

Press Release

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MTR CORPORATION LIMITED

(地鐵有限公司)

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)***ANNOUNCEMENT OF AUDITED RESULTS FOR YEAR ENDED
31 DECEMBER 2001**

The Directors of MTR Corporation Limited ("the Company") are pleased to announce the audited results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2001 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK\$ MILLION)

Year ended 31 December	2001	2000
		(Note 1)
Fare revenue		
- MTR Lines	5,164	5,166
- Airport Express Line	564	549
Station commercial and other revenue	973	995
Rental and management income	891	867
Turnover	7,592	7,577
Staff costs and related expenses	(1,641)	(1,688)
Energy and utilities	(501)	(500)
Operational rent and rates	(78)	(65)
Stores and spares consumed	(119)	(127)
Repairs and maintenance	(437)	(456)
Railway support services	(110)	(109)
Expenses relating to station commercial and other businesses	(197)	(185)
Property ownership and management expenses	(159)	(142)
General and administration expenses	(179)	(227)
Other expenses	(112)	(164)
Operating expenses before depreciation	(3,533)	(3,663)
Operating profit from railway and related operations before depreciation	4,059	3,914
Profit on property developments	3,248	3,376
Operating profit before depreciation	7,307	7,290
Depreciation	(2,178)	(2,091)
Operating profit before interest and finance charges	5,129	5,199

Interest and finance charges :		
Interest expense	(896)	(1,209)
Interest income	22	66
	(874)	(1,143)
Share of profit of non-controlled subsidiary	29	13
Profit for the year attributable to shareholders	4,284	4,069
Dividends		
Interim dividend declared and paid during the year	703	-
Final dividend proposed after the balance sheet date	1,415	500
	2,118	500
Earnings per share:		
- Basic	HK\$ 0.85	HK\$ 0.81
- Diluted	HK\$ 0.85	HK\$ 0.81

CONSOLIDATED BALANCE SHEET (HK\$ MILLION)

At 31 December	2001	2000 (Note 1)
Assets		
Fixed assets		
- Investment properties	10,363	10,151
- Other property, plant and equipment	68,880	68,324
	79,243	78,475
Railway construction in progress	12,873	9,194
Property development in progress	3,361	2,699
Deferred expenditure	326	187
Interest in non-controlled subsidiary	51	26
Staff housing loans	127	635
Properties held for sale	689	-
Stores and spares	261	275
Debtors, deposits and payments in advance	830	676
Amounts due from the Government and other related parties	152	224
Cash at banks and in hand	215	174
	98,128	92,565
Liabilities		
Bank overdrafts	49	44
Short-term loans	394	887
Creditors, accrued charges and provisions	3,006	3,289
Contract retentions	798	817
Amounts due to the Government and other related parties	401	422
Loans and obligations under finance leases	30,942	26,272
Deferred liabilities	78	76
Deferred income	8,411	10,403
	44,079	42,210
Net Assets	54,049	50,355
Shareholders' Funds		
Share capital, share premium and capital reserve	32,807	32,188
Other reserves	21,242	18,167
	54,049	50,355

Notes:-

1. COMPARATIVE FIGURES

The consolidated financial information relating to the financial year ended 31 December 2000 included herein is unaudited and has been prepared for comparative purposes only. The Company's accounts for the year ended 31 December 2000 did not include group accounts of the Company and its subsidiary companies in view of the Company having no effective control over the Board of one of its subsidiaries, Octopus Cards Limited (previously Creative Star Limited) and the insignificant amounts involved in the other subsidiaries. Statutory accounts for the year ended 31 December 2000, on which the auditors have expressed an unqualified opinion in their report dated 1 March 2001, are available from the Company's registered office.

2. TAXATION

No provision for Hong Kong profits tax has been made in the consolidated profit and loss account in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for set off against current year's assessable profits or have tax losses as at 31 December 2001.

3. DIVIDEND

The Board has recommended to pay a final dividend of HK\$0.28 per share. The Company proposes that a scrip dividend election will be offered to shareholders with Hong Kong addresses. Subject to the approval of the shareholders at the forthcoming Annual General Meeting, the final dividend will be distributed on or about 14 June 2002 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 8 April 2002. The Company's majority shareholder, the Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that the amount payable in cash will not exceed 50% of the total dividend payable.

4. ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting of the Company will be held on 16 May 2002. For details of the Annual General Meeting please refer to the Notice of Annual General Meeting which is expected to be published on or about 12 April 2002.

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year ended 31 December 2001 attributable to shareholders of HK\$4,284 million (2000: HK\$4,069 million) and the weighted average number of ordinary shares of 5,015,601,057 in issue during the year (2000: assuming 5,000,000,000 shares were in issue throughout the year).

The calculation of diluted earnings per share is based on the profit for the year ended 31 December 2001 attributable to shareholders of HK\$4,284 million (2000: HK\$4,069 million) and the weighted average number of ordinary shares of 5,030,188,894 (2000: 5,004,497,055) after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme.

6. SEGMENTAL INFORMATION

HK\$ Million	Revenue		Contribution to profit from operations	
	Year ended 31 December		Year ended 31 December	
	2001	2000	2001	2000
Railway operations	5,728	5,715	825	742
Station commercial and other businesses	973	995	679	722
Property ownership and management	891	867	730	723
Property developments	-	-	3,248	3,376
	<u>7,592</u>	<u>7,577</u>	<u>5,482</u>	5,563
Other corporate expenses net of other income			<u>(1,198)</u>	(1,494)
			<u>4,284</u>	<u>4,069</u>

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

7. LIQUIDITY, FINANCIAL RESOURCES AND BORROWINGS

During the year, the Group raised a total of HK\$16 billion in new financing at very fine terms, with the majority applied to refinance less cost effective facilities on hand. As at 31 December 2001, we had HK\$5.5 billion in undrawn committed facilities with final maturities ranging from 5 to 7 years, which are sufficient to cover our anticipated funding needs up to the first quarter of 2003. Over the next three years, we expect to have a capital expenditure programme of HK\$10.6 billion, based on existing committed projects. Those requirements will be met by a well-diversified funding programme, utilizing a variety of financing instruments in Hong Kong and major capital markets such as the U.S.A., Europe and Japan.

The Group's major capital payments for the year ended 31 December 2001 amounted to HK\$8.3 billion, which were related to the Tseung Kwan O Extension and other capital projects, as well as interest and dividends paid. These payments were financed partly by the net cash inflow from operating activities of HK\$4.1 billion, and partly through increase in net borrowings of HK\$4.2 billion. As a result of the increase in borrowings during 2001, total debts outstanding as at 31 December 2001 amounted to HK\$31.4 billion. With shareholders' funds at year-end increasing to HK\$54.0 billion from HK\$50.4 billion as at the last year-end, our gearing ratio rose to 58% from 54%, which was in line with our financing plan.

Our debt portfolio is managed under a well-established Preferred Financing Model to achieve a balanced debt profile with adequate risk diversification and forward coverage. As at 31 December 2001, our outstanding borrowings had a well-balanced spread of maturities, with 17% due within 2 years, 43% repayable between 2 and 5 years, and 40% maturing beyond 5 years. 52% of our borrowings were at fixed interest rates and 77% of our borrowings were either denominated in or hedged into Hong Kong dollars, with the remaining 23% held in US dollars. We manage our currency and interest rate exposures using derivative instruments for hedging purposes only.

8. HUMAN RESOURCES

MTR's company philosophy is to attract, retain and develop high calibre people at all levels, through offering well-structured remuneration, training and career paths. There were 7,231 employees with the Group, excluding Octopus Cards Limited, as at 31 December 2001 as compared to 7,332 as at 31 December 2000. Staff costs have fallen continuously since 1998, with the steady development of a multi-skilled workforce. The training component of our operations has increased, with new equipment and a new e-learning centre in place. The official launch of our Core Values of Service, Respect and Value also helped to foster a strong culture of continuous improvement.

9. PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

During the year ended 31 December 2001, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's securities.

10. CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Exchange") except that non-Executive Directors of the Company are not appointed for a specific term but are subject (save as those appointed pursuant to Section 8 of the new MTR 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.

11. PUBLICATION OF DETAILED RESULTS AND ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website within 21 days from date of this announcement.

KEY STATISTICS

	Year ended 31 December	
	2001	2000
Total number of passengers (Million)		
- MTR Lines	758	767
- Airport Express Line	9	10
Average number of passengers (Thousand)		
- MTR Lines (weekday average)	2,231	2,240
- Airport Express Line (daily average)	25	28
Operating profit from railway and related operations before depreciation as a percentage of turnover	53.5%	51.7%

MANAGEMENT REVIEW AND OUTLOOK

In the Company's second year as a publicly listed company, MTR achieved satisfactory profits despite the poor economic environment in Hong Kong. This achievement was made possible by further improvements in efficiency and productivity whilst at the same time maintaining or exceeding the high operational standards achieved in previous years. The results testify to our successful business model that integrates our railway business with the development of substantial properties connected to our railway stations and depots.

Total net profit for the year reached HK\$4,284 million, an increase of 5.3% over 2000. Earnings per share increased by 4.9% to HK\$0.85.

The Board of Directors has proposed a final dividend of HK\$[0.28] which combined with the interim dividend of HK\$0.14 would bring total dividends for the year to HK\$[0.42] per share. As in the previous year, shareholders will be given an option to receive dividends in either cash or in scrip. The Government has undertaken to elect to receive its entitlement in scrip form in such amount as to ensure that no more than half of the total dividend will be paid in cash, thus demonstrating its continued support for the Company and providing us with capital for future development.

2001 Achievements

Economic weakness in Hong Kong together with continued migration of population from urban areas to the New Territories and competition from other transport modes contributed to a 1.3% year-on-year decline in total patronage to 767 million, although total fare revenue increased marginally by 0.2% to HK\$5,728 million. Patronage on the Airport Express Line was particularly affected by the tragic events of 11 September 2001 in the United States.

To counter the strong competition, we increased our initiatives to attract people to use the MTR and worked closely with the Government to improve the integration of our network with those of other transport operators. We refurbished stations to create a livelier environment. Other operational initiatives included increasing train service on the Urban Lines during off-peak hours and at evening peak times. The train modernisation programme, which was completed ahead of programme, also improved the attraction of the MTR by providing customers with more comfortable trains, better lighting and ventilation, more comfortable seats and additional space for luggage or wheelchair use. The September opening of the new cross-platform interchange between the Kwun Tong Line and the Island Line at North Point Station resulted in significant time savings for passengers. New marketing initiatives, such as Hello Kitty & Snoopy model trains and other loyalty programmes were also introduced to promote ridership.

Revenues from our rail related operations increased marginally by 0.1% to HK\$1,864 million, resulting in total revenues from railway and related operations of HK\$7,592 million, an increase of 0.2% over 2000. Notable achievements in our rail related businesses were significant increases in external consultancy business and continued good results from our property investment and management businesses. Our ongoing programme of increasing efficiency and productivity through cost control saw operating costs before depreciation decrease by 3.5% when compared to last year, a saving of HK\$130 million. This allowed operating profit from railway and related operations to increase by 3.7% to HK\$4,059 million. The operating margin of 53.5% was the highest since 1998.

During the year good progress was made in the construction and pre-sales of residential property units, particularly in Tung Chung, allowing the Company to realise property development profits of HK\$3,248 million despite the soft property market.

MTR also benefited from declining interest rates with interest expenses decreasing to HK\$874 million from HK\$1,143 million. We took full advantage of the low interest rate environment to re-finance less cost effective borrowings as well as to take on additional net borrowings to finance our capital expenditure programme. Depreciation, however, increased by 4.2% to HK\$2,178 million mainly as a result of the capitalisation of the Quarry Bay Congestion Relief Works costs during the year.

Outlook

Despite the challenging business environment, we see a number of exciting opportunities for further development.

In our railway business, we take pride in our record of delivering major railway projects on time and within budget. The Tseung Kwan O Extension project is now well advanced, with the major civil construction works for the entire line completed in June last year and remaining works progressing satisfactorily. I am pleased to report that the latest estimated cost for the project has been revised to HK\$18 billion, a reduction of more than 40% compared to the original budget and 14% below last year's revised budget. We are targeting to open the line for public service around mid August 2002, four months ahead of our project obligation to the Government.

As I reported last year, the Government's long-term policy commitment to promote rail as the backbone of Hong Kong's public transport network, as embodied in its Railway Development Strategy 2000, is of long-term importance to MTR. During the year, we continued our discussions with the Government regarding a number of Railway Development Strategy 2000 projects and the Penny's Bay Rail Link. We submitted several proposals to undertake new projects and extensions on the basis of a commercial return, which the Government has recognised to be typically calculated at a margin of between 1% and 3% above our weighted average cost of capital.

In response to the Government's invitation, in July 2001 we submitted a competitive proposal for the Shatin to Central Link. This is an important project for the Company and the Government has assured us that the proposal will be assessed in both its financial and technical aspects on a "level playing field" basis as between the Company and Kowloon-Canton Railway Corporation, which we understand has also submitted a proposal. We believe that our proposal is highly competitive in respect of cost, programme and customer service features. The tender is currently under consideration by the Government.

Separately, we have also submitted a proposal to construct, finance and operate the Island Line Extensions, comprising the North Island Link and the West Island Line, which are regarded as natural extensions of the MTR system. We expect progress in discussions with the Government on these proposals during 2002. On the Penny's Bay Rail Link, we continued our discussions with the Government on the project agreement and expect to finalise it in 2002 for construction work to begin. We also submitted a proposal to build a cable car system on Lantau Island, linking Tung Chung with Ngong Ping and the nearby Big Buddha Statue and Po Lin Monastery. We have been shortlisted by the Government for final negotiations on this project, which would establish a major new tourist attraction in Hong Kong.

In our real estate business, with all development projects of the Airport Railway awarded by the end of year 2000, the focus now is to ensure the timely construction, completion and, as appropriate, leasing or sale of these properties. With respect to property developments along the Tseung Kwan O Extension, our tender for Area 55b in December 2001 attracted strong interest and the development was awarded in January 2002 to a consortium led by New World Development Company Ltd. We anticipate tenders for more Tseung Kwan O development packages during 2002. The refurbishment undertaken during 2001 at Paradise Mall and Telford Boulevard, as well as the adjustment of trade mix at Maritime Square, should enhance rental yields in 2002. Our property management business will continue to expand, as further completed units from the Airport Railway projects are absorbed.

We continue to examine new ways to build on MTR's goodwill and image, and its large customer base. Usage of Octopus cards continued to expand in 2001, with 8.2 million cards in issue by year-end, an increase for the year of 15.5%. The management of Octopus Cards Limited is dedicated to expanding card usage further as well as exploring other revenue enhancing initiatives.

In its advertising business, the Company will strive to increase revenues despite poor market conditions. The "e-Instant Bonus" system launched in the year will be extended whilst new advertising formats and panels will be installed. Refurbishment and re-merchandising of stations will continue.

I reported last year that we are always mindful of opportunities outside of Hong Kong. As at the end of 2001 we were involved in consultancy contracts in Bangkok, Kaoshiung, Taipei, Singapore, Delhi and Sydney as well as cities in Mainland China such as Shanghai, Guangzhou and Shenzhen. We continue to look for consultancy contracts that leverage our skill base and enhance our revenue.

To support our future development, the Company continues to maintain a strong balance sheet with comfortable financial ratios. Our capital expenditures on committed projects and existing systems will fall significantly after completion of the Tseung Kwan O Extension. We have substantial capacity to raise capital to finance new projects or businesses.

The current difficult economic environment and competition from other modes of transport continue to challenge our existing operations. We will therefore continue our efforts to control costs, increase productivity and improve efficiency where possible. Inevitably this will affect our staff and I extend to them my sincere thanks for their co-operation, understanding and commitment. Cost control balanced with the need to continue providing excellent levels of service is firmly embedded in the minds of everyone at the Company and we will continue to review areas that might be streamlined. A good example of this will be the opening of the Tseung Kwan O Extension, where we intend to meet the additional operational requirement without increasing overall staffing levels and all staff required for the operation of this line will be re-deployed from other parts of our business.

Economic considerations have also led the Board of Directors to decide not to raise fares in 2002, following a similar decision in 2001.

Optimism in a Challenging Environment

The global economy continues to perform poorly, although there are some early signs of a recovery in the United States. Hong Kong's economy slowed down substantially in 2001 while entering its third consecutive year of deflation. We nevertheless remain optimistic concerning the outlook for the Company. With costs tightly contained, a healthy balance sheet, excellent people and a culture of transparency, strong risk management and control, MTR is soundly positioned to meet future challenges.

To achieve our mission in 2002, MTR will focus on the following objectives:-

- Achieve further cost control through increased efficiencies and re-deployment of staff.
- Improve patronage.
- Commission the Tseung Kwan O Extension with a target opening date of August.
- Pursue new rail projects in Hong Kong including the Shatin to Central Link and the Penny's Bay Rail Link.
- Further develop the planning of the Island Line Extensions in conjunction with the Government.
- Continue the tendering process for Tseung Kwan O Extension property developments and strengthen revenue from our investment properties.
- Continue to expand our consultancy services and project operations outside Hong Kong.
- Enhance revenue from rail related businesses such as Octopus, advertising, station retail and telecommunications.

Finally, I extend my gratitude to my directors and all staff for their commitment and hard work in these difficult times. I wish to further thank our shareholders, financiers and business partners for their continued support.

By order of the Board
MTR Corporation Limited

JACK SO CHAK KWONG
Chairman

Hong Kong
28 February 2002

The financial information relating to the financial year ended 31 December 2001 set out above does not constitute the Group's statutory financial statements for the year ended 31 December 2001, but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001, which contain an unqualified auditor's report will be delivered to the Registrar of Companies.

Certain statements contained in this Press Release may be viewed as "forward-looking statements" within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. 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 Annual Report on Form 20-F for the year ended 31 December 2000 filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.

CLOSURE OF REGISTER OF MEMBERS

The Register of shareholders of the Company will be closed from 26 March 2002 to 8 April 2002 (both dates inclusive). In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4 p.m. on 25 March 2002. The final dividend will be paid on or about 14 June 2002.

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