Notes to the Unaudited Interim Financial Report

1 Basis of Preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is set out on page 49. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2008 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2009 annual accounts. Details of these changes in accounting policies are set out in subsequent paragraphs.

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

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in non-controlled subsidiaries and associates since the issuance of the 2008 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2008 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2008, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 10 March 2009, are available from the Company's registered office.

The HKICPA has issued the following new HKFRSs, amendments to HKFRSs or new Interpretations ("HK(IFRIC)") that are first effective for the current accounting period of the Group and relevant to the Group's financial statements:

HKFRS 8, Operating segments
HKAS 1 (revised 2007), Presentation of financial statements
Improvements to HKFRSs (2008)
Amendments to HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
Amendments to HKFRS 7, Financial instruments: Disclosures – improving disclosures about financial instruments
HKAS 23 (revised 2007), Borrowing costs
Amendments to HKFRS 2, Share-based payment – vesting conditions and cancellations
HK(IFRIC) 13, Customer loyalty programmes
HK(IFRIC) 15, Agreements for the construction of real estate
HK(IFRIC) 16, Hedges of a net investment in a foreign operation

HKFRS 8 requires segment disclosure to be based on the way the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related services. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. Corresponding amounts have been provided on a basis consistent with the revised segment information.

As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated profit and loss account, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

The "Improvements to HKFRSs (2008)" comprise 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 to HKAS 40 "Investment property" has resulted in a change to the Group's accounting policies. Following the amendment, investment properties that are being constructed are carried at fair value. Gains or losses arising from the changes in the fair values are recognised in profit and loss account. This new policy has been applied prospectively with effect from 1 January 2009 and corresponding amounts of previous periods have not been restated.

1 Basis of Preparation *(continued)*

The amendments to HKFRS 7 do not contain any additional disclosure requirements specifically applicable to the interim financial report.

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

2 Rail Merger with Kowloon-Canton Railway Corporation

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 Hong Kong Special Administrative Region, KCRC and the Company including the Service Concession Agreement, Property Package Agreements and Merger Framework Agreement. Key elements of the Rail Merger include 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;
- 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 an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- 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;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for front line staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link ("KSL") Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

The principle terms of the Rail Merger and their financial impact were described in the Company's audited accounts for the years ended 31 December 2007 and 2008. Income and expenditure and assets and liabilities in relation to the operation of the service concession are accounted for in the respective line items of the Group's profit and loss account and balance sheet.

3 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Transfer from deferred income on		
– up-front payments	**16**	95
– sharing in kind	**–**	37
Share of surplus from development	**2,062**	224
Income recognised from sharing in kind	**72**	–
Other overhead costs	**(3)**	(8)
	2,147	348

4 Share of Profits of Non-controlled Subsidiaries and Associates

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

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Share of profit before taxation of non-controlled subsidiaries	**77**	86
Share of profit before taxation of associates	**9**	19
	86	105
Share of income tax of non-controlled subsidiaries	**(9)**	(8)
Share of income tax of associates	**(3)**	(6)
	74	91

5 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2008: 16.5%) for the period	**781**	5
– Overseas tax for the period	**–**	1
	781	6
Deferred tax		
– Origination and reversal of temporary differences on:		
– change in fair value of investment properties	**117**	343
– utilisation of tax losses	**–**	406
– others	**12**	(43)
	129	706
– Effect on deferred tax balances resulting from a change in tax rate	**–**	(704)
	129	2
	910	8

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2009 is calculated at the prevailing Hong Kong Profits Tax rate at 16.5% (2008: 16.5%) on the estimated assessable profits for the period. Current tax for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

For the half year ended 30 June 2008, no provision for current Hong Kong Profits Tax was made in the consolidated profit and loss account in respect of the Company and most of its subsidiaries, as the Company and these subsidiaries either had accumulated tax losses brought forward which were available for setting off against the assessable profits for the period or had sustained tax losses.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate of 16.5% (2008: 16.5%).

6 Dividends

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

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Dividends payable attributable to the period		
– Interim dividend declared after the balance sheet date of 14 cents (2008: 14 cents) per share	**800**	790
Dividends paid attributable to the previous year		
– Final dividend of 34 cents (2007: 31 cents) per share approved and paid during the period	**1,925**	1,740

7 Earnings Per Share

A Basic earnings per share

The calculation of basic earnings per share is based on the profit for the half year ended 30 June 2009 attributable to equity shareholders of HK$4,498 million (2008: HK$4,689 million) and the weighted average number of ordinary shares of 5,665,191,375 in issue during the period (2008: 5,613,941,337), calculated as follows:

	Half year ended 30 June 2009	Half year ended 30 June 2008
Issued ordinary shares at 1 January	**5,661,143,113**	5,611,057,035
Effect of scrip dividends issued	**3,879,837**	2,290,854
Effect of share options exercised	**168,425**	593,448
Weighted average number of ordinary shares at 30 June	**5,665,191,375**	5,613,941,337

B Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the half year ended 30 June 2009 attributable to equity shareholders of HK$4,498 million (2008: HK$4,689 million) and the weighted average number of ordinary shares of 5,668,730,035 in issue during the period (2008: 5,619,005,310) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	Half year ended 30 June 2009	Half year ended 30 June 2008
Weighted average number of ordinary shares at 30 June	**5,665,191,375**	5,613,941,337
Number of ordinary shares deemed to be issued for no consideration	**3,538,660**	5,063,973
Weighted average number of ordinary shares (diluted) at 30 June	**5,668,730,035**	5,619,005,310

7 Earnings Per Share *(continued)*

C Both basic and diluted earnings per share would have been HK$0.69 (2008: HK$0.49) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding increase in fair value of investment properties net of related deferred tax, adjusted as follows:

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Profit attributable to equity shareholders	**4,498**	4,689
Change in fair value of investment properties	**(712)**	(2,080)
Deferred tax on change in fair value of investment properties		
– Effect of the change during the period (note 5)	**117**	343
– Effect on deferred tax balances resulting from a change in tax rate	**–**	(221)
Profit from underlying businesses attributable to equity shareholders	**3,903**	2,731

8 Segmental Information

The Group manages its businesses through the various business executive committees. On first-time adoption of HKFRS 8 "Operating Segments" and 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 five reportable segments.

- Railway operations: The operation of an urban mass transit railway system within Hong Kong including the ex-KCRC system, 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.
- Station commercial and rail related businesses: 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.
- Hong Kong property rental and management: The letting of retail and car parking space in investment properties and the provision of estate management services in Hong Kong.
- Property developments: Property development at locations relating to the railway system.
- All others: Including operations relating to the Ngong Ping 360, railway consultancy services, rental and estate management services in Mainland of China and share of profits of non-controlled subsidiaries and associates.

8 Segmental Information *(continued)*

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

in HK$ million	Railway operations	Station commercial and rail related businesses	Hong Kong property rental and management	All others	Property developments	Total
Half year ended 30 June 2009						
Revenue	**5,542**	**1,326**	**1,302**	**460**	**–**	**8,630**
Operating expenses before depreciation and amortisation	**(3,051)**	**(149)**	**(253)**	**(283)**	**–**	**(3,736)**
	2,491	**1,177**	**1,049**	**177**	**–**	**4,894**
Profit on property developments	**–**	**–**	**–**	**–**	**2,147**	**2,147**
Operating profit before depreciation and amortisation	**2,491**	**1,177**	**1,049**	**177**	**2,147**	**7,041**
Depreciation and amortisation	**(1,386)**	**(39)**	**(4)**	**(35)**	**–**	**(1,464)**
	1,105	**1,138**	**1,045**	**142**	**2,147**	**5,577**
Project studies and business development expenses						**(95)**
Merger related expenses						**(7)**
Operating profit before interest and finance charges						**5,475**
Interest and finance charges						**(854)**
Change in fair value of investment properties			**712**			**712**
Share of profits of non-controlled subsidiaries and associates				**74**		**74**
Income tax						**(910)**
Profit for the half year ended 30 June 2009						**4,497**
Half year ended 30 June 2008						
Revenue	5,611	1,365	1,163	388	–	8,527
Operating expenses before depreciation and amortisation	(2,933)	(152)	(230)	(329)	–	(3,644)
	2,678	1,213	933	59	–	4,883
Profit on property developments	–	–	–	–	348	348
Operating profit before depreciation and amortisation	2,678	1,213	933	59	348	5,231
Depreciation and amortisation	(1,440)	(38)	(4)	(35)	–	(1,517)
	1,238	1,175	929	24	348	3,714
Project studies and business development expenses						(87)
Merger related expenses						(24)
Operating profit before interest and finance charges						3,603
Interest and finance charges						(1,078)
Change in fair value of investment properties			2,080			2,080
Share of profits of non-controlled subsidiaries and associates				91		91
Income tax						(8)
Profit for the half year ended 30 June 2008						4,688

9 Other Comprehensive Income

Reclassification adjustments relating to components of other comprehensive income are shown in the following:

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**60**	34
Amounts transferred to initial carrying amount of hedged items	**–**	(12)
Transferred from equity to profit or loss account	**41**	19
Net deferred tax (debited)/credited to other comprehensive income resulting from:		
– Changes in fair value of hedging instrument recognised during the period	**(10)**	(6)
– Amounts transferred to initial carrying amount of hedged items	**–**	2
– Transferred from equity to profit or loss account	**(7)**	(3)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**84**	34
Self-occupied land and buildings:		
Changes in fair value recognised during the period	**(54)**	102
Transferred from equity to profit or loss account:		
– Gain on disposal released from retained profits	**–**	(42)
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value recognised during the period	**9**	(16)
– Gain on disposal released from retained profits	**–**	7
– Change in tax rate	**–**	14
Net movement in fixed asset revaluation reserve during the period recognised in other comprehensive income	**(45)**	65

10 Investment Properties

Following the amendment to HKAS 40 "Investment properties", the costs of the partially renovated shell of the retail shopping centre at Union Square, Kowloon Station ("Elements") and the relating further renovation expenditure, which were classified as other property, plant and equipment and amounted to HK$352 million as at 31 December 2008, have been re-classified as investment properties starting from 1 January 2009.

Investment properties carried at fair value were revalued at 30 June 2009 on an open market basis by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, a gain of HK$712 million (2008: HK$2,080 million), and deferred tax thereon of HK$117 million (2008: HK$343 million) in respect of the investment properties, have been included in the consolidated profit and loss account.

11 Other Property, Plant and Equipment

A Acquisitions and disposals

During the half year ended 30 June 2009, the Group acquired or commissioned assets at a total cost of HK$794 million (2008: HK$576 million). Items of civil works and plant and equipment with a net book value of HK$13 million (2008: HK$54 million) were disposed of during the same period, resulting in a net loss on disposal of HK$9 million (2008: HK$8 million).

B Valuation

Self-occupied office land and buildings carried at fair value were revalued at 30 June 2009 on an open market value basis by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, revaluation deficit of HK$45 million (2008: HK$86 million surplus), net of deferred tax, have been transferred to the fixed asset revaluation reserve (note 9).

12 Service Concession Assets

Service concession assets include the Company's right to access, use and operate the KCRC system ("Initial Concession Property"), the expenditures incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system ("Additional Concession Property"). During the half year ended 30 June 2009, the Company had net additions of Additional Concession Property of HK$257 million (2008: HK$178 million) and charged HK$167 million (2008: HK$154 million) to the profit and loss account as amortisation.

In addition, on 18 March 2009, MTR Corporation (Shenzhen) Limited, a wholly-owned subsidiary of the Company, signed a Concession Agreement for the project of Shenzhen Metro Line 4 ("SZL4") with the Shenzhen Municipal Government. Under this agreement, MTR Corporation (Shenzhen) Limited will undertake the investment, design and construction of Phase 2 of SZL4 together with the operation of Phases 1 and 2 for a term of 30 years. Service commencement date of Phase 2 is expected in 2011. Accordingly, costs incurred for the project, previously carried as deferred expenditure amounting to HK$1,650 million, have been transferred to service concession assets. Construction revenue and expenses since the signing of the Concession Agreement to 30 June 2009 amounted to HK$342 million.

13 Property Development in Progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Company for property development projects, net of payments received from developers. Movements of property development in progress during the half year ended 30 June 2009 and the year ended 31 December 2008 were as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 30 June/ 31 December
At 30 June 2009 (Unaudited)					
Airport Railway Property Projects	**–**	**7**	**(2)**	**(5)**	**–**
Tseung Kwan O Extension Property Projects	**2,081**	**137**	**(10)**	**(1)**	**2,207**
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	**5,814**	**31**	**–**	**–**	**5,845**
	7,895	**175**	**(12)**	**(6)**	**8,052**
At 31 December 2008 (Audited)					
Airport Railway Property Projects	–	31	(31)	–	–
Tseung Kwan O Extension Property Projects	3,307	382	(53)	(1,555)	2,081
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	5,759	1,918	(42)	(1,821)	5,814
	9,066	2,331	(126)	(3,376)	7,895

14 Deferred Expenditure

Deferred expenditure comprises capital expenditures on the preliminary studies and designs of new railway extensions, including the West Island Line, Kwun Tong Line Extension and South Island Line East.

During the first half year of 2008, the Company received the first part of the Government's capital grant for the West Island Line Project of HK$400 million, which has been fully utilised to offset the detailed design cost as at 30 June 2009 (31 December 2008: HK$355 million utilised).

15 Interests in Associates

During the half year ended 30 June 2009, the Group made an equity injection of HK$55 million into Shenyang MTR Corporation Limited, a joint venture company established for the operation and maintenance concession of Shenyang Metro Lines 1 and 2 with the Company holding a 49% interest. More details are set out in note 28C.

16 Properties Held for Sale

in HK$ million	**At 30 June 2009 (Unaudited)**	At 31 December 2008 (Audited)
Properties held for sale		
– at cost	**2,825**	2,092
– at net realisable value	**107**	136
	2,932	2,228

Properties held for sale at net realisable value are stated net of provision of HK$12 million (31 December 2008: HK$13 million) made in order to state these properties at the lower of their cost and estimated net realisable value.

17 Derivative Financial Assets and Liabilities

Derivative financial assets and liabilities comprise:

	At 30 June 2009 (Unaudited)		At 31 December 2008 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– fair value hedges	**–**	**–**	387	–
– cash flow hedges	**728**	**23**	961	14
– not qualified for hedge accounting	**128**	**7**	3	–
Cross currency swaps				
– fair value hedges	**820**	**54**	2,537	83
Interest rate swaps				
– fair value hedges	**3,779**	**280**	4,854	427
– cash flow hedges	**350**	**19**	–	–
Others	**–**	**–**	300	4
	5,805	**383**	9,042	528
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**320**	**5**	396	13
– not qualified for hedge accounting	**13**	**–**	131	4
Cross currency swaps				
– fair value hedges	**9,807**	**111**	13,547	100
Interest rate swaps				
– fair value hedges	**500**	**22**	–	–
– cash flow hedges	**2,242**	**127**	2,592	187
Others	**–**	**–**	300	1
	12,882	**265**	16,966	305
Total	**18,687**		26,008	

18 Debtors, Deposits and Payments in Advance

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

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

(ii) 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.

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

(iv) Consultancy service income is billed monthly and is due within 30 days.

(v) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 21 days upon the certification of work in progress.

(vi) Amounts receivable from property purchasers are due in accordance with the terms of relevant development agreements or sale and purchase agreements.

The ageing of debtors is analysed as follows:

in HK$ million	**At 30 June 2009 (Unaudited)**	At 31 December 2008 (Audited)
Amounts not yet due	**4,919**	6,219
Overdue by 30 days	**142**	148
Overdue by 60 days	**9**	30
Overdue by 90 days	**3**	3
Overdue by more than 90 days	**17**	16
Total debtors	**5,090**	6,416
Deposits and payments in advance	**535**	558
Prepaid pension costs	**175**	216
	5,800	7,190

Included in the balance as at 30 June 2009, HK$4,682 million (31 December 2008: HK$5,818 million) was in respect of property development projects.

19 Loan to a Property Developer

Nominal and carrying amounts of the loan to a property developer are stated below:

	At 30 June 2009 (Unaudited)		At 31 December 2008 (Audited)	
in HK$ million	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Interest-free loan to a property developer	**4,000**	**3,816**	4,000	3,720

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

20 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 77% of the Company's issued share capital on trust for the Government of the Hong Kong Special Administrative Region ("Government"), is the majority shareholder of the Company. Transactions between the Group and Government departments, agencies or Government controlled entities, other than those transactions arising in the normal dealings between the Government and the Group, are considered to be related party transactions pursuant to HKAS 24 "Related party disclosures" and are identified separately in this interim financial report.

During the half year ended 30 June 2009, amounts due from/to the Government and other related parties in respect of material related party transactions with the Group are stated below:

in HK$ million	**At 30 June 2009 (Unaudited)**	At 31 December 2008 (Audited)
Amounts due from:		
– the Government	**197**	187
– the Housing Authority	**–**	24
– KCRC	**118**	127
– non-controlled subsidiaries	**15**	16
– associates	**90**	72
	420	426
Amounts due to:		
– the Government	**28**	–
– KCRC	**1,269**	882
	1,297	882

The amount due from the Government related 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 West Rail property developments and outstanding receivables in respect of the costs recoverable from the Government for the Shatin to Central Link and Express Rail Link projects. The amount due to the Government related to land costs in respect of the West Island Line project.

The amount due from the Housing Authority related to infrastructure works entrusted to the Company in respect of the Tseung Kwan O Extension project.

The amount due from KCRC related to KCRC's cost sharing of the Rail Merger integration works, 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 to KCRC related to mandatory payments and relating interest payable to KCRC in respect of the East Rail Line / Light Rail / Kowloon Southern Link property development sites as well as the accrued portion of the fixed annual payment for the service concession.

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

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
Cash dividends paid	**656**	555
Shares allotted in respect of scrip dividends	**821**	779
	1,477	1,334

The details of major related party transactions entered into by the Group with the Government in prior years which are still relevant for the current year and with KCRC in respect of the Rail Merger were described in the Company's audited accounts for the year ended 31 December 2008.

20 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2009, the Group had the following transactions with its non-controlled subsidiary, Octopus Holdings Limited ("OHL"), and associate, London Overground Rail Operations Ltd ("LOROL"):

in HK$ million	**Half year ended 30 June 2009**	Half year ended 30 June 2008
OHL		
– Payment to OHL in respect of central clearing services	**48**	48
– Fees received from OHL in respect of load agency services, card issuance and refund services and management services	**12**	12
– Full repayment received from OHL on shareholder subordinated loan	**–**	86
– Dividend distribution by OHL	**40**	23
LOROL		
– Full repayment received from LOROL on senior debt	**–**	23
– Receipt from LOROL for recovery of bidding costs on the London Rail Concession	**–**	32

21 Creditors, Accrued Charges and Provisions

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

The analysis of creditors as at 30 June 2009 by due dates is as follows:

in HK$ million	**At 30 June 2009 (Unaudited)**	At 31 December 2008 (Audited)
Due within 30 days or on demand	**1,008**	1,188
Due after 30 days but within 60 days	**435**	927
Due after 60 days but within 90 days	**175**	234
Due after 90 days	**1,251**	1,392
	2,869	3,741
Rental and other refundable deposits	**1,339**	1,353
Accrued employee benefits	**262**	240
Total	**4,470**	5,334

22 Loans and Other Obligations

Bonds and notes issued by the Group during the half years ended 30 June 2009 and 2008 comprise:

	Half year ended 30 June 2009		Half year ended 30 June 2008	
in HK$ million	**Principal amount**	**Net consideration received**	Principal amount	Net consideration received
Debit issuance programme notes	**500**	**500**	1,250	1,250

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 half year ended 30 June 2009, the Group redeemed HK$300 million (2008: HK$1,000 million) of its unlisted debt securities and US$750 million (2008: nil) of its listed debt securities.

23 Obligations under Service Concession

Obligations under service concession represent the outstanding balance of the discounted total fixed annual payments for the service concession acquired in the Rail Merger.

24 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2009 and the year ended 31 December 2008 were as follows:

	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
30 June 2009 (Unaudited)						
At 1 January 2009	**8,323**	**3,822**	**105**	**(30)**	**(11)**	**12,209**
Charged/(credited) to consolidated profit and loss account	**(10)**	**117**	**22**	**–**	**–**	**129**
Charged/(credited) to reserves	**–**	**(9)**	**–**	**17**	**–**	**8**
At 30 June 2009	**8,313**	**3,930**	**127**	**(13)**	**(11)**	**12,346**
31 December 2008 (Audited)						
At 1 January 2008	8,809	4,126	215	(5)	(575)	12,570
Effect on deferred tax balances resulting from a change in tax rate	(503)	(235)	(12)	–	32	(718)
Charged/(credited) to consolidated profit and loss account	17	(24)	(98)	–	532	427
Charged/(credited) to reserves	–	(45)	–	(25)	–	(70)
At 31 December 2008	8,323	3,822	105	(30)	(11)	12,209

B Deferred tax assets and liabilities recognised amount to:

in HK$ million	At 30 June 2009 (Unaudited)	At 31 December 2008 (Audited)
Net deferred tax assets recognised in the balance sheet	**(14)**	(11)
Net deferred tax liabilities recognised in the balance sheet	**12,360**	12,220
	12,346	12,209

25 Share Capital, Share Premium and Capital Reserve

in HK$ million	At 30 June 2009 (Unaudited)	At 31 December 2008 (Audited)
Authorised: 6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid: 5,711,626,867 shares (2008: 5,661,143,113 shares) of HK$1.00 each	**5,712**	5,661
Share premium	**9,184**	8,270
Capital reserve	**27,188**	27,188
	42,084	41,119

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

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

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

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

			Proceeds received/Transfer from employee share-based capital reserve		
	Number of shares	Option/ scrip price	Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	**277,000**	**8.440**	**–**	**2**	**2**
– New Joiners Share Option Scheme	**5,000**	**9.750**	**–**	**–**	**–**
	41,000	**20.660**	**–**	**1**	**1**
Issued as 2008 final scrip dividends	**50,160,754**	**19.170**	**50**	**912**	**962**
	50,483,754		**50**	**915**	**965**

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

	Half year ended 30 June 2009			Half year ended 30 June 2008		
	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme
No. of previously vested share options exercised during the period	**277,000**	**46,000**	**–**	1,283,000	493,500	–
No. of share options granted during the period	**–**	**–**	**255,000**	–	–	3,054,000
No. of share options lapsed during the period	**–**	**355,500**	**165,000**	17,000	93,500	65,000
No. of share options vested during the period	**–**	**190,500**	**918,000**	–	649,500	–
No. of share options outstanding as at 30 June	**3,328,500**	**2,098,700**	**23,483,000**	3,967,000	3,130,700	10,957,000

Details of the movements in respect of these share option schemes are set out under the Corporate Governance and Other Information section on pages 19 to 27.

D During the half year ended 30 June 2009, the following share options were granted under the 2007 Share Option Scheme:

Date of grant	Number of share options	Exercise price HK$	Exercisable period
18 June 2009	255,000	24.50	on or prior to 12 June 2016

26 Other Reserves

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$19,047 million (31 December 2008: HK$18,417 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2009, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$38,598 million (31 December 2008: HK$36,562 million).

27 Defined Benefit Retirement Plan Obligations

The last full actuarial valuation of the Company's defined benefit retirement plan, the MTR Corporation Limited Retirement Scheme ("Scheme"), was conducted as at 31 December 2008 by Towers, Perrin, Forster & Crosby, an independent firm of consulting actuaries, using the Projected Unit Credit Method. Since the last full valuation, the economic environment as indicated by the yields of government bonds and inflation, and the asset value of the Scheme have significantly changed. Accordingly, the Company decided to re-measure the Scheme's financial position and a re-measurement was conducted as at 31 May 2009 by Towers, Perrin, Forster & Crosby.

The principal actuarial assumptions used (expressed as weighted average) are as follows:

	At 31 May 2009	At 31 December 2008
Discount rate	**2.9%**	1.2%
Expected rate of return on plan assets	**6.0%**	6.0%
Future salary increases	**3.5%**	3.5%

Present value of funded obligations reduced from HK$9,064 million as at the last valuation date of 31 December 2008 to HK$7,961 million as at the re-measurement date of 31 May 2009. The unrecognised actuarial losses decreased from HK$3,112 million as at 31 December 2008 to HK$1,543 million as at 31 May 2009. The actuary confirmed that the financial position of the Scheme as at 30 June 2009 would not be expected to deviate materially from that as at 31 May 2009.

28 Capital Commitments

A Outstanding capital commitments as at 30 June 2009 not provided for in the accounts are as follows:

in HK$ million	Railway operations	Railway extension projects	Property projects and management	Mainland of China and Overseas projects	Total
At 30 June 2009 (Unaudited)					
Authorised but not yet contracted for	**1,454**	**–**	**164**	**–**	**1,618**
Authorised and contracted for	**1,633**	**225**	**149**	**1,433**	**3,440**
	3,087	**225**	**313**	**1,433**	**5,058**
At 31 December 2008 (Audited)					
Authorised but not yet contracted for	846	–	57	–	903
Authorised and contracted for	1,832	180	264	859	3,135
	2,678	180	321	859	4,038

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

B The commitments under railway operations comprise the following:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2009 (Unaudited)				
Authorised but not yet contracted for	**835**	**142**	**477**	**1,454**
Authorised and contracted for	**511**	**962**	**160**	**1,633**
	1,346	**1,104**	**637**	**3,087**
At 31 December 2008 (Audited)				
Authorised but not yet contracted for	661	12	173	846
Authorised and contracted for	491	1,105	236	1,832
	1,152	1,117	409	2,678

28 Capital Commitments *(continued)*

C Investments in Mainland of China

Beijing MTR Corporation Limited, the public-private partnership company ("PPP") between the Group, Beijing Infrastructure Investment Co. Ltd and Beijing Capital Group Co. Ltd for the Beijing Metro Line 4 Project has completed all the registration requirements and obtained its business license in January 2006. The Concession Agreement with the Beijing Municipal People's Government was signed in April 2006. The PPP has a registered capital of approximately RMB1.4 billion (HK$1.6 billion) with the Company contributing 49% of the capital (RMB676 million). Equipment production and site installation are progressing as scheduled. As at 30 June 2009, the PPP had outstanding contract commitments totalling approximately RMB0.9 billion (HK$1.0 billion) related to the project (31 December 2008: HK$1.4 billion).

In May 2005, the Group and the Shenzhen Municipal People's Government initialled the Project Concession Agreement to build Phase 2 of Shenzhen Metro Line 4 and to operate both Phases 1 and 2 of the metro line for a period of 30 years by MTR Corporation (Shenzhen) Limited, the Company's wholly owned subsidiary established in Shenzhen. On 18 March 2009, the Project Concession Agreement was signed. Total investment of the project is estimated at RMB6.0 billion (HK$6.8 billion) which will be financed by equity capital contributed by the Group of RMB2.4 billion (HK$2.7 billion) and the balance by bank loans in Renminbi. 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. Design and tendering as well as expanded trial section works are in progress. As at 30 June 2009, the Group had outstanding contract commitments totalling HK$1,433 million (31 December 2008: HK$859 million) related to the project.

On 7 May 2009, the Company signed the Operation and Maintenance Concession Agreement with Shenyang Municipal Government and its wholly-owned subsidiary, Shenyang Metro Group Company Limited, for the operation and maintenance of Shenyang Metro Lines 1 and 2. A joint venture company ("JVC") has been formed by the Company (49%) and Shenyang Metro Group Company Limited (51%), to operate and maintain the two metro lines for a franchise fee within the concession period of 30 years. Total investment of the JVC is RMB400 million (HK$454 million) in which RMB200 million (HK$227 million) is registered capital. The concession covers pre-operation readiness, train and station operations as well as maintenance.

D Investments in Europe and Australia

In July 2007, London Overground Rail Operations Ltd ("LOROL"), the 50/50 partnership between the Group and DB Regio (UK) Limited, was awarded the concession to operate the London Overground service in Greater London for seven years from 11 November 2007 with an option for a two-year extension. Pursuant to the concession agreement, LOROL has provided a performance bond of GBP15 million (HK$194 million) to Transport for London ("TfL"). The bond is jointly and severally indemnified by the parent companies through parent company guarantee and may be called by TfL if the concession is terminated early as a result of default. As at 30 June 2009, an unsecured debt of GBP5 million (HK$65 million) with interest at 2.5% per annum above the published Bank of England base rate from time to time was provided to LOROL equally by the parent companies with final repayment date at the date of expiry or the earlier termination of the concession.

On 20 January 2009, the board of the Stockholm transport authority ("SL") announced the Company as the winner of the tender for the Stockholm Metro operations concession for a period of eight years from 2 November 2009 with a possible extension for an additional period of six years. The incumbent has taken legal action against SL regarding the tendering process. While still awaiting for court decision, the Company continues the mobilisation of resources and SL has agreed to protect the Company's mobilisation costs incurred since 2 May 2009 up to a maximum of SEK50 million (HK$51 million) in the event that the legal action overturns SL's award decision. Total investment is planned at SEK175 million (HK$177 million), comprising SEK20 million (HK$20 million) of equity and SEK155 million (HK$157 million) of shareholders loans. As at 30 June 2009, subordinated debt of SEK10 million (HK$10 million) has been drawn with an interest of 4% per annum above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank from time to time and repayment at the date of expiry or the earlier termination of the concession.

On 25 June 2009, the Premier of Victoria announced that Metro Trains Melbourne Pty Ltd ("MTM"), the 60/20/20 partnership among the Group, John Holland Melbourne Rail Franchise Pty Ltd and United Group Rail Services Limited, as the Preferred Tenderer of the tender for the Melbourne Metropolitan Train Franchise. The franchise is for a period of eight years commencing from 30 November 2009 with a renewal option of three years that is further extendable to seven years.

29 Post Balance Sheet Events

On 13 July 2009, the Company entered into a project agreement with the Hong Kong Special Administrative Region Government to provide for the financing, detailed design, construction, completion and operation of the West Island Line and related services and facilities. Pursuant to the agreement, the Government will provide funding support amounting to HK$12,252 million for the construction of the West Island Line. The funding support is subject to a claw back mechanism whereby savings on certain defined capital expenditure versus the current forecast will be reimbursed to the Government with interest.

On 26 July 2009, LOHAS Park Station commenced passenger operation.

30 Approval of Interim Financial Report

The interim financial report was approved by the Board on 11 August 2009.