

# MTR Corporation - 2006 Interim Results



# Results highlights and business overview

Mr CK Chow, CEO



# Solid achievements in the first half of 2006



**Good results for the first six months in 2006 driven by strong property development profits and continued improvement in all business areas**

**Signing of MOU with the Government on the proposed rail merger with KCRC**

**Beijing Line 4 Project officially commenced after receiving all government approvals**

# Financial performance



(HK\$m)	1H2006	1H2005	Change
Total revenue	4,566	4,385	↑ 4.1%
EBITDA <sup>(1)</sup>	2,639	2,541	↑ 3.9%
EBITDA margin	57.8%	58.0%	↓ -0.2%pt
Property development profit	4,072	1,520	↑ 167.9%
Underlying profit (excl post-tax inv. property revaluation)	3,948	1,769	↑ 123.2%
Post-tax investment properties revaluation	1,219	837	↑ 45.6%
Reported net profit attributable to equity shareholders	5,167	2,606	↑ 98.3%
Reported EPS (HK\$)	0.94	0.48	↑ 95.8%
Underlying businesses EPS (HK\$)	0.72	0.33	↑ 118.2%
Dividend per share (HK\$)	0.14	0.14	

(1) EBITDA before property development profits

# Business review

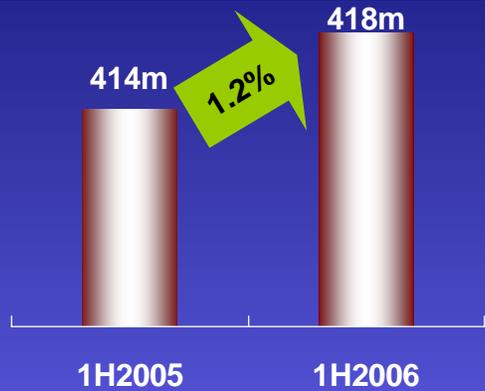
## Railway



# Patronage and average fare



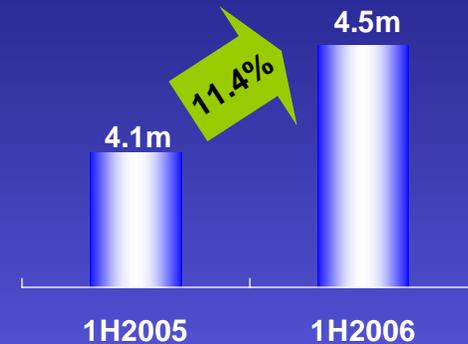
## Patronage – MTR Lines



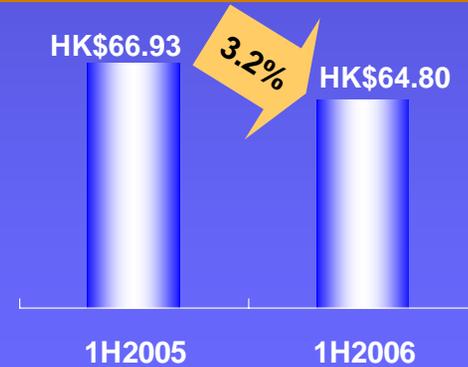
## Average fare – MTR Lines



## Patronage – Airport Express



## Average fare – Airport Express

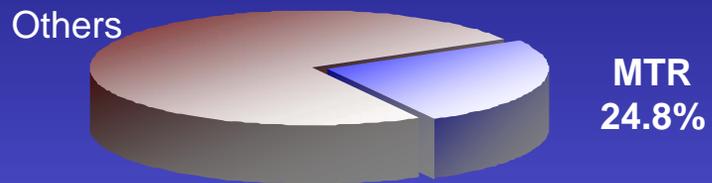


# Market share

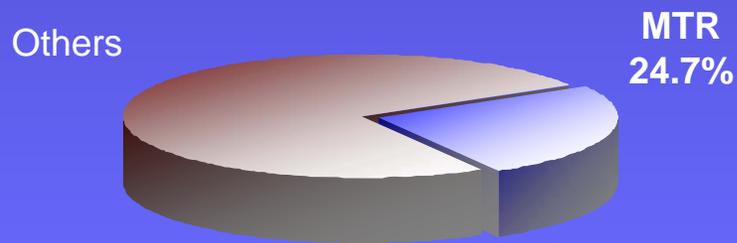


## Franchised public transport

1H2005

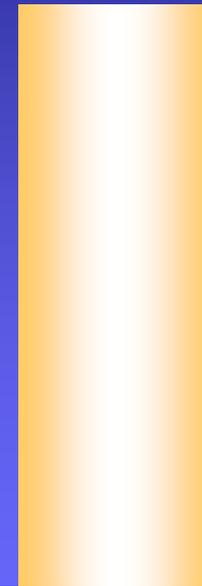


1H2006

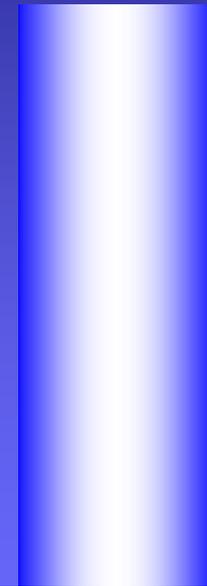


## Cross-harbour

60.4%



60.4%



1H2005

1H2006

# Rail operational enhancement



- **Completion of platform screen door project for all 74 platforms of 30 underground stations**
- **Installation of passenger lifts in Cheung Sha Wan, and Sham Shui Po stations**
- **Improved station access through new pedestrian links**

# Business review

## Non-fare businesses



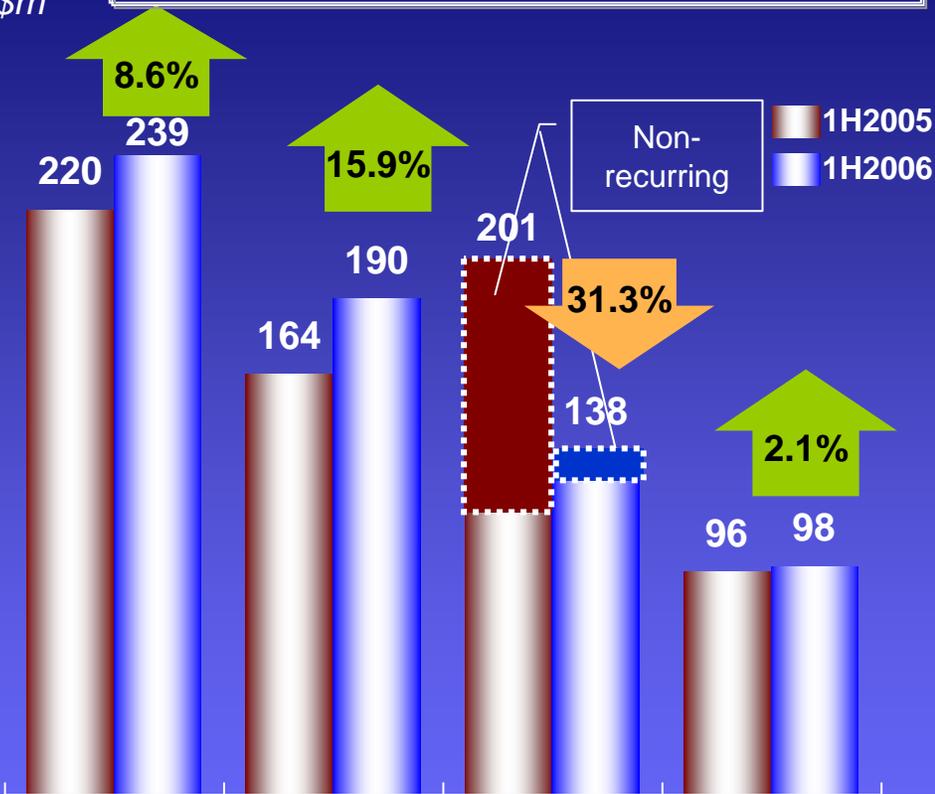


# Non-fare businesses

Station commercial & other businesses: HK\$735m  
Excluding one-off incomes



HK\$m



## Advertising

- Continuing growth of advertising market and rate improvement
- Innovative format introduced

## Station commercial

- Higher rental rate with average growth of 8%
- More trading space and improved retail areas

## Telecommunications

- One-off payment received in 1H2005 not repeated
- Reduced mobile tariff

## External Consultancy

- Focused consulting strategy
- New projects in Taiwan and Mainland of China
- Revenue increased 2.1% to HK\$98m

## Octopus

- Continue to expand in non-transport sector
- MTR's share of post-tax earnings amounted to HK\$28m, up 9%

Advertising

Station commercial

Telecom

Consultancy

# Business review

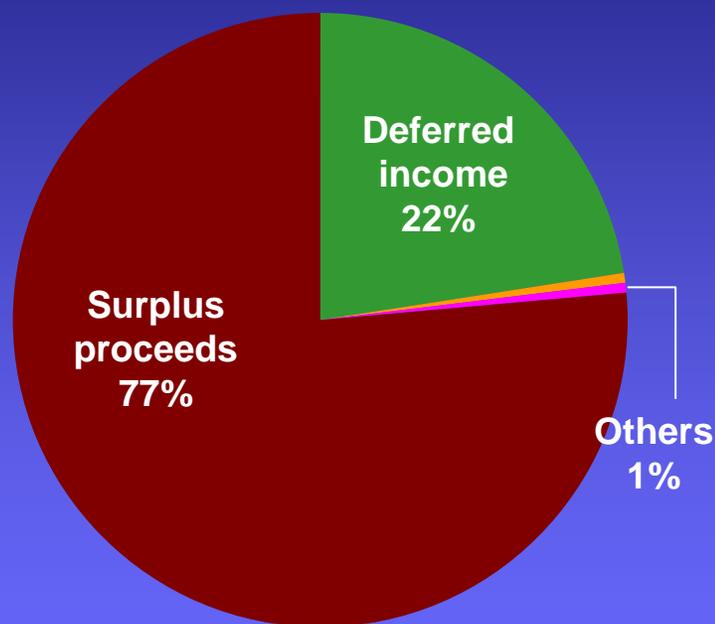
## Property



# Property development



Property development profit  
HK\$4,072m



- Despite softer market sentiment, property development profits benefited from the strong pre-sales in 2005 of the Metro Town and Grandiose developments in TKO
- Major profit contributors:
  - Surplus proceeds mainly from the Grandiose and Metro Town
  - Deferred income mostly from Tung Chung developments, Harbour Green at Olympic and fitting-out of the Elements
- Area 86 Package 2 has been awarded to a Cheung Kong-led consortium and HK\$4bn interest free loan extended to the developer

# Property rental and management



## Property rental & management

revenue: HK\$693m



- Full occupancy in all properties
- Average of 18% growth achieved in the rental renewal of shopping centers
- Refurbishment in progress for Telford Plaza I
- Good response from pre-letting of Elements, and The Edge at TKO
- Residential property management portfolio grew by 5.2%

# Other growth opportunities



UK/Europe

Mainland of China

Hong Kong

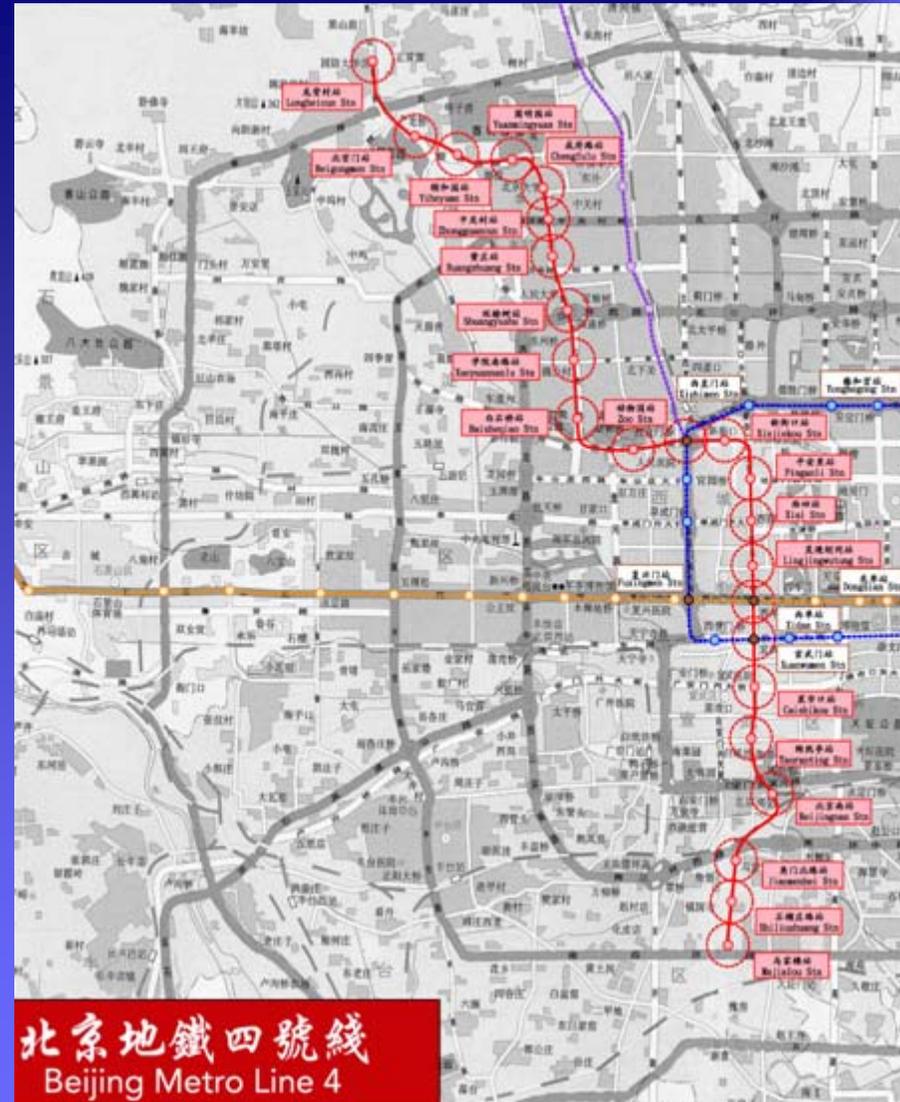




# Beijing Line 4 project commencement



- Concession Agreement for Beijing Line 4 projects signed in April 2006
- Total project capex of RMB 15.3bn funded by Beijing Municipal Government and the PPP Project Company
- For the PPP company equity injection has started and non-recourse loan of RMB 3.2 bn secured
- Rolling stock and signaling contracts awarded
- Target for completion in 2009



# Other growth opportunities outside of Hong Kong



## Mainland of China

### Shenzhen

- Awaiting final approval from NDRC for Line 4
- Negotiation of Line 3 investment continues

### Other potential projects

- MOUs signed with Wuhan and Hangzhou municipal government to explore cooperation opportunities
- MOU and Letter of Interest signed for Beijing Line 4 extension and Beijing Line 9

## UK / Europe

- Submitted bid for South Western Train Franchise in the UK jointly with National Express
- Pre-qualified to bid for London Rail Concession, target for 4Q06 submission of tender

# Merger update



# Potential rail merger with KCRC



- **Signing of a MOU with the Government of HKSAR on 11 April, setting out the terms of the proposed merger of the operations of MTR and KCRC and the acquisition of a property package**
- **Rail Merger Bill introduced to LegCo on 5 July. Legislation process has begun**
- **An Independent Committee of the Board has been formed to advise independent shareholders on the proposed transaction**
  - **An Independent Financial Advisor will be appointed**
- **This transaction will be subject to the approval of independent shareholders**

# Financial Results

Mr Lincoln Leong, Finance Director



# Income statement



<i>(HK\$m)</i>	<u>1H2006</u>	<u>1H2005</u>	<u>% change</u>
Fare revenue	3,138	2,988	5.0
Non-fare and rental and management income	1,428	1,397	2.2
Turnover	4,566	4,385	4.1
Operating expenses	(1,927)	(1,844)	(4.5)
<b>EBITDA</b>	<b>2,639</b>	<b>2,541</b>	<b>3.9</b>
Property development profits	4,072	1,520	167.9
Total operating profit	6,711	4,061	65.3
Depreciation	(1,315)	(1,362)	3.5
Interest	(739)	(634)	(16.6)
Investment properties revaluation	1,478	1,015	45.6
Profit from non-controlled subsidiaries & associates	16	15	6.7
Profit before tax	6,151	3,095	98.7
Taxation	(984)	(489)	(101.2)
Reported net profit attributable to equity shareholders	5,167	2,606	98.3
Reported earnings per share (\$)	0.94	0.48	95.8
<b>Profit from underlying businesses (excl. inv. property revaluation net of deferred tax)</b>	<b>3,948</b>	<b>1,769</b>	<b>123.2</b>
<b>Underlying businesses EPS (\$)</b>	<b>0.72</b>	<b>0.33</b>	<b>118.2</b>
Dividend per share (\$)	0.14	0.14	-

# Segmental income statement of underlying businesses



<i>(HK\$m)</i>	<u>1H2006</u>	<u>1H2005</u>
Railway and related businesses	37	5
Property investment and management	559	540
Property developments	4,061	1,520
Tax and others (*)	(709)	(296)
	<hr/>	<hr/>
<b>Underlying net profit attributable to equity shareholders</b>	<b><u>3,948</u></b>	<b><u>1,769</u></b>

Note:

All segmental incomes shown are pre-tax profits. Interest cost relating to the interest-free loan to developer has been allocated to property development.

\* Excludes deferred tax on investment property revaluation

# Balance sheet



<i>(HK\$m)</i>	<u>1H2006</u>	<u>31 Dec 2005</u>
<b><u>Assets</u></b>		
Fixed assets	83,550	83,383
Investment properties	21,377	19,892
Railway construction in progress	1,185	1,006
Property development in progress	3,189	2,756
Cash and cash equivalents	369	359
Debtors, deposits and payments in advance	3,967	3,095
Loan to Property Developer	3,268	-
Properties held for sale	3,364	1,311
Others	<u>2,049</u>	<u>1,864</u>
	<u>122,318</u>	<u>113,666</u>
<b><u>Liabilities</u></b>		
Debt	31,809	28,264
Deferred income	2,580	3,584
Deferred tax liabilities	9,045	8,011
Others	<u>4,315</u>	<u>3,911</u>
	<u>47,749</u>	<u>43,770</u>
<b><u>Total equity</u></b>	<u>74,569</u>	<u>69,896</u>

# Cash flow



<i>(HK\$m)</i>	<u>1H2006</u>	<u>1H2005</u>
Cash from operations	2,737	2,562
Receipts from property	<u>584</u>	<u>2,332</u>
Total inflows	3,321	4,894
Capital expenditure	(1,339)	(2,316)
Interest paid	(830)	(721)
Working capital adjustments	(197)	(58)
Dividends paid	<u>(767)</u>	<u>(755)</u>
Total outflows (*)	(3,133)	(3,850)
Loan to a developer (Area 86 package 2)	(4,000)	-
<b>Net cash (used) / generated</b>	<b>(3,812)</b>	<b>1,044</b>
Financed by:		
Net increase/(repayment) of loan	3,824	(1,122)
Increase / (decrease) in cash	12	(78)

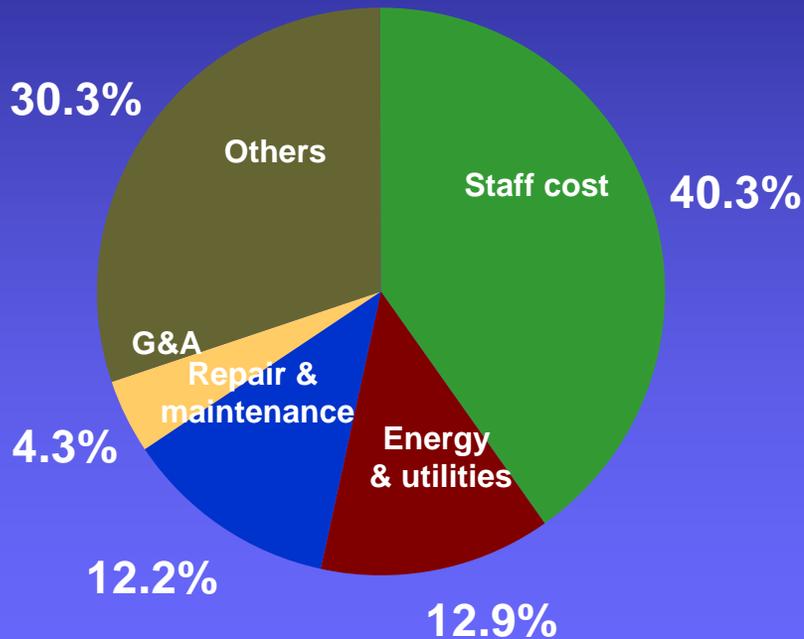
\* Cash outflows to meet financial obligations and capital investment



# Operating expenses

Total operating expenses before interest and depreciation:  
HK\$1,927m

 4.5%



■ Operating margin of 57.8%

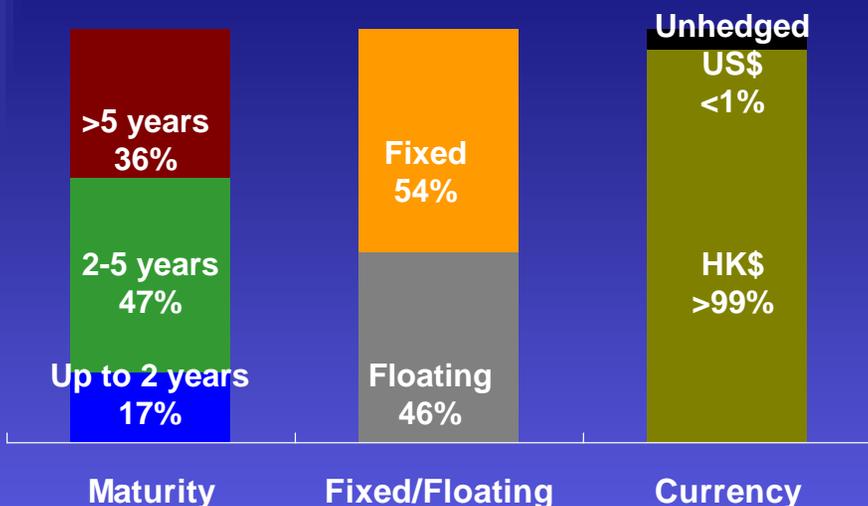
  
0.2% point

Compared to 1H2005 figures

# Financing and credit ratios



## Debt profile (30 June 2006)



■ Total loan outstanding: HK\$31,809m increased HK\$3,545m from 31 Dec 2005

■ Average borrowing cost: 5.5%

↑ 0.5% point

■ Net interest expense : HK\$739m

↑ 16.6%

Compared to 1H2005 figures

	June 2006	Dec 2005
Debt/Equity ratio	42.7%	40.4%
Interest coverage	8.3x	7.6x

# Outlook



# Outlook for second half of 2006



## Rail and related businesses

- **Slower economic growth in second half and continued competition may impact patronage growth in MTR . AEL patronage likely to continue to benefit from growing tourism and the AsiaWorld-Expo Station**
- **Station commercial businesses,**
  - **Advertising and kiosk rental are anticipated to grow in line with market**
  - **Telecommunication is likely to be adversely impacted by competition amongst telecom operators and conversion from 2G to 3G**

# Outlook for second half of 2006(cont'd)



## Property

- **Property investment – additional competition expected**
- **Property development profits will depend on market conditions, pre-sale, construction progress and Occupation Permit issuance**
  - Airport Railway
    - Bulk of deferred income balance (HK\$2.5bn) likely to be recognised over the next 2 years
    - An additional 7,100 m<sup>2</sup> GFA of Elements likely to be received in second half
  - TKO
    - Recognition of profits from small development at Central Heights depends on sales progress
    - Occupation Permit and profit booking of Le Point (Tiu Keng Leng Phase 2) is not expected until 2007
  - **Property development profit recognition is likely to be materially lower in the second half than first half**
  - **Depending on market conditions, Tseung Kwan O Area 56 may be tendered later this year**

# Forward-looking statements



**Certain statements contained in this presentation may be viewed as "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of MTR Corporation Limited (the "Company") to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.**