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for the half-year ended 30 June in HK\$ million	Note	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
Dividend	3	703	–
Earnings per share:	4		
– Basic		HK\$0.27	HK\$0.21
– Diluted		HK\$0.27	N/A

The notes on pages 20 to 26 form part of this interim financial report.

for the half-year ended 30 June in HK\$ million	2001 (Unaudited)	2000 (Unaudited)
Surplus on revaluation of investment properties	-	1,126
Deficit on revaluation of other fixed assets	-	(53)
Net gains transferred directly to reserves	-	1,073
Net profit for the period	<u>1,351</u>	<u>1,054</u>
Total recognised gains and losses	<u>1,351</u>	<u>2,127</u>

in HK\$ million	Note	The Group		The Company
		At 30 June 2001 (Unaudited)	At 31 December 2000 (Unaudited)	At 31 December 2000 (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	7	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	9	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	8	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>

The notes on pages 20 to 26 form part of this interim financial report.

in HK\$ million	Note	The Group		The Company
		At 30 June 2001 (Unaudited)	At 31 December 2000 (Unaudited)	At 31 December 2000 (Audited and restated)
Shareholders' funds				
Share capital, share premium and capital reserve	10	32,439	32,188	32,188
Other reserves	11	<u>19,018</u>	<u>18,167</u>	<u>18,140</u>
		<u>51,457</u>	<u>50,355</u>	<u>50,328</u>

for the half-year ended 30 June in HK\$ million	2001 (Unaudited)	2000 (Unaudited)
Net cash inflow from operating activities	2,312	1,932
Servicing of finance and returns on investments		
Interest paid	(987)	(912)
Interest received	18	31
Interest element of finance lease rental payments	(36)	(41)
Finance charges paid	(30)	(26)
Dividend paid	(250)	-
Net cash outflow from servicing of finance and returns on investments	(1,285)	(948)
Investing activities		
Capital expenditure		
– Airport Railway Project	(172)	(74)
– Tseung Kwan O Extension Project	(1,776)	(1,560)
– Purchase of assets and other capital projects	(1,288)	(1,263)
– Property development projects	(364)	(519)
Receipts from property developers	100	120
Decrease / (Increase) in investments in subsidiaries	16	(47)
Loans made under Staff Housing Loan Scheme	(3)	(138)
Principal repayments under Staff Housing Loan Scheme	437	99
Net cash outflow from investing activities	(3,050)	(3,382)
Net cash outflow before financing	(2,023)	(2,398)

for the half-year ended 30 June in HK\$ million	2001 (Unaudited)	2000 (Unaudited)
Financing		
Shares issued	1	–
Drawdown of loans	5,425	4,165
Repayment of loans	(3,309)	(1,707)
Reduction in capital element of finance lease	(65)	(59)
(Release) / Collection of refundable deposits and asset replacement reserve funds	<u>(1)</u>	<u>2</u>
Net cash inflow from financing	<u>2,051</u>	<u>2,401</u>
Increase in cash and cash equivalents	28	3
Cash and cash equivalents at 1 January	<u>130</u>	<u>84</u>
Cash and cash equivalents at 30 June	<u>158</u>	<u>87</u>
Analysis of the balances of cash and cash equivalents		
Cash at banks and in hand	179	127
Bank overdrafts	<u>(21)</u>	<u>(40)</u>
	<u>158</u>	<u>87</u>

1 Significant Accounting Policies

A 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 27. 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 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2000 included in the interim financial report 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 ("CS"), 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.

The same accounting policies adopted in the 2000 annual accounts have been applied to the interim financial statements except as disclosed under notes 1B, 1C and 1D 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 2000 annual accounts.

B Basis of consolidation

The consolidated financial statements include the results of the Company and all its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation. For periods prior to 1 January 2001, group accounts of the Company and its subsidiaries were not prepared for the reasons explained in note 1A above.

C Non-controlled subsidiary

Creative Star Limited is regarded as a jointly controlled entity as the Group does not have effective control over the Board of CS. Commencing in the year ending 31 December 2001, the investment in CS is accounted for in the consolidated financial statements of the Company using the equity method as described in SSAP 21 "Accounting for interests in joint ventures." The restriction on CS to operate on a non-profit making basis was removed under the new Shareholders' Agreement dated 17 January 2001. Prior to 1 January 2001, the Company's investment in CS was accounted for on a cost basis.

D Dividends

In prior years, dividends proposed or declared after the balance sheet date in respect of an accounting period were recognised as a liability at the balance sheet date. With effect from 1 January 2001, in order to comply with SSAP 9 (revised) "Events after the balance sheet date", issued by HKSA, the Company recognises a liability for dividends in the accounting period in which they are declared or proposed and approved by shareholders. The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods.

2 Partial Disposal of Investment in Subsidiary

On 17 January 2001, the Company entered into a new Shareholders' Agreement with the other shareholders of CS. Under this agreement, the Company disposed of a shareholding interest of 10.4% in CS to certain other shareholders of CS for a consideration of HK\$16 million, together with a deferred consideration to be received in the event of CS subsequently becoming a stock exchange listed company. The profit arising from this disposal excluding the deferred consideration amounted to HK\$12 million and has been included in other revenue.

3 Dividend

in HK\$ million	Half-year ended 30 June 2001 (Unaudited)	Half-year ended 30 June 2000 (Unaudited)
Interim dividend declared of 14 cents per share	<u>703</u>	<u>-</u>

4 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 calculated as follows:

	Half-year ended 30 June 2001 (Unaudited)
Number of ordinary shares used in calculating basic earnings per share	5,000,527,531
Number of ordinary shares deemed to be issued for no consideration	<u>17,973,930</u>
Weighted average number of shares used for calculating the diluted earnings per share	<u>5,018,501,461</u>

As at 30 June 2000, there were no outstanding dilutive potential ordinary shares.

5 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.

6 Segmental Information

The results of major business activities for the half-year ended 30 June 2001, with comparative figures for the half-year ended 30 June 2000, 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
The Group						
Half-year ended 30 June 2001 (Unaudited)						
Revenue	2,795	476	435	3,706	-	3,706
Less: Operating expenses before depreciation	<u>1,385</u>	<u>71</u>	<u>66</u>	<u>1,522</u>	-	<u>1,522</u>
	1,410	405	369	2,184	-	2,184
Profit on property developments	-	-	-	-	<u>827</u>	<u>827</u>
Operating profit before depreciation	1,410	405	369	2,184	827	3,011
Less: Depreciation	<u>1,004</u>	<u>47</u>	<u>1</u>	<u>1,052</u>	-	<u>1,052</u>
	<u>406</u>	<u>358</u>	<u>368</u>	<u>1,132</u>	<u>827</u>	<u>1,959</u>
Unallocated corporate expenses						(174)
Interest and finance charges (net)						(451)
Share of profit of non-controlled subsidiary						<u>17</u>
Profit for the period ended 30 June 2001						<u>1,351</u>
Half-year ended 30 June 2000 (Unaudited)						
Revenue	2,766	474	428	3,668	-	3,668
Less: Operating expenses before depreciation	<u>1,422</u>	<u>77</u>	<u>66</u>	<u>1,565</u>	-	<u>1,565</u>
	1,344	397	362	2,103	-	2,103
Profit on property developments	-	-	-	-	<u>746</u>	<u>746</u>
Operating profit before depreciation	1,344	397	362	2,103	746	2,849
Less: Depreciation	<u>996</u>	<u>42</u>	<u>1</u>	<u>1,039</u>	-	<u>1,039</u>
	<u>348</u>	<u>355</u>	<u>361</u>	<u>1,064</u>	<u>746</u>	<u>1,810</u>
Unallocated corporate expenses						(163)
Interest and finance charges (net)						(600)
Share of profit of non-controlled subsidiary						<u>7</u>
Profit for the period ended 30 June 2000						<u>1,054</u>

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

Profit on property developments for the half-years ended 30 June 2000 and 2001 were mainly recognised from the deferred income account.

7 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 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:

in HK\$ million	The Group	
	At 30 June 2001 (Unaudited)	At 31 December 2000 (Unaudited)
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	536	649
Deposits and payments in advance	49	27
	585	676

8 Bonds and Notes Issued and Repaid

Bonds and notes issued by the Group during the half-year ended 30 June 2001 and 2000 comprise:

in HK\$ million	The Group			
	Half-year ended 30 June 2001 (Unaudited)		Half-year ended 30 June 2000 (Unaudited)	
	Amount issued	Net consideration received	Amount issued	Net consideration received
US dollar global notes	-	-	4,679	4,618
HK dollar notes	2,850	2,846	700	698
	2,850	2,846	5,379	5,316

The notes issued during the half-year ended 30 June 2001 were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, are unsecured and unconditional and unsubordinated to other obligations of MTR Corporation (C.I.) Limited. The net proceeds from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

The notes issued in the half-year ended 30 June 2000 were issued by the Company and are unsecured and rank pari passu with all other unsecured obligations of the Company. The net proceeds from issuance were used to repay indebtedness of the Company and for general corporate purposes.

The Company has fully repaid the Samurai yen bonds of ¥15,000,000,000 during the period (2000: Nil).

9 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. 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:

in HK\$ million	The Group	
	At 30 June 2001 (Unaudited)	At 31 December 2000 (Unaudited)
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

10 Share Capital, Share Premium and Capital Reserve

in HK\$ million	The Company	
	At 30 June 2001 (Unaudited)	At 31 December 2000 (Unaudited)
Authorised:		
6,500,000,000 shares of HK\$1.00 each	<u>6,500</u>	<u>6,500</u>
Issued and fully paid:		
5,018,347,523 shares (2000: 5,000,000,000 shares) of HK\$1.00 each	5,018	5,000
Share premium	233	-
Capital reserve	<u>27,188</u>	<u>27,188</u>
	<u>32,439</u>	<u>32,188</u>

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:

	The Company			
	Number of shares	Option / scrip price HK\$	Proceeds credited to Share capital account HK\$ million	Share premium account HK\$ million
Employee share options exercised	112,500	8.44	-	1
Issued as scrip dividends	<u>18,235,023</u>	13.71	<u>18</u>	<u>232</u>
	<u>18,347,523</u>		<u>18</u>	<u>233</u>

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11 Other Reserves

in HK\$ million	The Group			
	Investment property revaluation reserve	Fixed asset revaluation reserve	Retained profits	Total
30 June 2001 (Unaudited)				
Balance as at 1 January 2001 as previously stated	6,501	139	11,027	17,667
Change in accounting policy with respect to dividends (note 1D)	-	-	500	500
Balance as at 1 January 2001 as restated	6,501	139	11,527	18,167
Dividends paid	-	-	(500)	(500)
Retained profit for the period	-	-	1,351	1,351
Balance as at 30 June 2001	<u>6,501</u>	<u>139</u>	<u>12,378</u>	<u>19,018</u>
31 December 2000 (Unaudited)				
Balance as at 1 January 2000	5,268	214	7,458	12,940
Surplus / (Deficit) on revaluations	1,233	(75)	-	1,158
Retained profit for the year (as restated)	-	-	4,069	4,069
Balance as at 31 December 2000 (as restated)	<u>6,501</u>	<u>139</u>	<u>11,527</u>	<u>18,167</u>

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 2001, the total amount of reserves available for distribution to shareholders under the Hong Kong Companies Ordinance amounted to HK\$12,327 million (2000: HK\$11,500 million, as restated).

12 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 77% 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 2001:

in HK\$ million	The Group		
	Balance at 1 January 2001	Increased / (Decreased)	Balance at 30 June 2001
Amount due from related parties			
in respect of infrastructure entrustment works:			
– the Government	191	(86)	105
– the Housing Authority	24	89	113
– Kowloon-Canton Railway Corporation	<u>2</u>	<u>–</u>	<u>2</u>
	<u>217</u>	<u>3</u>	<u>220</u>
Amount due to related parties			
in respect of railway project works entrusted to:			
– the Government	303	3	306
– the Airport Authority	<u>119</u>	<u>(4)</u>	<u>115</u>
	<u>422</u>	<u>(1)</u>	<u>421</u>
<hr/>			
in HK\$ million	Half-year ended 30 June 2001	Half-year ended 30 June 2000	
Dividend paid to Government	<u>385</u>	<u>–</u>	

During the half-year ended 30 June 2001, the Group also had the following transactions with its unconsolidated subsidiary, Creative Star Limited ("CS"):

in HK\$ million	The Group	
	Half-year ended 30 June 2001 (Unaudited)	Half-year ended 30 June 2000 (Unaudited)
Payment to CS in respect of central clearing services	22	21
Fees received from CS in respect of load agency services and management services	<u>7</u>	<u>7</u>

13 Capital Commitments

i Outstanding capital commitments as at 30 June 2001 not provided for in the accounts were as follows:

in HK\$ million	The Group			Total
	Railway operations	Tseung Kwan O Extension Project	Property development projects	
At 30 June 2001 (Unaudited)				
Authorised but not yet contracted for	1,011	7,750	1,990	10,751
Authorised and contracted for	<u>2,496</u>	<u>2,105</u>	<u>385</u>	<u>4,986</u>
	<u>3,507</u>	<u>9,855</u>	<u>2,375</u>	<u>15,737</u>
<hr/>				
At 31 December 2000 (Unaudited)				
Authorised but not yet contracted for	890	8,444	2,045	11,379
Authorised and contracted for	<u>2,577</u>	<u>3,388</u>	<u>617</u>	<u>6,582</u>
	<u>3,467</u>	<u>11,832</u>	<u>2,662</u>	<u>17,961</u>

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	The Group		Total
		Acquisition of property, plant and equipment		
At 30 June 2001 (Unaudited)				
Authorised but not yet contracted for	789	222		1,011
Authorised and contracted for	<u>1,373</u>	<u>1,123</u>		<u>2,496</u>
	<u>2,162</u>	<u>1,345</u>		<u>3,507</u>
At 31 December 2000 (Unaudited)				
Authorised but not yet contracted for	634	256		890
Authorised and contracted for	<u>1,359</u>	<u>1,218</u>		<u>2,577</u>
	<u>1,993</u>	<u>1,474</u>		<u>3,467</u>

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	The Group	
	At 30 June 2001 (Unaudited)	At 31 December 2000 (Unaudited)
Authorised but not yet contracted for	1,974	2,014
Authorised and contracted for	<u>37</u>	<u>39</u>
	<u>2,011</u>	<u>2,053</u>

14 Comparative Figures

Comparative figures have been restated based on the change in accounting policy as set out in note 1 in the interim financial report.

15 Approval of Interim Financial Report

The interim financial report was approved by the Board on 1 August 2001.