

# Notes to the unaudited interim financial report

## 1 Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s review report to the Board of Directors is set out on page 36. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the HKICPA.

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

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interest in non-controlled subsidiaries and associates since the issuance of the 2006 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the financial year ended 31 December 2006 included in the interim financial report does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2006, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 13 March 2007, are available from the Company’s registered office.

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

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

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

## 2 Profit on property developments

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

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

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

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

### 4 Income tax

Income tax in the consolidated profit and loss account represents:

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

No provision for current Hong Kong Profits Tax has been made in the consolidated profit and loss account in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for set off against current period's assessable profits or have sustained tax losses for the half-year ended 30 June 2007. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at Hong Kong Profits Tax rate at 17.5% (2006: 17.5%).

## 5 Dividends

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

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

## 6 Earnings per share

### A Basic earnings per share

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

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

### B Diluted earnings per share

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

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

C Both basic and diluted earnings per share would have been HK\$0.37 (2006: HK\$0.72) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding increase in fair value of investment properties net of related deferred tax, adjusted as follows:

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

## 7 Segmental information

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

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

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

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

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

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

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

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

## 8 Fixed assets

### A Acquisitions and disposals

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

### B Valuation

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

## 9 Property development in progress

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

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

## 10 Investments in subsidiaries and interests in associates

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

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

## 11 Properties held for sale

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

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

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

## 12 Derivative financial assets and liabilities

Derivative financial assets and liabilities comprise:

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

## 13 Debtors, deposits and payments in advance

The Group's credit policy in respect of receivables arising from its principal activities are as follows:

- (i) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from 7 to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.
- (ii) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.
- (iii) Consultancy services income are billed monthly and are due within 30 days.
- (iv) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 21 days upon the certification of work in progress.
- (v) Amounts receivable from property purchasers are due in accordance with terms of respective sales and purchases agreements.

The ageing of debtors is analysed as follows:

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

## 14 Loan to a property developer

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

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

## 15 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 76.7% of the Company's issued share capital on trust for the Government of the Hong Kong Special Administrative Region, is the majority shareholder of the Company. Transactions between the Group and Government departments, agencies or Government controlled entities, other than those transactions arising in the normal dealings between the Government and the Group, are considered to be related party transactions pursuant to HKAS 24 "Related party disclosures" and are identified separately in this interim financial report.

The Group has had the following material transactions with Government and other related parties during the half-year ended 30 June 2007:

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

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

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

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

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

## 16 Creditors, accrued charges and provisions

Creditors, accrued charges and provisions are mainly related to capital projects which are settled upon certification of work in progress, swap interest payable and forward sale deposits received in respect of properties for which occupation permits have not been issued. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

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

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

## 17 Bonds and notes issued and redeemed

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

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

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

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

## 18 Deferred tax liabilities

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

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



**19 Share capital, share premium and capital reserve**

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

**A** Pursuant to the Articles of Association of the Company, the capital reserve can only be applied in paying up in full unissued shares to be allotted and distributed as fully paid bonus shares to the shareholders of the Company.

Share premium represents the amount by which the issue price of shares exceeds the par value of those shares. The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

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

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

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

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

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

**D** During the half-year ended 30 June 2007, the following share options were granted under the New Joiners Share Option Scheme:

Date of grant	Number of share options	Exercise price HK\$	Exercisable period
22 March 2007	1,066,000	19.404	on or prior to 19 March 2017

## 20 Other reserves

in HK\$ million	Attributable to equity shareholders of the Company					Total
	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Exchange reserve	Retained profits	
<b>30 June 2007 (Unaudited)</b>						
Balance as at 1 January 2007	968	(10)	5	17	37,148	38,128
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	–	81	–	–	–	81
Transfer from equity						
– to profit and loss account	–	–	–	–	–	–
– to initial carrying amount of non-financial hedged items	–	–	–	–	–	–
– to deferred tax	–	–	–	–	–	–
2006 final dividend	–	–	–	–	(1,554)	(1,554)
Surplus on revaluation, net of deferred tax (note 18)	120	–	–	–	–	120
Employee share-based payments	–	–	–	–	–	–
Exchange difference on translation of accounts of overseas subsidiaries	–	–	–	10	–	10
Profit for the period	–	–	–	–	4,071	4,071
Balance as at 30 June 2007	1,088	71	5	27	39,665	40,856
<b>31 December 2006 (Audited)</b>						
Balance as at 1 January 2006	697	24	2	4	31,698	32,425
Cash flow hedges:						
Effective portion of changes in fair value, net of deferred tax	–	(18)	–	–	–	(18)
Transfer from equity						
– to profit and loss account	–	(17)	–	–	–	(17)
– to initial carrying amount of non-financial hedged items	–	(2)	–	–	–	(2)
– to deferred tax	–	3	–	–	–	3
2005 final dividend	–	–	–	–	(1,535)	(1,535)
2006 interim dividend	–	–	–	–	(774)	(774)
Surplus on revaluation, net of deferred tax (note 18)	271	–	–	–	–	271
Employee share-based payments	–	–	3	–	–	3
Exchange difference on translation of accounts of overseas subsidiaries	–	–	–	13	–	13
Profit for the year	–	–	–	–	7,759	7,759
Balance as at 31 December 2006	968	(10)	5	17	37,148	38,128

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties, net of tax of HK\$13,692 million (2006: HK\$11,671 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2007, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK\$25,556 million (2006: HK\$25,131 million).

## 21 Capital commitments

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

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

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

**B** The commitments under railway operations comprise the following:

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

## 22 Investments in China and Europe

### A Investments in China

Beijing MTR Corporation Limited, the public-private partnership company ("PPP") between the Group, Beijing Infrastructure Investment Co. Ltd and Beijing Capital Group for the Beijing Metro Line 4 Project has obtained its business license in January 2006 and the Concession Agreement with the Beijing Municipal People's Government was signed in April 2006. Tenders for the provision of trains and related electrical and mechanical systems were nearly complete. The PPP has a registered capital of RMB 1,380 million of which 49% (about RMB 676 million) would be contributed by the Group. As of 30 June 2007, the Group has made an equity contribution of HK\$203 million, representing approximately 30% of the registered capital committed by the Group. As at the same date, a total of 53 contracts have been awarded by the PPP and the related total outstanding capital commitments amounting to approximately RMB 1.7 billion. Construction is expected to be completed by 2009.

In 2005, the Group and the Shenzhen Municipal People's Government initialed the project Concession Agreement to build Phase 2 of Shenzhen Metro Line 4 and to operate both Phase 1 and 2 of Shenzhen Metro Line 4 for a period of 30 years. The project is awaiting the approval from the Central Government. Preparatory work including design and tendering is in progress and expanded trial section work has begun. Total investment of the project is estimated at RMB 6.0 billion (HK\$6.2 billion) which will be financed by equity capital contributed by the Group of RMB 2.4 billion (HK\$2.5 billion) and the balance by non-recourse bank loans in Renminbi. As of 30 June 2007, total costs of HK\$400 million incurred for the project have been included in deferred expenditure and the Group had other contract commitments totaling HK\$341 million in relation to this project.

### B Investments in Europe

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

## 23 Proposed merger with Kowloon-Canton Railway Corporation

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

According to the MOU, the Company will make an upfront payment of HK\$4.25 billion for the grant of a Service Concession in respect of the right to access and use the concession properties to provide the KCRC services, and as consideration for certain rail assets purchased from KCRC, HK\$7.79 billion to acquire the property package comprising development rights, investment properties and property management rights, and an annual fixed payment of HK\$0.75 billion plus annual variable payment based on revenues generated from KCRC's rail and rail-related operations over the life of the Service Concession. No variable annual payment will be payable in respect of the first 36 months. The merger proposal must go through a legislative and shareholder approval process.

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

## 24 Approval of interim financial report

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