

# MTR Corporation - 2005 Interim Results



# Results highlights and business overview

Mr CK Chow, CEO



# First half 2005 – strong performance all around



- Favorable economic environment in Hong Kong
- Positive sentiment sustained in property market

- Growth in rail patronage and fare revenue

- Strong performance in non-fare businesses

- Strong demand in residential properties
- Growth in rental & property management

- Progress made in overseas growth strategy

- Accounting standard changes

# Financial performance



(HK\$m)	1H2005	1H2004	Change
Total Revenue	4,385	3,987	↑ 10.0%
EBITDA <sup>(1)</sup>	2,541	2,209	↑ 15.0%
EBITDA margin	58.0%	55.4%	↑ 2.6%pt
Property Development Profit	1,520	1,153	↑ 31.8%
Investment Properties change in fair value	1,015	-	
Net Profit	2,606	1,173	↑ 122.2%
Net Profit (excl inv. property revaluation)	1,769	1,173	↑ 50.8%
EPS (HK\$)	0.48	0.22	↑ 118.2%
EPS (excl. inv property revaluation)	0.33	0.22	↑ 50.0%
Dividend per share (HK\$)	0.14	0.14	

(1) EBITDA before property development profits

# Business review

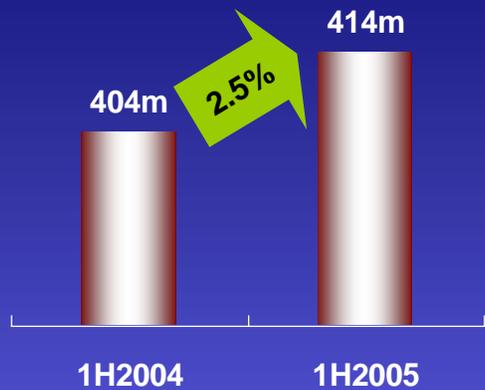
## Railway



# Total patronage up 2.5% from 1H2004



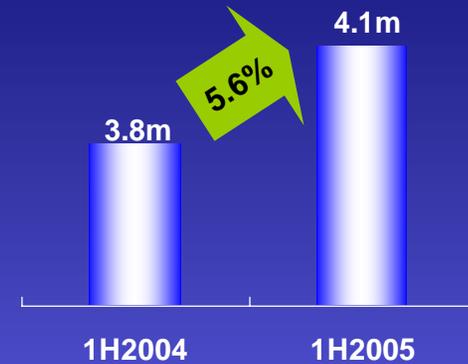
## Patronage – MTR Lines



## Average fare – MTR Lines



## Patronage – Airport Express



## Average fare – Airport Express



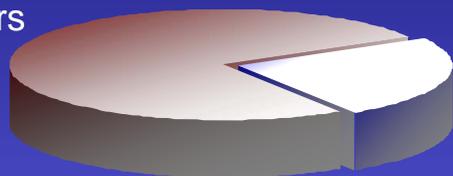
# Market share



## Franchised Public Transport

1H2004

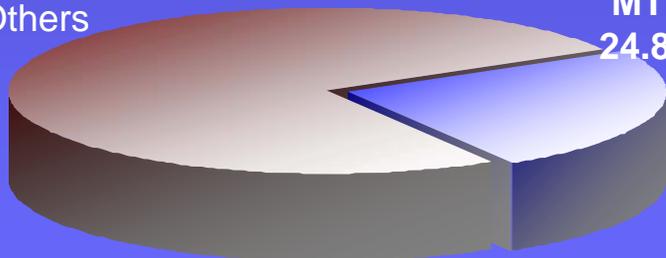
Others



MTR  
24.6%

1H2005

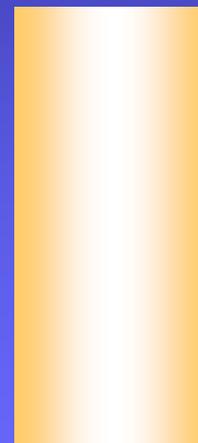
Others



MTR  
24.8%

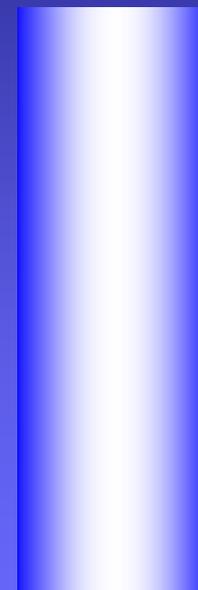
## Cross-Harbour

59.3%



1H2004

60.4%



1H2005

# Rail enhancement in Hong Kong



- Disneyland Resort Line commenced service on 1 August 2005
- AsiaWorld-Expo station will be added to Airport Express Line in 4Q05
- Other service enhancements
  - Improved station access through new pedestrian links at Tsim Sha Tsui and Mong Kok
  - More intermodal and fare saver promotions
- Planning of West Island Line
- Continue to pursue the South Island Line

# Business review

## Non-fare businesses



# Non-fare businesses



Non-fare revenue: HK\$754m

↑ 30.2%



- Advertising revenue benefited from strong retail sector and higher rates
- Rent improvement with 7% net increase in station shops floor area to 20,030 m<sup>2</sup>
- Telecom revenue mainly due to an one-off early termination payment
- New consulting and training contracts signed with various major cities in Mainland of China
- Share of profit from Octopus increased 45% to \$29 million

# Business review

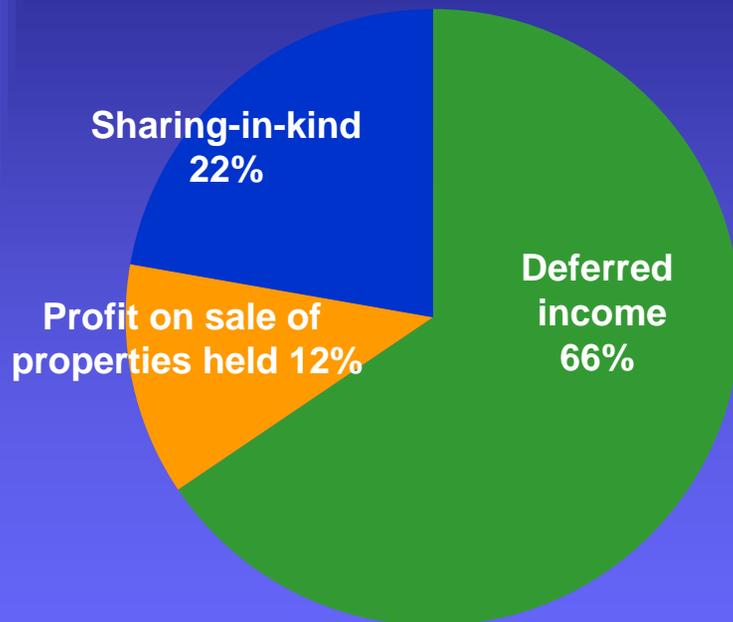
## Property



# Property development



Property development profit  
HK\$1,520m



- Strong market response on presale of The Arch, Grandiose in TKO and other Tung Chung packages

## Major profit contributors in 1H2005:

- Deferred income mostly from
  - Tung Chung – Tung Chung Package One, Caribbean Coast and Coastal Skyline
  - Olympic – Package Three
- Receipt of “The Lane” in Hang Hau as sharing-in-kind
- Profit from higher selling price of properties held for sale from Island Harbourview, Residence Oasis and Sorrento

# Investment properties and management



Investment properties & management  
revenue: HK\$643m

 19.7%

HK\$m



- Opening of “The Lane” added 2,611m<sup>2</sup> to total investment property portfolio of over 170,000m<sup>2</sup>
- Increased share of rental from Telford Plaza II
- Full-occupancy at Two IFC
- Shopping centers rates 12% higher than last tenure
- Expanded property management portfolio:
  - Residential units: increased 6.8% from end of 2004 to 52,653 units
  - Commercial and office space: 562,296 m<sup>2</sup>

# Growth strategies



深圳 北京



# Growth strategy progress



## Mainland of China



### Beijing

- Initialled Concession Agreement of **Beijing L4** in Feb 2005
- 30-year BOT project, Private Public Partnership
- Awaiting NDRC's <sup>(1)</sup> approval

### Wuhan

- MOU with Wuhan Municipal Government
- Total route length by 2011 estimated to be 70km

### Shenzhen

- Initialled Concession Agreement of **Shenzhen L4** in May 2005
- Rail + Property model, 30-year BOT
- Detailed design and site investigation in progress
- L4 awaiting NDRC's <sup>(1)</sup> approval
- MOU for Shenzhen L2 and L3

# Growth strategy progress



## UK / Europe

- Focus on train operating franchises



### Integrated Kent Franchise

- 29% joint venture with GNER
- Submitted bid end of July

### Thameslink

- 50/50 joint venture with Laing Rail
- Bid due in early September

**Bid results expected by end of 2005 or early 2006**

# Merger



- **Joint Merger Report submitted on 16 September 2004 and is being considered by the government**
- **Continued negotiation with the government on the merger terms**
- **The Company maintains that, on the right terms, a merger between MTR and KCRC will benefit all stakeholders**
- **Merger will be subject to the approval of independent shareholders**

# Financial Results

## Mr Lincoln Leong, Finance Director



# Income statement



<i>(HK\$m)</i>	<u>1H2005</u>	<u>1H2004</u>	<u>% change</u>
Fare revenue	2,988	2,871	4.1
Non-fare and rental and management income	1,397	1,116	25.2
Turnover	4,385	3,987	10.0
Operating expenses	(1,844)	(1,778)	(3.7)
<b>EBITDA</b>	<b>2,541</b>	<b>2,209</b>	<b>15.0</b>
Property development profits	1,520	1,153	31.8
Total operating profit	4,061	3,362	20.8
Depreciation	(1,362)	(1,244)	(9.5)
Interest	(634)	(743)	14.7
Investment property revaluation	1,015	-	N.A.
Profit from non-controlled subsidiary & associate	19	20	(5.0)
Profit before tax	3,099	1,395	122.2
Taxation	(493)	(222)	(122.1)
<b>Net profit</b>	<b>2,606</b>	<b>1,173</b>	<b>122.2</b>
Earnings per share (\$)	0.48	0.22	118.2
<b>Profit from underlying businesses</b>	<b>1,769</b>	<b>1,173</b>	<b>50.8</b>
<b>Earnings per share (\$) from underlying businesses</b>	<b>0.33</b>	<b>0.22</b>	<b>50.0</b>
Dividend per share (\$)	0.14	0.14	-

# Segmental income statement of underlying businesses



<i>(HK\$m)</i>	<u>1H2005</u>	<u>1H2004</u>
Railway and related	5	(219)
Property investment and management	540	441
Property development	1,520	1,153
Tax and others	(296)	(202)
	<hr/>	<hr/>
	<u>1,769</u>	<u>1,173</u>

Note: All segmental incomes shown are pre-tax profits

# Balance sheet



<i>(HK\$m)</i>	<u>30 June 2005</u>	<u>31 Dec 2004</u> <u>(restated)</u>
<b>Assets</b>		
Fixed assets	82,309	83,005
Investment properties	18,046	16,687
Railway construction in progress	1,441	962
Property development in progress	2,752	2,088
Cash and cash equivalents	197	269
Others	<u>3,500</u>	<u>3,663</u>
	<u>108,245</u>	<u>106,674</u>
<b>Liabilities</b>		
Debt	29,153	30,378
Deferred income	4,539	4,638
Others	<u>10,331</u>	<u>9,758</u>
	<u>44,023</u>	<u>44,774</u>
<b>Total equity*</b>	<u>64,222</u>	<u>61,900</u>

\* Including minority interest

# Strong cash flow



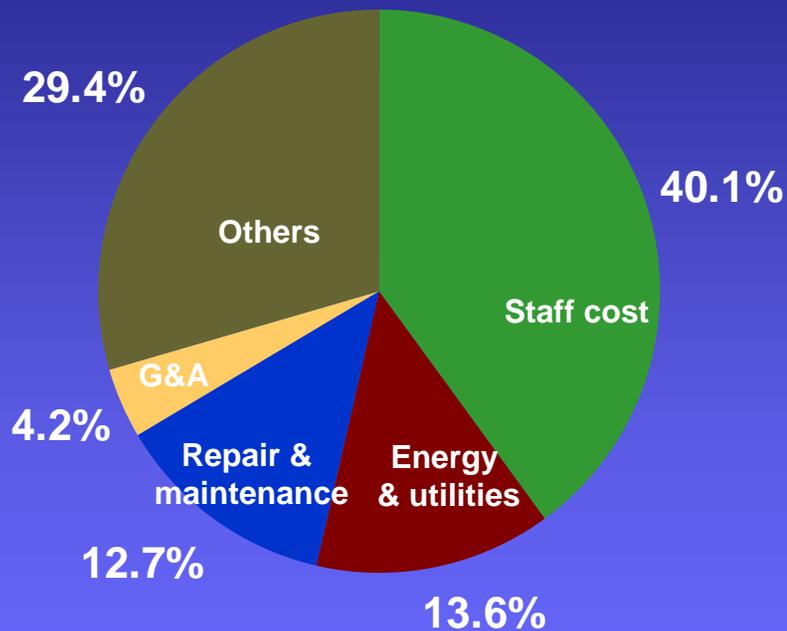
<i>(HK\$m)</i>	<u>1H2005</u>	<u>1H2004</u>
Cash from operations	2,562	2,301
Receipt from property	2,332	1,023
<b>Total inflows</b>	<b>4,894</b>	<b>3,324</b>
Capital Expenditure	(1,156)	(1,686)
Half land premium for Area 86 package 1	(1,160)	-
Interest paid	(721)	(619)
Net increase in held-to-maturity securities	(10)	-
Other working capital adjustments	(48)	(30)
Dividends paid	(755)	(704)
<b>Total outflows (*)</b>	<b>(3,850)</b>	<b>(3,039)</b>
<b>Net cash generated</b>	<b>1,044</b>	<b>285</b>
Net loan repaid	(1,122)	(288)
<b>Decrease in cash</b>	<b>(78)</b>	<b>(3)</b>

\* Cash outflows to meet financial obligations and capital investment



# Operating expenses

Total operating expenses before interest and depreciation:  
HK\$1,844m  3.7%



## Operating margin improvement

■ from 55.4% in 1H04 to 58.0% in 1H05



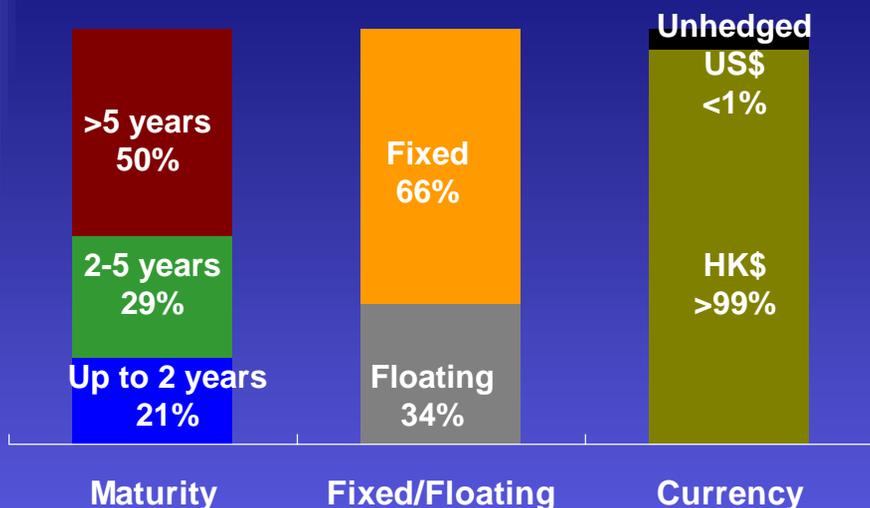
Operating margin:  
2.6% pt

Compared to 1H04 figures

# Financing and credit ratios



## Debt Profile (30 June 05)



- Raised \$1.5bn HK dollar bond and \$2.8bn of bilateral facilities

- Total loan outstanding: \$29,153m, down \$1,225m from 31Dec 2004

- Average borrowing cost: 5.0%

0.2%  
point

- Net interest expense : HK\$634m

14.7%

Compared to 1H2004 figures

	June 2005	June 2004
Debt/Equity ratio	45.4%	56.1% <sup>(1)</sup>
Interest coverage	5.9x	4.4x

(1) Restated number

# Outlook



# Outlook for 2H2005



<b>Railway</b>	<ul style="list-style-type: none"><li>■ Patronage likely to benefit from a favorable economic environment</li><li>■ Additional passengers brought about by the opening of Disneyland Resort</li></ul>
<b>Non-fare</b>	<ul style="list-style-type: none"><li>■ Expect to grow at a more moderate rate due to the already strong performance recorded in second half of 2004</li></ul>
<b>Property Development</b>	<ul style="list-style-type: none"><li>■ Development profits will depend on pre-sale, construction progress and Occupation Permit (OP) issuance<ul style="list-style-type: none"><li>■ Bulk of Deferred Income balance (\$4.4bn) to be recognised over next one and a half to two years</li><li>■ Central Heights (TKO Area 57a) to be recognised in 2005</li><li>■ Subject to OP issuance, The Arch could be booked in 2005 instead of 2006</li></ul></li><li>■ Depending on market conditions, Area 86 Package 2 may be up for tender by end of 2005</li></ul>

# 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.**