地鐵公司
MTR Corporation

Interim report 2007

Contents

Vision

To be a world class enterprise, growing in Hong Kong and beyond, focusing on rail, property and related businesses

Mission

Provide excellent value to our customers, enhancing their quality of life, and contributing to development of the communities in which we operate

Provide opportunities for employees to grow and prosper with the Company and reward our investors

Develop the rail network as the backbone of public transport in Hong Kong

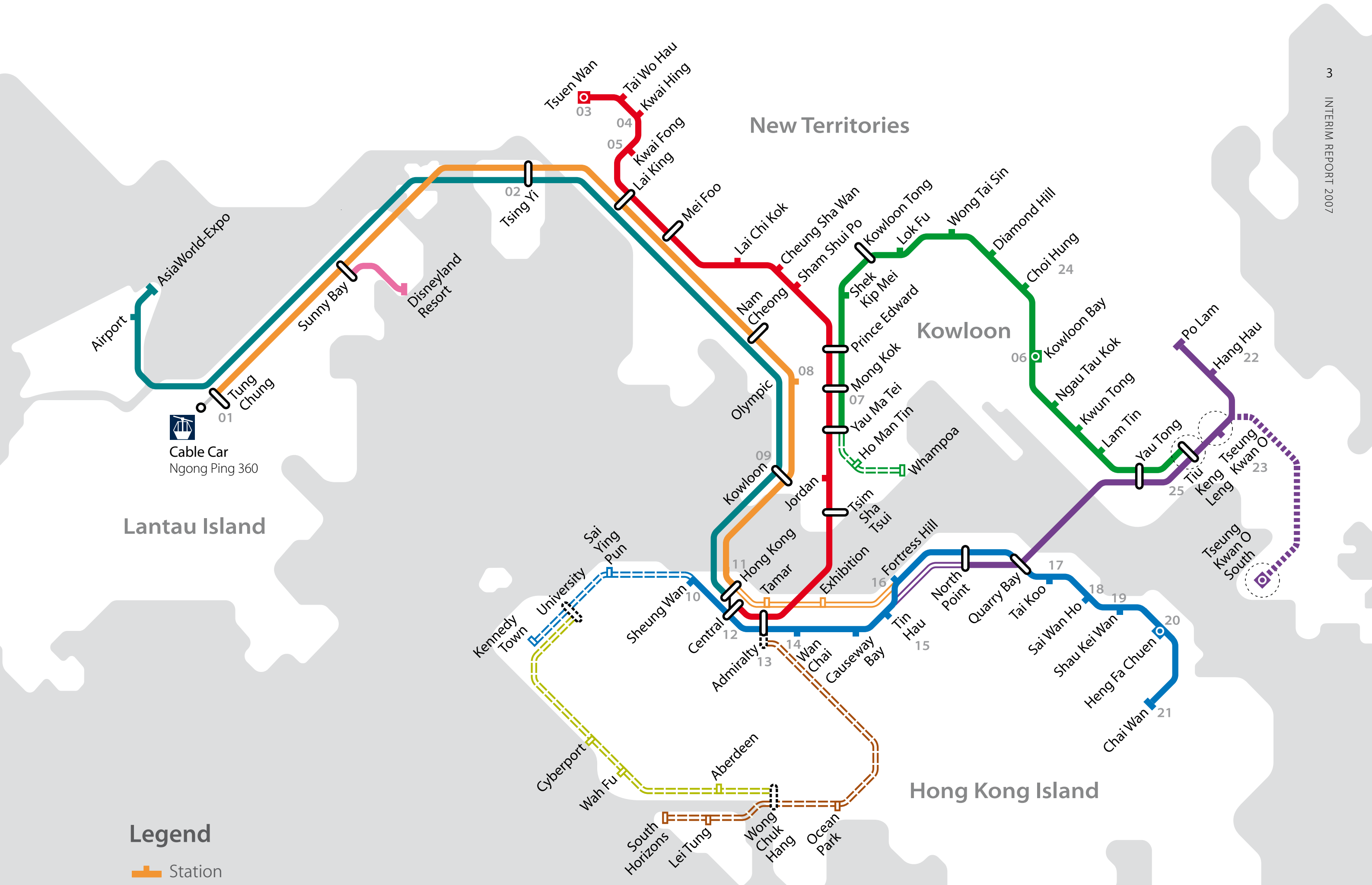
Grow in Mainland China and capture opportunities in Europe by building on our core competencies

Key figures

	Half-year ended 30 June 2007	Half-year ended 30 June 2006	% Increase/ (Decrease)
Financial highlights *in HK$ million*			
Revenue			
– Fare	3,247	3,138	3.5
– Non-fare	1,605	1,428	12.4
Operating profit from railway and related businesses before depreciation	2,797	2,639	6.0
Profit on property developments	1,664	4,072	(59.1)
Operating profit before depreciation	4,461	6,711	(33.5)
Profit attributable to equity shareholders	4,071	5,167	(21.2)
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	2,050	3,948	(48.1)
Total assets	123,034	120,421*	2.2
Loans, obligations under finance leases and bank overdrafts	25,170	28,152*	(10.6)
Total equity attributable to equity shareholders	80,277	76,767*	4.6
Financial ratios *in %*			
Operating margin	57.6	57.8	(0.2)% pt.
Debt-to-equity ratio	31.4	36.7*	(5.3)% pt.
Interest cover *in times*	5.7	8.0	(2.3) times
Interest cover (excluding impact of change in fair value of derivative instruments) *in times*	6.1	8.3	(2.2) times
Share information			
Basic earnings per share *in HK$*	0.73	0.94	(22.3)
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *in HK$*	0.37	0.72	(48.6)
Dividend per share *in HK$*	0.14	0.14	–
Share price at 30 June *in HK$*	18.52	18.75	(1.2)
Market capitalisation at 30 June *in HK$ million*	103,500	103,661	(0.2)
Operations highlights			
Total passenger boardings			
– MTR Lines *in millions*	429.3	418.4	2.6
– Airport Express *in thousands*	4,836	4,512	7.2
Average number of passengers *in thousands*			
– MTR Lines *weekday*	2,544	2,470	3.0
– Airport Express *daily*	26.7	24.9	7.2
Fare revenue per passenger *in HK$*			
– MTR Lines	6.84	6.80	0.6
– Airport Express	64.40	64.80	(0.6)
Proportion of franchised public transport boardings *in %*			
– All movements	25.0	24.7	0.3% pt.
– Cross-harbour movement	61.2	60.4	0.8% pt.
Proportion of transport boardings travelling to/from the airport *in %*			
– Airport Express	23	23	–

* Figures are as at 31 December 2006

Operating network with future extensions



Legend

- Station
- Station with Depot
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Proposed Property Developments along Tseung Kwan O Line
- Cable Car Ngong Ping 360

Existing network

- Airport Express
- Disneyland Resort Line
- Island Line
- Kwun Tong Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line

Projects in progress

- Tseung Kwan O South

Future extensions

- North Island Line
- Tseung Kwan O Line Extension

Extensions under study

- Kwun Tong Line Extension
- South Island Line (West)
- South Island Line (East)
- West Island Line

Properties developed by the Company

01 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Caribbean Coast / Coastal Skyline
02 Tierra Verde / Maritime Square
03 Luk Yeung Sun Chuen / Luk Yeung Galleria
04 Sun Kwai Hing Gardens
05 New Kwai Fong Gardens
06 Telford Gardens / Telford Plaza I and II
07 Argyle Centre
08 Central Park / Island Harbourview / Park Avenue / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two / Harbour Green
09 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The HarbourView Place
10 Hongway Garden / Vicwood Plaza
11 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
12 World-wide House
13 Admiralty Centre / Fairmont House
14 Southorn Garden
15 Park Towers
16 Fortress Metro Tower
17 Kornhill / Kornhill Gardens
18 Felicity Garden
19 Perfect Mount Gardens
20 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
21 New Jade Garden
22 Residence Oasis / The Lane
23 Central Heights / The Grandiose / The Edge
24 No. 8 Clear Water Bay Road
25 Metro Town

Chairman's letter

Dear Stakeholders,

I am pleased to present to you the interim results of MTR Corporation for the first six months of 2007.

The period was marked with two major steps forward in our growth strategy at home and abroad. In Hong Kong, the Legislative Council of Hong Kong (LegCo) passed the key legislation for our proposed merger with the Kowloon-Canton Railway Corporation (KCRC). In Europe, we secured our first rail operating contract with the award of the concession for London Overground.

These important developments came as we continued to achieve steady financial results for the half year, with revenue rising by 6.3% to HK$4,852 million and operating profit from railway and related businesses before depreciation increasing by 6.0% to HK$2,797 million. Profit from our underlying businesses before investment property revaluation declined by 48.1% to HK$2,050 million, as a result of lower property development profit in the first half of 2007 as compared with the same period of 2006. Our property development profit depends on the timing of completion of development projects and in the first half of 2006 there was significant profit recognition from projects along the Tseung Kwan O Line, such as Metro Town and the Grandiose. The first half of 2007 did not see the completion of as many development projects as in the first half of 2006. Including investment property revaluation, our net profit attributable to equity shareholders was HK$4,071 million and earnings per share were HK$0.73. Your Board of Directors has declared an interim dividend of HK$0.14 per share, unchanged from last year.

Merger

Much of our focus during the period has been to work towards the merger with KCRC. The Bills Committee of LegCo gave the proposal a detailed examination and legislative councillors from all constituencies reviewed the issues with considerable care. We are pleased that after extensive debate, the Rail Merger Bill gained solid support and was passed on 8 June. On 11 July, two important pieces of subsidiary legislation, namely the By-Laws and Regulations, were also passed by LegCo.

With passage of the Rail Merger Bill and subsidiary legislation, all LegCo enactments bar the final Commencement Notice are complete. We are now finalising transaction documents with the Government and KCRC and preparing for approval by our independent shareholders at an Extraordinary General Meeting (EGM), currently expected to be held in October.

Shareholders will in due course be sent an EGM circular setting out details of the merger and recommendations from the Independent Board Committee, whose members are advised by the Independent Financial Adviser, Merrill Lynch. As the transaction is a connected transaction, the vote will involve only independent shareholders, with the Government and its associates not eligible to vote.

Assuming independent shareholders approve the merger, the final step will be for the Government to introduce, and LegCo to enact, the Commencement Notice to bring the Rail Merger Bill into effect. Only then will we proceed to Day One of the merger.

As I have said before, the merger as proposed represents a major step forward for MTR Corporation and I continue to hold the view that it benefits all our stakeholders, including our shareholders, employees and the travelling public in Hong Kong.

Through the work of the Merger Integration Office, which comprises members from both MTR Corporation and KCRC, the key integration issues in relation to the merger have been substantially resolved to enable readiness for smooth operations on Day One of the merger. To mark what is a new era for the Company, a single brand will be adopted for the entire expanded network, with new uniforms for customer facing staff.

Overseas Growth

While the merger with KCRC will ensure additional growth in our home market, our growth overseas now has a "double track", with our investment in Beijing Metro Line 4 (BJL4) joined by a presence in the UK.

On 19 June, the Mayor of London, Mr. Ken Livingstone, announced the award of the London Overground concession to our UK joint venture, MTR Laing Metro Limited (now renamed as London Overground Railway Operations Limited (LORO)). Our partnership with Laing Rail faced intense competition during the bidding process, and was selected over three other bidders.

Under the concession, LORO will operate the new London Overground service in Greater London for seven years from November 2007, with an option for a two year extension at the discretion of Transport for London (TfL). London Overground is an important franchise in the UK's capital, a semi-orbital route of five rail lines serving West, North and East London. The service will be a crucial link for the 2012 Olympic Games.

I believe our success reflects the recognition of MTR's ability to deliver highly reliable frequent rail services, with a high degree of customer satisfaction. We look forward to applying this knowledge to improve the experience of London rail passengers and assisting London's Mayor in realising his objective of achieving significant service improvements.

Sustainability

As the global concern over climate change and the environment becomes ever more pressing, MTR Corporation's commitment to ensuring business sustainability will have increasingly significant bearing on our operations.

Last year, we adopted the MTR Corporation Climate Change Policy, which is modelled on the policy developed by the International Association of Public Transport (UITP), whose Sustainable Development Commission we currently chair. Our aim is to become one of the most resource efficient and ecologically responsible companies of our kind in the world. Potential risks arising from climate change have been considered within our Enterprise Risk Management structure and we are developing actions to progress energy awareness and savings with a view to reducing the Company's carbon footprint.

We continue to encourage community volunteerism among MTR staff. During the first half of the year, there were 38 community volunteering initiatives involving close to 900 volunteers. The MTR HONG KONG Race Walking 2007, which we co-organised with the Hong Kong Amateur Athletic Association, raised over HK$1 million for the Hospital Authority's health education campaign.

That MTR continues to do well is due to sound Board governance, management and staff excellence, customer trust, and the continuing faith of shareholders. As we approach the threshold into the "post merger" era, we are thankful for, and count on the support of, all our stakeholders.

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 7 August 2007

CEO's review of operations and outlook

Dear Stakeholders,

The first six months of 2007 saw continued progress for MTR Corporation. Firstly, and importantly, all legislation required to implement the proposed merger with the Kowloon-Canton Railway Corporation (KCRC), except the Commencement Notice to establish a date to commence the Rail Merger Bill, has now been approved by the Legislative Council of Hong Kong (LegCo). The next stage of the proposed merger is independent shareholders' approval by way of an Extraordinary General Meeting (EGM) of the Company, which is likely to be held in October. Secondly, in our growth outside of Hong Kong, we together with our partner, Laing Rail, were awarded the London Overground concession in June. This is our first "asset light" train operating franchise in Europe.

The Company's financial results for the first half of 2007 remained strong, with good growth in revenue and operating profit before depreciation and property development profit. However, property development profit was lower in the first half of 2007 compared with the same period in 2006, as we had accounted for property development profit from a number of Tseung Kwan O projects, such as The Grandiose and Metro Town, in the first half of last year, the magnitude of which was not repeated in the first six months of 2007. The recognition of property development profit is dependent on completion of development projects which vary from year to year. As highlighted in our 2006 Annual Report, we will account for property development profits from Le Point at Tiu Keng Leng Station upon receipt of the Occupation Permit, which is expected in the fourth quarter of 2007. The development costs relating to Le Point had already been accounted for in 2006.

The Company's revenue for the period rose 6.3% to HK$4,852 million as compared with the first six months of 2006. Operating profit from railway and related businesses before depreciation increased by 6.0% to HK$2,797 million. Property development profit realised in the period was HK$1,664 million, compared with HK$4,072 million in the same period of 2006. As a result, profit attributable to equity shareholders, excluding gain from revaluation of investment properties net of tax, was HK$2,050 million. Gain from investment properties revaluation before tax was HK$2,450 million (HK$2,021 million post-tax), resulting in reported net profit of HK$4,071 million, a decline of 21.2 % over the first six months of 2006. Reported earnings per share were HK$0.73, and the Board has declared an interim dividend of HK$0.14 per share.

Railway Operations

Total fare revenue for the first half of 2007 increased by 3.5% to HK$3,247 million when compared with the same period last year. Revenue growth was driven by rising patronage and a slight increase in average fare.

For the first six months, total patronage on the MTR Lines reached another record of 429.3 million, a 2.6% increase over the same period in 2006. Average weekday patronage increased by 3.0% to 2.5 million. Despite strong competition, the Company's share of the total franchised public transport market increased to 25.0% from 24.7%, with the share of cross-harbour traffic rising from 60.4% to 61.2%. Average fare on the MTR Lines increased by 0.6% to HK$6.84 when compared with the first six months of 2006 due to changes in promotion program, longer journey distance travelled by passengers and higher growth in cross-harbour movements. As a result, fare revenue on the MTR Lines rose 3.1% to HK$2,935 million.

Passenger volume on Airport Express rose 7.2% from 4.5 million to 4.8 million, as the number of air travellers using Hong Kong International Airport continued to rise, and the number of exhibitions and other events at the AsiaWorld-Expo increased. Fare revenue on Airport Express increased by 6.8% to HK$312 million.

We once again exceeded both the minimum performance levels required by the Government under the Operating Agreement, and our own more stringent Customer Service Pledges.

Service promotions on the MTR Lines continued to support patronage growth, with events such as "red packet" promotions and the first ever wedding in an MTR station. There was also a successful trial initiative to encourage people to travel earlier so as to relieve morning peak congestion.

Airport Express launched a "Children travel free" promotion from the end of 2006 to February 2007, and beginning in April, discounts on Airport Express tickets were offered to MTR shareholders, accompanied by dining offers at SkyPlaza restaurants. The "Ride to Rewards" programme was enhanced with new rewards for registered enrollees having accumulated four journeys on Airport Express.

To encourage use of MTR by travellers further away from MTR stations, the number of fare saver machines offering discounts to Octopus card holders increased by two to 21 in total. The number of feeder bus routes offering intermodal fare discount was maintained at 32, helping to promote patronage through enhancing the connection between the MTR system and other modes of transport.

Technology improvements included completion of the programme to replace motor alternators with static inverters on 78 trains on the MTR Lines, which improved reliability and energy efficiency.

Access to stations was enhanced through a third platform at the Airport Station to serve passengers using the new Airport Passenger Terminal 2, while the Three Pacific Place pedestrian link to Admiralty Station was opened in February.

Investments in facilities for the disabled continued across the network. Installation of a new internal passenger lift at Admiralty Station began in June and self operated stair lifts came into operation in three stations.

Train door and escalator safety were a focus of passenger education. To minimise train door incidents, we extended the door-closing chimes and deployed train door safety ambassadors. Desirable passenger behaviour was further promoted through in-station games and sponsored school tours organised by Metro Broadcast Radio's metro show biz. Escalator safety ambassadors were also deployed at selected stations.

We were honoured to have received a number of awards for our services, including the Sing Tao Excellent Services Brand Award 2006 – Public Transportation presented by *Sing Tao Daily*, Hong Kong Service Awards – Public Transportation Category presented by *East Week* Magazine, Q-Mark Service Scheme Award, HKGCC Environmental Performance Award, *Next Magazine*'s Top Service Awards 2007 – Public Transportation Category, and Eco-Service Enterprise Award. Furthermore, international recognition for our asset management came with the Gold Asset Management Excellence Award, and the Steve Maxwell Leadership Award for our Operations Director, awarded jointly by the Asset Management Council and the Maintenance Engineering Society of Australia.

Operations performance in first half 2007

Service performance item	Performance Requirement	Customer Service Pledge target	**Actual performance**
Train service delivery	98.5%	99.5%	**99.9%**
Passenger journeys on time			
– MTR Lines	98.5%	99.5%	**99.9%**
– Airport Express	98.0%	99.0%	**99.9%**
Train punctuality			
– MTR Lines	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes	N/A	500,000	**1,776,730**
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	8,000	**15,607**
Add value machine reliability	98.0%	98.5%	**99.5%**
Ticket issuing machine reliability	97.0%	98.0%	**99.5%**
Ticket gate reliability	97.0%	99.0%	**99.8%**
Escalator reliability	98.0%	99.0%	**99.9%**
Passenger lift reliability	98.5%	99.0%	**99.9%**
Temperature and ventilation			
– Trains: to maintain a cool, pleasant and comfortable train environment generally at a temperature at or below 26˚C	N/A	97.0%	**99.9%**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27˚C for platforms and 29˚C for station concourses, except on very hot days	N/A	90.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**100%**
– Train body: washed every 2 days	N/A	98.0%	**100%**
Passenger enquiry response time within 7 working days	N/A	99.0%	**99.9%**

Station Commercial and Rail Related Businesses

An expanding economy and rising patronage supported our advertising and station commercial businesses but decreases in telecommunication and consultancy income led to revenue for the six months being unchanged from the same period in 2006 at HK$735 million.

Advertising revenue rose by 3.8% to HK$248 million, sustained by higher passenger volumes and more innovative advertising formats. The advertising business also benefited from the replacement of seatback TV with the new multimedia system in Airport Express carriages, which was completed in May.

Station retail revenue increased 9.5% to HK$208 million as both rental rates and retail sales volumes trended higher. New layouts and refurbishments were completed at five stations during the six months, bringing an additional 10.4% or 1,760 square metres of retail floor space into operation, resulting in a total retail footage in our stations of 18,627 square metres. In all, 39 new shops and 12 new trades were added, resulting in a total of 582 shops.

Revenue from telecommunications services declined by 20.3% to HK$110 million, partly due to a one-off recognition of income from a mobile operator network upgrade in 2006 which was not repeated in 2007. Revenue shared with 2G mobile operators was affected by further cuts in tariffs and cannibalisation of call minutes to 3G mobile services. Our fixed network services provider TraxComm Limited recorded higher revenue, and by the end of June had provided over 180Gbps of bandwidth services to carrier customers.

Revenue from consultancy was HK$82 million during the six months, a decrease of 16.3% compared to the same period in 2006 mainly due to the deferred installation work for Phase 2 of the Automated People Mover project at the Hong Kong International Airport. In the Mainland of China, we secured a design review consultancy for Chengdu Metro and a study funded by the Asian Development Bank, while new contracts were also secured in Europe and India.

Overseas Expansion

Our expansion overseas saw a step forward with the award of the London Overground concession to our joint venture MTR Laing Metro Limited (now renamed as London Overground Railway Operations Limited (LORO)), whilst work progressed on the Beijing Metro Line 4 (BJL4) project as well as on the approval for the Shenzhen Metro Line 4 (SZL4) project.

Mainland of China

In the Mainland of China, the Public-Private Partnership (PPP) company comprising MTR Corporation, Beijing Infrastructure Investment Co. Ltd. and Beijing Capital Group made good progress on the BJL4 project.

By the end of June, tendering for the Electrical & Mechanical (E&M) Works Contracts was nearly complete. Design work for E&M equipment including rolling stock, power supply, communications, platform screen doors and automatic fare collection was making substantial progress. A mock-up of the rail cars to be used on the new line has been completed and the quality management system of the PPP company was successfully granted ISO9001 certification in April. The senior operations team is now in place and around 250 train drivers and station controllers have been recruited to join the one-and-a-half year training programme that will start in September. About 70% of the tunnelling works have been completed. The first batch of eight stations is to be handed over to the PPP company for E&M installation in September. We anticipate that this line will begin operations in 2009.

In Shenzhen, the Company is still liaising with Shenzhen Municipal Government and the National Development and Reform Commission on the final approval of the SZL4 project. Preparatory work continues, whilst expanded trial section work has begun.

We continue to pursue other projects in the Mainland of China, such as the BJL4 Extension, or Daxing Line, and the development of new lines in Wuhan, Hangzhou and Suzhou.

Europe

In Europe, where we are committed to an "asset light" strategy of bidding for rail operating service contracts, our 50:50 joint venture with the UK's Laing Rail was awarded the London Overground concession on 19 June. LORO was selected out of four companies short-listed to bid for the franchise.

Under this concession, LORO will operate five existing lines in Greater London for seven years from 11 November 2007, with an option for a two-year extension at the discretion of Transport for London (TfL). The cost based operating concession, which will be overseen by TfL, will receive an amount of around £700 million over the lifetime of the contract, which includes an expected profit margin for LORO.

London Overground is an important franchise in the UK capital. It is a semi-orbital route serving West, North and East London and will be a crucial link for the 2012 Olympic Games. The total route network measures 107.2 kilometres and under the franchise, LORO will eventually manage 55 of the 78 stations on the network. Among the five lines, the East London Line is currently undergoing an extensive extension and upgrade programme and is scheduled to re-open in 2010.

Some of the service improvements already planned for London Overground include the introduction of a more comprehensive ticketing system, a phased programme of station upgrades to improve comfort and security for passengers, as well as the introduction of a fleet of new trains from 2009.

Our earlier bid with our joint venture partner Swedish railway company SJ for the Öresundståg concessions in Sweden and Denmark was unsuccessful.

Property and Other Businesses

The property market saw broad based strength in the first half of 2007. The Grade A office market saw strong demand, as capital markets activity led to expansion by financial services firms. The retail market was supported by local spending and inbound tourism. Prices in the luxury residential market enjoyed strong upward momentum, while demand in the mass residential market remained strong.

Property Development

For the six months, profit on property developments was HK$1,664 million, mainly derived from developments along the Airport Railway.

The contributors to property development profit from Airport Railway projects were deferred income recognition in line with construction and / or sales progress at Elements in Kowloon Station, and at Coastal Skyline and Caribbean Coast in Tung Chung, as well as surplus proceeds from Harbour Green at Olympic Station and from Caribbean Coast.

Pre-sales were launched at Crystal Cove in Tung Chung and sales were relaunched at Harbour Green with good response, whilst occupation permits were obtained for the two towers of The Cullinan and The HarbourView Place at Kowloon Station.

Following approval by the Town Planning Board, the land application procedure has begun for the conversion of part of the lorry park and transport interchange adjacent to Tsing Yi Station to commercial use.

On the Tseung Kwan O Line, sales were relaunched for Le Point at Tiu Keng Leng Station, with positive response from the market. Construction of the superstructure for Area 86 Package One continued on schedule and the foundation works for Package Two are substantially complete.

The tender for Area 56 in Tseung Kwan O was awarded in February to Lansmart Ltd, a subsidiary of Sun Hung Kai Properties Ltd, with the plan to develop a hotel, residential, office and retail complex in Tseung Kwan O Town Centre.

In Shenzhen, the master development plan for SZL4 property projects has been completed. We are now awaiting approval for the overall SZL4 project.

Property Rental, Management and Other Businesses

Total revenue from property rental, property management and other businesses increased by 25.5% to HK$870 million during the six months compared to the same period of 2006.

Demand for both office and retail space was robust and rental income increased by 13.8% over the comparable period in 2006 to HK$710 million. The increase was driven by favourable rental renewals and new lettings, as well as contribution from The Edge, which opened in November 2006 and Ginza Mall in Beijing.

The strong demand from retailers enabled us to maintain 100% occupancy at all of our shopping centres, except for areas under renovation at Telford Plaza and Luk Yeung Galleria. Our office premises at Two IFC also maintained full occupancy. Elements, our new shopping centre at Kowloon Station, is now 100% pre-let and hand over to tenants had begun. The tenant mix of our retail portfolio was enhanced further by the addition of new trades at Telford Plaza and Maritime Square.

Our property management business saw revenue increase 19.4% to HK$80 million. During the six months, 2,338 residential units were added to the portfolio, bringing the total number of residential units managed by the Company to 61,214 at the end of June, together with 583,372 square metres of commercial space.

In the Mainland of China, following refurbishment and rebranding, Ginza Mall, the shopping centre in Beijing, opened in January and by the end of June had been 99% let. Memoranda of Understanding were signed for property management contracts for two more office and commercial developments in the capital, with SOHO China Ltd for a project at Guanghua Lu and with Nan Fung China Holdings Ltd for one at Xidan.

The Ngong Ping 360 cable car and associated theme village on Lantau Island which opened in September 2006 contributed revenue of HK$80 million during the first six months of 2007. Since opening, the tourist attraction has carried some 1.5 million passengers, which exceeded our projections for the first 12 months of operations. In June, during the annual testing outside of operation hours, one of the gondolas detached from the cable. There were no injuries and operations immediately ceased, followed by detailed investigations. We will only resume passenger operations of the cable car system once we are completely satisfied with all safety aspects of the system.

Octopus continued to extend its operations to new areas within and beyond the transport sector, helped by the launch of the "Portable Octopus Processor" that enables smaller retailers to join the system. Cards in circulation rose to 15.4 million and average daily transaction volume and value rose to 9.9 million and HK$78.4 million respectively. The number of service providers increased by 20% to 456. MTR Corporation's share of earnings from Octopus Holdings Limited rose by 50% to HK$42 million for the six-month period.

Tseung Kwan O Line property developments (packages awarded)

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Actual or expected completion date
Tseung Kwan O Station						
Area 57a	Sun Hung Kai Properties Ltd.	Residential	26,005		Awarded	Completed
(Central Heights)	Nan Fung Development Ltd.	Retail	3,637		in July	in 2005
	Henderson Land Development Co. Ltd.	Car park		74	2000	
	Chime Corporation Ltd.					
Area 55b	New World Development Co. Ltd.	Residential	84,920		Awarded	Completed
(The Grandiose	Chow Tai Fook Enterprises Ltd.	Retail	11,877		in January	in 2006
and The Edge)	Wee Investments Pte. Ltd.	Car park		249	2002	
Area 56	Sun Hung Kai Properties Ltd.	Residential	80,000		Awarded	2011
		Hotel	58,130		in February	
		Retail	20,000		2007	
		Office	5,000			
		Car park		363		
Hang Hau Station						
(Residence Oasis	Sino Land Co. Ltd.	Residential	138,652		Awarded	Completed
and The Lane)	Kerry Properties Ltd.	Retail	3,500		in June	in 2004
		Car park		369	2002	
Tiu Keng Leng Station						
(Metro Town)	Cheung Kong (Holdings) Ltd.	Residential	236,965		Awarded in	By phases
		Retail	16,800		October	from
		Car park		609	2002	2006–2007
Tseung Kwan O South Station						
Area 86 Package One	Cheung Kong (Holdings) Ltd.	Residential	136,240		Awarded	2008
		Retail	500		in January	
		Car park		325	2005	
		Residential Care				
		Home for the Elderly	3,100			
Area 86 Package Two	Cheung Kong (Holdings) Ltd.	Residential	309,696		Awarded	By phases
		Kindergarten	800		in January	from
		Car park		905	2006	2009–2010

Tseung Kwan O Line property developments (packages to be awarded)

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Expected No. of parking spaces	Period of package tenders	Expected completion date
Tseung Kwan O South Station	6–11	Residential	1,153,764 –			
Area 86*			1,163,764		2007–2011	2015
		Retail	39,500 – 49,500			
		Car park		3,653 (max.)		

* Subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

Choi Hung Park and Ride development

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Actual completion date
Choi Hung Station	Chun Wo Holdings Ltd.	Residential	19,138		Awarded	Completed
(No. 8 Clear Water Bay Road)		Retail	2,400		in July 2001	in 2005
		Car park		54		
		Park & Ride		450		

Hong Kong Network Expansion Projects

MTR Corporation's projects to expand and enhance the network in Hong Kong continued throughout the first half of 2007.

The construction of Tseung Kwan O South Station is on track, with all civil, building services and system-wide contracts progressing satisfactorily. By the end of June, some 90% of the station concrete had been placed and track laying had begun. Construction of the Government entrusted works for one of the access roads is also progressing on programme. This station is expected to open in April 2009.

Following the Government's announcement of proposals for the rejuvenation of Aberdeen and Ap Lei Chau, centred on a new Fisherman's Wharf, we submitted a revised proposal for the South Island Line (East) in June.

Negotiations with the Government on the proposed West Island Line continued. Drafting of the gazette documents has proceeded and preparatory work for the next design stage is underway.

Work has begun on a new pedestrian subway for Lai Chi Kok Station and design of a new subway at Prince Edward Station is under review.

The Government accepted the proposal for construction of entrances linking Tsim Sha Tsui Station with the redevelopment of No. 63 Nathan Road, while our proposal for an underground link at Causeway Bay Station remains under review. The design of a further subway at the north end of Tsim Sha Tsui Station to link with adjoining developments has begun.

Merger with KCRC

The Rail Merger Bill was passed in LegCo on 8 June and By-Laws and Regulations on 11 July. Hence all legislation except the final Commencement Notice is now approved. We are now in the final stages of agreeing legal documents with the Government and KCRC, after which the proposed merger will be submitted to independent shareholders for approval at an EGM, which is likely to be held in October.

A circular containing details of the transaction, as well as recommendations from the Independent Board Committee, which is advised by the Independent Financial Adviser, Merrill Lynch, will be dispatched to shareholders after the signing of the legal agreements. Shareholders should make their own decisions on the merger and are advised to read the EGM Circular carefully. If independent shareholders approve the merger, the Government would then need to introduce the Commencement Notice in LegCo for approval by LegCo for the Rail Merger Bill to come into effect. We would then proceed to Day One of the merger, which could take place by the end of the year.

The Joint Integration Group and Merger Integration Office have continued to lead the work to prepare for the proposed merger and all of the integration issues have now been substantially resolved to facilitate a smooth start from Day One of the merger.

Financial Review

The Group's financial performance in the first half of 2007 continued to benefit from the economic growth of Hong Kong with total revenue increasing by 6.3% to HK$4,852 million as compared with the same period last year. Fare revenue grew by 3.5% to HK$3,247 million, mainly attributable to patronage increases of 2.6% for the MTR Lines and 7.2% for Airport Express. Average fare for the MTR Lines also increased from HK$6.80 to HK$6.84, whilst average fare for Airport Express declined slightly from HK$64.80 to HK$64.40 due to the larger proportion of passengers traveling to and from the AsiaWorld-Expo Station paying lower fares. Non-fare revenues rose by 12.4% to HK$1,605 million as the strong retail market helped increase revenue from advertising and station commercial facilities as well as rentals from our properties, while additional income streams were generated from the new Ngong Ping 360 and the expanded property rental and management portfolios in Hong Kong and Beijing.

Operating costs before depreciation for the first half of 2007 increased by 6.6% to HK$2,055 million as compared with the same period last year. The increase was mainly attributable to business expansion in property rental, management and other businesses, increased business development in Europe and China, as well as a non-recurring refund of operational rent and rates in 2006. As a result, operating profit from railway and related businesses before depreciation was HK$2,797 million, a 6.0% increase from the same period last year, with the operating profit margin at 57.6% in the first half of 2007.

Property development profit for the first half of 2007 amounted to HK$1,664 million, mainly comprising surplus proceeds from Harbour Green and Caribbean Coast along the Airport Railway as well as deferred income recognition from Coastal Skyline, Caribbean Coast and Elements, also along the Airport Railway. Operating profit before depreciation amounted to HK$4,461 million, a decrease of 33.5% from the same period last year due to a decrease in property development profits where in the first half of 2006 substantial surplus proceeds were recognised from The Grandiose and Metro Town along the Tseung Kwan O Line .

Depreciation charge for the first half of 2007 increased by 2.5% to HK$1,348 million mainly due to the addition of depreciation charge for Ngong Ping 360. With strong cash flow and reduction in total borrowings, net interest expense decreased by 11.5% to HK$654 million as compared with the same period last year. The increase in fair value of investment properties since the end of 2006 amounted to HK$2,450 million pre-tax and HK$2,021 million post-tax.

Including the share of profit from Octopus of HK$42 million, profit before taxation decreased by 19.5% to HK$4,951 million when compared with the same period last year. Income tax correspondingly decreased by 10.7% to HK$879 million, which was wholly non-cash deferred income tax. Net profit attributable to shareholders of the Company for the first half of 2007 therefore amounted to HK$4,071 million, with reported earnings per share of HK$0.73. Excluding investment property revaluation gain and related deferred tax, underlying net profit was HK$2,050 million, while earnings per share were HK$0.37.

The Directors have declared an interim dividend of HK$0.14 per share, which is the same as last year. As with previous dividend payments, a scrip dividend option will be offered to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. The Company's majority shareholder, the Financial Secretary Incorporated (FSI), has agreed to receive its entitlement to dividends in the form of shares to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash.

The Group's balance sheet remains strong. During the first half of 2007, shareholders' equity increased by 4.6% to HK$80,277 million as of 30 June, from retained profit as well as the re-investment of scrip dividends by the Government and other shareholders.

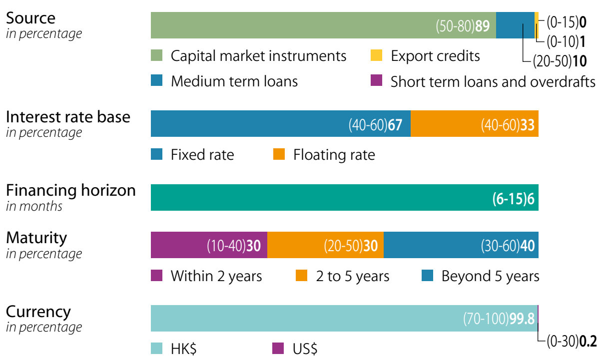
Total assets increased by 2.2% to HK$123,034 million largely due to property revaluation gains of HK$2,595 million mainly from the office space at Two IFC and from retail space at Telford Plaza, Maritime Square and Luk Yeung Galleria. There were also increases in fitting out project works of HK$213 million at Elements and property held for sale of HK$146 million from unsold units mainly at Harbour Green. Other increases in assets include capital expenditure incurred on the SkyPlaza Platform project and other capital improvement projects.

During the period, the Group's total borrowings decreased from HK$28,152 million to HK$25,170 million due mainly to loan repayments. As a result, the debt-to-equity ratio decreased from 36.7% at 31 December 2006 to 31.4% at period-end.

The Group's net cash inflow from railway and related activities increased to HK$2,981 million in the first half of 2007 compared to HK$2,728 million for the same period in 2006, while cash receipts from property development projects increased to HK$3,136 million from HK$584 million in the first half of 2006, mainly due to receipt of forward sale deposits from Le Point at Tiu Keng Leng Station development. Total cash outflow before dividend and loan repayment decreased to HK$2,057 million as compared to HK$6,293 million in 2006 when an interest-free loan of HK$4,000 million was provided to the property developer of Tseung Kwan O Area 86 Package Two. Major outflows included capital project payments of HK$1,062 million, interest expenses of HK$791 million, investment in our associate Beijing MTR Corporation Limited, of HK$103 million and other minor items. After dividend payments of HK$777 million and net loan repayment of HK$3,176 million, there was a net cash inflow of HK$107 million.

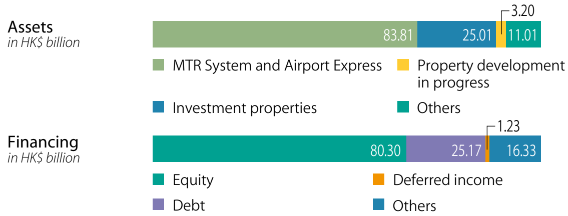
Preferred financing model and debt profile

(Preferred Financing Model) vs. **Actual debt profile**
As at 30 June 2007



Simplified balance sheet

As at 30 June 2007



Financing Activities

With our strong positive cash flows and the availability of a sizeable pool of undrawn committed banking facilities, we did not raise any new debt financings during the period. As at the end of June 2007, the Group had total undrawn committed facilities of HK$6.3 billion. Apart from additional funding that may be required for the proposed merger with KCRC, these undrawn committed facilities, together with cash on hand and projected positive operating cash flow, are expected to cover all of our estimated funding needs until the end of 2007.

During the period, we continued to manage our debt portfolio in a prudent manner in accordance with our Preferred Financing Model to achieve adequate risk diversification. As at the end of June 2007, the Company's debt maturity profile was well balanced, with 30% of total outstanding repayable within 2 years, 30% between 2 and 5 years, and 40% beyond 5 years. In terms of exposure to foreign currency risk, only 0.2% of the debt portfolio was denominated in US dollars with the remainder either hedged into or denominated in HK dollars. In terms of interest rate risk, about 33% of our debt carried interest based on floating interest rates with the balance either based on or hedged into fixed interest rates. This prudent level of fixed rate debt enabled us to maintain our average borrowing cost at 5.7%, roughly the same level as the 5.5% experienced during the same period last year, despite generally higher interest rates in 2007.

Human Resources

Maintaining harmonious staff relations and attracting and retaining high calibre people remain key elements in supporting rapid business growth.

During the merger integration discussions, extensive communication and consultation with staff and staff bodies of both companies ensured acceptance of the salary protection principles, as well as major terms and conditions of employment post merger. A series of cultural integration workshops were arranged together with KCRC, for managers and senior supervisors from both companies.

These workshops helped keep staff up to date on the latest developments in the merger integration process, to prepare them for the coming challenges and to receive their feedback. The workshops were attended by some 1,200 managers and supervisors and a total of 107 Integration Ambassadors were identified as change agents to champion merger-related changes.

MTR Corporation's numerous training and development programmes, designed to enhance skills and maintain motivation, continued throughout the first half of 2007, with courses covering topics ranging from railway safety rules to empowerment and empathetic listening.

Resourcing and developing our staff for our overseas business continue to be a focus and we also implemented programmes designed to build an MTR culture at operations outside Hong Kong.

Outlook

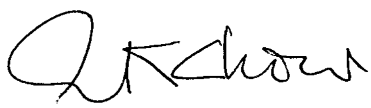
Barring any external shocks, we continue to hold a cautiously positive view for the economy in Hong Kong.

Our rail businesses, as well as most of our non-fare and rail related businesses, will continue to benefit from Hong Kong's economic growth. However, our telecommunications business will face continuing headwinds from the further cannibalisation of 2G users by 3G.

In our property rental business, we plan to open Phase 1 of Elements, our majority owned shopping centre in Kowloon Station in the fourth quarter of 2007. We continue to see positive rental reversions across our portfolio which will also benefit from the full year effect of the opening of The Edge and Ginza Mall.

In our property development business we expect to receive Occupation Permit for Le Point at Tiu Keng Leng Station in the fourth quarter of 2007. As I have noted in the past, in accordance with the Development Agreement and our accounting policy, costs relating to Le Point were already accounted for when we accounted for profits for Metro Town in the first half of 2006. Given current market conditions, pre-sales and the issuance of the Occupation Permit for Area 86 Package One may allow for profit recognition for that development in 2008.

Finally, I take this opportunity to thank all of my colleagues for their continued commitment to making our business a success.



C K Chow, *Chief Executive Officer*
Hong Kong, 7 August 2007

Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices.

The Company has complied throughout the half-year ended 30 June 2007 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) (the "MTR Ordinance")) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was first appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years, which was renewed in 2006 for a further term up to 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever is the earlier. The Rail Merger Ordinance relates to the proposed rail merger between the Company and KCRC, which is to take effect from the day designated pursuant to that Ordinance as the day on which the rail merger will be effective.

Mr. Chow Chung-kong was first appointed as the Chief Executive Officer of the Company with effect from 1 December 2003 for a term of three years which has been renewed for a further term of three years with effect from 1 December 2006. He is a Member of the Board.

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation of the Nominations Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

The Chief Executive of the Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR") may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional Directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional Directors" are treated for all purposes in the same way as other Directors.

In the light of the reorganisation in the Government of the HKSAR (the "Reorganisation"), the Chief Executive of the HKSAR appointed the office of the Secretary for Transport and Housing ("S for T&H") as a non-executive Director of the Company in place of the office of the Secretary for the Environment, Transport and Works (held by Dr. Sarah Liao Sau-tung until 30 June 2007) with effect from 1 July 2007. Ms. Eva Cheng took up the post of the S for T&H starting from 1 July 2007.

As regards Alternate Directors to the office of the S for T&H, the office of the Permanent Secretary for Transport and Housing (Transport) ("PS for T&H") was appointed as an Alternate Director to the office of the S for T&H in place of the office of the Permanent Secretary for the Environment, Transport and Works (Transport) ("PS for ET&W") with effect from 1 July 2007. Mr. Joshua Law Chi-kong who held the post of the PS for ET&W up to 30 June 2007, took up the post of the PS for T&H from 1 July 2007 until Mr. Ho Suen-wai succeeded him. By virtue of his appointment as the PS for T&H, Mr. Ho became an Alternate Director to the office of the S for T&H with effect from 15 August 2007.

Besides the office of the PS for T&H, the office of the Deputy Secretary for Transport and Housing (Transport) ("DS for T&H") was also appointed as an Alternate Director to the office of the S for T&H in place of the office of the Deputy Secretary for the Environment, Transport and Works (Transport) ("DS for ET&W") with effect from 1 July 2007. Mr. Patrick Ho Chung-kei, Ms. Chu Man-ling, Mr. Yung Wai-hung and Ms. Lee Lai-yee who held the posts of the DS for ET&W until 30 June 2007, took up the posts for the DS for T&H starting from 1 July 2007.

Following the Reorganisation, Professor Chan Ka-keung, Ceajer, who took over the post of the Secretary for Financial Services and the Treasury from Mr. Ma Si-hang, Frederick with effect from 1 July 2007, was appointed as a non-executive Director of the Company to succeed Mr. Ma with effect from 10 July 2007. Mr. Alan Lai Nin (Permanent Secretary for Financial Services and the Treasury (Treasury)) and Mr. Leung Cheuk-man (Deputy Secretary for Financial Services and the Treasury (Treasury)2) ceased to be Alternate Directors to Mr. Ma and were appointed as Alternate Directors to Professor Chan, both effective from 10 July 2007.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code and, having made specific enquiry, confirms that Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2007 with the Model Code set out in Appendix 10 to the Listing Rules. Senior managers who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code.

Audit Committee

The Audit Committee meets four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control. All the Members of the Audit Committee are non-executive Directors, namely T. Brian Stevenson (chairman), Professor Cheung Yau-kai and the Commissioner for Transport (Alan Wong Chi-kong). Mr. Stevenson and Professor Cheung are also independent non-executive Directors.

Remuneration Committee

The Remuneration Committee meets regularly to consider remuneration issues and its principal responsibilities include formulating a remuneration policy and practices that facilitate the employment of top quality personnel, recommending to the Board the remuneration of the Members of the Board who are non-executive Directors, determining the remuneration packages of the Members of the Board who are executive Directors and the Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives. All the Members of the Remuneration Committee are non-executive Directors, namely Edward Ho Sing-tin (chairman), T. Brian Stevenson and Professor Chan Ka-keung, Ceajer. Professor Chan who took over the post of the Secretary for Financial Services and the Treasury from Mr. Ma Si-hang, Frederick with effect from 1 July 2007, was appointed as a non-executive Director of the Company and a Member of the Remuneration Committee in place of Mr. Ma with effect from 10 July 2007. Mr. Ho and Mr. Stevenson are also independent non-executive Directors.

Nominations Committee

The Nominations Committee carries out the process of nominating and recommending candidates to fill vacancies on the Board of Directors. All the Members of the Nominations Committee are non-executive Directors, namely David Gordon Eldon (chairman), Lo Chung-hing and the S for T&H (Eva Cheng). The S for T&H, who was appointed by the Chief Executive of the HKSAR as a non-executive Director of the Company in place of the S for ET&W with effect from 1 July 2007, was appointed as a Member of the Nominations Committee with effect from 1 July 2007. Mr. Eldon and Mr. Lo are also independent non-executive Directors.

Independent Committee

In respect of the proposed rail merger between the Company and Kowloon-Canton Railway Corporation ("KCRC"), and for the purpose of looking after the interest of independent minority shareholders and ensuring good corporate governance, the Board has established the Independent Committee of the Board ("IBC").

The principal responsibilities of the IBC include advising the Company's independent minority shareholders as to whether the terms of the proposed rail merger between the Company and KCRC are fair and reasonable, whether the proposed rail merger is in the interests of the Company and its shareholders as a whole, and on how to vote, after taking into account the recommendations of the independent financial adviser required to be appointed by the Company under the Listing Rules.

All the Members of the IBC are independent non-executive Directors, namely Edward Ho Sing-tin (chairman), Professor Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Lo Chung-hing and T. Brian Stevenson.

Internal Controls

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls.

Pursuant to the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

The Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board and designs, operates and monitors a suitable system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

The Board, as advised by the Executive Committee, has established various risk management strategies and insurance coverage arrangements to identify, assess and reduce risks. The Company introduced in early 2006 an Enterprise Risk Management ("ERM") framework for the strategic management of business risks. The framework covers the major business areas of the Company and facilitates the effective communication of risk knowledge at different levels of the organization.

The Enterprise Risk Committee, delegated by the Executive Committee, oversees the operation of the ERM framework, the effectiveness of which is underpinned by line management taking direct risk management responsibilities as risk owners. The framework is subject to continuous improvement through periodic audits and evaluation. The Audit Committee and the Board periodically review the implementation and the ERM organization and processes that have been put in place.

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Internal Auditor reports to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes.

On behalf of the Board, the Audit Committee evaluates annually the effectiveness of the Company's system of internal controls, including the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

A review of the effectiveness of the Company's system of internal control for the year ended 31 December 2006, covering all material financial, operational and compliance controls, and risk management function has been conducted. The Board has reported in the 2006 Annual Report that adequate and effective internal controls were maintained to safeguard the shareholders' investment and the Company's assets and there were no significant control failings, weaknesses or significant areas of concern identified during the year 2006 which might affect shareholders.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2007, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("HKSE") pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Ordinary Shares held			Derivatives			
				Share Options	Other		
Member of the Board or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Chow Chung-kong	–	–	–	–	418,017 (Note 1)	418,017	0.00748
T. Brian Stevenson	4,755	–	–	–	–	4,755	0.00009
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	54,748	–	–	–	–	54,748	0.00098
William Chan Fu-keung	46,960	–	–	217,500 (Note 2)	–	264,460	0.00473
Thomas Ho Hang-kwong	54,640	2,541	–	321,000 (Note 2)	–	378,181	0.00677
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	1,043,000 (Note 4)	160,000 (Note 5)	1,249,000	0.02235
Francois Lung Ka-kui	46,000	2,500	–	1,066,000 (Note 4)	–	1,114,500	0.01994

Notes:

1. Chow Chung-kong has a derivative interest in respect of 418,017 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).

2. Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the Pre-Global Offering Share Option Scheme.

3. The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.

4. Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

5. Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the Pre-Global Offering Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	217,500	–	–	–	8.44	217,500	–
Thomas Ho Hang-kwong	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	321,000	–	–	–	8.44	321,000	–
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	7,291,000	–	–	711,000	8.44	6,580,000	20.24

Note:

All of the above share options were vested on 5 October 2003. The proportion of underlying shares in respect of which the share options have vested is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before 5 October 2001	none
5 October 2001 to 4 October 2002	one-third
5 October 2002 to 4 October 2003	two-thirds
After 4 October 2003	all

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2007	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2007	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,043,000	–	–	–	–	9.75	1,043,000	–
Francois Lung Ka-kui	22/3/2007	1,066,000	19/3/2008 – 19/3/2017	–	1,066,000	–	–	–	19.404	1,066,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	268,200	–	–	–	31,000	9.75	237,200	19.60
	12/1/2006	94,000	9/1/2007 – 9/1/2016	94,000	–	31,500	–	–	15.45	94,000	–
	13/9/2005	94,000	9/9/2006 – 9/9/2015	94,000	–	–	–	–	15.97	94,000	–
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	31,500	–	–	18.05	94,000	–
	4/7/2006	94,000	19/6/2007 – 19/6/2016	94,000	–	31,500	–	–	18.30	94,000	–
	17/11/2006	94,000	13/11/2007 – 13/11/2016	94,000	–	–	–	–	19.104	94,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	89,000	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	213,000	–	71,000	–	–	20.66	213,000	–
	12/5/2006	213,000	2/5/2007 – 2/5/2016	213,000	–	71,000	–	–	21.00	213,000	–

Notes:

1. The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

2. The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

During the six months ended 30 June 2007, 1,066,000 options to subscribe for shares of the Company were granted to Francois Lung Ka-kui, a member of the Executive Directorate, under the New Joiners Share Option Scheme. Pursuant to the terms of this Scheme, he undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options (the closing market price per share immediately before the date on which the options were granted was HK$19.32). The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the date of grant using the Black-Scholes pricing model is as follows:

Date granted	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
22/3/2007	3.96	5	0.21	0.42	3.79

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the six months ended 30 June 2007, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the HKSE pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 30 June 2007 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,285,040,314	76.68

The Company has been informed by the Government that, as at 30 June 2007, approximately 0.97% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 30 June 2007, the Group had facilities of HK$43,557 million in aggregate with maturities ranging from 2007 to 2020, which were subject to a condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the terms of these facilities. Otherwise, the outstanding borrowings may be subject to immediate repayment upon demand or the undrawn facilities may be cancelled as a result.

Purchase, Sale or Redemption of Own Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2007.

Closure of Register of Members

The Register of Members of the Company will be closed from 31 August 2007 to 6 September 2007 (both dates inclusive), during which period no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 30 August 2007. The 2007 interim dividend is expected to be paid on or about 26 October 2007 to shareholders whose names appear on the Register of Members of the Company on 6 September 2007.

Consolidated profit and loss account

in HK$ million	Note	**Half-year ended 30 June 2007 (Unaudited)**	Half-year ended 30 June 2006 (Unaudited)
Fare revenue		**3,247**	3,138
Station commercial and rail related revenue		**735**	735
Rental, management and other revenue		**870**	693
Turnover		**4,852**	4,566
Staff costs and related expenses		**(784)**	(777)
Energy and utilities		**(251)**	(249)
Operational rent and rates		**(45)**	(26)
Stores and spares consumed		**(53)**	(52)
Repairs and maintenance		**(233)**	(235)
Railway support services		**(42)**	(39)
Expenses relating to station commercial and rail related businesses		**(165)**	(183)
Expenses relating to property ownership, management and other businesses		**(223)**	(132)
Project study and business development expenses		**(112)**	(84)
General and administration expenses		**(67)**	(82)
Other expenses		**(80)**	(68)
Operating expenses before depreciation		**(2,055)**	(1,927)
Operating profit from railway and related businesses before depreciation		**2,797**	2,639
Profit on property developments	2	**1,664**	4,072
Operating profit before depreciation		**4,461**	6,711
Depreciation		**(1,348)**	(1,315)
Operating profit before interest and finance charges		**3,113**	5,396
Interest and finance charges		**(654)**	(739)
Change in fair value of investment properties	8B	**2,450**	1,478
Share of profits less losses of non-controlled subsidiaries and associates	3	**42**	16
Profit before taxation		**4,951**	6,151
Income tax	4	**(879)**	(984)
Profit for the period		**4,072**	5,167
Attributable to:			
– Equity shareholders of the Company		**4,071**	5,167
– Minority interests		**1**	–
Profit for the period		**4,072**	5,167
Dividend proposed to equity shareholders of the Company attributable to the period:			
– Interim dividend declared after the balance sheet date	5	**782**	774
Earnings per share:	6		
– Basic		**HK$0.73**	HK$0.94
– Diluted		**HK$0.73**	HK$0.94

The notes on pages 24 to 35 form part of this interim financial report.

Consolidated balance sheet

in HK$ million	Note	**At 30 June 2007 (Unaudited)**	At 31 December 2006 (Audited)
Assets			
Fixed assets			
– Investment properties		**25,013**	22,539
– Other property, plant and equipment		**83,812**	84,404
	8	**108,825**	106,943
Railway construction in progress		**276**	232
Property development in progress	9	**3,200**	3,297
Deferred expenditure		**743**	565
Prepaid land lease payments		**587**	594
Interests in non-controlled subsidiaries		**213**	171
Interests in associates	10B	**203**	100
Deferred tax assets		**1**	1
Investments in securities		**340**	272
Staff housing loans		**18**	25
Properties held for sale	11	**2,164**	2,018
Derivative financial assets	12	**192**	195
Stores and spares		**277**	272
Debtors, deposits and payments in advance	13	**1,957**	1,894
Loan to a property developer	14	**3,442**	3,355
Amounts due from the Government and other related parties	15	**183**	177
Cash and cash equivalents		**413**	310
		123,034	120,421
Liabilities			
Bank overdrafts		**1**	5
Short-term loans		**24**	1,114
Creditors, accrued charges and provisions	16	**5,525**	3,639
Current taxation		**1**	1
Contract retentions		**160**	193
Loans and obligations under finance leases	17	**25,145**	27,033
Derivative financial liabilities	12	**281**	515
Deferred income		**1,226**	1,682
Deferred tax liabilities	18	**10,374**	9,453
		42,737	43,635
Net assets		**80,297**	76,786
Capital and reserves			
Share capital, share premium and capital reserve	19	**39,421**	38,639
Other reserves	20	**40,856**	38,128
Total equity attributable to equity shareholders of the Company		**80,277**	76,767
Minority interests		**20**	19
Total equity		**80,297**	76,786

The notes on pages 24 to 35 form part of this interim financial report.

Consolidated statement of changes in equity

in HK$ million	Note	Half-year ended 30 June 2007 (Unaudited)		Half-year ended 30 June 2006 (Unaudited)	
Total equity as at 1 January					
– Attributable to equity shareholders of the Company		**76,767**		69,875	
– Minority interests		**19**		21	
Total equity as at 1 January			**76,786**		69,896
Cash flow hedges:	20				
Effective portion of changes in fair value, net of deferred tax		**81**		6	
Transfer from equity					
– to profit and loss account		**–**		(11)	
– to initial carrying amount of non-financial hedged items		**–**		(2)	
– to deferred tax		**–**		2	
		81		(5)	
Surplus on revaluation of self-occupied land and buildings, net of deferred tax	20	**120**		242	
Exchange difference on translation of accounts of overseas subsidiaries	20	**10**		3	
Net income recognised directly in equity		**211**		240	
Net profit for the period		**4,072**		5,167	
Total recognised income and expense for the period			**4,283**		5,407
Dividends approved during the period	5				
– 2006/2005 final dividends			**(1,554)**		(1,535)
Shares issued during the period	19				
– Employee Share Option Scheme		**6**		31	
– Scrip Dividend Scheme		**776**		767	
		782		798	
Employee share-based payments	20	**–**		2	
Movements in equity arising from capital transactions			**782**		800
Total equity as at 30 June			**80,297**		74,568
Total recognised income and expense for the period attributable to:					
– Equity shareholders of the Company			**4,282**		5,407
– Minority interests			**1**		–
			4,283		5,407

The notes on pages 24 to 35 form part of this interim financial report.

Consolidated cash flow statement

in HK$ million	**Half-year ended 30 June 2007 (Unaudited)**		Half-year ended 30 June 2006 (Unaudited)	
Cash flows from operating activities				
Operating profit from railway and related businesses before depreciation	**2,797**		2,639	
Adjustments for:				
Decrease in provision for obsolete stock	**(2)**		(5)	
Loss on disposal of fixed assets	**14**		15	
Amortisation of deferred income from lease transaction	**(2)**		(3)	
Amortisation of prepaid land lease payments	**7**		7	
Decrease/(Increase) in fair value of derivative instruments	**1**		(8)	
Unrealised loss on revaluation of investment in securities	**1**		–	
Employee share-based payment expenses	**2**		5	
Exchange loss	**–**		6	
Operating profit from railway and related businesses before working capital changes	**2,818**		2,656	
Decrease in debtors, deposits and payments in advance	**70**		17	
Increase in stores and spares	**(3)**		(8)	
Increase in creditors, accrued charges and provisions	**97**		65	
Cash generated from operations	**2,982**		2,730	
Overseas tax paid	**(1)**		(2)	
Net cash generated from operating activities		**2,981**		2,728
Cash flows from investing activities				
Capital expenditure				
– Tseung Kwan O South Station Project	**(104)**		(27)	
– Disneyland Resort Line Project	**(9)**		(28)	
– Tung Chung Cable Car Project	**(10)**		(157)	
– Tseung Kwan O property development projects	**(67)**		(69)	
– Property fitting out works and other development projects	**(209)**		(273)	
– Purchase of assets and other capital projects	**(663)**		(785)	
Merger studies	**(50)**		(25)	
Receipts in respect of property development	**3,136**		584	
Loan to a property developer	**–**		(4,000)	
Purchase of investment in securities	**(151)**		(104)	
Proceeds from sale of investment in securities	**82**		81	
Investment in an associate	**(103)**		(100)	
Principal repayments under Staff Housing Loan Scheme	**7**		5	
Net cash generated from/(used in) investing activities		**1,859**		(4,898)
Cash flows from financing activities				
Proceeds from shares issued	**6**		31	
Drawdown of loans	**924**		6,228	
Proceeds from issuance of capital market instruments	**–**		499	
Repayment of loans	**(4,031)**		(903)	
Repayment of capital market instruments	**–**		(2,000)	
Reduction in capital element of finance lease	**(69)**		(64)	
Interest paid	**(791)**		(830)	
Interest received	**15**		6	
Interest element of finance lease rental payments	**(6)**		(11)	
Finance charges paid	**(4)**		(7)	
Dividend paid	**(777)**		(767)	
Net cash (used in)/generated from financing activities		**(4,733)**		2,182
Net increase in cash and cash equivalents		**107**		12
Cash and cash equivalents at 1 January		**305**		345
Cash and cash equivalents at 30 June		**412**		357
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents		**413**		369
Bank overdrafts		**(1)**		(12)
		412		357

The notes on pages 24 to 35 form part of this interim financial report.

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 Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's 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, 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 non-controlled subsidiaries and associates since the issuance of the 2006 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 2006 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 2006, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 13 March 2007, are available from the Company's registered office.

These interim accounts have been prepared in accordance with the same accounting policies adopted in the 2006 annual accounts, except for changes in accounting policies made thereafter in adopting the following new or revised HKFRS and HKAS in 2007:

- HKFRS 7 "Financial Instruments: Disclosures"; and
- Amendment to HKAS 1 "Presentation of Financial Statements" – Capital Disclosures.

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

2 Profit on property developments

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Profit on property developments comprises:		
Transfer from deferred income on		
– up-front payments	**510**	621
– sharing in kind	**42**	295
Share of surplus from development	**1,100**	3,137
Income recognised from sharing in kind	**21**	26
Other overhead costs	**(9)**	(7)
	1,664	4,072

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

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

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Share of profit before taxation of non-controlled subsidiaries	**50**	36
Share of loss of associates	**–**	(12)
	50	24
Share of income tax of non-controlled subsidiaries	**(8)**	(8)
	42	16

4 Income tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Current tax		
– overseas tax for the period	**–**	1
Deferred tax		
– origination and reversal of temporary differences on:		
– change in fair value of investment properties	**429**	259
– utilisation of tax losses	**423**	1,005
– others	**27**	(281)
	879	983
	879	984

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 2007. 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% *(2006: 17.5%)*.

5 Dividends

During the period, dividends paid and proposed to equity shareholders of the Company comprised:

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Dividend payable in respect of 2007		
– Interim dividend declared after the balance sheet date of 14 cents *(2006: 14 cents)* per share	**782**	774
Dividend in respect of 2006		
– 2006 final dividend of 28 cents *(2005: 28 cents)* per share approved and paid in 2007	**1,554**	1,535

6 Earnings per share

A Basic earnings per share

The calculation of basic earnings per share is based on the profit for the half-year ended 30 June 2007 attributable to equity shareholders of HK$4,071 million *(2006: HK$5,167 million)* and the weighted average number of ordinary shares of 5,550,144,410 in issue during the period *(2006: 5,484,385,261)*, calculated as follows:

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
Issued ordinary shares at 1 January	**5,548,613,951**	5,481,856,439
Effect of scrip dividends issued	**1,082,419**	952,517
Effect of share options exercised	**448,040**	1,576,305
Weighted average number of ordinary shares at 30 June	**5,550,144,410**	5,484,385,261

B Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the half-year ended 30 June 2007 attributable to equity shareholders of HK$4,071 million *(2006: HK$5,167 million)* and the weighted average number of ordinary shares of 5,555,165,343 in issue during the period *(2006: 5,490,717,070)* after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	Half-year ended 30 June 2007	Half-year ended 30 June 2006
Weighted average number of ordinary shares at 30 June	**5,550,144,410**	5,484,385,261
Number of ordinary shares deemed to be issued for no consideration	**5,020,933**	6,331,809
Weighted average number of ordinary shares (diluted) at 30 June	**5,555,165,343**	5,490,717,070

C Both basic and diluted earnings per share would have been HK$0.37 *(2006: HK$0.72)* 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:

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Profit attributable to equity shareholders	**4,071**	5,167
Increase in fair value of investment properties	**(2,450)**	(1,478)
Deferred tax on change in fair value of investment properties (note 4)	**429**	259
Profit from underlying businesses attributable to equity shareholders	**2,050**	3,948

7 Segmental information

Segmental information is presented in accordance with the Group's business segments, which comprise the following:

Railway operations: The operation of an urban mass transit railway system within Hong Kong and an Airport Express serving the Hong Kong International Airport and the AsiaWorld-Expo both at Chek Lap Kok.

Station commercial and rail related businesses: Related commercial activities including letting of advertising and retail space, bandwidth services on the railway telecommunication system, railway consultancy services and rail related subsidiaries' businesses.

Property ownership, management and other businesses: Property rental, property management and, commencing from September 2006, operations relating to Ngong Ping 360.

Property developments: Property development at locations relating to the railway system.

The Group's results of major business activities for the half-year ended 30 June 2007, with comparative figures for the half-year ended 30 June 2006, are summarised below:

in HK$ million	Railway operations	Station commercial and rail related businesses	Property ownership, management and other businesses	Total railway operations and related activities	Property developments	Total
Half-year ended 30 June 2007						
Revenue	**3,247**	**735**	**870**	**4,852**	**–**	**4,852**
Operating expenses before depreciation	**(1,413)**	**(165)**	**(223)**	**(1,801)**	**–**	**(1,801)**
	1,834	**570**	**647**	**3,051**	**–**	**3,051**
Profit on property developments	**–**	**–**	**–**	**–**	**1,664**	**1,664**
Operating profit before depreciation	**1,834**	**570**	**647**	**3,051**	**1,664**	**4,715**
Depreciation	**(1,258)**	**(32)**	**(32)**	**(1,322)**	**–**	**(1,322)**
	576	**538**	**615**	**1,729**	**1,664**	**3,393**
Unallocated corporate expenses						**(280)**
Operating profit before interest and finance charges						**3,113**
Interest and finance charges						**(654)**
Change in fair value of investment properties			**2,450**			**2,450**
Share of profits less losses of non-controlled subsidiaries and associates						**42**
Income tax						**(879)**
Profit for the period ended 30 June 2007						**4,072**
Half-year ended 30 June 2006						
Revenue	3,138	735	693	4,566	–	4,566
Operating expenses before depreciation	(1,372)	(183)	(132)	(1,687)	–	(1,687)
	1,766	552	561	2,879	–	2,879
Profit on property developments	–	–	–	–	4,072	4,072
Operating profit before depreciation	1,766	552	561	2,879	4,072	6,951
Depreciation	(1,244)	(47)	(2)	(1,293)	–	(1,293)
	522	505	559	1,586	4,072	5,658
Unallocated corporate expenses						(262)
Operating profit before interest and finance charges						5,396
Interest and finance charges						(739)
Change in fair value of investment properties			1,478			1,478
Share of profits less losses of non-controlled subsidiaries and associates						16
Income tax						(984)
Profit for the period ended 30 June 2006						5,167

As substantially all the principal operating activities of the Group were carried out in Hong Kong throughout the reporting periods, no geographical analysis is provided.

8 Fixed assets

A Acquisitions and disposals

During the half-year ended 30 June 2007, the Group acquired or commissioned assets at a total cost of HK$684 million *(2006: HK$386 million)*. Items of civil works and plant and equipment with a net book value of HK$14 million *(2006: HK$15 million)* were disposed of during the same period, resulting in a loss on disposal of HK$14 million *(2006: HK$15 million)*.

B Valuation

Investment properties and self-occupied office land and buildings carried at fair value were revalued at 30 June 2007 on an open market value basis by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, a gain of HK$2,450 million *(2006: HK$1,478 million)*, and deferred tax thereon of HK$429 million *(2006: HK$259 million)* in respect of the investment properties, have been included in the consolidated profit and loss account and revaluation surpluses of HK$120 million *(2006: HK$242 million)*, net of deferred tax, have been transferred to the fixed asset revaluation reserve (note 20).

9 Property development in progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Group for property development projects, net of payments received from developers. Movements of property development in progress during the half-year ended 30 June 2007 and the year ended 31 December 2006 were as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 30 June/ 31 December
30 June 2007 (Unaudited)					
Airport Railway Property Projects	**–**	**22**	**(22)**	**–**	**–**
Tseung Kwan O Extension Projects	**3,297**	**103**	**(200)**	**–**	**3,200**
	3,297	**125**	**(222)**	**–**	**3,200**
31 December 2006 (Audited)					
Airport Railway Property Projects	–	106	(106)	–	–
Tseung Kwan O Extension Projects	2,756	1,007	(452)	(14)	3,297
	2,756	1,113	(558)	(14)	3,297

10 Investments in subsidiaries and interests in associates

A During the half-year ended 30 June 2007, the Group has made a further equity contribution of HK$103 million into Beijing MTR Corporation Limited, a public-private partnership company in which the Group holds 49% interest, making a cumulative equity contribution of HK$203 million as at 30 June 2007. More details are set out in note 22A.

B Great South Eastern Railway Limited and MTR Laing Railway Company Limited, joint venture companies established for bidding of the Integrated Kent Franchise and the Thameslink/Great Northern Franchise in United Kingdom in which the Group held 29% and 50% interest respectively, had been dissolved following unsuccessful bidding of the franchises.

11 Properties held for sale

in HK$ million	**At 30 June 2007 (Unaudited)**	At 31 December 2006 (Audited)
Properties held for sale		
– at cost	**1,504**	876
– at net realisable value	**660**	1,142
	2,164	2,018

Properties held for sale at 30 June 2007 comprised mainly residential units, retail and car parking spaces at the Olympic Station, Kowloon Station and Tung Chung Station developments along the Airport Railway, as well as Tiu Keng Leng Station, Tseung Kwan O Area 55b and Area 57a developments along the Tseung Kwan O Line. They represent either properties received by the Company as sharing in kind or as part of the profit distribution upon completion of the development and the attributable interest in unsold units of shared surplus developments for which occupation permits have been issued.

Properties held for sale at net realisable value are stated net of provision of HK$51 million *(2006: HK$49 million)*, made in order to state these properties at the lower of their cost and estimated net realisable value.

12 Derivative financial assets and liabilities

Derivative financial assets and liabilities comprise:

in HK$ million	At 30 June 2007 (Unaudited) Notional amount	At 30 June 2007 (Unaudited) Fair values	At 31 December 2006 (Audited) Notional amount	At 31 December 2006 (Audited) Fair values
Derivative financial assets				
Foreign exchange forwards	**1,347**	**25**	1,068	9
Cross currency swaps	**3,849**	**56**	2,032	53
Interest rate swaps	**4,923**	**111**	4,773	133
	10,119	**192**	7,873	195
Derivative financial liabilities				
Foreign exchange forwards	**13**	**1**	10	1
Cross currency swaps	**12,653**	**185**	14,480	458
Interest rate swaps	**3,423**	**95**	4,300	56
	16,089	**281**	18,790	515

13 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 service 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.

(v) Amounts receivable from property purchasers are due in accordance with terms of respective sales and purchases agreements.

The ageing of debtors is analysed as follows:

in HK$ million	**At 30 June 2007 (Unaudited)**	At 31 December 2006 (Audited)
Amount not yet due	**1,183**	1,157
Overdue by 30 days	**135**	102
Overdue by 60 days	**32**	18
Overdue by 90 days	**6**	6
Overdue by more than 90 days	**137**	150
Total debtors	**1,493**	1,433
Deposits and payments in advance	**326**	342
Prepaid pension costs	**138**	119
	1,957	1,894

14 Loan to a property developer

in HK$ million	At 30 June 2007 (Unaudited) Nominal amount	At 30 June 2007 (Unaudited) Carrying amount	At 31 December 2006 (Audited) Nominal amount	At 31 December 2006 (Audited) Carrying amount
Interest-free loan to a property developer	**4,000**	**3,442**	4,000	3,355

The loan was provided to the developer of Package 2, Tseung Kwan O Area 86 property development project under the terms of the development agreement. 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.

15 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 76.7% of the Company's issued share capital on trust for the Government of the Hong Kong Special Administrative Region, 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 2007:

in HK$ million	Balance at 1 January 2007 (Audited)	Increase/ (decrease)	**Balance at 30 June 2007 (Unaudited)**
Amounts due from related parties in respect of infrastructure entrustment works:			
– the Government	40	(6)	**34**
– the Housing Authority	22	–	**22**
– the Kowloon-Canton Railway Corporation	3	6	**9**
Amount due from non-controlled subsidiaries	94	(2)	**92**
Amount due from associates	18	8	**26**
	177	6	**183**

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

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Cash dividend paid	**482**	538
Shares allotted in respect of scrip dividends	**708**	637
	1,190	1,175

During the half-year ended 30 June 2007, the Group also had the following transactions with its non-controlled subsidiary, Octopus Cards Limited ("OCL"):

in HK$ million	**Half-year ended 30 June 2007**	Half-year ended 30 June 2006
Payment to OCL in respect of central clearing services	**29**	27
Fees received from OCL in respect of load agency services, card issuance and refund services and management services	**8**	8

16 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, swap interest payable and forward sale deposits received in respect of properties for which occupation permits have not been issued. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors as at 30 June 2007 by due dates is as follows:

in HK$ million	**At 30 June 2007 (Unaudited)**	At 31 December 2006 (Audited)
Due within 30 days or on demand	**609**	645
Due after 30 days but within 60 days	**485**	651
Due after 60 days but within 90 days	**80**	103
Due after 90 days	**1,490**	1,472
	2,664	2,871
Rental, forward sale and other refundable deposits	**2,723**	631
Accrued employee benefits	**138**	137
Total	**5,525**	3,639

17 Bonds and notes issued and redeemed

Bonds and notes issued by the Group during the half-years ended 30 June 2007 and 2006 comprise:

	Half-year ended 30 June 2007		Half-year ended 30 June 2006	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	–	–	500	499

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, none of the Group's listed and unlisted debt securities was redeemed *(2006: HK$2,000 million)*.

18 Deferred tax liabilities

Movements of deferred tax liabilities during the half-year ended 30 June 2007 and the year ended 31 December 2006 were as follows:

	Deferred tax arising from				
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Tax losses	Others	Total
30 June 2007 (unaudited)					
At 1 January 2007	**8,743**	**2,681**	**(2,174)**	**203**	**9,453**
Charged/(credited) to profit and loss account	**29**	**429**	**423**	**(2)**	**879**
Charged to reserves (note 20)	**–**	**25**	**–**	**17**	**42**
At 30 June 2007	**8,772**	**3,135**	**(1,751)**	**218**	**10,374**
31 December 2006 (Audited)					
At 1 January 2006	8,896	2,242	(3,360)	233	8,011
Charged/(credited) to profit and loss account	(153)	381	1,186	(23)	1,391
Charged to reserves (note 20)	–	58	–	(7)	51
At 31 December 2006	8,743	2,681	(2,174)	203	9,453

19 Share capital, share premium and capital reserve

in HK$ million	**At 30 June 2007 (Unaudited)**	At 31 December 2006 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,588,539,505 shares *(2006: 5,548,613,951 shares)* of HK$1.00 each	**5,589**	5,549
Share premium	**6,644**	5,902
Capital reserve	**27,188**	27,188
	39,421	38,639

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$*	Proceeds credited to: Share capital account *HK$ million*	Share premium account *HK$ million*	Total *HK$ million*
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	**711,000**	**8.44**	**1**	**5**	**6**
– New Joiners Share Option Scheme	**31,000**	**9.75**	**–**	**–**	**–**
Issued as 2006 final scrip dividends	**39,183,554**	**19.80**	**39**	**737**	**776**
	39,925,554		**40**	**742**	**782**

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

	Half-year ended 30 June 2007		Half-year ended 30 June 2006	
	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme
No. of previously vested share options exercised during the period	**711,000**	**31,000**	3,551,000	101,500
No. of share options granted during the period	**–**	**1,066,000**	–	974,500
No. of share options lapsed during the period	**–**	**–**	–	94,000
No. of share options vested during the period	**–**	**325,500**	–	–
No. of share options outstanding as at 30 June	**7,118,500**	**3,815,700**	8,372,500	3,689,700

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 2007, 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
22 March 2007	1,066,000	19.404	on or prior to 19 March 2017

20 Other reserves

in HK$ million	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
	Attributable to equity shareholders of the Company					
30 June 2007 (Unaudited)						
Balance as at 1 January 2007	**968**	**(10)**	**5**	**17**	**37,148**	**38,128**
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	**–**	**81**	**–**	**–**	**–**	**81**
Transfer from equity						
– to profit and loss account	**–**	**–**	**–**	**–**	**–**	**–**
– to initial carrying amount of non-financial hedged items	**–**	**–**	**–**	**–**	**–**	**–**
– to deferred tax	**–**	**–**	**–**	**–**	**–**	**–**
2006 final dividend	**–**	**–**	**–**	**–**	**(1,554)**	**(1,554)**
Surplus on revaluation, net of deferred tax (note 18)	**120**	**–**	**–**	**–**	**–**	**120**
Employee share-based payments	**–**	**–**	**–**	**–**	**–**	**–**
Exchange difference on translation of accounts of overseas subsidiaries	**–**	**–**	**–**	**10**	**–**	**10**
Profit for the period	**–**	**–**	**–**	**–**	**4,071**	**4,071**
Balance as at 30 June 2007	**1,088**	**71**	**5**	**27**	**39,665**	**40,856**
31 December 2006 (Audited)						
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	–	(18)	–	–	–	(18)
Transfer from equity						
– to profit and loss account	–	(17)	–	–	–	(17)
– to initial carrying amount of non-financial hedged items	–	(2)	–	–	–	(2)
– to deferred tax	–	3	–	–	–	3
2005 final dividend	–	–	–	–	(1,535)	(1,535)
2006 interim dividend	–	–	–	–	(774)	(774)
Surplus on revaluation, net of deferred tax (note 18)	271	–	–	–	–	271
Employee share-based payments	–	–	3	–	–	3
Exchange difference on translation of accounts of overseas subsidiaries	–	–	–	13	–	13
Profit for the year	–	–	–	–	7,759	7,759
Balance as at 31 December 2006	968	(10)	5	17	37,148	38,128

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$13,692 million *(2006: HK$11,671 million)* included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2007, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$25,556 million *(2006: HK$25,131 million)*.

21 Capital commitments

A Outstanding capital commitments as at 30 June 2007 not provided for in the accounts were as follows:

in HK$ million	Railway operations	Railway extension projects	Property projects and management	Overseas projects	Total
At 30 June 2007 (Unaudited)					
Authorised but not yet contracted for	**898**	**–**	**587**	**–**	**1,485**
Authorised and contracted for	**301**	**254**	**753**	**341**	**1,649**
	1,199	**254**	**1,340**	**341**	**3,134**
At 31 December 2006 (Audited)					
Authorised but not yet contracted for	476	–	428	5	909
Authorised and contracted for	353	325	676	72	1,426
	829	325	1,104	77	2,335

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.

B The commitments under railway operations comprise the following:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
At 30 June 2007 (Unaudited)			
Authorised but not yet contracted for	**870**	**28**	**898**
Authorised and contracted for	**291**	**10**	**301**
	1,161	**38**	**1,199**
At 31 December 2006 (Audited)			
Authorised but not yet contracted for	454	22	476
Authorised and contracted for	349	4	353
	803	26	829

22 Investments in China and Europe

A Investments in China

Beijing MTR Corporation Limited, the public-private partnership company ("PPP") 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 were nearly complete. 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 2007, the Group has made an equity contribution of HK$203 million, representing approximately 30% of the registered capital committed by the Group. As at the same date, a total of 53 contracts have been awarded by the PPP and the related total outstanding capital commitments amounting to approximately RMB 1.7 billion. Construction is expected to be completed by 2009.

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 Shenzhen Metro Line 4 for a period of 30 years. The project is awaiting the approval from the Central Government. Preparatory work including design and tendering is in progress and expanded trial section work has begun. Total investment of the project is estimated at RMB 6.0 billion (HK$6.2 billion) which will be financed by equity capital contributed by the Group of RMB 2.4 billion (HK$2.5 billion) and the balance by non-recourse bank loans in Renminbi. As of 30 June 2007, total costs of HK$400 million incurred for the project have been included in deferred expenditure and the Group had other contract commitments totaling HK$341 million in relation to this project.

B Investments in Europe

On 19 June 2007, the Mayor of London announced that MTR Laing Metro Limited (now renamed as London Overground Railway Operations Limited ("LORO")), a 50/50 joint venture owned by MTR Corporation Limited and Laing Rail Limited in United Kingdom, has been awarded the concession to operate the new London Overground service in Greater London for seven years from November 2007 with an option for a further two-year extension. With a total route network of 107.2 km, London Overground is a semi-orbital route of five railway lines serving West, North and East London and is expected to act as a crucial link for the 2012 Olympic Games. Overseen by Transport for London, the concession is a cost based operating concession from which a fee will be earned by LORO.

23 Proposed 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 operations 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 in respect of the right to access and use the concession properties to provide the KCRC services, 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 rights, and an annual fixed payment of HK$0.75 billion plus annual 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 in respect of the first 36 months. The merger proposal must go through a legislative and shareholder approval process.

On 8 June 2007, the Rail Merger Bill was passed by Legislative Council ("LegCo") after a thorough deliberation and debate process, following which other proposed amendments to the merger-related subsidiary legislation were submitted to the LegCo for examination, which were approved on 11 July 2007. The Company is preparing for the Extraordinary General Meeting expected to be held in October 2007 where independent shareholders will be requested to approve the merger transactions.

24 Approval of interim financial report

The interim financial report was approved by the Board on 7 August 2007.

Review report

To the Board of Directors of MTR Corporation Limited

Introduction

We have reviewed the interim financial report set out on pages 20 to 35 which comprise the consolidated balance sheet of MTR Corporation Limited as of 30 June 2007 and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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Central, Hong Kong
7 August 2007

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