

# Notes to the unaudited interim financial report

## 1 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 Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is set out on page 36. 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 applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the HKICPA.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates since the issuance of the 2005 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2005 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2005, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 7 March 2006, are available from the Company's registered office.

These interim accounts have been prepared in accordance with the same accounting policies adopted in the 2005 annual accounts, except for changes in accounting policies made thereafter in adopting certain revised HKFRSs and HKASs as set out below:

- Amendment to HKAS 19 "Employee Benefits" – Actuarial Gains and Losses, Group Plans and Disclosures; and
- Amendment to HKAS 39 "Financial Instruments: Recognition and Measurement" – Financial Guarantee Contracts

The adoption of these accounting standards has no impact on the Group's results of operations.

## 2 Profit on property developments

<i>in HK\$ million</i>	<b>Half-year ended 30 June 2006 (Unaudited)</b>	Half-year ended 30 June 2005 (Unaudited)
Profit on property developments comprises:		
Transfer from deferred income	<b>916</b>	1,003
Share of surplus from development	<b>3,118</b>	–
Profit on sale of properties held for sale	<b>19</b>	185
Profit recognised from sharing in kind	<b>26</b>	341
Other overhead costs	<b>(7)</b>	(9)
	<b>4,072</b>	1,520

Included in profit on sale of properties held for sale is cost of properties sold of HK\$21 million (2005: HK\$514 million).

### 3 Share of profits less losses of non-controlled subsidiaries and associates

Share of profits less losses of non-controlled subsidiaries and associates comprises:

<i>in HK\$ million</i>	<b>Half-year ended 30 June 2006 (Unaudited)</b>	Half-year ended 30 June 2005 (Unaudited)
Share of profit before taxation of non-controlled subsidiaries	<b>36</b>	29
Share of loss of associates	<b>(12)</b>	(10)
	<b>24</b>	19
Share of income tax of non-controlled subsidiaries	<b>(8)</b>	(4)
	<b>16</b>	15

### 4 Income tax

Income tax in the consolidated profit and loss account represents:

<i>in HK\$ million</i>	<b>Half-year ended 30 June 2006 (Unaudited)</b>	Half-year ended 30 June 2005 (Unaudited)
Current tax		
– overseas tax for the period	<b>1</b>	8
Deferred tax		
– origination and reversal of temporary differences on:		
– change in fair value of investment properties	<b>259</b>	178
– others	<b>724</b>	303
	<b>983</b>	481
	<b>984</b>	489

No provision for current 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 period's assessable profits or have sustained tax losses for the half-year ended 30 June 2006. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at Hong Kong Profits Tax rate at 17.5% (2005: 17.5%).

## 5 Dividends

<i>in HK\$ million</i>	Half-year ended 30 June 2006	Half-year ended 30 June 2005
Dividend paid		
2005 final dividend of 28 cents (2004: 28 cents) per share approved and paid in 2006	<b>1,534</b>	1,509
Dividend declared		
Interim dividend declared after the balance sheet date of 14 cents (2005: 14 cents) per share	<b>774</b>	764

## 6 Earnings per share

The calculation of basic earnings per share is based on the profit for the half-year ended 30 June 2006 attributable to equity shareholders of HK\$5,167 million (2005: HK\$2,606 million) and the weighted average number of ordinary shares of 5,484,385,261 in issue during the period (2005: 5,394,737,292).

The calculation of diluted earnings per share is based on the profit for the half-year ended 30 June 2006 attributable to equity shareholders of HK\$5,167 million (2005: HK\$2,606 million) and the weighted average number of ordinary shares of 5,490,717,070 in issue during the period (2005: 5,400,498,206) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes calculated as follows:

	Half-year ended 30 June 2006	Half-year ended 30 June 2005
Weighted average number of ordinary shares used in calculating basic earnings per share	<b>5,484,385,261</b>	5,394,737,292
Number of ordinary shares deemed to be issued for no consideration	<b>6,331,809</b>	5,760,914
Weighted average number of ordinary shares used for calculating the diluted earnings per share	<b>5,490,717,070</b>	5,400,498,206

Both basic and diluted earnings per share would have been HK\$0.72 (2005: HK\$0.33) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding increase in fair value of investment properties net of related deferred tax, adjusted as follows:

<i>in HK\$ million</i>	Half-year ended 30 June 2006	Half-year ended 30 June 2005
Profit attributable to equity shareholders	<b>5,167</b>	2,606
Increase in fair value of investment properties	<b>(1,478)</b>	(1,015)
Deferred tax on change in fair value of investment properties (note 4)	<b>259</b>	178
Profit from underlying businesses attributable to equity shareholders	<b>3,948</b>	1,769

## 7 Segmental information

The Group's results of major business activities for the half-year ended 30 June 2006, with comparative figures for the half-year ended 30 June 2005, are summarised below:

<i>in HK\$ million</i>	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
<b>Half-year ended 30 June 2006 (Unaudited)</b>						
Revenue	<b>3,138</b>	<b>735</b>	<b>693</b>	<b>4,566</b>	–	<b>4,566</b>
Operating expenses before depreciation	<b>(1,372)</b>	<b>(183)</b>	<b>(132)</b>	<b>(1,687)</b>	–	<b>(1,687)</b>
	<b>1,766</b>	<b>552</b>	<b>561</b>	<b>2,879</b>	–	<b>2,879</b>
Profit on property developments	–	–	–	–	<b>4,072</b>	<b>4,072</b>
Operating profit before depreciation	<b>1,766</b>	<b>552</b>	<b>561</b>	<b>2,879</b>	<b>4,072</b>	<b>6,951</b>
Depreciation	<b>(1,244)</b>	<b>(47)</b>	<b>(2)</b>	<b>(1,293)</b>	–	<b>(1,293)</b>
	<b>522</b>	<b>505</b>	<b>559</b>	<b>1,586</b>	<b>4,072</b>	<b>5,658</b>
Unallocated corporate expenses						<b>(262)</b>
Operating profit before interest and finance charges						<b>5,396</b>
Interest and finance charges						<b>(739)</b>
Change in fair value of investment properties			<b>1,478</b>			<b>1,478</b>
Share of profits less losses of non-controlled subsidiaries and associates						<b>16</b>
Income tax			<b>(259)</b>			<b>(984)</b>
<b>Profit for the period ended 30 June 2006</b>			<b>1,219</b>			<b>5,167</b>
Half-year ended 30 June 2005 (Unaudited)						
Revenue	2,988	754	643	4,385	–	4,385
Operating expenses before depreciation	(1,362)	(162)	(101)	(1,625)	–	(1,625)
	1,626	592	542	2,760	–	2,760
Profit on property developments	–	–	–	–	1,520	1,520
Operating profit before depreciation	1,626	592	542	2,760	1,520	4,280
Depreciation	(1,277)	(67)	(2)	(1,346)	–	(1,346)
	349	525	540	1,414	1,520	2,934
Unallocated corporate expenses						(235)
Operating profit before interest and finance charges						2,699
Interest and finance charges						(634)
Change in fair value of investment properties			1,015			1,015
Share of profits less losses of non-controlled subsidiaries and associates						15
Income tax			(178)			(489)
<b>Profit for the period ended 30 June 2005</b>			<b>837</b>			<b>2,606</b>

No geographical analysis is shown as substantially all the principal operating activities of the Group were carried out in Hong Kong throughout the reporting periods.

## 8 Fixed assets

### A Acquisitions and disposals

During the six months ended 30 June 2006, the group acquired or commissioned assets with a cost of HK\$386 million (*six months ended 30 June 2005: HK\$435 million*). Items of civil works and plant and equipments with a net book value of HK\$15 million were disposed of during the six months ended 30 June 2006 (*six months ended 30 June 2005: HK\$10 million*), resulting in a loss on disposal of HK\$15 million (*six months ended 30 June 2005: HK\$7 million*).

### B Valuation

Investment properties and land and buildings held for own use carried at fair value were revalued at 30 June 2006 by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff Fellows of the Hong Kong Institute of Surveyors, on an open market value basis. As a result, revaluation surpluses of HK\$242 million (*2005: HK\$406 million*), net of deferred tax, have been transferred to the fixed asset revaluation reserve (see note 18) and a gain of HK\$1,478 million (*2005: HK\$1,015 million*), and deferred tax thereon of HK\$259 million (*2005: HK\$178 million*) in respect of the investment properties, have been included in the consolidated profit and loss account.

## 9 Investments in subsidiaries and interests in associates

A The following new principal subsidiary company was established during the half-year ended 30 June 2006:

Name of company	Issued and paid up ordinary/registered share capital	Proportion of ownership interest			Place of incorporation and operation	Principal activities
		Group's effective interest	Held by the Company	Held by subsidiary		
MTR Shenzhen Investment Holding Limited	HK\$400,000	100%	100%	–	Hong Kong	Investment Holding

B During the half-year ended 30 June 2006, the group has made an equity contribution of HK\$100 million into the Public-Private Partnership company in Beijing, in which the group holds 49% interest. More details are set out in note 20.

## 10 Properties held for sale

<i>in HK\$ million</i>	At 30 June 2006 (Unaudited)	At 31 December 2005 (Audited)
Properties held for sale		
– at cost	2,349	1,090
– at net realisable value	1,015	221
	<b>3,364</b>	1,311

Properties held for sale are properties received by the Company, either as sharing in kind or as part of the profit distribution upon completion of the development. Properties held for sale at 31 December 2005 comprised residential units, retail and car parking spaces at the Olympic Station, Kowloon Station and Hang Hau Station developments. Properties held for sale at 30 June 2006 included unsold properties brought forward from 2005 and unsold units and retail spaces at Tseung Kwan O Area 55b and Tiu Keng Leng station developments received during the first half of 2006.

## 11 Derivative financial assets and liabilities

Derivative financial assets and liabilities comprise:

<i>in HK\$ million</i>	At 30 June 2006 (Unaudited)		At 31 December 2005 (Audited)	
	Notional amount	Fair value	Notional amount	Fair value
<b>Derivative financial assets</b>				
Foreign exchange forwards	430	3	478	1
Cross currency swaps	2,507	38	2,517	76
Interest rate swaps	6,680	72	7,119	157
	<b>9,617</b>	<b>113</b>	10,114	234
<b>Derivative financial liabilities</b>				
Foreign exchange forwards	17	2	120	6
Cross currency swaps	14,015	318	14,015	281
Interest rate swaps	1,700	123	1,500	20
	<b>15,732</b>	<b>443</b>	15,635	307

## 12 Debtors, deposits and payments in advance

The Group's credit policy in respect of receivables arising from its principal activities are 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 and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.
- (iii) Consultancy services income are billed monthly and are due within 30 days.
- (iv) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 21 days upon the certification of work in progress.

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

<i>in HK\$ million</i>	<b>At 30 June 2006 (Unaudited)</b>	At 31 December 2005 (Audited)
Amount not yet due	<b>3,384</b>	2,461
Overdue by 30 days	<b>97</b>	107
Overdue by 60 days	<b>3</b>	26
Overdue by 90 days	<b>5</b>	35
Overdue by more than 90 days	<b>24</b>	17
Total debtors	<b>3,513</b>	2,646
Deposits and payments in advance	<b>342</b>	348
Prepaid pension costs	<b>112</b>	101
	<b>3,967</b>	3,095

Included in amounts not yet due are HK\$2,948 million (2005: HK\$1,991 million) amounts receivable in respect of profit distribution on property developments mainly in respect of the Arch at Kowloon Station and the Grandiose at Tseung Kwan O Area 55b as at 30 June 2006. The amounts receivable on property developments as at 31 December 2005 was mainly in respect of the Arch.

## 13 Loan to property developer

<i>in HK\$ million</i>	<b>At 30 June 2006 (Unaudited)</b>		At 31 December 2005 (Audited)	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Interest free loan to property developer	<b>4,000</b>	<b>3,268</b>	–	–

The loan was provided to the developer of Package 2, Tseung Kwan O Area 86 property development project to assist the developer in financing the project. The loan is interest-free and guaranteed by the developer's ultimate holding company and is repayable on completion of the respective phases of the project.

The difference between the nominal and carrying amount of the loan at inception, amounting to HK\$768 million, has been capitalised as property development in progress.

## 14 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 76.5% 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 HKAS 24 "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 2006:

<i>in HK\$ million</i>	Balance at 1 January 2006 (Audited)	Increase/(decrease)	<b>Balance at 30 June 2006 (Unaudited)</b>
Amounts due from related parties in respect of infrastructure entrustment works:			
– the Government	27	(1)	<b>26</b>
– the Housing Authority	22	–	<b>22</b>
– the Kowloon-Canton Railway Corporation	2	(2)	–
Amount due from non-controlled subsidiary	88	–	<b>88</b>
Amount due from associate	–	29	<b>29</b>
Loans to associates	15	(10)	<b>5</b>
	154	16	<b>170</b>
Amount due to Kowloon-Canton Railway Corporation	–	2	<b>2</b>
Amount due to associates	17	(17)	–
	17	(15)	<b>2</b>

During the period, the following dividends were paid to the Government:

<i>in HK\$ million</i>	<b>Half-year ended 30 June 2006 (Unaudited)</b>	Half-year ended 30 June 2005 (Unaudited)
Cash dividend paid	<b>538</b>	509
Shares allotted in respect of scrip dividends	<b>637</b>	645
	<b>1,175</b>	1,154

During the half-year ended 30 June 2006, the Group also had the following transactions with its non-controlled subsidiary, Octopus Cards Limited ("OCL"):

<i>in HK\$ million</i>	<b>Half-year ended 30 June 2006 (Unaudited)</b>	Half-year ended 30 June 2005 (Unaudited)
Payment to OCL in respect of central clearing services	<b>27</b>	26
Fees received from OCL in respect of load agency services, card issuance and refund services and management services	<b>8</b>	8

## 15 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 and swap interest payable. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors by due dates is as follows:

<i>in HK\$ million</i>	<b>At 30 June 2006 (Unaudited)</b>	At 31 December 2005 (Audited)
Due within 30 days or on demand	<b>604</b>	591
Due after 30 days but within 60 days	<b>499</b>	643
Due after 60 days but within 90 days	<b>125</b>	116
Due after 90 days	<b>1,720</b>	1,370
	<b>2,948</b>	2,720
Rental and other refundable deposits	<b>504</b>	446
Accrued employee benefits	<b>141</b>	137
Total	<b>3,593</b>	3,303

## 16 Bonds and notes issued and redeemed

Bonds and notes issued by the Group during the half-years ended 30 June 2006 and 2005 comprise:

<i>in HK\$ million</i>	<b>Half-year ended 30 June 2006</b>		Half-year ended 30 June 2005	
	Principal amount	Net consideration received	Principal amount	Net consideration received
	<b>(Unaudited)</b>		(Unaudited)	
Debt issuance programme notes	<b>500</b>	<b>499</b>	1,000	993

The above notes were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company; and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional, and unsubordinated to other unsecured and unsubordinated obligations of the Company. The net proceeds received from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

During the period, the Group redeemed HK\$2,000 million (2005: HK\$1,450 million) unlisted Hong Kong dollar notes upon maturity.



## 17 Share capital, share premium and capital reserve

<i>in HK\$ million</i>	At 30 June 2006 (Unaudited)	At 31 December 2005 (Audited)
Authorised:		
6,500,000,000 shares of HK\$1.00 each	<b>6,500</b>	6,500
Issued and fully paid:		
5,528,610,326 shares (2005: 5,481,856,439 shares) of HK\$1.00 each	<b>5,529</b>	5,482
Share premium	<b>5,531</b>	4,780
Capital reserve	<b>27,188</b>	27,188
	<b>38,248</b>	37,450

**A** 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.

**B** New shares issued and fully paid up during the period comprise:

	Number of shares	Option / scrip price HK\$	Proceeds credited to		Total HK\$ million
			Share capital account HK\$ million	Share premium account HK\$ million	
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	<b>3,551,000</b>	<b>8.44</b>	<b>4</b>	<b>26</b>	<b>30</b>
– New Joiners Share Option Scheme	<b>101,500</b>	<b>9.75</b>	–	<b>1</b>	<b>1</b>
Issued as 2005 final scrip dividends	<b>43,101,387</b>	<b>17.79</b>	<b>43</b>	<b>724</b>	<b>767</b>
	<b>46,753,887</b>		<b>47</b>	<b>751</b>	<b>798</b>

**C** Key details of the Company's share option schemes are summarised as follows:

	Half-year ended 30 June 2006		Half-year ended 30 June 2005	
	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme
Exercise of previously vested share options during the period	<b>3,551,000</b>	<b>101,500</b>	4,129,000	54,500
No. of share options granted for the period	–	<b>974,500</b>	–	–
No. of share options lapsed for the period	–	<b>94,000</b>	–	–
No. of share options vested for the period	–	–	–	–
No. of share options outstanding as at 30 June	<b>8,372,500</b>	<b>3,689,700</b>	13,077,000	1,506,700

Details of the movements in respect of these share option schemes are set out under the Corporate Governance and Other Information section on page 14.

**D** During the half-year ended 30 June 2006, the following share options were granted under the New Joiners Share Option Scheme:

Date of grant	Number of share options	Exercise price HK\$	Exercisable period
12 January 2006	94,000	15.45	on or prior to 9 January 2016
23 March 2006	94,000	18.05	on or prior to 20 March 2016
31 March 2006	94,000	18.05	on or prior to 20 March 2016
12 May 2006	266,500	20.66	on or prior to 25 April 2016
12 May 2006	213,000	21.00	on or prior to 2 May 2016
15 May 2006	213,000	20.66	on or prior to 25 April 2016

No share options were granted under the New Joiners Share Option Scheme for the period ended 30 June 2005.

## 18 Other reserves

in HK\$ million	Attributable to equity shareholders of the Company					Total
	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	
<b>30 June 2006 (Unaudited)</b>						
Balance as at 1 January 2006	697	24	2	4	31,698	32,425
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	-	6	-	-	-	6
Transfer from equity						
- to profit and loss account	-	(11)	-	-	-	(11)
- to initial carrying amount of non-financial hedged items	-	(2)	-	-	-	(2)
- to deferred tax	-	2	-	-	-	2
Dividend approved/paid	-	-	-	-	(1,534)	(1,534)
Surplus on revaluation, net of deferred tax	242	-	-	-	-	242
Employee share-based payments	-	-	2	-	-	2
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	3	-	3
Profit for the period	-	-	-	-	5,167	5,167
Balance as at 30 June 2006	939	19	4	7	35,331	36,300
<b>31 December 2005 (Audited)</b>						
Balance as at 1 January 2005	291	(66)	1	-	25,521	25,747
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	-	69	-	-	-	69
Transfer from equity						
- to profit and loss account	-	32	-	-	-	32
- to initial carrying amount of non-financial hedged items	-	(21)	-	-	-	(21)
- to deferred tax	-	10	-	-	-	10
Dividends approved/paid	-	-	-	-	(2,273)	(2,273)
Surplus on revaluation, net of deferred tax	406	-	-	-	-	406
Employee share-based payments	-	-	1	-	-	1
Exchange difference on translation of accounts of overseas subsidiaries	-	-	-	4	-	4
Profit for the year	-	-	-	-	8,450	8,450
Balance as at 31 December 2005	697	24	2	4	31,698	32,425

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties, net of tax of HK\$11,093 million (2005: HK\$9,874 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2006, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK\$23,901 million (2005: HK\$21,520 million).

## 19 Capital commitments

A Outstanding capital commitments as at 30 June 2006 not provided for in the accounts were as follows:

<i>in HK\$ million</i>	Railway operations	Railway extension projects	Property development projects	Overseas projects	Total
<b>At 30 June 2006 (Unaudited)</b>					
Authorised but not yet contracted for	737	–	371	11	1,119
Authorised and contracted for	610	216	1,056	697	2,579
	<b>1,347</b>	<b>216</b>	<b>1,427</b>	<b>708</b>	<b>3,698</b>
At 31 December 2005 (Audited)					
Authorised but not yet contracted for	543	–	408	8	959
Authorised and contracted for	598	67	1,336	97	2,098
	1,141	67	1,744	105	3,057

Included in the amounts authorised but not yet contracted for are costs that will not be subject to capital contracts such as staff costs, overhead expenses and capitalised interest.

Overseas projects comprise mainly railway projects in China, including Shenzhen Line 4 and Beijing Metro Line 4 projects.

B The commitments under railway operations comprise the following:

<i>in HK\$ million</i>	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
<b>At 30 June 2006 (Unaudited)</b>			
Authorised but not yet contracted for	680	57	737
Authorised and contracted for	438	172	610
	<b>1,118</b>	<b>229</b>	<b>1,347</b>
At 31 December 2005 (Audited)			
Authorised but not yet contracted for	479	64	543
Authorised and contracted for	259	339	598
	738	403	1,141

C Commitments in respect of jointly controlled operations have been included in the commitments for property development projects above and were as follows:

<i>in HK\$ million</i>	At 30 June 2006 (Unaudited)	At 31 December 2005 (Audited)
Authorised but not yet contracted for	371	408
Authorised and contracted for	974	1,324
	<b>1,345</b>	<b>1,732</b>

## 20 Investments in China

Beijing MTR Corporation Limited, the Public-Private Partnership ("PPP") established between the Group, Beijing Infrastructure Investment Co. Ltd and Beijing Capital Group for the Beijing Metro Line 4 Project has obtained its business license in January 2006 and the Concession Agreement with the Beijing Municipal People's Government was signed in April 2006. Tenders for the provision of trains and related electrical and mechanical systems are underway with the rolling stock and signalling contracts awarded in May and July 2006 respectively. The PPP has a registered capital of RMB 1,380 million of which 49% (about RMB 676 million) would be contributed by the Group. As of 30 June 2006, the Group has made an equity contribution of HK\$100 million, representing about 15% of the registered capital committed by the Group. The PPP has a total capital commitments amounting to approximately HK\$1.1 billion as at 30 June 2006.

In 2005, the Group and the Shenzhen Municipal People's Government initialed the project Concession Agreement to build Phase 2 of Shenzhen Metro Line 4 and to operate both Phase 1 and 2 of Line 4 for a period of 30 years. The project is awaiting the approval from the Central Government. Total investment of the project is estimated at RMB 6 billion (HK\$5.8 billion) which will be financed by equity capital contributed by the Company of RMB 2.4 billion (HK\$2.3 billion) and the balance by non-recourse bank loans in RMB. The project will be implemented with associated property developments comprising 2.9 million square metres of commercial and residential space along the railway. As of 30 June 2006, total costs of HK\$234 million incurred for the project have been included in deferred expenditure and the Group had capital commitments totaling HK\$96 million in relation to this project.

In January 2006, the Group entered into a long term lease of up to 47 years for the operation and management of a shopping centre with about 31,000 square metres gross floor area in Dong Cheng district, Beijing. The shopping centre is under renovation and expected to be re-opened for operation by early 2007. The annual lease payments are approximately RMB 50 million for each of the first 5 years of the lease during which the Group has the right to acquire the shopping centre at a pre-determined price or release its obligation as a tenant by making a compensation payment to the landlord.

## 21 Possible merger with Kowloon-Canton Railway Corporation

On 11 April 2006, the Company signed a non-binding Memorandum of Understanding ("MOU") with the Government, setting out the terms for the proposed merger of the rail systems of the Company and the Kowloon-Canton Railway Corporation ("KCRC"), together with the acquisition of a property package.

According to the MOU, the Company will make an upfront payment of HK\$4.25 billion for the grant of a Service Concession and as consideration for certain rail assets purchased from KCRC, HK\$7.79 billion to acquire the property package comprising development rights, investment properties and property management right, and an annual fixed payment of HK\$0.75 billion plus variable payment based on revenues generated from KCRC's rail and rail-related operations over the life of the Service Concession. No variable annual payment will be payable for the first 36 months. The merger proposition will go through a legislative and shareholder approval process. It is expected that the whole approval process may take one year or more to complete. In early July 2006, the Rail Merger Bill (the "Bill") was introduced into the Legislative Council where it will undergo a deliberation and debate process. If the Bill is passed by the Legislative Council, the proposed merger transaction will be presented to the Company's minority shareholders for approval.

## 22 Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.

## 23 Approval of interim financial report

The interim financial report was approved by the Board on 10 August 2006.