北京2008年奧運會馬術比賽鐵路運輸服務協作機構
Beijing 2008 Olympic Games Equestrian Events Railway Passenger Services Associate

新聞稿

Press Release

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MTR CORPORATION LIMITED
香港鐵路有限公司

(Incorporated in Hong Kong with limited liability)
(Stock code: 66)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

HIGHLIGHTS

Financial

- Strong financial results from Rail Merger and strong economy
- Revenue increased 75.7% to HK$8,527 million
- EBITDA up 71.5% to HK$4,796 million
- Property development profit of HK$348 million mainly from disposal of properties held for sale and deferred income; profit from The Capitol and The Palazzo will be recognised when occupation permits are issued
- Net profit attributable to equity shareholders, excluding investment properties revaluation and related deferred tax, (profit from underlying business) increased 33.2% to HK$2,731 million
- Net profit attributable to equity shareholders, including investment properties revaluation and related deferred tax, of HK$4,689 million
- Net debt/equity ratio improved to 42.1%
- Interim dividend of HK$0.14 per share. The Board will consider progressive increase of dividend when recommending final dividend together with full year results

Operational

- Patronage of Domestic Service increased 36.3% due to Rail Merger and organic growth
- Airport Express patronage grew 8.1%. Cross-boundary patronage increased 4.9% compared with same period last year
- Pre-sales of The Capitol and The Palazzo completed with 100% and more than 80% units sold respectively
- Che Kung Temple property package awarded in April 2008
- Significant network expansion in coming years with six new lines
- Good progress on Kowloon Southern Link, West Island Line and South Island Line (East)
- Shatin to Central Link, Kwun Tong Line Extension and Express Rail Link approved by Government for further planning and design

The Directors of MTR Corporation Limited ("the Company") are pleased to announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the half year ended 30 June 2008 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Half year ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
Fare revenue	**5,592**	3,247
Station commercial and rail related revenue	**1,645**	735
Rental, management and other revenue	**1,290**	870
Turnover	**8,527**	4,852
Staff costs and related expenses	**(1,536)**	(784)
Energy and utilities	**(473)**	(251)
Operational rent and rates	**(89)**	(45)
Stores and spares consumed	**(167)**	(53)
Repairs and maintenance	**(359)**	(233)
Railway support services	**(57)**	(42)
Expenses relating to station commercial and rail related businesses	**(388)**	(165)
Expenses relating to property ownership, management and other businesses	**(340)**	(223)
Project study and business development expenses	**(87)**	(112)
General and administration expenses	**(139)**	(67)
Other expenses	**(96)**	(80)
Operating expenses before depreciation and amortisation	**(3,731)**	(2,055)
Operating profit from railway and related businesses before depreciation and amortisation	**4,796**	2,797
Profit on property developments	**348**	1,664
Operating profit before depreciation and amortisation	**5,144**	4,461
Depreciation and amortisation	**(1,517)**	(1,348)
Merger related expenses	**(24)**	-
Operating profit before interest and finance charges	**3,603**	3,113
Interest and finance charges	**(1,078)**	(654)
Change in fair value of investment properties	**2,080**	2,450
Share of profits of non-controlled subsidiaries and associates	**91**	42
Profit before taxation	**4,696**	4,951
Income tax	**(8)**	(879)
Profit for the period	**4,688**	4,072

	Half year ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
Attributable to:		
- Equity shareholders of the Company	**4,689**	4,071
- Minority interests	**(1)**	1
Profit for the period	**4,688**	4,072
Dividends proposed to equity shareholders of the Company attributable to the period:		
- Interim dividend declared after the balance sheet date	**790**	782
Earnings per share:		
- Basic	**HK$0.83**	HK$0.73
- Diluted	**HK$0.83**	HK$0.73

CONSOLIDATED BALANCE SHEET (HK$ MILLION)

	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)
Assets		
Fixed assets		
- Investment properties	**39,856**	37,723
- Other property, plant and equipment	**78,658**	79,444
- Service concession assets	**15,274**	15,250
	133,788	132,417
Property management rights	**37**	40
Railway construction in progress	**538**	424
Property development in progress	**10,973**	9,066
Deferred expenditure	**1,424**	825
Prepaid land lease payments	**574**	581
Interests in non-controlled subsidiaries	**323**	268
Interests in associates	**733**	205
Deferred tax assets	**4**	4
Investments in securities	**389**	333
Staff housing loans	**11**	15
Properties held for sale	**511**	756
Derivative financial assets	**267**	273
Stores and spares	**683**	642
Debtors, deposits and payments in advance	**2,471**	5,167
Loan to a property developer	**3,624**	3,532
Amounts due from the Government and other related parties	**309**	544
Cash and cash equivalents	**660**	576
	157,319	155,668

	As at 30 June 2008 (Unaudited)	As at 31 December 2007 (Audited)
Liabilities		
Bank overdrafts	**27**	2
Short-term loans	**1,791**	507
Creditors, accrued charges and provisions	**7,209**	5,412
Current taxation	**6**	3
Contract retentions	**244**	225
Amounts due to the Government and other related parties	**1,255**	975
Loans and obligations under finance leases	**28,160**	33,541
Obligations under service concession	**10,671**	10,685
Derivative financial liabilities	**79**	192
Deferred income	**246**	515
Deferred tax liabilities	**12,578**	12,574
	62,266	64,631
Net assets	**95,053**	91,037
Capital and reserves		
Share capital, share premium and capital reserve	**40,719**	39,828
Other reserves	**54,310**	51,186
Total equity attributable to equity shareholders of the Company	**95,029**	91,014
Minority interests	**24**	23
Total equity	**95,053**	91,037

Notes: -

1. INDEPENDENT REVIEW

The interim results for the half year ended 30 June 2008 are unaudited, but have been reviewed 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, by KPMG whose unmodified review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

These unaudited consolidated accounts should be read in conjunction with the 2007 annual accounts. The accounting policies adopted in the preparation of these accounts are consistent with those used in the 2007 annual accounts.

3. RETAINED PROFITS

The movements of the retained profits during the half year ended 30 June 2008 and the year ended 31 December 2007 were as follows:

HK$ Million	
Balance as at 1 January 2008	**49,992**
Profit for the period attributable to equity shareholders of the Company	**4,689**
Release of revaluation reserve on disposal, net of deferred tax	**42**
Dividends approved	**(1,740)**
Balance as at 30 June 2008	**52,983**

HK$ Million	
Balance as at 1 January 2007	37,148
Dividends declared or approved	(2,336)
Profit for the year attributable to equity shareholders of the Company	15,180
Balance as at 31 December 2007	49,992

4. PROFIT ON PROPERTY DEVELOPMENTS

	Half year ended 30 June	
HK$ Million	**2008**	2007
Profit on property developments comprises:		
Transfer from deferred income on		
- up-front payments	**95**	510
- sharing in kind	**37**	42
Share of surplus from development	**224**	1,100
Income recognised from sharing in kind	**-**	21
Other overhead costs	**(8)**	(9)
	348	1,664

5. INCOME TAX

	Half year ended 30 June	
HK$ Million	**2008**	2007
Current tax	**6**	-
Deferred tax – origination and reversal of temporary differences on:		
- change in fair value of investment properties	**343**	429
- utilisation of tax losses	**406**	423
- others	**(43)**	27
	706	879
- effect of decrease in Hong Kong Profits Tax rate from 17.5% to 16.5%	**(704)**	-
	2	879
Income tax in the consolidated profit and loss account	**8**	879
Share of income tax of non-controlled subsidiaries	**8**	8
Share of income tax of associates	**6**	-

No provision for current Hong Kong Profits Tax has been made in the consolidated profit and loss account in respect of the Company and most of its subsidiaries, as the Company and these 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 2008. Current Hong Kong Profits Tax totalling HK$5 million (2007: Nil) was provided for certain of the Company's subsidiaries acquired in the Rail Merger, calculated at the prevailing Hong Kong Profits Tax rate at 16.5%. Current taxation for overseas subsidiaries of HK$1 million (2007: Nil) 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 16.5% (2007: 17.5%).

6. DIVIDEND

The Board has resolved to pay an interim dividend of HK$0.14 per share. The Company proposes that a scrip dividend option will be offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. The interim dividend will be distributed on or about 17 October 2008 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 22 August 2008. 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.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the half year ended 30 June 2008 attributable to equity shareholders of HK$4,689 million (2007: HK$4,071 million) and the weighted average number of ordinary shares of 5,613,941,337 in issue during the period (2007: 5,550,144,410).

The calculation of diluted earnings per share is based on the profit for the half year ended 30 June 2008 attributable to equity shareholders of HK$4,689 million (2007: HK$4,071 million) and the weighted average number of ordinary shares of 5,619,005,310 in issue during the period (2007: 5,555,165,343) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes.

Both basic and diluted earnings per share would have been HK$0.49 (2007: HK$0.37) 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.

8. SEGMENTAL INFORMATION

HK$ Million	Turnover Half year ended 30 June **2008**	2007	Contribution to profit Half year ended 30 June **2008**	2007
Railway operations	**5,592**	3,247	**1,517**	576
Station commercial and rail related businesses	**1,645**	735	**1,219**	538
	7,237	3,982	**2,736**	1,114
Property ownership, management and other businesses	**1,290**	870	**913**	615
	8,527	4,852	**3,649**	1,729
Property developments			**348**	1,664
			3,997	3,393
Unallocated corporate expenses			**(370)**	(280)
Merger related expenses			**(24)**	-
Interest and finance charges			**(1,078)**	(654)
Change in fair value of investment properties			**2,080**	2,450
Share of profits of non-controlled subsidiaries and associates			**91**	42
Income tax			**(8)**	(879)
			4,688	4,072

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.

9. DEBTORS AND CREDITORS

A The Group's debtors, deposits and payments in advance amounted to HK$2,471 million (31 Dec 2007: HK$5,167 million), out of which HK$1,121 million (31 Dec 2007: HK$3,774 million) relates to property development which are mainly due according to terms of the sales and purchases agreements; and HK$632 million (31 Dec 2007: HK$687 million) receivable from rentals, advertising and telecommunication activities with due dates ranging from 7 to 50 days, swap interest receivable from debt portfolio management activities due in accordance with the respective terms of the agreements, and amounts receivable from consultancy services income due within 30 days. As at 30 June 2008, HK$246 million (31 Dec 2007: HK$260 million) were overdue out of which HK$88 million (31 Dec 2007: HK$88 million) were overdue by more than 30 days.

B Creditors, accrued charges and provisions amounted to HK$7,209 million (31 Dec 2007: HK$5,412 million), majority of which relate 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. Under the development agreement in respect of the Che Kung Temple property development, the Company is obliged to pay 50% of the land premium, amounting to HK$1.8 billion. This payable has been settled in July 2008. As at 30 June 2008, HK$3,026 million (31 Dec 2007: HK$1,354 million) were amounts either due within 30 days or on demand, and the remaining were amounts not yet due.

10. PURCHASE, SALE OR REDEMPTION OF OWN SECURITIES

During the half year ended 30 June 2008, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities.

11. CHARGE ON GROUP ASSETS

As at 30 June 2008, certain assets held by MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company, in the Mainland of China were pledged as security for a RMB900 million short-term bank loan facility granted to it.

Apart from the above, none of the other Group's assets was charged or subject to any encumbrance as at 30 June 2008.

12. CORPORATE GOVERNANCE

The Company has complied throughout the half-year ended 30 June 2008 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") except that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong)) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. As there are currently nine Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

13. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's websites at www.mtr.com.hk and the website of the Stock Exchange. The Interim Report will also be available at the Company's and the Stock Exchange's websites around late August 2008 and will be despatched to shareholders of the Company in early September 2008.

KEY STATISTICS

	Half year ended 30 June	
	2008	2007
Total passenger boardings		
- Domestic Service (in millions)	**585.2**	429.3
- Cross-boundary Service (in millions)	**46.0**	-
- Airport Express (in thousands)	**5,230**	4,836
- Light Rail (in million)	**66.5**	-
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**3,441**	2,544
- Cross-boundary Service (daily)	**253**	-
- Airport Express (daily)	**28.7**	26.7
- Light Rail (weekday)	**374**	-
Operating profit from railway and related businesses before depreciation, amortisation and merger related expenses as a percentage of turnover	**56.2%**	57.6%

MANAGEMENT REVIEW AND OUTLOOK

The first six months of 2008 saw marked progress for the Company. Firstly, following completion of the Rail Merger on 2 December 2007, integration of the Company and Kowloon-Canton Railway Corporation (KCRC) is making good progress. The success of the Rail Merger is clearly demonstrated in the first half business results. Secondly, the Company is embarking on a very large railway network expansion programme in Hong Kong, with the Hong Kong SAR Government giving approval for the Company to commence further planning and design for the Shatin to Central Link, the Kwun Tong Line Extension and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link). Together with Government's previous decision in 2007 to proceed with further planning and design for the West Island Line and South Island Line (East) and the on-going construction of the Kowloon Southern Link, these six new rail lines will add approximately 60 kilometres to Hong Kong's railway network and represent the largest railway expansion in the history of the Company.

The Company's results for the first half of 2008 demonstrate the significant financial benefits to the Company from the Rail Merger. Our revenue increased by 75.7% to HK$8,527 million while operating profit from railway and related businesses before depreciation and amortisation rose by 71.5% to HK$4,796 million. Property development profits, mainly from sale of units in inventory and deferred income, were HK$348 million compared to HK$1,664 million in the same period of 2007. The magnitude of property development profits in any particular accounting period is dependent on timing of recognition of such profits; hence profits in respect of The Capitol and The Palazzo, although mostly sold in the first half, were not recognised in the first half. Excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 33.2% to HK$2,731 million. Change in fair value of investment properties was HK$2,080 million pre-tax (HK$1,737 million post-tax). The net profit attributable to equity shareholders was HK$4,689 million, an increase of 15.2% over the corresponding period in 2007. The reported earnings per share increased by 13.7% to HK$0.83. Your Board has declared an interim dividend of HK$0.14 per share.

Merger Integration

With the completion of the Rail Merger on 2 December 2007, we continue to work diligently on the further integration of organisation as well as operating and support systems.

The Executive Directors, department heads and major section heads were selected and appointed before completion of the Rail Merger to ensure a smooth transition. The selection and appointment process for all other staff was completed in April this year. The implementation of a new grading and salary structure, as well as alignment of terms and conditions for all staff, were completed by 1 March 2008.

The development of a combined Safety System and the integration of all major IT systems have been completed as planned. We are now completing the integrated single journey ticketing project and station modification works at Kowloon Tong, Mei Foo and Nam Cheong to prepare for the removal of interchange barriers at these three interchange stations, which under the Merger Framework Agreement will be completed before the anniversary of the Rail Merger Day.

Merger synergies are being achieved through a combination of energy optimisation, combined procurements to create scale, revenue enhancements resulting from the expanded network and the revised organisational structure. We are confident of achieving our target synergy of HK$450 million per annum that we have indicated would take three years to fully realise.

Hong Kong Railway Operations

Patronage

For the first half of 2008, total patronage for all of our rail and bus passenger services (Integrated MTR System) increased by 66.1% to 721.2 million as compared to that of the same period last year due mainly to the Rail Merger. On a "like for like" basis, such passenger numbers would have increased by 4.0% when compared with the combined rail and bus patronage numbers of MTR Corporation and KCRC (as adjusted for interchange passengers) in the first half of 2007 (Pre-Merger Comparable Patronage).

Our Domestic Service, which includes the MTR Lines (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O and Disneyland Resort lines) and after the Rail Merger, the KCR Lines (comprising the East Rail excluding Cross-boundary Service, West Rail and Ma On Shan lines), recorded total patronage of 585.2 million. This represents an increase of 36.3% when compared with the patronage of the MTR Lines in the first half of 2007 and 4.3% when compared with the equivalent Pre-Merger Comparable Patronage.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 46.0 million for the first half of 2008, representing an increase of 4.9% compared to the same period in 2007, mainly as a result of the expanding cross-boundary market and the opening of Lok Ma Chau spur line on 15 August 2007.

Passengers using the Airport Express in the first half of 2008 rose 8.1% to 5.2 million when compared with the same period last year because of the continued increase in travellers using Hong Kong International Airport as well as the increased number of events at the AsiaWorld-Expo.

Average weekday patronage for the Domestic Services in the first half of 2008 was 3.44 million which represents an increase of 35.3% over that of the MTR Lines in the same period last year, mainly due to the Rail Merger. Such average weekday patronage represents an increase of 4.1% over the equivalent Pre-Merger Comparable Patronage.

Overall, average weekday patronage on the Integrated MTR System was 4.2 million in the first half of 2008.

Market Share
Our overall share of the franchised public transport market rose to 41.6% in the first five months of 2008 as compared to 25.0% in the same period last year, largely due to the Rail Merger. Within this total, our share of cross-harbour traffic rose to 62.6% for the first five months in 2008 from 61.2% in the same period in 2007.

Fare Revenue
Total fare revenue was HK$5,592 million in the first half of 2008, which represents an increase of 72.2% over the same period last year. Such fare revenue also represents a slight increase of 0.9% over the combined fare revenue of the rail and bus services of MTR Corporation and KCRC in the same period in 2007.

Fare revenue of the Domestic Service was HK$3,850 million in the first half of 2008, which represents an increase of 31.2% over that of MTR Lines for the same period in 2007. However, compared with the combined fare revenue of MTR Lines and KCR Lines in the same period in 2007, there was a slight decline of 0.6% mainly due to the fare reduction implemented on the Rail Merger Day.

Average fare per passenger for the Domestic Service in the first half of 2008 was HK$6.58, a decrease of 3.8% compared with average fares for MTR Lines in the same period in 2007 (a decrease of 4.7% when compared with the weighted average fares of MTR Lines and KCR Lines of HK$6.90, as adjusted for interchange passengers for the same period last year). The decrease is due to the one off fare reduction implemented on the Rail Merger Day.

For Cross-boundary Service, average fare per passenger was HK$24.27 in the first half of 2008, a slight decrease of 1.0% when compared with the same period in 2007, whilst for the Airport Express, average fare per passenger increased slightly by 0.5% to HK$64.72.

Service and Performance
We continue to exceed both the minimum performance levels as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges.

Service improvements in the first half of 2008 included the trial of Wi-Fi connected CCTV systems on trains, the testing of extended multi-user areas on trains to offer more convenience to passengers, and the spraying of commonly touched surfaces with non-toxic disinfectant. Tenders were invited for the purchase of 10 new sets of trains to further enhance services on the Island Line, Kwun Tong Line, Tsuen Wan Line and Tseung Kwan O Line.

Our commitment to excellent service was again widely recognised with the winning of a number of prestigious awards. These included the Best Metro Asia Pacific Award at the Metro Awards 2008 held in Denmark, where we were ranked the leader in the Asia-Pacific region as judged by criteria such as efficiency, customer service, environmental considerations, and safety and security. We also won the Bronze Award in the Customer Service Excellence Awards 2007 organised by The Hong Kong Association for Customer Service Excellence Limited.

Marketing and Promotion
Service promotions on the Integrated MTR System continued to underpin patronage growth. The MTR Club has been extended to the former KCRC network after the Rail Merger, and a new Bonus Point programme was rolled out in June. For Cross-boundary Service, free ride promotions were offered to the new Lok Ma Chau Station to the general public in January and February, and to shareholders and targeted MTR Club members from March to July. For the Airport Express service, joint promotion with Priceline to offer discounted travel packages was launched from mid-March to the end of May, whilst shareholders promotions offering a discount of 34% continued.

New fare saver machines for Adult Octopus cardholders were installed at Kwai Chung

Estate Shopping Centre and Panda Place in Tsuen Wan in February and March respectively, bringing the number of fare saver machines throughout Hong Kong to 22 and the number of passengers using such machines to over 17.4 million in the first half of 2008.

Station Commercial and Rail Related Businesses

Revenue for our station commercial and rail related businesses in the first half of 2008 was HK$1,645 million representing an increase of 123.8 % over the comparable period in 2007. The increase would have been 46.7% over the combined revenue of MTR Corporation and KCRC for such businesses in the comparable period in 2007 (Pre-Merger Comparable Revenue).

Station retail revenue in the first half of 2008 was HK$774 million representing an increase of 272.1% over the comparable period in 2007 (65.0% increase over the equivalent Pre-Merger Comparable Revenue). This increase was due to increased retail area from the Rail Merger and higher income from Duty Free shops. Twelve new shops were completed at Kowloon, Ngau Tau Kok and Wong Tai Sin and Tai Po Market stations during the six months and 10 new trades were added. The total number of shops as at 30 June 2008 decreased slightly to 1,211 from 1,230 as at the end of 2007, as a result of the removal of old shops to facilitate renovation works, which are currently being undertaken in the retail zones of Kowloon Tong, Kwun Tong, Mong Kok East, Tai Po Market and Tiu Keng Leng stations. Total area of station retail space at 30 June 2008 was 52,727 square metres.

Advertising revenue in the first half of 2008 was HK$346 million representing an increase of 39.5% when compared with the same period in 2007 (20.1% increase over the equivalent Pre-Merger Comparable Revenue). This increase was mainly due to higher passenger volumes and more innovative advertising formats, which included the renovated advertising "gallery" launched at the lower adit of Causeway Bay Station in May.

Revenue from telecommunications services in the first half of 2008 was HK$129 million representing an increase of 17.3% when compared with the same period in 2007 (decrease of 1.5% over the equivalent Pre-Merger Comparable Revenue). Cannibalisation of call minutes by 3G mobile services continued to erode revenue in this business, leading to revenue decrease when compared with the equivalent Pre-Merger Comparable Revenue. The 3G upgrade project at East Rail Line Tunnels was completed in early June 2008 and passengers can now enjoy uninterrupted 3G service along the whole East Rail Line. Preparation works for 3G coverage at East Tsim Sha Tsui Station, Ma On Shan Line and West Rail Line are in progress with expected completion by 2009.

Revenue from consultancy was HK$64 million during the first six months, a decrease of 22.0% when compared with the same period in 2007. This was mainly due to the completion of the majority of works on Shanghai Metro Line 9 Phase 1, which was opened in December 2007, and our re-focusing of consultancy projects that could lead to future investment opportunities. In India, our consultancy business won an HK$128 million engineering and project management contract for the construction of the Delhi Airport Metro Express Line. In Taiwan, the Red Line of Kaohsiung Rapid Transit Corporation (KRTC) opened in April 2008 and our contribution was highly recognised by the KRTC.

Property and Other Businesses

The Hong Kong property market saw broad based strength in the early part of the year. The office and retail markets enjoyed steady growth due to limited supply in the core business areas and strong consumer and tourist spending. However, with rising oil prices, inflation and global credit market uncertainties, market activities have reduced with transaction prices and rents consolidating towards the end of the first half of 2008.

Property Development
There was significant success in property sales, with the pre-sale of all 2,096 units of The Capitol at LOHAS Park as well as more than 1,100 units, or about 80% of the 1,375 units available, sold at The Palazzo in Shatin. The timing of profit booking for these two developments will depend on the issuance of Occupation Permits.

In our property tendering activities, the development package for Che Kung Temple on the Ma On Shan Line was awarded to a subsidiary of New World Development Company Limited (Deluxe Sign Limited) in April 2008. Similar to the arrangements for LOHAS Park Package 1, The Capitol, we have decided to pay half of the land premium for this development in return for a larger share of profits.

Profit on property development for the first six months of 2008 was HK$348 million, a decrease when compared with that of HK$1,664 million in the comparable period in 2007. This decrease was mainly timing related as profit booking for The Capitol and The Palazzo will take place later. The major contributors to the property development profit in the first half were sale of units in properties held for sale at Harbour Green and The Arch, as well as deferred income recognition mainly from properties along the Airport Railway, such as Coastal Skyline and Caribbean Coast at Tung Chung Station and Elements in Kowloon Station.

Property Rental, Management and Other Businesses
Total revenue from property rental, property management and other businesses was HK$1,290 million, an increase of 48.3% over the comparable period in 2007 (26.7% increase over the equivalent Pre-Merger Comparable Revenue).

Demand for both office and retail space was robust and property rental income was HK$1,119 million, an increase of 57.6 % over the comparable period in 2007 (32.9% increase over the equivalent Pre-Merger Comparable Revenue). The average increase in rental of retail properties on renewal of leases or re-letting was 21% as compared to rentals achieved in the previous lettings.

Pre-lease of Phase 2 of Elements, our premium shopping centre in Hong Kong, reached over 70% with the opening date targeted to be in the fourth quarter of 2008.

Property management revenue in the first half of 2008 was HK$103 million, an increase of 28.8% over the same period in 2007 (7.3% increase over the equivalent Pre-Merger Comparable Revenue). The number of residential units under our management totalled 73,947 as at the end of June, whilst commercial space under management was 756,556 square metres.

Ginza Mall, which opened in January 2007, set a new benchmark for service and quality standards of shopping malls in Beijing. Patronage and retail sales of Ginza Mall continued to rise and the shopping centre was widely recognised by receiving various awards and honours in its first full year of operation. These included being ranked No. 2 amongst the 156 major shopping centres and department stores in Beijing in a Customer Satisfaction Survey conducted by the Beijing Municipal Commerce Bureau.

At the end of June 2008, the Company's attributable share of investment properties were 200,668 square metres of lettable floor area of retail properties, 41,215 square metres of lettable floor area of offices and 10,203 square metres for other usage.

Octopus
Octopus continued its retail merchant expansion helped by the “Portable Octopus Processor”, which enables Octopus to extend its reach into the small to medium-sized retail market sector. By the end of June, the total number of service providers (including those serviced by Octopus-appointed acquirers) had risen significantly to 2,636 from 724 as at

the end of June 2007.

The Company's share of Octopus' net profit for the six months was HK$78 million, a 85.7% increase over the comparable period in 2007. Cards in circulation rose to 17.4 million and average daily transaction volume and value rose by 5.1% and 9.9% to 10.4 million and HK$86.2 million respectively.

Ngong Ping 360
The Ngong Ping cable car and associated theme village on Lantau Island contributed HK$68 million of revenue in the first six months of 2008, with visitor numbers reaching more than 770,000. Joint promotions were held together with Elements, Maritime Square and the MTR Club and a private cabin service was introduced.

Hong Kong Network Expansion

New Projects
Six new rail projects are now under various stages of planning and construction in Hong Kong, which will extend our network by approximately 60 kilometres when completed. These new lines represent the most significant network expansion in the Company's history and will add substantially to our growth.

In March, Government gave approval to proceed with further planning and design for the Shatin to Central Link and the Kwun Tong Line Extension to Whampoa. The Shatin to Central Link comprises two sections that will add 17 kilometres to the railway network, creating a number of new interchanges and connections forming both a north-south and an east-west rail corridor. The 11-km Tai Wai to Hung Hom Section, expected to be completed in 2015, will extend the Ma On Shan Line to Hung Hom via Diamond Hill with four new stations in East Kowloon, to link with the West Rail Line at Hung Hom. The 6-km Cross Harbour Section, expected to be completed in 2019, will form Hong Kong's fourth rail harbour crossing, extending the East Rail Line from Hung Hom to Hong Kong Island with new stations initially at Exhibition and Admiralty. Preliminary design for the Shatin to Central Link will commence in August this year with a view to developing a scheme to be gazetted under the Railways Ordinance in 2009.

The 3-km Kwun Tong Line Extension will run from the existing Yau Ma Tei Station to Whampoa via Ho Man Tin, which will be an interchange station with the Tai Wai to Hung Hom Section of the Shatin to Central Link. This extension will provide a much needed railway service to the 146,000 people living in these areas and will relieve road traffic congestion in the existing east-west corridors in Kowloon. With this extension, passengers from Whampoa and Ho Man Tin will be able to reach Mong Kok via Ho Man Tin in five minutes. MTR Corporation commenced site investigation and preliminary design for the project in June 2008 and the project is expected to be completed in 2015.

In April, Government asked us to proceed with planning and design for the Express Rail Link, which will further enhance the strategic position of Hong Kong as the southern gateway of the Mainland of China. The 26-km Express Rail Link will provide cross-boundary high speed rail service connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's new high speed intercity rail network. Preliminary design has started and construction is expected to commence in late 2009 for completion by 2015. When the Hong Kong section commences service, it will take only 14 minutes to travel from the new West Kowloon Terminus to Futian in Shenzhen and 48 minutes to Guangzhou. Long haul journeys will take about five hours to Wuhan, eight hours to Shanghai and 10 hours to Beijing.

Following the announcement of Government's support for the South Island Line (East) in December 2007, preliminary design commenced in February this year. The West Island Line, which will extend the Island Line with three new underground stations at Sai Ying

Pun, University (at The University of Hong Kong) and Kennedy Town, was gazetted under the Railways Ordinance in October 2007. A preliminary project agreement was entered into with Government in February this year for the detailed design of the project.

The tunnel boring works for the Kowloon Southern Link, which will connect the existing East Rail Line's East Tsim Sha Tsui Station with West Rail Line's Nam Cheong Station, were completed in March. Kowloon Southern Link, which forms part of the Rail Merger, is on schedule for completion in the second half of 2009.

Apart from these six new lines, Phase 2 of the Tseung Kwan O line, namely the station at LOHAS Park, is on programme for completion in the second quarter of 2009 to coincide with occupation of The Capitol at LOHAS Park, which is expected in mid-2009. A decision on the actual opening date of the station will be taken closer to the time.

Project Funding

As previously mentioned, the funding model for all these new rail projects will take different forms, each appropriately designed for the project. For the West Island Line, Government has advised that it will consider a capital grant model whereby Government grants to the Company a sum of money to establish the financial viability of the project. The Company will be responsible for the balance of the capital costs and all of the operation, maintenance and asset replacement costs. The first part of this grant, HK$400 million, was received in February 2008 while the remaining portion, which forms the bulk of the total capital grant, is still being discussed with Government.

The South Island Line (East) and the Kwun Tong Line Extension will likely follow the Company's traditional "Rail and Property" approach whereby property development rights will be granted to us. Suitable sites have been identified and negotiations with Government on the development rights are continuing.

A third model for future rail lines is the Service Concession model used in the Rail Merger, whereby Government pays for the initial capital costs of the rail line, with MTR Corporation being entrusted to design and construct such lines, and the Company paying an annual concession payment to operate the line as well as being responsible for maintenance and replacement costs. The Kowloon Southern Link, Shatin to Central Link and the Express Rail Link will all adopt this approach. On this basis, the Finance Committee of the Legislative Council of Hong Kong (LegCo) approved an amount of HK$2.4 billion in May to be used for design and site investigation of the Shatin to Central Link and an amount of HK$2.8 billion in July for similar works for the Express Rail Link. Further funding requests for construction of these two lines will be made by Government to LegCo at the appropriate time. The construction of Kowloon Southern Link is being funded by KCRC per the Rail Merger agreement.

Overseas Expansion

We continue to make progress in expansion both in the Mainland of China and overseas.

Mainland of China

In Beijing, the Public-Private-Partnership company comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group (49%) made steady progress on the Beijing Metro Line 4 (BJL4) project.

Electrical & Mechanical (E&M) installation proceeded at 22 out of a total of 24 stations. All E&M Works contracts have been awarded and 98% of tunnel boring has been completed. Track laying commenced in March 2008. This line is planned to open in 2009.

In Shenzhen, we continued to support the Shenzhen Municipal Government in obtaining final approval for the Shenzhen Metro Line 4 (SZL4) project from the National

Development and Reform Commission. Progress is being made.

We continue to seek investment opportunities in other cities in the Mainland of China. In May, we submitted an investment proposal to the Hangzhou Development and Reform Commission regarding investment in Hangzhou Metro Line 1, which will be 48-km long with 30 stations and is targeted for opening in 2011. We were informed in July that we had been selected as "preferred bidder" status for this project. In June, we signed two Framework Agreements with the Shenyang Municipal Government relating to cooperation on the operation of Shenyang Metro Lines 1 and 2, and investment in Metro Lines 3 to 5.

Overseas
In the UK, our 50:50 joint venture London Overground Rail Operations Limited made good progress in the first six months of operation. Punctuality improved while station enhancement and service improvement continued.

Financial Review

The Rail Merger together with a strong economy contributed to total revenue increasing 75.7% to HK$8,527 million in the first half of 2008 as compared to the same period last year with total fare revenue increasing by 72.2% to HK$5,592 million. Fare revenues from the Domestic Service and Airport Express, driven by patronage increases of 36.3% and 8.1% respectively, rose by 31.2% and 8.3% to HK$3,850 million and HK$338 million while Cross-boundary, Light Rail, Intercity and Bus services added another HK$1,404 million to fare revenue. Revenue from station commercial and rail related businesses increased by 123.8% to HK$1,645 million as the expanded network after the Rail Merger brought in additional income, particularly in the Duty Free area, while the robust retail market also benefited advertising and other station commercial businesses. Property rental, management and other revenue increased by 48.3% to HK$1,290 million mainly due to the expansion of the rental and management portfolio as well as favourable rental renewals and new lettings.

Operating expenses before depreciation, amortisation and merger expenses for the first half of 2008 increased by 81.6% to HK$3,731 million when compared to the same period last year. The increase was predominantly due to the Rail Merger as well as increases in salaries, electricity tariff as well as fuel and other consumable materials. As a result, operating profit from railway and related businesses before depreciation, amortisation and merger expenses increased by 71.5% to HK$4,796 million, with margin decreasing to 56.2% from 57.6% in the first half last year. The margin decrease was due to the lower margins of the ex-KCRC businesses and the effect of fare reduction. However, it does represent an improvement of 3% from the Pre-Merger Comparable margin.

Property development profit for the first half of 2008 amounted to HK$348 million, mainly comprising sales of units in inventory at Harbour Green and The Arch along the Airport Railway, as well as deferred income recognition from Coastal Skyline, Caribbean Coast and Elements. Operating profit before depreciation, amortisation and merger expenses increased 15.3% to HK$5,144 million compared with the same period last year.

Depreciation and amortisation charges for the first half of 2008 increased by 12.5% to HK$1,517 million mainly due to the amortisation of service concession assets from the Rail Merger. Expenses relating to merger integration activities amounted to HK$24 million. Net interest and finance charges increased by 64.8% to HK$1,078 million mainly due to the notional interest expense of HK$361 million resulting from the capitalisation of the fixed annual payments from the Rail Merger, and expenses of HK$93.5 million for replacement of collaterals for the lease out/lease back transaction following the recent credit downgrading of certain existing collaterals. The increase in fair value of investment properties since the end of 2007 amounted to HK$2,080 million pre-tax and HK$1,737 million post-tax.

Including the share of profits of HK$91 million from Octopus Holdings Limited and London

Overground Rail Operations Limited, profit before tax for the first half of 2008 was HK$4,696 million. With the reduction in profits tax rate from 17.5% to 16.5%, deferred tax liability reduced by HK$704 million and therefore, after charging tax liability of HK$712 million for the period, net income tax for the first half of 2008 amounted to HK$8 million. Net profit attributable to shareholders for the first half of 2008 amounted to HK$4,689 million, an increase of 15.2% over the same period last year. Reported earnings per share increased from HK$0.73 to HK$0.83. Excluding investment property revaluation gain and related deferred tax, net profit from underlying business increased by 33.2% to HK$2,731 million with earnings per share on the same basis increasing from HK$0.37 to HK$0.49. On a pre-tax basis, net pre-tax profit from underlying business increased by 4.7% from HK$2,500 million to HK$2,617 million.

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

The Group's balance sheet remains strong. Net assets of the Group increased by 4.4% during the first half of 2008 to HK$95,053 million at 30 June 2008. Total assets increased by 1.1% to HK$157,319 million mainly attributable to property revaluation gains of HK$2,154 million as well as an increase of HK$1,907 million in property development in progress largely due to the payment of 50% of the land premium for the Che Kung Temple property development. Other increases in assets included capital expenditures incurred on the station at LOHAS Park, Shenzhen Line 4 Project and other new railway extensions and capital improvement projects as well as equity injection into the associate company for the Beijing Line 4 Project. Debtors, deposits and payments in advance decreased by HK$2,696 million mainly due to the receipt of further stage payment proceeds from the Le Point property development.

During the period, total borrowing of the Group decreased from HK$34,050 million to HK$29,978 million on repayment of loans from net cash generated in our businesses. Including obligations under service concession as a component of debt, net debt-to-equity ratio of the Group decreased from 48.5% at 31 December 2007 to 42.1% at 30 June 2008.

In line with the increase in operating profits, net cash inflow generated from operating activities for the first half of 2008 increased by 56.6% to HK$4,669 million. Cash receipts from our property development business amounted to a further HK$3,222 million mainly from Le Point, The Arch and Harbour Green. During the period, the first part of Government's capital grant for the West Island Line Project of HK$400 million was received. Including the receipts of inter-company loan repayments and dividends totalling HK$132 million from the Company's non-controlled subsidiary and associate, cash inflow for the Group increased by 37.7% to HK$8,423 million. Cash outflow for capital expenditures during the period increased to HK$1,481 million from HK$786 million for the same period last year mainly due to increases in payments for the West Island Line and Shenzhen Line 4 Projects coupled with increase in purchase of railway operational assets after the Rail Merger. Cash outflow on property fitting out works and development projects increased to HK$449 million mainly due to payments of enabling works costs on the Che Kung Temple development to KCRC per the Rail Merger Agreement. After deducting further investment in our Beijing Line 4 associate of HK$515 million, payments for merger related expenditures of HK$204 million, net interest payment of HK$630 million and dividend payment of HK$870 million, net cash inflow generated during the first half of 2008 amounted to HK$4,242 million, of which HK$4,183 million was used to reduce borrowing.

Financing Activities

The subprime mortgage crisis continued, causing credit market conditions to deteriorate in

Hong Kong. Liquidity has reduced and credit spreads have widened. Despite this, the Group took advantage of market opportunities to issue a total of HK$1.25 billion of fixed rate medium term notes. These notes were converted to floating rate liabilities after issuance at very attractive margins to the Hong Kong Interbank Offered Rate and were used to refinance more expensive existing bank borrowings.

As at the end of June 2008, the Group had total undrawn committed facilities totalling HK$10.7 billion. With strong positive cashflow projected for the rest of 2008 and in 2009, these undrawn facilities would be used mainly to meet unexpected demands, if any.

During the period, we continued to manage our debt portfolio in a prudent manner in accordance with the Preferred Financing Model to achieve adequate risk diversification. As at the end of June 2008, the Company's debt maturity profile was well balanced with 31% of total outstandings repayable within 2 years, 38% between 2 and 5 years, and 31% beyond 5 years while more than 99% of the debt portfolio was either hedged into or denominated in HK dollars. Approximately 40% of our loan outstanding are in floating rate. With continued interest rate cuts in the early part of 2008, the Group's average borrowing cost during the first half of 2008 declined to 4.7%, compared with 5.7% during the same period last year.

Human Resources

With the successful completion of the Rail Merger, our key priorities are to harmonise staff relations to ensure a stable workforce, to retain staff resources, particularly in view of the thriving employment market, and to develop high-quality talent for supporting business growth in the post-merger era.

As mentioned earlier, the selection and appointment process for all staff was completed in April. The new grading and salary structure as well as aligned terms and conditions of employment regarding all staff were implemented on 1 March 2008.

To recognise staff's contribution and support to the Company throughout the merger process, a celebration event for all staff of the enlarged company was organised in January 2008. In addition, special Grand Awards will be given to the winning teams that have been nominated to recognise their outstanding contributions to the success of the Rail Merger.

In the first six months of 2008, we provided proactive and timely training to meet post Rail Merger challenges, particularly in the areas of railway operations and maintenance, railway safety, multi-skilling, redeployment and new recruits. In addition, intensive training with job attachment in Hong Kong was provided to Mainland local recruits for BJL4 and SZL4 to ensure quality teams will be in place for operational readiness of these two key investment projects. Training resources were also mobilised to support the six new extension projects for the Hong Kong network and a number of overseas growth business projects, including the Delhi Airport Metro Express Line consultancy project.

Outlook

Uncertainties continue in the global markets with high oil prices, slowing economic growth, credit concerns and increasing inflation. The extent of the impact of these global forces on Hong Kong has still to be seen. It is anticipated that the rate of growth of the Hong Kong economy can slow down in the second half of 2008.

The significant contribution of the Rail Merger, already demonstrated in the first half, will also be reflected in the second half of 2008 and full year results. Margins however will face erosion with increasing costs and the impact of lower margins of the ex-KCRC business. Our station commercial and related businesses will continue to benefit from any economic growth.

In our property rental business, we should see the opening of Elements Phase 2 toward the end of 2008.

The successful pre-sale of The Capitol at LOHAS Park and The Palazzo in Shatin will lead to significant profit bookings when Occupation Permits for these developments are issued. In our property tender activities, following Expression of Interest received earlier, we will shortly tender Tsuen Wan 7, which is a West Rail Development site belonging to Government; MTR Corporation acts only as an agent for the West Rail Development projects.

The smooth integration from the Rail Merger demonstrates the dedication, commitment and "one company" mind-set of the staff of MTR Corporation. This, together with their over-whelming support in aid of the Sichuan earthquake victims, deserves praise and recognition. Therefore, in addition to thanking my fellow directors, I would also like to specially thank the staff of MTR Corporation. They are the heroes of the Company.

By Order of the Board
C K Chow
Chief Executive Officer

Hong Kong, 5 August 2008

The interim financial information set out above does not constitute the Group's interim consolidated accounts for the half year ended 30 June 2008, but is derived and represents an extract from those interim consolidated accounts.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 20 August 2008 to 22 August 2008 (both dates inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 19 August 2008. It is expected that the interim dividend will be paid on or about 17 October 2008.

Members of the Board: Dr. Raymond Ch'ien Kuo-fung *(Chairman)***, Chow Chung-kong *(Chief Executive Officer)*, Professor Cheung Yau-kai*, Christine Fang Meng-sang*, Edward Ho Sing-tin*, Ng Leung-sing*, Abraham Shek Lai-him*, T. Brian Stevenson*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Eva Cheng)** and Commissioner for Transport (Alan Wong Chi-kong)**

Members of the Executive Directorate: Chow Chung-kong, 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

*   *independent non-executive Directors*

** *non-executive Directors*