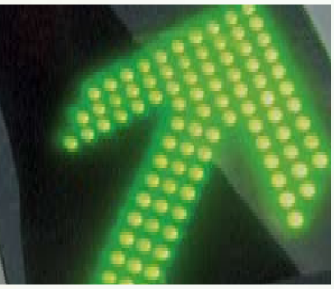
地鐵公司
MTR Corporation

This Summary Financial Report 2006 only gives a summary of the information and particulars of MTR's 2006 Annual Report from which this Summary Financial Report is derived. Both documents are available (in both English and Chinese versions) in electronic form on the Company's website at www.mtr.com.hk

You may obtain a printed copy of the 2006 Annual Report free of charge by writing to the Company's share registrar, Computershare Hong Kong Investor Services Limited, or our Corporate Relations Department. Their details are set out on page 49 of this Summary Financial Report.



Summary financial report 2006

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If you have already chosen to rely on the versions of the summary financial reports and annual reports posted on the Company's website or have difficulty in having access to those documents, you will, promptly upon written request, be sent those documents in printed form free of charge. Please send your request to the Company's share registrar, Computershare Hong Kong Investor Services Limited.

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

MTR Corporation at a glance

We adopt a "Rail and Property" business model whereby we work with developers to build key residential and commercial properties at stations and depots. We believe that an urban rail network creates a convenient living and commercial environment in which high quality communities can be developed, whose residents create patronage for the railway. This approach has been effective in developing and financing railways in Hong Kong and is now being emulated in other cities.

Railway operations

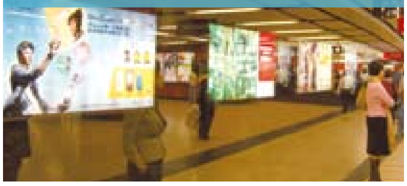
Business description

We operate an urban rail network serving Hong Kong that stretches 91 kilometres with 53 stations and deploys over 1,000 rail cars. With average weekday patronage over 2.5 million, MTR is one of the most intensively used systems in the world, known for its reliability, safety and efficiency.

2006 Highlights

- Exceeded all Performance Requirements under the Operating Agreement and Customer Service Pledges
- Completed platform screen door retrofit
- Record customer satisfaction levels for service quality and fares
- Independently ranked as the best value for money and best customer service in public transport services

Station commercial and other businesses



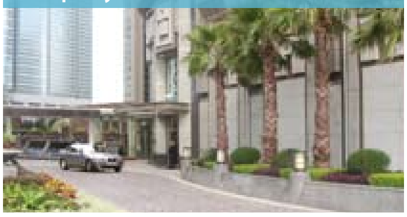
Business description

We leverage our railway assets and expertise into additional businesses, including rental of station retail units, advertising in trains and stations, telecommunication income, rail consulting and the Ngong Ping Cable Car and related facilities. We have also developed the Octopus card in which we retain a majority shareholding.

2006 Highlights

- Ngong Ping 360 opened and well received
- Retail zones of 11 stations renovated, and 32 new shops built
- New advertising products such as Real Time Projection Zone, advertising train and 6-sheet scrolling advertising panels strengthened market positioning
- Expansion of plasma network with new content

Property business



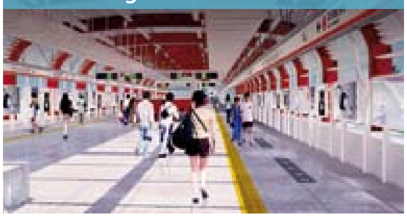
Business description

We develop mainly residential properties, in conjunction with property developers. We own investment properties, mainly shopping centres and offices, and manage our properties and others. Our investment portfolio includes six shopping centres and 18 floors of the Two IFC office tower.

2006 Highlights

- Tender of Package Two of Tseung Kwan O Area 86 awarded to a subsidiary of Cheung Kong (Holdings) Ltd
- The Edge, our 70% owned and our sixth shopping centre, completed and opened for business
- Tender of Area 56 of Tseung Kwan O awarded in February 2007 to a subsidiary of Sun Hung Kai Properties Ltd
- Ginza Mall in Beijing opened in January 2007

Overseas growth



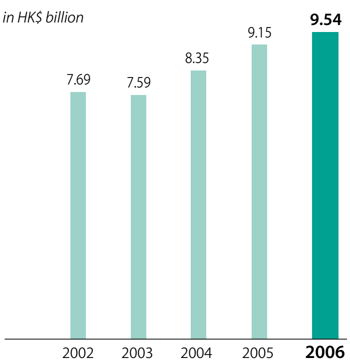
Business description

We continue our strategy to grow overseas by investing in urban rail networks in the Mainland of China, and pursuing "asset-light" operating contracts in European markets that are deregulated or opening to new entrants.

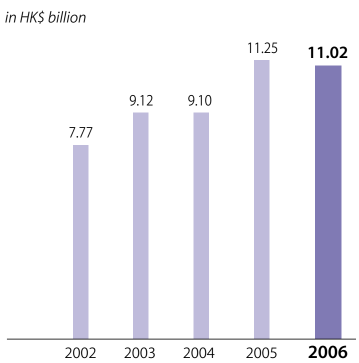
2006 Highlights

- Concession, lease and financing agreements for Beijing Metro Line 4 signed, and construction programme on target
- Preparation works for Shenzhen Metro Line 4 in progress
- Our partnership with Laing Rail for the London Rail Concession entered the Best and Final Offer bidding stage
- Our joint venture bid with Swedish railway company SJ for the Öresundståg concessions in Sweden and Denmark submitted

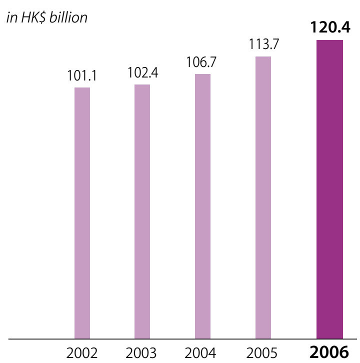
Turnover



Operating profit before depreciation (after property development profit)



Total assets



Chairman's letter

"We and our counterparts at KCRC have been working together to ensure as smooth an integration as possible on Day One of the merger. The merger is expected to yield synergies, while the travelling public will experience benefits"

Dear Stakeholders,

I am pleased to present to you the annual results of MTR Corporation for 2006, which continue the growth momentum of recent years.

For the year, the sound economy and our ability to leverage this through our proven "Rail and Property" model combined to increase our total revenue to HK$9,541 million, 4.2% higher than 2005, leading to an increase of 2.0% in operating profit before property development profit and depreciation. However, underlying profit, excluding revaluation gain on investment properties, decreased marginally by 2.9% to HK$5,962 million due to very strong property development profit recognised in 2005, the magnitude of which was not repeated in 2006. Including investment property revaluation, our net profit attributable to equity shareholders was HK$7,759 million and earnings per share were HK$1.41. Your Board of Directors has recommended a final dividend of HK$0.28, the same as in 2005.

For the year, three issues stand out which I would like to discuss: the proposed merger, our growth strategy and our continuing efforts towards ensuring sustainable growth.

Proposed merger

The proposed merger of MTR Corporation and Kowloon-Canton Railway Corporation (KCRC) has moved closer following the signing by the Company in April of a Memorandum of Understanding (MOU) with the Government of the Hong Kong SAR (Government) setting out the terms of the merger of the rail operations, together with the acquisition of a property package. The Rail Merger Bill was submitted to the Legislative Council (LegCo) in July, shortly followed by the first meeting of the LegCo Bills Committee on the bill. Should LegCo pass the bill, independent shareholders will then be invited to vote on the merger.

In the meantime, we and our counterparts at KCRC have been working together to ensure as smooth an integration as possible on Day One of the merger. The merger is expected to yield synergies, while the travelling public will experience benefits including lower fares and improved integration of the networks. To achieve these goals, we recognise the need to take account of the needs of staff and of the two different corporate cultures, and have worked assiduously not only to put in place the right structures, but to keep staff informed of progress throughout.

Growth strategy

The merger clearly forms a part of our strategy for growth, which covers both Hong Kong and overseas markets, where we will not only leverage the assets and skills we have, but invest in further expansion.

In Hong Kong, this year saw the commencement of the Ngong Ping 360 cable car service on Lantau Island, and the opening of our sixth shopping centre, The Edge in Tseung Kwan O. The former's teething problems notwithstanding, both attractions have performed well compared to original projections. We continue to explore network expansion opportunities in Hong Kong and maintain close discussions with Government on the proposed West Island Line as well as the South Island Line (East), both of which have been receiving considerable level of community support.

Outside of Hong Kong, in the Mainland of China, we signed the Concession Agreement for the Beijing Metro Line 4 project with the Beijing Municipal Government in April and are awaiting final approval on the Shenzhen Metro Line 4 project. At the same time, we are actively pursuing other opportunities in key cities such as Beijing, Shenzhen, Hangzhou, Wuhan and Suzhou. In Europe, meanwhile, our joint-venture with the UK's Laing Rail is now among the two remaining bidders for the London Rail Concession, while we are in partnership with Swedish railway company SJ bidding for concessions in Sweden and Denmark.

Sustainability

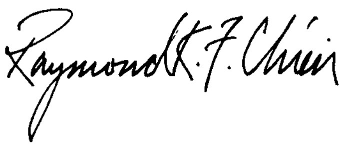
Inherent in our commitment to achieving growth is the aim to ensure that the growth is sustainable. We have a strategy in place that focuses on the four key areas of community, process, strategy and people, which when integrated with our cost optimisation and stakeholder engagement processes, will help to foster a sustainable competitive advantage for the Company.

In 2006, we officially adopted the MTR Corporation Climate Change Policy, which is modelled on the recently established policy of the International Union of Public Transport (UITP), whose Sustainable Development Commission we currently chair. Our climate change policy commits us to adapt to and mitigate the risks posed by climate change by becoming one of the most resource efficient and ecologically sustainable companies of our kind in the world. Through this initiative, we hope to make a leading contribution to the Action Blue Sky Campaign launched in July by the Chief Executive of the Hong Kong SAR.

Our efforts in sustainability have garnered increasing recognition internationally and during the year, we were ranked seventh amongst the 100 global corporate leaders in sustainability reporting in a Global Reporters 2006 survey undertaken by UK-based think tank, SustainAbility, in association with the United Nations Environment Programme and Standard & Poor's. Singled out for our reporting excellence, governance and business strategy, we were the only Asia-based corporation, the only transport organisation and one of the only two non-OECD companies amongst the leading ten companies named in the survey.

Locally, our various community schemes continued to reach out to people in need and the Company was awarded the Caring Company Logo for two consecutive years for 2005/06 and 2006/07 by the Hong Kong Council of Social Service. The "More Time Reaching Community" volunteering programme, launched in November 2005, has been a great success and has led to 81 community projects in 2006, addressing a wide variety of causes. In April, we co-organised the "MTR HONG KONG Race Walking 2006" together with the Hong Kong Amateur Athletic Association. The objective of this event is to encourage people to walk more as a form of daily exercise. It attracted 1,000 walkers in 14 categories, making it the largest event of its kind in Hong Kong, and raised over HK$1.2 million for the Hospital Authority's health education campaign. Our ability to make a difference to the lives of some of the less fortunate in our community through such programmes gives me great personal satisfaction and has allowed hundreds of Company employees to expand their horizons through their participation in such activities.

Finally, I would take this opportunity to thank my fellow Board Members, management and all staff of the Company for their efforts during the year in support of our objective of continued growth.



Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 13 March 2007

CEO's review of operations and outlook

"Steady progress from all our recurring businesses enabled MTR Corporation to post good financial results in 2006… increased revenue by 4.2%… and operating profit before property development profit and depreciation by 2.0%"

Dear Stakeholders,

I am pleased to report that steady progress from all our recurring businesses enabled MTR Corporation to post good financial results in 2006. For the year, the Company increased revenue by 4.2% to HK$9,541 million, and operating profit before property development profit and depreciation by 2.0% to HK$5,201 million. Net profit attributable to shareholders, excluding revaluation of investment properties, decreased marginally by 2.9% to HK$5,962 million. The slight decrease in underlying profit was due to the very strong property development profit recognised in 2005, the magnitude of which was not repeated in 2006. Including investment property revaluation, net profit attributable to equity shareholders was HK$7,759 million. Corresponding earnings per share were HK$1.08 before investment property revaluation and HK$1.41 after such revaluation. The Board, after considering the cash requirements of the proposed rail merger with Kowloon-Canton Railway Corporation (KCRC), has recommended a final dividend of HK$0.28, which when combined with the interim dividend of HK$0.14, brings the full year dividend to HK$0.42.

In April 2006, the Company signed a Memorandum of Understanding (MOU) with the Government of the Hong Kong SAR (Government) with regard to the proposed rail merger with KCRC. The year also saw our growth strategy taking root with the signing of the Concession Agreement for the Beijing Metro Line 4 (BJL4) project after approval from the Central Government.

Operational review

Hong Kong railway operations

For the year, total patronage on the MTR Lines and Airport Express increased by 1.1% to 876 million.

Patronage on the MTR Lines increased by 1.0% to 867 million. Our overall market share of the total franchised public transport market was maintained at 25%. Cross-harbour market share was also broadly unchanged at 61%. Patronage on the Airport Express increased by 12.8% to 9.6 million, mainly due to the opening of the AsiaWorld-Expo (AWE) Station in December 2005. Airport Express' estimated market share of passengers travelling to and from the airport increased from 22% in 2005 to 23%.

Competition in the public transport sector remained intense and after a strong first quarter of patronage growth, the effect of the Football World Cup, when many people stayed at home, led to softened demand in the second quarter. However, in the second half of the year patronage growth on the MTR Lines resumed. The full year increase in patronage benefited from a full year contribution from the Disneyland Resort Line (DRL), which entered service in August 2005, and from the AWE Station, which opened in December 2005. The reduction in certain bus fares as a result of the introduction of their new fare adjustment mechanism during the year had little impact on our businesses, as such reduction applies mainly to travellers from outlying areas not directly served by our network.

Average fare revenue per passenger on MTR Lines increased from HK$6.67 in 2005 to HK$6.82, due to the full-year effect of both changes in certain promotion programmes and the opening of DRL operations.

Despite rising costs, our rail operations achieved improved financial results. Hong Kong's economic growth has fed into wage pressure, which we were able to offset through increased efficiency.

As in previous years, patronage was underpinned by MTR's high performance standard and service quality. Our customer service performance continued to surpass both the Government's minimum requirement under the Operating Agreement, and our own more stringent Customer Service Pledges. During the year, MTR passenger journeys on time and train service delivery were both at 99.9%, while Service Quality Index, based on customer satisfaction surveys, for the MTR Lines and Airport Express registered 71 and 81 respectively on a 100-point scale. We also maintained our leading position in the 12-member Community of Metros (CoMET) benchmarking report in areas of customer service, service reliability and cost efficiency.

We continued to invest not only in expansion of the network, but in service quality and efficiency to meet the ever changing expectations of the travelling public. The programme to retrofit platform screen doors at all 74 platforms of our underground stations was completed in the first half of 2006, and three new pedestrian links were added to improve access at Choi Hung, Kwai Fong and Tiu Keng Leng stations. We commissioned three new trains on the Tung Chung Line to increase train frequency and replaced the motor alternator sets on 78 trains on MTR Lines with the state-of-the-art static inverters. We also launched a major project to install noise barriers on sections of the Tung Chung Line to minimise the noise impact to nearby residents from the increased train frequency, and a new rail replacement programme to progressively upgrade the rail infrastructure on the Kwun Tong and Tsuen Wan lines, designed to improve ride quality and service reliability.

Our efforts to market the rail network again achieved results. A "Ride 10 Redeem Hello Kitty Stamps" promotion not only generated additional patronage but also contributed to income as the stamps became a collectible item. Innovation was again to the fore, as we launched our first game, the Happy Index Promotion, and two TV projects, a tailor-made game show and sponsorship of a situation comedy, which successfully reinforced perceptions of our customer service.

On Airport Express, the increasingly popular Airport Express "Ride to Rewards" loyalty programme was enhanced with the additional option of award points from the Dragonair VISA card. We also made efforts to expand the reach of the programme by offering it to shareholders. To attract more local leisure travellers, fare promotions including discounts on return journeys and free rides for children using Child Octopus card were offered during festive seasons. Overseas passengers, meanwhile, were offered fare discounts on tourist products through a partnership with the Hong Kong Tourism Board and the UnionPay Discover Hong Kong Club. An advertising campaign was launched to increase awareness of the newly opened AWE Station.

The Company's marketing, branding and passenger awareness efforts achieved considerable external recognition during the year. We won the "Top Ten Most Popular TV Commercials Award" and "Most Impressive TV Commercial" in the 12th Annual Most Popular TV Commercial competition held by ATV. The Company took the "Prime Awards for Brand Excellence 2006 – Transport Services" award given by *Prime Magazine*, and the "Hong Kong Brands – Classic" award jointly presented by *East Week* magazine and Sing Tao Publishing. In addition, MTR Corporation's print campaign on train boarding safety was named one of Hong Kong's Top Ten Print Advertisements in the "Metro Global Print Awards 2006" organised by *Metropolis Daily*.

MTR was ranked as the best value for money and best customer service provider amongst all public transport services in Hong Kong, based on the "Public Transportation Study" conducted in June by an independent research agency.

Station commercial and other businesses

Our station commercial and other businesses again saw solid growth during the year as we continue to leverage our rail assets and expertise, resulting in revenue increasing 3.3% to HK$1,606 million. In 2005, there was a one-off income from termination of a telecommunication agreement; excluding this one-off item and another similar, albeit much smaller one-off item in 2006, revenue from our station commercial and other businesses would have increased by 8.0% from last year.

"Total patronage increased to 876 million"

"Station commercial and other businesses saw solid growth as we continue to leverage our rail assets and expertise"

In advertising, revenue grew 4.7% to HK$534 million as we continued to set the pace in outdoor advertising in Hong Kong through an expanded plasma network and innovation in formats, which included "Real-Time Projection Zones" and a new advertising train – the "Spectacular Mobile Showcase". Airport Express meanwhile saw the introduction of a new multimedia system that offers more flexibility to advertisers.

Station kiosk rental revenue grew 13.7% to HK$391 million. Station commercial space totalled 16,867 square metres at year end with the completion of 11 additional stations under the station renovation programme. This brings to 38 stations that have been renovated in this programme since 2001. We also added 32 new shops and 15 new brands to our station commercial business.

Telecommunications revenue declined by 22.5% to HK$259 million, due to the one-off items mentioned earlier. Excluding the one-offs, such revenue would have decreased marginally by 3.2% due to the continued erosion of 2G mobile telephone revenue by less profitable 3G usage. TraxComm, however, continued to expand its optical fibre business and at year-end its optical fibre network covered 40 locations.

2006 saw an encouraging start to operations for Ngong Ping 360, which is owned by the Company and operated by Skyrail-ITM (Hong Kong) Ltd (Skyrail). Since its opening in September, the cable car and associated theme village have proven very popular, generating revenue of HK$64 million as at the end of 2006. This new tourist attraction has now received over 1 million local and overseas visitors to date. Despite some teething problems, it has operated, by international standards for cableway systems, at a high level of reliability. The Company has worked closely with Skyrail to seek continuous improvement so as to make Ngong Ping 360 a "must see" tourist attraction in Hong Kong.

In external consultancy, in line with our strategy to focus on key cities that could lead to investment opportunities, revenue declined 5.7% to HK$199 million. In the Mainland of China, we successfully concluded a number of contracts, progressed our project management consultancy work on Shanghai Metro Line 9 and signed major new contracts in Beijing and Chengdu. In Hong Kong, the project to construct an Automated People Mover System to connect the Hong Kong International Airport to SkyPlaza and the SkyPier saw good progress. In Taiwan, the Company was awarded a three year contract with the Kaohsiung Rapid Transit Corporation and a two year contract with the Taiwan High Speed Rail Company. We also secured consultancy assignments in Dubai and the UK.

Octopus Holdings Limited, in which we hold a 57.4% stake, increased its contribution to the Company's profit by 70% to HK$68 million, with cards in circulation rising to 14.7 million while average daily transactions increased by 13.3% to HK$73.3 million.

Hong Kong extension projects

In Hong Kong, we continue to pursue new railway extension projects with a view to maintaining our growth in the local market.

We completed the preliminary design study on the West Island Line in 2006 and submitted a project proposal to the Government's Environment, Transport and Works Bureau. Negotiations with Government on the implementation plan and funding support have continued throughout the year. The project continues to enjoy strong community support.

Our proposal for the South Island Line (East) remains with Government for consideration.

Works to improve the connectivity to our stations continue. The new departure platform connecting the Airport Express with SkyPlaza, which houses the second terminal of the Hong Kong International Airport, was opened in February 2007. The Queensway Subway linking Admiralty Station with Three Pacific Place was also opened in February 2007. Elsewhere, work is expected to begin on a new pedestrian subway at Lai Chi Kok Station in the first quarter of 2007, while other new pedestrian links are under consideration at Prince Edward, Causeway Bay, Tsim Sha Tsui, Kwai Hing, Kowloon Bay, Choi Hung, Sheung Wan and Olympic stations.

Property businesses

The Hong Kong property market was steady in 2006, benefiting our property development business.

Profit for the year from property developments was HK$5,817 million. During 2006, profit recognised from Airport Railway projects included mainly deferred income recognition, in line with construction progress, at Harbour Green (Olympic Package Three), Coastal Skyline and Caribbean Coast (respectively, Tung Chung Packages Two and Three) and fit out works at Elements, together with sharing in kind on receipt of an additional gross floor area of 7,609 square metres of this shopping centre. Along the Tseung Kwan O Line, development profit came primarily from surplus proceeds from Central Heights (Area 57a), Metro Town (Tiu Keng Leng Phase 1) and The Grandiose (Area 55b).

With residential property prices stabilising, sales and pre-sales during the year saw steady progress both along the Airport Railway, including flats at Harbour Green and La Rossa in Coastal Skyline, as well as, at Le Point, The Grandiose and Central Heights in Tseung Kwan O.

The year also saw property tender activity, with the award in January of the tender of Package Two of Tseung Kwan O Area 86 to Rich Asia Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited. For this package, MTR Corporation extended a HK$4 billion interest free loan to the developer in return for an increased sharing in kind of the development.

In January 2007, tenders were invited for Area 56 of Tseung Kwan O with the award in February 2007 to Lansmart Ltd, a subsidiary of Sun Hung Kai Properties Ltd. The proposed development will be a mixed-use project comprising hotel, office, residential, commercial and car parking accommodations with a total gross floor area of not more than 168,537 square metres.

Total revenue from property investment and property management increased by 7.3% to HK$1,412 million.

Revenue from property investment increased by 6.8% to HK$1,263 million as shopping centre rental rates moved higher, and the portfolio remained fully let except for small areas of Luk Yeung Galleria that were repossessed for renovation work. MTR Corporation's total investment property portfolio as at end of 2006 was 174,916 square metres, being the total lettable floor area attributable to the Company.

One new shopping centre was added to the MTR Corporation's portfolio, taking the total to six, with an aggregate lettable floor area of 119,619 square metres attributable to the Company. The Edge, 70% owned by the Company, with a lettable floor area of 7,683 square metres, opened at Tseung Kwan O Station in November. Later in 2007 the portfolio will be joined by Phase 1 of Elements, our upscale mall with gross floor area of 82,750 square metres at Kowloon Station. This development is scheduled for opening by the end of 2007 and about 90% of the retail space has already been committed to date. In addition, our wholly owned wet market in Tung Chung as well as the 51% owned Choi Hung Park n' Ride Carpark opened during the year.

We continued to enhance the retail environment of our shopping centres through renovations and well planned marketing campaigns. In 2006, the major renovation programme at Telford Plaza I was completed in December and the Heng Fa Chuen wet market re-opened in August, following renovation works. Competition in this sector is expected to intensify in the coming years as many new shopping centres are expected to open.

Revenue from property management recorded strong growth of 12.0% to HK$149 million. Our property management business added 4,518 residential units to the portfolio, bringing the total number of residential units managed by the Company to 58,876 at year end. In addition, 16,546 square metres of commercial properties were added, bringing to 582,073 square metres the total area of commercial and office space under MTR Corporation's property management.

In the Mainland of China, following extensive re-decoration and re-positioning, the Ginza Mall, a shopping centre with a lettable floor area of 19,349 square metres situated in the Dong Cheng district of Beijing, was opened in January 2007 with close to 90% of its shops let. Three new property management contracts for luxury office/commercial developments in Beijing's central business district were signed during the year with SOHO China Ltd.

Merger

One of the most significant events for the Company in 2006 was the signing in April of the MOU with the Hong Kong SAR Government, setting out the terms for the proposed rail merger with KCRC, together with the acquisition of a property package.

The signing of the MOU marked a milestone for railway development in Hong Kong. The merger package carefully balances the interests of our stakeholders and, if completed, would be value accretive to the Company. For the travelling public, the merger will bring immediate reduced fares and better integration of the two rail networks.

The merger requires the passage of a Rail Merger Bill as well as approval by our independent shareholders. The Rail Merger Bill was submitted to the Legislative Council (LegCo) of Hong Kong SAR by the Government on 5 July 2006 and is currently under deliberation. Should LegCo approve the bill, the proposal will become effective only after obtaining approval from independent shareholders.

While the approval processes are being progressed, various integration committees and working groups at all levels of the two rail companies have been working strenuously as one team to ensure that a high level of integration is achieved on Day One of the merger, so that the travelling public will benefit from immediate fare reductions.

Overseas growth

Expansion into overseas markets is part of our growth strategy. As noted before, our strategy overseas is to pursue metro investment opportunities in the Mainland of China, while pursuing "asset light" railway operating franchises in Europe.

Mainland of China

In the Mainland of China, the most significant event of 2006 was the signing in April of the Concession Agreement for the RMB15.3 billion BJL4 project with the Beijing Municipal Government, which marked our overseas growth strategy taking root. Approximately RMB4.6 billion, or 30% of the total cost, is being borne by a Public-Private Partnership (PPP) company which is 49% owned by MTR Corporation, 2% by Beijing Infrastructure Investment Co. Ltd. and 49% by Beijing Capital Group. The balance of the capital cost will be funded by the Beijing Municipal Government. Under the Concession Agreement, the PPP company will invest in the electrical and mechanical railway systems and the rolling stock, and operate the line for 30 years. With the business licence now granted and the Concession Agreement, Lease Agreement and Financing Agreement all signed, work has moved on rapidly. Contracts for the rolling stock, signalling and automatic fare collection systems have already been awarded, and 23 of the 24 stations are now under construction. Construction is expected to be completed by 2009.

In Shenzhen, we await final approval from the National Development and Reform Commission on the RMB6 billion Shenzhen Metro Line 4 project which incorporates the "Rail and Property" model. This follows our signing in 2004 of the Agreement in Principle and initialling in 2005 of the Concession Agreement with the Shenzhen Municipal Government to build Phase 2 of the line and to operate Phases 1 and 2 for 30 years. Related utilities diversion and land resumption have begun. Initial preparatory work is near completion and civil work is ready to begin.

While making progress on these projects, we have been pursuing similar projects in key cities such as Shenzhen, Beijing, Hangzhou, Wuhan and Suzhou.

Europe

In January 2007, our joint bid with Laing Rail for the London Rail Concession (LRC) entered the final stages of the selection process as one of two remaining bidders and we expect the result by mid 2007. The LRC currently serves 60 stations over 60 route miles in the Greater London region, and carries approximately 23 million passengers per year. In February 2007, in joint venture with Swedish railway company SJ, we also submitted a bid for the Öresundståg concessions in Sweden and Denmark.

Financial review

The Company continued to achieve good financial performance in 2006. Fare revenue for the MTR Lines increased by 3.3% from 2005 to HK$5,911 million, while that for Airport Express increased by 9.1% to HK$612 million. Non-fare revenue from station commercial and other businesses as well as property rental and management activities grew by 5.1% to HK$3,018 million. Excluding the one-off income from telecommunication, the increase in non-fare related revenue would have been 7.7%. As a result, total revenue in 2006 was HK$9,541 million, an increase of 4.2% from 2005.

Operating costs in 2006 amounted to HK$4,340 million, an increase of 7.1% from 2005, mainly attributable to an increase in expenses relating to non-fare business activities in line with their business growth, as well as project studies and new business development in the Mainland of China and Europe. Operating profit from railway and related businesses before depreciation in 2006 therefore increased by 2.0% from 2005 to HK$5,201 million while operating margin declined from 55.7% to 54.5%

“The merger package carefully balances the interests of our stakeholders and would be value accretive to the Company”

“In the Mainland of China, the most significant event of 2006 was the signing of the Concession Agreement for the RMB15.3 billion Beijing Metro Line 4 project”

Profit from property development amounted to HK$5,817 million, mainly comprising surplus proceeds from developments along the Tseung Kwan O Line and deferred income recognition and the receipt of an additional gross floor area of 7,609 square metres of the Elements. This was a reduction of 5.3% from property development profit recognised in 2005 of HK$6,145 million. Depreciation charge was maintained at a similar level to 2005, at HK$2,674 million while net interest expense increased by 2.7% to HK$1,398 million mainly due to an increase in interest rates. Excluding investment property revaluation, net profit after tax from underlying businesses was HK$5,962 million, or HK$1.08 per share, slight decreases of 2.9% and 4.4% respectively from 2005. After accounting for the revaluation of investment properties, reported earnings attributable to the shareholders of MTR Corporation for 2006 were HK$7,759 million with earnings per share of HK$1.41.

The Company’s cash flow position remained strong during the year with net cash inflow of HK$5,400 million generated from recurring businesses and HK$4,400 million of cash receipts from property developers and purchasers. After payments for capital expenditure, interest expenses, changes in working capital and dividend payments, the Company recorded positive cash flow of HK$3,866 million for the year, before a one-off interest-free loan of HK$4,000 million provided to a property developer. After this one-off loan advance, there was a cash deficit of HK$134 million which was financed by increase in debt of HK$94 million and drawdown of cash balances of HK$40 million.

The Financial Secretary Incorporated (“FSI”) has committed, for dividends declared relating to financial years up to 31 December 2006, to receive all or part of its entitlement to such dividends in the form of shares (where a scrip dividend is offered by the Company) to the extent necessary to ensure that a maximum of 50% of the Company’s total dividend will be paid in cash. FSI has agreed to extend this commitment to dividends declared in respect of each of the three financial years ending 31 December 2009.

People

We have continued our effort to retain and develop high calibre individuals to align with the development of our growth strategy.

The pay-for-performance culture was reinforced through an effective reward mechanism, more attractive remuneration packages and career progression for young professional talents. At the same time, we continued to stress the importance of achieving a work / life balance through education on this topic and provision of a 24-hour hotline counselling service for staff and their families.

We have always regarded people as our most valuable asset. The dedication and professionalism of our staff have always been the foundation of MTR Corporation’s success. The proposed rail merger with KCRC represents a significant step for the Company. It is of critical importance that we keep our people informed of the process and to consult them on matters that may affect their future. Tremendous effort was therefore put into communicating with staff about the proposed merger, beginning with some 60 communication sessions held in April. Since then, staff has been kept abreast of progress through various channels, including a video and letters from myself and my colleagues, small group briefings, a merger hotline and email. In addition, a special merger newsletter has been published jointly by MTR Corporation and KCRC. We have also worked hard during the year to align human resource functions, work cultures and practices between the two companies.

Training initiatives in 2006 included those focusing on safety and customer service, and were delivered through many channels, including e-learning. Company apprentices gained Outstanding Apprentices/Trainees Awards from the Vocational Training Council, while trainers successfully acquired China’s National Enterprise Trainer Qualification.

"Finally, I would like to take the opportunity to thank my fellow directors and all of our staff for their support during the year. They are the heroes of MTR"

During the year, we have undertaken three major initiatives to develop management talents in order to meet future requirements of the Company. These initiatives are designed for capable staff with high potential at various levels in the organisation. They are selected through a rigorous process, and are offered individualised programmes which include academic or professional training, cross functional placements and planned career movements. The People Development Initiative provides opportunities to executives and senior managers. The Executive Associate Scheme is designed to develop young managers with high potential. The Graduate Trainee Programme expands its activities to top university graduates in the Mainland of China and overseas, in addition to Hong Kong.

During the year we established a designated HR team specifically to support our colleagues working overseas as part of our overseas growth strategy. A "Stay-in-touch Employee Care & Communication Programme" was launched to enhance communication with our staff working outside Hong Kong.

Outlook

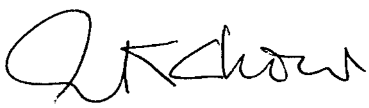
Barring any major external shocks, we hold a positive view on economic conditions in Hong Kong in 2007.

Our rail business should benefit from the expected economic growth. However, this growth may slow in 2007 as a result of continued intense competition and no fare increases for 24 months from April 2006 as part of the merger MOU. Our station commercial and other businesses will also benefit from the positive economic condition as well as the full year impact of Ngong Ping 360. However, the telecommunications business will continue to face challenges with the migration of 2G users to 3G, which carries less attractive commercial returns to the Company.

In our property businesses, the property investment and management businesses will benefit from the opening of Ginza Mall in Beijing, the expected opening of the Elements shopping centre in Kowloon Station towards the end of 2007, and the full year impact of The Edge. However, it should be noted that new shopping centres generally achieve lower margins than established centres in their initial years of operations. Renovation work will be undertaken at the Luk Yeung Galleria in 2007.

Property developments along both the Airport Railway and Tseung Kwan O Line should continue to contribute to profit in 2007. Along the Airport Railway, deferred income will be recognised in accordance with construction progress and pre-sales. Given current market conditions, we expect the balance of property deferred income to be recognised over the next two years with a large portion of this balance being recognised in 2007. Also along the Airport Railway, depending on pre-sales, there will be surplus proceeds recognised from Harbour Green at Olympic Station. Along the Tseung Kwan O Line, depending on the timing of issuance of Occupation Permit, surplus proceeds will be booked from Le Point at Tiu Keng Leng Station. As I noted last year, in accordance with the Development Agreement and our accounting policy, costs relating to Le Point have already been accounted for when we booked profit from Metro Town (Tiu Keng Leng Phase 1) in 2006.

Finally, I would like to take the opportunity to thank my fellow directors and all of our staff for their support during the year. They are the heroes of MTR.



C K Chow, *Chief Executive Officer*
Hong Kong, 13 March 2007

Key figures

	2006	2005	% Increase/ (Decrease)
Financial highlights *in HK$ million*			
Revenue			
– Fare	**6,523**	6,282	3.8
– Non-fare	**3,018**	2,871	5.1
Operating profit from railway and related businesses before depreciation	**5,201**	5,101	2.0
Profit on property developments	**5,817**	6,145	(5.3)
Operating profit before depreciation	**11,018**	11,246	(2.0)
Profit attributable to equity shareholders	**7,759**	8,450	(8.2)
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**5,962**	6,140	(2.9)
Total assets	**120,421**	113,666	5.9
Loans, obligations under finance leases and bank overdrafts	**28,152**	28,264	(0.4)
Total equity attributable to equity shareholders	**76,767**	69,875	9.9
Financial ratios *in %*			
Operating margin	**54.5**	55.7	(1.2)% pt.
Debt-to-equity ratio	**36.7**	40.4	(3.7)% pt.
Return on average equity attributable to equity shareholders	**10.6**	12.8	(2.2)% pt.
Return on average equity attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**8.1**	9.3	(1.2)% pt.
Interest cover *in times*	**6.7**	7.6	(0.9) time
Interest cover (excluding impact of change in fair value of derivative instruments) *in times*	**6.7**	7.5	(0.8) time
Share information			
Basic earnings per share *in HK$*	**1.41**	1.55	(9.0)
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *in HK$*	**1.08**	1.13	(4.4)
Dividend per share *in HK$*	**0.42**	0.42	–
Share price at 31 December *in HK$*	**19.56**	15.25	28.3
Market capitalisation at 31 December *in HK$ million*	**108,531**	83,598	29.8
Operations highlights			
Total passenger boardings			
– MTR Lines *in millions*	**866.8**	858.0	1.0
– Airport Express *in thousands*	**9,576**	8,493	12.8
Average number of passengers *in thousands*			
– MTR Lines *weekday*	**2,523**	2,497	1.0
– Airport Express *daily*	**26.2**	23.3	12.8
Fare revenue per passenger *in HK$*			
– MTR Lines	**6.82**	6.67	2.2
– Airport Express	**63.85**	66.09	(3.4)
Proportion of franchised public transport boardings *in %*			
– All movements	**25.0**	25.2	(0.2)% pt.
– Cross-harbour movement	**60.9**	61.2	(0.3)% pt.
Proportion of transport boardings travelling to/from the airport *in %*			
– Airport Express	**23**	22	1% pt.

Executive management's report

Railway operations

Fare revenue from MTR Lines and Airport Express for 2006 increased 3.8% to HK$6,523 million, driven higher by passenger growth from economic expansion, the full-year impact of the opening of Disneyland Resort Line (DRL) and the AsiaWorld-Expo (AWE) Station, and higher average fares from MTR Lines.

Patronage

Total patronage on MTR Lines rose 1.0% to a record 867 million and average weekday patronage increased 1.0% to 2.5 million. Our share of the total franchised public transport market remained stable at 25%, while cross-harbour market share was also stable at 61%. Fare revenue increased 3.3% to HK$5,911 million.

Airport Express' passenger volume rose 12.8% to 9.6 million. Average daily patronage rose 12.8% to 26,200, and Airport Express' estimated market share rose to 23% from 22%. Fare revenue increased 9.1% to HK$612 million.

Service promotions

One of our strengths is the effectiveness of our promotions. A "Ride 10 Redeem Hello Kitty Stamps" promotion generated 1.2% additional patronage and contributed extra income as the stamps became collectible items. In May, we launched the Happy Index Promotion, attracting over 20,000 daily users. Two TV projects were also launched – a game show and comedy sponsorship, jointly produced with TVB Jade. These programmes helped reinforce positive customer service perceptions.

We regularly conduct MTR Club surveys to solicit suggestions and opinions. We treasure club members' input and advice as they are long term supporters of our service.

On Airport Express, the increasingly popular "Ride to Rewards" loyalty programme was enhanced with the additional option of award points from Dragonair VISA. To attract more local leisure travellers, fare promotions were offered during festive seasons. Overseas passengers were offered fare discounts on tourist products through a partnership with the Hong Kong Tourism Board and the UnionPay Discover Hong Kong Club. An advertising campaign also helped increase awareness of the newly opened AWE Station.

Promoting patronage on MTR Lines through improved connectivity with other modes of transport helps maintain market share. Seven more feeder bus routes offering inter-modal fare discounts were added, bringing the number to 32 in total. We also introduced four new fare saver machines to offer fare incentives to adult Octopus card holders, resulting in a total of 20 in service by the end of 2006.

Our marketing and branding efforts attracted high-profile awards, including the "Top Ten Most Popular TV Commercials Award" and "Most Impressive TV Commercial" in the ATV-hosted 12th Annual Most Popular TV Commercial awards, "Prime Awards for Brand Excellence 2006 – Transport Services" awarded by *Prime Magazine*, and the "Hong Kong Brands – Classic" award jointly presented by *East Week* magazine and Sing Tao Publishing.

Service performance

For the sixth consecutive year, we exceeded both the minimum performance levels under the Operating Agreement and our more stringent Customer Service Pledges. Passenger journeys on time for MTR Lines were 99.9%, supported by 99.9% reliability for train service delivery and 99.7% train punctuality.

To improve passenger service further, "Year of the Customer" and "We serve from the heart" campaigns were launched, supported by training for our station staff and platform assistants. There were also elections for Best Station Operators and other campaigns targeting escalator and train door safety.

Customer satisfaction levels remained high. In 2006, the Service Quality Index for the MTR Lines and Airport Express stood at 71 and 81 respectively on a 100-point scale. We also continued to rank high in the international benchmarking exercise performed by the 12-member Community of Metros. Service performances again received widespread recognition. We won *East Week* magazine's "Quality Living Award HK 2006"– Public Transport Category and, for the eighth consecutive year, *Next Magazine's* "Top Service Award 2006" – Public Transport Category.

To ensure continued excellence and effectiveness of safety delivery and meet the requirements of the Operating Agreement, our fifth External Safety Management System Review was undertaken by the American Public Transportation Association. Results revealed that 8 of our safety practices are considered "industry leading effective practices" and 141 "industry effective practices". The review concluded that the Company not only fulfilled internal and industry safety requirements, but is also in many areas a leader in safety management among rail operators worldwide.

Service improvements

Train services and network infrastructure improvements continued.

The programme to retrofit platform screen doors at all 74 platforms in underground stations finished in the first half of 2006, ending a six-year project. The station improvement programme continued, with 38 stations undergoing improvements and renovations, bringing the number of renovated stations to 46 since the programme started in 1998.

Enhancements were made to passenger information systems in stations and on trains. On the Tung Chung Line, information about the time to the next train was extended, while on Airport Express trains a multi-media system with audio facilities embedded in seat headrests was rolled out. The network's public announcement system and passenger information displays were reconfigured to improve timely release of information.

In January, a rail replacement programme to upgrade the rail infrastructure in the Kwun Tong and Tsuen Wan lines was launched to improve ride quality and service reliability.

Access to the network was improved through completion of new pedestrian links at three stations.

Since September, the frequency of Tung Chung Line trains during peak periods and non-peak hours has been enhanced. By year end, a total of three new trains had been commissioned. The replacement of motor alternators on the 78 trains on MTR Lines by state-of-the-art static inverters was substantially completed. The inverters improve energy efficiency and reliability, and reduce noise.

Station improvements promoting barrier free movement for passengers continued. A new escalator audible device that assists visually impaired passengers was introduced at four stations, and a new induction loop that helps hearing impaired passengers was installed at all stations along the Tung Chung Line and Airport Express. The installation of internal passenger lifts is underway at Lai Chi Kok and Tai Wo Hau stations, while self-operated stair lift installations are underway at seven stations, which will be completed in 2008.

In September we introduced an innovative application of nano silver-titanium dioxide coating to improve hygiene levels in MTR. This powerful non-toxic disinfectant has been applied to commonly touched surfaces in MTR stations, trains and shopping malls. The project was completed in December.

Productivity

The Company continued to examine ways to improve efficiency and productivity. Operating costs per car kilometre decreased 3.1% to HK$22.1. Maintenance costs were successfully contained, even though the full-year effect of the opening of DRL and the AWE Station resulted in a 3% increase in total revenue car kilometres operated in 2006. Corporate support costs also fell.

Our maintenance information system was upgraded to the Enterprise Asset Management System, enabling us to optimise operational effectiveness and improve asset utilisation and performance.

Station commercial and other businesses

Revenue from the Company's station commercial and other businesses increased by 3.3% to HK$1,606 million in 2006. Excluding a one-off gain from a telecommunications contract in 2005 and a similar one-off item in 2006, revenue would have increased by 8.0%. The increase was supported by the strong economy and a contribution from Ngong Ping 360.

Advertising

Advertising revenue rose 4.7% to HK$534 million. The Company continued to enhance the attractiveness of its advertising venues through format refinements and innovation, although the growth of the advertising market slowed in the second half of 2006.

Among new formats introduced, Real Time Projection Zones were introduced at eight MTR stations. June saw the debut of the "Spectacular Mobile Showcase" advertising train. New 6-sheet scrolling units were introduced at Causeway Bay and Kowloon Tong stations.

The number of trackside plasmas increased from 68 to 100 units by year end and three new plasma rings were installed at stations. The Concourse Plasma Network was upgraded to provide real time updates on the Hang Seng Index.

On the Airport Express, the seatback TV was replaced by a multimedia system offering more information and entertainment, and more creative media for advertisers. A free infotainment magazine, *"metropop"*, was launched in April.

In February, we launched a service allowing CLP Power customers to pay their bills at Customer Services Centres.

Telecommunications

Revenue from telecommunications services decreased by 22.5% to HK$259 million. Excluding the one-off items in 2005 and 2006 mentioned earlier, revenue would have decreased by 3.2%.

Migration of mobile subscribers from 2G to 3G and intense competition meant 2G call minutes and revenue declined. However, other telecommunications business, such as rooftop site rentals, grew.

Market expansion led to higher revenue for TraxComm Limited, whose optical fibre network now covers 40 locations, with bandwidth capacity of over 180 Gbps.

Station commercial

Revenue from station retail shops benefited from higher rental rates, which offset a temporary net loss of retail space, to rise by 13.7% over 2005 to HK$391 million.

Retail zone renovations were completed at 11 stations. A total of 468 square metres of new retail area was added due to renovation, but the temporary loss of 2,671 square metres at Kowloon Station to facilitate station integration works with the new shopping centre Elements, resulted in the total station retail area decreasing 12% to 16,867 square metres. In all, 32 new shops and 15 new trades or brands were added to the station retail network.

We also expanded cross selling promotions to include instant scratch cards offering discount offers and cash coupons for use in MTR network shops, with a grand lucky draw to win prizes worth up to HK$50,000.

Miscellaneous business revenue including car park rental, souvenir ticket sales, new station connections and publications rose 1.9% to HK$159 million.

Ngong Ping 360

Ngong Ping 360, the cable car running from Tung Chung to the Big Buddha and temple complex at Ngong Ping on Lantau Island, together with a theme village, opened in September and recorded revenue of HK$64 million by year end. By March 2007, it has carried over 1 million visitors.

Octopus Holdings Limited

Octopus Holdings Limited (OHL) built on its success in providing payments services to transport and non-transport sectors. Our share of the profit in OHL rose by 70% to HK$68 million.

Growth was driven by more service providers and higher usage. The number of service providers rose from 349 to 431, while Octopus cards in circulation and average daily transaction value rose from 13.2 million to 14.7 million, and from HK$64.7 million to HK$73.3 million respectively. Financial institutions providing Octopus automatic add-value service rose from 19 to 22.

By year end, 59 more green minibuses were accepting Octopus card, bringing the total to 2,806 – virtually the entire fleet. Red minibuses accepting the card increased from 171 to 215, and participating car parks rose from 203 to 231.

More retail chains also joined and the system was adopted in new sectors including churches, exhibitions, skating rinks, children's clothing stores and laundry services.

The Octopus Rewards Programme saw over 1.2 million cardholders having registered their cards, enabling them to enjoy benefits at ten participating partners.

External consultancy

Our consultancy business strategy focuses on key cities where such work may lead to investment opportunities in the Mainland of China or Europe, or consultancies which can enhance the skill sets of our staff. Consultancy revenue in 2006 was HK$199 million.

The project management consultancy work on Shanghai Metro Line 9 proceeded well. The civil works from Songjiang New Town Station to Guilin Road Station were completed and the opening of Phase 1 by the end of 2007 remains on schedule. Projects for Shenzhen Metro, Tianjin Metro, Tianjin Binhai Mass Transit and the CSR Ziyang Locomotive Works were completed.

We signed a contract to provide consultancy for the Integrated Supervision Control System for Beijing Metro Line 5 and an agreement with Chengdu Metro Corporation for consultancy services. We also renewed our contract with Motorola Asia Pacific Ltd. to support the system design for a digital trunked radio system for the Guangzhou Metro.

In Hong Kong, the Automated People Mover System construction project, connecting the Hong Kong International Airport to SkyPlaza and the SkyPier made good progress.

In Taiwan, contracts began for the Kaohsiung Rapid Transit Corporation and Taiwan High Speed Rail Company. In Dubai, we were awarded a contract to provide engineering advice, while in the UK, we secured a number of consultancy assignments.

Rail Sourcing Solutions

Following a review we decided to exit the rail related component sourcing business and closed Rail Sourcing Solutions (International) Limited.

Property business

Our property development business benefited from a steady property market in 2006, whilst the investment portfolio was supported by rising rentals, high demand, a strong economy and vibrant tourism.

Property development

Profit from property developments was HK$5,817 million, with the bulk of profit from surplus proceeds relating to The Grandiose, Central Heights and Metro Town (Tiu Keng Leng Phase I) developments in Tseung Kwan O and deferred income from Airport Railway projects.

Along the Airport Railway, profit was recognised from deferred income, in line with construction progress, at Harbour Green (Olympic Package Three), Coastal Skyline and Caribbean Coast (Tung Chung Packages Two and Three respectively), fit-out works at Elements in Kowloon Station and from receipt of the shell of an additional gross floor area of 7,609 square metres of retail space at Elements. Sales and pre-sales were good, including those for Harbour Green, Olympic Package Three, and for La Rossa in Coastal Skyline, Tung Chung Package Two.

Several major developments were completed. Elements, the upscale retail development at Kowloon Station, obtained the Occupation Permit for its first phase in December. Units of The Arch, also at Kowloon Station, were handed over to individual owners. Harbour Green at Olympic Station, La Rossa in Coastal Skyline and Crystal Cove (Towers 15 and 16) of Caribbean Coast in Tung Chung obtained their Occupation Permits.

At Caribbean Coast in Tung Chung, the Master Layout Plan for garden houses was approved and foundation works began. At Maritime Square, Tsing Yi, we received town planning approval to convert part of the adjacent lorry park and transport interchange to retail use.

Along the Tseung Kwan O Line, development profit came primarily from surplus proceeds from Metro Town (Tiu Keng Leng Phase I), The Grandiose (Area 55b), and Central Heights (Area 57a). Presales of Le Point, Phase 2 of Tiu Keng Leng, drew a very good response, as did sales for The Grandiose and Metro Town (Tiu Keng Leng Phase I) Towers One, Two, Three and Five.

Two major developments were completed, The Grandiose and Metro Town (Tiu Keng Leng Phase I). The Edge, a majority owned shopping centre located at the podium floors of The Grandiose was completed and opened for business, became our sixth shopping centre.

In January, we awarded the tender for Package Two of Tseung Kwan O Area 86, with a gross floor area of 309,696 square metres, to Rich Asia Investments Limited, a subsidiary of Cheung Kong (Holdings) Limited. The Development Agreement was executed in February. We advanced an interest-free loan of HK$4 billion to Rich Asia Investments Limited in return for an increased sharing in kind of the development. The loan is backed by a parent company guarantee.

In November, the shopping centre at Tiu Keng Leng Station was sold to a subsidiary of Cheung Kong (Holdings) Ltd.

A revised master layout plan for Area 86 was accepted by the Town Planning Board in November.

In February 2007, we awarded the tender of Tseung Kwan O Area 56 to Lansmart Ltd, a subsidiary of Sun Hung Kai Properties Ltd. The proposed development will be a mixed-use project comprising hotel, office, residential, commercial and car parking accommodation with a total gross floor area of not more than 168,537 square metres (including 5,407 square metres for a public transport interchange and associated facilities).

Investment properties

Revenue from investment properties increased by 6.8% to HK$1,263 million as rental rates increased and we added the new majority owned shopping centre The Edge, with a lettable floor area of 7,683 square metres, to our portfolio. Growth was helped by shopping centre enhancements, stronger consumer demand, an improved employment market, the positive wealth effect from the stock market rally and tourism development on Lantau Island. On average, rental reversions for renewal of leases and reletting increased by 16%.

Demand for high quality retail space enabled the Company to maintain 100% occupancy levels at all its shopping centres, except Luk Yeung Galleria, where 427 square metres of lettable retail space were repossessed ahead of planned renovations. Our wholly owned wet market with lettable floor area of 508 square metres opened in Tung Chung. Phase I of Elements, our majority owned upscale mall at Kowloon Station, with gross floor area of 82,750 square metres, is expected to open by the end of 2007. As at March 2007, 90% of the retail space has been committed by tenants. The Choi Hung Park n' Ride Carpark, in which we have a 51% share, opened during the year.

In total at year end, the overall investment property portfolio attributable to the Company comprised 133,927 square metres lettable floor area of retail properties, 39,529 square metres lettable floor area of offices and 1,460 square metres lettable floor area of other usage.

A major renovation programme at Telford Plaza I was completed and the Heng Fa Chuen wet market reopened after renovations. Our 18 floors at Two IFC remained fully let.

Property management and other services

Property management business revenue rose 12.0% to HK$149 million. During the year, 4,518 residential units were added to our portfolio, bringing the total number of residential units we manage to 58,876. A total of 16,546 square metres of commercial properties were also added, and including the wet market in Tung Chung and 24-hour passage walkway at The Edge, resulted in total commercial and office area of 582,073 square metres under management.

Business in the Mainland of China

Our property consultancy, management and related businesses continue to grow in the Mainland of China.

In Beijing, three new property management contracts for office/commercial developments were committed: SOHO Shangdu, Jian Wai SOHO Phase 7 and Chao Wai SOHO. We now have seven property management contracts in the Mainland of China, with a total area of 1,020,254 square metres. We also signed a long-term head lease for the operation of Oriental Kenzo shopping centre, which was extensively redecorated and close to 90% let as of year end. With a lettable floor area of 19,349 square metres, the shopping centre was renamed as Ginza Mall and opened in January 2007.

Hong Kong network expansion projects

During 2006, we were engaged in the planning and construction of several projects to enhance or extend the existing network.

Station and tunnel projects

Work is underway on the new Tseung Kwan O South Station at Area 86, and is due to be completed in early 2009, coinciding with the completion of the first property package. Electrical & mechanical contracts were awarded, station substructure works were completed and construction of the superstructure began.

With the Government's plan in Hong Kong Central District proceeding, the Company is extending the Airport Express overrun tunnel beyond Hong Kong Station. The tunnel is expected to be completed in 2009.

Network extensions under consideration

The West Island Line will extend the Island Line from Sheung Wan Station to Kennedy Town via Sai Ying Pun and University stations. Draft gazette plans were submitted to the Government, and a revised project proposal submitted to the Environment, Transport and Works Bureau.

Under the South Island Line (East) proposal, a medium capacity railway service would run from Admiralty Station to South Horizons on Ap Lei Chau via Ocean Park, Wong Chuk Hang and Lei Tung. We continue our discussion with the Government with the aim of obtaining approval for this project.

The Company also continued to discuss proposals for the North Island Line alignment, an extension of the existing Tung Chung Line along the north shore of Hong Kong Island.

The new departure platform linking SkyPlaza at the Hong Kong International Airport with the Airport Express opened in February 2007, while the Queensway Subway linking Admiralty Station with Three Pacific Place also opened in February 2007.

The design of a pedestrian subway at Sai Yeung Choi Street South linking Pioneer Centre and Prince Edward Station is under review. The Government has, meanwhile, authorised a pedestrian subway at Cheung Lai Street connecting Lai Chi Kok Station with the new developments at the south of Lai Chi Kok Road. Work is expected to begin in the first quarter of 2007 and is scheduled for completion in early 2009.

In July, we submitted a proposal for construction of two underground entrances linking the concourse of Tsim Sha Tsui Station with the redevelopment of the former Hyatt Hotel. Work is scheduled to begin in 2007 for completion in 2010.

A pedestrian subway is also planned to link Tsim Sha Tsui Station's northern platform with the basements of adjoining developments. Work is expected to start in 2009 for completion in 2012.

In November, a proposal for an Underground Pedestrian Link scheme at Causeway Bay Station was submitted to the Government, and pedestrian links are also under consideration at five more stations.

Overseas growth

We made steady progress in our international growth strategy, with the final approval for the Beijing Metro Line 4 (BJL4) project, preparation work for other projects in the Mainland of China and further exploration of opportunities in Europe.

Mainland of China

BJL4 is a RMB15.3 billion project, of which 30% or approximately RMB4.6 billion is being borne by a Public-Private Partnership (PPP) company 49% owned by MTR Corporation. The investment by the PPP company will be financed 30% by equity and 70% by two RMB1.6 billion 25-year non-recourse bank loans provided by the Industrial and Commercial Bank of China and China Development Bank. The remaining 70% of the project cost is being funded by the Beijing Municipal Government. The PPP company has a 30-year Concession Agreement.

In January, following the approval of the National Development and Reform Commission (NDRC), the PPP company's business licence was granted and in April the Concession, Lease and Financing agreements signed. Contracts for the rolling stock, signalling and automatic fare collection systems were awarded and 23 of the line's 24 stations are under construction. Completion of construction is expected by 2009.

In Shenzhen, we are awaiting approval from the NDRC to build Phase 2 of Shenzhen Metro Line 4, and operate Phase 1 and Phase 2 for 30 years. We also made further progress on similar potential projects in key cities including Shenzhen, Beijing, Hangzhou, Wuhan and Suzhou.

Europe

Our strategy in Europe continues to be to pursue "asset-light" operating service contracts, with a primary focus on the UK and Scandinavian markets.

In October, the Company and Laing Rail submitted a joint bid for a gross cost service contract for the newly formed London Rail Concession. In December, Transport for London selected our partnership as one of two bidders to submit a Best and Final Offer and a decision is expected in mid 2007.

In November, we entered into a 50/50 joint venture with Swedish railway company SJ to prepare a joint bid for the Öresundståg concessions in Sweden and Denmark for submission in February 2007. The successful bidder will take over in 2008.

Our bid for the South Western Franchise in the UK was unsuccessful and the contract was awarded to the incumbent franchise holder.

Human resources

We have an excellent record of attracting and retaining high calibre people, and during 2006 we continued to provide comprehensive staff training programmes.

The proposed rail merger with KCRC is a key issue for staff and we are committed to looking after their interests. Tremendous effort has been made to communicating the merger's possible implications through wide ranging internal communication channels, including a merger newsletter published jointly by both companies. We are also working to ensure a smooth integration by aligning work cultures and human resource policies and practices.

Our efforts to provide a safe and harmonious working environment saw us awarded the Caring Company Logo 2005/06 and again for 2006/2007 by the Hong Kong Council of Social Service. The award recognises initiatives such as the "More Time Reaching Community" programme that involved more than 1,500 Company volunteers in 81 initiatives helping the elderly, underprivileged children and others.

During 2006, we continued to provide wide-ranging training programmes to our staff. Two Company apprentices received Outstanding Apprentices/Trainees Awards from the Vocational Training Council – the ninth consecutive year we have received such recognition. In addition, 17 trainers successfully acquired China's National Enterprise Trainer Qualification, which will help support our growth strategy in the Mainland of China.

Developing talent for general management is crucial and three key initiatives continued to ensure we attract and retain world-class talent. The People Development Initiative identifies and develops high potential staff at executive and senior managerial level. The Executive Associate Scheme identifies and fast tracks development of high potential staff at the middle management level. Finally, the Graduate Trainee Programme recruits and develops top graduates.

With our businesses outside Hong Kong growing rapidly, we established a designated HR team specifically to support the more than 170 staff working internationally. We also launched a "Stay-in-touch Employee Care & Communication Programme" to enhance communication with staff working outside Hong Kong.

Financial review

Review of 2006 financial results

Profit and loss

Fare revenue from MTR Lines increased by 3.3% to HK$5,911 million as a result of a 1.0% growth in patronage to 867 million and a 2.2% increase in average fare to HK$6.82.

Fare revenue from Airport Express increased by 9.1% to HK$612 million due to a patronage increase of 12.8% to 9.6 million resulting from growth in air passengers and the full-year effect of the AWE Station, partly offset by a decline in average fare to HK$63.85 on lower average fares for AWE Station passengers.

Non-fare revenue increased 5.1% to HK$3,018 million, comprising HK$1,606 million from station commercial and other businesses and HK$1,412 million from property ownership and management. In 2005, a one-off income was received from settlement of an early termination of a telecommunication contract. Excluding this and other minor non-recurring incomes, non-fare revenue would have increased 7.7%.

Income from station commercial and other businesses rose 3.3%, attributable mainly to growth in advertising income and shop rental, which rose 4.7% and 13.7% respectively. Ngong Ping 360, which opened in September, also contributed HK$64 million to revenue. Income growth in telecommunications was affected by non-recurring income received in 2005 and continuous cannibalisation and pricing pressure in the mobile phone market. Consultancy and other miscellaneous business revenues were steady.

With continued growth in the retail market and the addition of more retail space and property management contracts in the portfolio, income from property ownership and management increased 7.3% to HK$1,412 million. Rental income increased 6.8% to HK$1,263 million thanks to higher rental rates, increased turnover rent received, the full-year operation of The Lane and the opening of the Choi Hung Park and Ride and The Edge. Property management income increased 12.0%, mainly attributable to the expansion of the management portfolio, including The Arch, The Grandiose and Metro Town.

Staff costs and related expenses rose 2.4%. Operational rents and rates fell 29.3%, affected by a one-off income from settlement with the Government on ratable value assessment relating to the Tseung Kwan O Line. Excluding this item, operational rents and rates would have increased 9.8%. Expenses related to station commercial and other businesses increased 23.7%, while property ownership and management expenses increased 31.1%. Project studies and business development expenses rose HK$125 million due to increased development activities in Hong Kong, the Mainland of China and Europe, and pre-operating expenditure for Ngong Ping 360. Overall operating costs increased 7.1% to HK$4,340 million.

Operating profit from railway and related businesses before depreciation increased 2.0% from HK$5,101 million to HK$5,201million. Operating margin was 54.5%, compared to 55.7% in 2005.

Property development profit was HK$5,817 million compared to HK$6,145 million. This mainly comprised surplus proceeds from The Grandiose, Central Heights and Metro Town; recognition of deferred income from Coastal Skyline, Caribbean Coast, Harbour Green and Elements; and sharing-in-kind in respect of an additional floor area of 7,609 square metres at Elements.

Operating profit before depreciation was HK$11,018 million, a fall of 2.0% from HK$11,246 million. Depreciation charge amounted to HK$2,674 million, a similar level as in 2005 after accounting for the addition of Ngong Ping 360 and other new assets, as well as the full year depreciation charge in 2006 for DRL and the AWE Station.

Net interest expense was HK$1,398 million, an increase of 2.7%, owing to the rise in interest rates and the expensing of interest costs relating to DRL and the AWE Station which are no longer capitalised. With higher market interest rates, our average interest cost increased from 5.1% to 5.5%, while interest cover reduced from 7.6 times to 6.7 times. In compliance with the Hong Kong Accounting Standard (HKAS) 40 on revaluation of investment properties, the increase in market value of our investment properties of HK$2,178 million pre-tax (HK$1,797 million post-tax) was recognised in the profit and loss account.

Our share of net profit of OHL was HK$68 million, an increase of 70%. Our share of costs for bidding for the South Western Train franchise in the United Kingdom was HK$23 million. Tax expense, comprising mainly deferred tax provision, was HK$1,411 million. Net profit fell 8.3% to HK$7,758 million, of which HK$7,759 million was attributable to equity shareholders, a drop of 8.2%. Earnings per share correspondingly decreased from HK$1.55 to HK$1.41.

Excluding investment property revaluation and the related deferred tax, underlying profit was HK$5,962 million or HK$1.08 per share, respectively 2.9% and 4.4% lower.

The Board recommended a final dividend of HK$0.28 per share, amounting to HK$1,554 million, with a scrip dividend option offered to all shareholders except those with registered addresses in the US or any of its territories or possessions. The Financial Secretary Incorporated 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. It also agreed to extend this commitment to 2009.

Balance sheet

Our balance sheet remains strong, with the bulk of assets invested in the railway system. Total fixed assets increased to HK$106,943 million, mainly attributable to surplus from investment property revaluation, receipt of retail space (The Edge) at the Grandiose and 7,609 square metres gross of Elements and the capitalisation of Ngong Ping 360.

Railway construction in progress decreased to HK$232 million, mainly resulting from transfer-out of the Ngong Ping 360 project costs to fixed assets upon completion, being partly offset by the additional capital expenditures on the SkyPlaza Platform at the Airport and the Tseung Kwan O South Station projects.

Property development in progress increased to HK$3,297 million, mainly due to the capitalisation of interest in respect of an interest-free loan provided to the property developer of Tseung Kwan O Area 86 Package Two development, partly offset by reimbursement, received from the developer of the same project, of up-front costs expended.

Properties held for sale increased to HK$2,018 million from HK$1,311 million, comprising mainly unsold residential units at The Grandiose, Central Heights, Metro Town and The Arch.

In line with the requirements of HKAS 39, derivative financial assets and liabilities of HK$195 million and HK$515 million respectively were recorded, as compared to HK$234 million and HK$307 million last year. The movements were mainly due to higher US interest rates and stronger Hong Kong dollar forward exchange rates during the period, causing a decline in the value of the Group's interest rate and currency fair value hedges.

Debtors, deposits and payments in advance decreased significantly to HK$1,894 million because of collection of receivables from purchasers of pre-sold residential units.

An interest-free loan of HK$4,000 million to the property developer of Tseung Kwan O Area 86 Package Two was recognised at its fair value of HK$3,232 million at inception. As at year end, this loan receivable carried a balance of HK$3,355 million after recognition of capitalised interest of HK$123 million accrued during the year.

The carrying amount of total debt outstanding at year end was HK$28,152 million. Excluding the mark-to-market and hedge accounting effects, total debt outstanding was HK$28,768 million, an increase of HK$94 million. Total debt drawn down was HK$8,428 million, primarily for refinancing.

Deferred income decreased to HK$1,682 million following profit recognition at Tung Chung, Kowloon and Olympic station development packages.

Deferred tax liabilities increased to HK$9,453 million mainly attributable to the tax effect on profit, including provision on property revaluation, at the standard Hong Kong Profits Tax rate of 17.5%.

Share capital, share premium and capital reserve increased by HK$1,189 million to HK$38,639 million due to shares issued for scrip dividend and share options exercised. Together with increases in fixed asset revaluation and other reserves of HK$253 million and retained earnings net of dividends of HK$5,450 million, total equity attributable to equity shareholders increased to HK$76,767 million. As a result, the debt-to-equity ratio improved from 40.4% to 36.7% and net debt-to-equity ratio from 39.9% to 36.3%.

Cash flow

The Company's cash flow position remained strong during the year with net cash inflow of HK$5,400 million generated from recurring businesses and HK$4,400 million of cash receipts from property developers and purchasers. After payments for capital expenditure, interest expenses, changes in working capital and dividend payments, the Company recorded positive cash flow of HK$3,866 million for the year, before a one-off interest-free loan of HK$4,000 million provided to a property developer. After this one-off loan advance, there was a cash deficit of HK$134 million which was financed by increase in debt of HK$94 million and drawdown of cash balances of HK$40 million.

Financing activities

New financings

The Group continued to focus its fund raising activities in the Hong Kong dollar market to take advantage of its strong liquidity and low interest rates. In February and November, we successfully launched two separate fixed rate MTN issues via private placement, a HK$500 million 2-year note and a HK$1.0 billion 3-year note with respective coupon rates of 4.3% and 4.15%.

The excess liquidity in Hong Kong also helped further drive down credit spreads in the banking market, enabling the Group to enter into bilateral loan facilities on attractive terms. In total, the Group arranged HK$2.6 billion of new bilateral bank loans comprising HK$1.5 billion in 5 years maturity and HK$1.1 billion in 7 years maturity. This, together with the MTNs issued, resulted in total new financings of HK$4.1 billion.

At year-end, the Group had total undrawn committed facilities of HK$5.7 billion, which together with cash on hand and projected positive operating cash flow during 2007, would provide sufficient coverage for anticipated funding needs in 2007.

Cost of borrowing

Our exposure to interest rate risk is well contained due to our conservative mix of fixed and floating rate debts, and ability to secure attractive fixed rate financings. Despite a significant increase in short-term rates in the first half, average borrowing costs for the year rose to 5.5% from 5.1% from 2005, while gross interest expense increased by HK$49 million to HK$1,524 million.

Risk management

We continued to maintain a well-diversified debt portfolio in accordance with our Preferred Financing Model. The Model seeks to diversify risks by specifying the preferred mix of fixed and floating rate debts, maximum currency exposure, a well-balanced spread of maturities, use of different types of financing instruments and an adequate length of financing horizon to provide sufficient forward coverage of our future funding needs.

We remain an active corporate user of derivative financial instruments, which are used solely for hedging purposes to reduce exposure to interest rate and currency risks. To control counterparty risk exposure, we deal only with counterparties with credit ratings of A-/A3 or better, and assign to each counterparty limit based on its credit rating. In addition, we adopt a risk monitoring framework based on the widely accepted "value-at-risk" and "expected loss" concepts to quantify and monitor these exposures.

Credit ratings

We were the first Hong Kong corporate entity to obtain internationally recognised credit ratings, and have since maintained ratings on par with the Government.

During the year, Moody's upgraded our long-term foreign currency issuer rating from A1 to Aa3 with a stable outlook. Moody's also reaffirmed our short-term issuer rating at P-1 and long-term local currency issuer/foreign currency debt ratings at Aa3, with a stable outlook which later was changed to positive.

Standard & Poor's also raised our long-term local/foreign currency ratings from AA- to AA whilst reaffirming our short-term local/foreign currency ratings at A-1+ with a stable outlook.

This was followed by R&I's upgrade of our long-term foreign currency rating from AA- to AA and reaffirmation of our short/long-term local currency ratings at a•1+/AA with a stable outlook.

Financial planning

We continued to use our comprehensive long-term financial planning model to plan our railway operations and evaluate new projects and investments. The model subjects all investments to rigorous evaluations that take into account our weighted average cost of capital and required rate of return. To ensure the results are reliable and robust, we carefully review all key assumptions used in the model, and conduct sensitivity analyses on key variables. To manage our cost of capital effectively, we also regularly conduct detailed assessment of our funding requirements and capital structure.

Financing capacity

Total capital expenditure for the three years between 2007 and 2009 is estimated to be approximately HK$5 billion for existing railways in Hong Kong, HK$1.4 billion for property investment in Hong Kong and HK$6.4 billion for overseas investments, resulting in a total of HK$12.8 billion.

Of the HK$6.4 billion requirement for overseas investment, a RMB3.6 billion project loan for the Shenzhen Metro Line 4 project has already been secured. As such, total expenditures for the next three years are considered modest, and the Group is expected to have sufficient financing capacity to fund other new Hong Kong and overseas investments.

Ten-year statistics

	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999	1998	1997
Financial										
Profit and loss account *in HK$ million*										
Turnover	**9,541**	9,153	8,351	7,594	7,686	7,592	7,577	7,252	6,981	6,574
Operating profit before depreciation	**11,018**	11,246	9,097	9,116	7,769	7,301	7,290	5,523	4,720	3,805
Depreciation	**2,674**	2,682	2,499	2,402	2,470	2,178	2,091	2,039	1,426	927
Interest and finance charges	**1,398**	1,361	1,450	1,539	1,125	874	1,143	1,104	475	95
Increase in fair value (net of deferred tax) on investment properties†	**1,797**	2,310	2,051	–	–	–	–	–	–	–
Profit	**7,758**	8,463	6,543	4,450	3,579	4,278	4,069	2,116	2,819	2,783
Dividend proposed and declared	**2,328**	2,299	2,259	2,215	2,161	2,118	500	–	–	1,252
Earnings per share *in HK$*	**1.41**	1.55	1.23	0.85	0.70	0.85	0.81	0.42	–	–
Balance Sheet *in HK$ million*										
Total assets	**120,421**	113,666	106,674	102,366	101,119	98,126	92,565	87,250	82,104	75,428
Loans, obligations under finance leases and bank overdrafts	**28,152**	28,264	30,378	32,025	33,508	31,385	27,203	23,177	16,897	10,875
Deferred income	**1,682**	3,584	4,638	5,061	6,226	8,411	10,403	13,776	15,970	16,705
Total equity attributable to equity shareholders	**76,767**	69,875	61,892	57,292	53,574	53,893	50,355	45,115	42,601	41,815
Financial Ratios *in percentage*										
Operating margin	**54.5**	55.7	54.2	49.3	52.2	53.4	51.7	48.2	47.3	53.7
Non-fare revenue as a percentage of turnover	**31.6**	31.4	29.0	27.7	25.6	24.6	24.6	22.2	22.1	21.0
Debt-to-equity ratio	**36.7**	40.4	49.1	55.9	62.5	58.2	54.0	51.4	39.7	26.0
Debt-to-equity ratio (excluding revaluation reserves)	**37.1**	40.9	49.3	63.3	71.1	66.4	62.2	58.5	45.0	31.3
Interest cover *in times*	**6.7**	7.6	6.1	5.6	4.5	3.8	3.8	3.7	5.1	15.7
Employees										
Corporate management and service departments	**909**	896	860	855	886	930	966	1,031	1,317	1,104
Operations	**4,528**	4,600	4,669	4,730	4,836	4,756	4,943	5,132	5,890	4,575
Engineering and project	**265**	246	366	402	551	978	904	918	1,111	2,380
Property development and management	**833**	689	660	642	618	567	519	456	468	427
China and international businesses#	**104**	82	–	–	–	–	–	–	–	–
Total	**6,639**	6,513	6,555	6,629	6,891	7,231	7,332	7,537	8,786	8,486

* Consolidated results
† New accounting standard requirement
\# New division established in 2005

	2006*	2005*	2004*	2003*	2002*	2001*	2000*	1999	1998	1997
Railway operations										
Revenue car km operated										
in thousands										
MTR Lines	**115,784**	114,449	114,364	112,823	103,318	96,751	92,199	94,704	94,260	84,258
Airport Express	**20,077**	17,122	16,081	15,227	19,467	19,458	19,557	19,394	9,011	–
Total number of passengers										
in thousands										
MTR Lines	**866,754**	857,954	833,550	770,419	777,210	758,421	767,416	779,309	793,602	811,897
Airport Express	**9,576**	8,493	8,015	6,849	8,457	9,022	10,349	10,396	3,928	–
Average number of passengers										
in thousands										
MTR Lines – weekday average	**2,523**	2,497	2,403	2,240	2,261	2,231	2,240	2,284	2,326	2,382
Airport Express – daily average	**26**	23	22	19	23	25	28	29	22	–
Average passenger km travelled										
MTR Lines	**7.7**	7.6	7.7	7.7	7.6	7.4	7.3	7.4	7.4	7.4
Airport Express	**29.7**	30.4	30.2	29.7	29.9	29.8	29.7	29.9	31.2	–
Average car occupancy										
MTR Lines	**58**	57	56	53	57	58	61	61	62	71
Airport Express	**14**	15	15	13	13	14	16	16	14	–
Proportion of franchised public transport boardings										
in percentage										
All movements	**25.0**	25.2	24.8	24.3	23.5	23.5	24.1	25.2	25.7	25.9
Cross-harbour movement	**60.9**	61.2	59.6	58.7	58.2	57.4	57.9	60.3	61.9	64.2
Proportion of transport boardings										
in percentage										
To/from the airport	**23**	22	21	23	25	27	28	32	25	–
HK$ per car km operated (all services)										
Fare revenue	**48.0**	47.7	45.5	42.9	46.6	49.3	51.1	49.4	52.7	61.6
Railway operating costs	**22.1**	22.8	22.3	22.5	22.8	24.6	26.8	27.3	29.2	29.5
Railway operating profit	**25.9**	24.9	23.2	20.4	23.8	24.7	24.3	22.1	23.5	32.1
HK$ per passenger carried (all services)										
Fare revenue	**7.44**	7.25	7.05	7.06	7.28	7.46	7.35	7.14	6.82	6.39
Railway operating costs	**3.43**	3.47	3.45	3.70	3.57	3.72	3.85	3.94	3.78	3.06
Railway operating profit	**4.01**	3.78	3.60	3.36	3.71	3.74	3.50	3.20	3.04	3.33
Safety Performance										
Number of reportable events^	**826**	748	701	641	690	686	748	859	842	814
Reportable events per million passengers carried^	**0.94**	0.86	0.83	0.82	0.88	0.89	0.96	1.09	1.05	1.00
Number of staff and contractors' staff accidents	**23**	31	25	33	24	39	36	49	65	54

^ Reportable events are occurrences affecting railway premises, plant and equipment, or directly affecting persons (with or without injuries), that are reportable to the Secretary for the Environment, Transport and Works of the Hong Kong SAR Government under the Mass Transit Railway Regulations, ranging from suicides/attempted suicides, trespassing onto tracks, to accidents on escalators, lifts and moving paths.

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. This Report describes how the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company has complied throughout the year ended 31 December 2006 with the Code Provisions 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 (Chapter 556 of the Laws of Hong Kong) ("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 ("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.

The Board of Directors

The overall management of the Company's business is vested in the Board. Pursuant to the Articles of Association and the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Directorate, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders. These include financial statements, dividend policy, significant changes in accounting policy, annual operating budget, certain material contracts, strategies for future growth, major financing arrangements and major investments, risk management strategies, treasury policies and fare structures.

The Board comprises 11 members, consisting of one executive Director (the Chief Executive Officer) and ten non-executive Directors, of whom six are independent non-executive Directors. In this regard, the Company exceeds the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

Following the Board's decision to split the roles of Chairman and Chief Executive Officer, Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years. In July 2006, he was re-appointed as the non-executive Chairman of the Company with effect from 21 July 2006 until 31 July 2007.

Mr. Chow Chung-kong was appointed as the Chief Executive Officer of the Company with effect from 1 December 2003 for a term of three years. He was also appointed as a Member of the Board on the same date. His contract as the Chief Executive Officer of the Company was renewed for a further term of three years with effect from 1 December 2006.

Two of the other non-executive Directors (being the Secretary for the Environment, Transport and Works and the Commissioner for Transport) are appointed by the Chief Executive of The Hong Kong Special Administrative Region of the People's Republic of China ("HKSAR"). Another non-executive Director, Mr. Frederick Ma Si-hang, is the Secretary for Financial Services and the Treasury of the Government of the HKSAR. The Government of the HKSAR through The Financial Secretary Incorporated, holds approximately 76% of the issued share capital of the Company.

Coming from diverse business and professional backgrounds, the non-executive Directors actively bring their valuable experience to the Board for promoting the best interests of the Company and its shareholders. On the other hand, the independent non-executive Directors contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board and that relevant issues are subjected to objective and dispassionate consideration by the Board. The Company has received confirmation from each independent non-executive Director about his/her independence under the Listing Rules, and continues to consider each of them to be independent.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Company. They are requested to disclose the number and nature of offices held in public companies or organisations and other significant commitments as well as their identity to the Company twice a year.

Biographies of the Members of the Board and the Executive Directorate are set out on pages 29 to 32. None of the Members of the Board and the Executive Directorate has any relationship (including financial, business, family or other material or relevant relationships) between each other, although Commissioner for Transport (Mr. Alan Wong Chi-kong) and Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) were appointed by the Chief Executive of the HKSAR, and Mr. Frederick Ma Si-hang was appointed by The Financial Secretary Incorporated, and Ms. Christine Fang Meng-sang sits on various government advisory committees.

As permitted under its Articles of Association, the Company has arranged Directors' and Officers' Liability Insurance for which Members of the Board and officers of the Company do not have to bear any excess.

Chairman and Chief Executive Officer

The posts of Chairman and Chief Executive Officer are distinct and separate (please refer to the respective appointment of Dr. Raymond Ch'ien Kuo-fung as the non-executive Chairman of the Company, and Mr. Chow Chung-kong as the Chief Executive Officer of the Company and a Member of the Board on this page).

The non-executive Chairman is responsible for chairing and managing the operations of the Board, as well as monitoring the performance of the Chief Executive Officer and Members of the Executive Directorate. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, the Chairman also ensures that the non-executive Directors make an effective contribution at Board meetings. As head of the Executive Directorate, the Chief Executive Officer is responsible to the Board for managing the business of the Company.

The Chairman held a meeting on 7 March 2006 with all of the non-executive directors without the presence of Members of the Executive Directorate (including the Chief Executive Officer) to discuss the responsibilities of the Board, proceedings at Board Meetings and the performance of Members of the Executive Directorate. Another meeting was held by the Chairman on 13 March 2007.

Board Proceedings

The Board meets in person regularly, and all Members of the Board have full and timely access to relevant information and may take independent professional advice at the Company's expense, if necessary, in accordance with the approved procedures. The draft agenda for regular Board meetings is prepared by the Legal Director & Secretary and approved by the Chairman of the Company. Members of the Board are advised to inform the Chairman or the Legal Director & Secretary not less than one week before the relevant Board meeting if they wish to include a matter in the agenda of the meeting. The date of the Board meetings for the following year is usually fixed by the Legal Director & Secretary and agreed by the Chairman some time in the third quarter of each year.

At each regular Board meeting, Members of the Executive Directorate together with senior managers report to the Board on their business, including the operations, project progress, financial performance, corporate governance and outlook. The Chief Executive Officer also submits his Executive Summary, which focuses on the overall strategies and principal issues of the Company, to the Board. These reports, together with the discussions at Board meetings, provide information to enable all Members of the Board to make informed decisions for the benefit of the Company. The agenda together with board papers is sent in full at least 3 days before the intended date of the Board Meeting.

All Members of the Board have access to the advice and services of the Legal Director & Secretary, who is responsible for ensuring that the correct Board procedures are followed and advises the Board on all corporate governance matters. The Members of the Board also have full access to all Members of the Executive Directorate as and when they consider necessary.

In 2006, the Board held eight meetings. The proposed merger between the Company and KCRC was discussed at three Board meetings by the Members of the Board who did not have conflicts of interest. In addition, two special meetings solely on the proposed merger were held involving Members of the Board who did not have conflicts of interest. The Secretary for the Environment, Transport and Works and Mr. Frederick Ma Si-hang, the Secretary for Financial Services and the Treasury, were invited to attend one of those special meetings to express the Government's views on the proposed merger. They left the special meeting before the other Members of the Board, who did not have conflicts of interest, discussed the issues involved. Regular updates on other matters relating to the proposed merger (e.g. progress of the Legislative Council's Bills Committee meetings and other in-house integration activities such as staff briefing sessions and establishment of new committees) were also provided by relevant Members of Executive Directorate at board meetings.

The attendance record of each Member of the Board is set out below:

Directors	Attendance of Board meetings in 2006
Non-executive Directors	
Dr. Raymond Ch´ien Kuo-fung (Chairman)	10/10
Commissioner for Transport (Alan Wong Chi-kong)	8/8
Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung) * 3 meetings were attended by the alternate directors	8/8*
Frederick Ma Si-hang † 5 meetings were attended by his alternate directors	8/8†
Independent Non-executive Directors	
Professor Cheung Yau-kai	8/10
David Gordon Eldon	9/10
Christine Fang Meng-sang	9/10
Edward Ho Sing-tin	8/10
Lo Chung-hing	10/10
T. Brian Stevenson	7/10
Executive Director	
Chow Chung-kong (Chief Executive Officer)	10/10

The minutes of Board meetings are prepared by the Secretary of the meeting with details of the matters considered by the Board and decisions reached, including any concerns raised by the Members of the Board or dissenting views expressed. The draft minutes are circulated to all Members of the Board for their comment within a reasonable time after the meeting. The approved procedure is that the Board formally adopts the draft minutes at the subsequent meeting. If Members of the Board have any comment on the draft minutes, they will discuss it at that meeting, followed by a report on what has been agreed in the minutes of that meeting. Minutes of Board Meetings are kept by the Legal Director & Secretary and open for inspection by all Members of the Board at the Company's registered office.

Appointment, re-election and removal of Members 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 by 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 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. The Chief Executive has appointed the Office for the Secretary for Environment, Transport and Works and the Office for Commissioner for Transport as "additional directors". 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.

Each of the Directors, on appointment to the Board, is given a comprehensive induction programme on key areas of business operations and practices of the Company, as well as a Directors' Manual. Amongst other things, the Manual not only sets out the general and specific duties of the Directors under general law (common law and legislation) and the Listing Rules, but also includes the Terms of Reference of the Board Committees. The Directors' Manual is updated from time to time to reflect developments in those areas.

To assist their continuous professional development, the Legal Director & Secretary recommends Directors to attend relevant seminars and courses. The costs for such training are borne by the Company.

Accountability

The Members of the Board are responsible for preparing the accounts of the Company and of the Group. The accounts are prepared on a going concern basis and give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006, and of the Group's profit and cash flow for the year then ended. In preparing the accounts for the year ended 31 December 2006, the Members of the Board have selected appropriate accounting policies and, apart from those new and amended accounting policies as disclosed in the notes to the accounts for the year ended 31 December 2006, have applied them consistently with previous financial periods. Judgments and estimates have been made that are prudent and reasonable. The reporting responsibilities of the External Auditor are set out on page 48.

In support of the above, the accounts presented to the Board have been reviewed by the Members of the Executive Directorate. For both the annual and interim reports and accounts, the Finance Division is responsible for clearing them with the External Auditor and then the Audit Committee. In addition, all new and amended accounting standards and requirements adopted by the Company have been discussed and approved at the Audit Committee before adoption by the Company.

Board Committees

As an integral part of good corporate governance, the Board has established the following Board Committees to oversee particular aspects of the Company's affairs. Each of these Committees comprises non-executive Directors who have been invited to serve as members. Each of the Audit, Remuneration and Nominations Committee is governed by its respective Terms of Reference, which are available on the Company's website: www.mtr.com.hk.

In respect of the proposed merger between the Company and KCRC, and for the purpose of looking after the interest of minority shareholders and ensuring good corporate governance, the Board has established the Independent Committee of the Board ("IBC"). Governed by its Terms of Reference, the IBC comprises all independent non-executive Directors of the Company and is chaired by Edward Ho Sing-tin.

All Committees are provided with sufficient resources to discharge their duties.

Audit Committee

The Audit Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Committee are T. Brian Stevenson (chairman), Professor Cheung Yau-kai and the Commissioner for Transport (Alan Wong Chi-kong). None of the Committee Members is a partner or former partner of KPMG, the Company's External Auditor. The Finance Director, the Head of Internal Audit and representatives of the External Auditor of the Company are expected to attend meetings of the Committee. At the discretion of the Committee, others may also be invited to attend meetings. The Committee normally meets four times a year, and the External Auditor or the Finance Director may request a meeting if they consider it necessary.

Under its Terms of Reference, the duties of the Audit Committee include financial and efficiency aspects as described below. Amongst other things, the Committee is required to oversee the relationship with the Company's External Auditor, to review the financial information of the Company, and to oversee the Company's financial reporting system and internal procedures. The Committee discusses with the External Auditor the nature and scope of audit and reporting obligations before the audit commences. Apart from giving pre-approval of all audit services, the Committee also pre-approves any non-audit services for complying with relevant legal requirements. The Committee is primarily responsible for making recommendations to the Board on the appointment and removal of the External Auditor, and approving the remuneration and terms of such engagement. With respect to financial information of the Company, the Committee monitors the integrity of financial statements, annual and interim reports and accounts, together with the preliminary announcement of results and other announcements regarding the Company's financial information to be made public. In dealing with the financial information, the Committee liaises with the Board and the Executive Directorate (including the Finance Director), and further meets with both the External Auditor and the Head of Internal Audit. Apart from considering issues arising from the audit, the Committee discusses any matters that auditor(s) may wish to raise either privately or together with executive director and any other person. The Committee is required to review, at least annually, the effectiveness of the Company's financial controls, internal control and risk management systems and to report to the Board that such a review has been carried out. These controls and systems allow the Board to monitor the Company's overall financial position and to protect its assets. In addition, the Committee reviews periodic reports from the Head of Internal Audit and the follow-up of major action plans recommended. The Committee selects, in consultation with the Chairman and the Chief Executive Officer (or otherwise approves) any topic to be the subject of an audit into the efficiency, effectiveness or value for money of any of the activities or operations of the Company. It then reviews reports of such audit and puts forward recommendations to the Board.

The Chairman of the Committee summarises activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

The minutes of the Audit Committee meetings are prepared by the secretary of the meeting with details of the matters considered by the Committee Members and decisions reached, including any concerns raised by the Committee Members and dissenting views expressed. The draft minutes are circulated to the Committee Members for comments and the final version of the minutes is sent to the Committee Members for their records within a reasonable time after the meeting and the minutes are open for inspection by the Committee Members at the Company's registered office. A framework of the agenda items for the meetings for the following year is set out for the Committee Members' reference and comment in the last quarter of each year. The chairman of the Committee makes the final determination on the agenda for the regular Committee meetings.

In 2006, the Audit Committee held four meetings. The major work performed by the Committee in 2006 included:

- Reviewing and recommending for the Board's approval the draft 2005 Annual Report and Accounts and 2006 Interim Report and Accounts;
- Reviewing the Company's internal control systems;
- Approving the 2006 Audit Plan and reviewing the periodic report prepared by the Internal Audit Department; and
- Pre-approving the audit and non-audit services provided by KPMG, External Auditor, for 2006.

The attendance record of each Audit Committee Member is set out below. Representatives of the External Auditor, the Finance Director and the Head of Internal Audit attended all those meetings for reporting and answering questions about their work. Further to that and by invitation, the Operations Director (or his representative), the Property Director and representative of the China and International Business Director had respectively provided an overview of the Company's railway operations, property business and the Mainland of China and international businesses to the Members at their meetings.

Directors	Attendance of Audit Committee meetings in 2006
T. Brian Stevenson (chairman)	4/4
Professor Cheung Yau-kai	4/4
Commissioner for Transport (Alan Wong Chi-kong) * 2 meetings were attended by his alternate director	4/4*

Remuneration Committee

The Remuneration Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Remuneration Committee are Edward Ho Sing-tin (chairman), T. Brian Stevenson and Frederick Ma Si-hang.

The principal responsibilities of the Remuneration Committee 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 other Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

In 2006, the Remuneration Committee held four meetings. In accordance with its Terms of Reference, the Committee performed the following work during the year:

- Approved the 2005 Remuneration Report as incorporated in the 2005 Annual Report;
- Reviewed and approved payouts under the Company's performance-based variable incentive scheme for the 2005 performance period;
- Conducted an annual review of the remuneration packages for the Chief Executive Officer and other Members of the Executive Directorate for effect in 2006; and
- Reviewed and approved the remuneration package for the Chief Executive Officer upon the renewal of his contract.

The attendance record of each Committee Member is set out below:

Directors	Attendance of Remuneration Committee meetings in 2006
Edward Ho Sing-tin (chairman)	4/4
T. Brian Stevenson	4/4
Frederick Ma Si-hang	4/4

The Remuneration Committee also met on 8 March 2007 to approve the 2006 Remuneration Report. This report is set out on pages 27 and 28 and includes a description of the remuneration policy of the Company.

Nominations Committee

The Nominations Committee consists of three non-executive Directors, two of whom are independent non-executive Directors. The Members of the Nominations Committee are David Gordon Eldon (chairman), Lo Chung-hing and the Secretary for the Environment, Transport and Works (Dr. Sarah Liao Sau-tung). The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board.

Since there were no new Board appointments in 2006, the Committee did not convene any meeting during the year.

Independent Committee

The IBC consists of six independent non-executive Directors. Chaired by Edward Ho Sing-tin, the other Members are Professor Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Lo Chung-hing and T. Brian Stevenson.

The principal responsibilities of the IBC include advising the Company's independent shareholders as to whether the terms of the proposed merger between the Company and KCRC are fair and reasonable, whether the proposed 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 ("IFA") required to be appointed by the Company under the Listing Rules.

In 2006, the IBC held two meetings to discuss and advise on, among others, the appointment of the IFA and Reporting Accountant in relation to the proposed merger.

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.

Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the followings:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations

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.

Supported by the Members of the Executive Committee, the Chief Executive Officer who chairs the Executive Committee is responsible to the Board for the conduct of the business of the Company.

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.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as appropriate insurance coverage.

The Company has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks. The framework provides a useful forum for communicating risk issues at different levels of the organization and thereby improves visibility on risk. It covers all key business areas of the Company, and it has been in operation since early 2006. Structured cross-discipline processes and organizations have been put in place at corporate and divisional levels for risk identification, mitigation and monitoring. A standard rating system is employed to prioritise risks, and changes to existing risks and the emergence of new risks are regularly reviewed. A manual that governs the working of the ERM framework has been compiled, and regular briefing sessions are being conducted, to promulgate the application and ensure consistent understanding of ERM.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee, is underpinned by line management taking direct risk management responsibilities as risk owners. The Executive Committee reviews significant risks half-yearly and the Board annually to ensure that such risks are under satisfactory control.

The Board also periodically reviews the implementation and the ERM organization and processes that have been put in place.

To ensure the efficient and effective operation of business units and functions, and safety of operating railway and construction works in railway extension projects, Corporate General Instructions ("CGIs"), divisional/departmental procedures and manuals, committees, working groups and quality assurance units are established to achieve, monitor and enforce internal controls and evaluate their effectiveness.

Control documentations for compliance with Section 404 of US Sarbanes Oxley Act – Internal Control over Financial Reporting, CGIs and various departmental procedures and manuals are established for preventing or detecting unauthorized expenditures/payments, safeguarding the Company's assets, ensuring the accuracy and completeness of accounting records and timely preparation of reliable financial information.

All Department Heads, including Business and Project Managers for overseas projects, are responsible for ensuring the compliance with statutes and regulations applicable to their own functional units. They are required to identify any new or updated statutes, to assess the risk of such statutes/regulations and their impact on the Company's operations, and to review at least once a year that relevant statutes/regulations are complied with.

Members of the Board and the Executive Committee, and other nominated managers who have access to price-sensitive and/or specific information are bound by the Model Code for Securities Transactions by Directors of Listed Issuers. In addition, every employee is also bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price-sensitive information in strict confidence.

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 a regular basis, it conducts audits on financial, operational and compliance controls, and risk management functions of all business and functional units as well as subsidiaries. Management is responsible for ensuring the control design and operating deficiencies highlighted from internal audits are rectified within reasonable period. Internal Audit produces a 4-year rolling Audit Plan, based on risk assessment, that is reviewed and approved by the Audit Committee. On a half-yearly basis, the Internal Auditor reports to the Audit Committee his audit findings and his opinion on the system of internal controls.

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. This is achieved primarily through approving the internal audit plan and reviewing the findings of internal audit work, in addition to reviewing the annual and interim financial statements, and the nature, scope of work, and report of the external auditors, and consideration of the following:

- the changes in the nature and extent of significant risks since the previous review and the Company's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and the system of internal control, the work of Internal Audit Department, and the assurance provided by the Executive Committee;
- the extent and frequency with which the results of monitoring are communicated, enabling the Audit Committee to build up a cumulative assessment of the state of control in the Company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition; and
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance.

The processes in assessing internal controls by the Audit Committee included: regular interviews with Members of the Executive Committee in relation to key business operations, internal control and compliance issues, both financial and non-financial; review of significant issues arising from internal audit report and external audit report, and private sessions with internal and external auditors. The Audit Committee has also reviewed the papers prepared by the Executive Committee and Internal Audit covering: 2005 Annual Report and Accounts, Annual Report on Form 20-F and Reconciliation of 2005 Annual Accounts to U.S. GAAP, Preview of 2006 Interim and Year End Accounting issues, 2006 Interim Accounts, 2006 Audit Plan, Internal Audit's Half-yearly Reports, Annual Report on Staff Complaints, Reporting of Internal Control Systems, Reporting of Outstanding Litigation and Compliance Issues, Annual Insurance Programme, and Procurement Control and Audit Committee for China Projects. The Chairman of the Committee summarizes activities of the Committee and highlights issues arising therefrom by a report to the Board after each Audit Committee meeting.

The Board has, through the Audit Committee, conducted the 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, and concluded that adequate and effective internal controls are maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year which might affect shareholders.

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 year 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.

Business Ethics

The Company is committed to a high standard of business ethics and integrity. The contents of the Company's Code of Conduct and the Corporate Guidebook for All Staff are reviewed every two years by Human Resource Management Department to ensure appropriateness and compliance with legislation. To reinforce staff compliance with these important documents, certification is conducted every two years, requiring all staff to acknowledge their understanding of the Code and agreement to abide by its stipulations. The first certification was conducted in August 2006.

In order to extend the ethical culture of the Company to our Mainland of China subsidiaries, the Induction Programme for our wholly owned subsidiaries has been reviewed and updated to incorporate a briefing on the Company's Code of Conduct and the Corporate Guidebook for All Staff. The Guidebook has also been shared with our joint venture companies for appropriate adoption in their policies and training.

US Sarbanes-Oxley Act 2002

This legislation, which seeks to enhance the transparency and accountability of companies in the areas of corporate governance and financial reporting, was signed into law by the President of the United States on 30 July 2002.

As the Company is an SEC reporting company, it is generally bound by this legislation.

The Company has been, and will continue its process of, reviewing its internal systems and practices and implementing new requirements under this legislation in line with applicable compliance dates.

External Auditor

The Company engages KPMG as its External Auditor. In order to maintain KPMG's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards, the Audit Committee, under its Terms of Reference, pre-approves all audit services to be provided by KPMG and discusses with KPMG the nature and scope of their audit and reporting obligations before the audit commences.

The Audit Committee also reviews and pre-approves the engagement of KPMG to provide any non-audit services for complying with relevant legal requirements and seeks to balance the maintenance of objectivity with value for money.

The nature of audit and non-audit services provided by KPMG and fees paid to KPMG (including any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) are set out below:

in HK$ million	**2006**	2005
Auditors' remuneration		
– audit services	**5**	4
– tax services	**1**	1
– other services	**–**	2

Communication with Shareholders

The Company's Annual General Meeting ("AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to question Directors about the Company's performance. The Chairman of the Company and the Chairmen of each of the Board Committees were present at the 2006 AGM.

At the 2006 AGM, the Chairman started the formal business by outlining the categories of persons who were entitled to demand a poll in accordance with Article 67 of the Company's Articles of Association on any resolution to be proposed at the AGM. Separate resolutions were proposed for each substantially separate issue at the AGM. Before the resolutions were considered, the Chairman exercised his right as the Chairman of the Meeting under Article 67 of the Company's Articles of Association to call a poll on all resolutions. The poll results were published in an English and a Chinese newspaper and posted on the websites of the Company and The Stock Exchange of Hong Kong Limited on the day after the AGM. The webcast of the AGM was posted on the Company's website on the following day after the AGM.

Remuneration report

This Remuneration Report has been reviewed and approved by the Remuneration Committee of the Company.

Remuneration policy

It is the Company's policy to ensure that remuneration is appropriate and aligns with the Company's goals, objectives and performance. To this end, the Company considers a number of relevant factors including salaries paid by comparable companies, job responsibilities, duties and scope, employment conditions elsewhere in the Company and its subsidiaries, market practices, financial and non-financial performance, and desirability of performance-based remuneration.

The Company is committed to effective corporate governance and employing and motivating top quality personnel, and recognises the importance of a formal and transparent remuneration policy covering its Board and Executive Directorate.

The Board has established a Remuneration Committee consisting of three non-executive Directors, two of whom are independent non-executive Directors. It considers and recommends to the Board the Company's remuneration policy and has a delegated authority to review and determine the remuneration packages of the Chief Executive Officer and other Members of the Executive Directorate.

As necessary and with the agreement of the Chairman, the Remuneration Committee is authorised to obtain outside independent professional advice to support the Committee on relevant issues.

A summary of the work performed by the Remuneration Committee during 2006 is set out in the "Corporate Governance Report" on pages 20 to 26.

The Remuneration Committee also ensures that no individual Director or any of his associates is involved in deciding his own remuneration.

Non-Executive Directors, Chief Executive Officer and the Executive Directorate

The Remuneration Committee makes recommendations to the Board from time to time on the remuneration of the Members of the Board who are non-executive Directors. To ensure that non-executive Directors are appropriately paid for their time and responsibilities devoted to the Company, the Committee considers factors such as fees paid by comparable companies, time commitment, responsibilities of the non-executive Directors, and employment conditions elsewhere in the Company.

The Remuneration Committee is responsible for establishing policies, and reviewing and determining the remuneration of the Members of the Board who are executive Directors (namely, the Chief Executive Officer) and the Executive Directorate in accordance with the Company's remuneration policy. In the case of the Chief Executive Officer, the Committee will consult with the Chairman and in the case of other Members of the Executive Directorate, the Committee will consult with both the Chairman and the Chief Executive Officer in respect of their recommendations.

Remuneration Structure for Employees

The Company's remuneration structure for its employees, including Members of the Board who are executive Directors and Members of the Executive Directorate, comprises fixed compensation, variable incentives, discretionary awards, long-term incentives, and retirement schemes. The specifics of these components are described below.

Fixed Compensation

Fixed compensation comprises base salary, allowances and benefits-in-kind (e.g. medical). Base salary and allowances are set and reviewed annually for each position taking into consideration the Company's remuneration policy, competitive market positioning, market practice, as well as the Company's and individuals' performance. Benefits-in-kind are reviewed regularly taking into consideration market practices.

Variable Incentives

The Chief Executive Officer, other Members of the Executive Directorate and selected management of the Company are eligible to receive an annual cash incentive under the Company's Variable Incentive Scheme, the rules of which are regularly reviewed by the Remuneration Committee.

Under the current scheme rules, the payouts are based on the performance of the Company and individual performance. The Company's performance is measured by the return on fixed assets and operating profit on an annual and rolling three-year basis.

A portion of the target incentive levels under the scheme was originally funded by participants by foregoing their 13th month pay and portions of their fixed allowances. Target incentive levels for the Chief Executive Officer and other Members of the Executive Directorate represent approximately 15-30% of base pay. If performance exceeds pre-defined threshold standards, then payouts under the scheme are made annually.

In addition, the Company operates other sales and business-related incentive schemes to motivate the staff concerned in reaching specific business targets of the Company.

Discretionary Award

In 2006, a special discretionary award was provided to all staff with competent or above performance as a recognition of the staff's contribution to the Company's good performance in the past year and to motivate staff to strive for continuous business growth.

Long-Term Incentives

The Company operates two share option schemes, namely the Pre-Global Offering Share Option Scheme and the New Joiners Share Option Scheme.

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2006 under the two Schemes are set out under the paragraph "Board Members and Executive Directorate's Interest in Shares" of the Report of the Members of the Board.

Details of the two Schemes and options granted to Members of the Executive Directorate under the Schemes are set out in notes 2 to the financial statements.

The Chief Executive Officer does not participate in the two Schemes. He was entitled to receive an equivalent value in cash of 700,000 Shares on completion of his initial three-year contract on 30 November 2006. Pursuant to this contract and following the completion of the contract period, HK$13,396,600 was paid to the Chief Executive Officer on 1 December 2006.

The Chief Executive Officer's contract was renewed with effect from 1 December 2006. This contract entitles the Chief Executive Officer to receive an equivalent value in cash of 418,017 Shares on completion of his new three-year contract.

Retirement Schemes

The Company operates three retirement schemes, the MTR Corporation Limited Retirement Scheme (the "Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "RBS"), and a Mandatory Provident Fund Scheme (the "MPF Scheme"). Employees who are eligible to join the Retirement Scheme can choose between the Retirement Scheme and the MPF Scheme, while other employees are required to join the MPF Scheme. The RBS is a top-up scheme to supplement the Retirement Scheme for employees who are classified by the Company as staff working on designated projects and who are not on gratuity terms.

(a) Retirement Scheme

The Retirement Scheme contains a hybrid benefit section and a defined contribution section. It is a registered scheme under the Occupational Retirement Schemes Ordinance and has been granted an MPF Exemption so that it can be offered to employees as an alternative to the MPF Scheme. The hybrid benefit section provides benefits based on the greater of a multiple of final salary times service or the accumulated contributions with investment returns. Members' contributions to the hybrid benefit section are based on fixed percentages of base salary. The Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

The hybrid benefit section has been closed to new employees since 31 March 1999. All employees joining the Company on or after 1 April 1999 who would have been eligible to join the Retirement Scheme can choose to join either the defined contribution section or, commencing 1 December 2000, the MPF Scheme.

The defined contribution benefit section is a member investment choice plan which provides benefits based on accumulated contributions and investment returns. Both members' and the Company's contributions to the defined contribution section are based on fixed percentages of members' base salary.

(b) RBS

The RBS is a registered scheme under the Occupational Retirement Schemes Ordinance. It provides benefits only in the event of redundancy for service accrued up to 31 December 2002, offset by any benefits payable from the Retirement Scheme. Members are not required to contribute while the Company's contributions are determined by reference to an annual actuarial valuation carried out by an independent actuarial consulting firm.

(c) MPF Scheme

The Company has participated in the Bank Consortium MPF Plan which has been registered with the Mandatory Provident Fund Schemes Authority. The MPF Scheme covers those employees who are eligible to join the Retirement Scheme but have chosen not to join it and other employees who are not eligible to join the Retirement Scheme. Both members and the Company each contribute to the MPF Scheme at the mandatory levels as required by the Mandatory Provident Fund Schemes Ordinance. Additional contribution above the mandatory level may be provided subject to individual terms of employment.

The executive Directors who have been employed by the Company before 1 April 1999 are eligible to join the hybrid benefit section of the Retirement Scheme.

The executive Directors who are hired on or after 1 April 1999 are eligible to join the defined contribution benefit section of the Retirement Scheme.

The Chief Executive Officer participates in the MPF Scheme. Both the Company and the Chief Executive Officer each contribute to the MPF Scheme at the mandatory levels as required by the MPF Ordinance.

Remuneration of Non-Executive and Executive Directors

(i) The total remuneration of the Members of the Board and the Executive Directorate (excluding share-based payments) is shown below and the remuneration details are set out in note 2 to the financial statements.

in HK$ million	**2006**	2005
Fees	**3**	3
Base Salaries, allowances and other benefits-in-kind	**31**	29
Variable remuneration related to performance	**11**	10
Retirement scheme contributions	**2**	2
	47	44

(ii) The gross remuneration of non-executive and executive Directors (excluding share-based payments) were within the following bands:

Remuneration	**2006 Number**	2005 Number
HK$0 – HK$500,000	**9**	10
HK$500,001 – HK$1,000,000	**1**	1
HK$1,000,001 – HK$1,500,000	**–**	2
HK$4,500,001 – HK$5,000,000	**7**	5
HK$5,000,001 – HK$5,500,000	**–**	1
HK$9,500,001 – HK$10,000,000	**–**	1
HK$10,000,001 – HK$10,500,000	**1**	–
	18	20

The information shown in the above table includes the five highest paid employees. The independent non-executive Directors' emoluments are included in the first remuneration band except the non-executive Chairman, whose emolument is included in the second remuneration band.

Edward Ho Sing-tin, *Chairman, Remuneration Committee*
MTR Corporation Limited
Hong Kong, 8 March 2007

Board and Executive Directorate

Members of the Board

Dr. Raymond Ch'ien Kuo-fung 55, was appointed Non-Executive Chairman in July 2003. He has been a member of the Board since 1998. Dr. Ch'ien is chairman of CDC Corporation (formerly known as chinadotcom Corporation) and its subsidiary, China.com Inc (formerly known as hongkong.com Corporation). He is also non-executive chairman of HSBC Private Equity (Asia) Limited. He serves on the boards of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited, Inchcape plc, Convenience Retail Asia Limited, VTech Holdings Limited and The Wharf (Holdings) Limited. Dr. Ch'ien is chairman of the Hong Kong/European Union Business Cooperation Committee and a Hong Kong member of the APEC Business Advisory Council. In addition, Dr. Ch'ien is the honorary president and past chairman of the Federation of Hong Kong Industries. He was a member of the Executive Council of Hong Kong, then under British Administration, from 1992 to 1997, a member of the Executive Council of the Hong Kong SAR from 1 July 1997 to June 2002 and chairman of the Advisory Committee on Corruption of the Independent Commission Against Corruption from 1 January 1998 to 31 December 2006. Dr. Ch'ien was appointed a Justice of the Peace in 1993. He was made a Commander in the Most Excellent Order of the British Empire in 1994 and awarded the Gold Bauhinia Star medal in 1999. Dr. Ch'ien received a doctoral degree in economics from the University of Pennsylvania in 1978 and became a Trustee of the University in 2006.

Chow Chung-kong 56, was appointed Chief Executive Officer on 1 December 2003. He was formerly chief executive officer of Brambles Industries Ltd, a global support services company. From 1997 to 2001, Mr. Chow was chief executive of GKN PLC, a leading engineering company based in the United Kingdom and before that, he spent 20 years with the BOC Group PLC and was appointed a director of its board and chief executive of its Gases Division in 1993. Mr. Chow is a chartered engineer. He holds Bachelor of Science and Master of Science degrees in Chemical Engineering from The University of Wisconsin and The University of California respectively. He also holds a Master of Business Administration degree from The Chinese University of Hong Kong and was a graduate of the Advanced Management Program of Harvard Business School. He was awarded an Honorary Doctor of Engineering degree by The University of Bath. Mr. Chow was knighted in the United Kingdom in 2000 for his contribution to industry. He is currently a member of the Council of the Hong Kong Institute of Certified Public Accountants, the Hong Kong Tourism Board and the Council of The Chinese University of Hong Kong. He is also a member of the general committee of the Hong Kong General Chamber of Commerce, and a member of the Standing Committee of the Shenzhen Municipal Committee of the Chinese People's Political Consultative Conference. Mr. Chow is a non-executive director of Standard Chartered PLC and the non-executive chairman of Standard Chartered Bank (Hong Kong) Limited.

Professor Cheung Yau-kai 72, is an independent non-executive Director and has been a member of the Board since 1999. Professor Cheung is Honorary Professor of Engineering and Special Adviser to the Vice-Chancellor of The University of Hong Kong. He was Taikoo Professor of Engineering and Acting Deputy Vice-Chancellor of The University of Hong Kong until 30 June 2000. Professor Cheung began his academic research career at the University College of Swansea, Wales. He was appointed Professor of Civil Engineering at Calgary in 1970 and moved to the University of Adelaide in 1974 as Professor and Chairman of the Department of Civil Engineering. In 1977, he took up the Chair and Headship of the Department of Civil Engineering in The University of Hong Kong. In addition to his academic appointments, Professor Cheung was the former first Senior Vice-President of the Hong Kong Institution of Engineers and the Ex-Chairman of its Accreditation Board. He has been awarded several honorary degrees at educational institutions, including, an honorary Doctor of Science by The University of Hong Kong and an honorary Doctor of Laws by the University of Wales. He has also been elected a member of the Chinese Academy of Sciences, and is a fellow of the Royal Academy of Engineering, a fellow of the Royal Society of Canada and immediate past President of the Hong Kong Academy of Engineering Sciences.

David Gordon Eldon 61, is an independent non-executive Director and has been a member of the Board since 1999. He retired from the HSBC Group in May 2005 after 37 years of service. He was Chairman of The Hongkong and Shanghai Banking Corporation Limited from January 1999 to May 2005, non-executive Chairman of Hang Seng Bank Limited from June 1996 to April 2005, and a board member of Swire Pacific Limited until May 2005. Mr. Eldon was the Executive Committee Chairman of The Community Chest of Hong Kong until June 2005 and is currently its Vice Patron. He is senior adviser to PricewaterhouseCoopers (based in Hong Kong) and Chairman of the Hong Kong General Chamber of Commerce, the Dubai International Financial Centre Authority, the Noble Group Limited, and Diocesan Girls' School Education Foundation Limited. He is Deputy Chairman of the Hong Kong Jockey Club, a Council member of the Hong Kong Trade Development Council, a member of the Advisory Board of Unisys and an independent non-executive director of Eagle Asset Management (CP) Limited. Mr. Eldon was appointed a member of the Capital Adequacy Review Tribunal and holds a number of other community service appointments. Mr. Eldon is a fellow of the Chartered Institute of Bankers and a fellow of the Hong Kong Institute of Bankers. He is a Justice of the Peace.

Christine Fang Meng-sang 48, is an independent non-executive Director and has been a member of the Board since 2004. Ms. Fang has been the chief executive of the Hong Kong Council of Social Service since 2001. Prior to joining the Hong Kong Council of Social Service, she worked for the Hong Kong Red Cross from 1989 to 2001 and held the position of Secretary General from

1993 to 2001. By training, Ms. Fang is a social worker and has a strong background in community service. She sits on various government advisory committees, including the Social Welfare Advisory Committee, the Manpower Development Committee, the Sustainable Development Council and the Digital 21 Strategy Advisory Committee. She is also a member of the Commission on Poverty and Commission on Strategic Development (Executive Committee).

Edward Ho Sing-tin 68, is an independent non-executive Director and has been a member of the Board since 1991. He is an architect and the deputy chairman and managing director of Wong Tung & Partners Limited. Mr. Ho was an elected member of the Legislative Council of Hong Kong from 1991 to 2000, representing the architectural, surveying and planning functional constituency. He was president of the Hong Kong Institute of Architects in 1983 and 1984 and was chairman of the Hong Kong Industrial Estates Corporation from 1992 to 2001. Mr. Ho serves on a number of statutory boards and advisory committees including the Board of Hong Kong Hospital Authority. He is also chairman of the Board of Governors of the Hong Kong Philharmonic Society Ltd. and chairman of the Antiquities Advisory Board.

Lo Chung-hing 55, is an independent non-executive Director and has been a member of the Board since 1995. He is general manager of Bank of China (Hong Kong) Limited, after the restructuring of the Bank of China Group in October 2001. Mr. Lo began his banking career in 1969 and he served in several positions within the Bank of China Group before being appointed to his present post. He is a director of the Urban Renewal Authority. Mr. Lo was appointed as a board member of the Provisional Airport Authority in 1994 and served as vice chairman of the Airport Authority from April 1996 to May 1999. He was also a board member of the Hospital Authority from December 1997 to November 2005. Mr. Lo was awarded the Silver Bauhinia Star medal in 1998.

T. Brian Stevenson 62, is an independent non-executive Director and has been a member of the Board since October 2002. He is a non-executive director of The Hongkong and Shanghai Banking Corporation Limited, a member of the Asia Pacific Advisory Board of BT, a member of the Public Service Commission and a Steward of the Hong Kong Jockey Club. Mr. Stevenson was previously the Senior Partner of Ernst & Young, Hong Kong from 1981 to 1999. He served on the Council of the Hong Kong Society of Accountants from 1991 to 1997 and was president of the Society in 1996. Mr. Stevenson is a chartered accountant and holds law degrees from Glasgow and Hong Kong Universities.

Commissioner for Transport (Alan Wong Chi-kong 51, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the MTR Ordinance by virtue of his appointment to the post of the Commissioner for Transport of the Government of the Hong Kong SAR on 18 June 2005. Prior to that, Mr. Wong has served in various bureaux and departments of the Government of the Hong Kong SAR including the Home Affairs Bureau, Civil Service Bureau, the former Urban Services Department, the former City and New Territories Administration, the former Health and Welfare Branch, the former Recreation and Culture Branch, the former Secretariat of the University and Polytechnic Grants Committee, the former Trade and Industry Branch, the Office of the Commissioner of Insurance from August 1996 to January 2000, the Mandatory Provident Fund Schemes Authority from January 2000 to June 2001, the former Information Technology Services Department from July 2001 to July 2004, and the Office of the Government Chief Information Officer from July 2004 to January 2005. As Commissioner for Transport, Mr. Wong is also a director of several transport-related companies, including The Kowloon Motor Bus Company (1933) Limited, Long Win Bus Company Limited, New World First Bus Services Limited, New Lantao Bus Company (1973) Limited, Citybus Limited, The Star Ferry Company Limited, The New Hong Kong Tunnel Company Limited, Western Harbour Tunnel Company Limited, Tate's Cairn Tunnel Company Limited and Route 3 (CPS) Company Limited.)

Secretary for the Environment, Transport and Works
(Dr. Sarah Liao Sau-tung 55, joined the Board as a non-executive Director appointed as an "additional director" under section 8 of the MTR Ordinance in August 2002 after her appointment as the Secretary for the Environment, Transport and Works of the Government of the Hong Kong SAR on 1 July 2002. As Secretary for the Environment, Transport and Works, she is also a director of a number of companies including Kowloon-Canton Railway Corporation and Route 3 (CPS) Company Limited. Dr. Liao obtained a Doctorate Degree (Environmental/Occupational Health) from The University of Hong Kong. She has also been a fellow of the Royal Society of Chemistry since 1995 and the Hong Kong Institution of Engineers since 1996.)

Frederick Ma Si-hang 55, joined the Board as a non-executive Director on 1 July 2002 upon his appointment as Secretary for Financial Services and the Treasury of the Government of the Hong Kong SAR. Before assuming that post, Mr. Ma was Group Chief Financial Officer of PCCW Ltd. and was also an executive director and member of the Executive Committee of that group. Mr. Ma has more than 20 years' experience in the global financial services industry. He has served in key posts in J.P. Morgan Private Bank, Chase Manhattan Bank, Kumagai Gumi (Hong Kong) Limited and RBC Dominion Securities Limited. Besides serving as board member of Kowloon-Canton Railway Corporation, Ocean Park Corporation and the Airport Authority, Mr. Ma is also a director of Hong Kong International Theme Parks Limited, Hong Kong Mortgage Corporation Limited and Mandatory Provident Fund Schemes Authority. Graduated from The University of Hong Kong in 1973, Mr. Ma holds a Bachelor of Arts degree, majoring in Economics and History.

Members of the Executive Directorate

Chow Chung-kong Biographical details are set out on page 29.

Russell John Black 60, has been the Project Director of the Company since 1992. He is responsible for the planning and implementation of all major railway extension and upgrade projects, which have included the Airport Railway project, the Quarry Bay Congestion Relief Works, the Tseung Kwan O Extension project, the Disneyland Resort Line and the Tung Chung Cable Car. He is also responsible for undertaking feasibility studies into possible new extensions to the railway, including the South Island Line and the West Island Line and providing project management expertise to railway projects in Mainland of China. Mr. Black initially worked for the Company from 1976 to 1984 and, prior to rejoining the Company in 1992, he was the project director of London Underground's Jubilee Line Extension project from 1990 to 1992 and, before that, he worked on Singapore's underground railway and on the Eastern Harbour Crossing. Mr. Black served on the Vocational Training Council from 1998 to 2002, the Construction Advisory Board from 1993 to 1999, the Provisional Construction Industry Coordination Board from 2001 to January 2007 and has been appointed as a member of the Construction Industry Council from 1 February 2007. Mr. Black holds an honours degree in civil engineering from the University of Canterbury in New Zealand. In 2006, he was elected an International Fellow of The Royal Academy of Engineering. He is also a Fellow of the Hong Kong Academy of Engineering Sciences, the Hong Kong Institution of Engineers and the Institution of Professional Engineers, New Zealand. He was awarded the Public Service medal (PBM) in Singapore in 1986 and the Bronze Bauhinia Star medal in 1999.

William Chan Fu-keung 58, has been the Human Resources Director since August 1998. He joined the Company as Human Resources Manager in 1989. He is responsible for human resource management, people development, operations and management training, administration and security management. Prior to joining the Company, Mr. Chan held senior managerial positions both in the commerce and in the utility sectors in Hong Kong, including the Government, the Hong Kong Productivity Council, Hutchison Whampoa Limited and Hong Kong Telecommunications Limited. He is a fellow member of the Hong Kong Institute of Human Resource Management since 1985 and is also the Vice President of the Institute. He is a Council member of Employers' Federation of Hong Kong, and a member of the Remuneration Committee of the Hong Kong Housing Society, the Labour Advisory Board Committee on Labour Relations, and the Career Development and Advisory Board for a number of universities. Mr. Chan received a Bachelor of Social Science degree from The University of Hong Kong in 1971, majoring in economics.

Thomas Ho Hang-kwong 56, has served as the Property Director since joining the Company in 1991. He is responsible for the development and management of all properties above and adjacent to MTR stations and depots. He leads a multi-disciplinary team of managers involved in the planning, design, construction and management of large-scale property developments. Between 1971 and 1990, Mr. Ho worked for the Hong Kong Government specialising in land administration and latterly held a directorate post in the Lands Department, responsible for formulating policies and procedures to make land available for the airport and the Airport Railway project. Mr. Ho qualified in 1974 as a chartered surveyor in Hong Kong.

Lincoln Leong Kwok-kuen 46, has served as the Finance Director since February 2002. He is responsible for the financial management of all of the Company's affairs, including financial planning and control, budgeting, accounting and reporting and the treasury function. In addition, he has responsibility for the Company's information technology function and serves as chairman of both Octopus Holdings Limited and the board of trustees of the Company's retirement scheme. Mr. Leong graduated from Cambridge University in 1982 and later qualified as a chartered accountant in England in 1985 and Canada in 1986. Prior to joining the Company as Finance Director, he worked in both the accountancy and investment banking industries. Mr. Leong has also worked as an accountant in London and Vancouver, Canada and for a number of years as an investment banker in Hong Kong. Mr. Leong is the chairman of the executive committee of the Hong Kong Society for the Protection of Children, a member of the supervisory board of the Hong Kong Housing Society and a board member of the Community Chest. He also serves on the Board of Governor of the Chinese International School and is a trustee of the Hospital Authority Pension Fund Scheme.

Mr. Leong is also a non-executive director of both Hong Kong Aircraft Engineering Company Limited and Tai Ping Carpets International Limited.

Francois Lung Ka-kui 48, has served as the China & International Business Director since September 2005. He heads the Company's growth-business efforts, including investments in Mainland of China, operating franchises in Europe and international consultancy. Dr. Lung has held various positions in a number of Royal Dutch Shell affiliates since 1997 and joined the Company from Shell Eastern Petroleum (Pte) Ltd. He was the General Manager, China, with responsibility for strategy development, governance and business performance of Shell's gas and power business in China. From 1994 to 1997, he held positions at Duke Energy Asia Limited, an affiliate of Duke Energy International, becoming Vice-President in 1996. Prior to this, Dr. Lung spent approximately five years at PowerGen plc, a major generator, distributor and retailer of electricity in the United Kingdom, and three years at the Central Electricity Generating Board before the privatisation of the electricity industry in the United Kingdom. Dr. Lung holds a Bachelor of Science degree in Mechanical Engineering from the University of Hong Kong, a PhD in Combustion from the University of Leeds in the United Kingdom, a Master of Science degree in Management from the University of Southampton in the United Kingdom and a Bachelor of Law degree from the University of London. Dr. Lung was admitted to the Bar of the United Kingdom in 1992.

Andrew McCusker 61, has served as the Operations Director since December 2005. Mr. McCusker has more than 40 years of experience in the operating and engineering field in Defence, Power, Water and Rail Industries. He joined the Company as Operations Engineering Manager in 1987, and since then has been posted to other responsible positions, including Operations Engineering Design Manager and Project Manager (Operations). He was appointed Deputy Operations Director in March 2004 and Acting Operations Director in October 2005. Mr. McCusker holds a degree in Mechanical Engineering from the Kensington University in the United States and is a member of the Institution of Mechanical Engineers of the United Kingdom.

Leonard Bryan Turk 57, is a solicitor admitted to practice both in England and Wales and in Hong Kong. He joined the Company in 1981 and has been Legal Director and Secretary to the Board since 1988. Mr. Turk is responsible for legal advice, corporate secretarial services, insurance, procurement and enterprise risk management functions within the Company. His responsibilities also include construction contracts, contract drafting and administration, cost control and dispute resolution. Before joining the Company, Mr. Turk worked in England, concentrating particularly on commercial property development and the financing of large projects.

Report of the Members of the Board

The Members of the Board have pleasure in submitting their Report and the summary financial statements for the financial year ended 31 December 2006.

Principal Activities of the Group

The principal activities of the Company and its subsidiaries are:

A the operation of a mass transit railway system with lines from Central to Tsuen Wan (Tsuen Wan Line), from Yau Ma Tei to Tiu Keng Leng (Kwun Tong Line), from Po Lam to North Point (Tseung Kwan O Line), from Chai Wan to Sheung Wan (Island Line), from Hong Kong to Tung Chung (Tung Chung Line), from Hong Kong to the Hong Kong International Airport and then AsiaWorld-Expo both at Chek Lap Kok (Airport Express Line) and from Sunny Bay to Disneyland Resort (Disneyland Resort Line);

B property development at locations relating to the railway system including the Tseung Kwan O Line Extension;

C related commercial activities, including the letting of advertising and retail space, bandwidth services on the railway telecommunication system, property management and leasing management of investment properties (including shopping centres and offices), property agency and Octopus Card Building Access System services;

D the design and construction of the Ngong Ping 360 tourism facilities and subsequent monitoring of the appointed operator;

E the design and construction of Tseung Kwan O South Station as an extension of the Tseung Kwan O Line;

F the planning and construction of future extensions to the railway system and other related infrastructure projects;

G consultancy services covering all areas of expertise required in the project management, planning, construction, operation, maintenance and up-grading of railways plus fare collection, property integration/development advice including other property related services and advice on generation of non-fare revenues;

H investment in Octopus Holdings Limited, a subsidiary of the Company, which has business activities both in Hong Kong and overseas including the operation of a smart card system by its subsidiary Octopus Cards Limited for the collection of payments for both transport and non-transport applications in Hong Kong;

I equity investments and long term operation and maintenance contracts outside of Hong Kong;

J property management, shopping centre investment and railway related property development business in the Mainland of China; and

K the investment in, and construction of, Beijing Metro Line 4, in which the Company has a 49% equity interest, for future operations under a 30 year concession agreement with the Beijing Municipal Government.

In addition to the above, a Feasibility Study Report for Shenzhen Line 4 has been submitted to National Development and Reform Commission for approval. The Company is waiting for the result.

Dividend

The Directors have recommended a final dividend of HK$0.28 per Ordinary Share to be payable to shareholders whose names appear on the Register of Members of the Company on 17 April 2007. Subject to the passing of the necessary resolutions at the forthcoming Annual General Meeting, such dividend will be payable on or about 26 June 2007, in cash in Hong Kong dollars, with a scrip dividend alternative. The Company's majority shareholder, The Financial Secretary Incorporated, has agreed to elect to receive all or part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the total dividend paid by the Company will be in the form of cash.

Members of the Board

Members of the Board who served during the year were Raymond Ch'ien Kuo-fung (non-executive Chairman), Chow Chung-kong (Chief Executive Officer), Cheung Yau-kai, David Gordon Eldon, Christine Fang Meng-sang, Edward Ho Sing-tin, Lo Chung-hing, T. Brian Stevenson, Frederick Ma Si-hang, the Secretary for the Environment, Transport and Works (Sarah Liao Sau-tung) and the Commissioner for Transport (Alan Wong Chi-kong).

In July 2006, Raymond Ch'ien Kuo-fung was re-appointed as the non-executive Chairman of the Company with effect from 21 July 2006 until 31 July 2007.

In November 2006, Chow Chung-kong renewed his contract as Chief Executive Officer of the Company for a further three years from 1 December 2006 to 30 November 2009.

At the Annual General Meeting on 8 June 2006 and pursuant to the Articles of Association, Raymond Ch'ien Kuo-fung, T. Brian Stevenson and Frederick Ma Si-hang retired under the Articles of Association and were re-elected as Members of the Board.

At the forthcoming Annual General Meeting and in accordance with the Articles of Association, Chow Chung-kong, David Gordon Eldon and Christine Fang Meng-sang will retire by rotation. All these three Board Members will offer themselves for re-election at that Meeting.

Biographical details for Board Members are set out on pages 29 to 30.

Alternate Directors

The Alternate Directors in office during the year were (i) Martin McKenzie Glass and Alan Lai Nin (both for Frederick Ma Si-hang), (ii) both the Permanent Secretary for the Environment, Transport & Works (Joshua Law Chi-kong) and the Deputy Secretary for the Environment, Transport & Works (Patrick Ho Chung-kei, Thomas Chow Tat-ming [who ceased to be the Deputy Secretary for the Environment, Transport & Works after 30 August 2006], Cathy Chu Man-ling, Annie Choi Suk-han and Yung Wai-hung [with effect from 31 August 2006]) (for the Secretary for the Environment, Transport & Works), and (iii) the Deputy Commissioner for Transport/Transport Services and Management (Carolina Yip Lai-ching) (for the Commissioner for Transport).

Executive Directorate

The Members of the Executive Directorate who served during the year were Chow Chung-kong (Chief Executive Officer and a Member of the Board), Russell John Black, William Chan Fu-keung, Thomas Ho Hang-kwong, Lincoln Leong Kwok-kuen, Francois Lung Ka-kui, Andrew McCusker and Leonard Bryan Turk.

Biographical details for Members of the Executive Directorate during the year are set out on pages 31 and 32.

Internal Audit

The Company's Internal Audit Department provides independent, objective assurance and consulting services designed to add value and improve the Company's operations. Key responsibilities of the Department include:

- Assessments on the adequacy and effectiveness of the Company's system of internal control for controlling its activities and managing its risks.
- Identification of opportunities for improving management control, resources utilisation and profitability.
- Special reviews and/or investigations as commissioned by Company management.

The Company's Internal Auditor reports directly to the Chief Executive Officer and has direct access to the Audit Committee.

Business Ethics

Please refer to page 26.

Policies

The Board has adopted risk management strategies on construction and insurance, finance, treasury and safety.

During 2006 and in line with the business developments of the Company, the Board approved certain changes to the above strategies and the Environmental Risk Management Policy, and further established the Enterprise Risk Management Strategy. There was no change to Security Risk Management Policy.

Public Float

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granted to the Company, at the time of its listing on the Main Board of the Stock Exchange in 2000, a waiver from strict compliance with Rule 8.08(1) of the Listing Rules ("Public Float Waiver"). Pursuant to the Public Float Waiver, the Company's prescribed minimum percentage of shares which must be in the hands of the public must not be less than 10% of the total issued share capital of the Company. Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required by the Public Float Waiver.

Summary Financial Statements

The state of affairs of the Group as at 31 December 2006 and of its results for the year are set out in the summary financial statements on pages 39 to 47.

Ten-Year Statistics

A summary of the results and of the assets and liabilities of the Group together with some major operational statistics for the last ten years are set out on pages 18 to 19.

Fixed Assets and Railway Construction in Progress

Movements in fixed assets and railway construction in progress during the year are set out in note 4 to the summary financial statements.

Movements in Reserves

Movements in reserves during the year are set out in note 6 to the summary financial statements.

Share Capital

As at 31 December 2005, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,481,856,439 of which were issued and credited as fully paid. During the year, the Company issued a total of 66,757,512 Ordinary Shares. Of this number:

A 4,094,000 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's Pre-Global Offering Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$8.44 to the Company;

B 132,500 Ordinary Shares were issued by the Company pursuant to the exercise of share options which had been granted under the Company's New Joiners Share Option Scheme. In respect of each Ordinary Share issued, the relevant exercise price per share of options is HK$9.75 to the Company;

C 43,101,387 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the final dividend of the Company for the year ended 31 December 2005 (for which the cash dividend was HK$0.28 per Ordinary Share); and

D 19,429,625 Ordinary Shares were issued by the Company in order to satisfy shareholders' scrip dividend elections in respect of the interim dividend of the Company for the six months ended 30 June 2006 (for which the cash dividend was HK$0.14 per Ordinary Share).

As at 31 December 2006, the authorised share capital of the Company was HK$6.5 billion, divided into 6.5 billion Ordinary Shares, 5,548,613,951 of which were issued and credited as fully paid.

Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the financial year 2006.

Donations

During the year, the Company donated a total of HK$78,280 to charitable organisations.

The MTR HONG KONG Race Walking 2006 raised over HK$1.2 million for the Hospital Authority Health InfoWorld's "Better Health for a Better Hong Kong" health education campaign.

The Company was honoured with the President's Award in recognition of its contribution to the Community Chest with a total of cash donation of over HK$2.5 million, including the participation of different activities such as CARE Scheme, The Community Chest Green Day and Dress Casual Day.

Reporting and Monitoring

There is a comprehensive budgeting system for all operational and business activities, with an annual budget approved by the Board. Monthly results of the Company's operations, businesses and projects are reported against the budget to the Board and updated forecasts for the year are prepared regularly.

Treasury Management

The Company's Treasury Department operates within approved guidelines from the Board. It manages the Company's debt profile with reference to the Preferred Financing Model which defines the preferred mix of financing instruments, fixed and floating rate debts, maturities, interest rate risks, currency exposure and financing horizon. The model is reviewed and refined periodically to reflect changes in the Company's financing requirements and market environment. Derivative financial instruments such as interest rate swaps and cross currency swaps are used only as hedging tools to manage the Group's exposure to interest rate and currency risks. Prudent guidelines and procedures are in place to control the Company's derivatives activities, including a comprehensive credit risk management system for monitoring counterparty credit exposure using the Value-at-Risk approach. There is also appropriate segregation of duties within the Company's Treasury Department.

Major financing transactions and guidelines for derivatives transactions including credit risk management framework are approved at the Board level.

Capital and Revenue Expenditure

There are defined procedures for the appraisal, review and approval of major capital and revenue expenditures. All project expenditure over 0.2% of the net assets of the Company and the employment of consultancy services over 0.1% of the net assets of the Company require the approval of the Board.

Bonds and Notes Issued

The Group issued bonds and notes during the year ended 31 December 2006, details of which are set out in note 5 to the summary financial statements. Such bonds and notes were issued in order to meet the Group's general corporate funding requirements, including the financing of new capital expenditure and the refinancing of maturing debts.

Computer Processing

There are defined procedures and regular quality reviews on the operation of computer systems to ensure the accuracy and completeness of financial records and efficiency of data processing. The Company's computer centre operation and support, help desk operation and support services, and also software development and maintenance, have been certified under ISO 9001:2000. Disaster recovery rehearsal on critical applications is conducted annually.

Interests in Contracts of Members of the Board and the Executive Directorate

There was no contract of significance, to which the Company or any of its subsidiaries was a party and in which a Member of the Board or a Member of the Executive Directorate had a material interest (whether direct or indirect), which subsisted at the end of the year or at any time during the year.

Board Members' and Executive Directorate's Interests in Shares

As at 31 December 2006, 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 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 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	0.00753
T. Brian Stevenson	4,689	–	–	–	–	4,689	0.00008
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	53,985	–	–	–	–	53,985	0.00097
William Chan Fu-keung	46,960	–	–	217,500 (Note 2)	–	264,460	0.00477
Thomas Ho Hang-kwong	53,889	2,541	–	321,000 (Note 2)	–	377,430	0.00680
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	1,043,000 (Note 4)	–	1,089,000	0.01963

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. The 1,066,000 share options held by Francois Lung Ka-kui lapsed on 17 October 2006.

* 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, as referred to in Note 2B(i) to the summary financial statements

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 2006	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2006	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	317,500	–	–	100,000	8.44	217,500	20.75
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	11,285,000	–	–	3,994,000	8.44	7,291,000	19.91

Notes

1. The Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") is valid and effective for a period of ten years after 12 September 2000. No option may be offered to be granted under the Pre-IPO Option Scheme on or after the commencement of dealings in shares of the Company on Stock Exchange on 5 October 2000.

2. The number of shares to which the option granted to each participant under the Pre-IPO Option Scheme does not exceed 25% of the number of the shares issued and issuable under the Pre-IPO Option Scheme.

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme, as referred to in Note 2B(ii) to the summary financial statements

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 2006	Options granted during the year	Options vested during the year	Options lapsed during the year	Options exercised during the year	Exercise price per share of options (HK$)	Options outstanding as at 31 December 2006	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,043,000	–	355,000	–	–	9.75	1,043,000	–
Francois Lung Ka-kui	27/9/2005	1,066,000	26/9/2006 – 26/9/2015	1,066,000	–	355,500	1,066,000	–	15.75	–	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	400,700	–	164,200	–	132,500	9.75	268,200	20.48
	12/1/2006	94,000	9/1/2007 – 9/1/2016	–	94,000	–	–	–	15.45	94,000	–
	13/9/2005	94,000	9/9/2006 – 9/9/2015	94,000	–	31,500	–	–	15.97	94,000	–
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	71,000	–	–	15.97	213,000	–
	17/10/2005	94,000	6/10/2006 – 6/10/2015	94,000	–	–	94,000	–	16.05	–	–
	23/3/2006	94,000	20/3/2007 – 20/3/2016	–	94,000	–	94,000	–	18.05	–	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	–	94,000	–	–	–	18.05	94,000	–
	4/7/2006	94,000	19/6/2007 – 19/6/2016	–	94,000	–	–	–	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	–	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	–	213,000	–	–	–	20.66	213,000	–
	12/5/2006	213,000	2/5/2007 – 2/5/2016	–	213,000	–	–	–	21.00	213,000	–

Notes

1. No option may be exercised later than ten years after its date of offer and no option may be offered to be granted more than five years after the adoption of the New Joiners Share Option Scheme ("New Option Scheme") on 16 May 2002.

2. Unless approved by shareholders in the manner as required by the Listing Rules, the total number of shares issued and issuable upon exercise of the options granted to any eligible employee under the New Option Scheme together with the total number of shares issued and issuable upon the exercise of any option granted to such eligible employee under any other share option scheme of the Company (including, in each case, both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue at the date of offer in respect of such option under the New Option Scheme.

3. The 1,066,000 share options held by Francois Lung Ka-kui under the New Option Scheme lapsed on 17 October 2006.

During the year ended 31 December 2006, 1,256,500 options to subscribe for shares of the Company were granted to 9 employees under the New Joiners Share Option Scheme and the respective closing price per share immediately before the respective date of grant of the options are set out below. Pursuant to the terms of this Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options. The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the respective date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
12/1/2006	16.05	4.00	5	0.20	0.42	3.17
23/3/2006	17.60	4.40	5	0.20	0.42	3.25
31/3/2006	17.65	4.47	5	0.20	0.42	3.28
4/7/2006	18.70	4.73	5	0.21	0.42	4.19
17/11/2006	19.12	3.81	5	0.21	0.42	3.70
5/10/2006	19.22	3.83	5	0.20	0.42	3.51
12/5/2006	20.10	4.62	5	0.21	0.42	4.11
15/5/2006	20.10	4.67	5	0.21	0.42	4.13
12/5/2006	20.10	4.62	5	0.21	0.42	3.99

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 year ended 31 December 2006, 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 Stock Exchange 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 respective relevant numbers of shares in which it was interested as at 31 December 2006 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 of Hong Kong SAR (the "Government"))	4,249,276,330	76.58

The Company has been informed by the Government that, as at 31 December 2006, approximately 1.46% 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.

Major Suppliers and Customers

Less than 30% in value of supplies (which were not of a capital nature) purchased during the year ended 31 December 2006 was attributable to the Company's five largest suppliers. Less than 30% in value of the Company's turnover during the year ended 31 December 2006 was attributable to the Company's five largest customers combined by value.

Going Concern

The summary financial statements on pages 39 to 47 have been prepared on a going concern basis. The Board has reviewed the Company's budget for 2007, together with the longer-term forecast for the following five years and is satisfied that the Company has sufficient resources to continue as a going concern for the foreseeable future.

By order of the Board

Leonard Bryan Turk
Secretary to the Board
Hong Kong, 13 March 2007

Consolidated profit and loss account

for the year ended 31 December *in HK$ million*	**2006**	2005
Fare revenue	**6,523**	6,282
Station commercial and other revenue	**1,606**	1,555
Rental and management income	**1,412**	1,316
Turnover	**9,541**	9,153
Staff costs and related expenses	**(1,653)**	(1,614)
Energy and utilities	**(539)**	(541)
Operational rent and rates	**(65)**	(92)
Stores and spares consumed	**(120)**	(120)
Repairs and maintenance	**(511)**	(496)
Railway support services	**(80)**	(74)
Expenses relating to station commercial and other businesses	**(443)**	(358)
Property ownership and management expenses	**(312)**	(238)
Project study and business development expenses	**(267)**	(142)
General and administration expenses	**(192)**	(207)
Other expenses	**(158)**	(170)
Operating expenses before depreciation	**(4,340)**	(4,052)
Operating profit from railway and related businesses before depreciation	**5,201**	5,101
Profit on property developments	**5,817**	6,145
Operating profit before depreciation	**11,018**	11,246
Depreciation	**(2,674)**	(2,682)
Operating profit before interest and finance charges	**8,344**	8,564
Interest and finance charges	**(1,398)**	(1,361)
Change in fair value of investment properties	**2,178**	2,800
Share of profits less losses of non-controlled subsidiaries and associates	**45**	9
Profit before taxation	**9,169**	10,012
Income tax	**(1,411)**	(1,549)
Profit for the year	**7,758**	8,463
Attributable to:		
– Equity shareholders of the Company	**7,759**	8,450
– Minority interests	**(1)**	13
Profit for the year	**7,758**	8,463
Dividends paid and proposed to equity shareholders of the Company attributable to the year:		
– Interim dividend declared and paid during the year	**774**	764
– Final dividend proposed after the balance sheet date	**1,554**	1,535
	2,328	2,299
Earnings per share:		
– Basic	**HK$1.41**	HK$1.55
– Diluted	**HK$1.41**	HK$1.55

The notes on pages 41 to 47 form part of these summary financial statements.

Consolidated balance sheet

at 31 December *in HK$ million*	**2006**	2005
Assets		
Fixed assets		
– Investment properties	**22,539**	19,892
– Other property, plant and equipment	**84,404**	83,383
	106,943	103,275
Railway construction in progress	**232**	1,006
Property development in progress	**3,297**	2,756
Deferred expenditure	**565**	281
Prepaid land lease payments	**594**	608
Interests in non-controlled subsidiaries	**171**	103
Interests in associates	**100**	–
Deferred tax assets	**1**	19
Investments in securities	**272**	183
Staff housing loans	**25**	34
Properties held for sale	**2,018**	1,311
Derivative financial assets	**195**	234
Stores and spares	**272**	248
Debtors, deposits and payments in advance	**1,894**	3,095
Loan to a property developer	**3,355**	–
Amounts due from the Government and other related parties	**177**	154
Cash and cash equivalents	**310**	359
	120,421	113,666
Liabilities		
Bank overdrafts	**5**	14
Short-term loans	**1,114**	385
Creditors, accrued charges and provisions	**3,639**	3,415
Current taxation	**1**	2
Contract retentions	**193**	170
Amounts due to related parties	**–**	17
Loans and obligations under finance leases	**27,033**	27,865
Derivative financial liabilities	**515**	307
Deferred income	**1,682**	3,584
Deferred tax liabilities	**9,453**	8,011
	43,635	43,770
Net assets	**76,786**	69,896
Capital and reserves		
Share capital, share premium and capital reserve	**38,639**	37,450
Other reserves	**38,128**	32,425
Total equity attributable to equity shareholders of the Company	**76,767**	69,875
Minority interests	**19**	21
Total equity	**76,786**	69,896

Approved and authorised for issue by the Members of the Board on 13 March 2007

Raymond K F Ch'ien
C K Chow
Lincoln K K Leong

The notes on pages 41 to 47 form part of these summary financial statements.

Notes to the summary financial statements

1 Significant accounting policies

This summary financial statements have been prepared from the audited financial statements of MTR Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and the Group's interest in non-controlled subsidiaries and associates for the year ended 31 December 2006.

This summary financial statements have been prepared in accordance with all Hong Kong Financial Reporting Standards, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS"), Interpretations issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. The same accounting policies adopted in the 2005 annual accounts have been consistently applied except for adoption of the Amendment to HKAS 39 "Financial instruments: recognition and measurement on financial guarantee contracts" in 2006. The adoption of this amendment does not have a significant financial impact on the Group's results of operations and financial position for financial years 2005 and 2006.

2 Remuneration of Members of the Board and the Executive Directorate

A Remuneration of Members of the Board and the Executive Directorate

(i) The emoluments of the Members of the Board and the Executive Directorate of the Company were as follows:

in HK$ million	Fees	Base pay, allowances, and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2006					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.0**	**–**	**–**	**–**	**1.0**
– Cheung Yau-kai	**0.2**	**–**	**–**	**–**	**0.2**
– David Gordon Eldon	**0.2**	**–**	**–**	**–**	**0.2**
– Christine Fang Meng-sang	**0.2**	**–**	**–**	**–**	**0.2**
– Edward Ho Sing-tin	**0.3**	**–**	**–**	**–**	**0.3**
– Lo Chung-hing	**0.2**	**–**	**–**	**–**	**0.2**
– T. Brian Stevenson	**0.3**	**–**	**–**	**–**	**0.3**
– Sarah Liao Sau-tung	**0.2**	**–**	**–**	**–**	**0.2**
– Frederick Ma Si-hang	**0.2**	**–**	**–**	**–**	**0.2**
– Alan Wong Chi-kong	**0.2**	**–**	**–**	**–**	**0.2**
Members of the Executive Directorate					
– Chow Chung-kong	**–**	**5.9**	**–***	**4.2**	**10.1**
– Russell John Black	**–**	**3.7**	**0.3**	**1.0**	**5.0**
– William Chan Fu-keung	**–**	**3.5**	**0.3**	**1.0**	**4.8**
– Thomas Ho Hang-kwong	**–**	**3.6**	**0.3**	**0.9**	**4.8**
– Lincoln Leong Kwok-kuen	**–**	**3.5**	**0.5**	**1.0**	**5.0**
– Francois Lung Ka-kui	**–**	**3.4**	**0.4**	**0.9**	**4.7**
– Andrew McCusker	**–**	**3.5**	**0.3**	**0.9**	**4.7**
– Leonard Bryan Turk	**–**	**3.5**	**0.3**	**1.0**	**4.8**
	3.0	**30.6**	**2.4**	**10.9**	**46.9**

* C K Chow is a member of the Company's Mandatory Provident Fund Scheme. The total contributions paid by the Company in each of the years 2005 and 2006 were HK$12,000.

The above emoluments do not include the fair value of share options granted to Lincoln K K Leong and Francois K K Lung under the Company's New Joiners Share Option Scheme, as estimated at the date of grant. The fair value of share-based payments for Lincoln K K Leong for the year ended 31 December 2006 was HK$0.3 million *(2005: HK$0.6 million)*. The options granted to Francois K K Lung lapsed on 17 October 2006 in accordance with the terms of the New Joiners Share Option Scheme and the fair value of his share-based payments for the year ended 31 December 2005 was HK$0.3 million. The details of directors' interest in the Company's shares are disclosed under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board.

2 Remuneration of Members of the Board and the Executive Directorate *(continued)*

A Remuneration of Members of the Board and the Executive Directorate *(continued)*

In addition, C K Chow does not participate in the Company's two share option schemes. He was entitled to receive an equivalent value in cash of 700,000 shares on completion of his initial three-year contract on 30 November 2006. Pursuant to this contract and following the completion of the contract period, HK$13,396,600 was paid to C K Chow on 1 December 2006 (at a price of HK$19.138 per share derived in accordance with the terms of the grant by reference to the average closing price of the Company's shares on the 20 business days immediately preceding 30 November 2006).

The aggregate emoluments of Members of the Board and the Executive Directorate for the year pursuant to section 161 of the Hong Kong Companies Ordinance was HK$60.6 million *(2005: HK$45.4 million)*.

in HK$ million	Fees	Base pay, allowances, and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2005					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.0	–	–	–	1.0
– Cheung Yau-kai	0.2	–	–	–	0.2
– David Gordon Eldon	0.2	–	–	–	0.2
– Christine Fang Meng-sang	0.2	–	–	–	0.2
– Edward Ho Sing-tin	0.3	–	–	–	0.3
– Lo Chung-hing	0.2	–	–	–	0.2
– T. Brian Stevenson	0.3	–	–	–	0.3
– Robert Charles Law Footman (retired on 18 June 2005)	0.1	–	–	–	0.1
– Sarah Liao Sau-tung	0.2	–	–	–	0.2
– Frederick Ma Si-hang	0.2	–	–	–	0.2
– Alan Wong Chi-kong (appointed on 18 June 2005)	0.1	–	–	–	0.1
Members of the Executive Directorate					
– Chow Chung-kong	–	5.7	–*	4.2	9.9
– Russell John Black	–	3.5	0.3	1.0	4.8
– William Chan Fu-keung	–	3.5	0.3	0.9	4.7
– Philip Gaffney (retired on 5 December 2005)	–	3.9	0.3	1.1	5.3
– Thomas Ho Hang-kwong	–	3.5	0.3	1.0	4.8
– Lincoln Leong Kwok-kuen	–	3.4	0.5	1.0	4.9
– Francois Lung Ka-kui (appointed on 26 September 2005)	–	0.9	0.1	0.2	1.2
– Andrew McCusker (appointed on 1 October 2005)	–	0.9	0.1	0.2	1.2
– Leonard Bryan Turk	–	3.5	0.3	0.9	4.7
	3.0	28.8	2.2	10.5	44.5

In December 2005, Philip Gaffney received a lump sum benefit payment of HK$11.6 million from the MTR Corporation Limited Retirement Scheme upon retirement.

(ii) 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 (Chapter 556 of the Laws of Hong Kong)) 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. Dr. Raymond Ch'ien Kuo-fung, a Member of the Board, was appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years. In July 2006, he was re-appointed as the non-executive Chairman of the Company until 31 July 2007. All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

(iii) C K Chow has a derivative interest in respect of 418,017 shares within the meaning of Part XV of the Securities and Futures Ordinance. That derivative interest represents C K Chow's entitlement to receive an equivalent value in cash of 418,017 shares on completion of his three-year contract ending on 30 November 2009.

The arrangement was offered in order to provide a competitive level of compensation which is to be closely tied to the performance of the Company.

2 Remuneration of Members of the Board and the Executive Directorate *(continued)*

B Share options

Options exercised and outstanding in respect of each Member of the Executive Directorate as at 31 December 2006 are set out under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Details of the options granted to Members of the Executive Directorate are as follows:

(i) Pre-Global Offering Share Option Scheme

Under the Company's Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme"), each Member of the Executive Directorate, except C K Chow, Lincoln K K Leong, Francois K K Lung and Andrew McCusker, was granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong and Francois K K Lung joined the Company on 1 December 2003, 1 February 2002 and 26 September 2005 respectively, and are not beneficiaries of the Pre-IPO Option Scheme. Andrew McCusker was granted 266,500 options on 20 September 2000 under the Pre-IPO Option Scheme and no additional share options were granted upon his appointment as a Member of the Executive Directorate on 1 October 2005.

Under the vesting terms of the Pre-IPO Option Scheme, each eligible Member of the Executive Directorate must continue to beneficially own (i) at all times after 26 October 2001, at least 23,000 shares; and (ii) at all times after 26 October 2002, at least 46,000 shares, in each case, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

(ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme ("New Option Scheme"), Lincoln K K Leong and Francois K K Lung, Members of the Executive Directorate, were granted options to acquire 1,066,000 shares on 1 August 2003 and 27 September 2005 respectively.

Under the vesting terms of the New Option Scheme, Lincoln K K Leong must continue to beneficially own (i) at all times on and after 4 August 2004, at least 23,000 shares; and (ii) at all times on and after 4 August 2005, at least 46,000 shares, up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier).

Under the vesting terms of the New Option Scheme, Francois K K Lung was required to beneficially own at all times on and after 17 October 2006, at least 23,000 shares up to and including the date on which he has exercised his option in full or the date on which his option lapses (whichever is earlier). Francois K K Lung's options lapsed on 17 October 2006 in accordance with the terms of the New Option Scheme.

3 Segmental information

The results of major business activities are summarised below:

	Turnover		Contribution to profit	
in HK$ million	**2006**	2005	**2006**	2005
Railway operations	**6,523**	6,282	**979**	760
Station commercial and other businesses	**1,606**	1,555	**1,081**	1,071
	8,129	7,837	**2,060**	1,831
Property ownership and management	**1,412**	1,316	**1,096**	1,074
	9,541	9,153	**3,156**	2,905
Property developments			**5,817**	6,145
			8,973	9,050
Unallocated corporate expenses			**(2,027)**	(1,847)
Change in fair value of investment properties			**2,178**	2,800
Share of profits less losses of non-controlled subsidiaries and associates			**45**	9
Income tax			**(1,411)**	(1,549)
Profit for the year			**7,758**	8,463

Station commercial and other businesses comprise mainly letting of advertising and retail space within the railway premises, bandwidth services on the railway telecommunication system, international consultancy services and, commencing from 18 September 2006, cable car operations and related businesses.

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.

4 Fixed assets and railway construction in progress

A Fixed assets

in HK$ million	Investment properties	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
Cost or Valuation						
At 1 January 2006	**19,892**	**1,705**	**46,188**	**56,339**	**3,661**	**127,785**
Additions	**469**	**–**	**–**	**69**	**2,152**	**2,690**
Disposals/Write-offs	**–**	**–**	**(20)**	**(370)**	**(2)**	**(392)**
Change in fair value	**2,178**	**–**	**–**	**–**	**–**	**2,178**
Surplus on revaluation (note 6)	**–**	**284**	**–**	**–**	**–**	**284**
Tung Chung Cable Car Project commissioned (note 4B)	**–**	**–**	**375**	**824**	**–**	**1,199**
Other assets commissioned	**–**	**–**	**1**	**905**	**(906)**	**–**
At 31 December 2006	**22,539**	**1,989**	**46,544**	**57,767**	**4,905**	**133,744**
At Cost	**–**	**–**	**46,544**	**57,767**	**4,905**	**109,216**
At 31 December 2006 Valuation	**22,539**	**1,989**	**–**	**–**	**–**	**24,528**
Aggregate depreciation						
At 1 January 2006	**–**	**–**	**3,492**	**21,018**	**–**	**24,510**
Charge for the year	**–**	**45**	**380**	**2,249**	**–**	**2,674**
Written back on disposal	**–**	**–**	**(8)**	**(330)**	**–**	**(338)**
Written back on revaluation (note 6)	**–**	**(45)**	**–**	**–**	**–**	**(45)**
At 31 December 2006	**–**	**–**	**3,864**	**22,937**	**–**	**26,801**
Net book value at 31 December 2006	**22,539**	**1,989**	**42,680**	**34,830**	**4,905**	**106,943**
Cost or Valuation						
At 1 January 2005	16,687	1,246	45,704	55,081	3,051	121,769
Additions	405	–	–	44	1,727	2,176
Capitalisation adjustments *	–	–	(2)	(76)	–	(78)
Disposals/Write-offs	–	–	(2)	(275)	(3)	(280)
Change in fair value	2,800	–	–	–	–	2,800
Surplus on revaluation (note 6)	–	459	–	–	–	459
Reclassification	–	–	175	(175)	–	–
Disneyland Resort Line and AsiaWorld-Expo Station Projects commissioned (note 4B)	–	–	176	763	–	939
Other assets commissioned	–	–	137	977	(1,114)	–
At 31 December 2005	19,892	1,705	46,188	56,339	3,661	127,785
At Cost	–	–	46,188	56,339	3,661	106,188
At 31 December 2005 Valuation	19,892	1,705	–	–	–	21,597
Aggregate depreciation						
At 1 January 2005	–	–	3,093	18,984	–	22,077
Charge for the year	–	33	395	2,258	–	2,686
Capitalisation adjustments *	–	–	–	(4)	–	(4)
Written back on disposal	–	–	(1)	(215)	–	(216)
Written back on revaluation (note 6)	–	(33)	–	–	–	(33)
Reclassification	–	–	5	(5)	–	–
At 31 December 2005	–	–	3,492	21,018	–	24,510
Net book value at 31 December 2005	19,892	1,705	42,696	35,321	3,661	103,275

* Capitalisation adjustments relate to certain railway assets capitalised at time of commissioning based on contractors' claimed values. Such assets' final values have been adjusted downward following finalisation of contract claims with contractors at lower final contract values during the year.

4 Fixed assets and railway construction in progress *(continued)*

B Railway construction in progress

in HK$ million	Balance at 1 Jan	Expenditure	Capitalised on commissioning (note 4A)	Transfer to stores and spares	Balance at 31 Dec
2006					
Tseung Kwan O South Station Project	**43**	**132**	**–**	**–**	**175**
Tung Chung Cable Car Project	**933**	**271**	**(1,199)**	**(5)**	**–**
SkyPlaza Platform Project	**30**	**27**	**–**	**–**	**57**
Total	**1,006**	**430**	**(1,199)**	**(5)**	**232**
2005					
Tseung Kwan O South Station Project	7	36	–	–	43
Disneyland Resort Line Project	1,409	278	(1,687)	–	–
Government grant	(931)	–	931	–	–
	478	278	(756)	–	–
Tung Chung Cable Car Project	444	489	–	–	933
AsiaWorld-Expo Station Project	33	150	(183)	–	–
SkyPlaza Platform Project	–	30	–	–	30
Total	962	983	(939)	–	1,006

5 Bonds and notes issued and redeemed

Bonds and notes issued during the year ended 31 December 2006 and 2005 comprise:

in HK$ million	**2006** Principal amount	**2006** Net consideration received	2005 Principal amount	2005 Net consideration received
Debt issuance programme notes	**1,500**	**1,499**	1,500	1,491

The net proceeds from the above issues were used for general working capital, refinancing or other corporate purposes.

During the year, the Group redeemed HK$2,450 million *(2005: HK1,650 million)* unlisted Hong Kong dollar notes upon maturity.

None of the Group's listed debt securities was redeemed during the year ended 31 December 2006 *(2005: HK$2,518 million)*.

6 Reserves

	Attributable to equity shareholders of the Company							
in HK$ million	Share premium	Capital reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	Total
2006								
Balance as at 1 January 2006	**4,780**	**27,188**	**697**	**24**	**2**	**4**	**31,698**	**64,393**
Employee share options exercised	**32**	**–**	**–**	**–**	**–**	**–**	**–**	**32**
Shares issued under Scrip Dividend Schemes	**1,090**	**–**	**–**	**–**	**–**	**–**	**–**	**1,090**
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 (note 4A), net of deferred tax	**–**	**–**	**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	**5,902**	**27,188**	**968**	**(10)**	**5**	**17**	**37,148**	**71,218**
2005								
Balance as at 1 January 2005	3,691	27,188	291	(66)	1	–	25,521	56,626
Employee share options exercised	41	–	–	–	–	–	–	41
Shares issued under Scrip Dividend Schemes	1,048	–	–	–	–	–	–	1,048
Cash flow hedges:								
Effective portion of changes in fair value, net of deferred tax	–	–	–	69	–	–	–	69
Transfer from equity								
– to profit and loss account	–	–	–	32	–	–	–	32
– to initial carrying amount of non-financial hedged items	–	–	–	(21)	–	–	–	(21)
– to deferred tax	–	–	–	10	–	–	–	10
2004 final dividend	–	–	–	–	–	–	(1,509)	(1,509)
2005 interim dividend	–	–	–	–	–	–	(764)	(764)
Surplus on revaluation (note 4A), net of deferred tax	–	–	406	–	–	–	–	406
Employee share-based payments	–	–	–	–	1	–	–	1
Exchange difference on translation of accounts of overseas subsidiaries	–	–	–	–	–	4	–	4
Profit for the year	–	–	–	–	–	–	8,450	8,450
Balance as at 31 December 2005	4,780	27,188	697	24	2	4	31,698	64,393

7 Other information

This summary financial statements is only a summary of information in the Group's 2006 Annual Accounts. It is not the Group's statutory financial statements and it does not contain sufficient information to allow as full an understanding of the results and state of affairs of the Group as would be provided by the full Annual Report and Accounts. The full 2006 Annual Report is available in electronic form on the Company's website at www.mtr.com.hk. A printed copy of the 2006 Annual Report can be obtained free of charge by writing to the Company's share registrar or the Company's Corporate Relations Department. Their details are listed on page 49 of this Summary Report.

Auditors' statement on the summary financial report

To the shareholders of MTR Corporation Limited
(Incorporated in Hong Kong with limited liability)

We have examined the summary financial report of MTR Corporation Limited for the year ended 31 December 2006 on pages 1 to 47 and the front and back cover pages.

Respective responsibilities of directors and auditors
Under the Hong Kong Companies Ordinance, the directors are responsible for preparing the summary financial report which complies with section 141CF(1) of the Hong Kong Companies Ordinance. In preparing the summary financial report, section 141CF(1) of the Hong Kong Companies Ordinance requires that the summary financial report be derived from the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2006, be in such form and contain such information and particulars as specified in section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and be approved by the board of directors.

It is our responsibility to form an independent opinion on the summary financial report, based on our examination, and to report our opinion solely to you, as a body, and we are also required to state whether the auditors' report on the annual accounts for the year ended 31 December 2006 is qualified or otherwise modified, in accordance with section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this statement.

Basis of opinion
We conducted our engagement in accordance with Hong Kong Standards on Assurance Engagements and with reference to Practice Note 710 "The auditors' statement on the summary financial report" issued by the Hong Kong Institute of Certified Public Accountants. Our examination includes examining evidence supporting the consistency of the summary financial report with the annual accounts and the auditors' report thereon and the report of the Members of the Board for the year ended 31 December 2006, and the compliance of the summary financial report with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Opinion
Based on the foregoing, in our opinion the summary financial report on pages 1 to 47 and the front and back cover pages:

(a) is consistent with the annual accounts and the auditors' report thereon and the report of the Members of the Board of MTR Corporation Limited for the year ended 31 December 2006 from which it is derived; and

(b) complies with the requirements of section 5 of the Hong Kong Companies (Summary Financial Reports of Listed Companies) Regulation.

We have audited the annual accounts of MTR Corporation Limited for the year ended 31 December 2006 and have issued an auditors' report thereon dated 13 March 2007 which is unqualified or otherwise unmodified.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
13 March 2007

Key shareholder information

Financial calendar 2007

Announcement of 2006 results	13 March
Last day to register for 2006 final dividend	4 April
Book closure period	10 to 17 April (both dates inclusive)
Annual General Meeting	7 June
2006 final dividend payment date	On or about 26 June
Announcement of 2007 interim results	August
2007 interim dividend payment date	October
Financial year end	31 December

Principal place of business and registered office

MTR Corporation Limited, incorporated and domiciled in Hong Kong
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong
Telephone: +852 2993 2111 Facsimile: +852 2798 8822

Website

www.mtr.com.hk

Share information

Listing

MTR Corporation Limited's shares are listed on The Stock Exchange of Hong Kong. In addition, shares are traded in United States through an American Depositary Receipt (ADR) Level 1 Programme sponsored by JP Morgan Chase Bank. The shares are also quoted on the London International Bulletin Board.

Ordinary shares (as at 31 December 2006):

Shares outstanding	5,548,613,951 shares
Hong Kong SAR Government shareholding:	4,249,276,330 shares (76.58%)
Free float:	1,299,337,621 shares (23.42%)

Nominal value	HK$1 per share
Market capitalisation (as at 31 December 2006):	HK$108,531 million

Dividend policy

Subject to the financial performance of the Company, we expect to pay two dividends each financial year with interim and final dividends payable around October and June respectively, with the interim dividend representing approximately one third of the total dividends to be paid for the entire year.

Dividend per share (in HK$)

2005 Final Dividend	0.28
2006 Interim Dividend	0.14
2006 Final Dividend	0.28

ADR Level 1 Programme

Ordinary share to ADR ratio	10:1
Depositary Bank	JP Morgan Chase Bank 40th Floor, One Chase Manhattan Plaza New York, NY 10081 USA

Index constituent

MTR Corporation Limited is a constituent of the following indices:
Hang Seng Index Series
MSCI Index Series
FTSE All-World Hong Kong Index
FTSE4Good Global Index
Dow Jones Sustainability World Index

Stock codes

Ordinary shares

The Stock Exchange of Hong Kong	66
Reuters	0066.HK
Bloomberg	66 HK
ADR Level 1 Programme	MTRJY

Annual report 2006

Our annual report is available in both English and Chinese. Shareholders can obtain copies by writing to:
Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

If you are not a shareholder, please write to:
Corporate Relations Department, MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong

Our annual/interim reports and accounts are also available online at our corporate website at www.mtr.com.hk

Shareholder services

Any matters relating to your shareholding, such as transfer of shares, change of name or address, and loss of share certificates should be addressed in writing to the Registrar:
Computershare Hong Kong Investor Services Limited, Shops 1712-1716,
17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong
Telephone: +852 2862 8628 Facsimile: +852 2529 6087

Shareholder enquiries

Our enquiry hotline is operational during normal office hours:
Telephone: +852 2881 8888

Investor relations

For enquiries from institutional investors and securities analysts, please contact:
Investor Relations Department, MTR Corporation Limited
MTR Tower, Telford Plaza, Kowloon Bay, Hong Kong
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(Stock Code: 66)

Designed by Sedgwick Richardson Editorial by Conatus Limited