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 2010 annual accounts.

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 2010 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 2010 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 2010, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 3 March 2011, 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:

- Amendments to HKAS 32, *Financial instruments: Presentation – Classification of rights issues*
- HK(IFRIC) 19, *Extinguishing financial liabilities with equity instruments*
- Amendments to HKFRS 1, *First-time Adoption of Hong Kong Financial Reporting Standards – Limited exemption from comparative HKFRS 7 disclosures for first-time adopters*
- Improvements to HKFRSs (2010)
- HKAS 24 (revised 2009), *Related party disclosures*
- Amendments to HK(IFRIC) 14, *HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – Prepayments of a minimum funding requirement*

The amendments in relation to HKAS 24 (revised 2009) and Improvements to HKFRSs (2010) do not contain any requirements specifically applicable to the interim financial report. 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 a variable annual payment 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 Revenue and Expenses from Railway Subsidiaries outside of Hong Kong

On 16 June 2011, Phase 2 of Line 4 of Shenzhen Metro System ("Shenzhen Line 4") commenced revenue operations. Revenue and expenses relating to railway subsidiaries outside of Hong Kong comprise:

in HK$ million	Stockholm Metro	Melbourne Train	Shenzhen Line 4	Total
Half year ended 30 June 2011				
Revenue				
– Railway operations related	**1,614**	**3,124**	**28**	**4,766**
– Project related	**–**	**1,405**	**–**	**1,405**
	1,614	**4,529**	**28**	**6,171**
Expenses				
– Railway operations related	**1,585**	**2,968**	**74**	**4,627**
– Project related	**–**	**1,298**	**–**	**1,298**
	1,585	**4,266**	**74**	**5,925**
Half year ended 30 June 2010				
Revenue				
– Railway operations related	1,408	2,591	–	3,999
– Project related	–	853	–	853
	1,408	3,444	–	4,852
Expenses				
– Railway operations related	1,410	2,445	–	3,855
– Project related	–	790	–	790
	1,410	3,235	–	4,645

4 Other Net Income

Other net income relates to the construction of Phase 2 of Shenzhen Line 4. During the half year ended 30 June 2011, construction revenue and construction cost in respect of Shenzhen Line 4 Phase 2 amounted to HK$2,727 million (2010: HK$380 million).

5 Profit on Property Developments

Profit on property developments comprises:

in HK$ million	**Half year ended 30 June 2011**	Half year ended 30 June 2010
Transfer from deferred income on		
– payments received from developers	**468**	–
– sharing in kind	**–**	7
Share of surplus from development	**402**	633
Income recognised from sharing in kind	**572**	3,064
Miscellaneous income net of other overhead costs	**3**	1
	1,445	3,705

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 2011**	Half year ended 30 June 2010
Share of profit before taxation of non-controlled subsidiaries	**93**	87
Share of profit before taxation of associates	**78**	9
	171	96
Share of income tax of non-controlled subsidiaries	**(12)**	(10)
Share of income tax of associates	**(4)**	(4)
	155	82

7 Income Tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half year ended 30 June 2011**	Half year ended 30 June 2010
Current tax		
– Provision for Hong Kong Profits Tax at 16.5% (2010: 16.5%) for the period	**654**	1,053
– Overseas tax for the period	**16**	59
	670	1,112
Deferred tax		
– Origination and reversal of temporary differences on:		
– change in fair value of investment properties	**727**	182
– utilisation of tax losses	**4**	4
– depreciation allowances in excess of related depreciation	**80**	166
– provision and others	**21**	18
	832	370
	1,502	1,482

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2011 is calculated at 16.5% (2010: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current tax for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2010: 16.5%) while that arising overseas is calculated at the appropriate current rates of taxation ruling in the relevant countries.

8 Dividends

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

in HK$ million	**Half year ended 30 June 2011**	Half year ended 30 June 2010
Dividends payable attributable to the period		
– Interim dividend declared after the balance sheet date of 25 cents (2010: 14 cents) per share	**1,446**	807
Dividends paid attributable to the previous year		
– Final dividend of 45 cents (2009: 38 cents) per share approved and paid during the period	**2,598**	2,177

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 2011 attributable to equity shareholders of HK$8,050 million (2010: HK$6,639 million) and the weighted average number of ordinary shares of 5,775,572,284 in issue during the period (2010: 5,732,143,807), calculated as follows:

	Half year ended 30 June 2011	Half year ended 30 June 2010
Issued ordinary shares at 1 January	**5,772,563,031**	5,727,833,692
Effect of scrip dividends issued	**2,514,447**	3,282,256
Effect of share options exercised	**494,806**	1,027,859
Weighted average number of ordinary shares at 30 June	**5,775,572,284**	5,732,143,807

B Diluted Earnings Per Share

The calculation of diluted earnings per share is based on the profit for the half year ended 30 June 2011 attributable to equity shareholders of HK$8,050 million (2010: HK$6,639 million) and the weighted average number of ordinary shares of 5,780,254,276 in issue during the period (2010: 5,738,652,735) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes, calculated as follows:

	Half year ended 30 June 2011	Half year ended 30 June 2010
Weighted average number of ordinary shares at 30 June	**5,775,572,284**	5,732,143,807
Effect of dilutive potential shares under the Company's share option schemes	**4,681,992**	6,508,928
Weighted average number of ordinary shares (diluted) at 30 June	**5,780,254,276**	5,738,652,735

C Both basic and diluted earnings per share would have been HK$0.76 (2010: HK$1.00) if the calculation is based on profit attributable to equity shareholders before property revaluation, 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 2011**	Half year ended 30 June 2010
Profit attributable to equity shareholders	**8,050**	6,639
Change in fair value of investment properties	**(4,408)**	(1,101)
Deferred tax on change in fair value of investment properties (note 7)	**727**	182
Profit attributable to equity shareholders before property revaluation	**4,369**	5,720

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 and intercity passenger services.

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

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

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

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

(vi) All others: Including operations relating to the Ngong Ping 360, railway consultancy services, freight business, rental and estate management services in the 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 subsidiaries outside of Hong Kong	All others	Property developments	Total
Half year ended 30 June 2011							
Revenue	**6,392**	**1,608**	**1,495**	**6,171**	**503**	**–**	**16,169**
Operating expenses before depreciation, amortisation and variable annual payment arising from the Rail Merger	**(3,267)**	**(191)**	**(263)**	**(5,925)**	**(471)**	**–**	**(10,117)**
	3,125	**1,417**	**1,232**	**246**	**32**	**–**	**6,052**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**1,445**	**1,445**
Operating profit before depreciation, amortisation and variable annual payment arising from the Rail Merger	**3,125**	**1,417**	**1,232**	**246**	**32**	**1,445**	**7,497**
Depreciation and amortisation	**(1,461)**	**(70)**	**(3)**	**(43)**	**(34)**	**–**	**(1,611)**
Variable annual payment arising from the Rail Merger	**(238)**	**(63)**	**–**	**–**	**–**	**–**	**(301)**
	1,426	**1,284**	**1,229**	**203**	**(2)**	**1,445**	**5,585**
Project studies and business development expenses							**(51)**
Operating profit before interest and finance charges							**5,534**
Interest and finance charges							**(459)**
Change in fair value of investment properties			**4,408**				**4,408**
Share of profits of non-controlled subsidiaries and associates				**74**	**81**		**155**
Income tax							**(1,502)**
Profit for the half year ended 30 June 2011							**8,136**
Half year ended 30 June 2010							
Revenue	5,933	1,440	1,423	4,852	454	–	14,102
Operating expenses before depreciation and amortisation	(3,085)	(166)	(257)	(4,645)	(391)	–	(8,544)
	2,848	1,274	1,166	207	63	–	5,558
Profit on property developments	–	–	–	–	–	3,705	3,705
Operating profit before depreciation and amortisation	2,848	1,274	1,166	207	63	3,705	9,263
Depreciation and amortisation	(1,431)	(53)	(2)	(17)	(34)	–	(1,537)
	1,417	1,221	1,164	190	29	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

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 2011**	Half year ended 30 June 2010
Hong Kong (place of domicile)	**9,902**	9,153
Australia	**4,530**	3,444
Mainland of China	**97**	62
Sweden	**1,614**	1,408
Other countries	**26**	35
	6,267	4,949
	16,169	14,102

11 Other Comprehensive Income

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

in HK$ million	**Half year ended 30 June 2011**	Half year ended 30 June 2010
Cash flow hedges:		
Effective portion of changes in fair value of hedging instruments recognised during the period	**(19)**	(121)
Amounts transferred to initial carrying amount of hedged items	**(5)**	(4)
Transferred to profit or loss	**27**	40
Net deferred tax credited/(debited) to other comprehensive income resulting from:		
– Changes in fair value of hedging instruments recognised during the period	**4**	20
– Amounts transferred to initial carrying amount of hedged items	**1**	1
– Transferred to profit or loss	**(4)**	(7)
Net movement in the hedging reserve during the period recognised in other comprehensive income	**4**	(71)
Self-occupied land and buildings:		
Changes in fair value recognised during the period	**492**	124
Net deferred tax debited to other comprehensive income resulting from changes in fair value recognised during the period	**(81)**	(21)
Net movement in fixed assets revaluation reserve during the period recognised in other comprehensive income	**411**	103

12 Investment Properties

All investment properties of the Group were revalued at open market value at 30 June 2011 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuations are based on a "term and reversion basis", which capitalises the existing and reversionary net rental income having regard to market valuation checks on comparable sale and yields. The net increase in fair value of HK$4,408 million (2010: HK$1,101 million) arising from the revaluation and deferred tax thereon of HK$727 million (2010: HK$182 million) 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 2011, the Group acquired or commissioned assets at a total cost of HK$688 million (2010: HK$653 million). Items of civil works and plant and equipment with a net book value of HK$14 million (2010: HK$13 million) were disposed of during the same period, resulting in a net loss on disposal of HK$11 million (2010: HK$10 million).

B Valuation

All of the Group's self-occupied land and buildings are held in Hong Kong under medium-term leases and carried at fair value. All self-occupied land and buildings were revalued at an open market value on an existing use basis at 30 June 2011 by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. The valuation resulted in a revaluation surplus of HK$492 million (2010: HK$124 million), which net of deferred tax provision of HK$81 million (2010: HK$21 million), has been recognised in other comprehensive income and accumulated in the fixed assets revaluation reserve account (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 replacement and upgrade of the KCRC system ("Additional Concession Property"), the value of construction services provided in respect of the construction of Shenzhen Line 4 Phase 2, the capitalised present value of the total annual lease payments for the operation of Shenzhen Line 4 Phase 1, 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 2011, the Group had net additions of Additional Concession Property of HK$224 million (2010: HK$199 million) and additions of service concession assets in respect of Shenzhen Line 4 of HK$2,717 million (2010: HK$380 million). Amortisation charges during the same period amounted to HK$211 million (2010: HK$185 million) for Initial Concession Property and Additional Concession Property, HK$16 million (2010: nil) for Shenzhen Line 4 Phases 1 and 2 and HK$6 million (2010: HK$6 million) for Stockholm Metro.

15 Railway Construction in Progress

A Railway Projects Owned by the Group

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 17)	Expenditure	Utilisation of Government grant	Balance at 30 June/ 31 December
At 30 June 2011 (Unaudited)					
West Island Line Project	**–**	**–**	**1,677**	**(1,677)**	**–**
South Island Line (East) Project	**–**	**735**	**814**	**–**	**1,549**
Kwun Tong Line Extension Project	**–**	**286**	**240**	**–**	**526**
	–	**1,021**	**2,731**	**(1,677)**	**2,075**
At 31 December 2010 (Audited)					
West Island Line Project	–	–	3,392	(3,392)	–
	–	–	3,392	(3,392)	–

On 17 May 2011, the Company entered into Project Agreements with the Government for the financing, design, construction and operation of the South Island Line (East) ("SIL(E)") and Kwun Tong Line Extension ("KTE"). Pursuant to the Project Agreements, the SIL(E) and the KTE will be owned, operated and maintained by the Company for its own account for the franchise period ascribed in the MTR Ordinance and the Operating Agreement.

B Railway Construction Activities Managed by the Group

On 17 May 2011, the Company entered into an Entrustment Agreement with the Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works on the expanded Admiralty Station and the to be constructed Ho Man Tin Station, the reprovisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other ancillary works in relation to the Shatin to Central Link ("SCL"). Pursuant to the Entrustment Agreement, the Company shall carry out or procure the carrying out of the agreed works and receive from the Government a project management fee while the Government shall bear and pay to the Company all the work costs.

16 Property Development in Progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Group 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 2011 and the year ended 31 December 2010 were as follows:

in HK$ million	Balance at 1 January	Transfer from deferred expenditure (note 17)	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 30 June/ 31 December
At 30 June 2011 (Unaudited)						
Airport Railway Property Projects	**–**	**–**	**2**	**(2)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**1,151**	**–**	**99**	**(4)**	**(213)**	**1,033**
East Rail Line/Kowloon South Line/ Light Rail Property Projects	**7,977**	**–**	**70**	**(19)**	**–**	**8,028**
South Island Line (East) Property Project	**–**	**32**	**9**	**–**	**–**	**41**
Kwun Tong Line Extension Property Project	**–**	**4**	**15**	**–**	**–**	**19**
	9,128	**36**	**195**	**(25)**	**(213)**	**9,121**
At 31 December 2010 (Audited)						
Airport Railway Property Projects	–	–	14	(14)	–	–
Tseung Kwan O Extension Property Projects	2,245	–	331	(12)	(1,413)	1,151
East Rail Line/Kowloon South Line/ Light Rail Property Projects	4,473	–	4,027	(523)	–	7,977
	6,718	–	4,372	(549)	(1,413)	9,128

17 Deferred Expenditure

Deferred expenditure comprises expenditures on the preliminary studies and designs of potential new railway extensions and property developments before the signing of project or development agreement. Upon signing of the Project Agreements in relation to the SIL(E) and KTE on 17 May 2011 (note 15), expenditures previously incurred for the SIL(E) (HK$735 million on railway construction and HK$32 million on property development) and KTE (HK$286 million on railway construction and HK$4 million on property development) were transferred to railway construction in progress (note 15) and property development in progress (note 16).

18 Investments in Securities

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

in HK$ million	**At 30 June 2011 (Unaudited)**	At 31 December 2010 (Audited)
Held-to-maturity securities, at amortised cost		
– maturing within 1 year	**1,923**	1,000
– maturing after 1 year	**1,706**	2,627
	3,629	3,627
Trading securities listed overseas, at fair value		
– maturing within 1 year	**114**	67
– maturing after 1 year	**217**	218
	331	285
	3,960	3,912

19 Properties Held for Sale

in HK$ million	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
Properties held for sale		
– at cost	**1,213**	1,829
– at net realisable value	**110**	107
	1,323	1,936

Properties held for sale at net realisable value are stated net of provision of HK$9 million (31 December 2010: 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 2011 (Unaudited)		At 31 December 2010 (Audited)	
in HK$ million	Notional amount	Fair value	Notional amount	Fair value
Derivative Financial Assets				
Foreign exchange forwards				
– cash flow hedges	**183**	**14**	147	11
– not qualified for hedge accounting	**139**	**11**	11	2
Cross currency swaps				
– fair value hedges	**1,827**	**57**	1,255	75
Interest rate swaps				
– fair value hedges	**2,837**	**292**	2,834	280
– cash flow hedges	**–**	**–**	350	7
– not qualified for hedge accounting	**389**	**1**	–	–
	5,375	**375**	4,597	375
Derivative Financial Liabilities				
Foreign exchange forwards				
– cash flow hedges	**15**	**–**	82	4
– not qualified for hedge accounting	**95**	**4**	129	–
Cross currency swaps				
– fair value hedges	**4,081**	**27**	4,663	32
Interest rate swaps				
– cash flow hedges	**1,662**	**110**	1,312	112
	5,853	**141**	6,186	148
Total	**11,228**		10,783	

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) Fare revenue in Shenzhen is collected either through Shenzhen Tong Cards with daily settlement on the next working day or in cash for other ticket types.

(iii) 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.

(iv) 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.

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

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

(vii) 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.

(viii) 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 2011 (Unaudited)**	At 31 December 2010 (Audited)
Amounts not yet due	**2,423**	1,900
Overdue by 30 days	**194**	157
Overdue by 60 days	**17**	27
Overdue by 90 days	**14**	8
Overdue by more than 90 days	**16**	11
Total debtors	**2,664**	2,103
Deposits and payments in advance	**603**	785
Prepaid pension costs	**183**	169
	3,450	3,057

Included in the balance as at 30 June 2011, HK$695 million (31 December 2010: HK$636 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 2011 (Unaudited)		At 31 December 2010 (Audited)	
in HK$ million	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Interest-free loan to a property developer	–	–	2,000	1,975

The outstanding loan provided to the developer of Tseung Kwan O Area 86 Package 2 ("LOHAS Park") property development project under the terms of the development agreement was repaid during the half year ended 30 June 2011.

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 (revised 2009), *Related party disclosures*, and are identified separately in this interim financial report.

As at 30 June 2011, 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 2011 (Unaudited)**	At 31 December 2010 (Audited)
Amounts due from:		
– the Government	**843**	156
– KCRC	**21**	25
– non-controlled subsidiaries	**16**	17
– associates	**120**	132
	1,000	330
Amounts due to:		
– the Government	**29**	27
– KCRC	**1,450**	809
– an associate	**8**	56
	1,487	892

As at 30 June 2011, 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, outstanding receivables in respect of the costs recoverable from the Government for the Shatin to Central Link project and reimbursable costs incurred by the Company for the essential public infrastructure work for the West Island Line ("WIL") and KTE projects. The amount due to the Government related to land administrative costs in respect of the WIL and SIL(E) projects.

The amount due from KCRC related to payments to the Company in respect of the Outsourcing Agreement and Kowloon Southern Link Project Management Agreement as well as costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement. The amount due to KCRC related to mandatory payments and related interest payable to KCRC upon tender award in respect of the property development sites along the East Rail Line and Light Rail as well as the accrued portion of the fixed annual payment and variable annual payment arising from the Rail Merger.

The amounts due from associates related to the outstanding balances of loans to London Overground Rail Operations Ltd ("LOROL") and Tunnelbanan Teknik Stockholm AB ("TBT") as well as staff secondment and other service fees receivable from Beijing (MTR) Corporation Limited ("Beijing MTR"). The amount due to an associate related to rolling stock maintenance and other supporting service fees payable to TBT.

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

in HK$ million	**Half year ended 30 June 2011**	Half year ended 30 June 2010
Cash dividends paid	**1,996**	681
Shares allotted in respect of scrip dividends	**–**	991
	1,996	1,672

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 period and with KCRC in respect of the Rail Merger were described in the Company's audited accounts for the year ended 31 December 2010.

23 Material Related Party Transactions *(continued)*

During the half year ended 30 June 2011, the Group had the following transactions with its non-controlled subsidiaries, Octopus Holdings Limited and its subsidiaries ("Octopus Group"), and associates, TBT and Beijing MTR:

in HK$ million	**Half year ended 30 June 2011**	Half year ended 30 June 2010
Octopus Group		
– Expenses paid or payable in respect of central clearing services provided by Octopus Group	**56**	52
– Fees received or receivable in respect of load agent, Octopus card issuance, refund and replacement services, computer equipment and relating services and warehouse storage space provided to Octopus Group	**13**	20
– Dividend paid by Octopus Group	**63**	75
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	**310**	267
– Fees received or receivable in respect of staff secondment, depots and depot equipment rental and other shared services provided to TBT	**72**	63
Beijing MTR		
– Fees received or receivable in respect of staff secondment, information technology and other support services provided to Beijing MTR	**10**	15

24 Creditors and Accrued Charges

As at 30 June 2011, creditors and accrued charges included HK$5,898 million (31 December 2010: HK$7,575 million) of Government grant for the construction of the WIL not yet utilised. Other creditors and accrued charges mainly related to capital projects to be settled upon certification of work in progress. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors as at 30 June 2011 by due dates is as follows:

in HK$ million	**At 30 June 2011 (Unaudited)**	At 31 December 2010 (Audited)
Due within 30 days or on demand	**2,745**	2,331
Due after 30 days but within 60 days	**2,610**	1,603
Due after 60 days but within 90 days	**555**	341
Due after 90 days	**3,002**	1,725
	8,912	6,000
Rental and other refundable deposits	**1,650**	1,517
Accrued employee benefits	**404**	399
Government grant	**5,898**	7,575
Total	**16,864**	15,491

25 Loans and Other Obligations

Notes issued by the Group during the half years ended 30 June 2011 and 2010 comprise:

in HK$ million	Half year ended 30 June 2011 Principal amount	Half year ended 30 June 2011 Net consideration received	Half year ended 30 June 2010 Principal amount	Half year ended 30 June 2010 Net consideration received
Debit issuance programme notes	**1,206**	**1,206**	–	–

The above notes are Renminbi denominated notes issued in Hong Kong 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 have been remitted into the Mainland of China for financing the Shenzhen Line 4 project.

During the half year ended 30 June 2011, the Group has not redeemed any of its unlisted or listed debt securities (2010: redeemed HK$950 million of unlisted and none of listed debt securities).

26 Obligations under Service Concession

Obligations under service concession comprise the outstanding balances of the discounted total fixed annual payments for the service concession acquired in the Rail Merger and the discounted total annual lease payments for the service concession in respect of Shenzhen Line 4 Phase 1.

27 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2011 and the year ended 31 December 2010 are 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 2011 (Unaudited)						
At 1 January 2011	**8,669**	**5,044**	**154**	**(15)**	**(7)**	**13,845**
Charged to consolidated profit and loss account	**80**	**727**	**21**	**–**	**4**	**832**
Charged to reserves	**–**	**81**	**–**	**1**	**–**	**82**
At 30 June 2011	**8,749**	**5,852**	**175**	**(14)**	**(3)**	**14,759**
31 December 2010 (Audited)						
At 1 January 2010	8,382	4,316	121	(10)	(17)	12,792
Charged to consolidated profit and loss account	287	672	33	–	10	1,002
Charged/(credited) to reserves	–	56	–	(5)	–	51
At 31 December 2010	8,669	5,044	154	(15)	(7)	13,845

B Deferred tax assets and liabilities recognised are as follows:

in HK$ million	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
Net deferred tax assets recognised on the consolidated balance sheet	**(5)**	(9)
Net deferred tax liabilities recognised on the consolidated balance sheet	**14,764**	13,854
	14,759	13,845

28 Share Capital, Share Premium and Capital Reserve

in HK$ million	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,783,919,750 shares (2010: 5,772,563,031 shares) of HK$1.00 each	**5,784**	5,773
Share premium	**11,074**	10,773
Capital reserve	**27,188**	27,188
	44,046	43,734

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

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

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

	Number of shares	Option/ scrip price	Proceeds received/Transfer from employee share-based capital reserve		
			Share capital account	Share premium account	Total
		HK$	HK$ million	HK$ million	HK$ million
Employee share options exercised					
– New Joiners Share Option Scheme	**108,200**	**9.75**	**–**	**1**	**1**
	266,500	**20.66**	**–**	**6**	**6**
– 2007 Share Option Scheme	**398,500**	**18.30**	**1**	**8**	**9**
	31,000	**26.52**	**–**	**1**	**1**
	74,000	**26.85**	**–**	**2**	**2**
	135,000	**27.60**	**–**	**5**	**5**
Issued as 2010 final scrip dividends	**10,343,519**	**27.87**	**10**	**278**	**288**
	11,356,719		**11**	**301**	**312**

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

	Half year ended 30 June 2011			Half year ended 30 June 2010		
	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	**–**	**374,700**	**638,500**	1,539,000	195,000	474,000
No. of share options granted during the period	**–**	**–**	**–**	–	–	–
No. of share options lapsed during the period	**–**	**–**	**373,500**	–	–	263,000
No. of share options vested during the period	**–**	**–**	**1,025,500**	–	–	1,012,000
No. of share options outstanding as at 30 June	**–**	**746,500**	**51,556,500**	1,409,000	1,121,200	38,192,500

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 27 June 2011, the Company offered to grant 215,000 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 share options to subscribe for shares of the Company were granted to any persons under any of the Company's share option schemes during the half year ended 30 June 2011.

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$27,821 million (31 December 2010: HK$24,143 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2011, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$48,262 million (31 December 2010: HK$46,594 million).

30 Capital Commitments

A Outstanding capital commitments as at 30 June 2011 not provided for in the accounts were 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 2011 (Unaudited)					
Authorised but not yet contracted for	**1,775**	**–**	**146**	**52**	**1,973**
Authorised and contracted for	**1,227**	**12,979**	**276**	**28**	**14,510**
	3,002	**12,979**	**422**	**80**	**16,483**
At 31 December 2010 (Audited)					
Authorised but not yet contracted for	1,575	–	142	–	1,717
Authorised and contracted for	986	7,100	326	1,340	9,752
	2,561	7,100	468	1,340	11,469

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 2011 (Unaudited)				
Authorised but not yet contracted for	**917**	**157**	**701**	**1,775**
Authorised and contracted for	**545**	**357**	**325**	**1,227**
	1,462	**514**	**1,026**	**3,002**
At 31 December 2010 (Audited)				
Authorised but not yet contracted for	795	285	495	1,575
Authorised and contracted for	344	375	267	986
	1,139	660	762	2,561

C Investments in Mainland of China

In Shenzhen, total investment for the construction of Phase 2 of Shenzhen Line 4 is estimated at RMB6.6 billion and the concession to operate both Phases 1 and 2 is for a period of 30 years. Operation of Phase 1 was taken over on 1 July 2010. Construction of Phase 2 was completed and Phase 2 commenced operation on 16 June 2011. Payment guarantees and performance guarantees provided to the counterparties by a bank on the Group's behalf in respect of the construction of Phase 2 were RMB182 million (HK$219 million) and RMB85 million (HK$102 million) respectively.

In Beijing, total investment for the construction of Beijing Metro Line 4 ("Beijing Line 4") is estimated at RMB15.3 billion, of which 30% was borne by a private-public-partnership company, Beijing MTR Corporation Limited ("Beijing MTR"), in which the Group has 49% of equity interest. Beijing MTR is also responsible for the operation and maintenance of Daxing Line, an extension of Beijing Line 4. The operation concession period of Beijing Line 4 is 30 years while that of Daxing Line is 10 years, renewable for further terms of 10 years until the expiry of the concession of Beijing Line 4. Beijing Line 4 and Daxing Line commenced services to the public on 28 September 2009 and 30 December 2010 respectively.

In Hangzhou, total investment for the construction of Hangzhou Metro Line 1, expecting to commence service in 2012, is estimated at RMB22 billion, of which 37% will be borne by a joint venture company with the Group owning 49% of equity interest. The joint venture company will operate Hangzhou Metro Line 1 for 25 years. The concession agreement is subject to approval by relevant authorities in the Mainland of China.

In Shenyang, the application for the reduction of registered capital of Shenyang MTR Corporation Limited ("Shenyang MTR"), in which the Group owns 49% of equity interest, from RMB200 million to RMB20 million has been submitted to the relevant authorities in the Mainland of China. Upon obtaining approval, the Group's capital contribution to Shenyang MTR will be reduced to RMB9.8 million.

30 Capital Commitments *(continued)*

D Investments in Europe and Australia

In the United Kingdom, as at 30 June 2011, investment in the Group's 50% owned London Overground Rail Operations Ltd ("LOROL") amounted to GBP1 million, comprising an equity investment of GBP1 and an unsecured subordinated debt of GBP1 million (HK$12.5 million) at an interest rate of 2.5% per annum above the published Bank of England base rate with final repayment at the date of expiry or the earlier termination of the concession agreement. In addition, a performance bond of GBP5.4 million (HK$68 million) was provided as an indemnity for the performance bond of GBP10.8 million (HK$135 million) provided by LOROL to Transport for London. LOROL is contracted to operate the London Overground service in Greater London for a period of seven years, starting from November 2007, with an option for a two-year extension.

In Sweden, as at 30 June 2011, investment in the Group's wholly owned subsidiary, MTR Stockholm AB, amounted to SEK210 million, comprising an equity investment of SEK40 million, an unsecured debt of SEK140 million (HK$173 million) at an interest rate of 3% above the 3-month Stockholm Inter Bank Offer Rate published by the Riksbank with repayment due by 31 December 2013, and a capital contribution of SEK30 million which will be repaid if MTR Stockholm AB is able to distribute profits under the Swedish Company Act and its dividends to its shareholder(s) increase from one year to another. In addition, a guarantee of SEK1,000 million (HK$1,232 million), which can be called if the concession is terminated early as a result of default by MTR Stockholm AB, was provided to the Stockholm transport authority. MTR Stockholm AB is contracted to operate and maintain the Stockholm Metro in Sweden for a period of eight years, starting from November 2009, with a possible extension for an additional period of six years.

In Australia, as at 30 June 2011, investment in the Group's 60% owned subsidiary, Metro Trains Melbourne Pty. Ltd. ("MTM"), amounted to AUD39 million, comprising an equity investment of AUD9.75 million and a subordinated loan of AUD29.25 million (HK$244 million) at an interest rate 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 shareholders of MTM, provided to the State of Victoria Government a joint and several parent company guarantee of AUD125 million (HK$1,044 million) and a performance bond of AUD75 million (HK$626 million) for MTM's performance and other obligations under the franchise agreement, with each shareholder bearing its share of liability based on its shareholding in MTM. MTM is contracted to operate and maintain the Melbourne metropolitan train network in Australia for an initial period of eight years, starting from November 2009, with a renew option for an additional period of up to seven years.

31 Approval of Interim Financial Report

The interim financial report was approved by the Board on 11 August 2011.