

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 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% last year.

OPERATIONS PERFORMANCE IN THE FIRST HALF OF 2001

	Customer service pledge target	Operating agreement target	Actual performance
Train service delivery	99.5%	98.5%	99.8%
Passenger journeys on time			
• MTR Lines	99.5%	98.5%	99.9%
• Airport Express Line	99.0%	98.0%	99.8%
Train punctuality			
• MTR Lines	99.0%	98.0%	99.4%
• Airport Express Line	99.0%	98.0%	99.9%
Train reliability: train car-km per train failure causing delays \geq 5 minutes	500,000 km ^{#1}	N.A.	535,251 km
Ticket reliability: magnetic ticket transactions per ticket failure	6,000 ^{#2}	N.A.	10,975
Add value machine reliability	97.0%	95.5%	98.9%
Ticket issuing machine reliability	97.0% ^{#3}	93.0%	99.0%
Ticket gate reliability	98.5% ^{#4}	97.0%	99.7%
Escalator reliability	99.0%	98.0%	99.9%
Passenger lift reliability	99.0%	98.5%	99.8%
Temperature and ventilation			
• Trains: to maintain a cool, pleasant and comfortable train environment generally at a temperature at or below 26°C	95.0%	N.A.	100%
• Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for stations concourses, except on very hot days	90.0%	N.A.	97.8%
Cleanliness			
• Train compartments: cleaned daily	97.0% ^{#5}	N.A.	99.9%
• Train body: washed every 2 days	97.0% ^{#6}	N.A.	99.9%

[#] New 2001 customer service pledge targets:

^{#1} Raised from 400,000km

^{#2} Raised from 4,500

^{#3} Raised from 95.0%

^{#4} Raised from 98.0%

^{#5} Raised from 95.0%

^{#6} Raised from 95.0%

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-model 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 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 proposal 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"

TSEUNG KWAN O EXTENSION RAILWAY PROJECT

In HK\$ million	Original budget	Revised budget	Expenditure up to 30 June 2001	Expenditure up to 31 December 2000
Construction costs				
Civil works	11,232	7,457	5,418	4,465
Electrical and mechanical works/rolling stock	7,206	4,179	1,579	1,132
Works entrusted to Government	207	574	376	367
Associated construction costs				
Site investigation and land costs	1,261	1,005	257	222
Non-construction costs				
Consultancy fees, corporate and financing costs	10,589	7,785	3,551	3,008
Total	30,495	21,000	11,181	9,194

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

TSEUNG KWAN O EXTENSION PROPERTY DEVELOPMENTS (PACKAGES TO BE AWARDED)*

Location	No. of packages envisaged**	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected period of package tenders**	Expected completion date
Tiu Keng Leng Station	3	Residential Retail Car park	237,065 13,000	652	2002-2004	2006
Tseung Kwan O Station***	4	Residential Retail Office Car park	110,925 75,514 103,130	1,633	2001-2004	2007
Hang Hau Station	2	Residential Retail Car park	138,652 3,500	381	2002-2003	2006
Area 86	14	Residential Retail Car park	1.6 million 40,000	4,329	2002-2009	2012

* Subject to land grant conditions and completion of statutory processes

** Subject to review

*** Includes area 57a which was awarded in July 2000 with details as follows:

Location	Developers	Type	Gross floor area (sq.m.)	No. of parking spaces	Expected completion date**
Tseung Kwan O Station Area 57a	Sun Hung Kai Properties Ltd. Nan Fung Development Ltd. Henderson Land Development Co. Ltd. Chime Corporation Ltd.	Residential Retail Car park	26,005 3,637	80	2003