CEO's review of operations and outlook

Dear Stakeholders,

MTR Corporation's results for the first six months of 2005 showed continued improvement. The Hong Kong economy remained favourable and all of our businesses grew.

Revenues for the six months ended 30 June 2005 rose 10.0% to HK$4,385 million as compared with the same period of 2004. Operating profit from railway and related operations before depreciation rose by 15.0% when compared to the first six months of 2004 whilst property development profits rose 31.8%. As a result, operating profit before interest and finance charges increased 27.4%.

As noted in the 2004 Annual Report, there are a number of new accounting standards which became effective on 1 January 2005 and which have implications on the Company's reported results. The most significant was that requiring companies to account for investment properties revaluation through the profit and loss account. The application of this standard in the first six months of 2005 led to a pre-tax gain of HK$1.0 billion. Hence our reported profit attributable to shareholders and earnings per share increased by 122.2% and 118.2% respectively when compared with the first half of 2004. Excluding property revaluation gains, the increase in profits attributable to shareholders and earnings per share over the comparable period last year would have been 50.8% and 50.0% respectively. It should be pointed out that none of these accounting standards changes the cashflow of the Company or our underlying performance. Your Board of Directors has declared an interim dividend of HK$0.14 per share, unchanged from last year.

Railway operations

For the first six months of 2005, total fare revenue for the MTR Lines and the Airport Express Line (AEL) increased 4.1% to HK$2,988 million. The MTR Lines recorded total patronage of 414 million, a 2.5% increase over the first half of 2004. The average weekday patronage for MTR Lines of 2.45 million was 4.1% higher. The Company's overall share of total franchised public transport rose slightly to 24.8% from 24.6% in the comparable period of 2004, with the share of cross-harbour trips rising from 59.3% to 60.4%.

With passenger arrivals and departures at Hong Kong International Airport continuing to increase, the AEL saw total passenger numbers rise 5.6% as compared to the first half of 2004. AEL's market share was maintained at 24%.

MTR Corporation met or exceeded both the requirements under our Operating Agreement and our own more stringent Customer Service Pledges.

Operations performance in the first half 2005

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 Line	98.0%	99.0%	**99.9%**
Train punctuality			
– MTR Lines	98.0%	99.0%	**99.7%**
– Airport Express Line	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes	N/A	500,000	**1,118,910**
Ticket reliability: magnetic ticket transactions per ticket failure	N/A	8,000	**13,372**
Add value machine reliability	95.5%	98.0%	**99.4%**
Ticket issuing machine reliability	93.0%	98.0%	**99.6%**
Ticket gate reliability	97.0%	99.0%	**99.8%**
Escalator reliability	98.0%	99.0%	**99.9%**
Passenger lift reliability	98.5%	99.0%	**99.8%**
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 stations 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%	**100%**

Service improvements in the first half included additional trains and higher frequency of departures on AEL during Chinese New Year and Easter holidays. Sunny Bay Station on Tung Chung Line, which connects with the Disneyland Resort Line, was opened to the public on 1 June 2005, followed by the opening of the Disneyland Resort Line on 1 August 2005.

We have enhanced access to the MTR network by new pedestrian links between Kwun Tong Station and Millennium City 5, and between Mong Kok Station and Langham Place.

Extensive marketing campaigns together with promotional programmes supported patronage growth. The "Ride 10 get 1 Free" scheme was extended to July this year, supplemented by shopping and dining discount coupons that reinforced its value for money appeal. In light of the positive economic environment, the "Ride 10 get 1 Free" scheme was replaced on 16 July 2005 by a MTR Club bonus point for free ride programme. Senior citizens and children were again able to enjoy the HK$2 promotion programme on Sundays and public holidays during Chinese New Year and summer holidays.

For AEL, we expanded our promotional partnerships to include American Express, Priceline and Virgin Atlantic. Special child's tickets using the popular cartoon character Doraemon were launched, as well as group tickets featuring scenic views of Japan.

We also continued our efforts to achieve greater integration between MTR and other transport providers, with the introduction of nine intermodal discount promotions. Two more fare saver machines were installed bringing the total to 16.

Station environments were improved with the retrofit of platform screen doors in four more stations. A total of 67 underground platforms are now equipped with platform screen doors. We expect all the 74 underground stations will be retrofitted with platform screen doors by early 2006.

Station commercial and other businesses

The Company's strategy to increase non-fare businesses resulted in robust performance from our station commercial and other businesses. Revenues for the first half of this year rose by 30.2% to HK$754 million over the same period last year.

Advertising revenues benefited from the strong retail sector and increased by 15.8% over the first six months of 2004 to HK$220 million. We shall continue to introduce new advertisement formats in our trains and stations.

Revenues from telecommunication services increased by HK$87 million to HK$201 million. The increase was mainly attributable to the effect of a one-off settlement for the early termination of a contract from a telecommunications service operator. The upgrading of the network to 3G standard continued. It is targeted to complete the roll out of this service by year end.

Station commercial facilities revenues rose by 11.6% to HK$164 million as a result of expansion of retail space under our station renovation programme and increased rental rates. During the six months, renovations in ten stations added 41 new shops, with a 7.0% increase in retail floor area to 20,030 square metres. New trades and brands were attracted to the network, including major pharmacy chain Watsons, fashion chains ebase and IP Zone, Star Bookstore and Eu Yan Sang.

Octopus Cards Limited (Octopus Cards) grew its number of service providers from 299 as at 31 December 2004 to 309 as at 30 June 2005. Cards in circulation rose to 12.4 million and average daily transaction value increased to HK$63.1 million in June 2005. MTR Corporation's share of pre-tax earnings from the company increased by 45.0% to HK$29 million for the six-month period. By 30 June 2005, 69 more green minibuses had accepted Octopus, bringing the total to 2,711, while red minibuses accepting the card increased by 70 to 120. A further 17 car parks joined the system, bringing the total to 182.

Revenue from external consultancy increased by 31.5% to HK$96 million as compared with the same period last year. In Mainland China, new consulting and training contracts were signed in a number of cities including Beijing, Tianjin, Guangzhou and Shanghai. We also secured another training contract from Taiwan High Speed Rail.

In the Netherlands, the project to build a nation-wide Automatic Fare Collection system, for which Octopus Cards and MTR Corporation are acting as sub-contractors, was commissioned and production-environment system testing started in April 2005. Full operations are expected to commence this autumn.

Future Hong Kong projects

The Disneyland Resort Line which connects the Tung Chung Line to the Hong Kong Disneyland Resort opened on 1 August 2005, following the opening of the Sunny Bay Station on 1 June.

Construction of the new AsiaWorld-Expo Station at the end of the AEL at Hong Kong International Airport is progressing on plan to allow opening by the end of 2005. A provisional agreement for a connection from the Airport Station departure platform to the new Skyplaza development by the Airport Authority was signed in July.

Government has announced its decision to proceed with further planning and preparation of the West Island Line which is an extension of the Island Line by three new stations at Sai Ying Pun, University and Kennedy Town. The Company will discuss in the next few months with Government on the scope, cost and funding requirements of this line. The decision on the South Island Line proposal submitted by the Company is pending a review by Government of the planning for tourism and commercial development in the Southern District of Hong Kong Island by the end of this year.

"Ngong Ping 360" (NP360), the brand name for the Tung Chung Cable Car project, was launched on 19 April, with pricing announcement made on 30 June. Combining a cultural themed village, NP360 offers easy access to the Tian Tan Big Buddha at Ngong Ping and a 5.7 kilometres scenic cable car ride over part of Lantau Island. NP360 will become a major tourist attraction in Hong Kong when it opens in 2006.

Work on providing new pedestrian links to the MTR network continues. Excavation of the main tunnel for the Queensway subway linking Admiralty Station with Three Pacific Place is progressing well. Two new schemes are being actively pursued, one for the Pioneer Centre at Prince Edward Station and the other for Cheung Lai Street at Lai Chi Kok Station.

Growth outside Hong Kong

Expansion of our businesses beyond Hong Kong in pursuit of long term value creation remains a key focus in 2005 and during the first six months, we made considerable progress in the Mainland of China and Europe.

Mainland of China

MTR Corporation signed an Agreement in Principle with the Shenzhen Municipal People's Government in January 2004 to build Phase 2 of the Shenzhen Metro Line 4 and to operate both Phase 1 and Phase 2 of Line 4 for a period of 30 years. The Shenzhen project follows our well proven "rail and property" model and includes the grant of property development rights directly from the Shenzhen Municipal People's Government at stations and depots along Line 4, with an aggregate gross floor area of 2.9 million square metres. The total project cost of Phase 2 is estimated at RMB6 billion.

In May 2005, the Company took a major step forward in this build-operate-transfer (BOT) project by initialling the Concession Agreement with the Shenzhen Municipal People's Government. Preparation works, including detailed design and site investigation, have begun and the construction of Phase 2 is expected to begin when formal approval of the Concession Agreement is obtained from the National Development and Reform Commission of the Central Government.

Concurrent with the initialling of the Concession Agreement, MTR Corporation and the Shenzhen Municipal People's Government also signed a Memorandum of Understanding (MOU) covering co-operation on investment, construction and operation for Shenzhen Metro Lines 2 and 3. Serving western Shenzhen, the proposed Line 2 is a 14.4 kilometres, 11 stations spur line off Line 1 at Window of the World Station to Shekou West. Line 3 is a 32.8 kilometres line in eastern Shenzhen serving 19 stations from Honglingzhonglu in Lowu district to Longxingjie in Longgang district.

In Beijing, we signed an Agreement in Principle in December 2004 with Beijing Infrastructure Investment Co. Ltd. (BIIC) and Beijing Capital Group (BCG), both subsidiaries of the Beijing Municipal People's Government, to form a Public-Private Partnership (PPP) company owned 49% by MTR Corporation, 49% by BCG and 2% by BIIC for the investment, construction and operation of the Beijing Metro Line 4. This was followed by our initialling of the Concession Agreement with the Beijing Municipal People's Government, together with our partners BCG and BIIC in February. Line 4 runs 29 kilometres through 24 stations from Ma Jia Lou Station on the South Fourth Ring Road to Long Bei Cun Station in the northwestern Hai Dian District. The Concession Agreement has a term of 30 years and a total investment of RMB15.3 billion, of which 70% will be funded by the Beijing Municipal People's Government, and the balance of approximately RMB5 billion by the PPP company. The Agreement now awaits approval from the National Development and Reform Commission of the Central Government.

Following these developments in Shenzhen and Beijing, MTR Corporation entered into an MOU with the Wuhan Municipal People's Government in May to explore co-operation opportunities for the construction and operation of metro lines in Wuhan, a metropolis of nearly seven million people in the central part of Mainland China. Currently Wuhan operates a 10 kilometres line which is part of a network that is planned to extend to 70 kilometres by 2011.

Europe

In Europe, our activities centre around bidding for train operating franchises, initially in the relatively deregulated U.K. market. These franchises require limited capital investments but do require financial support from MTR Corporation in the form of guarantees or bonds. During the first half of the year we made progress on two franchise bids which we are currently pursuing in the U.K.

The Company holds 29% of a joint-venture with the U.K.'s Great North Eastern Railway Holdings Limited that is bidding for a service contract to operate the Integrated Kent Franchise, a suburban commuter network in Kent, southern England with 179 stations, 1,600 train cars and annual revenue of about GBP300 million. The final bid was due at the end of July. In addition, we are in a 50/50 joint venture with Laing Rail Limited to pursue a similar opportunity for the Thameslink/Great Northern Franchise, which serves London both north and south of the River Thames. The final bid is due at the beginning of September. Outcome of both bids is expected to be known by the end of the year or early next year.

Our prospects in Europe will be supported by the appointment of Mr. Jeremy Long as CEO of our European operations in May. Jeremy is the former Managing Director of Rail for FirstGroup plc and has extensive experience of the U.K. and continental European rail industry.

Property businesses

Sentiment in the Hong Kong property market was very strong during the first quarter and part of the second quarter, as employment and wage prospects improved, economic growth continued and investor interest in Hong Kong dollar assets heightened. During the latter part of the second quarter, increases in Hong Kong dollar short term interest rates fed into higher mortgage lending rates, affecting sales volumes in the mass residential market. The luxury residential market was less affected by the increase in interest rate and remained strong throughout the first six months of 2005. Buoyed by the strong economy, rents across the office and retail sectors continued to rise as tight supply met increasing demand, with improvements spreading from prime central locations to secondary locations.

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 in	2005
(Central Heights)	Nan Fung Development Ltd.	Retail	3,637		July 2000	
	Henderson Land Development Co. Ltd.	Car park		74		
	Chime Corporation Ltd.					
Area 55b	New World Development Co. Ltd.	Residential	84,920		Awarded in	2006
(The Grandiose)	Chow Tai Fook Enterprises Ltd.	Retail	11,877		January 2002	
	Wee Investments Pte. Ltd.	Car park		249		
Hang Hau Station	Sino Land Co. Ltd.	Residential	138,652		Awarded in	Completed
(Residence Oasis	Kerry Properties Ltd.	Retail	3,500		June 2002	in 2004
and The Lane)		Car park		369		
Tiu Keng Leng Station	Cheung Kong (Holdings) Ltd.	Residential	236,965		Awarded in	By phases
(Metro Town)		Retail	16,800		October 2002	from
		Car park		609		2006-2007
Tseung Kwan O South Station						
Area 86 Package One	Cheung Kong (Holdings) Ltd.	Residential	136,240		Awarded in	2009
		Retail	500		January 2005	
		Car park		325		
		Residential Care Home for the Elderly	3,100			

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

Location	No. of packages envisaged	Type	Gross floor area (sq. m.)	Expected parking spaces	Period of package tenders	Expected completion date
Tseung Kwan O Station	2	Retail	60,000		2006	2010
		Office	103,130			
		Car park		1,291		
Tseung Kwan O South Station	7-13	Residential	1,463,460		2005–2010	2014
Area 86		Retail	49,500			
		Car park		4,438		

* 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	Expected completion date
Choi Hung Station	Chun Wo Holdings Ltd.	Residential	19,138		Awarded in	2005
(No. 8 Clear Water Bay Road)		Retail	2,400		July 2001	
		Car park		54		
		Park and Ride		450		

In the first half of 2005, along the Airport Railway, pre-sales of residential units were launched for Tower 10 of Caribbean Coast (Tung Chung Package Three), Le Bleu of Coastal Skyline Phase 2 (Tung Chung Package Two) and The Arch (Kowloon Package Three), all meeting with positive market response, particularly The Arch where sales proceeded faster than originally anticipated. During the period, Occupation Permit for Le Bleu was granted. In Tseung Kwan O, good pre-sale results were achieved at Tseung Kwan O Station for The Grandiose (Area 55b) and also Central Heights (Area 57a) for which Occupation Permit has been secured.

Against this background, our property development business achieved good results in the first half of 2005 with development profit of HK$1,520 million. As stated in our 2004 Annual Report, the bulk of development profits is currently coming from developments along the Airport Railway, where during the first half of 2005, profits were mainly derived from deferred income recognition from Olympic Package Three, the hotel part of Tung Chung Package One as well as from Coastal Skyline and Caribbean Coast (respectively, Tung Chung Packages Two and Three) in line with construction and sales progress. In Tseung Kwan O, we recognised profits in kind on receipt of "The Lane", a 3,500 square metres shopping centre above Hang Hau Station. The sale of some of the remaining residential units in Residence Oasis, Island Harbourview and Sorrento also contributed to property development profit in the first half of 2005.

In January 2005, Package One of Tseung Kwan O Area 86 was awarded to City Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited, and the Development Agreement was executed in February. Unlike our previous property tenders, the Company undertook to pay half of the assessed Government land premium in the tender to encourage participation from a larger number of property developers which resulted in more favourable profit sharing for the Company.

The Company's growing portfolio of commercial investment properties achieved satisfactory performance in the first six months of 2005, with rental income increasing by 20.4% over the same period last year, to HK$579 million. From January 2005, the Company was benefited from increased share of rental income from Telford Plaza II. The occupancy of the Company's portfolio remained at 100%. Growth in consumer spending during the first half also led to increased turnover rent from tenants. Rents were renewed on average 12% higher than previous rental rates. "The Lane" at Hang Hau Station was opened on 1 April 2005 and was fully let on day one, adding 3,500 gross square metres of retail space to the portfolio.

In light of growing competition from new shopping centres opened in the territory, we strive to maintain our competitive position by vigorous promotion programmes, such as image campaign, sales promotion and mega events. We also continued to refine the trade mix in accordance with research into shoppers' preferences, adding a significant number of new tenants across the portfolio, including Clarins, Leonidas, Cheers Restaurant, Ruby Tuesday and Commercial Press. Pre-leasing of our new flagship mall at Union Square, "Elements", continued with positive response from prominent retailers, and by the end of June 2005 the commitment rate was approaching 30%.

Our property management business saw steady growth, with revenue rising 15.1% over the corresponding six months of last year to HK$61 million, as Residence Oasis at Hang Hau Station and Towers 6, 7 and 8 of Caribbean Coast were added to our portfolio. In Hong Kong, as at 30 June 2005, the number of residential flats managed by MTR Corporation had risen to 52,653 units, while commercial and office space had increased to 562,296 square metres.

In the Mainland of China, we are developing our property consultancy and management business. We entered into two new contracts to manage luxury residential complexes including Northstar Beiyuan B3 District in Beijing and Mei Li Shan Shui in Chongqing.

Financial review and financing activities

Financial review

As mentioned in the 2004 Annual Report, the Company's 2005 financial statements are affected by convergence of the financial reporting standards in Hong Kong with the international standards that became effective on 1 January 2005. A detailed account of the implications as a result of adopting the new standards has been provided in the Notes to the Accounts. Among those new standards applicable to the Company, the adoption of Hong Kong Accounting Standard (HKAS) 40 on investment property had resulted in a restatement of HK$9,168 million from investment property revaluation reserve to retained earnings in shareholders' funds. After including a deferred tax charge of HK$1,604 million on the restated earnings from property revaluation and minor adjustments on share-based payment under Hong Kong Financial Reporting Standard 2, shareholders' funds as at 31 December 2004 was reduced by HK$1,483 million to HK$61,892 million. Together with a minority interest of HK$8 million, total equity as at 31 December 2004 was restated at HK$61,900 million. In addition, the marking of derivative instruments to market value under HKASs 32 and 39 on 1 January 2005 had resulted in retained earnings increasing by HK$190 million together with a negative hedging reserve of HK$66 million on the same day, thereby increasing the total equity on 1 January 2005 to HK$62,024 million. Comparative figures for 2004 have also been restated to comply with HKAS 40, including an increase in profit of HK$2,047 million (after deferred tax of HK$435 million) in respect of the surplus on investment property revaluation during 2004. It should be emphasized that all of these changes are made necessary by the adoption of the new International Financial Reporting Standards in Hong Kong. These changes do not change the cashflow of the Company nor do they change our underlying business performance.

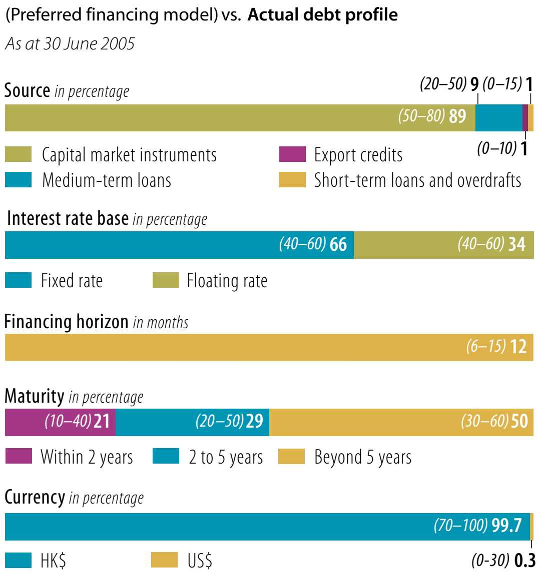
Financial performance for the first half year again surpassed the upswing of the local economy. Total revenue was HK$4,385 million, a 10.0% increase from the same period last year. With increased patronage on the MTR Lines and AEL of respectively 2.5% and 5.6%, fare revenue grew 4.1% to HK$2,988 million. Average fares for MTR and AEL grew by 1.1% and 4.3% respectively. Non-fare revenue including property investment revenue recorded a significant increase of 25.2% to HK$1,397 million, which included a one-off income from settlement of early termination of a contract with a telecommunications service operator.

Operating cost before depreciation for the first half year increased by 3.7% to HK$1,844 million as compared to the same period last year. In 2005, there has been a change in accounting policy on expenditures on rail track replacements. Expenditures relating to rail replacement are now capitalised and amortised over the assets' useful life via depreciation charges starting from 1 January 2005. In previous years, such expenditures were charged to the profit & loss account in the form of staff cost, consumables and repairs & maintenance. This change led to a reduction in operating costs of approximately HK$40 million and a corresponding increase in depreciation charge of HK$39 million. Without this reduction, the increase in operating cost before depreciation when compared with last year would be 6.0% or HK$106 million, and was mainly due to the expenditures for new business development in Europe and the Mainland of China, an expanded portfolio of non-fare businesses, increased operational rent & rates, as well as the non-recurring adjustment in 2004 on Government rent & rates applicable to the telecommunication business.

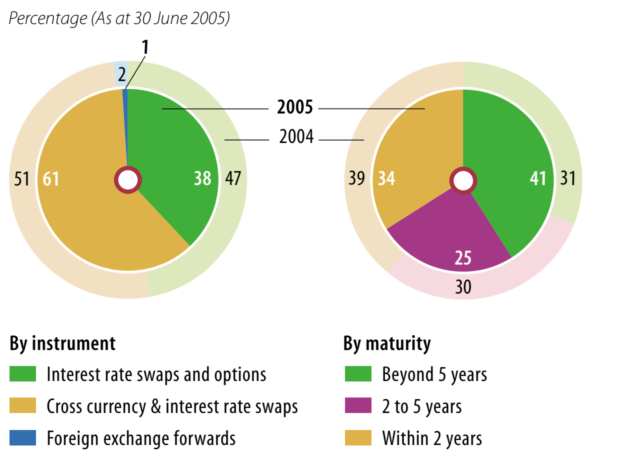
Operating profit from railway and related operations before depreciation amounted to HK$2,541 million, which represents an increase of 15.0% when compared with the same period last year. The operating profit margin was 58.0%, 2.6 percentage points higher than last year's figure.

Property development profit recognised during the first half year amounted to HK$1,520 million, mainly from deferred income relating to Caribbean Coast, Olympic Package Three, Coastal Skyline and Tung Chung Package One as well as from sharing in kind in respect of "The Lane" in Hang Hau Station development along Tseung Kwan O Line. The resulting operating profit before depreciation for the first six months was HK$4,061 million, an increase of 20.8% as compared to the same period last year.

Depreciation charge for the first half year increased by 9.5% to HK$1,362 million mainly as a result of the above mentioned accounting policy change on rail track replacements, as well as depreciation on new assets put into operation. Net interest expense decreased by 14.7% to HK$634 million as a result of reduced borrowings. The change in the market value of investment properties for the first six months amounted to HK$1,015 million, which was recognised in the profit & loss account for the first time following a new accounting standard introduced in January 2005. Together with the share of Octopus Cards' pre-tax earnings and after our share of the expenditure of our associated company in bidding for the Integrated Kent Franchise, profit before taxation increased by 122.2% to HK$3,099 million. Income tax expenses increased correspondingly by 122.1% to HK$493million, of which HK$481 million was for non-cash



Preferred financing model and debt profile



Use of interest rate and currency risk hedging products deferred income tax. The Group's profit for the first half of the year therefore increased by 122.2% to HK$2,606 million. Earnings per share increased to HK$0.48 as compared to HK$0.22 for the same period last year. However, if profit, and the resulting deferred taxation, from the change in market value of investment property is excluded, the Group's net profit would have been HK$1,769 million or an increase of 50.8% over 2004, and earnings per share would have been HK$0.33.

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 with Hong Kong addresses. The Company's majority shareholder, the Financial Secretary Incorporated (FSI), has agreed to extend scrip dividend arrangements for three years up to and including dividends declared for the Company's financial year ending 31 December 2006. Hence, the FSI will elect to receive all or part of its entitlement to dividends in form of shares to the extent necessary to ensure that a maximum of 50% of MTR Corporation's dividend will be paid in cash.

The Group's balance sheet remained strong. Shareholders' funds increased to HK$64,214 million from retained profit, and an increase in equity from the re-investment of scrip dividends by Government and other shareholders. Major capital expenditures during the first half year related to the Disneyland Resort Line, the Tung Chung Cable Car project and other capital improvement projects. During the period, gross borrowings of the Group reduced from HK$30,378 million to HK$29,153 million, and the gross debt-to-equity ratio improved from 49.1% to 45.4%. Netting off the cash balances, the Group's net debt-to-equity ratio as at 30 June 2005 was 45.1% as compared with 48.6% as at 31 December 2004.

The Group's net cash inflow generated from railway and related activities increased to HK$2,562 million for the first half of 2005 from HK$2,301 million for the same period in 2004. Cash receipts from property development projects increased significantly to HK$2,332 million from HK$1,023 million in the first half of 2004. Outflows for capital project payments and interest expenses amounted to HK$2,316 million and HK$721 million respectively. After dividend payments of HK$755 million and other minor movements, the net cash generated increased to HK$1,044 million from HK$285 million in the comparable period in 2004. The net cash outflow, after net loan repayment of HK$1,122 million, was HK$78 million compared to net outflow of HK$3 million in 2004.

Financing activities

The Group successfully launched a number of Hong Kong dollar bonds totaling HK$1.5 billion between April and June, comprising a HK$500 million 10-year note and two HK$500 million 15-year notes with coupon rates of respectively 4.5%, 4.28% and 4.75%. These transactions not only provide cost attractive fixed rate funds but also help to extend further the Company's debt maturity profile.

To take advantage of the strong liquidity and tight credit spreads in the banking market, the Group also entered into a number of 7-year and 10-year bilateral facilities totaling HK$2.8 billion with some of our key relationship banks. These new facilities increased the Group's total undrawn committed banking facilities to HK$7.6 billion as of the end of June 2005, which would provide sufficient cover for our anticipated funding needs well into the second quarter of 2006.

We continued to manage our debt portfolio prudently in accordance with the Company's Preferred Financing Model to achieve a well-balanced debt profile with adequate risk diversification and forward coverage. As at 30 June 2005, our outstanding borrowings had a well-balanced spread of maturities, with 21% repayable within 2 years, 29% between 2 and 5 years, and 50% beyond 5 years. 66% of our borrowings were based on fixed interest rates, and over 99% of our borrowings were either denominated in or hedged into Hong Kong dollars.

Despite higher short-term interest rates since the second half of last year, the Group's borrowing cost increased only slightly to 5% during the first half of 2005 from 4.8% in the same period last year, due to our prudent level of fixed rate debt and the attractive terms of the new financings.

Human resources

Guided by the new Vision, Mission and Core Values that were introduced in 2004, the Company saw continued improvement in staff productivity during the first half of 2005, with staff numbers declining slightly to 6,511 as at 30 June 2005.

Outlook

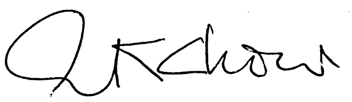
Despite higher oil prices and increasing interest rates, barring unforeseen circumstances, we expect economic conditions in Hong Kong to remain favourable in the second half of the year.

Our rail business should continue to benefit from a favourable economic environment in Hong Kong as well as the additional passengers from the recently opened Disneyland Resort Line. Likewise, our station commercial and related businesses should also benefit from the economy, although the rate of growth is likely to moderate due to the already strong performance in the second half of 2004 and termination of the telecommunications contract mentioned earlier.

Our property rental business should improve with the full occupancy of our shopping centres and Two IFC as well as higher rental renewals and turnover rent, although at a more moderate rate. Our property management business is also expected to grow with the scheduled addition of 2,021 residential units from Le Bleu, Caribbean Coast Towers 9 to 12, and No. 8 Clear Water Bay Road to our portfolio in the second half of 2005.

In our property development business, as mentioned at the time of our 2004 annual results, the bulk of such property development income for the second half of 2005 will come from properties along the Airport Railway. More specifically, depending on the progress of construction and pre-sales, we expect to recognise a significant portion of the remaining HK$4.4 billion of deferred income over the next year and a half to two years. If Occupation Permit of The Arch in Kowloon Station is issued prior to year-end, we will recognise income from that development this year, and not next year as previously expected. In Tseung Kwan O, we expect to recognise profits from the small 390 residential units development, Central Heights (Area 57a), in the second half of the year. The timing of recognition of other property development profits would be dependent on construction progress, pre-sale results and the issuance of Occupation Permit.

Mr. Phil Gaffney, Managing Director – Operations & Business Development, announced his wish to retire from the Company effective December 2005 after 28 years of dedicated service. MTR Corporation is indebted to the valuable contribution from Phil over these many years. We are pleased that after retirement Phil has agreed to continue to give us advice in our international business particularly in Europe. On Phil's retirement, Mr. Andrew McCusker will take over as Acting Operations Director. Andrew has been with MTR Corporation for over 18 years and since 1 March 2004 has been Deputy Operations Director. Finally, I take this opportunity to thank my fellow Directors, management and all staff of the Company as well as our other stakeholders for their support.



C K Chow, *Chief Executive Officer*
Hong Kong, 2 August 2005