Notes to the Accounts

1 Statement of Compliance

These accounts have been prepared in compliance with the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). These accounts have also been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and accounting principles generally accepted in Hong Kong. The HKFRSs are fully converged with International Financial Reporting Standards in all material respects. A summary of the principal accounting policies adopted by the Group is set out in note 2.

The HKICPA has issued certain new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2010. Changes in accounting policies resulting from the initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts are disclosed in note 2A(iii).

2 Principal Accounting Policies

A Basis of Preparation of the Accounts

(i) The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties (see note 2F(i));
- other leasehold land and buildings, where the leasehold land is classified as being held under a finance lease (see note 2F(ii));
- financial instruments classified as investments in securities other than those intended to be held to maturity (see note 2M); and
- derivative financial instruments (see note 2T).

(ii) The preparation of the accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenditure. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements and estimations about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates are discussed in note 58.

(iii) The HKICPA has issued the following new HKFRS, amendments to HKFRSs or new Interpretations that are first effective for the current accounting period of the Group and relevant to the Group's accounts:

- Revised HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*
- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*
- HK(IFRIC) 17, *Distribution of non-cash assets to owners*
- HK(Int) 5, *Presentation of Financial Statements – Classification by the borrower of a term loan that contains a repayment on demand clause*
- Improvements to HKFRSs (2009)
- Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Additional exemptions for first-time adopters*
- Amendments to HKFRS 2, *Share-based payment – Group cash-settled share-based payment transactions*

The "Improvements to HKFRSs (2009)" comprises a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, only the amendment relating to HKAS 17, *Leases*, has impact on the Group's accounts. As a result of the amendment to HKAS 17, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that its interests in leasehold land, which are registered and located in the Hong Kong Special Administrative Region ("HKSAR") and subject to the HKSAR Government's land policy of renewal without payment of additional land premium, are no longer classified as operating leases. The Group's position in respect of its interests in leasehold land is economically similar to that of a purchaser and therefore such interests of leasehold land should be re-classified as finance leases. In accordance with the amendment to HKAS 17, this change in accounting policy has been applied retrospectively. Corresponding amounts of previous periods have been re-classified with the balance of prepaid land lease payments as at 31 December 2009 of HK$554 million (1 January 2009: HK$567 million) re-classified as other property, plant and equipment on the consolidated and the Company's balance sheets and the related amortisation for the year ended 31 December 2009 of HK$13 million re-classified from other expenses to depreciation and amortisation in the consolidated profit and loss account.

Other HKFRS developments have no material impact on the Group's accounts as the amendments and interpretations are consistent with policies already adopted by the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 59).

2 Principal Accounting Policies *(continued)*

B Basis of Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in non-controlled subsidiaries (see note 2D) and associates (see note 2E) made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from or to the date of their acquisition or disposal, as appropriate.

C Subsidiaries and Non-controlling Interests

A subsidiary in accordance with the Hong Kong Companies Ordinance is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests (previously known as "minority interests") represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Non-controlling interests in the results of the Group are presented on the face of the consolidated profit and loss account and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet depending on the nature of the liability.

Investments in subsidiaries are carried in the Company's balance sheet at cost less any impairment losses (see note 2H(ii)).

D Non-controlled Subsidiaries

Non-controlled subsidiaries are not consolidated in the accounts as the Group does not have effective control over their Boards. The investments in non-controlled subsidiaries are accounted for in the consolidated accounts of the Company using the equity method and are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of their net assets. The consolidated profit and loss account reflects the Group's share of the results of those non-controlled subsidiaries for the year.

Unrealised profits and losses resulting from transactions between the Group and the non-controlled subsidiaries are eliminated to the extent of the Group's interest in those subsidiaries, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, its investments in non-controlled subsidiaries are stated at cost less impairment losses (see note 2H(ii)).

E Associates and Jointly Controlled Entities

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or the Company and other parties, where the contractual arrangement establishes that the Group or the Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated accounts of the Company using the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investees' net assets. The Group's share of the post-acquisition results of the investees for the year is recognised in the consolidated profit and loss account, whereas the Group's share of the post-acquisition items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses equals or exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the investee is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the profit and loss account.

In the Company's balance sheet, investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 2H(ii)).

2 Principal Accounting Policies *(continued)*

F Fixed Assets

(i) Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include property that is being constructed or developed for future use as investment property.

Investment properties are stated on the balance sheet at fair value as determined semi-annually by independent professionally qualified valuers. Gains or losses arising from changes in the fair value are recognised in the consolidated profit and loss account in the year in which they arise.

(ii) Leasehold land registered and located in the HKSAR is accounted for as being held under a finance lease and is stated at cost less accumulated depreciation and impairment losses (see note 2H(ii)). Land held for own use under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings cannot be measured separately at inception of the lease are accounted for as being held under a finance lease, unless the buildings are also clearly held under an operating lease. The self-occupied land and buildings are stated on the balance sheet at their fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed by independent qualified valuers semi-annually, with changes in the value arising on revaluations treated as movements in the fixed assets revaluation reserve, except:

(a) where the balance of the fixed assets revaluation reserve relating to a self-occupied land and building is insufficient to cover a revaluation deficit of that property, the excess of the deficit is charged to the profit and loss account; and

(b) where a revaluation deficit had previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is firstly credited to the profit and loss account to the extent of the deficit previously charged to the profit and loss account, and thereafter taken to the fixed assets revaluation reserve.

(iii) Civil works and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2H(ii)).

(iv) Assets under construction are stated at cost less impairment losses (see note 2H(ii)). Cost comprises direct costs of construction, such as materials, staff costs and overheads, together with interest expense capitalised during the period of construction or installation and testing. Capitalisation of these costs ceases and the asset concerned is transferred to the appropriate fixed assets category when substantially all the activities necessary to prepare the asset for its intended use are completed.

(v) Leased Assets

(a) Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership are classified as finance leases. Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments (computed using the rate of interest implicit in the lease), of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation and impairment losses are accounted for in accordance with the accounting policy as set out in notes 2I(iv) and 2H(ii) respectively. Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(b) Leases of assets, other than that mentioned in note 2F(v)(c) below, under which the lessor has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies. Impairment losses are accounted for in accordance with the accounting policies on impairment of assets (see note 2H(ii)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies as set out in note 2Z(iv).

(c) Land held for own use under an operating lease, where its fair value cannot be measured separately from the fair value of a building situated thereon at inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease (see note 2F(ii)). For these purposes, inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(vi) Subsequent expenditure relating to the replacement of certain parts of an existing fixed asset is recognised in the carrying amount of the asset if it is probable that future economic benefit will flow to the Group and the cost of the item can be measured reliably. The carrying amount of those parts that are replaced is derecognised, with gain or loss arising therefrom dealt with in the profit and loss account.

Expenditure on repairs or maintenance of an existing fixed asset to restore or maintain the originally assessed standard of performance of that asset is charged as an expense when incurred.

Gains or losses arising from the retirement or disposal of a fixed asset or an investment property are determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such gains or losses are recognised as income or expense in the profit and loss account on the date of retirement or disposal. Any related revaluation surplus is transferred from the fixed assets revaluation reserve to retained profits and is not re-classified to profit or loss.

2 Principal Accounting Policies *(continued)*

F Fixed Assets *(continued)*

(vii) Service Concession Assets

Where the Group enters into service concession arrangements under which the Group acquires the right to access, use and operate certain assets for the provision of public services ("concession infrastructure"):

- Upfront payments at inception of the service concession are capitalised and amortised on a straight-line basis over the period of the service concession;
- Annual payments over the period of the service concession with the amounts fixed at inception are capitalised at the present value of the total fixed annual payments discounted at the incremental long-term borrowing rate determined at inception, and amortised on a straight-line basis over the period of the service concession with a corresponding liability recognised as obligations under service concession when the Group has a right to charge for usage of the concession infrastructure;
- Annual payments for the service concession which are not fixed or determinable at inception and which are contingent on future revenues generated from the service concession over certain thresholds are charged to the profit and loss account in the period when incurred;
- Expenditure directly attributable to the acquisition of the service concession up to inception, including the assumption of certain obligations of the grantor of the service concession, are capitalised and amortised on a straight-line basis over the period of the service concession; and
- Payments for the replacement and/or upgrade of assets subject to the service concession arrangement are capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Where the Group enters into service concession arrangements under which the Group constructs, uses and operates certain assets for the provision of public services, construction revenues and costs are recognised in the profit and loss account by reference to the stage of completion at the balance sheet date while service concession assets are recognised in the balance sheet at fair value upon initial recognition and amortised on a straight-line basis over the period of the service concession. Expenditures for the replacement and/or upgrade of the assets subject to service concession are capitalised and amortised on a straight-line basis over the shorter of the assets' useful lives and the remaining period of the service concession.

Service concession assets are carried on the balance sheet, as an intangible asset, at cost less accumulated amortisation and impairment losses, if any (see note 2H(ii)).

Income and expenditure and assets and liabilities in relation to the operation of the service concessions are accounted for in the Group's and the Company's profit and loss accounts and balance sheets.

G Property Management Rights

Where the Group makes payments for the acquisition of property management rights, the amounts paid are capitalised as intangible assets and stated on the balance sheet at cost less accumulated amortisation and impairment losses (see note 2H(ii)). Property management rights are amortised to the profit and loss account on a straight-line basis over the terms of the management rights.

H Impairment of Assets

(i) Impairment of Debtors and Other Receivables

Debtors and other current and non-current receivables are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases, the impairment loss is reversed through the profit and loss account.

(ii) Impairment of Other Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- fixed assets (including service concession assets but other than assets carried at revalued amounts);
- property management rights;
- railway construction in progress;
- property development in progress;
- deferred expenditure;
- investments in held-to-maturity securities; and
- investments in subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities.

If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2 Principal Accounting Policies *(continued)*

H Impairment of Assets *(continued)*

An impairment loss is recognised in the profit and loss account whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount of the asset.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the profit and loss account in the year in which the reversals are recognised.

I Depreciation

(i) Investment properties are not depreciated.

(ii) Fixed assets other than investment properties and assets under construction are depreciated on a straight-line basis at rates sufficient to write off their cost or valuation, less their estimated residual value, if any, over their estimated useful lives as follows:

Land and Buildings

Self-occupied land and buildings	the shorter of 50 years and the unexpired term of the lease
Leasehold land	the unexpired term of the lease

Civil Works

Excavation and boring	Indefinite
Tunnel linings, underground civil structures, overhead structures and immersed tubes	100 years
Station building structures	100 years
Depot structures	80 years
Kiosk structures	20 years
Cableway station tower and theme village structures	27 years

Plant and Equipment

Rolling stock and components	4 – 50 years
Platform screen doors	35 years
Rail track	7 – 30 years
Environmental control systems, lifts and escalators, fire protection and drainage system	7 – 30 years
Power supply systems	7 – 40 years
Aerial ropeway and cabin	5 – 27 years
Automatic fare collection systems, metal station kiosks, and other mechanical equipment	20 years
Train control and signalling equipment, station announcement systems, telecommunication systems and advertising panels	5 – 20 years
Station architectural finishes	20 – 30 years
Fixtures and fittings	10 – 15 years
Maintenance equipment	4 – 15 years
Office furniture and equipment	2 – 15 years
Computer software licences and applications	2.5 – 7 years
Computer equipment	3 – 5 years
Cleaning equipment and tools	5 years
Motor vehicles	5 years

Where parts of an item of property, plant and equipment have different useful lives, each part is depreciated separately. The useful lives of the various categories of fixed assets are reviewed annually in the light of actual asset condition, usage experience and the current asset replacement programme.

(iii) No depreciation is provided on assets under construction until construction is completed and the assets are ready for their intended use.

(iv) Depreciation on assets held under finance leases is provided at rates designed to write off the cost of the asset in equal annual amounts over the shorter of the lease term or the anticipated useful life of the asset as set out above, except in cases where title to the asset will be acquired by the Group at the end of the lease where depreciation is provided at rates designed to write off the cost of the asset in equal amounts over the anticipated useful life of the asset.

2 Principal Accounting Policies *(continued)*

J Construction Costs

(i) Costs incurred by the Group in respect of feasibility studies on proposed railway related construction projects (including consultancy fees, in-house staff costs and overheads) are dealt with as follows:

- where the proposed projects are at a preliminary review stage with no certainty of materialising, the costs concerned are charged to the profit and loss account; and
- where the proposed projects are at a detailed study stage, having been agreed in principle by the Members of the Board based on a feasible financial plan, the costs concerned are recorded as deferred expenditure until such time as a project agreement is reached, whereupon the costs are transferred to railway construction in progress.

(ii) After entering into a project agreement, all costs incurred in the construction of the railway are dealt with as railway construction in progress until commissioning of the railway line, whereupon the relevant construction costs are transferred to fixed assets.

K Property Development

(i) Costs incurred by the Group in respect of site preparation, land costs and acquisition of development rights as well as notional interest in connection with interest-free loans to property developers are dealt with as property development in progress.

(ii) Payments received from developers in respect of property developments are offset against the amounts in property development in progress attributable to that development. Any surplus amounts of payments received from developers in excess of the balance in property development in progress are transferred to deferred income. In these cases, further costs subsequently incurred by the Group in respect of that development are charged against deferred income.

(iii) Where an interest-free loan is provided to a developer as one of the terms of the development contract, such loan is initially stated at fair value which is its face value discounted at the prevailing market rates of interest at inception. When the repayment schedule of the loan is altered, the fair value is re-calculated and the carrying amount of the loan is adjusted. The difference between the fair value and the face value of the loan is dealt with as property development in progress during construction and transferred to the profit and loss account upon completion of the development. Notional interest income is credited to the profit and loss account and debited to the loan over the period of the loan so that the fair value of the loan at maturity equates its face value.

(iv) Profits arising from the development of properties undertaken in conjunction with property developers are recognised in the profit and loss account as follows:

- where the Group receives payments from developers, profits arising from such payments are recognised when the foundation and site enabling works are complete and acceptable for development, and after taking into account the outstanding risks and obligations, if any, retained by the Group in connection with the development;
- where the Group receives a right to a share of the net surplus from sale of the development, income is initially recognised by the Group upon the issue of occupation permits provided the amounts of revenue and costs can be estimated reliably. The interest in any unsold properties is subsequently remeasured on a basis consistent with the policy set out in note 2K(v); and
- where the Group receives a distribution of the assets of the development, profit is recognised based on the fair value of such assets at the time of receipt and after taking into account any outstanding risks and obligations retained by the Group in connection with the development.

Upon recognition of profit, the balance of deferred income or property development in progress relating to that development is credited or charged to the profit and loss account, as the case may be.

(v) Where properties are received as a profit distribution upon completion of development and are held for sale, those properties are stated at cost represented by their estimated net realisable value upon receipt. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. When properties are sold, the carrying amount of those properties is recognised as cost of properties sold in the period in which the related revenue is recognised. The amount of any write-down of properties to net realisable value is recognised as an expense in the period the write-down occurs. The amount of any reversal of any write-down of properties, arising from an increase in net realisable value, is recognised as a reduction in the cost of properties sold in the period in which the reversal occurs.

(vi) Where properties under construction are received as a sharing in kind from a development for investment purpose, these properties are recognised as investment properties at fair value. Further costs incurred in the construction of those assets are capitalised in investment properties.

L Jointly Controlled Operations

The arrangements entered into by the Group with developers for property developments without establishing separate entities are considered to be jointly controlled operations pursuant to HKAS 31, *Investments in joint ventures*. Under the development arrangements, the Group is normally responsible for its own costs, including in-house staff costs and the costs of enabling works, and the developers normally undertake to pay for all other project costs such as land premium (or such remaining portion as not already paid by the Group), construction costs, professional fees, etc. Such costs are deductible from the proceeds of sale before surplus proceeds are shared. In respect of its interests in such operations, the Group accounts for the purchase consideration of development rights, costs of enabling works (including any interest accrued) and land costs (including any land premiums) paid net of payments received as property development in progress. In cases where payments received from developers exceed the related expenditures incurred by the Group, such excess is recorded as deferred income. Expenses incurred by the Group on staff, overhead and consultancy fees in respect of these developments are also capitalised as property development in progress. The Group's share of income earned from such operations is recognised in the profit and loss account on the basis of note 2K(iv) after netting off any related balance in property development in progress at that time.

2 Principal Accounting Policies *(continued)*

M Investments in Securities

The Group's policies for investments in securities (other than investments in its subsidiaries, non-controlled subsidiaries, associates and jointly controlled entities) are as follows:

(i) Investments in securities held for trading purpose are initially stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant unrealised gain or loss being recognised in the profit and loss account.

(ii) Investments in debt securities and bank medium term notes on which the Group has the ability and intention to hold to maturity are classified as held-to-maturity securities, which are stated at amortised cost less impairment losses (see note 2H(ii)).

(iii) Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments.

(iv) Profit or loss on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the profit and loss account as they arise.

N Stores and Spares

Stores and spares used for railway and business operation are categorised as either revenue or capital. Revenue spares are stated in the balance sheet at cost, using the weighted average cost method and are recognised in the year in which the consumption occurred. Provision is made for obsolescence where appropriate. Capital items are included in fixed assets and stated at cost less accumulated depreciation and impairment losses. Depreciation is charged at the rates applicable to the relevant fixed assets against which the capital spares are held in reserve.

O Long-term Contracts

The accounting policy for contract revenue is set out in note 2Z(iii). When the outcome of a fixed-price long-term contract can be estimated reliably, contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a long-term contract cannot be estimated reliably, contract costs are recognised as expenses in the period in which they are incurred.

Long-term contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from customers for contract work" (as an asset) or the "Gross amount due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Debtors, deposits and payments in advance". Amounts received before the related work is performed are included in the balance sheet, as a liability, under "Creditors and accrued charges".

P Cash and Cash Equivalents

Cash and cash equivalents comprise cash at banks and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value with a maturity at acquisition within three months. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

Q Debtors, Deposits and Payments in Advance

Debtors, deposits and payments in advance are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2H(i)), except where the effect of discounting would be immaterial or the discount is not measurable as the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

R Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value, net of transaction costs incurred. The unhedged portion of interest-bearing borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Subsequent to initial recognition, the carrying amount of the hedged portion of interest-bearing borrowings is remeasured and the change in fair value attributable to the risk being hedged is recognised in the profit and loss account to offset the effect of the gain or loss on the related hedging instrument.

S Creditors and Accrued Charges

Creditors and accrued charges are stated at amortised cost if the effect of discounting would be material, otherwise they are stated at cost.

2 Principal Accounting Policies *(continued)*

T Derivative Financial Instruments and Hedging Activities

The Group uses derivative financial instruments such as interest rate swaps and currency swaps to manage its interest rate and foreign exchange exposure. Based on the Group's policies, these instruments are used solely for reducing or eliminating financial risks associated with the Group's liabilities and not for trading or speculation purposes.

Derivatives are initially recognised at fair value and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

Where hedge accounting applies, the Group designates derivatives employed as either: (1) a fair value hedge: to hedge the fair value of recognised liabilities; or (2) a cash flow hedge: to hedge the variability in cash flows of a recognised liability or the foreign currency risk of a firm commitment.

(i) Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

(ii) Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated separately in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts previously recognised in other comprehensive income and accumulated in equity are transferred to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account. However, when the transaction in respect of the hedged item results in the recognition of a non-financial asset or liability, the associated gains and losses that were previously recognised in other comprehensive income and accumulated in equity are transferred from equity and included in the initial cost or carrying amount of the non-financial asset or liability.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the transaction in respect of the hedged item is still expected to occur, the cumulative gain or loss existing in equity at that time remains in equity until the transaction occurs and it is recognised in accordance with the above policy. However, if the transaction in respect of the hedged item is no longer expected to occur, the gain or loss accumulated in equity is immediately transferred to the profit and loss account.

(iii) Derivatives That Do Not Qualify for Hedge Accounting

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

U Employee Benefits

(i) Salaries, annual leave, leave passage allowance and other costs of non-monetary benefits are accrued and recognised as an expense in the year in which the associated services are rendered by employees of the Group, except those benefits incurred for staff in respect of construction projects, capital works and property developments, which are capitalised as part of the cost of the qualifying assets.

(ii) Contributions to defined contribution retirement plans, including contributions to Mandatory Provident Funds ("MPF") as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the profit and loss account as incurred, except those contributions incurred for staff in respect of construction projects, capital works and property developments, which are capitalised as part of the cost of the qualifying assets.

(iii) The Group's net obligation in respect of defined benefit retirement plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. If there is no deep market in such bonds, the market yield on government bonds would be used. The calculation is performed by a qualified actuary using the Projected Unit Credit Method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised either as an expense in the profit and loss account, or capitalised as part of the cost of the relevant construction projects, capital works or property developments, as the case may be, on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in a similar manner.

In calculating the Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in the profit and loss account over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

2 Principal Accounting Policies *(continued)*

U Employee Benefits *(continued)*

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iv) Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is recognised as a staff cost, unless the relevant employee expenses qualify for recognition as an asset, on a straight-line basis over the vesting period and taking into account the probability that the options will vest, with a corresponding increase in the employee share-based capital reserve within equity. Fair value is measured by use of a Black-Scholes model, taking into account the terms and conditions upon which the options are granted. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit and loss account for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve). The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

For cash-settled share-based payments, a liability equal to the portion of the services received is recognised at the fair value of the shares determined at each balance sheet date.

(v) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

V Retirement Schemes

The Group operates both defined contribution and defined benefit retirement schemes.

Employer's contributions to defined contribution retirement schemes including MPF Schemes are recognised in the accounts in accordance with the policy set out in note 2U(ii).

Employer's contributions paid and payable in respect of employees of defined benefit retirement schemes as calculated annually by independent actuaries in accordance with the Retirement Scheme Rules and provisions of the Occupational Retirement Schemes Ordinance are used to satisfy the pension expenses recognised in the accounts according to note 2U(iii). Any deficit or surplus thereof will be dealt with in the balance sheet as accrued or prepaid benefit expenses, as the case may be.

W Income Tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the profit and loss account except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity respectively.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination) and investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

2 Principal Accounting Policies *(continued)*

W Income Tax *(continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

X Financial Guarantee Contracts

Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment to the holder when due in accordance with the original or modified terms of a debt instrument.

When the Group issues a financial guarantee, where the effect is material, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) after netting off any consideration received or receivable at inception is initially debited to the profit and loss account and recognised as deferred income within creditors and accrued charges.

The amount of the guarantee initially recognised as deferred income is amortised in the profit and loss account over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2Y if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in creditors and accrued charges in respect of that guarantee, i.e. the amount initially recognised less accumulated amortisation.

Y Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Z Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits associated with the transactions will flow to the Group and the amount of revenue can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) Hong Kong fare revenue is recognised when the journey is provided.

(ii) Advertising income and service fees from telecommunication services provided within the railway are recognised when the services are provided.

(iii) Contract revenue is recognised when the outcome of a consultancy, construction or service contract can be estimated reliably. Contract revenue is recognised using the percentage of completion method, measured by reference to the percentage of contract costs incurred to date to the estimated total contract costs for the contract. When the outcome of a consultancy, construction or service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable to be recovered.

(iv) Rental income from investment properties, station kiosks and other railway premises under operating leases is accounted for in accordance with the terms of the leases. Lease incentives granted are recognised in the profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned. Property management income is recognised when the services are provided.

(v) Franchise revenue from railway subsidiaries outside of Hong Kong is recognised when the services are provided.

2 Principal Accounting Policies *(continued)*

AA Operating Lease Charges

Rentals payable under operating leases are charged on a straight-line basis over the period of the lease to the profit and loss account, except for rentals payable in respect of railway construction, property development in progress and proposed capital projects which are capitalised as part of railway construction in progress, property development in progress and deferred expenditure respectively.

BB Interest and Finance Charges

Interest expense directly attributable to the financing of capital projects prior to their completion or commissioning is capitalised. Exchange differences arising from foreign currency borrowings related to the acquisition of assets are capitalised to the extent that they are regarded as an adjustment to capitalised interest costs. Interest expense attributable to other purposes is charged to the profit and loss account.

Finance charges implicit in the lease payments on assets held under finance leases are charged to the profit and loss account over the period of the lease so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

CC Foreign Currency Translation

Foreign currency transactions during the year are translated into Hong Kong dollars and recorded at exchange rates ruling at the transaction dates. Foreign currency monetary assets and liabilities are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the profit and loss account.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the closing exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

DD Segment Reporting

Operating segments are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocated resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services and products, the type or class of customers, the methods used to provide the services or distribute the products, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

EE Related Parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities including entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

FF Government Grants

Government grants are assistance by governments in the form of transfer of resources in return for the Group's compliance to the conditions attached thereto. Government grants which represent compensation for the cost of an asset are deducted from the cost of the asset in arriving at its carrying value to the extent of the amounts received and receivable as at the date of the balance sheet. Any excess of the amount of grant received or receivable over the cost of the asset at the balance sheet date are carried forward as advance receipts to set off against the future cost of the asset.

3 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC")

On 2 December 2007 (the "Appointed Day"), the Company's operations merged with those of KCRC ("Rail Merger"). The structure and key terms of the Rail Merger were set out in a series of transaction agreements entered into between, inter alia, the Government of the HKSAR ("Government"), KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger included the following:

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance (note 56I);

- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds;

3 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC") *(continued)*

- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;

- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and

- Property Package Agreements and Merger Framework agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

4 Hong Kong Fare Revenue

Hong Kong fare revenue comprises:

in HK$ million	2010	2009
Domestic Service	**8,668**	7,986
Cross-boundary Service	**2,487**	2,327
Airport Express	**694**	617
Light Rail, Bus and Intercity	**610**	568
	12,459	11,498

The Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines. In 2009, the Tseung Kwan O Line was extended when the LOHAS Park Station opened on 26 July 2009 and the West Rail Line was extended with the commencement of passenger operation of the Kowloon Southern Link on 16 August 2009.

5 Non-fare Revenue

A Station Commercial and Rail Related Revenue

Station commercial and rail related revenue comprises:

in HK$ million	2010	2009
Duty free shops and kiosk rental	**1,716**	1,605
Advertising	**734**	597
Telecommunication income	**290**	273
Consultancy income	**113**	159
Project management income from KCRC and the Government	**557**	396
Miscellaneous business revenue	**305**	298
	3,715	3,328

5 Non-fare Revenue *(continued)*

B Rental, Management and Other Revenue

in HK$ million	**2010**	2009
Property rental income:		
– Telford Plaza	**614**	585
– Elements	**509**	442
– Maritime Square	**377**	355
– Luk Yeung Galleria	**153**	147
– Paradise Mall	**118**	115
– Citylink Plaza	**112**	118
– International Finance Centre	**390**	322
– Ginza Mall – Beijing	**105**	108
– Other properties	**380**	356
	2,758	2,548
Property management income	**203**	207
	2,961	2,755
Ngong Ping 360 business revenue	**239**	173
	3,200	2,928

Included in property rental income is HK$116 million (2009: HK$111 million) in respect of the provision of air conditioning services.

Ngong Ping 360 business revenue comprises revenue generated from the cable car operations in Tung Chung and related businesses at the Ngong Ping Theme Village.

6 Revenue and Expenses from Railway Subsidiaries outside of Hong Kong

The operations and maintenance of the Stockholm Metro, Melbourne metropolitan train network ("Melbourne Train") and Phase 1 of Line 4 of Shenzhen Metro System ("Shenzhen Line 4") were taken over by the Group on 2 November 2009, 30 November 2009 and 1 July 2010 respectively. Details of the respective concession arrangements are set out in notes 57H(ii), 57H(iii) and 57G(i). Revenue and expenses relating to railway subsidiaries outside of Hong Kong comprise:

in HK$ million	Stockholm Metro	Melbourne Train	Shenzhen Line 4	Total
2010				
Revenue				
– Franchise income	**2,858**	**5,226**	**20**	**8,104**
– Project income	**–**	**2,013**	**27**	**2,040**
	2,858	**7,239**	**47**	**10,144**
Expenses				
– Staff salary and related expenses	**1,026**	**2,626**	**14**	**3,666**
– Operating lease expenses	**882**	**33**	**20**	**935**
– Maintenance and related works	**552**	**1,623**	**5**	**2,180**
– Expenses relating to project income	**–**	**1,870**	**26**	**1,896**
– Other expenses	**404**	**761**	**23**	**1,188**
	2,864	**6,913**	**88**	**9,865**
2009				
Revenue				
– Franchise income	494	464	–	958
– Project income	–	85	–	85
	494	549	–	1,043
Expenses				
– Staff salary and related expenses	178	219	–	397
– Operating lease expenses	150	33	–	183
– Maintenance and related works	89	73	–	162
– Expenses relating to project income	–	80	–	80
– Other expenses	77	136	–	213
	494	541	–	1,035

Included in expenses relating to project income are staff costs and related expenses amounting to HK$182 million for the year ended 31 December 2010 (2009: nil).

7 Other Net Income

Other net income relates to the construction of Shenzhen Line 4 Phase 2 and comprises:

in HK$ million	**2010**	2009
Construction revenue	**1,719**	1,889
Construction cost	**(1,719)**	(1,889)
	–	–

Construction revenue is recognised by reference to the construction costs incurred since signing of the Project Concession Agreement on 18 March 2009 (note 57G(i)). As of 31 December 2010, total construction cost incurred for Shenzhen Line 4 Phase 2 since the signing of concession agreement on 18 March 2009 was HK$3,608 million (31 December 2009: HK$1,889 million). There was no cumulative net profit or loss recognised in respect of the construction as at 31 December 2010 and 2009.

8 Operating Expenses

A Staff costs and related expenses comprise:

in HK$ million	2010	2009
Amount charged to profit and loss account under:		
– staff costs and related expenses	**3,398**	3,387
– maintenance and related works	**78**	73
– expenses relating to station commercial and rail related businesses	**574**	324
– expenses relating to property ownership, management and other businesses	**144**	155
– expenses relating to railway subsidiaries outside of Hong Kong	**3,848**	397
– project study and business development expenses	**142**	110
– other line items	**22**	23
Amount capitalised in:		
– railway construction in progress before offset by government funding support	**183**	124
– property development in progress	**90**	85
– assets under construction and other projects	**399**	329
– service concession assets	**251**	172
Amount recoverable	**542**	633
Total staff costs	**9,671**	5,812

Amount recoverable relates to property management, entrustment works and other agreements.

The following expenditure is included in staff costs and related expenses:

in HK$ million	2010	2009
Share-based payments	**61**	40
Contributions to defined contribution retirement plans and Mandatory Provident Fund	**362**	191
Expenses recognised in respect of defined benefit retirement plans	**173**	214
	596	445

B The costs of maintenance and related works relate mainly to contracted maintenance and revenue works. Other routine repairs and maintenance works are performed by in-house operations, the costs of which are included under staff costs and stores and spares consumed.

C Project study and business development expenses comprise:

in HK$ million	2010	2009
Business development expenses	**192**	189
Miscellaneous project study expenses and project cost written off	**24**	17
	216	206

Business development expenses relate mainly to studies on business opportunities in the Mainland of China, Europe and Australia.

8 Operating Expenses *(continued)*

D Auditors' remuneration charged to the profit and loss account include:

in HK$ million	2010	2009
Audit services	**10**	8
Tax services	**1**	1
Other audit related services	**3**	2
	14	11

E Operating expenses include the following charges/(credits):

in HK$ million	2010	2009
Loss on disposal of fixed assets	**50**	6
Derivative financial instruments:		
– foreign exchange contracts – ineffective portion of cash flow hedges	**(1)**	(4)
– transfer from hedging reserve (note 21B)	**(1)**	1
Unrealised loss on revaluation of investments in securities	**2**	1

F Operating lease expenses charged to the profit and loss account comprise:

in HK$ million	2010	2009
Shopping centre, office building, staff quarters and bus depot	**84**	83
Rolling stock, stations, office buildings, depots, depot equipment and other minor assets for railway subsidiaries	**935**	183
Amount capitalised	**(20)**	(18)
	999	248

9 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
2010					
Members of the Board					
– Raymond Ch'ien Kuo-fung	**1.2**	**–**	**–**	**–**	**1.2**
– Vincent Cheng Hoi-chuen	**0.3**	**–**	**–**	**–**	**0.3**
– Christine Fang Meng-sang	**0.3**	**–**	**–**	**–**	**0.3**
– Edward Ho Sing-tin	**0.4**	**–**	**–**	**–**	**0.4**
– Alasdair George Morrison (appointed on 9 July 2010)	**0.1**	**–**	**–**	**–**	**0.1**
– Ng Leung-sing	**0.3**	**–**	**–**	**–**	**0.3**
– Abraham Shek Lai-him	**0.3**	**–**	**–**	**–**	**0.3**
– T. Brian Stevenson	**0.4**	**–**	**–**	**–**	**0.4**
– Ceajer Chan Ka-keung	**0.3**	**–**	**–**	**–**	**0.3**
– Eva Cheng	**0.3**	**–**	**–**	**–**	**0.3**
– Joseph Lai Yee-tak	**0.3**	**–**	**–**	**–**	**0.3**
Members of the Executive Directorate					
– Chow Chung-kong	**–**	**6.8**	**–***	**7.1**	**13.9**
– Russell John Black (retired on 31 January 2010)	**–**	**0.8**	**–***	**0.1**	**0.9**
– William Chan Fu-keung	**–**	**4.7**	**0.2**	**1.9**	**6.8**
– Chew Tai-chong (appointed on 1 February 2010)**	**–**	**3.8**	**–***	**1.6**	**5.4**
– Thomas Ho Hang-kwong	**–**	**4.5**	**0.2**	**1.9**	**6.6**
– Lincoln Leong Kwok-kuen	**–**	**5.0**	**0.8**	**2.0**	**7.8**
– Andrew McCusker (retired on 31 December 2010)	**–**	**4.6**	**0.2**	**1.8**	**6.6**
– Leonard Bryan Turk	**–**	**4.4**	**0.2**	**1.9**	**6.5**
	4.2	**34.6**	**1.6**	**18.3**	**58.7**

* During the year ended 31 December 2010, the total contributions paid by the Company for C K Chow and T C Chew, who participated in the MTR MPF Scheme, were HK$12,000 and HK$7,000 respectively. The contribution paid by the Company for Russell J Black, who participated in the MTR Retirement Scheme, was HK$17,484.

** T C Chew was appointed as Member of the Executive Directorate since 1 February 2010. The amount of the emoluments shown in the above table covered the period from 1 February 2010 to 31 December 2010.

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

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

in HK$ million	Fees	Base pay, allowances and benefits in kind	Retirement scheme contribution	Variable remuneration related to performance	Total
2009					
Members of the Board					
– Raymond Ch'ien Kuo-fung	1.2	–	–	–	1.2
– Cheung Yau-kai (retired on 4 June 2009)	0.1	–	–	–	0.1
– Vincent Cheng Hoi-chuen (appointed on 10 July 2009)	0.1	–	–	–	0.1
– Christine Fang Meng-sang	0.3	–	–	–	0.3
– Edward Ho Sing-tin	0.4	–	–	–	0.4
– Ng Leung-sing	0.3	–	–	–	0.3
– Abraham Shek Lai-him	0.3	–	–	–	0.3
– T. Brian Stevenson	0.4	–	–	–	0.4
– Ceajer Chan Ka-keung	0.3	–	–	–	0.3
– Eva Cheng	0.3	–	–	–	0.3
– Alan Wong Chi-kong (up to 16 August 2009)	0.2	–	–	–	0.2
– Joseph Lai Yee-tak (since 17 August 2009)	0.1	–	–	–	0.1
Members of the Executive Directorate					
– Chow Chung-kong	–	6.5	–*	7.3	13.8
– Russell John Black	–	4.5	1.0	1.9	7.4
– William Chan Fu-keung	–	4.3	0.9	1.9	7.1
– Thomas Ho Hang-kwong	–	4.6	0.9	1.9	7.4
– Lincoln Leong Kwok-kuen	–	4.7	0.8	2.0	7.5
– Andrew McCusker	–	4.5	0.9	1.9	7.3
– Leonard Bryan Turk	–	4.3	0.9	1.9	7.1
	4.0	33.4	5.4	18.8	61.6

* During the year ended 31 December 2009, the total contributions paid by the Company for C K Chow, who participated in the MTR MPF Scheme, were HK$12,000.

Russell J Black and Andrew McCusker received a lump sum benefit payment of HK$20.8 million and HK$20.7 million respectively from the MTR Retirement Scheme upon their retirements in January 2010 and December 2010 respectively.

In addition, on 1 December 2009, C K Chow was paid HK$11.3 million, representing his entitlement to receive an equivalent value in cash of 418,017 shares on completion of his three-year contract ended on 30 November 2009 (note 52B(i)). On 12 April 2010, Lincoln K K Leong was paid HK$4.6 million, representing the derivative interest granted to him on 12 April 2007 to receive an equivalent value in cash of 160,000 shares (note 52B(ii)).

The above emoluments do not include the fair value of share options, as estimated at the date of grant which is defined as the date of acceptance of the offer to grant the option.

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

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

Share options were granted to Members of the Executive Directorate under the Company's 2007 Option Scheme, which were offered to them on 10 December 2007, 8 December 2008, 12 June 2009, 8 December 2009, 28 June 2010 and 16 December 2010. The entitlements of each of the Members are as follows:

- C K Chow was granted options in respect of 720,000 shares on 13 December 2007 and 470,000 shares each on 9 December 2008, 9 December 2009 and 17 December 2010, of which 554,000 options were vested in 2010 (2009: 397,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$2.5 million (2009: HK$1.7 million);
- Lincoln K K Leong was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, of which 170,000 options were vested in 2010 (2009: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.7 million (2009: HK$0.5 million);
- Leonard B Turk was granted options in respect of 170,000 shares each on 12 December 2007, 9 December 2008 and 10 December 2009 and 127,500 shares on 17 December 2010, of which 170,000 options were vested in 2010 (2009: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.7 million (2009: HK$0.5 million);
- Russell J Black was granted options in respect of 170,000 shares each on 12 December 2007 and 9 December 2008 and 42,500 shares on 10 December 2009, of which 127,500 options were vested in 2010 (2009: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.5 million (2009: HK$0.4 million);
- Thomas H K Ho was granted options in respect of 170,000 shares each on 12 December 2007, 11 December 2008 and 14 December 2009 and 127,500 shares on 17 December 2010, of which 170,000 options were vested in 2010 (2009: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.8 million (2009: HK$0.5 million);
- Andrew McCusker was granted options in respect of 170,000 shares each on 12 December 2007, 12 December 2008 and 10 December 2009, of which 170,000 options were vested in 2010 (2009: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.7 million (2009: HK$0.5 million);
- William F K Chan was granted options in respect of 170,000 shares each on 13 December 2007, 9 December 2008, 10 December 2009 and 17 December 2010, of which 170,000 options were vested in 2010 (2009: 114,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.8 million (2009: HK$0.5 million);
- Chew Tai-chong was granted options in respect of 85,000 shares on 18 June 2009 and 170,000 shares each on 10 December 2009 and 17 December 2010, of which 85,500 options were vested in 2010 (2009: nil), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.5 million (2009: HK$0.1 million); and
- Jacob Kam Chak-pui replaced Andrew McCusker, who retired from the Company on 31 December 2010, as a Member of the Executive Directorate with effect from 1 January 2011. Under the 2007 Option Scheme, Jacob C P Kam was granted options in respect of 75,000 shares on 13 December 2007, 65,000 shares each on 8 December 2008 and 14 December 2009, 50,000 shares on 21 July 2010 and 170,000 shares on 17 December 2010, of which 69,000 options were vested in 2010 (2009: 47,000), and the respective fair value of the share-based payments recognised for the year ended 31 December 2010 was HK$0.3 million (2009: HK$0.2 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 and note 52.

(ii) On 1 December 2009, C K Chow was granted a derivative interest in respect of 222,161 shares in the Company within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"). The derivative interest represents C K Chow's entitlement to receive an equivalent value in cash of 222,161 shares upon completion of his existing contract on 31 December 2011.

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

(iii) 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$70.5 million (2009: HK$77.5 million).

(iv) 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. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. On 8 August 2007, he was appointed as the non-executive Chairman of the Company after the Rail Merger for a term of two years commencing from 2 December 2007. On 11 November 2009, he was re-appointed as the non-executive Chairman of the Company with effect from 2 December 2009 to 31 December 2012.

All of the five individuals with the highest emoluments are Members of the Executive Directorate whose emoluments are disclosed above.

9 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 2010 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 (the "Pre-IPO Option Scheme") described in note 52A(i), each Member of the Executive Directorate, except C K Chow, Lincoln K K Leong, Andrew McCusker and T C Chew, was granted options on 20 September 2000 to acquire 1,066,000 shares. C K Chow, Lincoln K K Leong and T C Chew joined the Company on 1 December 2003, 1 February 2002 and 11 May 2009 respectively, and are not beneficiaries of the Pre-IPO Option Scheme. Andrew McCusker and Jacob C P Kam were granted options of 266,500 and 117,500 shares respectively on 20 September 2000 under the Pre-IPO Option Scheme and no additional share options were granted upon their appointments as Members of the Executive Directorate on 1 October 2005 and 1 January 2011 respectively.

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). The Pre-IPO Option Scheme expired on 11 September 2010.

(ii) New Joiners Share Option Scheme

Under the New Joiners Share Option Scheme (the "New Option Scheme") as described in note 52A(ii), Lincoln K K Leong, a Member of the Executive Directorate, was granted options to acquire 1,066,000 shares on 1 August 2003.

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).

(iii) 2007 Share Option Scheme

Under the 2007 Share Option Scheme (the "2007 Option Scheme") as described in note 52A(iii), all Members of the Executive Directorate were granted options to acquire shares in 2007, 2008, 2009 and 2010. C K Chow was granted options to acquire 720,000 shares in 2007 and 470,000 shares each in 2008, 2009 and 2010. William F K Chan and Lincoln K K Leong were each granted options to acquire 170,000 shares in each of 2007, 2008, 2009 and 2010. Thomas H K Ho and Leonard B Turk were each granted options to acquire 170,000 shares in each of 2007, 2008 and 2009 and 127,500 shares in 2010. Andrew McCusker was granted options to acquire 170,000 shares in each of 2007, 2008 and 2009. Russell J Black was granted options to acquire 170,000 shares in both 2007 and 2008 and 42,500 shares in 2009. T C Chew was granted options to acquire 85,000 shares in June 2009 and 170,000 shares each in December 2009 and 2010. Jacob C P Kam was granted options to acquire 75,000 shares in December 2007, 65,000 shares each in December 2008 and 2009, 50,000 shares in July 2010 and 170,000 shares in December 2010.

Under the vesting terms of the options granted in 2007, 2008, 2009 and 2010, options granted will be evenly vested in respect of their underlying shares over a period of three years from the date of offer to grant such options (note 9A(i)).

10 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**2010**	2009
Transfer from deferred income on		
– payments received from developers (note 28B(i))	**–**	16
– sharing in kind (note 28B(ii))	**17**	1
Share of surplus from development	**990**	3,497
Income recognised from sharing in kind	**3,026**	72
Miscellaneous income net of other overhead costs	**1**	(32)
	4,034	3,554

11 Depreciation and Amortisation

Depreciation and amortisation comprise:

in HK$ million	2010	2009
Depreciation charge on:		
Hong Kong railway operations	**2,517**	2,476
Assets relating to station commercial and rail related businesses	**93**	91
Assets relating to property ownership, management and other businesses	**72**	71
Railway subsidiaries outside of Hong Kong	**24**	2
	2,706	2,640
Amortisation charge on:		
Service concession assets		
– KCRC Rail Merger	**400**	347
– Railway subsidiaries outside of Hong Kong	**14**	1
Property management rights	**–**	4
	414	352
	3,120	2,992

12 Variable Annual Payment Arising from the Rail Merger

Commencing after the third year from the Appointed Day of the Rail Merger, i.e. 2 December 2010, the Company is obliged to pay variable annual payments to KCRC, calculated on a tiered basis by reference to the revenue generated from the operation of the KCRC service concession over certain thresholds. For the year ended 31 December 2010, the variable annual payment amounted to HK$45 million (2009: nil).

13 Merger Related Expenses

Merger related expenses incurred after the Rail Merger and not eligible for capitalisation were charged to the profit and loss account.

14 Interest and Finance Charges

in HK$ million	2010	2010	2009	2009
Interest expenses in respect of:				
Bank loans, overdrafts and capital market instruments wholly repayable within 5 years	**560**		719	
Bank loans and capital market instruments not wholly repayable within 5 years	**206**		172	
Obligations under service concession	**721**		719	
Other obligations (note 23E)	**15**		15	
Finance charges	**27**		47	
Exchange (gain)/loss	**(37)**		27	
		1,492		1,699
Derivative financial instruments:				
Fair value hedges	**–**		68	
Cash flow hedges:				
– transfer from hedging reserve	**86**		84	
– ineffective portion	**(1)**		–	
Derivatives not qualified for hedge accounting	**–**		3	
		85		155
Interest expenses capitalised		**(178)**		(139)
		1,399		1,715
Interest income in respect of:				
Deposits with banks and other financial institutions	**(114)**		(11)	
Investment in bank medium term notes	**(34)**		–	
Investment in debt securities	**–**		(3)	
Loan to non-controlled subsidiary and associate	**–**		(1)	
		(148)		(15)
Interest income capitalised		**78**		–
		1,329		1,700
Accreted interest on loan to a property developer		**(92)**		(196)
		1,237		1,504

Interest expenses capitalised were calculated at the average cost of borrowings while the interest income capitalised was calculated at the average return from deposits and investments in bank medium term notes to the Group on a monthly basis. During the year ended 31 December 2010, the average cost of borrowings for each month varied from 3.0% to 5.0% per annum (2009: 3.4% to 4.0% per annum) while the average return from deposits and investments in bank medium term notes for each month varied from 0.8% to 1.2% per annum.

During the year, the gain resulting from fair value changes of hedging instruments comprising interest rate and cross currency swaps was HK$119 million (loss in 2009: HK$208 million) and the loss resulting from fair value changes of the underlying financial assets and liabilities being hedged was also HK$119 million (gain in 2009: HK$140 million), with no net gain or loss (2009: net loss of HK$68 million).

15 Share of Profits of Non-controlled Subsidiaries and Associates

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

in HK$ million	2010	2009
Share of profit before taxation of non-controlled subsidiaries (note 30)	**148**	165
Share of profit before taxation of associates (note 32)	**22**	19
	170	184
Share of income tax of non-controlled subsidiaries (note 30)	**(22)**	(16)
Share of income tax of associates (note 32)	**(9)**	(8)
	139	160

16 Income Tax

A Income tax in the consolidated profit and loss account represents:

in HK$ million	2010	2009
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2009: 16.5%) for the year	**1,495**	1,347
– Overseas tax for the year	**93**	4
	1,588	1,351
Deferred tax		
– Origination and reversal of temporary differences on:		
– change in fair value of investment properties	**672**	462
– disposal of investment properties	**–**	(2)
– utilisation/(provision) of tax losses	**10**	(6)
– depreciation allowances in excess of related depreciation	**287**	59
– provision and others	**33**	16
	1,002	529
	2,590	1,880

The provision for Hong Kong Profits Tax for 2010 is calculated at 16.5% (2009: 16.5%) of the estimated assessable profits for the year after deducting accumulated tax losses brought forward, if any.

Current tax 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 the Hong Kong Profits Tax rate of 16.5% (2009: 16.5%).

16 Income Tax *(continued)*

B Reconciliation between tax expense and accounting profit at applicable tax rates:

	2010		2009	
	HK$ million	%	HK$ million	%
Profit before taxation	**14,762**		11,519	
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**2,451**	**16.6**	1,866	16.2
Tax effect of non-deductible expenses	**200**	**1.4**	122	1.1
Tax effect of non-taxable revenue	**(90)**	**(0.6)**	(114)	(1.0)
Tax effect of unused tax losses not recognised	**29**	**0.2**	6	0.1
Actual tax expenses	**2,590**	**17.6**	1,880	16.4

17 Profit Attributable to Equity Shareholders

The consolidated profit attributable to equity shareholders includes a profit of HK$11,878 million (2009: HK$9,663 million) which has been dealt with in the accounts of the Company. Details of dividend paid and payable to equity shareholders of the Company are set out in note 18.

18 Dividends

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

in HK$ million	2010	2009
Dividends paid/payable attributable to the year		
– Interim dividend of 14 cents (2009: 14 cents) per share approved and paid during the year	**807**	800
– Final dividend proposed after the balance sheet date of 45 cents (2009: 38 cents) per share	**2,598**	2,177
	3,405	2,977
Dividends paid attributable to the previous year		
– Final dividend of 38 cents (2008: 34 cents) per share approved and paid during the year	**2,177**	1,925

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

During the year, scrip dividend elections were offered to all shareholders except shareholders with registered addresses in the United States of America or any of its territories or possessions. The financial year ended 31 December 2009 was the last year in which the Company's majority shareholder, The Financial Secretary Incorporated ("FSI"), had elected to receive part of its entitlement to dividends in the form of scrip to the extent necessary to ensure that the amount payable in cash would not exceed 50% of the total dividend payable. Details of dividends paid to the FSI are disclosed in note 56X.

19 Earnings Per Share

A Basic Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to equity shareholders of HK$12,059 million (2009: HK$9,639 million) and the weighted average number of ordinary shares of 5,751,035,100 in issue during the year (2009: 5,691,839,821), calculated as follows:

	2010	2009
Issued ordinary shares at 1 January	**5,727,833,692**	5,661,143,113
Effect of scrip dividends issued	**20,911,122**	30,084,773
Effect of share options exercised	**2,290,286**	611,935
Weighted average number of ordinary shares at 31 December	**5,751,035,100**	5,691,839,821

19 Earnings Per Share *(continued)*

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of HK$12,059 million (2009: HK$9,639 million) and the weighted average number of ordinary shares of 5,756,548,816 in issue during the year (2009: 5,697,441,733) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	2010	2009
Weighted average number of ordinary shares at 31 December	**5,751,035,100**	5,691,839,821
Effect of dilutive potential shares under the Company's share option schemes	**5,513,716**	5,601,912
Weighted average number of ordinary shares (diluted) at 31 December	**5,756,548,816**	5,697,441,733

C Both basic and diluted earnings per share would have been HK$1.51 (2009: HK$1.28) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding change in fair value of investment properties net of related deferred tax, adjusted as follows:

in HK$ million	**2010**	2009
Profit attributable to equity shareholders	**12,059**	9,639
Change in fair value of investment properties	**(4,074)**	(2,798)
Deferred tax on change in fair value of investment properties		
– Effect of the change during the year (note 16A)	**672**	462
Profit from underlying businesses attributable to equity shareholders	**8,657**	7,303

20 Segmental Information

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments:

(i) Hong Kong railway operations: The operation of an urban mass transit railway system within Hong Kong, an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway service, light rail and bus services in the north-west New Territories, intercity passenger services and freight business.

(ii) Hong Kong station commercial activities: Commercial activities including letting of advertising, retail and car parking space at railway stations, bandwidth services on the railway telecommunication system and rail related subsidiaries' businesses in Hong Kong.

(iii) Hong Kong property rental and management: The letting of office, retail and car parking space in investment properties and the provision of estate management services in Hong Kong.

(iv) Railway subsidiaries outside of Hong Kong: The operation and maintenance of mass transit railway systems including station commercial activities in relation to the railway systems outside Hong Kong.

(v) Property developments: Property development at locations relating to the railway system in Hong Kong.

(vi) All others: Including operations relating to the Ngong Ping 360, railway consultancy services, rental and estate management services in the Mainland of China and share of profits of non-controlled subsidiaries and associates.

20 Segmental Information *(continued)*

The results of the reportable segments and reconciliation to the corresponding consolidated totals in the accounts are shown below:

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and manage-ment	Railway subsidiaries outside of Hong Kong	All others	Property develop-ments	Total
2010							
Revenue	**12,486**	**3,018**	**2,845**	**10,144**	**1,025**	**–**	**29,518**
Operating expenses before depreciation, amortisation and variable annual payment arising from the Rail Merger	**(6,755)**	**(374)**	**(556)**	**(9,865)**	**(835)**	**–**	**(18,385)**
	5,731	**2,644**	**2,289**	**279**	**190**	**–**	**11,133**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**4,034**	**4,034**
Operating profit before depreciation, amortisation and variable annual payment arising from the Rail Merger	**5,731**	**2,644**	**2,289**	**279**	**190**	**4,034**	**15,167**
Depreciation and amortisation	**(2,901)**	**(109)**	**(4)**	**(38)**	**(68)**	**–**	**(3,120)**
Variable annual payment arising from the Rail Merger	**(35)**	**(10)**	**–**	**–**	**–**	**–**	**(45)**
	2,795	**2,525**	**2,285**	**241**	**122**	**4,034**	**12,002**
Project studies and business development expenses							**(216)**
Operating profit before interest and finance charges							**11,786**
Interest and finance charges							**(1,237)**
Change in fair value of investment properties			**4,074**				**4,074**
Share of profits of non-controlled subsidiaries and associates				**13**	**126**		**139**
Income tax							**(2,590)**
Profit for the year ended 31 December 2010							**12,172**
Assets							
Operational assets *	**73,924**	**1,674**	**45,837**	**2,410**	**1,399**	**652**	**125,896**
Assets under construction	**2,161**	**10**	**–**	**26**	**–**	**–**	**2,197**
Service concession assets	**15,963**	**–**	**–**	**5,504**	**–**	**–**	**21,467**
Property management rights	**–**	**–**	**31**	**–**	**–**	**–**	**31**
Property development in progress	**–**	**–**	**–**	**–**	**–**	**9,128**	**9,128**
Deferred expenditure	**1,021**	**–**	**21**	**–**	**–**	**37**	**1,079**
Deferred tax assets	**–**	**1**	**5**	**3**	**–**	**–**	**9**
Investments in securities	**–**	**–**	**–**	**–**	**285**	**–**	**285**
Properties held for sale	**–**	**–**	**–**	**–**	**–**	**1,936**	**1,936**
Loan to a property developer	**–**	**–**	**–**	**–**	**–**	**1,975**	**1,975**
Interests in non-controlled subsidiaries	**–**	**–**	**–**	**–**	**541**	**–**	**541**
Interests in associates	**–**	**–**	**–**	**836**	**–**	**–**	**836**
	93,069	**1,685**	**45,894**	**8,779**	**2,225**	**13,728**	**165,380**
Unallocated assets							**16,285**
Total assets							**181,665**

20 Segmental Information *(continued)*

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and management	Railway subsidiaries outside of Hong Kong	All others	Property developments	Total
2010							
Liabilities							
Segment liabilities	**11,064**	**1,061**	**1,195**	**2,193**	**171**	**1,357**	**17,041**
Obligations under service concession	**10,592**	**–**	**–**	**157**	**–**	**–**	**10,749**
Deferred income	**–**	**37**	**–**	**–**	**–**	**568**	**605**
	21,656	**1,098**	**1,195**	**2,350**	**171**	**1,925**	**28,395**
Unallocated liabilities							**35,977**
Total liabilities							**64,372**
Other Information							
Capital expenditure on:							
Operational assets	**65**	**3**	**13**	**95**	**10**	**1**	**187**
Assets under construction	**1,561**	**142**	**–**	**24**	**2**	**–**	**1,729**
Investment properties	**–**	**–**	**247**	**–**	**–**	**–**	**247**
Service concession assets	**566**	**–**	**–**	**1,757**	**–**	**–**	**2,323**
Railway construction in progress	**3,462**	**–**	**–**	**–**	**–**	**–**	**3,462**
Property development in progress	**–**	**–**	**–**	**–**	**–**	**4,372**	**4,372**
Non-cash expenses other than depreciation and amortisation	**44**	**2**	**–**	**4**	**–**	**–**	**50**

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments.

20 Segmental Information *(continued)*

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and manage-ment	Railway subsidiaries outside of Hong Kong	All others	Property develop-ments	Total
2009							
Revenue	11,530	2,741	2,633	1,043	850	–	18,797
Operating expenses before depreciation and amortisation	(6,591)	(315)	(616)	(1,035)	(519)	–	(9,076)
	4,939	2,426	2,017	8	331	–	9,721
Profit on property developments	–	–	–	–	–	3,554	3,554
Operating profit before depreciation and amortisation	4,939	2,426	2,017	8	331	3,554	13,275
Depreciation and amortisation	(2,816)	(97)	(7)	(3)	(69)	–	(2,992)
	2,123	2,329	2,010	5	262	3,554	10,283
Project studies and business development expenses							(206)
Merger related expenses							(12)
Operating profit before interest and finance charges							10,065
Interest and finance charges							(1,504)
Change in fair value of investment properties			2,798				2,798
Share of profits of non-controlled subsidiaries and associates				11	149		160
Income tax							(1,880)
Profit for the year ended 31 December 2009							9,639
Assets							
Operational assets *	87,342	2,069	41,453	2,029	1,482	808	135,183
Assets under construction	1,350	16	–	–	–	–	1,366
Service concession assets	15,725	–	–	3,626	–	–	19,351
Property management rights	–	–	31	–	–	–	31
Property development in progress	–	–	–	–	–	6,718	6,718
Deferred expenditure	529	–	8	–	–	21	558
Deferred tax assets	–	2	6	–	4	–	12
Investments in securities	–	–	–	–	227	–	227
Properties held for sale	–	–	–	–	–	3,783	3,783
Loan to a property developer	–	–	–	–	–	1,916	1,916
Interests in non-controlled subsidiaries	–	–	–	–	490	–	490
Interests in associates	–	–	–	823	–	–	823
	104,946	2,087	41,498	6,478	2,203	13,246	170,458
Unallocated assets							6,036
Total assets							176,494

20 Segmental Information *(continued)*

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and management	Railway subsidiaries outside of Hong Kong	All others	Property developments	Total
2009							
Liabilities							
Segment liabilities	13,446	939	1,048	1,764	118	4,597	21,912
Obligations under service concession	10,625	–	–	–	–	–	10,625
Deferred income	–	43	–	–	–	124	167
	24,071	982	1,048	1,764	118	4,721	32,704
Unallocated liabilities							37,337
Total liabilities							70,041
Other Information							
Capital expenditure on:							
Operational assets	56	51	6	67	15	–	195
Assets under construction	1,297	201	–	–	–	–	1,498
Investment properties	–	–	123	–	–	–	123
Service concession assets	486	–	–	1,977	–	–	2,463
Railway construction in progress	1,086	–	–	–	–	–	1,086
Property development in progress	–	–	–	–	–	303	303
Non-cash expenses other than depreciation and amortisation	18	10	(20)	–	–	–	8

* Operational assets include property, plant and equipment and other assets employed in the operations of individual business segments.

Unallocated assets and liabilities mainly comprise cash, bank balances and deposits, derivative financial assets and liabilities, interest-bearing loans and borrowings.

The following table sets out information about the geographical location of the Group's revenue from external customers and the Group's fixed assets, property management rights, property development in progress, deferred expenditure and interests in non-controlled subsidiaries and associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment and property development in progress; the location of the proposed capital project, in the case of deferred expenditure; the location of the operation to which they are allocated, in the case of service concession assets and property management rights; and the location of operation, in the case of interests in non-controlled subsidiaries and associates.

	Revenue from external customers		Specified non-current assets	
in HK$ million	**2010**	2009	**2010**	2009
Hong Kong (place of domicile)	**19,177**	17,525	**149,073**	142,211
Australia	**7,239**	549	**123**	43
Mainland of China	**175**	148	**6,268**	4,390
Sweden	**2,858**	494	**151**	124
Other countries	**69**	81	**57**	40
	10,341	1,272	**6,599**	4,597
	29,518	18,797	**155,672**	146,808

21 Other Comprehensive Income

A Tax effects relating to each component of other comprehensive income of the Group are shown below:

in HK$ million	2010 Before-tax amount	2010 Tax benefit/ (expense)	2010 Net-of-tax amount	2009 Before-tax amount	2009 Tax expense	2009 Net-of-tax amount
Exchange differences on translation of:						
– Financial statements of overseas subsidiaries	**141**	**–**	**141**	(10)	–	(10)
– Non-controlling interests	**16**	**–**	**16**	–	–	–
	157	**–**	**157**	(10)	–	(10)
Cash flow hedges: net movement in hedging reserve	**(31)**	**5**	**(26)**	122	(20)	102
Self-occupied land and building: net movement in fixed assets revaluation reserve	**341**	**(56)**	**285**	206	(34)	172
Other comprehensive income	**467**	**(51)**	**416**	318	(54)	264

B Reclassification adjustments relating to components of other comprehensive income of the Group are as follows:

in HK$ million	2010	2009
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the year	**(104)**	41
Amounts transferred to initial carrying amount of hedged items	**(12)**	(4)
Transferred to profit or loss:		
– Interest and finance charges (note 14)	**86**	84
– Other expenses (note 8E)	**(1)**	1
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value of hedging instruments recognised during the year	**17**	(7)
– Amounts transferred to initial carrying amount of hedged items	**2**	1
– Transferred to profit or loss	**(14)**	(14)
Net movement in the hedging reserve during the year recognised in other comprehensive income	**(26)**	102
Self-occupied land and buildings:		
Changes in fair value recognised during the year	**341**	206
Net deferred tax debited to other comprehensive income resulting from changes in fair value recognised during the year	**(56)**	(34)
Net movement in fixed assets revaluation reserve during the year recognised in other comprehensive income	**285**	172

22 Investment Properties

Movements and analysis of the Group's and the Company's investment properties, all of which being held in Hong Kong and carried at fair value, are as follows:

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Cost or Valuation				
At 1 January	**40,993**	37,737	**39,879**	36,618
Additions	**247**	123	**229**	117
Disposal	**–**	(17)	**–**	(17)
Change in fair value	**4,074**	2,798	**4,058**	2,809
Reclassification from assets under construction (note 23)	**–**	352	**–**	352
At 31 December	**45,314**	40,993	**44,166**	39,879
Long leases	**1,589**	1,591	**1,589**	1,591
Medium-term leases	**43,725**	39,402	**42,577**	38,288
	45,314	40,993	**44,166**	39,879

All investment properties of the Group were revalued at open market value at 31 December 2010 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff, Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sale and yields. The net increase in fair value of HK$4,074 million (2009: HK$2,798 million) arising from the revaluation has been credited to the consolidated profit and loss account.

The Group's future minimum lease receipts in respect of investment properties under non-cancellable operating leases are disclosed together with those in respect of other properties under note 23D.

23 Other Property, Plant and Equipment

The Group

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2010						
Cost or Valuation						
At 1 January 2010	732	2,120	46,507	61,026	1,366	111,751
Additions	–	–	–	187	1,729	1,916
Capitalisation adjustments *	–	–	(9)	(2)	–	(11)
Disposals/write-offs	–	–	(1)	(360)	(19)	(380)
Surplus on revaluation (note 21B)	–	283	–	–	–	283
Reclassification within other property, plant and equipment	–	–	12	(31)	19	–
Transfer to additional concession property (note 24)	–	–	–	(6)	(68)	(74)
Other assets commissioned	–	–	133	699	(832)	–
Exchange differences	–	–	–	21	2	23
At 31 December 2010	732	2,403	46,642	61,534	2,197	113,508
At Cost	732	–	46,642	61,534	2,197	111,105
At 31 December 2010 Valuation	–	2,403	–	–	–	2,403
Aggregate depreciation						
At 1 January 2010	178	–	5,008	28,721	–	33,907
Charge for the year	13	58	403	2,232	–	2,706
Written back on disposal	–	–	(1)	(324)	–	(325)
Written back on revaluation (note 21B)	–	(58)	–	–	–	(58)
Exchange differences	–	–	–	2	–	2
At 31 December 2010	191	–	5,410	30,631	–	36,232
Net book value at 31 December 2010	541	2,403	41,232	30,903	2,197	77,276

23 Other Property, Plant and Equipment *(continued)*

The Group

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2009						
Cost or Valuation						
At 1 January 2009, as previously reported	–	1,965	46,359	59,473	1,400	109,197
Reclassification on adoption of the amendment to HKAS 17 (note 2A(iii))	732	–	–	–	–	732
At 1 January 2009, as reclassified	732	1,965	46,359	59,473	1,400	109,929
Additions	–	–	–	195	1,498	1,693
Capitalisation adjustments *	–	–	–	(6)	–	(6)
Disposals/write-offs	–	–	(4)	(270)	(2)	(276)
Surplus on revaluation (note 21B)	–	155	–	–	–	155
Reclassification within other property, plant and equipment	–	–	4	(15)	11	–
Reclassification to investment properties (note 22)	–	–	–	–	(352)	(352)
Transfer to additional concession property (note 24)	–	–	–	(79)	(46)	(125)
Transfer from railway construction in progress (note 26)	–	–	134	599	–	733
Other assets commissioned	–	–	14	1,129	(1,143)	–
At 31 December 2009	732	2,120	46,507	61,026	1,366	111,751
At Cost	732	–	46,507	61,026	1,366	109,631
At 31 December 2009 Valuation	–	2,120	–	–	–	2,120
Aggregate depreciation						
At 1 January 2009, as previously reported	–	–	4,612	26,781	–	31,393
Reclassification on adoption of the amendment to HKAS 17 (note 2A(iii))	165	–	–	–	–	165
At 1 January 2009, as reclassified	165	–	4,612	26,781	–	31,558
Charge for the year	13	51	399	2,177	–	2,640
Written back on disposal	–	–	(3)	(235)	–	(238)
Transfer to additional concession property (note 24)	–	–	–	(2)	–	(2)
Written back on revaluation (note 21B)	–	(51)	–	–	–	(51)
At 31 December 2009	178	–	5,008	28,721	–	33,907
Net book value at 31 December 2009	554	2,120	41,499	32,305	1,366	77,844

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

Depreciation charge for the year was HK$2,706 million (2009: HK$2,640 million), comprising depreciation for the year of HK$2,707 million (2009: HK$2,640 million) less HK$1 million (2009: nil) capitalisation adjustment.

23 Other Property, Plant and Equipment *(continued)*

The Company

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2010						
Cost or Valuation						
At 1 January 2010	**732**	**2,120**	**46,507**	**60,177**	**1,350**	**110,886**
Additions	**–**	**–**	**–**	**89**	**1,678**	**1,767**
Capitalisation adjustments *	**–**	**–**	**(9)**	**(2)**	**–**	**(11)**
Disposals/write-offs	**–**	**–**	**(1)**	**(364)**	**(19)**	**(384)**
Surplus on revaluation (note 21B)	**–**	**283**	**–**	**–**	**–**	**283**
Reclassification within other property, plant and equipment	**–**	**–**	**12**	**(31)**	**19**	**–**
Transfer to additional concession property (note 24)	**–**	**–**	**–**	**(6)**	**(68)**	**(74)**
Other assets commissioned	**–**	**–**	**133**	**666**	**(799)**	**–**
At 31 December 2010	**732**	**2,403**	**46,642**	**60,529**	**2,161**	**112,467**
At Cost	**732**	**–**	**46,642**	**60,529**	**2,161**	**110,064**
At 31 December 2010 Valuation	**–**	**2,403**	**–**	**–**	**–**	**2,403**
Aggregate depreciation						
At 1 January 2010	**178**	**–**	**5,008**	**28,167**	**–**	**33,353**
Charge for the year	**13**	**58**	**403**	**2,177**	**–**	**2,651**
Written back on disposal	**–**	**–**	**(1)**	**(323)**	**–**	**(324)**
Written back on revaluation (note 21B)	**–**	**(58)**	**–**	**–**	**–**	**(58)**
At 31 December 2010	**191**	**–**	**5,410**	**30,021**	**–**	**35,622**
Net book value at 31 December 2010	**541**	**2,403**	**41,232**	**30,508**	**2,161**	**76,845**

23 Other Property, Plant and Equipment *(continued)*

The Company

in HK$ million	Leasehold land	Self-occupied land and buildings	Civil works	Plant and equipment	Assets under construction	Total
2009						
Cost or Valuation						
At 1 January 2009, as previously reported	–	1,965	46,359	58,763	1,390	108,477
Reclassification on adoption of the amendment to HKAS 17 (note 2A(iii))	732	–	–	–	–	732
At 1 January 2009, as reclassified	732	1,965	46,359	58,763	1,390	109,209
Additions	–	–	–	78	1,470	1,548
Capitalisation adjustments *	–	–	–	(6)	–	(6)
Disposals/write-offs	–	–	(4)	(270)	(2)	(276)
Surplus on revaluation (note 21B)	–	155	–	–	–	155
Reclassification within other property, plant and equipment	–	–	4	(15)	11	–
Reclassification to investment properties (note 22)	–	–	–	–	(352)	(352)
Transfer to additional concession property (note 24)	–	–	–	(79)	(46)	(125)
Transfer from railway construction in progress (note 26)	–	–	134	599	–	733
Other assets commissioned	–	–	14	1,107	(1,121)	–
At 31 December 2009	732	2,120	46,507	60,177	1,350	110,886
At Cost	732	–	46,507	60,177	1,350	108,766
At 31 December 2009 Valuation	–	2,120	–	–	–	2,120
Aggregate depreciation						
At 1 January 2009, as previously reported	–	–	4,612	26,252	–	30,864
Reclassification on adoption of the amendment to HKAS 17 (note 2A(iii))	165	–	–	–	–	165
At 1 January 2009, as reclassified	165	–	4,612	26,252	–	31,029
Charge for the year	13	51	399	2,152	–	2,615
Written back on disposal	–	–	(3)	(235)	–	(238)
Transfer to additional concession property (note 24)	–	–	–	(2)	–	(2)
Written back on revaluation (note 21B)	–	(51)	–	–	–	(51)
At 31 December 2009	178	–	5,008	28,167	–	33,353
Net book value at 31 December 2009	554	2,120	41,499	32,010	1,350	77,533

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

Depreciation charge for the year was HK$2,651 million (2009: HK$2,615 million), comprising depreciation for the year of HK$2,652 million (2009: HK$2,615 million) less HK$1 million (2009: nil) capitalisation adjustment.

23 Other Property, Plant and Equipment *(continued)*

A The lease term of the Group's and the Company's leasehold land is analysed as follows:

The Group and the Company

in HK$ million	2010	2009
At net book value		
– long leases	**146**	148
– medium-term leases	**395**	406
	541	554

The lease of the land on which civil works as well as plant and equipment are situated for Hong Kong railway operation was granted to the Company under a running line lease which is coterminous with the Company's franchise to operate the mass transit railway under the Operating Agreement (notes 56C, 56D and 56I).

Under the terms of the lease, the Company undertakes to keep and maintain all the leased areas, including underground and overhead structures, at its own cost. With respect to parts of the railway situated in structures where access is shared with other users, such as the Lantau Fixed Crossing, the Company's obligation for maintenance is limited to the railway only. All maintenance costs incurred under the terms of the lease have been dealt with as railway operating costs in the consolidated profit and loss account.

B All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued at open market value on an existing use basis at 31 December 2010 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff, Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$341 million (2009: HK$206 million), which net of deferred tax provision of HK$56 million (2009: HK$34 million) (note 21B), has been recognised in other comprehensive income and accumulated in fixed assets revaluation reserve account (note 51).

The carrying amount of the self-occupied land and buildings at 31 December 2010 would have been HK$899 million (2009: HK$924 million) had the land and buildings been stated at cost less accumulated depreciation.

C Assets under construction include capital works on operating railway.

D The Group leases out investment properties and station kiosks, including duty free shops, under operating leases. The leases typically run for an initial period of one to ten years, with an option to renew the lease after that date at which time all terms will be renegotiated. Lease payments are usually adjusted annually to reflect market rentals. Certain leases above carry additional rental based on turnover, some of which are with reference to thresholds. Lease incentives granted are amortised in the consolidated profit and loss account as an integral part of the net lease payment receivable.

The gross carrying amounts of investment properties of the Group and the Company held for use in operating leases were HK$45,314 million (2009: HK$40,993 million) and HK$44,166 million (2009: HK$39,879 million) respectively. The gross carrying amounts of station kiosks of the Group and the Company held for use in operating leases were HK$551 million (2009: HK$499 million) and the related accumulated depreciation charges were HK$190 million (2009: HK$162 million).

Total future minimum lease receipts under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
in HK$ million	2010	2009	2010	2009
Within 1 year	**3,846**	3,265	**3,592**	3,208
After 1 year but within 5 years	**5,486**	3,651	**4,664**	3,610
Later than 5 years	**391**	54	**74**	54
	9,723	6,970	**8,330**	6,872

23 Other Property, Plant and Equipment *(continued)*

E In March 2003, the Group entered into a series of structured transactions with unrelated third parties to lease out and lease back certain of its passenger cars ("Lease Transaction") involving a total original cost of HK$2,562 million and a total net book value of HK$1,674 million as at 31 March 2003. Under the Lease Transaction, the Group has leased the assets to institutional investors in the United States (the "Investors"), who have prepaid all the rentals in relation to the lease agreement. Simultaneously, the Group has leased the assets back from the Investors based on terms ranging from 21 to 29 years with an obligation to pay rentals in accordance with a pre-determined payment schedule. The Group has an option to purchase the Investors' leasehold interest in the assets at the expiry of the lease term for fixed amounts. Part of the rental prepayments received from the Investors has been invested in debt securities to meet the Group's rental obligations and the amount payable for exercising the purchase option under the Lease Transaction. The Group has an obligation to replace these debt securities with other debt securities in the event those securities do not meet certain credit ratings requirements. In addition, the Group has provided standby letters of credit to the Investors to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms.

The Group retains legal title to the assets and there are no restrictions on the Group's ability to utilise these assets in the operation of the railway business.

As a result of the Lease Transaction, an amount of approximately HK$3,688 million was received in an investment account and was used to purchase debt securities ("Defeasance Securities") to be used to settle the long-term lease payments with an estimated net present value in March 2003 of approximately HK$3,533 million. This resulted in the Group having received in 2003 an amount of HK$141 million net of costs. As the Group is not able to control the investment account in pursuit of its own objectives and its obligations to pay the lease payments are funded by the proceeds of the above investments, those obligations and investments in the Defeasance Securities were not recognised in March 2003 as liabilities and assets of the Group. The net amount of cash received was accounted for as deferred income by the Group.

During 2008, credit ratings of some of these Defeasance Securities were downgraded and subsequently these securities were replaced by standby letters of credit issued to the relevant Investors to support the corresponding payment obligations.

24 Service Concession Assets

Movements and analysis of the Group and the Company's service concession assets are as follows:

The Group

	KCRC Rail Merger				
in HK$ million	Initial concession property	Additional concession property	Shenzhen Line 4	Stockholm Metro	Total
2010					
Cost					
At 1 January 2010	**15,226**	**1,183**	**3,539**	**88**	**20,036**
Net additions during the year	**–**	**566**	**1,757**	**–**	**2,323**
Disposal	**–**	**(5)**	**–**	**–**	**(5)**
Transfer from other property, plant and equipment (note 23)	**–**	**74**	**–**	**–**	**74**
Exchange differences	**–**	**–**	**133**	**3**	**136**
At 31 December 2010	**15,226**	**1,818**	**5,429**	**91**	**22,564**
Accumulated amortisation					
At 1 January 2010	**634**	**50**	**–**	**1**	**685**
Charge for the year	**305**	**95**	**2**	**12**	**414**
Written-off on disposal	**–**	**(3)**	**–**	**–**	**(3)**
Exchange differences	**–**	**–**	**–**	**1**	**1**
At 31 December 2010	**939**	**142**	**2**	**14**	**1,097**
Net book value at 31 December 2010	**14,287**	**1,676**	**5,427**	**77**	**21,467**

24 Service Concession Assets *(continued)*

The Group

in HK$ million	KCRC Rail Merger Initial concession property	KCRC Rail Merger Additional concession property	Shenzhen Line 4	Stockholm Metro	Total
2009					
Cost					
At 1 January 2009	15,226	572	–	–	15,798
Net additions during the year	–	486	1,889	88	2,463
Transfer from other property, plant and equipment (note 23)	–	125	–	–	125
Transfer from deferred expenditure (note 29)	–	–	1,650	–	1,650
At 31 December 2009	15,226	1,183	3,539	88	20,036
Accumulated amortisation					
At 1 January 2009	329	6	–	–	335
Charge for the year	305	42	–	1	348
Transfer from other property, plant and equipment (note 23)	–	2	–	–	2
At 31 December 2009	634	50	–	1	685
Net book value at 31 December 2009	14,592	1,133	3,539	87	19,351

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2010			
Cost			
At 1 January 2010	**15,226**	**1,183**	**16,409**
Net additions during the year	**–**	**566**	**566**
Disposal	**–**	**(5)**	**(5)**
Transfer from other property, plant and equipment (note 23)	**–**	**74**	**74**
At 31 December 2010	**15,226**	**1,818**	**17,044**
Accumulated amortisation			
At 1 January 2010	**634**	**50**	**684**
Charge for the year	**305**	**95**	**400**
Written-off on disposal	**–**	**(3)**	**(3)**
At 31 December 2010	**939**	**142**	**1,081**
Net book value at 31 December 2010	**14,287**	**1,676**	**15,963**

24 Service Concession Assets *(continued)*

The Company

in HK$ million	Initial concession property	Additional concession property	Total
2009			
Cost			
At 1 January 2009	15,226	572	15,798
Net additions during the year	–	486	486
Transfer from other property, plant and equipment (note 23)	–	125	125
At 31 December 2009	15,226	1,183	16,409
Accumulated amortisation			
At 1 January 2009	329	6	335
Charge for the year	305	42	347
Transfer from other property, plant and equipment (note 23)	–	2	2
At 31 December 2009	634	50	684
Net book value at 31 December 2009	14,592	1,133	15,725

Initial concession property and additional concession property are in respect of the Group's right to access, use and operate the KCRC system pursuant to the Rail Merger (note 3). The cost of initial concession property comprises the balance of upfront payment of HK$4,250 million net of HK$326 million in respect of stores and spares acquired, the present value of the total fixed annual payments of HK$750 million per annum discounted at the Company's estimated long-term incremental borrowing rate at inception of 6.75%, the non-recoverable amount of net liabilities assumed from KCRC of HK$226 million and merger-related expenses eligible for capitalisation of HK$389 million. Additional concession property represents expenditures incurred in relation to the replacement and upgrade of the KCRC system.

Service concession assets in respect of Shenzhen Line 4 relate to the Build-Operate-Transfer project of Shenzhen Metro System Line 4 ("Shenzhen Line 4") (note 57G(i)). The cost of the service concession assets comprises the value of construction services provided in respect of the construction of Shenzhen Line 4 Phase 2 and the capitalised present value of the total annual lease payments for the operation of Shenzhen Line 4 Phase 1 of RMB132 million (HK$151 million), calculated as the total annual lease payments of RMB319 million over the concession period discounted at the estimated long-term incremental borrowing rate at inception of 5.35%. The concession property is amortised and charged to the consolidated profit and loss account over the concession period starting from operation commencement.

Service concession assets in respect of Stockholm Metro relate to the costs incurred between the announcement of the Group's winning of the tender on 20 January 2009 and the commencement of the franchise on 2 November 2009 for preparing the Group to operate Stockholm Metro. The concession property is amortised and charged to the consolidated profit and loss account over the term of the franchise.

25 Property Management Rights

Property management rights relate to the rights acquired by the Company from KCRC in the Rail Merger in respect of existing and future managed properties on the Appointed Day.

The Group and The Company

in HK$ million	**2010**	2009
Cost		
At 1 January	**40**	40
Additions during the year	**–**	–
At 31 December	**40**	40
Accumulated amortisation		
At 1 January	**9**	5
Charge for the year	**–**	4
At 31 December	**9**	9
Net book value at 31 December	**31**	31

26 Railway Construction in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Transferred from deferred expenditure (note 29)	Expenditure	Capitalised on commissioning (note 23)	Balance at 31 December
2010					
West Island Line Project					
Construction costs	**891**	**–**	**3,064**	**–**	**3,955**
Consultancy fees	**364**	**–**	**66**	**–**	**430**
Staff costs and other expenses	**418**	**–**	**332**	**–**	**750**
Finance costs/(interest income)	**12**	**–**	**(70)**	**–**	**(58)**
Utilisation of government funding support	**(1,685)**	**–**	**(3,392)**	**–**	**(5,077)**
Total	**–**	**–**	**–**	**–**	**–**
2009					
LOHAS Park Station Project					
Construction costs	490	–	50	(540)	–
Consultancy fees	13	–	–	(13)	–
Staff costs and other expenses	114	–	11	(125)	–
Finance costs	41	–	14	(55)	–
	658	–	75	(733)	–
West Island Line Project					
Construction costs	–	38	853	–	891
Consultancy fees	–	316	48	–	364
Staff costs and other expenses	–	318	100	–	418
Finance costs	–	2	10	–	12
Utilisation of government funding support	–	(400)	(1,285)	–	(1,685)
	–	274	(274)	–	–
Total	658	274	(199)	(733)	–

A LOHAS Park Station Project

The construction of the LOHAS Park Station is covered by the TKE Project Agreement with the Government signed on 4 November 1998. The project was completed and LOHAS Park Station was opened on 26 July 2009. Negotiation on the final accounts with various contractors is in progress.

B West Island Line ("WIL") Project

On 13 July 2009, the Company entered into a Project Agreement with the Hong Kong Special Administrative Region Government for the financing, design, construction and operation of the WIL and related services and facilities.

Pursuant to the agreement, the Government provided funding support of HK$12,252 million to the Company in March 2010 (having already made HK$400 million available in February 2008 under a preliminary project agreement). This funding support is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to the Government amounts to reflect the excess of the original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest).

The project's target completion date is in 2014. The capital cost for the project based on the defined scope of works and this programme is estimated at HK$17,344 million. As at 31 December 2010, the Company has incurred cumulative expenditure of HK$5,077 million (2009: HK$1,685 million), which was wholly offset by the Government funding support, and has authorised outstanding commitments on contracts totalling HK$7,042 million (2009: HK$3,340 million) and estimated future project costs of HK$5,225 million in relation to the project.

27 Other Railway Construction in Progress under Entrustment by Kowloon-Canton Railway Corporation or the Government

A Kowloon Southern Link ("KSL") Project

Subsequent to the Rail Merger, the construction of the KSL remains a responsibility of KCRC who continues to fund the related construction costs. Pursuant to the KSL Project Management Agreement, the Company acts as a project management agent to KCRC in connection with the KSL under certain circumstances in return for a project management fee plus incentive payment if the construction of KSL is completed ahead of time and under budget. Expenditure incurred by the Company for the project management is charged to the consolidated profit and loss account while the project management fee is recognised as revenue in accordance with the Group's accounting policy on revenue recognition of contracts.

KSL was completed and forms an integral part of the service concession arrangement with KCRC upon service commencement on 16 August 2009. During the year ended 31 December 2010, project management fee of HK$52 million (2009: HK$317 million) and incentive payment of HK$55 million (2009: HK$55 million) were recognised as income in the consolidated profit and loss account.

B Shatin to Central Link ("SCL") Project

On 11 March 2008, the Executive Council approved further planning and design of the SCL. On 24 November 2008, the Government and the Company entered into an Entrustment Agreement for the design of and site investigation and procurement activities in relation to the SCL.

Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and the Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

C Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") Project

On 24 November 2008, the Government and the Company entered into an Entrustment Agreement for the design of and site investigation and procurement activities in relation to the XRL ("Preliminary Entrustment Agreement"). Pursuant to the Preliminary Entrustment Agreement, the Company shall carry out or procure the carrying out of the design, site investigation and procurement activities and the Government shall fund directly the total cost of such activities and pay to the Company a maximum amount of HK$1.5 billion in respect of certain costs incurred by the Company, including the Company's in-house design costs and certain on-costs and preliminary costs.

On 26 January 2010, the Government and the Company entered into another Entrustment Agreement for the construction and commissioning of the XRL ("Entrustment Agreement"). Pursuant to the Entrustment Agreement, the Company shall be responsible for the construction and commissioning of the XRL and the Government is responsible as the owner of XRL to fund directly the total cost of such activities and pay to the Company HK$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the Entrustment Agreement but is subject to a maximum annual limit of HK$2,000 million and a total limit of HK$10 billion. In addition, the Government has agreed that the Company will be invited to undertake the operation of the XRL under the service concession approach.

During the year ended 31 December 2010, project management revenue of HK$433 million was recognised in the consolidated profit and loss account.

28 Property Development in Progress

The Airport Railway Agreement entered into in 1995 between the Company and the Government for the construction of the Airport Railway included provisions for the granting to the Company development rights on the land over the five station sites along the Tung Chung and Airport Express Lines ("Airport Railway Property Projects").

The Tseung Kwan O Extension ("TKE") Project Agreement entered into in 1998 between the Company and the Government in respect of the construction of the Tseung Kwan O Extension provides the Company with the right to undertake property developments at four station and depot sites along the Tseung Kwan O Line ("Tseung Kwan O Extension Property Projects") under separate land grant agreements.

Pursuant to the Property Package Agreements in respect of the Rail Merger, the Company acquired property development rights on eight development sites, comprising three awarded and five not yet awarded sites along the East Rail Line, Kowloon Southern Link and Light Rail ("ERL/KSL/LR Property Projects") on the Appointed Day from KCRC (note 3).

Costs incurred by the Company for the acquisition of property development rights and preparation of the sites for development including land premium are capitalised as property development in progress and offset by payments received from developers in respect of the same development. In cases where payments received from developers exceed the related expenditure incurred by the Company, such excess is recorded as deferred income (note 28B(i)). In these cases, any subsequent expenditure incurred by the Company in respect of that development will be charged against deferred income. The remaining deferred income is to be recognised as profits of the Company at the appropriate time after taking into account the outstanding risks and obligations retained by the Company relating to each development. Until such time as deferred income is recognised as profit, it is recorded as a liability of the Company in recognition of the Company's obligations under the grant of the development rights.

A Property Development in Progress

The Group and The Company

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers (note 28B(i))	Transfer out on project completion	Balance at 31 December
2010					
Airport Railway Property Projects	**–**	**14**	**(14)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**2,245**	**331**	**(12)**	**(1,413)**	**1,151**
ERL/KSL/LR Property Projects	**4,473**	**4,027**	**(523)**	**–**	**7,977**
	6,718	**4,372**	**(549)**	**(1,413)**	**9,128**
2009					
Airport Railway Property Projects	–	7	(2)	(5)	–
Tseung Kwan O Extension Property Projects	2,081	177	(13)	–	2,245
ERL/KSL/LR Property Projects	5,814	119	–	(1,460)	4,473
	7,895	303	(15)	(1,465)	6,718

As at 31 December 2009, Tseung Kwan O Extension Property Projects include capitalised interest of HK$769 million in connection with the Company's interest-free loan of HK$4,000 million extended to the developer of Package 2, Tseung Kwan O Area 86 property development project in 2006 (note 39). The amount was transferred out on project completion during 2010.

ERL/KSL/LR Property Projects include the acquisition cost for the property development rights on the development sites from KCRC and mandatory payments in respect of enabling works carried out by KCRC for such sites. As at 31 December 2010, outstanding mandatory payments including interest accrued amounted to HK$699 million (2009: HK$840 million). Expenditure during the year ended 31 December 2010 included HK$3,900 million of land premium in respect of the property development of Austin Station Sites C and D.

28 Property Development in Progress *(continued)*

B Deferred Income on Property Development

The Group and The Company

in HK$ million	2010	2009
Deferred income on property development comprises:		
– Payments received from developers (note 28B(i))	**568**	107
– Sharing in kind (note 28B(ii))	**–**	17
	568	124

(i) Deferred Income on Payments Received from Developers

The Group and The Company

in HK$ million	Balance at 1 January	Payments received from developers	Offset against development in progress (note 28A)	Amount recognised as profit (note 10)	Balance at 31 December
2010					
Airport Railway Property Projects	**52**	**–**	**(14)**	**–**	**38**
Tseung Kwan O Extension Property Projects	**55**	**–**	**(12)**	**–**	**43**
ERL/KSL/LR Property Projects	**–**	**1,010**	**(523)**	**–**	**487**
	107	**1,010**	**(549)**	**–**	**568**
2009					
Airport Railway Property Projects	70	–	(2)	(16)	52
Tseung Kwan O Extension Property Projects	68	–	(13)	–	55
	138	–	(15)	(16)	107

(ii) Deferred Income on Sharing in Kind

Under the development agreement of the Airport Railway Property Projects, the Company received during 2004 certain portions of the shell of a retail centre at Kowloon Station ("Elements") and its car parking spaces. Part of the property development profit is deferred as the Company has an obligation under the development agreement to complete the fitting-out works. On this basis, movements of the deferred income on this sharing in kind during the year are set out below:

The Group and The Company

in HK$ million	2010	2009
Balance as at 1 January	**17**	18
Less: Amount recognised as profit (note 10)	**(17)**	(1)
Balance as at 31 December	**–**	17

28 Property Development in Progress *(continued)*

C Stakeholding Funds

As stakeholder under certain Airport Railway, Tseung Kwan O Extension and East Rail Line Property Projects, the Company receives and manages deposit monies and sales proceeds in respect of sales of properties under those developments. These monies are placed in separate designated bank accounts and, together with any interest earned, will be released to the developers for the reimbursement of costs of the respective developments in accordance with the terms and conditions of the Government Consent Schemes and development agreements. Any balance remaining will only be released for distribution after all obligations relating to the developments have been met. Accordingly, the balances of the stakeholding funds and the corresponding bank balances have not been included in the Group's and the Company's balance sheets. Movements in stakeholding funds during the year are as follows:

The Group and The Company

in HK$ million	2010	2009
Balance as at 1 January	**6,455**	4,575
Stakeholding funds received	**43,110**	39,540
Add: Interest earned thereon	**18**	17
	49,583	44,132
Disbursements during the year	**(45,875)**	(37,677)
Balance as at 31 December	**3,708**	6,455
Represented by :		
Balances in designated bank accounts as at 31 December	**3,706**	6,453
Retention receivable	**2**	2
	3,708	6,455

In addition to the above, there are certain deposit monies and sales proceeds in respect of an East Rail Line property development site, amounting to HK$1,225 million at 31 December 2010 (2009: HK$124 million) that are under the custody of the solicitors and managed by the Company on behalf of KCRC as KCRC's agent.

D West Rail Property Developments

As part of the Rail Merger, the Company was appointed to act as the agent of KCRC and certain KCRC subsidiary companies ("West Rail Subsidiaries") in the development of specified development sites along the West Rail. The Company will receive an agency fee of 0.75% of the gross sale proceeds in respect of the developments except for the Tuen Mun development on which the Company will receive 10% of the net profits accrued under the development agreement. The Company will also recover from the West Rail Subsidiaries all the costs incurred in respect of the West Rail development sites plus 16.5% on-cost, together with interest accrued thereon. During 2010, the reimbursable costs incurred by the Company including on-cost and interest accrued were HK$60 million (2009: HK$72 million).

29 Deferred Expenditure

	The Group		The Company	
in HK$ million	2010	2009	2010	2009
Balance at 1 January	**558**	1,988	**558**	338
Expenditure during the year	**521**	494	**521**	494
Transfer to service concession assets (note 24)	**–**	(1,650)	**–**	–
Transfer to railway construction in progress (note 26)	**–**	(274)	**–**	(274)
Balance at 31 December	**1,079**	558	**1,079**	558

During the year ended 31 December 2009, with the concession agreement in respect of Shenzhen Metro Line 4 signed on 18 March 2009, expenditure on Shenzhen Metro Line 4, amounting to HK$1,650 million as at 31 December 2008, was transferred to service concession assets upon signing of the concession agreement. During the same year, expenditure on the West Island Line Project, amounting to HK$274 million after netting off Government funding support of HK$400 million received prior to that date, was transferred to railway construction in progress upon signing of the project agreement. Deferred expenditure as at 31 December 2010 mainly related to design works for the proposed capital projects of the Kwun Tong Line Extension and South Island Line (East) Projects in Hong Kong.

30 Interests in Non-controlled Subsidiaries

in HK$ million	The Group 2010	The Group 2009	The Company 2010	The Company 2009
Unlisted shares, at cost	–	–	**24**	24
Share of net assets	**541**	490	**–**	–
	541	490	**24**	24

The following list contains the particulars of all major non-controlled subsidiaries of the Group:

Name of company	Issued and paid up ordinary share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
Octopus Holdings Limited	HK$42,000,000	57.4%	57.4%	–	Hong Kong	Investment holding
Octopus Cards Limited	HK$42,000,000	57.4%	–	100%	Hong Kong	Operate a contactless smartcard common payment system in Hong Kong
Octopus China Investments Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Connect Limited	HK$2	57.4%	–	100%	Hong Kong	Dormant
Octopus International Projects Limited	HK$1	57.4%	–	100%	Hong Kong	Investment holding
Octopus Investments Limited	HK$2	57.4%	–	100%	Hong Kong	Investment holding
Octopus Knowledge Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in Dubai
Octopus Netherlands Limited	HK$1	57.4%	–	100%	Hong Kong	Consultancy services on introducing a smartcard system in the Netherlands
Octopus Payments Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Rewards Limited	HK$1	57.4%	–	100%	Hong Kong	Develop and operate a common loyalty scheme
Octopus Solutions Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services in Auckland
Octopus Systems Limited	HK$2	57.4%	–	100%	Hong Kong	Consultancy services in Hong Kong
Octopus Transactions Limited	HK$2	57.4%	–	100%	Hong Kong	Project management
Octopus Cards Macau Limited	MOP25,000	57.4%	–	100%	Macau	Promote the contactless smartcard common payment system in Macau

Octopus Cards Limited ("OCL") was formed in 1994 by the Company and four other local transport companies to undertake the development and operation of the "Octopus" contactless smart card ticketing system. In 2000, the Hong Kong Monetary Authority ("HKMA") approved OCL to become a deposit-taking company ("DTC") and extend the use of Octopus cards to non-transport related services. In 2001, the Company disposed 10.4% of the shareholding interest of OCL to certain other shareholders of OCL for a consideration of HK$16 million, together with a deferred consideration to be received in the event of OCL subsequently becoming a stock exchange listed company. In 2005, OCL undertook a company re-structuring to separate OCL's regulated payment businesses and non-payment businesses by setting up a new holding company, Octopus Holdings Limited ("OHL"), to hold the entire issued share capital of OCL as well as other companies established for the non-payment businesses. The Company's effective interest in OHL and OHL's subsidiaries remains unchanged at 57.4% and the Company's appointees to the OHL's Board of Directors are limited to 49% of the voting rights at board meetings.

During the year ended 31 December 2010, the Company incurred HK$109 million (2009: HK$100 million) of expenses for the central clearing services provided by OCL. OCL incurred HK$48 million (2009: HK$24 million) of expenses for the load agent and Octopus card issuance and refund services, computer equipment and relating services, staff secondment, project administration services as well as warehouse storage space provided by the Company. During the year, OHL distributed dividends of HK$75 million (2009: HK$40 million) to the Company.

30 Interests in Non-controlled Subsidiaries *(continued)*

The condensed consolidated profit and loss account and the balance sheet for OHL are shown below:

Consolidated Profit and Loss Account

Year ended 31 December in HK$ million	2010 (Audited)	2009 (Audited)
Turnover	**662**	629
Other operating income	**6**	5
	668	634
Staff costs	**(119)**	(120)
Load agent fees and bank charges for add value services	**(80)**	(72)
Other expenses	**(222)**	(159)
Operating profit before depreciation	**247**	283
Depreciation	**(43)**	(62)
Operating profit before interest and finance charges	**204**	221
Net interest income	**56**	66
Share of loss from a jointly controlled entity	**(2)**	–
Profit before taxation	**258**	287
Income tax	**(39)**	(28)
Profit for the year	**219**	259
Group's share of profit before taxation (note 15)	**148**	165
Group's share of income tax (note 15)	**(22)**	(16)

Consolidated Balance Sheet

at 31 December in HK$ million	2010 (Audited)	2009 (Audited)
Assets		
Fixed assets	**189**	159
Investments	**2,195**	2,427
Other assets	**277**	209
Cash at banks and on hand	**671**	245
	3,332	3,040
Liabilities		
Card floats and card deposits due to cardholders	**(2,004)**	(1,834)
Amounts due to related parties	**(24)**	(24)
Other liabilities	**(362)**	(329)
	(2,390)	(2,187)
Net assets	**942**	853
Equity		
Share capital	**42**	42
Retained profits	**900**	811
	942	853
Group's share of net assets	**541**	490

31 Investments in Subsidiaries

The Company

in HK$ million	2010	2009
Unlisted shares, at cost	1,256	1,222
Less: Impairment losses	–	(3)
	1,256	1,219

Investments in subsidiaries include HK$24 million (2009: HK$24 million) in respect of investments in non-controlled subsidiaries, the relevant details of which are disclosed in note 30. The following list contains details of controlled subsidiaries as defined under note 2C as at 31 December 2010, which have been consolidated into the Group's accounts.

Name of company	Issued and paid up ordinary/registered share capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: Held by subsidiary	Place of incorporation and operation	Principal activities
Subsidiaries held throughout 2010						
Glory Goal Limited	HK$10,000	100%	100%	–	Hong Kong	Investment holding
Hanford Garden Property Management Company Limited	HK$10,000	100%	100%	–	Hong Kong	Property management
MTR (Estates Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding and property management
MTR (Shanghai Project Management) Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services, property investment and development
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR China Commercial Management No. 1 Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR China Consultancy Company Limited	HK$1,000	100%	100%	–	Hong Kong	Railway consultancy services
MTR China Property Limited	HK$1,000	100%	100%	–	Hong Kong	Property management
MTR Engineering Services Limited	HK$1,000	100%	100%	–	Hong Kong	Engineering services
MTR Hangzhou Line 1 Investment Company Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Information Solutions Company Limited	HK$1,000	100%	100%	–	Hong Kong	License MTR software to MTR's subsidiaries and associates
MTR Property Agency Co. Limited	HK$2	100%	100%	–	Hong Kong	Property agency
MTR Rail Transport Training (International) Company Limited	HK$2,800,000	100%	100%	–	Hong Kong	Provide rail transport training in Mainland China
MTR Shenyang Holdings Limited	HK$1,000	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Investment Holdings Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Shenyang Property No. 1 Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment, management and other property related businesses

31 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
MTR Shenzhen Investment Holding Limited	HK$400,000	100%	100%	–	Hong Kong	Investment holding
MTR Telecommunication Company Limited	HK$100,000,000	100%	100%	–	Hong Kong	Mobile telecommunication network services
MTR Travel Limited	HK$2,500,000	100%	100%	–	Hong Kong	Travel services
Ngong Ping 360 Limited	HK$2	100%	100%	–	Hong Kong	Operate the Tung Chung to Ngong Ping cable car system and Theme Village in Ngong Ping
Pierhead Garden Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Rail Sourcing Solutions (International) Limited	HK$2	100%	100%	–	Hong Kong	Global railway supply and sourcing services
Royal Ascot Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
Sun Tuen Mun Centre Management Company Limited	HK$50,000	100%	100%	–	Hong Kong	Property management
TraxComm Limited	HK$15,000,000	100%	100%	–	Hong Kong	Fixed telecommunication network services
V-Connect Limited	HK$1,000	100%	100%	–	Hong Kong	Mobile telecommunication network services
360 Holidays Limited	HK$500,000	100%	–	100%	Hong Kong	Guided tour services
Metro Trains Melbourne Pty. Ltd. *	AUD16,250,000	60% on ordinary shares; 30% on Class A shares	60% on ordinary shares; 30% on Class A shares	–	Australia	Railway operations and maintenance
Fasttrack Insurance Ltd.	HK$77,500,000	100%	100%	–	Bermuda	Insurance underwriting
Candiman Limited *	US$1	100%	100%	–	British Virgin Islands	Investment holding
MTR Corporation (C.I.) Limited	US$1,000	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR Finance Lease (001) Limited	US$1	100%	100%	–	Cayman Islands/ Hong Kong	Finance
MTR (Macau) Property Management Company Limited	MOP25,000	100%	–	100%	Macau	Property management, consultancy and other property management related businesses
MTR Stockholm AB	SEK40,000,000	100%	–	100%	Sweden	Railway operations and maintenance
Chongqing Premier Property Management Company Limited *	US$150,000	70%	–	70%	The People's Republic of China	Property management

31 Investments in Subsidiaries *(continued)*

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
MTR (Beijing) Commercial Facilities Management Company Limited	HK$93,000,000	100%	–	100%	The People's Republic of China	Property leasing and management
MTR (Beijing) Property Services Company Limited *	RMB3,000,000	100%	100%	–	The People's Republic of China	Property management
MTR Consultancy (Beijing) Co. Ltd. (Incorporated)	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services, marketing and promotion
MTR Consulting (Shenzhen) Co. Ltd. (Incorporated)	HK$1,000,000	100%	100%	–	The People's Republic of China	Railway consultancy services
MTR Corporation (Shenzhen) Limited (Incorporated)	HK$2,636,000,000	100%	–	100%	The People's Republic of China	Railway construction, operation and management
MTR Corporation (Shenzhen) Training Centre * (Incorporated)	RMB2,000,000	100%	–	100%	The People's Republic of China	Provide rail transport training
Shanghai Hong Kong Metro Construction Management Co. Ltd. (Incorporated)	HK$15,000,000	60%	–	60%	The People's Republic of China	Railway construction management and development
MTR Corporation (Silverlink) Limited	GBP1	100%	–	100%	United Kingdom	Investment holding
MTR Corporation (UK) Limited	GBP29	100%	100%	–	United Kingdom	Investment holding
Rail Sourcing Solutions (UK) Limited *	GBP1	100%	–	100%	United Kingdom	Railway supply and sourcing services
<u>Subsidiaries established during 2010</u>						
Extensive Growth Limited	HK$1	100%	100%	–	Hong Kong	Investment holding
MTR Property (Beijing) No.1 Company Limited	HK$1	100%	–	100%	Hong Kong	Property development, investment, management and other property related businesses
MTR Property (Shenzhen) Company Limited	HK$1	100%	100%	–	Hong Kong	Property development, investment and management
MTR Commercial Management (Beijing) Company Limited *	HK$120,000	100%	–	100%	The People's Republic of China	Business management, business consultancy, commercial facilities strategy and consultancy services

* Subsidiaries not audited by KPMG

During the year ended 31 December 2010, Rail Sourcing Solutions (UK) Limited was wound up.

32 Interests in Associates

The Group

in HK$ million	**2010**	2009
Share of net assets	**836**	823

The Group and the Company had interests in the following associates as at 31 December 2010:

Name of company	Issued and paid up ordinary/ registered share capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by subsidiary	Place of incorporation and operation	Principal activities
Beijing MTR Corporation Limited (Incorporated)	RMB1,380,000,000	49%	49%	The People's Republic of China	Railway construction, operation, management and development
Shenyang MTR Corporation Limited	RMB100,000,000	49%	49%	The People's Republic of China	Railway operation and management
Tunnelbanan Teknik Stockholm AB	SEK30,000,000	50%	50%	Sweden	Railway maintenance
London Overground Rail Operations Ltd ("LOROL") *	GBP2	50%	50%	United Kingdom	Railway management

* Companies not audited by KPMG

During the year ended 31 December 2010, Tunnelbanan Teknik Stockholm AB provided rolling stock maintenance and other supporting services to MTR Stockholm AB at an amount of SEK511 million (HK$550 million) (2009: SEK104 million or HK$113 million). MTR Stockholm AB leased depots, depot equipment and provided other supporting services to Tunnelbanan Teknik Stockholm AB at a total amount of SEK114 million (HK$122 million) (2009: SEK23 million or HK$24 million).

During the year, the Company provided staff secondment, information technology and other support services to Beijing MTR Corporation Limited at a total amount of HK$32 million (2009: HK$48 million) and staff secondment and consultancy service to LOROL at an amount of HK$1 million (2009: HK$1 million). During the year ended 31 December 2009, the Company also provided staff secondment to Shenyang MTR Corporation Limited at an amount of HK$14 million.

The summary financial information of the Group's effective interests in associates is as follows:

in HK$ million	**2010**	2009
Non-current assets	**2,435**	2,771
Current assets	**747**	434
Non-current liabilities	**(972)**	(83)
Current liabilities	**(1,374)**	(2,299)
Net assets	**836**	823
Income	**1,612**	2,115
Expenses	**(1,590)**	(2,096)
Profit before taxation	**22**	19
Income tax	**(9)**	(8)
Net profit for the year	**13**	11

33 Investments in Securities

Investments in securities represent debt securities held by the overseas insurance underwriting subsidiary and bank medium term notes held by the Company comprising:

The Group

in HK$ million	2010	2009
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**1,000**	–
– maturing after 1 year	**2,627**	–
	3,627	–
Trading securities listed overseas, at fair value (Level 1, see note 36 for definition)		
– maturing within 1 year	**67**	107
– maturing after 1 year	**218**	120
	285	227
	3,912	227

The Company

in HK$ million	2010	2009
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**1,000**	–
– maturing after 1 year	**2,627**	–
	3,627	–

34 Staff Housing Loans

The Group and The Company

in HK$ million	2010	2009
Balance at 1 January	**7**	10
Redemption	**(1)**	(1)
Repayment	**(2)**	(2)
Balance at 31 December	**4**	7

The Group and The Company

in HK$ million	2010	2009
Amounts receivable:		
– within 1 year	**1**	2
– after 1 year	**3**	5
	4	7

The MTR Staff Housing Loan Scheme, a Company financed scheme, was introduced in 1997 to replace, on a phased basis, the previous arrangements whereby interest subsidies were paid by the Company to eligible employees. All housing loans granted to employees carry interest either at the prevailing Best Lending Rate less 1.75% per annum or at the Company's Average Cost of Borrowings plus 0.75% per annum, and are secured by mortgages over the relevant properties. Since December 2001, the scheme has been closed for application and eligible employees have been provided with an option to switch the property mortgage to a specified commercial bank based on agreed terms.

The Company considers that the nominal value of housing loans is not significantly different from their fair values.

35 Properties Held for Sale

The Group and The Company

in HK$ million	2010	2009
Properties held for sale		
– at cost	**1,829**	3,676
– at net realisable value	**107**	107
	1,936	3,783

Properties held for sale at 31 December 2010 comprised mainly residential units and car parking spaces at The Palazzo at Fo Tan Station along the East Rail Line and Lake Silver at Wu Kai Sha Station along the Ma On Shan 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. The properties are stated on the balance sheet at the lower of cost, which is deemed to be their fair value upon initial recognition as determined by reference to an independent open market valuation at the date of receipt (notes 2K(iv) and (v)), and their net realisable value at the balance sheet date. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties. The net realisable values as at 31 December 2010 and 2009 were determined by reference to an open market valuation of the properties as at those dates, undertaken by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff, Members of the Hong Kong Institute of Surveyors.

Properties held for sale at net realisable value are stated net of provision of HK$12 million (2009: HK$12 million), made in order to state these properties at the lower of their cost and estimated net realisable value.

36 Derivative Financial Assets and Liabilities

A Fair Value

The contracted notional amounts, fair values and maturities based on contractual undiscounted cash flows of derivative financial instruments outstanding are as follows:

The Group and The Company

in HK$ million	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in: Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2010								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	147	11	2					
– inflow				121	27	12	–	160
– outflow				(112)	(25)	(12)	–	(149)
– not qualified for hedge accounting :	11	2	2					
– inflow				13	–	–	–	13
– outflow				(11)	–	–	–	(11)
Cross currency swaps								
– fair value hedges :	1,255	75	2					
– inflow				46	37	817	467	1,367
– outflow				(15)	(10)	(792)	(464)	(1,281)
Net settled:								
Interest rate swaps								
– fair value hedges	2,834	280	2	102	123	91	18	334
– cash flow hedges	350	7	2	(7)	(5)	5	11	4
	4,597	375		137	147	121	32	437
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	82	4	2					
– inflow				49	19	8	–	76
– outflow				(52)	(20)	(8)	–	(80)
– not qualified for hedge accounting :	129	–	2					
– inflow				108	17	4	–	129
– outflow				(108)	(17)	(4)	–	(129)
Cross currency swaps								
– fair value hedges :	4,663	32	2					
– inflow				9	15	5,092	–	5,116
– outflow				(15)	(26)	(5,106)	–	(5,147)
Net settled:								
Interest rate swaps								
– fair value hedges	–	–	2	–	–	–	–	–
– cash flow hedges	1,312	112	2	(49)	(42)	(29)	–	(120)
	6,186	148		(58)	(54)	(43)	–	(155)
Total	10,783							

36 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The Group and The Company

in HK$ million	Notional amount	Fair value	Level*	Contractual undiscounted cash flow maturing in Less than 1 year	1-2 years	2-5 years	Over 5 years	Total
2009								
Derivative Financial Assets								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	756	32	2					
– inflow				639	92	58	–	789
– outflow				(617)	(85)	(54)	–	(756)
– not qualified for hedge accounting :	5	–	2					
– inflow				4	1	–	–	5
– outflow				(4)	(1)	–	–	(5)
Cross currency swaps								
– fair value hedges :	1,275	59	2					
– inflow				64	50	841	450	1,405
– outflow				(30)	(25)	(828)	(465)	(1,348)
Net settled:								
Interest rate swaps								
– fair value hedges	3,780	256	2	128	68	103	2	301
– cash flow hedges	350	23	2	(7)	(3)	13	29	32
	6,166	370		177	97	133	16	423
Derivative Financial Liabilities								
Gross settled:								
Foreign exchange forwards								
– cash flow hedges :	67	1	2					
– inflow				51	11	4	–	66
– outflow				(52)	(11)	(4)	–	(67)
– not qualified for hedge accounting :	76	2	2					
– inflow				65	9	–	–	74
– outflow				(67)	(9)	–	–	(76)
Cross currency swaps								
– fair value hedges :	9,342	97	2					
– inflow				4,664	29	4,728	–	9,421
– outflow				(4,700)	(39)	(4,812)	–	(9,551)
Net settled:								
Interest rate swaps								
– fair value hedges	500	15	2	5	(1)	(18)	–	(14)
– cash flow hedges	2,242	122	2	(81)	(30)	(36)	–	(147)
	12,227	237		(115)	(41)	(138)	–	(294)
Total	18,393							

* The levels are defined in HKFRS 7 as follows:

Level 1: Fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

Level 2: Fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

Level 3: Fair values measured using valuation techniques in which any significant input is not based on observable market data

36 Derivative Financial Assets and Liabilities *(continued)*

A Fair Value *(continued)*

The discounted cash flow method, which discounts the future contractual cash flows at the current market interest and foreign exchange rates that are available to the Group for similar financial instruments, is the main valuation technique used to determine the fair value of the Group's borrowings and derivative financial instruments such as interest rate swaps and cross currency swaps. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

The Group's derivative financial instruments consist predominantly of interest rate and cross currency swaps, and the relevant interest rate swap curves as of 31 December 2010 and 2009 were used to discount the cash flows of financial instruments. For Hong Kong dollars, interest rates used ranged from 0.045% to 3.407% (2009: 0.080% to 3.713%), U.S dollars from 0.392% to 3.509% (2009: 0.193% to 4.703%) and Euro from 0.379% to 3.393% (2009: 0.236% to 4.247%).

The table above details the remaining contractual maturities at the balance sheet date of the Group's and the Company's derivative financial liabilities and assets, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay.

B Financial Risks

The Group's operating activities and financing activities expose it to four main types of financial risks, namely liquidity risk, interest rate risk, foreign exchange risk and credit risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects of these financial risks on the Group's financial performance.

The Board of Directors provides principles for overall risk management and approves policies covering specific areas, such as liquidity risk, interest rate risk, foreign exchange risk, credit risk, concentration risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity. The Group's Preferred Financing Model (the "Model") is an integral part of its risk management policies. The Model specifies, amongst other things, the preferred mix of fixed and floating rate debts, the permitted level of foreign currency debts and an adequate length of financing horizon for coverage of forward funding requirements, against which the Group's financing related liquidity, interest rate and currency risk exposures are measured, monitored and controlled. The Board regularly reviews its risk management polices and authorises changes if necessary based on operating and market conditions and other relevant factors. The Board also reviews on an annual basis as part of the budgeting process and authorises changes if necessary to the Model in accordance with changes in market conditions and practical requirements.

The use of derivative financial instruments to control and hedge against interest rate and foreign exchange risk exposures is an integral part of the Group's risk management strategy. In accordance with Board policy, these instruments shall only be used for controlling or hedging risk exposures, and cannot be used for speculation purposes. All of the derivative instruments used by the Group are over-the-counter derivatives comprising principally interest rate swaps, cross currency swaps and foreign exchange forward contracts.

(i) Liquidity Risk

Liquidity risk refers to the risk that funds are not available to meet liabilities as they fall due, and it may result from timing and amount mismatches of cash inflow and outflow.

The Group employs projected cash flow analysis to manage liquidity risk by forecasting the amount of cash required, including working capital, debt repayments, dividend payments, capital expenditures and new investments, and by maintaining sufficient cash balance and/or undrawn committed banking facilities to ensure these requirements are met. It adopts a prudent approach and will maintain sufficient cash balance and committed banking facilities to provide forward coverage of at least 6 to 15 months of projected cash requirements as specified in the Model. The Group also conducts stress testing of its projected cash flow to analyse liquidity risk, and would arrange additional banking facilities or debt issuance or otherwise take appropriate actions if such stress tests reveal significant risk of material cash flow shortfall.

The following table details the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group

	2010				2009			
in HK$ million	Capital market instruments	Bank loans and overdrafts	Others	Total	Capital market instruments	Bank loans and overdrafts	Others	Total
Loans and other obligations								
Amounts repayable beyond 5 years	**3,218**	**2,315**	**598**	**6,131**	3,851	2,006	557	6,414
Amounts repayable within a period of between 2 and 5 years	**8,717**	**1,318**	**1**	**10,036**	8,573	2,532	–	11,105
Amounts repayable within a period of between 1 and 2 years	**603**	**6,569**	**1**	**7,173**	1,012	140	–	1,152
Amounts repayable within 1 year	**1,013**	**480**	**1**	**1,494**	6,622	3,195	–	9,817
	13,551	**10,682**	**601**	**24,834**	20,058	7,873	557	28,488

36 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

The Company

in HK$ million	2010 Capital market instruments	2010 Bank loans and overdrafts	2010 Others	2010 Total	2009 Capital market instruments	2009 Bank loans and overdrafts	2009 Others	2009 Total
Loans and other obligations								
Amounts repayable beyond 5 years	**577**	**–**	**598**	**1,175**	593	134	557	1,284
Amounts repayable within a period of between 2 and 5 years	**117**	**531**	**–**	**648**	115	1,835	–	1,950
Amounts repayable within a period of between 1 and 2 years	**39**	**6,457**	**–**	**6,496**	39	60	–	99
Amounts repayable within 1 year	**39**	**376**	**–**	**415**	5,031	3,118	–	8,149
	772	**7,364**	**598**	**8,734**	5,778	5,147	557	11,482

Others represent obligations under lease out/lease back transaction (note 23E).

(ii) Interest Rate Risk

The Group's interest rate risk arises principally from its borrowing activities. Borrowings based on fixed and floating rates expose the Group to fair value and cash flow interest rate risk respectively due to fluctuations in market interest rates. The Group manages and controls its interest rate risk exposure by maintaining a level of fixed rate debt between 40% and 70% of total debt outstanding as specified by the Model. Should the actual fixed rate debt level deviate substantially from the Model, derivative financial instruments such as interest rate swaps would be procured to align the fixed and floating mix with the Model. As at 31 December 2010, 45% of the Group's total debt outstanding was denominated either in or converted to fixed interest rate after taking into account outstanding cross currency and interest rate swaps.

The Group's exposure due to its floating rate borrowings is offset by the floating rate interest income it earns from its cash balances, bank deposits and other investment instruments. As at 31 December 2010, the Group had total cash balances and bank deposits of HK$11,948 million from which it derived floating rate interest income, compared with total floating rate borrowings of HK$11,237 million.

As at 31 December 2010, it is estimated that a 100 basis points increase/50 basis points decrease in interest rates, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately HK$85/HK$24 million. Other components of consolidated equity would increase/decrease by approximately HK$49/HK$26 million.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The interest rate assumptions represent management's assessment of a reasonable possible change in interest rates over the period until the next annual balance sheet date in the light of the current low absolute levels of interest rates and the greater scope for rate increase than decrease in the future.

In 2009, a similar analysis was performed based on the assumption of a general increase/decrease of 100/50 basis points in interest rates, which would decrease/decrease the Group's profit after tax and retained profits by approximately HK$4/HK$5 million. Other components of consolidated equity would increase/decrease by approximately HK$67/HK$35 million.

(iii) Foreign Exchange Risk

Foreign exchange risk arises when recognised assets and liabilities are denominated in a currency that is not the Group's functional currency. For the Group, it arises principally from its borrowing and overseas procurement activities.

The Group manages and controls its foreign exchange risk exposure by maintaining a modest level of unhedged non-Hong Kong dollar debt as specified by the Model, and minimal foreign exchange open positions created by its procurements overseas. Where the currency of a borrowing is not matched with that of the expected cash flows for servicing the debt, the Group would convert its foreign currency exposure resulting from the borrowing to Hong Kong dollar exposure through cross currency swaps. For procurement in foreign currencies, the Group would enter into foreign exchange forward contracts to secure the necessary foreign currencies at pre-determined exchange rates for settlement.

The Group's exposure to US dollars due to its foreign currency borrowings is also offset by the amount of US dollar cash balances, bank deposits and investments that it maintains.

As most of the Group's receivables and payables are denominated in the respective Group companies' functional currencies (Hong Kong dollars, Renminbi, Australian dollars or Swedish krona) or United States dollars (with which Hong Kong dollars are pegged) and most of its payment commitments denominated in foreign currencies are covered by foreign exchange forward contracts, management does not expect that there will be any significant currency risk associated with them.

36 Derivative Financial Assets and Liabilities *(continued)*

B Financial Risks *(continued)*

(iv) Credit Risk

Credit risk refers to the risk that a counterparty will be unable to pay amounts in full when due. For the Group, this arises mainly from the deposits it maintains and the derivative financial instruments that it has entered into with various banks and counterparties as well as from the Defeasance Securities it procured under the lease out/lease back transaction (note 23E). The Group limits its exposure to credit risk by placing deposits and transacting derivative financial instruments only with financial institutions with acceptable investment grade credit ratings or guarantee, and diversifying its exposure to various counterparties.

All derivative financial instruments are subject to a maximum counterparty limit based on the respective counterparty's credit ratings in accordance with policy approved by the Board. Credit exposure in terms of estimated fair market value of and largest potential loss arising from these instruments based on the "value-at-risk" concept is measured, monitored and controlled against their respective counterparty limits. To further reduce counterparty risk exposure, the Group also applies set-off and netting arrangements across all derivative financial instruments and other financial transactions with the same counterparty.

All deposits and investments are similarly subject to a separate maximum counterparty/issuer limit based on the respective counterparty/issuer's credit ratings and/or status as Hong Kong's note-issuing banks. There is also a limit on the length of time that the Group can maintain a deposit with a counterparty or investment from an issuer based upon the counterparty/issuer's credit ratings. Deposit/investment outstanding and maturity profile are monitored regularly to ensure they are within the limits established for the counterparties/issuers. In addition, the Group actively monitors the credit default swap levels of counterparties/issuers and their daily changes, and may on the basis of the observed levels and other considerations adjust its exposure and/or maximum counterparty/issuer limit to the relevant counterparty.

As at balance sheet date, the maximum exposure to credit risk of the Group with respect to derivative financial assets and bank deposits is represented respectively by the carrying amount of the derivative financial assets and the aggregate amount of deposits on its balance sheet. As at balance sheet date, there was no significant concentration risk to a single counterparty.

In addition, the Company also manages and controls its exposure to credit risks in respect of receivables and loan to a property developer as stated in notes 38 and 39 respectively.

37 Stores and Spares

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Stores and spares expected to be consumed:				
– within 1 year	**643**	629	**519**	547
– after 1 year	**426**	417	**363**	333
	1,069	1,046	**882**	880
Less: Provision for obsolete stock	**(8)**	(6)	**(8)**	(6)
	1,061	1,040	**874**	874

Stores and spares expected to be consumed after 1 year comprise mainly contingency spares and stocks kept to meet cyclical maintenance requirements.

38 Debtors, Deposits and Payments in Advance

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Debtors, deposits and payments in advance relate to:				
– Property development projects	**636**	805	**636**	805
– Railway operations and others	**2,421**	1,623	**1,139**	1,134
	3,057	2,428	**1,775**	1,939

38 Debtors, Deposits and Payments in Advance *(continued)*

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

(i) The majority of Hong Kong fare revenue is collected either through Octopus Cards with daily settlement on the next working day or in cash for other ticket types. A small portion of Hong Kong fare revenue collected through pre-sale agents is due within 21 days.

(ii) Franchise revenue in Shenzhen is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types. Franchise revenue in Melbourne is collected either weekly or monthly depending on its nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

(iii) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due 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.

(iv) Amounts receivable under interest rate and currency swap agreements with financial institutions are due in accordance with the respective terms of the agreements.

(v) Consultancy service incomes are billed monthly, upon work completion or on other basis stipulated in the consultancy contracts and are due within 30 days.

(vi) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

The ageing of debtors included above is analysed as follows:

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Amounts not yet due	**1,900**	1,414	**1,088**	1,117
Overdue by 30 days	**157**	209	**61**	200
Overdue by 60 days	**27**	11	**21**	9
Overdue by 90 days	**8**	3	**3**	1
Overdue by more than 90 days	**11**	13	**6**	7
Total debtors	**2,103**	1,650	**1,179**	1,334
Deposits and payments in advance	**785**	600	**427**	427
Prepaid pension costs	**169**	178	**169**	178
	3,057	2,428	**1,775**	1,939

Amounts not yet due includes HK$634 million (2009: HK$805 million) in respect of property development which are due according to the terms of the relevant development agreements or sale and purchase agreements, receivable from certain stakeholding funds (note 28C) awaiting finalisation of the respective development accounts as well as other receivables on miscellaneous recoverable expenses.

As at 31 December 2010, all debtors, deposits and payments in advance were expected to be recovered within one year except for HK$153 million (2009: HK$198 million) included in the amounts relating to deposits and receivables in respect of railway operations and others, which were expected to be recovered between one to three years. The nominal values less impairment losses for bad and doubtful debts are not discounted as it is considered that the effect of discounting would not be significant.

Included in debtors, deposits and payments in advance are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2010	2009	**2010**	2009
Dirhams (in million)	**–**	6	**–**	6
New Taiwan dollars (in million)	**2**	3	**2**	3
Pound sterling (in million)	**–**	1	**–**	1
United States dollars (in million)	**9**	11	**8**	10

39 Loan to a Property Developer

The Group and The Company

in HK$ million	2010 Nominal amount	2010 Carrying amount	2009 Nominal amount	2009 Carrying amount
Interest-free loan to a property developer	**2,000**	**1,975**	2,000	1,916

The loan was provided to the developer of Package 2, Tseung Kwan O Area 86 (LOHAS Park) property development project under the terms of the development agreement. The loan is interest-free and guaranteed by the developer's ultimate holding company (the "Guarantor") and is repayable on completion of the respective phases of the project. The Company monitors the exposure to credit risk in respect of the loan by regularly assessing the credit quality of the Guarantor, taking into account the Guarantor's current financial position, the Company's past experience on transactions with the Guarantor and other relevant factors.

40 Amounts Due from the Government and Other Related Parties

in HK$ million	The Group 2010	The Group 2009	The Company 2010	The Company 2009
Amounts due from:				
– the Government	**156**	12,432	**156**	12,432
– KCRC	**25**	165	**25**	165
– non-controlled subsidiaries	**17**	15	**17**	15
– associates	**132**	176	**71**	94
– other subsidiaries of the Company (net of impairment losses)	**–**	–	**4,096**	3,249
	330	12,788	**4,365**	15,955

As at 31 December 2010, the amount due from the Government relates to outstanding receivables and retention as well as provision for contract claims recoverable from the Government in connection with infrastructure works entrusted to the Company, reimbursable costs incurred by the Company for the West Rail property developments (note 28D) and outstanding receivables in respect of the costs recoverable from the Government for the Shatin to Central Link and Express Rail Link Projects (notes 27B and 27C). Other than these items, the amount due from the Government as at 31 December 2009 also included Government funding support receivable for the construction of the WIL Project of HK$12,252 million, which was received in March 2010 (note 26B).

The amount due from KCRC relates to payments to the Company in respect of the Outsourcing Agreement and KSL Project Management Agreement, costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement, as well as certain reimbursable expenditures of KCRC settled by the Company on KCRC's behalf.

The amount due from non-controlled subsidiaries relates to receivables from Octopus Cards Limited.

The amounts due from associates of the Group as at 31 December 2010 include the outstanding balances of loans to London Overground Rail Operations Ltd, amounting to HK$12 million (GBP1 million) (2009: HK$13 million or GBP 1 million) (note 57H(i)) and to Tunnelbanan Teknik Stockholm AB, amounting to HK$75 million (SEK65 million) (2009: HK$71 million or SEK65 million) (note 57H(ii)).

All contract retentions on the above entrusted works were due for release within one year. All other amounts due from the Government and other related parties were expected to be received within 12 months.

The nominal values of amounts due from the Government and other related parties are considered not significantly different from their fair values as the amounts due are expected to be substantially settled within 24 months.

41 Cash, Bank Balances and Deposits

in HK$ million	The Group 2010	The Group 2009	The Company 2010	The Company 2009
Deposits with banks and other financial institutions	**12,337**	5,493	**12,065**	5,455
Cash at banks and on hand	**997**	1,622	**208**	167
Cash, bank balances and deposits	**13,334**	7,115	**12,273**	5,622
Less: Bank deposits with more than three months to maturity when placed	**(9,610)**	–	**(9,355)**	–
Less: Bank overdrafts (note 42A)	**(16)**	(21)	**(16)**	(21)
Cash and cash equivalents in the cash flow statement	**3,708**	7,094	**2,902**	5,601

During the year, the Group recognised deferred income and received properties in kind for long term investment purpose in respect of property development of HK$59 million (2009: HK$89 million), which did not involve movements of cash or cash equivalents.

Included in cash, bank balances and deposits in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group 2010	The Group 2009	The Company 2010	The Company 2009
Australian dollars (in million)	**11**	–	**11**	–
Euros (in million)	**5**	4	**5**	4
Japanese Yen (in million)	**100**	369	**100**	369
New Taiwan dollars (in million)	**10**	12	**10**	12
Pound sterling (in million)	**–**	3	**–**	3
Swedish krona (in million)	**2**	–	**2**	–
United States dollars (in million)	**679**	270	**676**	265

42 Loans and Other Obligations

A By Type

The Group

in HK$ million	2010 Carrying amount	2010 Fair value	2010 Repayable amount	2009 Carrying amount	2009 Fair value	2009 Repayable amount
Capital market instruments						
Listed or publicly traded:						
US dollar Global notes due 2010	**–**	**–**	**–**	4,656	4,927	4,679
Debt issuance programme (Eurobond due 2014)	**4,759**	**5,144**	**4,663**	4,692	5,045	4,663
	4,759	**5,144**	**4,663**	9,348	9,972	9,342
Unlisted:						
Debt issuance programme notes due 2010 to 2020	**6,679**	**7,202**	**6,447**	7,719	8,178	7,547
	6,679	**7,202**	**6,447**	7,719	8,178	7,547
Total capital market instruments	**11,438**	**12,346**	**11,110**	17,067	18,150	16,889
Bank loans	**8,971**	**8,973**	**8,972**	6,443	6,438	6,428
Others	**332**	**370**	**332**	312	321	312
Loans and others	**20,741**	**21,689**	**20,414**	23,822	24,909	23,629
Bank overdrafts	**16**	**16**	**16**	21	21	21
Short-term loans	**300**	**300**	**300**	25	25	25
Total	**21,057**	**22,005**	**20,730**	23,868	24,955	23,675

42 Loans and Other Obligations *(continued)*

A By Type *(continued)*

The Company

	2010			2009		
in HK$ million	Carrying amount	Fair value	Repayable amount	Carrying amount	Fair value	Repayable amount
Capital market instruments						
Listed or publicly traded:						
US dollar Global notes due 2010	–	–	–	4,656	4,927	4,679
	–	–	–	4,656	4,927	4,679
Unlisted:						
Debt issuance programme notes due 2018	**457**	**646**	**466**	447	628	479
	457	**646**	**466**	447	628	479
Total capital market instruments	**457**	**646**	**466**	5,103	5,555	5,158
Bank loans	**6,915**	**6,918**	**6,916**	4,966	4,961	4,951
Others	**328**	**366**	**328**	312	321	312
Loans and others	**7,700**	**7,930**	**7,710**	10,381	10,837	10,421
Bank overdrafts	**16**	**16**	**16**	21	21	21
Short-term loans	**300**	**300**	**300**	25	25	25
Total	**8,016**	**8,246**	**8,026**	10,427	10,883	10,467

Others include non-defeased obligations under lease out/lease back transaction (note 23E).

As at 31 December 2010, the Group had available undrawn committed bank loan facilities amounting to HK$2,294 million (2009: HK$10,513 million). In addition, the Group had a number of uncommitted facilities with undrawn amounts totalling HK$15,028 million (2009: HK$14,155 million), comprising a debt issuance programme and short-term bank loan facilities.

The fair values are based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest and foreign exchange rates that is available to the Group for similar financial instruments.

The carrying amounts of short-term loans and bank overdrafts approximated their fair values.

The amounts of borrowings, denominated in a currency other than the functional currency of the entity to which they relate, before and after currency hedging activities are as follows:

The Group

	Before hedging activities		After hedging activities	
	2010	2009	**2010**	2009
Euros (in million)	**1**	3	**–**	–
Pound sterling (in million)	**–**	2	**–**	2
United States dollars (in million)	**761**	1,363	**1**	3

The Company

	Before hedging activities		After hedging activities	
	2010	2009	**2010**	2009
Euros (in million)	**1**	3	**–**	–
Pound sterling (in million)	**–**	2	**–**	2
United States dollars (in million)	**61**	663	**1**	3

42 Loans and Other Obligations *(continued)*

B By Repayment Terms

The Group

in HK$ million	2010 Capital market instruments	2010 Bank loans and overdrafts	2010 Others	2010 Total	2009 Capital market instruments	2009 Bank loans and overdrafts	2009 Others	2009 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**2,715**	**1,471**	**328**	**4,514**	3,215	1,155	312	4,682
Amounts repayable within a period of between 2 and 5 years	**7,793**	**1,084**	**2**	**8,879**	7,395	2,222	–	9,617
Amounts repayable within a period of between 1 and 2 years	**102**	**6,400**	**1**	**6,503**	500	16	–	516
Amounts repayable within 1 year	**500**	**17**	**1**	**518**	5,779	3,035	–	8,814
	11,110	**8,972**	**332**	**20,414**	16,889	6,428	312	23,629
Bank overdrafts	**–**	**16**	**–**	**16**	–	21	–	21
Short-term loans	**–**	**300**	**–**	**300**	–	25	–	25
	11,110	**9,288**	**332**	**20,730**	16,889	6,474	312	23,675
Less: Unamortised discount/premium/ finance charges outstanding	**(38)**	**(5)**	**–**	**(43)**	(57)	(1)	–	(58)
Adjustment due to fair value change of financial instruments	**366**	**4**	**–**	**370**	235	16	–	251
Total carrying amount of debt	**11,438**	**9,287**	**332**	**21,057**	17,067	6,489	312	23,868

The Company

in HK$ million	2010 Capital market instruments	2010 Bank loans and overdrafts	2010 Others	2010 Total	2009 Capital market instruments	2009 Bank loans and overdrafts	2009 Others	2009 Total
Long-term loans and others								
Amounts repayable beyond 5 years	**465**	**–**	**328**	**793**	465	132	312	909
Amounts repayable within a period of between 2 and 5 years	**1**	**511**	**–**	**512**	14	1,768	–	1,782
Amounts repayable within a period of between 1 and 2 years	**–**	**6,389**	**–**	**6,389**	–	16	–	16
Amounts repayable within 1 year	**–**	**16**	**–**	**16**	4,679	3,035	–	7,714
	466	**6,916**	**328**	**7,710**	5,158	4,951	312	10,421
Bank overdrafts	**–**	**16**	**–**	**16**	–	21	–	21
Short-term loans	**–**	**300**	**–**	**300**	–	25	–	25
	466	**7,232**	**328**	**8,026**	5,158	4,997	312	10,467
Less: Unamortised discount/premium/ finance charges outstanding	**(5)**	**(5)**	**–**	**(10)**	(13)	(1)	–	(14)
Adjustment due to fair value change of financial instruments	**(4)**	**4**	**–**	**–**	(42)	16	–	(26)
Total carrying amount of debt	**457**	**7,231**	**328**	**8,016**	5,103	5,012	312	10,427

The amounts repayable within 1 year in respect of capital market instruments and bank loans are included in long-term loans as these amounts are intended to be refinanced on a long-term basis.

42 Loans and Other Obligations *(continued)*

C Bonds and Notes Issued and Redeemed

Bonds and notes issued during the year ended 31 December 2010 and 2009 comprise:

The Group

	2010		2009	
in HK$ million	Principal amount	Net consideration received	Principal amount	Net consideration received
Debt issuance programme notes	–	–	500	500

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 year ended 31 December 2010, the Group redeemed HK$1,100 million (2009: HK$1,300 million) of its unlisted debt securities and US$600 million (2009: US$750 million) of its listed debt securities.

D Guarantees and Pledges

(i) There were no guarantees given by the Government in respect of the loan facilities of the Group as at 31 December 2010 and 2009.

(ii) As at 31 December 2010, 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 RMB4,000 million (2009: RMB4,000 million) bank loan facility granted to it.

(iii) As at 31 December 2010, certain assets held by Metro Trains Melbourne Pty. Ltd., a 60% owned subsidiary of the Company in Australia, were pledged as security for an AUD13 million (2009: nil) bank loan facility granted to it.

Apart from the above, none of the other assets of the Group was charged or subject to any encumbrance as at 31 December 2010.

43 Creditors and Accrued Charges

	The Group		The Company	
in HK$ million	2010	2009	2010	2009
Creditors and accrued charges				
– Airport Railway Project	57	63	57	63
– Tseung Kwan O Extension Project	4	10	4	10
– LOHAS Park Station Project	5	19	5	19
– WIL Project	512	303	512	303
– Property projects and management	1,887	4,849	1,798	4,760
– Hong Kong railway operations and others	3,738	2,797	3,342	2,444
– Shenzhen Metro Line 4 Project	535	715	–	–
– Railway subsidiaries outside of Hong Kong	1,163	759	–	–
Gross amount due to customers for contract work	15	15	15	15
Government funding support on WIL Project un-utilised	7,575	10,967	7,575	10,967
	15,491	20,497	13,308	18,581

As at 31 December 2010, creditors and accrued charges mainly related to capital projects to be settled upon certification of work in progress and swap interest payable. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

As at 31 December 2010, the aggregate amount of contract costs incurred plus recognised profits less recognised losses included in the gross amount due to customers for contract works was HK$294 million (2009: HK$290 million).

The gross amount due to customers for contract work that is expected to be settled after more than one year as at 31 December 2010 was nil (2009: HK$15 million).

43 Creditors and Accrued Charges *(continued)*

The analysis of creditors included above by due dates is as follows:

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Due within 30 days or on demand	**2,331**	5,005	**1,025**	3,692
Due after 30 days but within 60 days	**1,603**	1,082	**1,077**	771
Due after 60 days but within 90 days	**341**	280	**331**	268
Due after 90 days	**1,725**	1,439	**1,530**	1,302
	6,000	7,806	**3,963**	6,033
Rental and other refundable deposits	**1,517**	1,437	**1,472**	1,323
Accrued employee benefits	**399**	287	**298**	258
Government funding support	**7,575**	10,967	**7,575**	10,967
Total	**15,491**	20,497	**13,308**	18,581

Creditors and accrued charges in respect of the capital projects and other construction works include provisions for claims on completed contracts, which were capitalised as part of the related assets. Most of these claims have been resolved and it is anticipated that, subject to unforeseen circumstances, the remaining amount required to be paid will be sufficiently covered by the above mentioned provisions of the respective projects. The carrying amounts of such claim provisions and their movements are not separately disclosed in view of their commercial sensitivity.

Creditors and accrued charges were expected to be settled within one year except for HK$963 million (2009: HK$828 million) included in amounts relating to railway operations and others, which were expected to be settled after one year. The amounts due after one year are mainly rental deposits received from shop and station kiosk tenants and advance income received from telecommunication services operators, majority of which are due to be repaid within three years. The Group considers the effect of discounting these deposits would be immaterial.

The nominal values of creditors and accrued charges are not significantly different from their fair values.

Included in creditors and accrued charges are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2010	2009	**2010**	2009
Australian dollars (in million)	**1**	1	**1**	1
Euros (in million)	**6**	4	**6**	4
Japanese Yen (in million)	**31**	80	**31**	80
Pound sterling (in million)	**1**	1	**1**	1
Swiss franc (in thousand)	**–**	470	**–**	470
United States dollars (in million)	**17**	23	**2**	8

44 Contract Retentions

The Group

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2010			
Railway extension projects	**3**	**123**	**126**
Railway operations	**105**	**173**	**278**
	108	**296**	**404**
2009			
Railway extension projects	18	216	234
Railway operations	69	51	120
	87	267	354

44 Contract Retentions *(continued)*

The Company

in HK$ million	Due for release within 12 months	Due for release after 12 months	Total
2010			
Railway extension projects	**3**	**123**	**126**
Railway operations	**46**	**49**	**95**
	49	**172**	**221**
2009			
Railway extension projects	18	66	84
Railway operations	69	51	120
	87	117	204

The effect of discounting these contract retentions is considered immaterial as these amounts are substantially due to be released within 24 months.

Included in contract retentions are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2010	2009	**2010**	2009
Australian dollars (in thousand)	**522**	522	**522**	522
Euros (in thousand)	**144**	460	**144**	460
Japanese Yen (in million)	**4**	4	**4**	4

45 Amounts Due to the Government and Other Related Parties

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Amounts due to:				
– the Government	**27**	19	**27**	19
– KCRC	**809**	904	**809**	904
– an associate	**56**	–	**–**	–
– subsidiaries	**–**	–	**11,243**	12,236
	892	923	**12,079**	13,159

The amount due to KCRC relates to mandatory payments and interest payable to KCRC in respect of the property development sites along the East Rail Line, Kowloon Southern Link and Light Rail as well as the accrued portion of the fixed annual payment and variable annual payment for the service concession.

The amount due to an associate as at 31 December 2010 includes the outstanding balance of a loan from Tunnelbanan Teknik Stockholm AB to MTR Stockholm AB, amounting to HK$29 million (SEK25 million). The loan is unsecured, bears an interest rate of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate and has no fixed terms of repayment.

The amount due to the Company's subsidiaries includes HK$11,162 million (2009: HK$12,156 million) due to MTR Corporation (C.I.) Limited in respect of proceeds from bonds and notes issued by the subsidiary, which were on-lent to the Company for its general corporate purposes with specified repayment dates and interest rates (note 42C), and accrued interest. These amounts are stated at their fair values. The remaining balances due to subsidiaries are non-interest bearing and have not been discounted as they do not have any fixed repayment terms and the amount is not material. Out of the total amount due to subsidiaries as at 31 December 2010, HK$10,481 million (2009: HK$10,851 million) is expected to be settled after one year.

46 Obligations under Service Concession

Obligations under service concession are the corresponding liabilities recognised in relation to the total fixed annual payments capitalised as service concession assets in respect of the Rail Merger and the total annual lease payments capitalised as service concession assets in respect of the operation of Shenzhen Line 4 Phase 1 (notes 3 and 24). During the year ended 31 December 2010, the Group recognised HK$151 million (2009: nil) of the obligation under service concession in respect of Shenzhen Line 4 Phase 1.

Movements of the Group's and the Company's obligations under service concessions are as follows:

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Balance as at 1 January	**10,625**	10,656	**10,625**	10,656
Add: Total annual lease payments capitalised at inception	**151**	–	**–**	–
Add: Increase in interest payable	**4**	–	**–**	–
Less: Amount repaid/payable during the year	**(36)**	(31)	**(33)**	(31)
Exchange difference	**5**	–	**–**	–
Balance as at 31 December	**10,749**	10,625	**10,592**	10,625

The outstanding balances as at 31 December 2010 and 2009 are repayable as follows:

The Group

	2010			2009		
in HK$ million	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
Amounts repayable beyond 5 years	**10,549**	**21,232**	**31,781**	10,437	21,750	32,187
Amounts repayable within a period of between 2 and 5 years	**128**	**2,140**	**2,268**	120	2,130	2,250
Amounts repayable within a period of between 1 and 2 years	**37**	**719**	**756**	35	715	750
Amounts repayable within 1 year	**35**	**721**	**756**	33	717	750
	10,749	**24,812**	**35,561**	10,625	25,312	35,937

The Company

	2010			2009		
in HK$ million	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments	Present value of fixed annual payments	Interest expense relating to future periods	Total fixed annual payments
Amounts repayable beyond 5 years	**10,392**	**21,045**	**31,437**	10,437	21,750	32,187
Amounts repayable within a period of between 2 and 5 years	**128**	**2,122**	**2,250**	120	2,130	2,250
Amounts repayable within a period of between 1 and 2 years	**37**	**713**	**750**	35	715	750
Amounts repayable within 1 year	**35**	**715**	**750**	33	717	750
	10,592	**24,595**	**35,187**	10,625	25,312	35,937

47 Loan from Holders of Non-controlling Interests

Loan from holders of non-controlling interests represents that portion of total shareholder loan of AUD48.75 million (HK$386 million) granted to Metro Trains Melbourne Pty. Ltd. ("MTM") by the holders of its non-controlling interests. The loan carries an interest rate of 7.5% per annum and is repayable at the discretion of MTM or on the expiry of the operation and maintenance franchise on 29 November 2017, whichever is earlier.

48 Deferred Income

in HK$ million	The Group 2010	2009	The Company 2010	2009
Deferred income on property development (note 28B)	**568**	124	**568**	124
Deferred income on transfer of assets from customers	**45**	45	**–**	–
Less : Amount recognised as income	**(8)**	(2)	**–**	–
	37	43	**–**	–
	605	167	**568**	124

49 Income Tax in the Balance Sheet

A Current taxation in the consolidated balance sheet comprised provision for Hong Kong Profits Tax for the Company and certain subsidiaries for the year ended 31 December 2010, chargeable at Hong Kong Profits Tax Rate at 16.5% (2009: 16.5%) and after netting off provisional tax paid, and overseas tax chargeable at the appropriate current tax rates of taxation ruling in the relevant countries.

in HK$ million	The Group 2010	2009	The Company 2010	2009
Provision for Hong Kong Profits Tax for the year (note 16)	**1,495**	1,347	**1,484**	1,340
Hong Kong Provisional Profits Tax paid	**(581)**	(921)	**(574)**	(915)
	914	426	**910**	425
Balance relating to overseas tax	**104**	4	**–**	–
	1,018	430	**910**	425

B Deferred Tax Assets and Liabilities Recognised

The components of deferred tax assets and liabilities recognised in the balance sheet and the movements during the year are as follows:

The Group

in HK$ million	Deferred tax arising from: Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2010						
At 1 January 2010	**8,382**	**4,316**	**121**	**(10)**	**(17)**	**12,792**
Charged to consolidated profit and loss account	**287**	**672**	**33**	**–**	**10**	**1,002**
Charged/(credited) to reserves	**–**	**56**	**–**	**(5)**	**–**	**51**
At 31 December 2010	**8,669**	**5,044**	**154**	**(15)**	**(7)**	**13,845**
2009						
At 1 January 2009	8,323	3,822	105	(30)	(11)	12,209
Charged/(credited) to consolidated profit and loss account	59	460	16	–	(6)	529
Charged to reserves	–	34	–	20	–	54
At 31 December 2009	8,382	4,316	121	(10)	(17)	12,792

49 Income Tax in the Balance Sheet *(continued)*

B Deferred Tax Assets and Liabilities Recognised *(continued)*

The Company

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
2010						
At 1 January 2010	**8,362**	**4,325**	**121**	**(10)**	**–**	**12,798**
Charged to profit and loss account	**289**	**670**	**32**	**–**	**–**	**991**
Charged/(credited) to reserves	**–**	**56**	**–**	**(5)**	**–**	**51**
At 31 December 2010	**8,651**	**5,051**	**153**	**(15)**	**–**	**13,840**
2009						
At 1 January 2009	8,315	3,829	105	(30)	–	12,219
Charged to profit and loss account	47	462	16	–	–	525
Charged to reserves	–	34	–	20	–	54
At 31 December 2009	8,362	4,325	121	(10)	–	12,798

	The Group		The Company	
in HK$ million	**2010**	2009	**2010**	2009
Net deferred tax assets recognised on the balance sheet	**(9)**	(12)	**–**	–
Net deferred tax liabilities recognised on the balance sheet	**13,854**	12,804	**13,840**	12,798
	13,845	12,792	**13,840**	12,798

C The Group has not recognised deferred tax assets in respect of some of its subsidiaries' cumulative tax losses of HK$395 million (2009: HK$283 million) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdictions and entities.

50 Share Capital and Capital Management

A Share Capital, Share Premium and Capital Reserve

in HK$ million	**2010**	2009
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,772,563,031 shares (2009: 5,727,833,692 shares) of HK$1.00 each	**5,773**	5,728
Share premium	**10,773**	9,581
Capital reserve	**27,188**	27,188
	43,734	42,497

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.

50 Share Capital and Capital Management *(continued)*

A Share Capital, Share Premium and Capital Reserve *(continued)*

New shares issued and fully paid up during the year comprise:

	Number of shares	Option/ scrip price	Proceeds received/Transfer from employee share-based capital reserve: Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	**2,922,500**	**8.44**	**3**	**22**	**25**
– New Joiners Share Option Scheme	**31,000**	**9.75**	**–**	**–**	**–**
	94,000	**18.05**	**–**	**2**	**2**
	70,000	**20.66**	**–**	**2**	**2**
– 2007 Share Option Scheme	**935,500**	**18.30**	**1**	**19**	**20**
	42,000	**24.50**	**–**	**1**	**1**
	151,000	**26.52**	**–**	**4**	**4**
	92,500	**26.85**	**–**	**3**	**3**
	352,500	**27.60**	**1**	**11**	**12**
Issued as 2009 final scrip dividends	**37,130,522**	**29.28**	**37**	**1,050**	**1,087**
Issued as 2010 interim scrip dividends	**2,907,817**	**27.84**	**3**	**78**	**81**
	44,729,339		**45**	**1,192**	**1,237**

An analysis of the Company's outstanding share options as at 31 December 2010 are disclosed in note 52.

B Capital Management

The Group's primary objectives in managing capital are to safeguard its ability to continue as a going concern, and to generate sufficient profit to maintain growth and provide an adequate return to its shareholders.

The Group manages the amount of capital in proportion to risk, and makes adjustments to its capital structure through the amount of dividend payment to shareholders, issuance of scrip and new shares, and managing its debt portfolio in conjunction with projected financing requirement. The Financial Secretary Incorporated of the Government of the Hong Kong SAR is the majority shareholder of the Company holding 4,434,552,207 shares as at 31 December 2010, representing 76.8% of total equity interest in the Company.

The Group monitors capital on the basis of the net debt-to-equity ratio, which is calculated on net borrowings as a percentage of the total equity attributable to shareholders of the Company where net borrowings are represented by the aggregate of loans and other obligations, bank overdrafts, obligations under service concession and loan from holders of non-controlling interests net of cash and cash equivalents and bank medium term notes. The Group's net debt-to-equity ratios over the past years have been trending downward in general, from approximately 60% at 31 December 2002 to 36% at 31 December 2006. Owing to the increase in borrowings to finance payments for the Rail Merger and the incorporation of the obligations under service concession as a component of debt, the ratio rose to 49% at 31 December 2007 and reverted to a downward trend to 42% at 31 December 2008, 26% at 31 December 2009 and 13% at 31 December 2010.

Octopus Cards Limited is subject to a prescribed ratio of total capital to total risk-weighted assets as required by the Hong Kong Monetary Authority. MTR Corporation (Shenzhen) Limited is subject to minimum capital requirement at 40% of the total investment for the Shenzhen Metro Line 4 project in accordance with the concession agreement. Metro Trains Melbourne Pty. Ltd. is required to maintain total shareholders' funds at a specified amount in accordance with the franchise agreement. MTR Stockholm AB is required to maintain total shareholders' fund at or above 50% of its registered share capital based on the Swedish Companies Act. As at 31 December 2010, these capital requirements were met. Apart from these, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

51 Other Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

in HK$ million	Fixed assets revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total other reserves
2010					
Balance as at 1 January 2010	**1,132**	**(52)**	**52**	**61,920**	**63,052**
2009 final dividend	**–**	**–**	**–**	**(2,177)**	**(2,177)**
2010 interim dividend	**–**	**–**	**–**	**(807)**	**(807)**
Employee share-based payments	**–**	**–**	**57**	**–**	**57**
Employee share options exercised	**–**	**–**	**(6)**	**–**	**(6)**
Employee share options lapsed	**–**	**–**	**(1)**	**1**	**–**
Total comprehensive income for the year	**285**	**(26)**	**–**	**11,878**	**12,137**
Balance as at 31 December 2010	**1,417**	**(78)**	**102**	**70,815**	**72,256**
2009					
Balance as at 1 January 2009	960	(154)	25	54,979	55,810
2008 final dividend	–	–	–	(1,925)	(1,925)
2009 interim dividend	–	–	–	(800)	(800)
Employee share-based payments	–	–	32	–	32
Employee share options exercised	–	–	(2)	–	(2)
Employee share options lapsed	–	–	(3)	3	–
Total comprehensive income for the year	172	102	–	9,663	9,937
Balance as at 31 December 2009	1,132	(52)	52	61,920	63,052

The fixed assets revaluation reserve was set up to deal with the surpluses or deficits arising from the revaluation of self-occupied land and buildings (note 2F(ii)).

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges as explained in note 2T(ii).

The employee share-based capital reserve comprises the fair value of share options granted which are yet to be exercised, as explained in accounting policy under note 2U(iv). The amount will either be transferred to the share premium account when the option is exercised, or be released directly to retained profits if the option is expired or forfeited.

The exchange reserve comprises all foreign exchange differences arising from the translation of the accounts of foreign enterprises. The reserve is dealt with in accordance with the accounting policy set out in note 2CC.

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$24,143 million (2009: HK$20,755 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 31 December 2010, the Company considers that the total amount of reserves available for distribution to equity shareholders amounted to HK$46,672 million (2009: HK$41,165 million).

Included in the Group's retained profits as at 31 December 2010 is an amount of HK$512 million (2009: HK$448 million), being the retained profits attributable to the non-controlled subsidiaries and associates.

52 Share-based Payments

A Equity-settled Share-based Payments

The Group granted equity-settled share options to its Members of the Executive Directorate and certain employees under three share option schemes namely, the Pre-Global Offering Share Option Scheme, the New Joiners Share Option Scheme and the 2007 Share Option Scheme. Details of the schemes are as follows:

(i) Pre-Global Offering Share Option Scheme

In connection with the Initial Public Offering ("IPO") and Stock Exchange listing of the Company's shares in October 2000, a Pre-Global Offering Share Option Scheme ("Pre-IPO Option Scheme") was established. Under the Pre-IPO Option Scheme, a total of 769 employees including all the Members of the Executive Directorate, except C K Chow, Lincoln K K Leong and T C Chew who joined the Company on 1 December 2003, 1 February 2002 and 11 May 2009 respectively, were granted on 20 September 2000 options to purchase an aggregate of 48,338,000 shares, representing 0.8% of the issued share capital of the Company as at 31 December 2010. The options carry an exercise price of HK$8.44 per share, which was equivalent to 90% of the IPO offer price of HK$9.38 per share. The options may be exercised prior to 11 September 2010, subject to the vesting provisions under the Scheme. As at 31 December 2010, all options granted under the Pre-IPO Option Scheme were vested and lapsed upon expiry of the Scheme on 11 September 2010.

During the year ended 31 December 2010, a total of 2,922,500 previously vested share options have been exercised. The weighted average closing price in respect of the share options exercised during the year was HK$27.993 per share. In addition, 25,500 share options lapsed as a result of expiring of the Scheme during the year.

(ii) New Joiners Share Option Scheme

In May 2002, the New Joiners Share Option Scheme (the "New Option Scheme") was adopted at the 2002 Annual General Meeting to provide share options to new members of the top and senior management of the Company who did not participate in the Pre-IPO Option Scheme. Under the Rules of the New Option Scheme, a maximum of 5,056,431 shares, which represent 0.1% of the issued share capital of the Company as at 31 December 2010, may be issued pursuant to the exercise of options granted under the New Option Scheme. Options granted will be evenly vested in respect of their underlying shares over a period of three years from the date on which the relevant option is offered. The exercise price of any option granted under the New Option Scheme is to be determined by the Company upon the offer of grant of the option and which should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share. The New Option Scheme expired on 16 May 2007 and no options can be granted under this Scheme on or after that date.

The following table summarises the outstanding share options granted under the New Option Scheme since inception:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
1 August 2003	525,700	9.75	on or prior to 14 July 2013
23 September 2005	213,000	15.97	on or prior to 9 September 2015
12 May 2006	266,500	20.66	on or prior to 25 April 2016
15 May 2006	22,000	20.66	on or prior to 25 April 2016
5 October 2006	94,000	19.732	on or prior to 29 September 2016

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2010		2009	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**1,316,200**	**15.038**	2,500,200	14.426
Exercised during the year	**(195,000)**	**17.667**	(828,500)	11.316
Lapsed during the year	**–**	**–**	(355,500)	19.404
Outstanding at 31 December	**1,121,200**	**14.581**	1,316,200	15.038
Exercisable at 31 December	**1,121,200**	**14.576**	1,316,200	15.034

The weighted average closing price in respect of the share options exercised during the year was HK$29.104 (2009: HK$26.964).

52 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Share options outstanding at 31 December 2010 had the following exercise prices and remaining contractual lives:

	2010		2009	
Exercise price	**Number of share options**	**Remaining contractual life years**	Number of share options	Remaining contractual life years
HK$9.75	**525,700**	**2.54**	556,700	3.54
HK$15.97	**213,000**	**4.69**	213,000	5.69
HK$18.05	**–**	**–**	94,000	6.22
HK$20.66	**288,500**	**5.32**	358,500	6.32
HK$19.732	**94,000**	**5.75**	94,000	6.75
	1,121,200		1,316,200	

(iii) 2007 Share Option Scheme

Following the expiry of the New Option Scheme in May 2007, the 2007 Share Option Scheme (the "2007 Option Scheme") was submitted and approved at the 2007 Annual General Meeting to enhance the Company's ability to attract the best available personnel, to retain and motivate critical and key employees, to align their interest to the long-term success of the Company and to provide them with fair and market competitive remuneration. Under the Rules of the 2007 Option Scheme, a maximum of 277,461,072 shares, which represent 4.8% of the issued share capital of the Company as at 31 December 2010, may be issued pursuant to the exercise of options granted after 7 June 2007 under all share option schemes of the Company including the 2007 Option Scheme. Options granted will be vested in respect of their underlying shares not less than 1 year from the date on which the relevant option is offered. The exercise price of any option granted under the 2007 Option Scheme is to be determined by the Company upon the offer of grant of the option and which should not be less than the greatest of (i) the average closing price of an MTR share for the five business days immediately preceding the day of offer of such option; (ii) the closing price of an MTR share on the day of offer of such option, which must be a business day; and (iii) the nominal value of an MTR share.

Subject to the rules of the 2007 Option Scheme, the Company may from time to time during the scheme period, at its absolute discretion, offer to grant share options to any eligible employees. Under the 2007 Option Scheme, the date of grant is defined as the date of acceptance of the offer to grant the option.

On 10 December 2007, share options in respect of 8,273,000 shares were offered to Members of the Executive Directorate and selected employees of the Company as the first tranche of the share option awards for 2008 (the "First 2008 Award"). For the First 2008 Award, share options in respect of 7,968,000 shares were accepted by the grantees during the period from 11 December 2007 to 31 December 2007 and share options in respect of 305,000 shares were accepted by the grantees during the period from 2 January 2008 to 7 January 2008. On 26 March 2008, share options in respect of 2,749,000 shares were offered to selected employees of the Company and were accepted by the grantees during the period from 28 March 2008 to 23 April 2008, as the second tranche of the share option awards for 2008. This award, together with the First 2008 Award, forms the "2008 Award".

On 8 December 2008, share options in respect of 12,712,000 shares were offered to Members of the Executive Directorate and other selected employees of the Company as the first tranche of the share option awards for 2009 (the "First 2009 Award"). Share options of the First 2009 Award were accepted by the grantees during the period from 8 December 2008 to 30 December 2008. On 12 June 2009, share options in respect of 345,000 shares were offered to selected employees of the Company and were accepted by the grantees during the period from 18 June 2009 to 9 July 2009, as the second tranche of the share option awards for 2009. This award, together with the First 2009 Award, forms the "2009 Award".

On 8 December 2009, share options in respect of 15,718,000 shares were offered to Members of the Executive Directorate and other selected employees of the Company and were accepted by the grantees during the period from 9 December 2009 to 22 December 2009, as share options award for 2010 (the "First 2010 Award"). On 28 June 2010, share options in respect of 355,000 shares were offered to selected employees of the Company and were accepted by the grantees on 21 July 2010, as the second tranche of the share option awards for 2010. This award, together with the First 2010 Award, forms the "2010 Award".

On 16 December 2010, share options in respect of 15,546,000 shares were offered to Members of the Executive Directorate and other selected employees of the Company and were accepted by the grantees during the period from 16 December 2010 to 23 December 2010, as share options award for 2011 (the "2011 Award").

52 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

The following table summarises the outstanding share options granted under the 2007 Option Scheme since inception.

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2008 Award			
11 December 2007	45,000	27.60	on or prior to 10 December 2014
12 December 2007	2,288,000	27.60	on or prior to 10 December 2014
13 December 2007	1,805,000	27.60	on or prior to 10 December 2014
14 December 2007	872,000	27.60	on or prior to 10 December 2014
15 December 2007	343,000	27.60	on or prior to 10 December 2014
17 December 2007	751,000	27.60	on or prior to 10 December 2014
18 December 2007	288,000	27.60	on or prior to 10 December 2014
19 December 2007	80,000	27.60	on or prior to 10 December 2014
20 December 2007	190,000	27.60	on or prior to 10 December 2014
21 December 2007	15,000	27.60	on or prior to 10 December 2014
22 December 2007	35,000	27.60	on or prior to 10 December 2014
24 December 2007	118,000	27.60	on or prior to 10 December 2014
28 December 2007	35,000	27.60	on or prior to 10 December 2014
31 December 2007	130,000	27.60	on or prior to 10 December 2014
2 January 2008	48,000	27.60	on or prior to 10 December 2014
3 January 2008	40,000	27.60	on or prior to 10 December 2014
7 January 2008	125,000	27.60	on or prior to 10 December 2014
28 March 2008	204,000	26.52	on or prior to 26 March 2015
31 March 2008	349,000	26.52	on or prior to 26 March 2015
1 April 2008	249,000	26.52	on or prior to 26 March 2015
2 April 2008	276,000	26.52	on or prior to 26 March 2015
3 April 2008	159,000	26.52	on or prior to 26 March 2015
4 April 2008	23,000	26.52	on or prior to 26 March 2015
5 April 2008	17,000	26.52	on or prior to 26 March 2015
7 April 2008	342,000	26.52	on or prior to 26 March 2015
8 April 2008	116,000	26.52	on or prior to 26 March 2015
9 April 2008	85,000	26.52	on or prior to 26 March 2015
10 April 2008	58,000	26.52	on or prior to 26 March 2015
11 April 2008	117,000	26.52	on or prior to 26 March 2015
12 April 2008	48,000	26.52	on or prior to 26 March 2015
14 April 2008	40,000	26.52	on or prior to 26 March 2015
15 April 2008	34,000	26.52	on or prior to 26 March 2015
16 April 2008	40,000	26.52	on or prior to 26 March 2015
17 April 2008	124,000	26.52	on or prior to 26 March 2015
18 April 2008	15,000	26.52	on or prior to 26 March 2015
19 April 2008	25,000	26.52	on or prior to 26 March 2015
21 April 2008	66,000	26.52	on or prior to 26 March 2015
23 April 2008	19,000	26.52	on or prior to 26 March 2015
2009 Award			
8 December 2008	110,000	18.30	on or prior to 8 December 2015
9 December 2008	1,433,000	18.30	on or prior to 8 December 2015
10 December 2008	2,040,900	18.30	on or prior to 8 December 2015
11 December 2008	2,291,200	18.30	on or prior to 8 December 2015
12 December 2008	1,292,000	18.30	on or prior to 8 December 2015
13 December 2008	84,500	18.30	on or prior to 8 December 2015
14 December 2008	79,700	18.30	on or prior to 8 December 2015
15 December 2008	930,200	18.30	on or prior to 8 December 2015
16 December 2008	487,500	18.30	on or prior to 8 December 2015
17 December 2008	485,500	18.30	on or prior to 8 December 2015
18 December 2008	483,000	18.30	on or prior to 8 December 2015
19 December 2008	198,000	18.30	on or prior to 8 December 2015
20 December 2008	19,000	18.30	on or prior to 8 December 2015
22 December 2008	689,500	18.30	on or prior to 8 December 2015
23 December 2008	246,500	18.30	on or prior to 8 December 2015
24 December 2008	455,500	18.30	on or prior to 8 December 2015
25 December 2008	45,000	18.30	on or prior to 8 December 2015
29 December 2008	133,000	18.30	on or prior to 8 December 2015
30 December 2008	19,000	18.30	on or prior to 8 December 2015
18 June 2009	175,000	24.50	on or prior to 12 June 2016
6 July 2009	45,000	24.50	on or prior to 12 June 2016
9 July 2009	30,000	24.50	on or prior to 12 June 2016

52 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

Date of grant	Number of share options	Exercise price HK$	Exercisable period
2010 Award			
9 December 2009	585,000	26.85	on or prior to 8 December 2016
10 December 2009	2,754,000	26.85	on or prior to 8 December 2016
11 December 2009	2,322,000	26.85	on or prior to 8 December 2016
12 December 2009	610,000	26.85	on or prior to 8 December 2016
13 December 2009	12,500	26.85	on or prior to 8 December 2016
14 December 2009	2,444,000	26.85	on or prior to 8 December 2016
15 December 2009	2,804,000	26.85	on or prior to 8 December 2016
16 December 2009	1,491,000	26.85	on or prior to 8 December 2016
17 December 2009	975,000	26.85	on or prior to 8 December 2016
18 December 2009	380,500	26.85	on or prior to 8 December 2016
19 December 2009	70,000	26.85	on or prior to 8 December 2016
20 December 2009	75,000	26.85	on or prior to 8 December 2016
21 December 2009	520,000	26.85	on or prior to 8 December 2016
22 December 2009	237,000	26.85	on or prior to 8 December 2016
21 July 2010	355,000	27.73	on or prior to 28 June 2017
2011 Award			
16 December 2010	194,000	28.84	on or prior to 16 December 2017
17 December 2010	5,467,000	28.84	on or prior to 16 December 2017
18 December 2010	673,000	28.84	on or prior to 16 December 2017
19 December 2010	174,000	28.84	on or prior to 16 December 2017
20 December 2010	4,854,500	28.84	on or prior to 16 December 2017
21 December 2010	3,020,000	28.84	on or prior to 16 December 2017
22 December 2010	975,000	28.84	on or prior to 16 December 2017
23 December 2010	189,000	28.84	on or prior to 16 December 2017

Movements in the number of share options outstanding and their related weighted average exercise prices were as follows:

	2010		2009	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**38,929,500**	**24.185**	23,393,000	22.425
Granted during the year	**15,901,500**	**28.815**	16,063,000	26.800
Exercised during the year	**(1,573,500)**	**21.840**	(56,500)	18.300
Lapsed during the year	**(689,000)**	**24.888**	(470,000)	26.618
Outstanding at 31 December	**52,568,500**	**25.646**	38,929,500	24.185
Exercisable at 31 December	**21,495,500**	**24.095**	10,253,500	23.684

Share options outstanding at 31 December 2010 had the following exercise prices and remaining contractual lives:

	2010		2009	
Exercise price	Number of share options	Remaining contractual life years	Number of share options	Remaining contractual life years
HK$27.60	**7,208,000**	**4**	7,670,000	5
HK$26.52	**2,406,000**	**4**	2,586,000	5
HK$18.30	**11,523,000**	**5**	12,610,500	6
HK$24.50	**250,000**	**5**	345,000	6
HK$26.85	**15,280,000**	**6**	15,718,000	7
HK$27.73	**355,000**	**6**	–	–
HK$28.84	**15,546,500**	**7**	–	–
	52,568,500		38,929,500	

52 Share-based Payments *(continued)*

A Equity-settled Share-based Payments *(continued)*

According to the Black-Scholes pricing model, the fair values of options granted during the year ended 31 December 2010 were as follows:

		Inputs into the Black-Scholes pricing model					
Date of grant	Fair value of options granted	Share price immediately before grant date	Exercise price	Expected volatility	Expected life	Risk-free interest rate	Expected dividend per share
	HK$	HK$	HK$		years	%	HK$
21 July 2010	**5.53**	**27.35**	**27.73**	**0.32**	**3.5**	**0.89**	**0.52**
16 December 2010	**5.86**	**28.55**	**28.84**	**0.32**	**3.5**	**1.21**	**0.52**
17 December 2010	**5.77**	**28.35**	**28.84**	**0.32**	**3.5**	**1.28**	**0.52**
18 December 2010	**5.83**	**28.45**	**28.84**	**0.32**	**3.5**	**1.28**	**0.52**
19 December 2010	**5.83**	**28.45**	**28.84**	**0.32**	**3.5**	**1.28**	**0.52**
20 December 2010	**5.79**	**28.45**	**28.84**	**0.32**	**3.5**	**1.20**	**0.52**
21 December 2010	**5.56**	**28.05**	**28.84**	**0.32**	**3.5**	**1.21**	**0.52**
22 December 2010	**5.76**	**28.40**	**28.84**	**0.32**	**3.5**	**1.20**	**0.52**
23 December 2010	**5.81**	**28.50**	**28.84**	**0.32**	**3.5**	**1.20**	**0.52**

When computing fair values of the options granted, expected volatility was determined by calculating the historical volatility of the Group's share price over the previous 3.5 years and the expected life adopted was assumed to be 3.5 years after granting of the options, with expected dividends based on historical dividends. In addition, vesting terms under the grants have been taken into account whilst no market conditions associated with the share option grants have been considered. Changes in the subjective input assumptions could materially affect the fair value estimate.

(iv) During the year, the equity-settled share-based payments recognised in respect of the above share option schemes were as follows:

in HK$ million	**2010**	2009
Equity-settled share-based payments in respect of:		
– New Option Scheme	**–**	1
– 2007 Option Scheme	**57**	31
	57	32

B Cash-settled Share-based Payments

(i) C K Chow did not participate in the Company's Pre-Global Offering Share Option Scheme and New Joiners Share Option Scheme. Pursuant to the completion of his three-year contract expiring on 30 November 2009, he was paid on 1 December 2009 an equivalent value in cash of 418,017 shares in the Company, amounting to HK$11.3 million (calculated at a price of HK$27.0075 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 2009).

Following renewal of C K Chow's contract with effect from 1 December 2009, he is entitled to receive an equivalent value in cash of 222,161 shares in the Company on completion of this contract on 31 December 2011. For the year ended 31 December 2010, HK$3.0 million (2009: HK$6.3 million) was recorded as share-based payment expense. Fair value of the outstanding entitlement is calculated based on the closing price of the Company's shares at year-end date. As at 31 December 2010, the fair value of these shares was HK$28.30 per share (2009: HK$26.80).

(ii) Lincoln K K Leong was entitled to a derivative interest in the Company's shares and was paid on 12 April 2010 an equivalent value in cash of 160,000 shares in the Company, amounting to HK$4.6 million (calculated at a price of HK$28.785 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 9 April 2010). For the year ended 31 December 2010, HK$0.7 million (2009: HK$2.2 million) was recorded as share-based payment expense, measured on the same basis as described in note 52B(i) above.

53 Retirement Schemes

The Group operates a number of retirement schemes in Hong Kong, Mainland of China, United Kingdom, Sweden and Australia. The assets of these schemes are held under the terms of separate trust arrangements so that the assets are kept separate from those of the Group. The majority of the Group's employees are covered by the retirement schemes operated by the Company.

A Retirement Schemes Operated by the Company in Hong Kong

The Company operates three occupational retirement schemes, the MTR Corporation Limited Retirement Scheme (the "MTR Retirement Scheme"), the MTR Corporation Limited Retention Bonus Scheme (the "MTR RBS") and the MTR Corporation Limited Provident Fund Scheme (the "MTR Provident Fund Scheme") and two Mandatory Provident Fund ("MPF") Schemes, the "MTR MPF Scheme" and the "KCRC MPF Scheme", in Hong Kong.

Currently, new eligible employees can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme while the MTR MPF Scheme covers employees who did not opt for and who are not eligible to join the MTR Provident Fund Scheme.

(i) MTR Retirement Scheme

The MTR Retirement Scheme was established under trust at the beginning of 1977 containing both defined benefit and defined contribution elements. The MTR Retirement Scheme was registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) ("ORSO") with effect from 31 October 1994. On 3 July 2000, exemption was granted by the Mandatory Provident Fund Schemes Authority to maintain the MTR Retirement Scheme and offer it as an alternative to the MTR MPF Scheme.

The MTR Retirement Scheme offers benefits on retirement, permanent disability, death and leaving service to its members. It originally contained both a hybrid benefit section and a defined contribution section. The hybrid benefit section provides benefits based on the greater of a multiple of final salary and accumulated contributions with investment returns and has been closed to new entrants since 31 March 1999. The defined contribution section provided benefits based on accumulated contributions and investment returns only. Employees who were hired after the closure of the hybrid benefit section would be eligible to join the defined contribution section of the MTR Retirement Scheme or, commencing on 1 December 2000, the MTR MPF Scheme.

Following the Rail Merger and with the approval of the scheme's trustees, effective on 1 March 2008, the defined contribution section of the MTR Retirement Scheme was transferred to the MTR Provident Fund Scheme. Since then, the MTR Retirement Scheme only contains a hybrid section. Given the transfer, commencing on 1 March 2008 (note 53A(iii)), employees who are eligible to join the MTR Provident Fund Scheme, can choose between the MTR Provident Fund Scheme and the MTR MPF Scheme, except where they were previously members of the KCRC MPF Scheme where upon they may choose between the MTR Provident Fund Scheme and the KCRC MPF Scheme.

Members' contributions to the MTR Retirement Scheme are based on a fixed percentage of basic salary. The Company's contributions are determined by the Executive Directorate with reference to an actuarial valuation. As at 31 December 2010, the total membership was 5,127 (2009: 5,282). In 2010, members contributed HK$70 million (2009: HK$70 million) and the Company contributed HK$120 million (2009: HK$198 million) to the MTR Retirement Scheme. The net asset value of the MTR Retirement Scheme as at 31 December 2010 was HK$8,200 million (2009: HK$7,542 million).

According to the terms of the trust deed, forfeitures were transferred to the reserve account to be utilised at the discretion of the Company.

Actuarial valuations are carried out annually by an independent firm of consulting actuaries using the Projected Unit Credit Method to determine the accounting obligations in accordance with HKAS 19, *Employee Benefits,* and the results of the valuations as at 31 December 2009 and 2010 carried out by Towers Watson are shown in note 54.

A full actuarial valuation of the MTR Retirement Scheme using the Attained Age Method to determine the cash funding requirements was also carried out as at 31 December 2010 by Towers Watson. The principal actuarial assumptions used included a long-term rate of investment return net of salary increases of 2.0% (2009: 2.4%) per annum, together with appropriate allowances for expected rates of mortality, turnover, redundancy and retirement. The actuary confirmed that, as at the valuation date:

(a) the MTR Retirement Scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the MTR Retirement Scheme; and

(b) on the assumption that the MTR Retirement Scheme continued in force, the value of assets was more than sufficient to cover the aggregate past service liability, with a funding level of 112.6%.

(ii) MTR RBS

The MTR RBS was established under trust as of 1 January 1995. It is a defined benefit scheme and applies to all employees classified by the Company as staff working on designated projects and who are not on gratuity terms. The MTR RBS provides for benefits to be payable only in the event of redundancy for accrued service accrued up to 31 December 2002. The MTR RBS was registered under the ORSO with effect from 1 December 1995. As at 31 December 2010, there were 307 members (2009: 318).

53 Retirement Schemes *(continued)*

A Retirement Schemes Operated by the Company in Hong Kong *(continued)*

The MTR RBS is non-contributory for members. The Company's contributions are determined by the Executive Directorate with reference to an actuarial valuation and are charged as part of the staff costs to various projects on the basis of the amount contributed. During 2009 and 2010, the Company was not required to make any contribution to the MTR RBS. The net asset value of the MTR RBS as at 31 December 2010 was HK$12 million (2009: HK$12 million).

Actuarial valuations are carried out annually by an independent firm of consulting actuaries using the Projected Unit Credit Method to determine the accounting obligations in accordance with HKAS 19, *Employee Benefits*. The valuations as at 31 December 2009 and 2010 were carried out by Towers Watson and the results are shown in note 54.

A full actuarial valuation of the MTR RBS was also carried out as at 31 December 2010 by Towers Watson using the Attained Age Method to determine the cash funding requirements. The principal actuarial assumptions used included an expected weighted rate of investment return net of salary increases, of approximately -2.5% (2009: -1.6%) per annum, together with appropriate allowance for expected rates of redundancy. The actuary confirmed that, as at the valuation date:

(a) due to the nature of the MTR RBS which provides for benefits only on redundancy, there was no aggregate vested liability, and thus the MTR RBS was technically solvent; and

(b) on the assumption that the MTR RBS continued in force, the value of assets was more than sufficient to cover the aggregate past service liability.

(iii) MTR Provident Fund Scheme

The MTR Provident Fund Scheme was renamed from the KCRC Retirement Benefit Scheme following its incorporation of the defined contribution section of the MTR Retirement Scheme on 1 March 2008. It was established on 1 February 1983 under trust and was registered under the ORSO with effect from 16 November 1994. It contains three sections, all of which are defined contribution schemes. One section consists of the members of the KCRC Retirement Benefit Scheme prior to 1 March 2008, one section consists of the members of the defined contribution section of the MTR Retirement Scheme prior to 1 March 2008 and the final section consists of those appointees eligible to join the MTR Provident Fund Scheme on or after 1 March 2008.

All benefits payable under the MTR Provident Fund Scheme are calculated by reference to the employer's contributions and members' own contributions, based on fixed percentages of members' basic salaries, together with investment returns on these contributions.

As at 31 December 2010, the total number of employees participating in the MTR Provident Fund Scheme was 6,276 (2009: 5,954). In 2010, total members' contributions were HK$52 million (2009: HK$52 million) and total contribution from the Company was HK$159 million (2009: HK$152 million). The net asset value as at 31 December 2010 was HK$3,588 million (2009: HK$3,160 million).

(iv) MTR MPF Scheme

Effective from the MPF commencement date of 1 December 2000, the Company joined The Bank Consortium MPF Plan which has been registered with the Mandatory Provident Fund Schemes Authority and authorised by the Securities and Futures Commission. The MTR MPF Scheme covers those employees who did not opt for or who are not eligible to join the MTR Retirement Scheme or the MTR Provident Fund Scheme. Both members and the Company each contribute to the MTR MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2010, the total number of employees of the Company participating in the MTR MPF Scheme was 2,540 (2009: 1,875). In 2010, total members' contributions were HK$14 million (2009: HK$9 million) and total contribution from the Company was HK$16 million (2009: HK$10 million).

(v) KCRC MPF Scheme

The KCRC MPF Scheme was introduced on 1 April 2000 and registered with the Hong Kong Mandatory Provident Fund Schemes Authority. It covers those former KCRC employees who did not opt for or who were not eligible to join the former KCRC Retirement Benefit Scheme, now known as MTR Provident Fund Scheme, and those employees who, on or after 1 March 2008, were previously members of the KCRC MPF Scheme and are eligible to join the MTR Provident Fund Scheme but opt to re-join the KCRC MPF Scheme. It is a defined contribution retirement plan administered by independent trustees with both members and the Company each contributing to the KCRC MPF Scheme at the mandatory levels as required by the MPF Ordinance.

As at 31 December 2010, the total number of employees of the Company participating in the KCRC MPF Scheme was 903 (2009: 953). In 2010, total members' contributions were HK$6 million (2009: HK$7 million) and total contribution from the Company was HK$7 million (2009: HK$7 million).

B Retirement Schemes for Employees of Overseas Offices and Subsidiaries

Employees not eligible for joining the retirement schemes operated by the Company in Hong Kong are covered by the retirement schemes established by their respective subsidiary companies or in accordance with respective applicable labour regulations.

(i) Defined Benefit Plan

Certain number of employees of the Group's Australian subsidiary are entitled to receive retirement benefits from the Emergency Services Superannuation Scheme operated in Australia. The benefit amounts are calculated based on the member's years of service and final average salary. The Group does not recognise any defined benefit liability in respect of this scheme because the Group has no legal or constructive obligation to pay future benefits relating to its employees; its only obligation is to pay contributions as they fall due. As at 31 December 2010, total number of the Group's employees participating in this scheme was 894 (2009: 1,029). In 2010, total members' contributions were HK$31 million (2009: HK$3 million) and total contribution from the Group was HK$44 million (2009: HK$5 million).

53 Retirement Schemes *(continued)*

B Retirement Schemes for Employees of Overseas Offices and Subsidiaries *(continued)*

(ii) Defined Contribution Plans

Except for the defined benefit plan stated in note 53B(i), all other retirement schemes to cover employees in overseas offices or in subsidiaries in Hong Kong, Mainland of China or overseas are defined contribution schemes. For Hong Kong employees, these schemes are registered under the MPF Ordinance in Hong Kong. For the Mainland of China or overseas employees, these schemes are operated in accordance with the respective local laws and regulations. As at 31 December 2010, the total number of employees of the Group participating in these schemes was 7,074 (2009: 6,081). In 2010, total members' contributions were HK$77 million (2009: HK$9 million) and total contribution from the Group was HK$180 million (2009: HK$22 million).

54 Defined Benefit Retirement Plan Obligations

The Company makes contributions to and recognises defined benefit liabilities in respect of two defined benefit plans that provide benefits for employees upon retirement or termination of services for other reasons (note 53). The movements in respect of these defined benefit plans during the year are summarised as follows.

A The amounts recognised in the balance sheets are as follows:

The Group and The Company

	2010			2009		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Present value of funded obligations	**(9,342)**	**–**	**(9,342)**	(8,959)	–	(8,959)
Fair value of plan assets	**8,200**	**12**	**8,212**	7,542	12	7,554
Net unrecognised actuarial losses/(gains)	**1,302**	**(3)**	**1,299**	1,587	(4)	1,583
Net asset	**160**	**9**	**169**	170	8	178

A portion of the above asset is expected to be recovered after more than one year. However, it is not practicable to segregate this amount from the amounts to be recovered in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Company expects to pay HK$119 million in contribution to the MTR Retirement Scheme in 2011.

B Plan assets consist of the following:

The Group and The Company

	2010			2009		
in HK$ million	MTR Retirement Scheme	MTR RBS	Total	MTR Retirement Scheme	MTR RBS	Total
Equity securities	**4,423**	**–**	**4,423**	3,871	–	3,871
Bonds	**3,602**	**–**	**3,602**	3,681	–	3,681
Cash	**250**	**12**	**262**	53	12	65
	8,275	**12**	**8,287**	7,605	12	7,617
Voluntary units	**(75)**	**–**	**(75)**	(63)	–	(63)
	8,200	**12**	**8,212**	7,542	12	7,554

The plan assets include no investment in the Company's ordinary shares and the Company's debt securities in 2009 and 2010.

54 Defined Benefit Retirement Plan Obligations *(continued)*

C Movements in the Present Value of the Defined Benefit Obligations

The Group and The Company

in HK$ million	2010 MTR Retirement Scheme	2010 MTR RBS	2010 Total	2009 MTR Retirement Scheme	2009 MTR RBS	2009 Total
At 1 January	**8,959**	**–**	**8,959**	9,064	1	9,065
Members' contributions paid to the Schemes	**70**	**–**	**70**	70	–	70
Benefits paid by the Schemes	**(311)**	**–**	**(311)**	(212)	–	(212)
Current service cost	**293**	**–**	**293**	337	–	337
Interest cost	**227**	**–**	**227**	174	–	174
Actuarial losses/(gains)	**104**	**–**	**104**	(474)	(1)	(475)
At 31 December	**9,342**	**–**	**9,342**	8,959	–	8,959

D Movements in Plan Assets

The Group and The Company

in HK$ million	2010 MTR Retirement Scheme	2010 MTR RBS	2010 Total	2009 MTR Retirement Scheme	2009 MTR RBS	2009 Total
At 1 January	**7,542**	**12**	**7,554**	6,162	12	6,174
Group's contributions paid to the Schemes	**120**	**–**	**120**	198	–	198
Members' contributions paid to the Schemes	**70**	**–**	**70**	70	–	70
Benefits paid by the Schemes	**(311)**	**–**	**(311)**	(212)	–	(212)
Expected return on plan assets	**448**	**–**	**448**	383	–	383
Actuarial gains	**331**	**–**	**331**	941	–	941
At 31 December	**8,200**	**12**	**8,212**	7,542	12	7,554

E Expense recognised in the consolidated profit and loss account is as follows:

in HK$ million	2010 MTR Retirement Scheme	2010 MTR RBS	2010 Total	2009 MTR Retirement Scheme	2009 MTR RBS	2009 Total
Current service cost	**293**	**–**	**293**	337	–	337
Interest cost	**227**	**–**	**227**	174	–	174
Expected return on plan assets	**(448)**	**–**	**(448)**	(383)	–	(383)
Net actuarial losses/(gains) recognised	**58**	**(1)**	**57**	109	(1)	108
Expense recognised	**130**	**(1)**	**129**	237	(1)	236
Less: Amount capitalised	**(21)**	**–**	**(21)**	(27)	–	(27)
	109	**(1)**	**108**	210	(1)	209

The retirement expense is recognised under staff costs and related expenses in the consolidated profit and loss account.

54 Defined Benefit Retirement Plan Obligations *(continued)*

F Actual Return on Plan Assets

in HK$ million	**2010**	2009
MTR Retirement Scheme	**779**	1,324
MTR RBS	**–**	–

G The principal actuarial assumptions used as at 31 December 2010 (expressed as weighted average) are as follows:

	2010		2009	
	MTR Retirement Scheme	MTR RBS	MTR Retirement Scheme	MTR RBS
Discount rate at 31 December	**2.9%**	**1.9%**	2.6%	2.0%
Expected rate of return on plan assets	**6.0%**	**1.5%**	6.0%	1.5%
Future salary increases	**4.0%**	**4.0%**	3.6%	3.1%

The expected long-term rates of return on plan assets have been determined based on market expectations on returns over the entire life of the related obligations.

H Historical Information

The Group and The Company

	MTR Retirement Scheme				
in HK$ million	**2010**	2009	2008	2007	2006
Present value of funded obligations	**(9,342)**	(8,959)	(9,064)	(8,577)	(7,311)
Fair value of plan assets	**8,200**	7,542	6,162	7,929	6,906
Deficit in the Scheme	**(1,142)**	(1,417)	(2,902)	(648)	(405)
Experience adjustments arising on plan liabilities – (loss)/gain	**(357)**	(785)	1,391	(556)	(464)
Experience adjustments arising on plan assets – gain/(loss)	**331**	941	(1,997)	514	510

	MTR RBS				
in HK$ million	**2010**	2009	2008	2007	2006
Present value of funded obligations	**–**	–	(1)	(1)	(3)
Fair value of plan assets	**12**	12	12	12	12
Surplus in the Scheme	**12**	12	11	11	9
Experience adjustments arising on plan liabilities – gain/(loss)	**–**	1	–	1	3
Experience adjustments arising on plan assets – gain/(loss)	**–**	–	–	–	–

55 Interests in Jointly Controlled Operations

The Group has the following jointly controlled operations in respect of its awarded property development projects as at 31 December 2010:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Hong Kong Station	Office/Retail/Hotel	415,894	Completed by phases from 1998–2005
Kowloon Station			
Package One	Residential	147,547	Completed in 2000
Package Two	Residential	210,319	Completed by phases from 2002–2003
Package Three	Residential/Cross Border Bus Terminus	105,113	Completed in 2005
Package Four	Residential	128,845	Completed in 2003
Package Five, Six and Seven	Residential/Office/Retail/Hotel/Service Apartment/Kindergarten	504,345	Completed by phases from 2006–2010
Olympic Station			
Package One	Residential/Office/Retail/Indoor Sports Hall	309,069	Completed in 2000
Package Two	Residential/Retail/Market	268,650	Completed in 2001
Package Three	Residential/Kindergarten	104,452	Completed in 2006
Tsing Yi Station	Residential/Retail/Kindergarten	292,795	Completed in 1999
Tung Chung Station			
Package One	Residential/Office/Retail/Hotel/Kindergarten	361,531	Completed by phases from 1999 – 2005
Package Two	Residential/Retail/Kindergarten	255,949	Completed by phases from 2002 – 2008
Package Three	Residential/Retail/Wet Market/Kindergarten	413,154	Completed by phases from 2002 – 2008
Hang Hau Station	Residential/Retail	142,152	Completed in 2004
Tiu Keng Leng Station	Residential/Retail	253,765	Completed by phases from 2006 – 2007
Tseung Kwan O Station			
Area 55b	Residential/Retail	96,797	Completed in 2006
Area 57a	Residential/Retail	29,642	Completed in 2005
Area 56	Residential/Hotel/Retail/Office	163,130	By phases from 2011 – 2012
Tseung Kwan O Area 86			
Package One	Residential/Retail/Residential Care Home for the Elderly	139,840	Completed in 2008
Package Two	Residential/Kindergarten	310,496	By phases from 2010 – 2012
Package Three	Residential/Kindergarten	129,544	2013
Choi Hung Park-and-Ride	Residential/Retail	21,538	Completed in 2005
Che Kung Temple Station	Residential/Retail/Kindergarten	90,655	2012
Austin Station			
Sites C & D	Residential	119,116	2014

* Completion based on issuance of occupation permit

The Group's assets held in relation to these joint venture operations include various site foundation works and related staff and overhead costs, land costs, acquisition cost of development rights and interest expense. These are set off against any payments received from developers in relation to that development package, and the balance is shown on the balance sheet either as property development in progress or deferred income (note 28) as the case may be. As at 31 December 2010, total property development in progress in respect of these jointly controlled operations was HK$6,863 million (2009: HK$3,094 million) and total deferred income was HK$81 million (2009: HK$124 million).

During the year ended 31 December 2010, profits of HK$4,034 million (2009: HK$3,554 million) were recognised (note 10).

55 Interests in Jointly Controlled Operations *(continued)*

In connection with the Rail Merger, the Company entered into agreements with KCRC relating to the property development projects on the following three awarded sites:

Location/Development Package	Land Use	Total Gross Floor Area (sq.m.)	Actual or Expected Date of Completion of Construction Works *
Fo Tan Station			
Ho Tung Lau	Residential/Retail	122,900	Completed in 2008
Wu Kai Sha Station	Residential/Retail/Kindergarten	172,650	Completed in 2009
Tai Wai Maintenance Centre	Residential	313,955	By phases from 2010 – 2011

* Completion based on issuance of occupation permit

Under these agreements, the Company was appointed as KCRC's agent to exercise the rights and to perform the obligations of KCRC as stipulated in the agreements. The Company received a right to share the net surplus from the sale of these property development projects.

56 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 76.8% of the Company's issued share capital on trust for the Government of the Hong Kong SAR, is the majority shareholder of the Company. Transactions between the Group and Government departments, agencies or Government controlled entities, other than those transactions such as the payment of fees, taxes, leases and rates, etc. that arise 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 these accounts.

Members of the Board and Members of the Executive Directorate, and parties related to them including their close family members, are also considered to be related parties of the Group. Transactions with these parties, except for those involving a Member of the Board or his related parties where the relevant Member abstains from voting, are separately disclosed in the accounts.

Major related party transactions entered into by the Group in prior years which are still relevant for the current year include:

A The Company entered into the Airport Railway Agreement with the Government on 5 July 1995 for the construction of the Airport Railway. In addition to specifying the parameters for the design, construction and operation of the Tung Chung and Airport Express Lines, the Agreement also included provisions for the granting of land to the Company for property development (note 28).

B The Company entered into the TKE Project Agreement with the Government on 4 November 1998 for the design, construction, financing and operation of the Tseung Kwan O Extension and the granting of land for commercial and residential property developments along the railway extension.

C On 30 June 2000, the Company was granted a franchise, for an initial period of 50 years, to operate the existing mass transit railway, and to operate and construct any extension to the railway. On the same day, the Company entered into an Operating Agreement ("OA") with the Government which detailed provisions for the design, construction, maintenance and operation of the railway under the franchise. Pursuant to the terms of the OA, the Company's franchise will be extended for further periods of 50 years upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The OA also provides that upon extension of the franchise and subject to the Government's prevailing land policy on the date on which the franchise is extended, certain consequential amendments will be made to agreements between the Government and the Company in relation to the mass transit railway, including the renewal of various railway running line leases and land leases at nominal cost. With effect from 2 December 2007, the OA was replaced by a new operating agreement, details of which are set out in note 56I below.

D On 14 July 2000, the Company received a comfort letter from the Government pursuant to which the Government agreed to extend the period of certain of the Company's land interests so that they are coterminous with the Company's franchise period. In addition, on 3 August 2007, the Government wrote to KCRC confirming that, subject to all necessary approvals being obtained, the period of certain of KCRC's land interests (which are the subject of the service concession) will be extended so that they are coterminous with the Concession Period.

E On 24 July 2002, the Company entered into an agreement with the Government specifying the parameters for the design, construction, financing and operation of the Disneyland Resort Line ("DRL"). In connection with the financing of the DRL Project, the Government agreed to provide financial support through the Government waivers of its entitlement to cash dividends in respect of its shareholding. Such committed financial support has been met in 2004. The DRL was completed in June 2005 and commenced operation on 1 August 2005.

F On 19 November 2003, the Company entered into a formal project agreement with the Government to develop, on a build, operate and transfer basis, the Tung Chung Cable Car System together with a Theme Village at Ngong Ping on the Lantau Island under a franchise granted by the Government for a period of 30 years commencing on 24 December 2003. The project was completed with operation commenced on 18 September 2006.

G On 24 January 2005, the Company accepted an offer from the Government to allow the Company to proceed with the proposed development on Site F of Tseung Kwan O Town Lot No. 70, Area 86, at an assessed land premium of HK$2,319 million together with other ancillary terms and conditions as specified in the modification letter to be entered into between the Company and the Government. Upon award of the development package on 8 February 2005, the agreed land premium, of which one-half or HK$1,160 million was paid by the Company, was settled.

56 Material Related Party Transactions *(continued)*

H On 18 July 2005, the Company entered into a project agreement with the Airport Authority for the procurement of MTR station extension works and related railway facilities to serve the SkyPlaza at the Hong Kong International Airport. The project was completed with the facilities opened on 28 February 2007.

I In connection with the Rail Merger (note 3), on 9 August 2007, the Company entered into a new operating agreement with the Government ("new OA"), which is based on the existing OA referred to in note 56C above. On the Appointed Day, the Company's existing franchise under the Mass Transit Railway Ordinance was expanded to cover railways other than the existing MTR railway for an initial period of 50 years from the Appointed Day ("expanded franchise"). The new OA detailed the design, construction, maintenance and operation of the railways under the expanded franchise. Pursuant to the terms of the new OA (and the MTR Ordinance), the Company's franchise may be extended for further periods of 50 years (from the date of the extension) upon satisfying certain capital expenditure requirements at no payment and without any change in the terms of the franchise. The new OA includes terms relating to the Company's obligations in relation to electrical power supply, control centres, the monitoring of environmental conditions, the provision of accommodation for the Hong Kong Police Force, the notification of certain events to the Commissioner for Transport, hours of operation and service capacity, performance requirements, customer service pledges and safety management. The new OA also sets out a framework for the award of new railway projects in Hong Kong and introduces a fare adjustment mechanism. A detailed description of the new OA is contained in the circular to shareholders in respect of the Extraordinary General Meeting convened to approve the Rail Merger.

J Other than the new OA described in note 56I above, the Company also entered into the following principal agreements with KCRC and the Government in connection with the Rail Merger on 9 August 2007:

(i) Merger Framework Agreement, which contains provisions for the overall structure and certain specific aspects of the rail merger, including the seamless interchange programme, corporate governance, certain employee arrangements, implementation of certain fare reductions, the payments for property package, arrangements relating to flat production and land premium, the treatment of KCRC's cross border leases, Shatin to Central Link arrangements and the allocation of liabilities for certain pre and post merger claims by third parties;

(ii) Service Concession Agreement, which contains provisions in relation to the grant of the right to access, use and operate the concession property and a licence to access and use certain KCRC land; the term of the service concession; the arrangements for the redelivery of the KCRC system upon concession expiry; the provision of ex-KCRC services by the Company to specified standards; the obligation to pay upfront and annual payments; the legal and beneficial ownership of future concession property (Additional Concession Property); and the regime for compensation payable by KCRC upon return of the Additional Concession Property;

(iii) Sale and Purchase Agreement, which sets out the terms pursuant to which the Company acquired certain assets and contracts from KCRC;

(iv) Kowloon Southern Link ("KSL") Project Management Agreement, which sets out the terms on which the Company was appointed by KCRC to project manage the design and construction of the KSL in return for a management fee of approximately HK$710.8 million and an incentive payment of up to HK$110 million if the construction of the KSL is completed ahead of time and under budget. The Company itself will not construct, nor be responsible for the costs of the KSL works. Upon commencement of service on 16 August 2009, the KSL formed part of the service concession;

(v) West Rail Agency Agreement, which sets out the terms on which the Company was appointed to act as KCRC's agent and to exercise certain rights and perform certain obligations relating to specified development sites along the West Rail;

(vi) Outsourcing Agreement, which sets out the terms on which the Company is to provide certain financial and administrative services to KCRC after the Rail Merger for two years, in return for an annual fee of HK$19.8 million; and

(vii) Property Package Agreements, which set out the arrangements in respect of the acquisition of the property package. These arrangements include the assignment of certain properties by KCRC to the Company, the acquisition of certain properties by the Company through its acquisition of certain KCRC subsidiaries under the Sale and Purchase Agreement, the granting of leases on certain properties by the Government to the Company and the relating interim arrangements before such granting is effective, the management of certain development sites by the Company in return for a fee substantially equal to the profits from the developments, and the granting of certain potential development sites to the Company.

A detailed description of each of these documents is contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

K Also in connection with the Rail Merger, the Company entered into US Cross Border Lease ("CBL") Assumption Agreements with KCRC on 30 November 2007 and US CBL Allocation Agreement with KCRC and KCRC's subsidiaries on 2 December 2007. The agreements set out the terms on which the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs, and delineate and allocate the obligations and responsibility for risks relating to the CBLs. Details of the commitment of the Company in connection with these agreements are specified in note 57E and a detailed description of these agreements are contained under the paragraph "Connected Transactions" of the Report of the Members of the Board.

L On 6 February 2008, the Company entered into a preliminary project agreement with the Government for the undertaking of the pre-authorisation activities of the West Island Line. Pursuant to the agreement, the Company received HK$400 million from the Government to undertake the detailed design of the railway works, carry out all necessary ground investigations, invite and assess tenders for the railway works construction contracts, and carry out ancillary and other support services.

56 Material Related Party Transactions *(continued)*

M On 21 August 2008, the Company entered into a maintenance agreement with the Hong Kong Airport Authority for the renewal of an expired maintenance agreement for the automatic people mover system serving the Hong Kong International Airport including the Sky Plaza and Sky Pier terminal buildings. The renewed agreement has a duration of five years effective from 6 July 2008 and widens the scope to cover the operation and maintenance of eight new vehicles and one new line, both of which were ready for passenger service starting from the fourth quarter of 2009. During 2010, HK$40 million (2009: HK$34 million) was recognised as consultancy income in respect of the maintenance agreements.

N On 24 November 2008, the Company entered into an Entrustment Agreement with the Government for the design of and site investigation and procurement activities in relation to the Shatin to Central Link (note 27B). During 2010, expenditure of HK$376 million (2009: HK$267 million) was incurred relating to these activities.

O On 24 November 2008, the Company entered into an Entrustment Agreement with the Government for the design of and site investigation and procurement activities in relation to the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL") (note 27C). During 2010, total expenditure of HK$44 million (2009: HK$280 million) was incurred under the Entrustment Agreement.

P On 13 July 2009, the Company entered into a Project Agreement with the Government for the financing, design, construction and operation of the West Island Line (note 26B).

Q On 6 November 2009, the Company renewed the Outsourcing Agreement referred to in note 56J(vi) with KCRC for a period of two years effective from 2 December 2009. The annual fee payable to KCRC under the agreement has been revised to HK$16.5 million.

During the year, the Group had the following material related party transactions:

R On 26 January 2010, the Government and the Company entered into another Entrustment Agreement for the construction and commissioning of the XRL (note 27C).

S On 12 March 2010, the Government granted Kowloon Inland Lot No. 11126 (Site C, Canton Road, Kowloon) and Kowloon Inland Lot No. 11129 (Site D, Canton Road, Kowloon) to the Company for the property development at Austin Station with a total consideration of HK$11,708 million, of which the Company contributed HK$3,900 million which has been settled in June 2010.

T In connection with the construction of various railway projects, certain essential project works are embedded within the infrastructure works to be undertaken by the Government or certain of its related parties. These works have been entrusted to the Government and its related parties and are payable on an actual cost basis according to architectural certifications. The Government and certain of its related parties, on the other hand, have entered into entrustment agreements with the Company for the construction of various other infrastructure works that are also reimbursable according to actual costs certified. Details of the amounts paid and the amounts receivable and payable as at 31 December 2010 are provided in notes 26, 40 and 45 respectively.

U The Company has business transactions with its non-controlled subsidiaries in the normal course of operations, details of which are disclosed in note 30.

V The Company has business transactions with its associates in the normal course of operations, details of which are disclosed in note 32.

W The Group has paid remuneration to the Members of the Board and Members of the Executive Directorate. Details of these transactions are described in note 9A. In addition, the Members of the Executive Directorate were granted share options under the Company's Pre-Global Offering Share Option Scheme, New Joiners Share Option Scheme and 2007 Share Option Scheme. Details of the terms of these directors' options are disclosed in note 9B and under the paragraph "Board Members' and Executive Directorate's Interests in Shares" of the Report of the Members of the Board. Their gross remuneration charged to the profit and loss account is summarised as follows:

in HK$ million	2010	2009
Short-term employee benefits	**57.1**	56.2
Post-employment benefits	**1.6**	5.4
Equity compensation benefits	**10.9**	13.1
	69.6	74.7

The above remuneration is included in staff costs and related expenses disclosed in note 8A.

X During the year, the following dividends were paid to the Government:

in HK$ million	2010	2009
Cash dividends paid	**1,302**	920
Shares allotted in respect of scrip dividends	**991**	1,171
	2,293	2,091

57 Commitments

A Capital Commitments

(i) Outstanding capital commitments as at 31 December 2010 not provided for in the accounts were as follows:

The Group

in HK$ million	Hong Kong railway operations	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas projects	Total
2010					
Authorised but not yet contracted for	**1,575**	**–**	**142**	**–**	**1,717**
Authorised and contracted for	**986**	**7,100**	**326**	**1,340**	**9,752**
	2,561	**7,100**	**468**	**1,340**	**11,469**
2009					
Authorised but not yet contracted for	1,116	–	192	–	1,308
Authorised and contracted for	1,506	3,784	108	2,177	7,575
	2,622	3,784	300	2,177	8,883

The Company

in HK$ million	Hong Kong railway operations	Hong Kong railway extension projects	Hong Kong property rental and development	Total
2010				
Authorised but not yet contracted for	**1,561**	**–**	**140**	**1,701**
Authorised and contracted for	**986**	**7,100**	**315**	**8,401**
	2,547	**7,100**	**455**	**10,102**
2009				
Authorised but not yet contracted for	1,109	–	179	1,288
Authorised and contracted for	1,505	3,784	105	5,394
	2,614	3,784	284	6,682

Excluded from the above tables are estimated future project costs relating to WIL and SZL4 of HK$5,225 million and HK$672 million respectively as at 31 December 2010.

(ii) The commitments under Hong Kong railway operations comprise the following:

The Group and The Company

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
2010				
Authorised but not yet contracted for	**795**	**285**	**495**	**1,575**
Authorised and contracted for	**344**	**375**	**267**	**986**
	1,139	**660**	**762**	**2,561**
2009				
Authorised but not yet contracted for	632	34	450	1,116
Authorised and contracted for	385	930	191	1,506
	1,017	964	641	2,622

57 Commitments *(continued)*

B Operating Lease Commitments

The Group had operating leases on office buildings, staff quarters, bus depot and a shopping centre in Beijing as at 31 December 2010. The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
in HK$ million	2010	2009	2010	2009
Payable within one year	**141**	77	**7**	23
Payable after one but within five years	**3**	131	**2**	4
	144	208	**9**	27

The above includes HK$4 million (2009: HK$20 million) in respect of the office accommodation and quarters for construction project staff, majority of which are subject to rent reviews.

In respect of the operating lease on the shopping centre in Beijing, the Group has the right to acquire the shopping centre in Beijing at a pre-determined price during the first five years of the lease term, which commenced from April 2006, or release its obligation as a tenant by making a compensation to the landlord upon expiry of the fifth year. The Group obtained a bank guarantee of RMB12.5 million in respect of the quarterly rental payment arrangement with the landlord. In addition, the Company provides guarantees amounting to RMB102.5 million to the landlord for the rental payments for the first five years of the lease, which was entered into by the Company's subsidiary, MTR (Beijing) Commercial Facilities Management Co. Ltd..

In addition to the above, there are future operating lease commitments of HK$6,747 million (2009: HK$10,113 million) in respect of railway subsidiaries outside of Hong Kong over the respective franchise periods, of which HK$1,024 million (2009: HK$1,305 million) is payable within one year, HK$3,944 million (2009: HK$5,144 million) is payable after one but within five years and HK$1,779 million (2009: HK$3,664 million) is payable over five years. These railway subsidiaries will generate franchise revenue receivables to the Group.

C Liabilities and Commitments in respect of Property Management Contracts

The Group has, over the years, jointly developed with outside property developers certain properties above or adjacent to railway depots and stations. Under most of the development agreements, the Group retained the right to manage these properties after their completion. The Group, as manager of these properties, enters into service contracts with outside contractors for the provision of security, cleaning, maintenance and other services on behalf of the managed properties. The Group is primarily responsible for these contracts, but any contract costs incurred will be reimbursed by the owners and tenants of the managed properties from the management funds as soon as they are paid.

As at 31 December 2010, the Group had total outstanding liabilities and contractual commitments of HK$1,314 million (2009: HK$1,179 million) in respect of these works and services. Cash funds totalling HK$1,371 million (2009: HK$1,201 million) obtained through monthly payments of management service charges from the managed properties are held by the Group on behalf of those properties for settlement of works and services provided.

D Material Financial Guarantee Contracts

The Company provides guarantees to investors of debt securities issued by one of its subsidiaries, MTR Corporation (C.I.) Limited (note 42C), which amounted to approximately HK$10,644 million (in notional amount) as at 31 December 2010. Proceeds from such debts issued have been on lent to the Company. As such, the primary liabilities have already been recorded in the Company's balance sheet.

The Group provides standby letters of credit ("standby LC's") to the Investors to the lease out/lease back transaction ("Lease Transaction") (note 23E) to cover additional amounts payable by the Group in the event the transactions are terminated prior to the expiry of the lease terms, and such standby LC's amounted to US$108 million (HK$838 million) as at 31 December 2010. The Group also provides standby LC's to certain of the Investors under the Lease Transaction (note 23E) to replace some of the Defeasance Securities previously used to support the corresponding long-term lease payments as a result of credit rating downgrades of these securities, and such standby LC's amounted to US$36 million (HK$283 million) as at 31 December 2010.

E US Cross Border Lease ("CBL") Agreements

In connection with the Rail Merger in December 2007, the Company entered into a number of agreements ("US CBL Assumption Agreements") with respect to the CBLs that KCRC had entered into with its CBL counterparties in relation to certain of its property and equipment ("CBL Property") between 1998 and 2003. Pursuant to the US CBL Assumption Agreements, the Company has undertaken to perform, on a joint and several basis with KCRC, the obligations of KCRC under the respective CBLs.

In addition, the Company has entered into a US CBL Allocation Agreement with KCRC, whereby the rights, obligations and responsibility for risks relating to the CBLs are delineated and allocated between the Company and KCRC. Generally, the Company is responsible for operational matters, such as repair, maintenance and insurance of the CBL Property, and KCRC is responsible for all other obligations, including payment of periodic rents and collateral related obligations. Despite this allocation of obligations, the Company is prima facie jointly and severally liable to the CBL counterparties for any failure of KCRC to perform its obligations under the CBLs.

57 Commitments *(continued)*

E US Cross Border Lease ("CBL") Agreements *(continued)*

KCRC and the Government have agreed to indemnify the Company for its reasonable costs incurred as a result of the due and proper performance by the Company of its obligations under the CBLs (unless such costs would have been incurred in any event). In addition, KCRC has agreed to indemnify the Company for losses and reasonable costs incurred arising from KCRC not complying with its obligations under the CBLs or from any breach of KCRC's representations, covenants and agreements provided for in relation to the CBLs.

The Company has agreed to indemnify each of the Government and KCRC for losses and reasonable costs incurred arising from any breach of the Company's representations, covenants and agreements provided for in relation to the CBLs.

F Service Concession in respect of the Rail Merger

Pursuant to the Rail Merger, the Company is obliged under the Service Concession Agreement ("SCA") to pay an annual fixed payment of HK$750 million to KCRC over the period of the service concession. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay a variable annual payment to KCRC based on the revenue generated from the KCRC system above certain thresholds. Furthermore, under the SCA, the Company is obliged to maintain, repair, replace and/or upgrade the KCRC system over the period of the service concession which is to be returned at the expiry of the service concession.

G Investments in Mainland of China

(i) Investment in Line 4 of Shenzhen Metro System ("Shenzhen Line 4")

In March 2009, the Group and the Shenzhen Municipal People's Government signed the Project Concession Agreement to build Phase 2 of Shenzhen Line 4 and to operate both Phases 1 and 2 of Shenzhen Line 4 for a period of 30 years. The estimated total investment for Shenzhen Line 4 is RMB6.0 billion, comprising equity investment of RMB2.4 billion and bank loans in Renminbi for the remaining balance. On 15 May 2009, a financing agreement with a bank in Mainland of China was signed for the provision of a financing package in the aggregate amount of RMB4.0 billion to the project. The financing package comprises a RMB3.6 billion 20-year loan and other credit facilities, and is secured by certain future revenues from and interest in insurance policies covering the project.

As at 31 December 2010, the Group's outstanding contract commitments relating to the project were RMB1.1 billion (HK$1.3 billion) (2009: HK$2.2 billion) (note 57A). Payment guarantees and performance guarantees provided to the counterparties by a bank on the Group's behalf in respect of the construction of Phase 2 of Shenzhen Line 4 were RMB182 million (HK$215 million) and RMB85 million (HK$100 million) respectively. On 1 July 2010, the Group took over the operation of Phase 1 of Shenzhen Line 4.

(ii) Investment in Beijing Metro Line 4 Project ("Beijing Line 4")

In April 2006, the Group and the Beijng Municipal People's Government entered into the Concession Agreement for the investment, construction and operation of the Beijing Line 4 for a term of 30 years. The estimated total investment for Beijing Line 4 is RMB15.3 billion, of which 70% is borne by the Beijing Municipal People's Government to finance mainly land acquisition and civil construction while the remaining 30% is borne by Beijing MTR Corporation Limited ("Beijing MTR"), a public-private-partnership company formed by the Group and two subsidiaries of the Beijing Municipal People's Government with the Group owning 49% of equity interest, to finance mainly the electrical and mechanical systems and rolling stock as well as to operate and maintain the line. Registered capital of Beijing MTR is approximately RMB1.4 billion with the Group's contribution amounting to RMB676 million. On 28 September 2009, Beijing Line 4 was opened for operation.

Apart from Beijing Line 4, on 30 December 2009, Beijing MTR was granted an operation and maintenance concession for Beijing Daxing Line, a 22-kilometre and 11-station extension of Beijing Line 4 from Gongyixiqiao Station to Tiangongyuan Station, for a period of 10 years, renewable for further terms of 10 years until the expiry of the concession of Beijng Line 4. The Beijing Daxing Line commenced service on 30 December 2010. After the opening of Beijing Daxing Line, the extended 50-kilometre and 35-station Beijing Line 4 becomes the longest metro line in Beijing.

(iii) Investment in Shenyang Metro Lines Project

On 7 May 2009, the Group signed the Operation and Maintenance Concession Agreement with Shenyang Municipal Government for the operation and maintenance of Shenyang Metro Lines 1 and 2 for a term of 30 years. A joint venture company, Shenyang MTR Corporation Limited ("Shenyang MTR") was formed by the Group and a wholly-owned subsidiary of the Shenyang Municipal Government, with the Group owning 49% of equity interest. Total investment of Shenyang MTR is RMB400 million in which RMB200 million is registered capital. As of 31 December 2010, the Group injected equity of RMB49 million into Shenyang MTR and provided a parent company guarantee of RMB151 million (HK$178 million) to Shenyang Municipal Government for Shenyang MTR's obligations in the Concession Agreement.

Due to unforeseeable external factors, Shenyang MTR became unable to perform the operating activities under the Concession Agreement. As a result, the shareholders of Shenyang MTR resolved to reduce the registered capital from RMB200 million to RMB20 million with the equity interest remaining unchanged. Accordingly, the Group's capital contribution to Shenyang MTR will be reduced to RMB9.8 million. The reduction of capital is subject to approval by relevant authorities in the Mainland of China.

(iv) Investment in Hangzhou Metro Line 1 Project ("Hangzhou Line 1")

On 4 March 2010, the Company's wholly-owned subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with the Hangzhou Municipal Government for the investment, construction and operation of Hangzhou Line 1 for a term of 25 years. The line is expected to commence service in 2012.

57 Commitments *(continued)*

G Investments in Mainland of China *(continued)*

Total investment of the project is estimated at RMB22 billion. Project works on civil construction, representing approximately 63% of the total investment, is being undertaken by Hangzhou Metro Group Company Limited. Project works on electrical and mechanical systems, rolling stock and testing and commissioning, representing approximately 37% of the total investment, will be undertaken by a joint venture company owned by the Group and Hangzhou Metro Group Company Limited, with the Group owning 49% of equity interest. The joint venture company will be funded by a combination of debt and equity with the Group's equity investment being approximately RMB2.2 billion (HK$2.6 billion).

The Concession Agreement is subject to approval by relevant authorities in the Mainland of China.

H Investments in Europe and Australia

(i) Investment in London Overground Franchise

On 11 November 2007, London Overground Rail Operations Ltd ("LOROL"), the 50/50 partnership between the Group and DB Regio (UK) Limited, took over the operation of the new London Overground service in Greater London for a period of seven years with an option for a two-year extension.

Under the terms of the concession agreement, LOROL has provided a performance bond of GBP15 million (HK$181 million) to Transport for London ("TfL"). The performance bond is jointly and severally indemnified by the parent companies through parent company guarantees and may be called by TfL if the concession is terminated early as a result of default. As provided in the concession agreement, the bond was replaced by a new bond of GBP10.8 million (HK$130 million) in July 2010 after the successful commencement of the East London Line operations. This new bond is guaranteed by Deutsche Bahn, the ultimate parent company of DB Regio (UK) Limited, with the Company providing to Deutsche Bahn a counter indemnity that is further backed by a performance bond of GBP5.4 million (HK$65 million) for the Company's share of the guarantee.

As at 31 December 2010, an unsecured debt of GBP2 million (HK$24 million) with interest rate at 2.5% per annum above the published Bank of England base rate from time to time was provided equally by the Group and DB Regio (UK) Limited to LOROL (GBP1 million each). The final repayment date of this debt is on the date of expiry or the earlier termination of the term of the London Rail Concession under the concession agreement.

(ii) Investment in Stockholm Metro Franchise

On 2 November 2009, MTR Stockholm AB, the Company's wholly owned subsidiary in Sweden, took over the train and station operations as well as rolling stock maintenance of the Stockholm Metro in Sweden for a period of eight years with a possible extension for an additional period of six years. The servicing, maintenance and cleaning of trains are carried out by Tunnelbanan Teknik Stockholm AB, a joint venture company owned by the Group and Mantena AS with equal equity interests. MTR Stockholm AB leases the rolling stock, stations, office buildings, depots, depot equipment and other minor assets from the Stockholm transport authority ("SL"). On a back to back contract basis, MTR Stockholm AB leases the depots and depot equipment to Tunnelbanan Teknik Stockholm AB.

As at 31 December 2010, the Group's investment in MTR Stockholm AB comprised an equity investment of SEK40 million, an unsecured debt of SEK140 million (HK$162 million) at an interest rate of 3% above the 3-month Stockholm Inter Bank Offer Rate ("STIBOR") published by the Riksbank from time to time and with repayment due by 31 December 2013, and a capital contribution of SEK30 million which will be repaid if MTR Stockholm AB is able to distribute profits under the Swedish Company Act and its dividends to its shareholder(s) increase from one year to another.

In addition, MTR Stockholm AB and Mantena AS provided, based on their respective equity interest, senior debt of SEK100 million (HK$116 million) and subordinated debt of SEK30 million (HK$35 million) to Tunnelbanan Teknik Stockholm AB at an interest rate of 3% and 4% per annum respectively above the 3-month STIBOR.

Under the concession, the Group provides to SL a guarantee of SEK1,000 million (HK$1,157 million), which can be called if the concession is terminated early as a result of default by MTR Stockholm AB.

(iii) Investment in Melbourne Metropolitan Train Franchise

On 30 November 2009, Metro Trains Melbourne Pty. Ltd. ("MTM"), a company owned by the Group, United Rail Services Limited ("UGL") and John Holland Melbourne Rail Franchise Pty. Ltd. ("JHL") with the Group holding 60% of equity interest and UGL and JHL each holding 20% of interest, took over the operation and maintenance of the Melbourne metropolitan train network in Australia for an initial period of eight years with a renewal option up to an additional seven years.

Total investment in MTM is AUD65 million through a mixture of equity and shareholder loans. As at 31 December 2010, the Group's share of investment in MTM was AUD39 million, which comprised an equity investment of AUD9.75 million and a subordinated loan of AUD29.25 million (HK$232 million) at an interest rate of 7.5% per annum with final repayment at the date of expiry or the earlier termination of the concession.

The Group, UGL and JHL together provide to the State of Victoria Government a joint and several parent company guarantee of AUD125 million (HK$990 million) and a performance bond of AUD75 million (HK$594 million) for MTM's performance and other obligations under the franchise agreement, each bearing its share of liability based on its shareholdings in MTM.

58 Accounting Estimates and Judgements

A Key sources of accounting estimates and estimation uncertainty include the following:

(i) Estimated Useful Life and Depreciation of Property, Plant and Equipment

The Group estimates the useful lives of the various categories of property, plant and equipment on the basis of their design lives, planned asset maintenance programme and actual usage experience. Depreciation is calculated using the straight-line method at rates sufficient to write off their cost or valuation over their estimated useful lives (note 2I).

(ii) Impairment of Long-lived Assets

The Group reviews its long-lived assets for indications of impairment at each balance sheet date according to accounting polices set out in note 2H(ii). In analysing potential impairments identified, the Group uses projections of future cash flows from the assets based on management's assignment of a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iii) Pension Costs

The Group employs independent valuation professionals to conduct annual assessment of the actuarial position of the Group's retirement plans. The determination of the Group's obligation and expense for the defined benefit element of these plans is dependent on certain assumptions and factors provided by the Company, which are disclosed in notes 53A(i) and 53A(ii).

(iv) Revenue Recognition on Property Development

Recognition of property development profits requires management's estimation of the final project costs upon completion, assessment of outstanding transactions and market values of unsold units and, in the case of sharing-in-kind properties, the properties' fair value upon recognition. The Group takes into account independent qualified surveyors' reports, past experience on sales and marketing costs when estimating final project costs on completion; and makes reference to professionally qualified valuers' reports in determining the estimated fair value of sharing-in-kind properties.

(v) Properties Held for Sale

The Group values unsold properties at the lower of their costs and net realisable values (note 35) at the balance sheet date. In ascertaining the properties' net realisable values, which are represented by the estimated selling prices less costs to be incurred in relation to the sales, the Group employs independent valuation professionals to assess the properties' estimated selling prices, and makes estimations on further selling and property holding costs to be incurred based on past experience and with reference to general market practice.

(vi) Interest-free Loan to a Property Developer

The Group estimated the fair value of the interest-free loan to a developer at its present value discounted at the prevailing market rates of interest at inception.

(vii) Valuation of Investment Properties

The valuation of investment properties requires management's input of various assumptions and factors relevant to the valuation. The Group conducts semi-annual revaluation of its investment properties by independent professionally qualified valuers based on these assumptions agreed with the valuers prior to adoption.

(viii) Franchise in Hong Kong

The current franchise under which the Group is operating in Hong Kong allows it to run the mass transit railway system in Hong Kong until 1 December 2057. Pursuant to the terms stipulated in the new Operating Agreement with the Government, the Company considers that it has the legal right to extend the franchise for further periods of 50 years upon expiry of each franchise term (note 56I). The Group's depreciation policies (note 2I) in respect of certain assets' lives which extend beyond 2057 are on this basis.

(ix) Income Tax

Certain treatments adopted by the Group in its tax returns in the past years are yet to be finalised with the Hong Kong Inland Revenue Department. In assessing the Group's income tax and deferred taxation in the 2010 accounts, the Company has followed the tax treatments it has adopted in those tax returns, which may be different from the final outcome in due course.

(x) Project Provisions

The Group establishes project provisions for the settlement of estimated claims that may arise due to time delays, additional costs or other unforeseen circumstances common to major construction contracts. The claims provisions are estimated based on an assessment of the Group's liabilities under each contract by professionally qualified personnel, which may differ from the actual claims settlement.

(xi) Deferred Expenditure

As disclosed in note 2J(i), the Group capitalises proposed railway project costs in deferred expenditure when the projects are at a detailed study stage and having been approved in principle by the Members of the Board. Such decision involves the Board's judgement on the outcome of the proposed project.

(xii) Fair Value of Derivatives and Other Financial Instruments

In determining the fair value of financial instruments, the Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. For financial instruments that are not traded in active markets, the fair values were based on the discounted cash flows method which discounts the future contractual cash flows at the current market interest or foreign exchange rates, as applicable, for similar financial instruments that were available to the Group at the time.

58 Accounting Estimates and Judgements *(continued)*

A Key sources of accounting estimates and estimation uncertainty include the following: *(continued)*

(xiii) Obligations under Service Concession

In determining the present value of the obligations under service concession, the discount rate adopted was the relevant Group company's estimated long-term incremental cost of borrowing at inception after due consideration of the relevant Group company's existing fixed rate borrowing cost, future interest rate and inflation trends.

B Critical Accounting Judgements in Applying the Group's Accounting Policies

(i) Provisions and Contingent Liabilities

The Group recognises provisions for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability. As at 31 December 2010, the Group considered that it had no disclosable contingent liabilities as there were neither pending litigations nor events with potential obligation which were probable to result in material outflow of economic benefits to the Group.

(ii) Non-controlled Subsidiaries

The Group regards Octopus Holdings Limited and its subsidiaries (the "OHL Group") as non-controlled subsidiaries. In determining whether the Group has control over these subsidiaries, the Group has taken into account its voting right conferred to it under the Shareholder's Agreement of OHL and the effective influence it may exercise over the decision of OHL's Board. Throughout the year ended 31 December 2010, the Group considered that its voting right in the OHL Group has been maintained at 49% despite an equity interest of 57.4%. As such, the OHL Group of companies were accounted for as non-controlled subsidiaries in the Group's accounts.

59 Possible Impact of Amendments, New Standards and Interpretations Issued but Not Yet Effective for the Annual Accounting Period Ended 31 December 2010

Up to the date of issue of these accounts, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these accounts.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, *Financial instruments: Presentation – Classification of rights issues*	1 February 2010
HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*	1 July 2010
Amendment to HKFRS 1, *First-time Adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters*	1 July 2010
Improvements to HKFRSs 2010	1 July 2010 or 1 January 2011
HKAS 24 (Revised), *Related party disclosures*	1 January 2011
Amendment to HK(IFRIC) 14, HKAS 19 – *The limit on a defined benefit asset, minimum funding requirements and their interaction*	1 January 2011
Amendments to HKAS 12, *Income Taxes – Deferred tax: Recovery of underlying assets*	1 January 2012
HKFRS 9, *Financial instruments*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. HKFRS 9 addresses the classification and measurement of financial assets and liabilities and the adoption of it is expected to have impact on the Group's results of operations and financial position. Amendments to HKAS 12 introduce a rebuttable presumption on the measurement of deferred tax on investment properties carried at fair value and the adoption of it is expected to result in the retrospective derecognition of deferred tax liabilities in relation to the change in value of investment properties upon first adoption. Such derecognition, if measured at 31 December 2010, would amount to HK$4,764 million. HKAS 24 (Revised) amends the disclosure requirements applicable to government-related entities and the adoption of it is expected to result in amended disclosures. Other than these three new issue or amendments, it has concluded so far that the adoption of other new issues or amendments is unlikely to have a material impact on the Group's results of operations and financial position.

60 Approval of Accounts

The accounts were approved by the Board on 3 March 2011.