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 48. 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 2009 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2010 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 2009 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 2009 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 2009, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 9 March 2010, are available from the Company's registered office.

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

- 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*
- 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)" 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 relating to HKAS 17, *Leases* has impact on the Group's interim report. 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 and subject to the Government's land policy of renewal without payment of additional land premium, are no longer classified as operating leases. The Group considers that it is in a position economically similar to that of a purchaser and therefore such interests of leasehold land should be reclassified 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 restated with the balance of prepaid land lease payments as at 31 December 2009 of HK$554 million (1 January 2009: HK$567 million) classified as other property, plant and equipment on the consolidated balance sheet and the related amortisation for the half year ended 30 June 2009 of HK$7 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 interim report as the amendments and interpretations are consistent with policies already adopted by the Group.

2 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 Hong Kong Special Administrative Region ("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;
- 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; 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.

3 Railway Franchise Revenue and Expenses outside of Hong Kong

Revenue and expenses relating to railway franchises outside of Hong Kong comprise:

	Half year ended 30 June 2010			Half year ended 30 June 2009		
in HK$ million	Stockholm Metro	Melbourne Train	Total	Stockholm Metro	Melbourne Train	Total
Revenue						
– Franchise income	**1,408**	**2,591**	**3,999**	–	–	–
– Project income	**–**	**853**	**853**	–	–	–
	1,408	**3,444**	**4,852**	–	–	–
Expenses						
– Staff salary and related expenses	**500**	**1,257**	**1,757**	–	–	–
– Operating lease expenses	**446**	**14**	**460**	–	–	–
– Repairs and maintenance	**267**	**826**	**1,093**	–	–	–
– Expenses relating to project income	**–**	**790**	**790**	–	–	–
– Other expenses	**197**	**348**	**545**	–	–	–
	1,410	**3,235**	**4,645**	–	–	–

4 Other Net Income

Other net income relates to the construction of Phase 2 of Line 4 of Shenzhen Metro System ("Shenzhen Line 4"). During the half year ended 30 June 2010, construction revenue and construction cost in respect of Shenzhen Line 4 amounted to HK$380 million (2009: HK$342 million).

5 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	Half year ended 30 June 2010	Half year ended 30 June 2009
Transfer from deferred income on		
– upfront payments	–	16
– sharing in kind	7	–
Share of surplus from development	633	2,062
Income recognised from sharing in kind	3,064	72
Miscellaneous income net of other overhead costs	1	(3)
	3,705	2,147

6 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 2010	Half year ended 30 June 2009
Share of profit before taxation of non-controlled subsidiaries	87	77
Share of profit before taxation of associates	9	9
	96	86
Share of income tax of non-controlled subsidiaries	(10)	(9)
Share of income tax of associates	(4)	(3)
	82	74

7 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	Half year ended 30 June 2010	Half year ended 30 June 2009
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2009: 16.5%) for the period	1,053	781
– Overseas tax for the period	59	–
	1,112	781
Deferred tax		
– Origination and reversal of temporary differences on:		
– change in fair value of investment properties	182	117
– utilisation of tax losses	4	–
– others	184	12
	370	129
	1,482	910

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2010 is calculated at 16.5% (2009: 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.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2009: 16.5%).

8 Dividends

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

in HK$ million	**Half year ended 30 June 2010**	Half year ended 30 June 2009
Dividends payable attributable to the period		
– Interim dividend declared after the balance sheet date of 14 cents (2009: 14 cents) per share	**807**	800
Dividends paid attributable to the previous year		
– Final dividend of 38 cents (2008: 34 cents) per share approved and paid during the period	**2,177**	1,925

9 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 2010 attributable to equity shareholders of HK$6,639 million (2009: HK$4,498 million) and the weighted average number of ordinary shares of 5,732,143,807 in issue during the period (2009: 5,665,191,375), calculated as follows:

	Half year ended 30 June 2010	Half year ended 30 June 2009
Issued ordinary shares at 1 January	**5,727,833,692**	5,661,143,113
Effect of scrip dividends issued	**3,282,256**	3,879,837
Effect of share options exercised	**1,027,859**	168,425
Weighted average number of ordinary shares at 30 June	**5,732,143,807**	5,665,191,375

B Diluted earnings per share

The calculation of diluted earnings per share is based on the profit for the half year ended 30 June 2010 attributable to equity shareholders of HK$6,639 million (2009: HK$4,498 million) and the weighted average number of ordinary shares of 5,738,652,735 in issue during the period (2009: 5,668,730,035) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	Half year ended 30 June 2010	Half year ended 30 June 2009
Weighted average number of ordinary shares at 30 June	**5,732,143,807**	5,665,191,375
Effect of dilutive potential shares under the Company's share option schemes	**6,508,928**	3,538,660
Weighted average number of ordinary shares (diluted) at 30 June	**5,738,652,735**	5,668,730,035

C Both basic and diluted earnings per share would have been HK$1.00 (2009: HK$0.69) 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 2010**	Half year ended 30 June 2009
Profit attributable to equity shareholders	**6,639**	4,498
Change in fair value of investment properties	**(1,101)**	(712)
Deferred tax on change in fair value of investment properties		
– Effect of the change during the period (note 7)	**182**	117
Profit from underlying businesses attributable to equity shareholders	**5,720**	3,903

10 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 franchises outside of Hong Kong: The operation and maintenance of mass transit railway systems outside Hong Kong including station commercial activities in relation to the railway systems.

(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 Mainland of China and share of profits of non-controlled subsidiaries and associates.

The results of the reportable segments and the 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 management	Railway franchises outside of Hong Kong	All others	Property developments	Total
Half year ended 30 June 2010							
Revenue	**5,950**	**1,440**	**1,423**	**4,852**	**437**	**–**	**14,102**
Operating expenses before depreciation and amortisation	**(3,104)**	**(166)**	**(257)**	**(4,645)**	**(372)**	**–**	**(8,544)**
	2,846	**1,274**	**1,166**	**207**	**65**	**–**	**5,558**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**3,705**	**3,705**
Operating profit before depreciation and amortisation	**2,846**	**1,274**	**1,166**	**207**	**65**	**3,705**	**9,263**
Depreciation and amortisation	**(1,431)**	**(53)**	**(2)**	**(17)**	**(34)**	**–**	**(1,537)**
	1,415	**1,221**	**1,164**	**190**	**31**	**3,705**	**7,726**
Project studies and business development expenses							**(67)**
Operating profit before interest and finance charges							**7,659**
Interest and finance charges							**(656)**
Change in fair value of investment properties			**1,101**				**1,101**
Share of profits of non-controlled subsidiaries and associates				**5**	**77**		**82**
Income tax							**(1,482)**
Profit for the half year ended 30 June 2010							**6,704**
Half year ended 30 June 2009 (restated)							
Revenue	5,542	1,326	1,302	–	460	–	8,630
Operating expenses before depreciation and amortisation	(3,044)	(149)	(253)	–	(283)	–	(3,729)
	2,498	1,177	1,049	–	177	–	4,901
Profit on property developments	–	–	–	–	–	2,147	2,147
Operating profit before depreciation and amortisation	2,498	1,177	1,049	–	177	2,147	7,048
Depreciation and amortisation	(1,393)	(39)	(4)	–	(35)	–	(1,471)
	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				6	68		74
Income tax							(910)
Profit for the half year ended 30 June 2009							4,497

10 Segmental Information *(continued)*

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or goods were delivered.

in HK$ million	**Half year ended 30 June 2010**	Half year ended 30 June 2009
Hong Kong (place of domicile)	**9,153**	8,508
Australia	**3,444**	1
Mainland of China	**62**	75
Sweden	**1,408**	–
Other countries	**35**	46
	4,949	122
	14,102	8,630

11 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 2010**	Half year ended 30 June 2009
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(121)**	60
Amounts transferred to initial carrying amount of hedged items	**(4)**	–
Transferred to profit or loss	**40**	41
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value of hedging instrument recognised during the period	**20**	(10)
– Amounts transferred to initial carrying amount of hedged items	**1**	–
– Transferred to profit or loss	**(7)**	(7)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**(71)**	84
Self-occupied land and buildings:		
Changes in fair value recognised during the period	**124**	(54)
Net deferred tax (debited)/credited to other comprehensive income resulting from changes in fair value recognised during the period	**(21)**	9
Net movement in fixed assets revaluation reserve during the period recognised in other comprehensive income	**103**	(45)

12 Investment Properties

Investment properties carried at fair value were revalued at 30 June 2010 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$1,101 million (2009: HK$712 million), and deferred tax thereon of HK$182 million (2009: HK117 million) in respect of the investment properties, have been included in the consolidated profit and loss account.

13 Other Property, Plant and Equipment

A Acquisitions and disposals

During the half year ended 30 June 2010, the Group acquired or commissioned assets at a total cost of HK$653 million (2009: HK$794 million). Items of civil works and plant and equipment with a net book value of HK$13 million (2009: HK$13 million) were disposed of during the same period, resulting in a net loss on disposal of HK$10 million (2009: HK$9 million).

B Valuation

Self-occupied office land and buildings carried at fair value were revalued at 30 June 2010 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 surplus of HK$103 million (2009: HK$45 million deficit), net of deferred tax, have been transferred to the fixed asset revaluation reserve (note 11).

14 Service Concession Assets

Service concession assets include the 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"), the costs incurred and eligible for capitalisation in respect of the construction of Shenzhen Line 4 Phase 2, as well as the costs incurred to prepare for the operation and maintenance of the Stockholm Metro in Sweden.

During the half year ended 30 June 2010, the Group had net additions of Additional Concession Property of HK$199 million (2009: HK$257 million) and additions of service concession assets in respect of Shenzhen Line 4 of HK$380 million (2009: HK$198 million). Amortisation charge during the same period amounted to HK$185 million (2009: HK$167 million) for Initial Concession Property and Additional Concession Property as well as HK$6 million (2009: nil) for service concession assets in respect of the Stockholm Metro.

15 Railway Construction in Progress

A Railway projects owned by the Group

Railway construction in progress as at 30 June 2010 and 31 December 2009 consisted of the net costs capitalised for the West Island Line ("WIL") project. Pursuant to the Project Agreement, the Government provided 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) as funding support for the project. 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 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). As at 30 June 2010, the costs incurred for the WIL has cumulated to HK$3,333 million (31 December 2009: HK$1,685 million), which was wholly offset by the Government funding support.

B Railway project construction activities managed by the Group

On 26 January 2010, the Company entered into an Entrustment Agreement with the Government for the construction and commissioning of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). Pursuant to the Entrustment Agreement, the Company is only 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 half year ended 30 June 2010, project management fee of HK$175 million (2009: nil) was recognised in the consolidated profit and loss account.

16 Property Development in Progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Company for property development projects as well as considerations paid and mandatory payments payable to KCRC for the property development rights acquired in the Rail Merger, net of payments received from developers. Movements of property development in progress during the half year ended 30 June 2010 and the year ended 31 December 2009 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 2010 (Unaudited)					
Airport Railway Property Projects	**–**	**11**	**(11)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**2,245**	**216**	**(5)**	**(1,376)**	**1,080**
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	**4,473**	**3,963**	**(510)**	**–**	**7,926**
	6,718	**4,190**	**(526)**	**(1,376)**	**9,006**
At 31 December 2009 (Audited)					
Airport Railway Property Projects	–	7	(2)	(5)	–
Tseung Kwan O Extension Property Projects	2,081	177	(13)	–	2,245
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	5,814	119	–	(1,460)	4,473
	7,895	303	(15)	(1,465)	6,718

17 Deferred Expenditure

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

18 Investments in Securities

Investments in securities represent debt securities held by the Company and the overseas insurance underwriting subsidiary comprising the following:

in HK$ million	**At 30 June 2010 (Unaudited)**	At 31 December 2009 (Audited)
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**–**	–
– maturing after 1 year	**3,201**	–
	3,201	–
Trading securities listed overseas, at fair value		
– maturing within 1 year	**56**	107
– maturing after 1 year	**228**	120
	284	227
	3,485	227

19 Properties Held for Sale

in HK$ million	**At 30 June 2010 (Unaudited)**	At 31 December 2009 (Audited)
Properties held for sale		
– at cost	**2,445**	3,676
– at net realisable value	**107**	107
	2,552	3,783

Properties held for sale at net realisable value are stated net of provision of HK$12 million (31 December 2009: HK$12 million) made in order to state these properties at the lower of their costs and estimated net realisable values.

20 Derivative Financial Assets and Liabilities

Derivative financial assets and liabilities comprise:

	At 30 June 2010 (Unaudited)		At 31 December 2009 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**292**	**9**	756	32
– not qualified for hedge accounting	**27**	**4**	5	–
Cross currency swaps				
– fair value hedges	**1,847**	**76**	1,275	59
Interest rate swaps				
– fair value hedges	**3,336**	**322**	3,780	256
– cash flow hedges	**–**	**–**	350	23
	5,502	**411**	6,166	370
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**229**	**22**	67	1
– not qualified for hedge accounting	**92**	**10**	76	2
Cross currency swaps				
– fair value hedges	**8,760**	**47**	9,342	97
Interest rate swaps				
– fair value hedges	**–**	**–**	500	15
– cash flow hedges	**2,592**	**136**	2,242	122
	11,673	**215**	12,227	237
Total	**17,175**		18,393	

21 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 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 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 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.

(vii) 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 2010 (Unaudited)**	At 31 December 2009 (Audited)
Amounts not yet due	**3,277**	1,414
Overdue by 30 days	**194**	209
Overdue by 60 days	**79**	11
Overdue by 90 days	**66**	3
Overdue by more than 90 days	**34**	13
Total debtors	**3,650**	1,650
Deposits and payments in advance	**628**	600
Prepaid pension costs	**173**	178
	4,451	2,428

Included in the balance as at 30 June 2010, HK$2,239 million (31 December 2009: HK$805 million) was in respect of property development projects.

22 Loan to a Property Developer

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

	At 30 June 2010 (Unaudited)		At 31 December 2009 (Audited)	
in HK$ million	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Interest-free loan to a property developer	**2,000**	**1,966**	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.

23 Material Related Party Transactions

The Financial Secretary Incorporated, which holds approximately 77% of the Company's issued share capital on trust for the 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 2010, 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 2010 (Unaudited)**	At 31 December 2009 (Audited)
Amounts due from:		
– the Government	**144**	12,432
– KCRC	**102**	165
– non-controlled subsidiaries	**16**	15
– associates	**115**	176
	377	12,788
Amounts due to:		
– the Government	**25**	19
– KCRC	**1,128**	904
	1,153	923

As at 30 June 2010, 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 XRL projects. Other than these items, the amount due from the Government as at 31 December 2009 also included HK$12,252 million of funding support for the construction of the WIL (note 15). The amount due to the Government related to land costs in respect of the WIL project.

The amount due from KCRC related to payments to the Company in respect of the Kowloon Southern Link Project Management Agreement and Outsourcing Agreement, costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement, KCRC's cost sharing of the Rail Merger integration works 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 related interest payable to KCRC upon tender award 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 2010**	Half year ended 30 June 2009
Cash dividends paid	**681**	656
Shares allotted in respect of scrip dividends	**991**	821
	1,672	1,477

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 2009.

23 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2010, the Group had the following transactions with its non-controlled subsidiaries, Octopus Holdings Limited and its subsidiaries ("Octopus Group"), and associates, London Overground Rail Operations Ltd ("LOROL"), Tunnelbanan Teknik Stockholm AB ("TBT"), Beijing MTR Corporation Limited ("Beijing MTR") and Shenyang MTR Corporation Limited ("Shenyang MTR"):

in HK$ million	**Half year ended 30 June 2010**	Half year ended 30 June 2009
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**52**	48
– Fees received or receivable in respect of load agency services, card issuance and refund services, Octopus card replacement services as well as computer room and card centre rental and management provided to Octopus Group	**20**	12
– Dividend paid by Octopus Group	**75**	40
LOROL		
– Fees received or receivable in respect of staff secondment and consultancy services provided to LOROL	**–**	1
TBT		
– Expenses paid or payable in respect of rolling stock maintenance and other supporting services provided by TBT for the operation of the Stockholm Metro operation	**267**	–
– Fees received or receivable in respect of depot and equipment rental and other shared services provided to TBT	**63**	–
Beijing MTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to Beijing MTR	**15**	41
Shenyang MTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to Shenyang MTR	**28**	1

24 Creditors and Accrued Charges

As at 30 June 2010, creditors and accrued charges included HK$9,319 million (31 December 2009: HK$10,967 million) of Government funding support for the construction of the WIL (note 15) not yet utilised. Other creditors and accrued charges are mainly related to capital projects to be settled upon certification of work in progress and swap interest payable as well as advanced receipt of deposits from property purchasers before issuance of occupation permit. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors as at 30 June 2010 by due dates is as follows:

in HK$ million	**At 30 June 2010 (Unaudited)**	At 31 December 2009 (Audited)
Due within 30 days or on demand	**2,109**	5,005
Due after 30 days but within 60 days	**1,065**	1,082
Due after 60 days but within 90 days	**306**	280
Due after 90 days	**1,669**	1,439
	5,149	7,806
Rental and other refundable deposits	**1,491**	1,437
Accrued employee benefits	**301**	287
Government funding support	**9,319**	10,967
Total	**16,260**	20,497

25 Loans and Other Obligations

Bonds and notes issued by the Group during the half years ended 30 June 2010 and 2009 comprise:

in HK$ million	**Half year ended 30 June 2010** Principal amount	**Half year ended 30 June 2010** Net consideration received	Half year ended 30 June 2009 Principal amount	Half year ended 30 June 2009 Net consideration received
Debit 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 half year ended 30 June 2010, the Group redeemed HK$950 million (2009: HK$300 million) of its unlisted debt securities and none (2009: US$750 million) of its listed debt securities.

26 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.

27 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2010 and the year ended 31 December 2009 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 2010 (Unaudited)						
At 1 January 2010	**8,382**	**4,316**	**121**	**(10)**	**(17)**	**12,792**
Charged to consolidated profit and loss account	**166**	**182**	**18**	**–**	**4**	**370**
Charged/(credited) to reserves	**–**	**21**	**–**	**(14)**	**–**	**7**
At 30 June 2010	**8,548**	**4,519**	**139**	**(24)**	**(13)**	**13,169**
31 December 2009 (Audited)						
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

B Deferred tax assets and liabilities recognised amount to:

in HK$ million	**At 30 June 2010 (Unaudited)**	At 31 December 2009 (Audited)
Net deferred tax assets recognised in the consolidated balance sheet	**(6)**	(12)
Net deferred tax liabilities recognised in the consolidated balance sheet	**13,175**	12,804
	13,169	12,792

28 Share Capital, Share Premium and Capital Reserve

in HK$ million	At 30 June 2010 (Unaudited)	At 31 December 2009 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,767,172,214 shares (2009: 5,727,833,692 shares) of HK$1.00 each	**5,767**	5,728
Share premium	**10,657**	9,581
Capital reserve	**27,188**	27,188
	43,612	42,497

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 HK$	Share capital account HK$ million	Share premium account HK$ million	Total HK$ million
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	**1,539,000**	**8.440**	**2**	**11**	**13**
– New Joiners Share Option Scheme	**31,000**	**9.750**	**–**	**–**	**–**
	94,000	**18.050**	**–**	**2**	**2**
	70,000	**20.660**	**–**	**2**	**2**
– 2007 Share Option Scheme	**396,000**	**18.300**	**–**	**8**	**8**
	7,000	**26.520**	**–**	**–**	**–**
	71,000	**27.600**	**–**	**3**	**3**
Issued as 2009 final scrip dividends	**37,130,522**	**29.280**	**37**	**1,050**	**1,087**
	39,338,522		**39**	**1,076**	**1,115**

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

	Half year ended 30 June 2010			Half year ended 30 June 2009		
	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	**1,539,000**	**195,000**	**474,000**	277,000	46,000	–
No. of share options granted during the period	**–**	**–**	**–**	–	–	255,000
No. of share options lapsed during the period	**–**	**–**	**263,000**	–	355,500	165,000
No. of share options vested during the period	**–**	**–**	**1,012,000**	–	190,500	918,000
No. of share options outstanding as at 30 June	**1,409,000**	**1,121,200**	**38,192,500**	3,328,500	2,098,700	23,483,000

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 On 28 June 2010, the Company offered to grant 355,000 share options under the Company's 2007 Share Option Scheme to certain eligible employees of the Company (the "Grantees"). Such offer to grant is subject to acceptance by the grantees. Save for the above offer, no options to subscribe for shares of the Company were granted to any persons under any of the Company's share option schemes during the six months ended 30 June 2010.

29 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$21,665 million (31 December 2009: HK$20,755 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2010, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$44,477 million (31 December 2009: HK$41,165 million).

30 Capital Commitments

A Outstanding capital commitments as at 30 June 2010 not provided for in the accounts are as follows:

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
At 30 June 2010 (Unaudited)					
Authorised but not yet contracted for	**1,515**	**–**	**142**	**24**	**1,681**
Authorised and contracted for	**1,842**	**7,723**	**256**	**2,308**	**12,129**
	3,357	**7,723**	**398**	**2,332**	**13,810**
At 31 December 2009 (Audited)					
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

B The commitments under Hong Kong 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 2010 (Unaudited)				
Authorised but not yet contracted for	**889**	**67**	**559**	**1,515**
Authorised and contracted for	**471**	**1,028**	**343**	**1,842**
	1,360	**1,095**	**902**	**3,357**
At 31 December 2009 (Audited)				
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

C Investments in Mainland of China

The Concession Agreement for the construction and operation of the Beijing Metro Line 4 for a term of 30 years was signed in April 2006 and the line was opened for operation on 28 September 2009. The registered capital of Beijing MTR Corporation Limited, the public-private partnership company for the project, is approximately RMB1.4 billion (HK$1.6 billion), with the Company contributing 49% of the capital (RMB676 million).

30 Capital Commitments *(continued)*

C Investments in Mainland of China *(continued)*

The Project Concession Agreement for the construction of Phase 2 and operation of both Phases 1 and 2 of Shenzhen Line 4 for a period of 30 years was signed on 18 March 2009. The project is wholly undertaken by the Group with total investment estimated at RMB6.0 billion (HK$6.8 billion), which is financed by equity capital of RMB2.4 billion (HK$2.8 billion) and the remaining balance by bank loans in Renminbi. In May 2009, a financing package was obtained from a bank in Mainland of China in the aggregate amount of RMB4.0 billion comprising a RMB3.6 billion 20-year loan and other credit facilities, with the package being secured by certain future revenues from and interest in insurance policies covering the project. In the first quarter of 2010, the Group injected an equity of RMB1.1 billion (HK$1.3 billion), making the total equity contribution as at 30 June 2010 amount to 96% of equity capital commitment. As at 30 June 2010, the Group had outstanding contract commitments totalling RMB1.9 billion (HK$2.2 billion) (31 December 2009: HK$2.2 billion) related to the project and provided payment guarantees of RMB205 million (HK$235 million) (31 December 2009: HK$102 million), performance guarantees of RMB47 million (HK$54 million) (31 December 2009: HK$53 million) and other guarantees of RMB42 million (HK$48 million) (31 December 2009: HK$14 million) to the counterparties of the construction contracts. On 1 July 2010, the Group took over the operation of Shenzhen Line 4 Phase 1.

The Operation and Maintenance Concession Agreement for the operation and maintenance of Shenyang Metro Lines 1 and 2 for a term of 30 years was signed on 7 May 2009. A joint venture company, in which the Group has 49% of equity interest, was formed for the project with total investment of approximately RMB400 million (HK$459 million), in which RMB200 million (HK$230 million) is registered capital. As of 30 June 2010, the Group injected an equity of RMB49 million (HK$56 million) into the joint venture company and provided a parent company guarantee of RMB151 million (HK$173 million) (31 December 2009: HK$172 million) to Shenyang Municipal Government for the joint venture company's obligations in the Concession Agreement.

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 Hangzhou Municipal Government for the investment, construction and operation of Hangzhou Line 1 for a term of 25 years. The project will be undertaken by a joint venture company to be formed by the Group and Hangzhou Metro Group Company Limited with equity interest of 49% and 51% respectively. 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$2.5 billion). The Concession Agreement is subject to approval by relevant authorities in the Mainland of China.

D Investments in Europe and Australia

London Overground Rail Operations Ltd ("LOROL"), the 50/50 partnership between the Group and DB Regio (UK) Limited ("DB Regio"), was awarded the concession to operate the London Overground service in Greater London for seven years, starting from 11 November 2007, with an option for a two-year extension. With respect to the concession, LOROL has provided a performance bond of GBP15 million (HK$176 million) to Transport for London ("TfL"), which is jointly and severally indemnified by the Group and DB Regio through parent company guarantee and may be called by TfL if the concession is terminated early as a result of default. As provided in the concession agreement, this bond was reduced to GBP10.8 million (HK$127 million) in July 2010 due to the successful start of the East London Line operations. This new bond is guaranteed by Deutsche Bahn, the ultimate parent company of DB Regio, with the Company providing to Deutsche Bahn a counter indemnity that is further backed by a performance bond of GBP5.4 million (HK$63 million) for the Company's share of the guarantee. As at 30 June 2010, an unsecured debt of GBP2 million (HK$23 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 to LOROL (GBP1 million each), with final repayment date on the date of expiry or the earlier termination of the concession.

The Group was awarded the concession to operate the Stockholm Metro in Sweden for a period of eight years, starting from 2 November 2009, with a possible extension for an additional period of six years. The operations concession is undertaken by MTR Stockholm AB, the Group's wholly-owned subsidiary in Sweden, and Tunnelbanan Teknik Stockholm AB, the 50/50 joint venture company formed by MTR Stockholm AB and Mantena AS for the servicing, maintenance and cleaning of trains. As of 30 June 2010, the Group injected an equity of SEK40 million (HK$40 million) into MTR Stockholm AB and provided an unsecured debt of SEK170 million (HK$170 million) to MTR Stockholm AB at an interest of 3% per annum above the 3-month Stockholm Inter Bank Offer Rate ("STIBOR") published by the Riksbank from time to time with repayment due by 31 December 2011. In addition, the Group has provided to the Stockholm Transport Authority ("SL") a guarantee of SEK1,000 million (HK$999 million) which can be called if the concession is terminated early as a result of default by MTR Stockholm AB.

The Group's 60% owned subsidiary, Metro Trains Melbourne Pty Ltd ("MTM"), was awarded the franchise to operate and maintain the Melbourne metropolitan train network for an initial period of eight years beginning on 30 November 2009, with a renewal option of three years that is further extendable to seven years. As at 30 June 2010, the Group's investment in MTM was AUD39 million (HK$259 million), comprising an equity injection of AUD9.75 million (HK$65 million) and a subordinated loan of AUD29.25 million (HK$194 million) at an interest of 7.5% per annum with final repayment at the date of expiry or the earlier termination of the franchise. In addition, the Group, together with the other two investor companies of MTM, have provided a joint and several parent company guarantee of AUD125 million (HK$829 million) and a performance bond of AUD75 million (HK$498 million) for MTM's performance and other obligations under the franchise agreement to the State of Victoria Government, each bearing its share of liability based on its shareholdings in MTM.

31 Approval of Interim Financial Report

The interim financial report was approved by the Board on 12 August 2010.