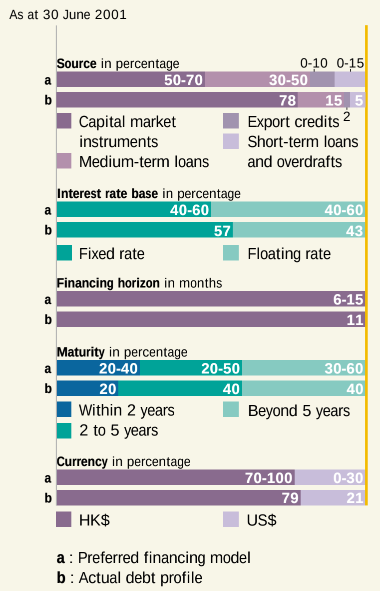
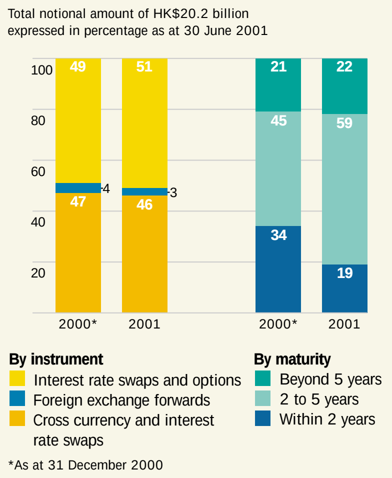
compared with the same period last year. Notwithstanding the current downturn, we continue to be optimistic about the longer term prospects for this business and we have continued to invest in new formats to enhance our advertising media.

PREFERRED FINANCING MODEL AND DEBT PROFILE



USE OF INTEREST RATE AND CURRENCY RISK HEDGING PRODUCTS



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 Automated 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 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 strong investor support for MTRCL 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 Heng 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 Congestion 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.

JACK SO CHAK KWONG *Chairman and Chief Executive*

Hong Kong, 1 August 2001