and be price competitive.

As a publicly listed company with many international and domestic institutional shareholders as well as numerous domestic retail shareholders, the Company has a clear duty to deliver financial value to shareholders, which is inseparable from profit performance. The Company has been diligent in raising efficiency, evidenced by the 26% drop in operating costs per car-km since 1998. However, there are limits to cost reduction in a business which has to deliver a safe, reliable and frequent service to over 2.2 million riders every day.

Somewhere between the purist positions of charging what the market can bear and a free ride, the Company has positively engaged the Government in discussions regarding striking a right balance that abides by Hong Kong's time honoured principles of user pay, market autonomy and giving the travelling public excellent value and service. We believe these objectives are not mutually exclusive within the general framework of "fare autonomy" and are confident of an outcome that will be beneficial to all.

Another matter that is of strong shareholder and public interest is the possible consolidation of Hong Kong's rail industry. We believe if properly implemented, a merger between the Company and Kowloon-Canton Railway Corporation (KCRC) can create tremendous economic value for Hong Kong. We also recognise it will be a complex and massive exercise requiring much skill and resolve. We await a timely decision by Government on this matter. In the meantime, we welcome any opportunity to work profitably with KCRC to improve the competitiveness and overall service quality of the rail industry.

I am pleased to see that the management is actively pursuing improvements to the bus feeder services to MTR, particularly on Hong Kong Island and in southern Kowloon. These improved services together with a reduction in redundant bus routes, could lead to a much greater level of integration between bus and rail, providing better services to the public and improving road congestion and street level air pollution.

Finally, I would thank Mr. Phil Gaffney, the management and all the staff of MTR for their hard work and support.

Raymond K. F. Ch'ien

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 31 July 2003

CEO's review of operations and outlook

MTR Corporation's operating results for the first six months of 2003 were adversely affected by the outbreak of SARS in March in Hong Kong. The resulting plunge in tourism and local economic activity led to a sharp temporary decline in patronage on both the MTR Lines and Airport Express. Most of our other businesses also suffered from the effects of SARS, the general weakness in the economy and consumer spending.

These factors led to a decline in our revenues of 4% to HK$3,567 million for the six months ended 30 June 2003 compared with the same period in 2002. Despite continued efficiency gains, operating profits before depreciation and interest decreased by 26% to HK$2,492 million. With the opening of the Tseung Kwan O Line last August, depreciation and interest expenses increased significantly which, when combined with changes in accounting standard and corporation tax rate relating to deferred taxation and much lower property development profits, resulted in net profits declining to HK$113 million from HK$1,612 million in the same period last year. Earnings per share were HK$0.02 for the first six months of 2003. It should be noted that the change in accounting standard for deferred taxation which led to a charge in our profits of HK$375 million in the period under review is a non-cash item and therefore has no impact on our cashflow. Taking into account the healthy operating cashflow in the first half of this year, distributable retained earnings of HK$11,751 million as of 30 June 2003 and the outlook for the balance of 2003, the Board declared an interim dividend of HK$0.14 per share which is the same as the interim dividend paid in 2002.

Railway operations

For the first half of 2003, as a result of SARS, the MTR Lines recorded total patronage of 360.2 million, a 3.0% decrease over the same period last year. Average weekday patronage of 2.1 million was 2.6% lower. To illustrate the impact of SARS, total patronage on the MTR Lines in January and February 2003 was 5.4% greater than in the same period in 2002 whilst total patronage in March to June 2003 was 7.1% less than the corresponding period in 2002. The Company's overall share of total franchised public transport rose to 23.9% from 22.8% in the comparable period of last year, following the opening of the Tseung Kwan O Line in August 2002. Share of cross-harbour trips also increased from 57.5% to 58.2%.

The number of Airport Express passengers fell significantly by 29.7% as compared to the first half of last year, as SARS led to a fall in visitor arrivals and departures at the airport. Airport Express' market share fell to 23% from 26%. To illustrate the impact of SARS, total patronage on the Airport Express in January and February 2003 was 1.4% less than in the same period in 2002 whilst total patronage in March to June 2003 was 43.3% less than the corresponding period in 2002.

As mentioned in the Chairman's letter, the Company took extensive measures during the SARS outbreak to ensure the health and safety of our passengers. These measures included the intensified cleaning of, and increased airflow in, stations and trains, provision of face masks to passengers as required, as well as displaying hygienic advice from the Department of Health on electronic information boards in our system.

MTR continued to meet or exceed all statutory and pledged targets for service delivery. Further improvements to train service reliability were recorded, while staff and passenger safety standards achieved record levels. Train service delivery and passenger journeys on time were both recorded at 99.9% for the period. Particular efforts were made to ensure high levels of service reliability and quality on the new Tseung Kwan O Line with train service delivery rising to 99.9%; the railway is now providing an essential service to this community.

In recognition of the continuing sluggish economy and in order to seek growth in patronage, the "Ride 10 Get One Free" scheme was extended to early 2004 and a number of other marketing initiatives were launched during the first half of the year, including "Ride 5 Get Cash Coupons" and "$2 for Children & Seniors travelling on MTR" in May as part of a SARS Recovery programme. For Airport Express, promotions were launched targeting at particular market segments, including MTR shareholders, group travellers, children and the elderly. The trial period of the morning express service, which offers commuter service to passengers travelling from Tsing Yi to Hong Kong on the Airport Express, was extended to October 2003.

The Company's programmes to enhance service, comfort and efficiency saw further developments. The scheme to retrofit all underground stations with platform screen doors progressed well with installations completed at Admiralty and Prince Edward stations, and completion planned at a further four underground stations by the end of 2003. Under the station improvement programme, renovations commenced at Wan Chai, Kowloon Tong, Tsimshatsui and Mongkok stations, with target completions for most of these works by year end.

Integration of the MTR network with other forms of public transport continued. Interchanges at Nam Cheong and Mei Foo with the Kowloon-Canton Railway Corporation's West Rail are expected to open later this year with the commissioning of West Rail. With the expected increase in passengers from West Rail, we are in the process of converting the Tung Chung Line trains to eight passenger cars to cope with the increased passenger volumes as well as commissioning the re-routed track section between Lai King and Olympic on the Tung Chung Line, to allow train access to Nam Cheong Station.

We also progressed projects to improve station access through pedestrian links. Construction of new links is currently underway at Mongkok, Kowloon Tong, Choi Hung and Kwai Fong, with a further three being planned. The successful inter-modal fare discount schemes for passengers using feeder buses and "fare saver" machines, offering discounted MTR fares, continued.

Operations performance in the first half 2003

Service performance item	Performance requirement	Custom 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%	99.9%
Train punctuality			
– MTR Lines	98.0%	99.0%	99.6%
– Airport Express Line	98.0%	99.0%	99.9%
Train reliability: train car-km per train failure causing delays ≥ 5 minutes	N/A	500,000	1,165,927
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	7,000	15,893
Add value machine reliability	95.5%	97.5%	99.2%
Ticket issuing machine reliability	93.0%	97.5%	99.5%
Ticket gate reliability	97.0%	99.0%	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%	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%	99.7%
Cleanliness			
– Train compartment: cleaned daily	N/A	98.0%	99.9%
– Train body: washed every 2 days	N/A	98.0%	99.8%

A study has been carried out on the potential for any significant improvement to the bus feeder services to MTR. The study has identified certain opportunities and recommendations will be finalised in the second half of the year.

The Company continued to seek ways to lower operating costs. Maintenance activities and functions are increasingly being outsourced whilst optimisation of non-traffic hours working schedules has raised productivity. To mitigate the revenue loss from SARS, the Company implemented a number of additional cost saving measures. These include no-pay leave for staff, deferral of less critical revenue and capital works and revision of train service frequency to cope with the reduction in patronage on the Airport Express and Sunday services on the MTR Lines.

Projects

Work on the Penny's Bay Rail Link, which was awarded to the Company by Government in July 2002, is progressing well with all except one works contracts having been awarded. Design work on all electrical and mechanical contracts and civil construction works are proceeding on schedule. Since signing the Provisional Agreement for the financing, design, construction and operation of the Tung Chung Cable Car in July 2002, significant progress has been made in the design and planning of the cable car system and related facilities. In June 2003, the Tung Chung Cable Car Ordinance was gazetted and it is expected that the Project Agreement and the Private Treaty Grant to build the Theme Village at Ngong Ping will be signed with Government later this year.

In January 2003, the Government requested MTR to proceed with further planning of the West Island Line Phase 1 and to commence planning of the South Island Line. The planned West Island Line will extend the network beyond Sheung Wan to Sai Ying Pun and Belcher Station by 2012 and later, as Phase 2, to Kennedy Town. Procurement of consultants for the South Island Line feasibility study was also completed and the study commenced. The South Island Line is envisaged to serve the western and southern areas of Hong Kong Island. From an interchange with the West Island Line at Belcher Station, the South Island Line could comprise seven or more intermediate stations from Cyberport to Happy Valley before connecting with the Island Line at Wan Chai. As noted in the 2002 Annual Report, in January 2003, Government also announced the deferral of completion of the North Island Line to beyond 2016. Given the surplus capacity in the rail system, due to lower population projections, we concur with the Government's decision.

Property

Despite the measures introduced by Government in November 2002 to stabilise the property market, the market remained subdued in the first half of 2003. As noted in our 2002 Annual Report, we supported the Government's measures and had agreed not to tender any additional property development packages in 2003. The poor property market was made worse by the outbreak of SARS as buyers and sellers avoided face-to-face encounters. Sales progressed, albeit at moderated rates, for unsold residential units in MTR developments which had been launched prior to 2003. In June, together with our joint-venture developer, we launched the sale of Phase Two of Seaview Crescent and Phase Two of Caribbean Coast at Tung Chung Station.

Against this background, the Company recorded property development profits of HK$678 million, a decrease of HK$636

Tseung Kwan O Line Property Developments (Packages awarded)

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Tseung Kwan O Station						
Area 57a	Sun Hung Kai Properties Ltd.	Residential	26,005		Awarded in July 2000	2005
	Nan Fung Development Ltd.	Retail	3,637			
	Henderson Land Development Co. Ltd.	Car park		75		
	Chime Corporation Ltd.					
Area 55b	New World Development Co. Ltd.	Residential	84,920		Awarded in January 2002	2006
	Chow Tai Fook Enterprises Ltd.	Retail	11,877			
	Wee Investments Pte. Ltd.	Car park		254		
Hang Hau Station	Sino Land Co. Ltd.	Residential	138,652		Awarded in June 2002	2005
	Kerry Properties Ltd.	Retail	3,500			
		Car park		369		
Tiu Keng Leng Station	Cheung Kong (Holdings) Ltd.	Residential	236,965		Awarded in October 2002	2007
		Retail	16,800			
		Car park		587		

Tseung Kwan O Line Property Developments (Packages to be awarded)*

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	No. of parking spaces	Expected period of package tenders	Expected completion date
Tseung Kwan O Station	2	Retail	60,000		2004–2005	2007
		Office	103,130			
		Car park		1,291		
Area 86 (Tseung Kwan O South Station)	14	Residential	1.6 million		2004–2009	2013
		Retail	40,000			
		Car park		4,131		

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

million compared to the first half of 2002. The majority of the property development profits, amounting to HK$671 million, was recognised from deferred income with continued progress in construction particularly for Tung Chung Station developments.

Despite these challenges, we continued to make progress in a number of areas. Two IFC, the 181,310 square metres office tower located at Hong Kong Station, was completed on schedule with practical completion certificate issued by architects in July. We would be accounting for profits of approximately HK$3 billion from our 46,600 square metres of office space and related car parks received as asset sharing in kind in July.

The Company began handing over a total of 5,233 flats for occupation along the Airport Railway, at Sorrento Phase One at Union Square, Coastal Skyline Phase One, as well as Phase One of the Caribbean Coast and Phase Two of Seaview Cresent, all at Tung Chung Station.

Foundation work began in December 2002 at Area 55b development in Tseung Kwan O Station which is a joint venture development with a consortium led by New World Development Company Limited. Furthermore, in the first half of 2003, the main contracts for superstructures had been awarded for developments at Olympic Station Site D, Tseung Kwan O Station Area 57a and Hang Hau Station Area 38b. In response to changed market conditions, the Company sought to amend the Tseung Kwan O Area 56 development to a mixed commercial and residential development. Although the proposal was rejected by the Town Planning Board, we will continue to refine the use to suit market needs.

Despite the SARS outbreak and the depressed retail sector, our four shopping centres continued to perform well. Before the SARS outbreak, in the first three months of 2003, property rental income recorded an increase of 1% to reach HK$228 million when compared to the same three months period last year. The Company responded swiftly to SARS with additional cleaning initiatives, temporary rental concessions and a series of vigorous promotional events . As a result, affected by SARS, occupancy rate remained unchanged at more than 99%, although rental income for the six months period when compared with the same six months period last year decreased by 2%.

Our property management business continued to expand, as new residential flats were handed over to individual owners. As at 30 June 2003, the number of residential units managed by MTR had risen to 46,519. The Company's property management arm also responded to SARS by undertaking a range of proactive measures to reduce the risk of transmission, resulting in commendations from owners and tenants.

Other businesses

Although the Company's advertising revenues were negatively impacted by the SARS outbreak, these were offset by increases in revenue from other business activities, resulting in total revenues from other businesses increasing 8.2% to HK$512 million in the six months period. Apart from increase in rental income from new kiosks along the Tseung Kwan O Line, there was continued growth in external consulting and major strides were made in establishing our new fixed-line telecommunications business in Hong Kong.

Station kiosk rental revenues increased by 18.4% to HK$135 million with the additional kiosk space from the Tseung Kwan O Line and increased space due to the station improvement programme. However, because of reduced business resulting from SARS, the Company offered rental concessions to certain tenants. MTR continued to upgrade the quality of its station retail environment through renovation and providing a wider variety of services. New layouts and refurbishments were introduced at Prince Edward and Tsing Yi stations, while at Hong Kong and Tsing Yi stations, a new "sales cart" product was launched that enhance the shopping atmosphere at stations. New retail trade continued to be introduced in our stations which include sushi outlets and Japanese confectionery.

Advertising revenues were affected by the US-Iraq War and the SARS outbreak, declining by 13.5% over the first half of 2003 to HK$160 million as compared with the same period last year. MTR continued to respond to the needs of advertising clients by introducing new formats and services. The programme to convert selective 4-sheet panels to 12-sheet panels in station concourses saw a total of 273 new 12-sheet panels in place by 30 June, thus allowing more panel package choices to advertisers.

Revenue from telecommunication services in the first six months in 2003 decreased marginally by 1.1% as compared with the same period last year to HK$90 million as a result of the decrease in payphone rental rates upon contract renewal. The shift to mobile revenues continued, as competition among operators generated more usage. More significantly, MTR aims to capitalise on the deregulation of the fixed network telecommunication market by leveraging its extensive fibre-optic network and experience to deliver wholesale fixed line data and telephone services. MTR established a separate operating entity for these operations, TraxComm Limited, which in June was awarded a fixed telephone network services license. By 30 June, three customers' data centres had been connected to the TraxComm network.

Octopus Cards Limited expanded its operations further. Cards in circulation rose to 9.6 million with 34 new service providers added during the first six months. The successful pilot scheme for Octopus-enabled parking meters was converted to implementation and a trial was made in using Octopus for exhibition registration. Octopus' continuous efforts to exploit business opportunities in Mainland China and overseas have made good progress. However the SARS outbreak impacted Octopus Cards Limited and caused a reduction of average daily transaction volume and value to 7.1 million and HK$48.1 million respectively for the month of June 2003. This, together with increased costs relating to new businesses, resulted in MTR's share of earnings from this company reducing by 45% to HK$11 million during the first six months of 2003. The company has a series of campaigns to promote card usage during the second half with a view to mitigating the adverse impact of SARS on the full year results.

Revenue from external consultancy services rose by 180% over the same period last year to HK$70 million. New contracts were secured in Hangzhou and Chengdu in Mainland China, in Taipei and Kaohsiung in Taiwan, Bangkok and London. Over 50% of the current work is in the form of long-term contracts which will produce revenue over an extended period. The Company further signed a Memorandum of Cooperation with the Planning Bureau of the Shenzhen Municipal Government to carry out a joint feasibility study of an extension of Line 4 of the Shenzhen Metro. We also secured training consultancies from the Shenzhen Metro and Tianjin Binhai Mass Transit in the Mainland. The Company and Octopus Cards Limited were selected as subcontractors to support the design, build and operation of the Netherlands electronic ticketing system where the Company together with Octopus Cards Limited will be responsible for the supply of the core of the smartcard operating system.

Financial review of operations

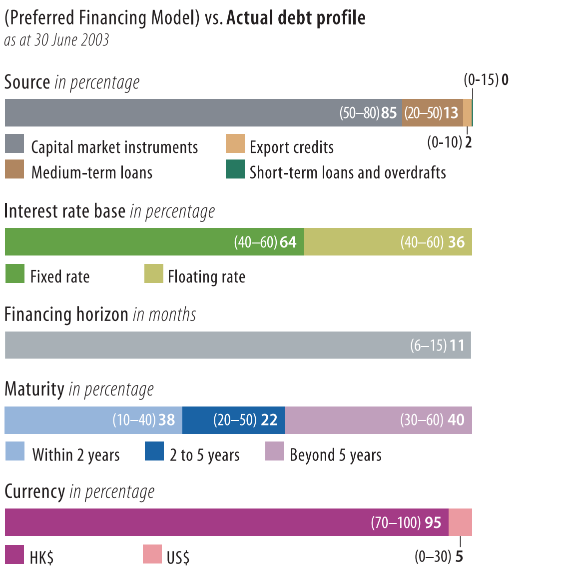
Total revenue for the first half year was HK$3,567 million, a decrease of 4% from the same period last year. Total fare revenue decreased by 6.7% to HK$2,567 million, mainly due to the continued sluggish economy and the outbreak of SARS in March 2003, which substantially reduced patronage on the MTR Lines and Airport Express. We were pleased that the effect of SARS subsided towards the end of the period under review and patronage has gradually recovered. Increased fare promotions and concessions, however, saw the average fare on the MTR Lines reduce slightly to HK$6.64 in the first half of 2003 compared to HK$6.67 for the same period last year. On the Airport Express average fares declined to HK$60.94 as a result of higher proportional usage by airport workers who benefit from fare concessions.

Non-fare revenue was HK$1,000 million, an increase of 3.7% when compared to the same period last year. Increases in kiosk and external consultancy revenues more than offset the declines in advertising, telecommunication and rental income.

Operating costs before depreciation increased slightly by 5.5% to HK$1,753 million compared with the same period last year, mainly due to the commissioning of the Tseung Kwan O Line in August 2002 and additional costs amounting to HK$17 million related to SARS. Operating profit from railway and related operations before depreciation was HK$1,814 million, a reduction of 11.7% compared to the same period last year, with a corresponding operating profit margin of 50.9%, a decrease of 4.4% points when compared with the same period last year.

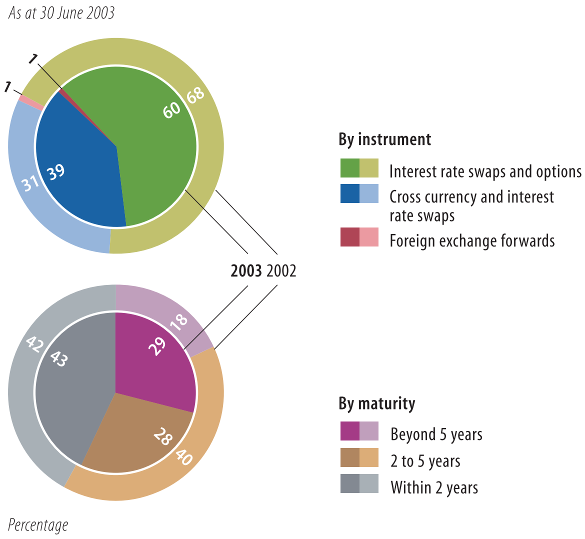
Property development profits of HK$678 million were recognised in the first half of 2003, mainly from deferred income in line with the construction and sales progress on property developments along the Airport Railway. As a result, operating profit before depreciation was HK$2,492 million for the first six months of 2003, a decrease of 26% compared with the same period last year.

The Company has a policy to review periodically the estimated useful lives of its assets. Such a review was completed in the first half of 2003. The review resulted in reductions to the estimated useful lives of certain electronic and computer equipment assets, and extension to those of other assets, particularly locomotives, station architectural finishes and power supply systems. Correspondingly depreciation when compared with the pre-review situation has decreased. However, in the first half of 2003



Preferred financing model and debt profile

MTR continued to adhere to the guidelines of its successful Preferred Financing Model, which imposes prudent diversification on its debt portfolio.



Use of interest rate and currency risk hedging products

MTR makes active use of derivatives instruments to hedge interest rate and currency exposures, but not for speculative purposes.

depreciation charge actually increased when compared with the same period in 2002 because of the opening of the Tseung Kwan O Line in August 2002. Net interest expenses also increased by 116.8% to HK$824 million due to the Tseung Kwan O Line interest expenses being charged to the profit and loss account after its opening. Following the adoption of the revised accounting standard on income taxes from 1 January 2003, the Company recognised an amount of HK$375 million in respect of its deferred tax expense for the half-year period of which HK$300 million related to the increase in corporation tax rate from 16% to 17.5% announced in the Government budget in March. It should be noted that this deferred tax expense is a non-cash item. Together with the Company's share of Octopus Cards Limited's earnings of HK$11 million and a minority interest of HK$2 million, the Group's profit attributable to shareholders for the first half year was HK$113 million, a decrease of 93% compared to the same period last year, with earnings per share of HK$0.02.

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 Hong Kong addresses and the Government will waive its entitlement to receive the cash portion of the interim dividend pursuant to the financing arrangement of the Penny's Bay Rail Link Project Agreement.

During the six-month period, the Group's balance sheet remained strong. Shareholders' funds decreased to HK$52,980 million due to the significant prior period adjustment put through upon adoption of the new accounting policy on income taxes, which was partially offset by the re-investment of scrip dividends by the Government and other shareholders, as well as increase in retained profits for the first half of 2003. Following completion of the Tseung Kwan O Line, capital expenditure reduced significantly compared to same period last year. Major capital outlays for the half-year period related to the expenditure on the Penny's Bay Rail Link and other capital improvement projects. The Group's gross borrowings reduced from HK$33,508 million at year-end 2002 to HK$32,503 million at the end of June 2003 resulting in the gross debt-to-equity ratio reducing marginally from 62.5% to 61.3%. If the cash balances on its balance sheet are included, the Group's net debt-to-equity ratio as at 30 June 2003 was 60.1%.

The Group's major cash outflows for the six months ended 30 June 2003 amounted to HK$3.6 billion, which included capital payments for the Penny's Bay Rail Link and other capital projects, net loan repayments as well as interest and dividend paid. These payments were financed partly by the net cash inflow from operating activities, and partly by the cash surplus brought forward from 2002.

Financing activities

The Hong Kong dollar market remained highly liquid owing to weak investment and borrowing demand and this strong liquidity, together with continuing low interest rates, helped fuel investor appetite for long-term Hong Kong dollar bonds by quality issuers such as MTR. Taking advantage of the favourable conditions, the Company successfully launched a series of Hong Kong dollar bonds between April and June totalling HK$1.6 billion, comprising HK$1.1 billion in 10-year and HK$500 million in 15-year notes, the latter representing the single largest issue of 15-year Hong Kong dollar bonds to-date in Hong Kong. These bonds were issued at attractive costs and have helped refinance some debts maturing in 2004 as well as lengthen the Company's debt maturity profile.

The Company also took advantage of the excess market liquidity and contraction in borrowing spreads in the banking market by entering into bilateral facilities with certain key relationship banks. These new facilities, totalling HK$4.7 billion with maturities of 5 and 7 years, have increased the Company's total undrawn committed banking facilities to HK$10.7 billion as of the end of June 2003 which, together with cash on hand, are sufficient to meet all of the Company's financing needs, including debt refinancing, well into the second quarter of 2004.

With interest rates staying near their 40-year lows, the average interest rate paid by the Company for the first half of 2003 was maintained at 5.4%.

At the end of the first quarter, the Company executed its first U.S. cross border leasing transaction, based on its fleet of Airport Express trains and some MTR Lines trains. The highly successful transaction provided the Company with a substantial net present value financial benefit which will be progressively recognised as income over the relevant lease terms.

During the period, we continued to manage our debt portfolio in accordance with the Company's well-established Preferred Financing Model, to achieve a balanced debt profile with adequate risk diversification and forward coverage. As at 30 June 2003, our outstanding borrowings had a well-balanced spread of maturities, with 38% repayable within two years, 22% due between two and five years, and 40% maturing beyond five years. In total, 64% of our borrowings were based on fixed interest rates, and 95% of our borrowings were either denominated in or hedged into Hong Kong dollars, with the remaining 5% 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 and new shares from exercise of employee stock options, the Company did not issue any new equity for financing purposes during this reporting period.

Health and environment

The Company's strong sense of corporate social responsibility was given particular focus during the first half of 2003 by the SARS outbreak.

MTR worked strenuously to minimise the risk of infection to employees and passengers, while maintaining service quality. Employees were fully briefed on the issues involved and reporting mechanisms for suspected cases established. Additional cleaning was instituted for buildings managed by MTR, stations and rolling stock. Ventilation was increased in carriages, and on platforms and concourses. The Company also made use of its extensive information displays to remind patrons of the need for vigilance in personal hygiene.

No MTR employees were infected at their place of work, testifying to the effectiveness of the measures taken. For the four employees infected outside the workplace, the Company took appropriate measures to isolate the occurrences, including the complete disinfection in March of Wan Chai Station where one of the infected employees works. We also offered full support to the affected employees and their families, in line with our consistently caring attitude towards the workforce. We are pleased to report that all infected employees have recovered and are now back to work.

More broadly, MTR continued to pursue a number of initiatives to enrich the community and protect the environment, reinforcing its commitment to sustainable development. In April, the Company's second Sustainability Report, for the year 2002, was published on the MTR website. A Chinese version and a summary brochure will be available later in 2003. In June, the Company's Sustainability Report 2001 was awarded the Best Environmental Report Award by ACCA (the Association of Chartered Certified Accountants) in recognition of its outstanding performance in environmental reporting.

Human resources

During the first half of 2003, the Company continued to consolidate and improve its staff productivity with the number of employees reducing to 6,748 as at 30 June 2003.

We have ensured that the Company developed its staff through training and development. During the first six months of 2003, a total of 19,662 man days of training took place, involving 1,684 courses for employees across the organisation. We launched a "New Horizon for Leaders" training programme for 1,200 junior managers and senior supervisors to enhance their leadership and communication skills in the management of change. In addition, a new series of e-learning initiatives was implemented for 1,000 staff at different levels to enable a more flexible self- learning opportunity.

As part of the measures to mitigate the impact of SARS and to achieve staff cost savings, a "One Day No Pay Leave Per Month Programme" was launched under which staff at all levels have been requested to take one day no pay leave per month from July to December 2003. Being one-off in nature, the programme was launched after considering staff views and various other alternatives, and is considered to have the least impact on staff.

With the endeavour to always consult staff before making decisions on policies that may affect them, the Company has been able to gain staff support and understanding in launching staff cost saving measures. Through our well-established staff communication and consultation mechanism, we are able to maintain harmonious staff relations amid this period of change and economic difficulties.

Management and corporate governance

Following Mr. Jack So's decision that he would not seek renewal of his contract as Chairman and Chief Executive of MTR when the contract expires in September 2003, the Board announced in April that the position of Chairman and Chief Executive will be split into the positions of Non-Executive Chairman and Chief Executive Officer. The Board commenced in April a world-wide search for the Chief Executive Officer. By mutual consent, Mr. So's contract was terminated early on 20 July 2003, and I was appointed by the Board in June to be the Acting Chief Executive Officer.

Under the Company's Articles of Association, for so long as the Government controls 50% or more of the voting power of the Company, it will be able to appoint the Chairman of the Company. Therefore on 21 July 2003 the Government appointed Dr. Raymond Ch'ien Kuo-fung, who has been a long-serving Non-Executive Director of MTR, as Non-Executive Chairman effective from 21 July 2003. My colleagues and I welcome Dr. Ch'ien as Chairman and look forward to working with him.

The maintenance of best corporate governance practices remains a priority for the Company. As a US Securities And Exchange Commission reporting company, the Company is generally bound by the recently enacted Sarbanes-Oxley Act 2002.

Outlook

The second half of the year is likely to show some improvement in the general economy over the first half, although a strong rebound appears unlikely. While strong signs of recovery from SARS are already apparent, unemployment remains high and deflation continues to affect sectors such as retail. Business investment and property market sentiment are weak whilst tourist numbers may take some months to recover and competition from buses remains as keen as ever.

Passenger numbers during the second half of the year should be higher than in the first six months. They may not, however, reach levels originally anticipated at the beginning of 2003, especially for the Airport Express, although the opening of the Tseung Kwan O Line and, from later this year, the interchanges with the Kowloon-Canton Railway Corporation's West Rail at Nam Cheong and Mei Foo stations will benefit the network.

In the property market, gradually improving sentiment and record low interest rates may reduce the oversupply in the market. Nonetheless, property development profits will increase substantially for the Company in the second half of the year as we book, in particular, profits from Two IFC under sharing in kind arrangements with developers. With the retail sector gradually recovering, we expect occupancy rates and rental income at our investment properties to become more stable.

We will continue to progress property developments along the Tseung Kwan O Line, notably the new "Dream City" at Tseung Kwan O Area 86. We remain convinced of the benefits of our proposal for Tseung Kwan O Area 56, and will seek to gain support for the proposed change in use.

Work will advance on new projects, with modification work scheduled to begin to convert some of our surplus rolling stock for use on the Penny's Bay Rail Link. The project agreement for the Tung Chung Cable Car is expected to be signed with the Government before the year end. Our studies on the South Island Line will commence in July 2003, examining technical options as well as the possible combination of the South Island and West Island lines to reduce capital expenditure whilst serving the catchment areas currently without rail access. We will also explore the opportunity of converting the service platform located beyond Airport Station of the Airport Express to serve the proposed exhibition and convention centre to be built adjacent to Chek Lap Kok Airport.

In our rail related businesses, we will continue to seek efficiency gains and find new ways of increasing revenues. Completion of renovation at Wan Chai Station in the second half of 2003 and at other stations later will add momentum to the recovery of revenues from station retail outlets. Advertising revenue should also be supported by the new formats introduced and the general economic recovery.

In telecommunications, as mobile data volumes rise and 3G networks edge closer to reality in Hong Kong, we will work to ensure the MTR network continues to offer the seamless coverage desired by operators and end users. In the fixed-line market, the second half will see six more data centres and Grade A commercial buildings connected to the TraxComm fibre-optic network, helping improve the quality and price competitiveness of our service and making it an attractive alternative to existing providers.

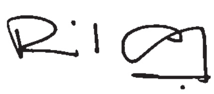
Our external consultancy businesses will increase with opportunities likely to be realised in UK, India and Taiwan. We will pursue our investigation of opportunities to become involved in the construction and operation of metros in China, particularly Shenzhen and Beijing. In Beijing, a Memorandum of Understanding was signed with Beijing Mass Transit Railway Group earlier in the year to provide consultancy services relating to the development of new metro lines. Currently, the Company is providing advice to Beijing Metro on the automatic fare collection systems and evaluation is also being carried out to access the financial viability of one of the new metro lines. We are excited about the entry to this important market. Octopus Cards Limited will continue to expand in Hong Kong and will seek assignments to implement comparable large-scale schemes in other markets.

In all our businesses, we will strive to raise productivity while maintaining a level of service comparable with the highest international standards, in line with our objective to create long-term value for shareholders and make a strong contribution to the economic well being of Hong Kong.

We continue to await Government's decision on the possible merger between the Company and Kowloon-Canton Railway Corporation. As noted previously, we hold the view that if properly structured and implemented on acceptable terms, a merger would be beneficial to all our stakeholders including our investors, our passengers, our employees and the overall Hong Kong rail transport system. We look forward to a speedy conclusion in Government's deliberations on the merger.

We have recently received Government's paper to the Hong Kong Legislative Council on its preliminary assessment of the fare setting mechanism. We are studying this paper and look forward to detailed discussions with Government. However, we welcome Government's recognition, in the paper, of the importance of fare autonomy for MTR and the concept of any factor used for fare setting being viewed as guideline only and to be reviewed by our Board as but one issue for consideration in fare setting. We also noted, in the paper, that Government recognises the linkage between the possible merger of MTR and Kowloon-Canton Railway Corporation, and the fare setting mechanism.

I would echo the thanks expressed by the Chairman to Mr. Jack So who has been a most admirable leader of the Company for the last eight years. Finally, I would like to extend my gratitude to all our employees, particularly those on the "front line" during the difficult SARS affected period of March, April and May, for their loyalty and commitment to MTR and its standards of excellence.



Philip Gaffney, Acting Chief Executive Officer
Hong Kong, 31 July 2003

Corporate governance and other information

Code of Best Practice

The Company has complied throughout the half-year ended 30 June 2003 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 Limited ("HKSE"), except that non-executive Directors of the Company are not appointed for a specific term but are subject (save for 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. Dr. Raymond Ch'ien Kuo-fung, the Chairman was appointed for a term of 3 years with effect from 21 July 2003.

Audit Committee

The Audit Committee meets four times each year to review the completeness, accuracy and fairness of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control. All the members of the Audit Committee are non-executive Directors, namely T Brian Stevenson (chairman), Cheung Yau-kai and the Commissioner for Transport (Robert Charles Law Footman), two of whom are independent 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. All the members of the Remuneration Committee are non-executive Directors, namely Raymond Ch'ien Kuo-fung (chairman), Edward Ho Sing-tin and Frederick Ma Si-hang, two of whom are independent 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. All the members of the Nominations Committee are non-executive Directors, namely David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung), two of whom are independent non-executive Directors.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2003, the interests or short positions of the members of the Board of Directors and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies were as follows:

Ordinary Shares

	Number of Ordinary Shares			
Member of the Board of Directors or Executive Directorate	Personal* interests	Family† interests	Total interests	Percentage of aggregate interests to total issued share capital
Jack So Chak-kwong‡	80,433	–	80,433	0.0015
T Brian Stevenson	4,232	–	4,232	0.0001
Philip Gaffney	46,433	606	47,039	0.0009
Russell John Black	48,688	–	48,688	0.0009
William Chan Fu-keung	46,233	–	46,233	0.0009
Thomas Ho Hang-kwong	49,760	2,433	52,193	0.0010
Leonard Bryan Turk	48,024	2,403	50,427	0.0010

Bond

Member of the Executive Directorate	Personal interests*
William Chan Fu-keung	HK$101,010 MTR 201 3.75 per cent. Notes due 2004
	HK$50,740 MTR 301 4.50 per cent. Notes due 2005

* Beneficial owner
† Interests of spouse or child under 18
‡ Please refer to page 10

Options to subscribe for Ordinary Shares granted under the Pre-Global Offering Share Option Scheme

Member of Board of Directors or Executive Directorate	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2003	Options vested during the period	Options lapsed during the period	Options exercised during the period	Price per share paid on exercise of options	Options outstanding as at 30 June 2003	Weighted average closing price of shares immediately before the date(s) on which 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	–
Philip Gaffney	20/9/2000	1,066,000	5/4/01–11/9/10	1,022,000	–	–	–	–	1,022,000	–
Russell John Black	20/9/2000	1,066,000	5/4/01–11/9/10	1,022,000	–	–	–	–	1,022,000	–
William Chan Fu-keung	20/9/2000	1,066,000	5/4/01–11/9/10	1,022,000	–	–	–	–	1,022,000	–
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/01–11/9/10	1,021,000	–	–	–	–	1,021,000	–
Leonard Bryan Turk	20/9/2000	1,066,000	5/4/01–11/9/10	1,022,500	–	–	–	–	1,022,500	–
Other eligible employees	20/9/2000	40,343,000	5/4/01–11/9/10	30,055,000	417,000	886,500	1,786,500	$8.44	27,382,000	$9.24

‡ Please refer to page 10

The above Members of the Board and the Executive Directorate held the above share options as beneficial owners.

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 none of the members of the Board of Directors or Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the six months ended 30 June 2003, 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 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5 per cent. 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 2003 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
Financial Secretary Incorporated (in trust on behalf of the Government)	4,003,051,873	76.36

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

As at 30 June 2003, the Group had borrowings of HK$31,929 million with maturities ranging from 2003 to 2018 and undrawn committed and uncommitted banking and other facilities of HK$17,664 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 result.

Purchase, Sale or Redemption of Own Securities

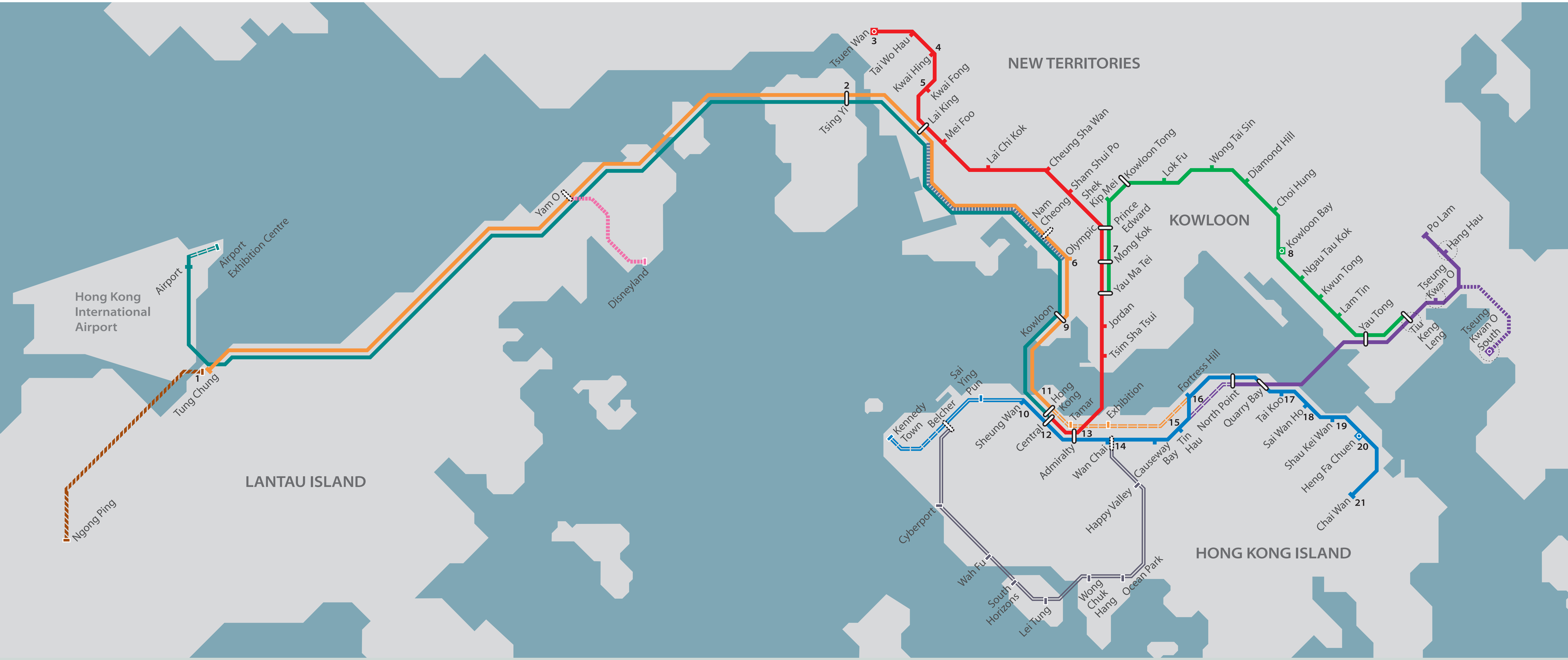
Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during six months ended 30 June 2003.

Closure of Register of Members

The Register of Members of the Company will be closed from 28 August to 3 September 2003 (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 2003. The 2003 interim dividend is expected to be paid on or about 29 October 2003 to shareholders whose names appear on the Register of Members of the Company on 3 September 2003.

Operating network and potential extensions

MTR's existing railway network stretches the length and breadth of Hong Kong. The proposed new lines and those under construction will continue to expand the footprint.



Legend

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

Existing network

- Airport Express Line
- Tung Chung Line
- Kwun Tong Line
- Tsuen Wan Line
- Island Line
- Tseung Kwan O Line

Projects in progress

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

Extensions under study

- South Island Line
- West Island Line Phase 1

Future extensions

- West Island Line Phase 2
- North Island Link
- Tseung Kwan O Line Extension
- Airport Express Line Extension

Properties developed by the Company

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

Consolidated profit and loss account

for the half-year ended 30 June *in HK$ million*	Note	**2003 (Unaudited)**	2002 (Unaudited) (Note 16A)
Fare revenue			
– MTR Lines		**2,391**	2,477
– Airport Express Line		**176**	275
Station commercial and other revenue		**512**	473
Rental and management income		**488**	491
Turnover		**3,567**	3,716
Staff costs and related expenses		**(832)**	(783)
Energy and utilities		**(258)**	(230)
Operational rent and rates		**6**	(41)
Stores and spares consumed		**(55)**	(51)
Repairs and maintenance		**(215)**	(185)
Railway support services		**(40)**	(46)
Expenses relating to station commercial and other businesses		**(135)**	(85)
Property ownership and management expenses		**(90)**	(75)
General and administration expenses		**(74)**	(73)
Project study and deferred expenditures written off		**(5)**	(47)
Other expenses		**(55)**	(46)
Operating expenses before depreciation		**(1,753)**	(1,662)
Operating profit from railway and related operations before depreciation		**1,814**	2,054
Profit on property developments	2	**678**	1,314
Operating profit before depreciation		**2,492**	3,368
Depreciation	3	**(1,193)**	(1,143)
Operating profit before interest and finance charges		**1,299**	2,225
Interest and finance charges:			
Interest expense		**(833)**	(389)
Interest income		**9**	9
		(824)	(380)
Share of profit of non-controlled subsidiary		**11**	20
Profit before taxation		**486**	1,865
Taxation	6	**(375)**	(253)
Profit after taxation		**111**	1,612
Minority interests		**2**	–
Profit attributable to shareholders		**113**	1,612
Dividend	4		
Interim dividend declared after the balance sheet date		**734**	717
Earnings per share:	5		
– Basic		**HK$0.02**	HK$0.32
– Diluted		**HK$0.02**	HK$0.32

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

Consolidated balance sheet

in HK$ million	Note	**At 30 June 2003 (Unaudited)**	At 31 December 2002 (Audited) (Note 16A)
Assets			
Fixed assets			
– Investment properties		**10,271**	10,267
– Other property, plant and equipment		**83,465**	84,003
		93,736	94,270
Railway construction in progress		**43**	109
Property development in progress		**2,896**	2,870
Deferred expenditure		**144**	106
Interest in non-controlled subsidiary		**98**	87
Staff housing loans		**76**	84
Properties held for sale		**751**	794
Stores and spares		**269**	259
Debtors, deposits and payments in advance	9	**664**	727
Amounts due from the Government and other related parties	14	**141**	95
Cash and cash equivalents		**642**	1,718
		99,460	101,119
Liabilities			
Bank overdrafts		**17**	34
Creditors, accrued charges and provisions	10	**4,014**	3,760
Contract retentions		**408**	496
Amounts due to the Government and other related parties	14	**172**	209
Loans and obligations under finance leases	11	**32,486**	33,474
Deferred liabilities		**88**	85
Deferred income		**5,661**	6,226
Taxation		**1**	1
Deferred tax liabilities		**3,627**	3,252
		46,474	47,537
Minority interests		**6**	8
Net assets		**52,980**	53,574
Shareholders' funds			
Share capital, share premium and capital reserve	12	**34,647**	33,910
Other reserves	13	**18,333**	19,664
		52,980	53,574

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

Consolidated statement of changes in equity

for the half-year ended 30 June *in HK$ million*	Note	**2003 (Unaudited)**	2002 (Unaudited) (Note 16A)
Balance as at 1 January, as previously reported		**56,827**	53,848
Change in accounting policy with respect to deferred tax	16A	**(3,253)**	(2,620)
Balance as at 1 January, as restated		**53,574**	51,228
Net profit for the period, as previously reported			1,865
Change in accounting policy with respect to deferred tax	16A		(253)
Net profit for the period (2002: as restated)		**113**	1,612
Dividend paid during the period	4	**(1,444)**	(1,415)
Shares issued under	12		
– Employee Share Option Scheme		**15**	20
– Scrip Dividend Scheme		**722**	708
Net increase in shareholders' funds arising from capital transactions		**737**	728
Balance as at 30 June		**52,980**	52,153

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

Consolidated cash flow statement

for the half-year ended 30 June *in HK$ million*		**2003 (Unaudited)**		2002 (Unaudited)
Cash flows from operating activities				
Operating profit from railway and related operations before depreciation	**1,814**		2,054	
Adjustments for:				
Loss on disposals of fixed assets	**5**		1	
Project study and deferred expenditures written off	**–**		42	
Amortisation of deferred finance income	**(1)**		–	
Exchange gain	**(1)**		–	
Operating profit from railway and related operations before working capital changes	**1,817**		2,097	
Decrease/(Increase) in debtors, deposits and payments in advance	**9**		(6)	
Increase in stores and spares	**(10)**		(3)	
Increase in creditors, accrued charges and provisions	**661**		975	
Net cash generated from operating activities		**2,477**		3,063
Cash flows from investing activities				
Capital expenditure				
– Tseung Kwan O Extension Project	**(420)**		(1,547)	
– Property development projects	**(79)**		(190)	
– Purchase of assets and other capital projects	**(1,080)**		(1,307)	
Receipts from property developers	**17**		331	
Receipts from properties sold	**25**		69	
Proceeds received on reduction of investment in a non-controlled subsidiary	**–**		9	
Principal repayments under Staff Housing Loan Scheme	**8**		23	
Net cash used in investing activities		**(1,529)**		(2,612)
Cash flows from financing activities				
Shares issued	**15**		20	
Drawdown of loans	**1,593**		3,731	
Repayment of loans	**(2,536)**		(1,092)	
Reduction in capital element of finance lease	**(51)**		(70)	
Receipts of deferred finance income	**137**		–	
Collection of refundable deposits and asset replacement reserve funds	**–**		4	
Interest paid	**(855)**		(788)	
Interest received	**10**		6	
Interest element of finance lease rental payments	**(24)**		(30)	
Finance charges paid	**(15)**		(13)	
Dividend paid	**(281)**		(708)	
Net cash (used in)/generated from financing activities		**(2,007)**		1,060
Net (decrease)/increase in cash and cash equivalents		**(1,059)**		1,511
Cash and cash equivalents at 1 January		**1,684**		166
Cash and cash equivalents at 30 June		**625**		1,677
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents		**642**		1,706
Bank overdrafts		**(17)**		(29)
		625		1,677

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 2002 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 2002, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 6 March 2003, are available from the Company's registered office.

The same accounting policies adopted in the 2002 annual accounts have been applied to the interim financial statements except as disclosed under Note 16 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 2002 annual accounts.

2 Profit on property developments

Profit on property developments includes cost of properties sold of HK$43 million *(2002: HK$64 million)*.

3 Change in depreciation rates

Depreciation for the half-year period ended 30 June 2003 includes charges relating to assets capitalised upon commissioning of the Tseung Kwan O Line in August 2002.

In accordance with the Company's policy to conduct asset life review at regular intervals, a review of the estimated useful lives of the Company's fixed assets was carried out during the period, taking into account the assets' actual condition, level of technical obsolescence, future maintenance and replacement programmes as well as depreciation lives adopted by international rail transportation companies. As a result of the review, the estimated useful lives of certain assets were extended whilst those of others reduced. The changes took effect from 1 January 2003 with the following resultant financial effects for the half-year period:

	Typical useful life within asset category		Net decrease / (increase) in depreciation charge
Asset category	Original life (years)	Revised life (years)	(HK$ million)
Rolling stock	10–40	7–40	14
Power supply systems	20–30	20–40	33
Station architectural finishes	20–25	20–30	32
Fixture and fitting	10	10–15	12
Automatic fare collection systems	15	20	6
Fire protection and drainage systems	20–25	20–30	11
Station announcement and telecommunication systems	10	15	15
Computer software licences and applications	7	5–7	(5)
			118

4 Dividends

in HK$ million	**Half-year ended 30 June 2003**	Half-year ended 30 June 2002
Dividend paid		
2002 final dividend of 28 cents *(2001: 28 cents)* per share approved and paid in 2003	**1,444**	1,415
Dividend declared		
Interim dividend declared after the balance sheet date of 14 cents *(2002: 14 cents)* per share	**734**	717

5 Earnings per share

The calculation of basic earnings per share is based on the profit for the half-year period ended 30 June 2003 attributable to shareholders of HK$113 million *(2002: HK$1,612 million, as restated)* and the weighted average number of ordinary shares of 5,167,723,476 in issue during the period *(2002: 5,062,329,930)*.

The calculation of diluted earnings per share is based on the profit for the half-year period ended 30 June 2003 attributable to shareholders of HK$113 million *(2002: HK$1,612 million, as restated)* and the weighted average number of ordinary shares of 5,168,873,569 *(2002: 5,072,272,412)* after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme calculated as follows:

	Half-year ended 30 June 2003	Half-year ended 30 June 2002
Weighted average number of ordinary shares used in calculating basic earnings per share	**5,167,723,476**	5,062,329,930
Number of ordinary shares deemed to be issued for no consideration	**1,150,093**	9,942,482
Weighted average number of ordinary shares used for calculating the diluted earnings per share	**5,168,873,569**	5,072,272,412

6 Taxation

Income tax for the period comprises current and deferred taxes.

Taxation in the consolidated profit and loss account represents:

in HK$ million	**Half-year ended 30 June 2003 (Unaudited)**	Half-year ended 30 June 2002 (Unaudited)
Deferred tax expense relating to the origination and reversal of temporary differences (Note 16A)	**75**	251
Deferred tax expense resulting from increase in tax rate on deferred tax balances at 1 January	**300**	–
	375	251
Share of deferred tax of non-controlled subsidiary	**–**	2
	375	253

No provision for current 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 period ended 30 June 2003.

Deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. In March 2003, the Hong Kong Government announced an increase in the Profits Tax rate applicable to the Group's operations in Hong Kong from 16% to 17.5%, which was passed by the Legislative Council in July 2003. This increase is taken into account in the preparation of the Group's 2003 Interim Financial Report.

7 Segmental information

The Group's results of major business activities for the half-year ended 30 June 2003, with comparative figures for the half-year ended 30 June 2002, are summarised below:

in HK$ million	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 2003 (Unaudited)						
Revenue	2,567	512	488	3,567	–	3,567
Less: Operating expenses before depreciation	1,371	135	90	1,596	–	1,596
	1,196	377	398	1,971	–	1,971
Profit on property developments	–	–	–	–	678	678
Operating profit before depreciation	1,196	377	398	1,971	678	2,649
Less: Depreciation	1,126	55	1	1,182	–	1,182
	70	**322**	**397**	**789**	**678**	1,467
Unallocated corporate expenses						(168)
Interest and finance charges (net)						(824)
Share of profit of non-controlled subsidiary						11
Taxation						(375)
Minority interests						2
Profit for the period ended 30 June 2003						**113**
Half-year ended 30 June 2002 (Unaudited)						
Revenue	2,752	473	491	3,716	–	3,716
Less: Operating expenses before depreciation	1,303	85	75	1,463	–	1,463
	1,449	388	416	2,253	–	2,253
Profit on property developments	–	–	–	–	1,314	1,314
Operating profit before depreciation	1,449	388	416	2,253	1,314	3,567
Less: Depreciation	1,085	44	1	1,130	–	1,130
	364	344	415	1,123	1,314	2,437
Unallocated corporate expenses						(212)
Interest and finance charges (net)						(380)
Share of profit of non-controlled subsidiary						20
Taxation						(253)
Profit for the period ended 30 June 2002						1,612

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

Profit on property developments for the half-years ended 30 June 2002 and 2003 were mainly recognised from the deferred income account.

8 Investments in subsidiaries

The following are new subsidiary companies established or acquired during the half-year ended 30 June 2003:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary / registered share capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
MTR Finance Lease (001) Limited	US$1,000	100%	100%	–	Cayman Islands	Finance
Beijing Premier Property Management Co. Ltd.	US$150,000	60%	–	60%	The People's Republic of China (Incorporated)	Property management

On 1 June 2003, the Company increased its investment in TraxComm Limited ("TraxComm"), a wholly-owned subsidiary, by subscribing 14,999,000 ordinary shares in TraxComm at a consideration of HK$14,999,000. The additional capital raised by TraxComm was used for acquisition of assets and to provide general working capital.

9 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:

in HK$ million	**At 30 June 2003 (Unaudited)**	At 31 December 2002 (Audited)
Amount not yet due	**503**	548
Overdue by 30 days	**60**	82
Overdue by 60 days	**8**	10
Overdue by 90 days	**5**	4
Overdue by more than 90 days	**6**	13
Total debtors	**582**	657
Deposits and payments in advance	**82**	70
	664	727

10 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 interest 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:

in HK$ million	**At 30 June 2003 (Unaudited)**	At 31 December 2002 (Audited)
Due within 30 days or on demand	**465**	547
Due after 30 days but within 60 days	**595**	667
Due after 60 days but within 90 days	**53**	50
Due after 90 days	**2,140**	2,043
	3,253	3,307
Rental and other refundable deposits	**600**	295
Accrued employee benefits	**161**	158
Total	**4,014**	3,760

11 Bonds and notes issued

Bonds and notes issued by the Group during the half-years ended 30 June 2003 and 2002 comprise:

	Half-year ended 30 June 2003		Half-year ended 30 June 2002	
	Principal amount	Net consideration received	Principal amount	Net consideration received
in HK$ million	**(Unaudited)**		(Unaudited)	
Debt issuance programme notes	**1,600**	**1,593**	–	–
HK dollar retail bonds	**–**	**–**	3,500	3,553
	1,600	**1,593**	3,500	3,553

The notes and retail bonds issued during the half-years ended 30 June 2003 and 2002 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.

12 Share capital, share premium and capital reserve

in HK$ million	**At 30 June 2003 (Unaudited)**	At 31 December 2002 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,242,553,821 shares *(2002: 5,158,748,655 shares)* of HK$1.00 each	**5,243**	5,159
Share premium	**2,216**	1,563
Capital reserve	**27,188**	27,188
	34,647	33,910

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:

			Proceeds credited to		
	Number of shares	Option / scrip price *HK$*	Share capital account *HK$ million*	Share premium account *HK$ million*	Total *HK$ million*
Employee share options exercised	1,786,500	8.44	2	13	15
Issued as 2002 final scrip dividends	82,018,666	8.80	82	640	722
	83,805,166		84	653	737

During the half-year ended 30 June 2003, 417,000 options to subscribe for shares were vested and 1,786,500 share options previously vested have been exercised. The weighted average closing price in respect of the share options exercised during the period was HK$9.24 per share. In addition, 886,500 share options lapsed as a result of the resignation of certain option holders during the period. As at 30 June 2003, total options to subscribe for 34,090,500 shares remained outstanding. Details of the movements in respect of the Employee Share Option Scheme during the half-year ended 30 June 2003 are set out under the Corporate Governance and Other Information section on page 12.

13 Other reserves

in HK$ million	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
30 June 2003 (Unaudited)				
Balance as at 1 January 2003 as previously reported	**6,406**	**24**	**16,487**	**22,917**
Prior period adjustments in respect of deferred tax (Note 16A)	**–**	**–**	**(3,253)**	**(3,253)**
Balance as at 1 January 2003 as restated	**6,406**	**24**	**13,234**	**19,664**
Dividend paid	**–**	**–**	**(1,444)**	**(1,444)**
Profit for the period	**–**	**–**	**113**	**113**
Balance as at 30 June 2003	**6,406**	**24**	**11,903**	**18,333**
31 December 2002 (Audited)				
Balance as at 1 January 2002 as previously reported	6,518	116	14,407	21,041
Prior period adjustments in respect of deferred tax (Note 16A)	–	–	(2,620)	(2,620)
Balance as at 1 January 2002 as restated	6,518	116	11,787	18,421
Dividends paid	–	–	(2,132)	(2,132)
Deficit on revaluation	(112)	(92)	–	(204)
Profit for the year, as restated	–	–	3,579	3,579
Balance as at 31 December 2002	6,406	24	13,234	19,664

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 2003, the total amount of reserves available for distribution to shareholders under the Hong Kong Companies Ordinance amounted to HK$11,751 million *(2002: HK$13,104 million, as restated)*.

14 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 76% 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.

The Group has had the following material transactions with Government and other related parties during the half-year ended 30 June 2003:

in HK$ million	Balance at 1 January 2003 (Audited)	Increased / (Decreased)	**Balance at 30 June 2003 (Unaudited)**
Amount due from related parties in respect of infrastructure entrustment works:			
– the Government	57	63	**120**
– the Housing Authority	30	(12)	**18**
– the Kowloon-Canton Railway Corporation	8	(5)	**3**
	95	46	**141**
Amount due to related parties in respect of railway project works entrusted to:			
– the Government	129	(14)	**115**
– the Airport Authority	76	(22)	**54**
Amount due to non-controlled subsidiary	4	(1)	**3**
	209	(37)	**172**

in HK$ million	**Half-year ended 30 June 2003 (Unaudited)**	Half-year ended 30 June 2002 (Unaudited)
Dividend paid to Government	**1,100**	1,084

During the half-year ended 30 June 2003, the Group also had the following transactions with its non-controlled subsidiary, Octopus Cards Limited ("OCL"):

in HK$ million	**Half-year ended 30 June 2003 (Unaudited)**	Half-year ended 30 June 2002 (Unaudited)
Payment to OCL in respect of central clearing services	**21**	21
Fees received from OCL in respect of load agency services and management services	**6**	5

15 Capital commitments

i Outstanding capital commitments as at 30 June 2003 not provided for in the accounts were as follows:

in HK$ million	Railway operations	Penny's Bay Rail Link and Tung Chung Cable Car Projects	Property development projects	Total
At 30 June 2003 (Unaudited)				
Authorised but not yet contracted for	**649**	**–**	**1,884**	**2,533**
Authorised and contracted for	**1,079**	**889**	**74**	**2,042**
	1,728	**889**	**1,958**	**4,575**
At 31 December 2002 (Audited)				
Authorised but not yet contracted for	499	–	1,934	2,433
Authorised and contracted for	1,321	1,017	67	2,405
	1,820	1,017	2,001	4,838

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:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
At 30 June 2003 (Unaudited)			
Authorised but not yet contracted for	**399**	**250**	**649**
Authorised and contracted for	**522**	**557**	**1,079**
	921	**807**	**1,728**
At 31 December 2002 (Audited)			
Authorised but not yet contracted for	338	161	499
Authorised and contracted for	665	656	1,321
	1,003	817	1,820

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

in HK$ million	**At 30 June 2003 (Unaudited)**	At 31 December 2002 (Audited)
Authorised but not yet contracted for	**1,884**	1,931
Authorised and contracted for	**65**	57
	1,949	1,988

16 Adoption of new accounting policies

A Deferred tax

The Hong Kong Society of Accountants issued SSAP 12 "Income taxes" in August 2002, which supercedes the previous SSAP 12 "Accounting for deferred taxes". The new standard became effective for accounting period beginning on or after 1 January 2003. The Group has therefore adopted the new standard for preparation of the Group's financial statements for the half-year ended 30 June 2003.

The new SSAP 12 requires deferred tax assets and liabilities to be provided in full using the liability method, on temporary differences arising between the tax base of an asset or a liability and its carrying value in the financial statements at the balance sheet date. Deferred tax assets or liabilities arising from temporary differences need to be measured at the tax rates enacted or substantially enacted by the balance sheet date. The principal temporary differences in respect of the Company arise from depreciation of fixed assets, various expense provisions and tax losses carried forward.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference can be utilised.

In accordance with the already repealed old SSAP 12, the Group had previously adopted a policy not to provide for deferred taxation on timing differences unless they are expected to crystallise in the foreseeable future. Adoption of the new SSAP 12 therefore constituted a 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 2002 and 2003. The previously reported net profit for the six-month ended 30 June 2002 and for the year ended 31 December 2002 have also been adjusted to reflect movements in the deferred income taxes account during the period. These effects are summarised as follows:

		Net movements in deferred income taxes		
in HK$ million	Balance as at 1 January 2002	6 months ended 30 June 2002	6 months ended 31 December 2002	Balance as at 1 January 2003
Retained profit as previously reported	14,407			16,487
Prior period adjustments in respect of:				
Deferred tax	(2,622)	(251)	(379)	(3,252)
Share of non-controlled subsidiary's deferred tax	2	(2)	(1)	(1)
Retained profit as restated	11,787			13,234

B Lease out and lease back transactions

In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars (Lease Transaction) involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors and will pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at a pre-determined dates for fixed amounts. Part of the rental prepayments received from the Investors has been placed in debt securities which will be sufficient to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. Subject to certain events of default under the Lease Transaction, the Group retains legal title to the assets, and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, the Group received total cash of approximately HK$3,688 million and committed to long-term lease payments with an estimated net present value of approximately HK$3,533 million, which have been defeased by purchase of debt securities to meet the payment obligations. The Group received net cash amount of HK$141 million from the Lease Transaction.

As the long-term lease obligations have been defeased by the placement of securities, the transactions are not accounted for as leases and those liabilities and investments in debt securities are not recognised as obligations and assets of the Group. The net amount of cash received by the Group has been accounted for as deferred income and is being amortised to the Group's profit and loss account over the terms of the respective leases.

17 Post balance sheet event

On 15 July 2003, the practical completion certificate in respect of the property which represents the Company's share of profit in kind in Two International Finance Centre was issued. According to the Company's accounting policy, this represents the official handover of the property to the Company and the related property development profit is required to be recognised in its profit and loss account on that date. The receipt is expected to generate a net profit of approximately HK$3 billion, which will be reflected in the Company's accounts in the second half of 2003.

18 Comparative figures

Comparative figures have been restated and reclassified based on the requirement of the new accounting standard as set out in note 16 in the interim financial report.

19 Approval of interim financial report

The interim financial report was approved by the Board on 31 July 2003.

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 2003.

KPMG
Certified Public Accountants
Hong Kong, 31 July 2003

Key shareholder information

Financial calendar 2003

Announcement of 2003 interim results	31 July
Last day to register for 2003 interim dividend	27 August
Book closure period	28 August to 3 September
2003 interim dividend payment date	29 October (around)
Financial year end	31 December

Registered office

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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 Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Chase Bank. They are also quoted on the London SEAQ International System.

Ordinary shares *(as at 30 June 2003)*:
Shares outstanding: 5,242,553,821 shares
Hong Kong SAR Government shareholding:
4,003,051,873 shares (76.36%)
Free float: 1,239,501,948 (23.64%)

Nominal value	HK$1 per share
Market capitalisation *(as at 30 June 2003)*:	HK$46,921 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$)*

2002 Interim Dividend	0.14
2002 Final Dividend	0.28
2003 Interim Dividend	0.14

ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depositary Bank	JP Morgan Chase Bank 40th Floor, One Chase Manhattan Plaza New York, NY 10081 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
FTSE4Good Global Index
Dow Jones Sustainability World Index

Stock codes

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 2003

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

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