

Press Release

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1 August 2001

Announcement of Unaudited Results for six months ended 30 June 2001

The Directors of MTR Corporation Limited (“the Company”) are pleased to announce the unaudited interim results of the Company and its subsidiaries (“the Group”) for the half-year ended 30 June 2001 as follows:

Consolidated Profit and Loss Account (HK\$ Million)

| Half-year ended 30 June | 2001 (Unaudited) | 2000 (Unaudited) |
|---|-----------------------------------|-----------------------------------|
| Fare revenue | | |
| - MTR Lines | 2,516 | 2,514 |
| - Airport Express Line | 279 | 252 |
| Station commercial and other revenue | 476 | 474 |
| Rental and management income | 435 | 428 |
| Turnover | 3,706 | 3,668 |
| Staff costs and related expenses | (821) | (847) |
| Energy and utilities | (245) | (235) |
| Operational rent and rates | (38) | (29) |
| Stores and spares consumed | (48) | (54) |
| Repairs and maintenance | (198) | (184) |
| Railway support services | (87) | (103) |
| Expenses relating to station commercial and other businesses | (71) | (77) |
| Property ownership and management expenses | (66) | (66) |
| General and administration expenses | (54) | (53) |
| Other expenses | (56) | (67) |
| Operating expenses before depreciation | (1,684) | (1,715) |
| Operating profit from railway and related operations before depreciation | 2,022 | 1,953 |
| Profit on property developments | 827 | 746 |
| Operating profit before depreciation | 2,849 | 2,699 |
| Depreciation | (1,064) | (1,052) |
| Operating profit before interest and finance charges | 1,785 | 1,647 |
| Interest and finance charges : | | |
| Interest expense | (469) | (631) |
| Interest income | 18 | 31 |
| | (451) | (600) |
| Share of profit of non-controlled subsidiary | 17 | 7 |
| Profit for the period attributable to shareholders | 1,351 | 1,054 |
| Interim dividend declared of 14 cents per share | 703 | - |
| Earnings per share: | | |
| - Basic | HK\$ 0.27 | HK\$ 0.21 |
| - Diluted | HK\$ 0.27 | N/A |

Balance Sheet (HK\$ Million)

| | The Group | | The Company |
|---|---------------|---------------|------------------------|
| | At 30 June | At 31 | At 31 |
| | 2001 | December | December |
| | (Unaudited) | (Unaudited) | (Audited and restated) |
| Assets | | | |
| Fixed assets: | | | |
| - Investment properties | 10,240 | 10,151 | 10,151 |
| - Other property, plant and equipment | 68,318 | 68,324 | 68,324 |
| | <u>78,558</u> | <u>78,475</u> | <u>78,475</u> |
| Railway construction in progress | 11,181 | 9,194 | 9,194 |
| Property development in progress | 3,024 | 2,699 | 2,699 |
| Deferred expenditure | 232 | 187 | 187 |
| Interest in non-controlled subsidiary | 39 | 26 | - |
| Investments in subsidiaries | - | - | 53 |
| Staff housing loans | 202 | 635 | 635 |
| Stores and spares | 285 | 275 | 275 |
| Debtors, deposits and payments in advance | 585 | 676 | 685 |
| Amounts due from the Government and other related parties | 227 | 224 | 224 |
| Cash at banks and in hand | 179 | 174 | 99 |
| | <u>94,512</u> | <u>92,565</u> | <u>92,526</u> |
| Liabilities | | | |
| Bank overdrafts | 21 | 44 | 44 |
| Short-term loans | 1,312 | 887 | 887 |
| Creditors, accrued charges and provisions | 2,923 | 3,289 | 3,277 |
| Contract retentions | 766 | 817 | 817 |
| Amounts due to the Government and other related parties | 421 | 422 | 422 |
| Loans and obligations under finance leases | 27,898 | 26,272 | 26,272 |
| Deferred liabilities | 77 | 76 | 76 |
| Deferred income | 9,637 | 10,403 | 10,403 |
| | <u>43,055</u> | <u>42,210</u> | <u>42,198</u> |
| Net Assets | <u>51,457</u> | <u>50,355</u> | <u>50,328</u> |
| Shareholders' Funds | | | |
| Share capital, share premium and capital reserve | 32,439 | 32,188 | 32,188 |
| Other reserves | 19,018 | 18,167 | 18,140 |
| | <u>51,457</u> | <u>50,355</u> | <u>50,328</u> |

Notes: -

1. INDEPENDENT REVIEW

The interim results for the half-year ended 30 June 2001 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants, by KPMG, whose unmodified review report is included in the interim report to be sent to shareholders.

2. COMPARATIVE FIGURES

The financial information relating to the financial year ended 31 December 2000 included in the interim results does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. 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, Creative Star Limited, and the insignificant amounts involved in the other subsidiaries. The unaudited consolidated financial information has been prepared for comparative purposes. 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.

3. 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 30 June 2001.

4. DIVIDEND

The Board has resolved to pay an interim dividend of HK\$0.14 per share. The Company proposes that a scrip dividend election will be offered to shareholders with Hong Kong addresses. 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.

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the half-year period ended 30 June 2001 attributable to shareholders of HK\$1,351 million (2000: HK\$1,054 million) and the weighted average number of ordinary shares of 5,000,527,531 (2000: assuming 5,000,000,000 shares were in issue throughout the period).

The calculation of diluted earnings per share is based on the profit for the half-year period ended 30 June 2001 attributable to shareholders of HK\$1,351 million and the weighted average number of ordinary shares of 5,018,501,461 after adjusting for the number of dilutive potential ordinary shares under the employee share option scheme. As at 30 June 2000, there were no outstanding dilutive potential ordinary shares.

6. SEGMENTAL INFORMATION

| HK\$ Million | Revenue | | Contribution to profit from operations | |
|--|------------------------------|--------------|--|--------------|
| | Half-year ended 30 June 2001 | 2000 | Half-year ended 30 June 2001 | 2000 |
| Railway operations | 2,795 | 2,766 | 406 | 348 |
| Station commercial and other businesses | 476 | 474 | 358 | 355 |
| Property ownership and management | 435 | 428 | 368 | 361 |
| Property developments | - | - | 827 | 746 |
| | <u>3,706</u> | <u>3,668</u> | <u>1,959</u> | <u>1,810</u> |
| Other corporate expenses net of other income | | | <u>(608)</u> | <u>(756)</u> |
| | | | <u>1,351</u> | <u>1,054</u> |

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

7. DEBTORS AND CREDITORS

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 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 upon the certification of work in progress.

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

| HK\$ Million | At 30 June 2001 | At 31 December 2000 |
|----------------------------------|-----------------|---------------------|
| Amount not yet due | 461 | 533 |
| Overdue by 30 days | 38 | 78 |
| Overdue by 60 days | 2 | 6 |
| Overdue by 90 days | 6 | 3 |
| Overdue by more than 90 days | 29 | 29 |
| Total debtors | <u>536</u> | <u>649</u> |
| Deposits and payments in advance | 49 | 27 |
| | <u>585</u> | <u>676</u> |

Creditors, accrued charges and provisions are mainly related to capital projects which are settled upon certification of work in progress. The Group has no significant balances of trade creditors resulting from its provision of transportation and other services.

The analysis of creditors by due dates is as follows:

| HK\$ Million | At 30 June 2001 | At 31 December 2000 |
|--------------------------------------|----------------------------|------------------------|
| Due within 30 days or on demand | 863 | 799 |
| Due after 30 days but within 60 days | 937 | 1,147 |
| Due after 60 days but within 90 days | 74 | 178 |
| Due after 90 days | 774 | 904 |
| | 2,648 | 3,028 |
| Rental and other refundable deposits | 275 | 261 |
| Total | 2,923 | 3,289 |

8. PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

During the half-year ended 30 June 2001, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's securities.

9. CORPORATE GOVERNANCE

The Company has complied throughout the half-year ended 30th June 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.

10. PUBLICATION OF DETAILED RESULTS, ANNOUNCEMENT ON THE EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website in due course.

Key Statistics

Half-year ended 30 June

| | 2001 | 2000 |
|--|--------------|-------------|
| Total number of passengers (Million) | | |
| - MTR Lines | 370 | 376 |
| - Airport Express Line | 5 | 5 |
| Average number of passengers (Thousand) | | |
| - MTR Lines (weekday average) | 2,200 | 2,218 |
| - Airport Express Line (daily average) | 26 | 29 |
| Operating profit from railway and related operations before depreciation as a percentage of turnover | 54.6% | 53.2% |

Chairman's Statement and Review of Operations and Results

MTR Corporation achieved a net profit for the six months ended 30 June 2001 of HK\$1,351 million, as compared with HK\$1,054 million for the same period last year. This result was achieved principally due to continuing tight operating cost control, lower interest costs and continued construction progress at our property developments along the Airport Railway.

Railway operations

The MTR Lines recorded total patronage of 370 million for the first half of 2001, down by 1.6% from 376 million for the same period last year. The average weekday patronage of 2.2 million was 0.8% below the same period last year. Our latest market share was 23.3% of total franchised public transport and 56.9% of cross-harbour trips, down slightly from the respective figures of 24.1% and 57.9% as at the last year-end. During the latter part of this period, ridership was adversely affected by poor weather conditions with record rainfalls in June. In recent weeks we have begun to see some signs of recovery, although it is too early to draw any conclusions on trends for the year as a whole.

The number of passengers on the Airport Express Line fell by 12.6% as compared to the first half of last year. This trend was expected following the reduction of the introductory fare discount in July 2000, as a result of which the average fare in the first half was HK\$59.90 as compared to HK\$47.32 in the same period last year, giving rise to an increase of 10.7% in revenue to HK\$279 million for the Airport Express Line. We maintained an estimated market share of 28%, with overall airport traffic reducing 2% from last year.

Following a review of our current fare levels, the Board decided in June 2001 to engage in a formal consultation exercise in accordance with our Operating Agreement to seek the public's views on a proposal to increase fares by 2.0-2.5%. After carefully considering the feedback from this consultation, the Board has decided to implement an average fare increase of 2.3% as from 1 April 2002. This will be our first general fare increase since 1997. In the meantime, the remaining 10% introductory fare discount on the Airport Express Line was removed as from 1 July 2001, so that the single journey fare from Hong Kong to the Airport is now at the originally proposed amount of HK\$100.

To continue to upgrade the performance standards of the railway, we raised our customer service pledges for train reliability, ticket issuing machines, ticket reliability, ticket gates and train cleanliness to higher levels in early 2001. I am pleased to report that all of our performance requirements and customer service pledges were achieved in the half year.

We have also made progress in exploring ways to improve the provision of feeder services and pedestrian access to our stations, including trials of inter-modal fare discount schemes for passengers using feeder buses. Marketing initiatives to reward frequent users of the MTR system have been effective.

Progress continued to be made in our programme of capital works to improve the railway. The train modernisation programme is scheduled for completion in October 2001, two months ahead of the original programme. Our station improvement and modification works continued, with additional entrances, external and internal passenger lifts, new escalators and improved station facilities being installed at 19 stations, including Central, Wan Chai, Admiralty and Mong Kok. Installation of the first platform screen doors within the retrofitting programme commenced in May at Choi Hung Station.

Railway construction

The Tseung Kwan O Extension project is well-advanced with the major civil construction works for the entire line completed in early June. With the transition of the project into the fit-out stage, trackwork, power supply, platform screen doors and other building services installations are all progressing satisfactorily. We remain confident that the Tseung Kwan O Extension project can be completed in late 2002 within the latest project cost estimate of HK\$21 billion.

The Quarry Bay Congestion Relief Works are due to be completed and become operational in the final quarter of 2001. North Point will become the terminal station of the Kwun Tong Line and will provide a convenient interchange for passengers between the Kwun Tong Line and the Island Line.

We have continued to make progress on designs for the Penny's Bay Rail Link to connect the future Disney Theme Park with the Tung Chung Line, although we are still in discussions with Government on the proposed project agreement.

In response to Government's invitation received in January 2001, a competitive proposal for the Shatin to Central Link was submitted by the Company in July 2001. The proposals will be assessed by Government with respect to both the financial and the technical aspects, in accordance with the provisions in the MTR Operating Agreement and the initial public offering prospectus to ensure a "level playing field" between the Company and KCRC. Government is expected to decide on the award of the Shatin to Central Link by the end of 2001.

Separately we have also submitted a proposal to construct, operate and finance the Island Line Extensions, comprising the North Island Line and the West Island Line, which are regarded as natural extensions of the MTR system. We expect to enter into detailed discussions with Government towards formalising a project agreement for completion of the North Island Line in 2008 and the West Island Line in 2012.

Property

During the first half of the year, falling interest rates and enhanced marketing initiatives by developers led to continued sales activity at our developments despite the generally weak property market. The sales achieved at MTR developments confirm that MTR station locations continue to be appreciated by purchasers. In July 2001, we succeeded in awarding the Choi Hung Park and Ride development project to Chun Wo Holdings Limited.

Construction progress continued to be made at a number of our Airport Railway developments, which was reflected in the recognition of HK\$827 million from the deferred income account as profits, primarily in relation to the developments at Tung Chung.

Preparatory work has continued on the property development schemes for the Tseung Kwan O Extension project so that tenders can be called when market conditions are suitable. The schemes have been further improved, adopting “green” initiatives and taking advantage of Government’s recent changes to the building codes.

Our investment property portfolio remained stable, with satisfactory performance from the four shopping centres. Significant progress has been made on the refurbishment of Paradise Mall in Heng Fa Chuen.

Other businesses

The unfavourable economic situation in the first half of 2001 has affected our advertising business and we have experienced a reduction of 13.3% in advertising revenue as compared with the same period last year. Notwithstanding the current downturn, we continue to be optimistic about the longer term prospects for this business and we have continued to invest in new formats to enhance our advertising media.

Our station retail business has maintained a steady performance despite the tough business environment and we are in the process of re-designing and re-furbishing the retail space at Central Station in order to introduce an enhanced retail mix. Plans are underway to launch a weekly magazine and a daily newspaper. These two publications will become an additional source of revenue as well as bringing value added benefits to our passengers.

We have seen pleasing growth in our railway consultancy business, with increased income in the first half together with significant new mandates won for advisory services to major railway projects. We are now active in Bangkok, Kaoshiung and Taipei, as well as cities in China. We were also selected by the Airport Authority to operate and maintain the Automatic People Mover at Hong Kong International Airport.

In July 2001, we submitted a tender in response to Government’s invitation to construct and operate a cable car to link Tung Chung with Ngong Ping, the site of the Po Lin Monastery and the Big Buddha.

Creative Star has continued to grow following the signing of the revised shareholders’ agreement in January 2001 which has removed this company’s previous non-profit making restriction. By the end of June, around 7.6 million Octopus cards were in circulation with around 6.0 million transactions and HK\$42 million of value being processed each day. Agreement has been reached for the continuing development of Octopus into transport installations such as tramways and minibuses and some selective trials with taxis are planned later this year. We have also signed up a number of non-transport applications, as well as agreements with additional banks to provide automatic add value services.

Finance

As a result of the patronage and fare trends described earlier, the Company achieved fare revenue of HK\$2,795 million, an increase of 1.0% over the same period last year. Non-fare revenue amounted to HK\$911 million, an increase of 1.0% as compared to the same period last year, reflecting the decrease in advertising revenue offset by increases in property rental income, fees from consultancy services and other business revenue. The total revenue for the first half year of HK\$3,706 million was 1.0% above last year.

We have continued to improve staff productivity and exercise tight cost control over our operations, as a result of which the total operating costs of HK\$1,684 million were 1.8% less than the same period last year. This gave rise to an operating profit before depreciation on our railway and related operations of HK\$2,022 million, up 3.5% from last year and representing an operating profit margin of 54.6%, (53.2% last year). In addition, property development profits of HK\$827 million were recognised from the deferred income account in line with construction progress at our Airport Railway property developments. The total operating profit before depreciation was HK\$2,849 million, an increase of 5.6% as compared to HK\$2,699 million last year.

Interest charges have benefited from the reduction in interest rates during the first half year, being HK\$149 million less than the same period last year, and we accounted for the first time for the Company's share of earnings of Creative Star amounting to HK\$17 million. Inclusive of the above, the profit for the period attributable to shareholders was HK\$1,351 million, representing earnings per share of HK\$0.27.

The Directors have declared an interim dividend of HK\$0.14 per share. It was stated in our initial public offering prospectus that the interim dividend is expected to represent around one-third of the total dividend for the year. As with the dividends paid in respect of the year ended 31 December 2000, shareholders will be given the option to elect to receive these dividends in the form of scrip rather than cash.

The Company's balance sheet remained strong with shareholders' funds increasing to HK\$51,457 million with the re-investment of scrip dividends by Government and other shareholders, together with the retained earnings for the first half of this year. The main capital outlays related to expenditure on the Tseung Kwan O Extension project, the Quarry Bay Congestion Relief Works and other railway improvement works. These expenditures were financed by an increase in borrowings from HK\$27,203 million at the last year-end to HK\$29,231 million, following which our debt to equity ratio has increased from 54% to 57% in line with our financing plan.

Although the Company has always maintained a conservative mix of fixed rate and floating rate debt to mitigate the effect of interest rate fluctuations, we have been able to take advantage of the recent cuts in interest rates to lower our financing costs and to arrange new financings at highly cost effective levels. As a result, the average interest cost for the first half of the year was 7.1% as compared to 7.8% during the same period last year. During this period, we have arranged new financings amounting to HK\$5,350 million mainly in Hong Kong dollars achieving very tight terms at unprecedentedly low margins over HIBOR.

We have continued to experience good investor support for our shares, which closed at HK\$13.35 on 29 June 2001, dropping 2.6% since the beginning of the year as compared to a drop of 12.3% for the Hang Seng Index. MTRCL has been included as a Hang Seng Index constituent stock as from 1 June 2001. Government continues to plan for a further offering of MTRCL shares after the award of the Shatin to Central Link project has been announced.

Outlook

We are looking forward to the opening of the Quarry Bay Congression Relief Works later this year, which will enhance the interchange for passengers travelling from East Kowloon on to Hong Kong Island. As we continue to open new extensions to the railway system, including the Tseung Kwan O Extension in 2002, opportunities will arise to improve cost efficiencies through economies of scale, redeployment of staff and developing a multi-skilled workforce.

Implementation of our railway development plans has progressed with the submission of proposals to build and operate the North Island Line, West Island Line and the Shatin to Central Link. Considerable efforts have been made in the preparation of these proposals to present cost effective solutions to Government while offering significant transport benefits.

We have seen some recovery of sentiment in the Hong Kong property market with an increase in recent buying activity following the series of interest rate cuts earlier this year. Our development packages along the Tseung Kwan O Extension have been well-developed and should be ready for tendering as and when market conditions are appropriate.

With all of the challenges ahead of us, I am grateful for the hard work and support of our strong management team and motivated workforce and I look forward to their continued contribution to the success of the Company.

By order of the Board
MTR Corporation Limited

JACK SO CHAK KWONG
Chairman

Hong Kong
1 August 2001

The financial information set out above does not constitute the Group's statutory financial statements for the 6 months ended 30 June 2001 and 2000, and for the year ended 31 December 2000, but is derived from those financial statements.

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 statement. 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 14 September 2001 to 20 September 2001 (both dates inclusive). In order to qualify for the interim 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 13 September 2001. The interim dividend will be paid on or about 2 November 2001.