MTR

GROWTH MOMENTUM

INTERIM REPORT 2011

We passed some major milestones in our growth strategy during the first half. In May we entered into project agreements with Government for the South Island Line (East) and Kwun Tong Line Extension, while in June the Shenzhen Metro Longhua Line began its full line operations.

2

Hong Kong Operating Network with Future Extensions

HIGHLIGHTS

Financial

- Revenue from recurrent businesses excluding railway subsidiaries outside of Hong Kong increased 8.1% to HK$9,998 million
- Revenue from railway subsidiaries outside of Hong Kong increased 27.2% to HK$6,171 million
- EBITDA increased 9.3% to HK$6,001 million; EBITDA margin, excluding railway subsidiaries outside of Hong Kong, increased 0.5 percentage point to 57.6%
- Property development profit of HK$1,445 million
- Net profit attributable to equity shareholders before investment property revaluation of HK$4,369 million, equivalent to HK$0.76 per share
- Net profit attributable to equity shareholders after investment property revaluation, of HK$8,050 million, equivalent to HK$1.39 per share
- Net assets increased 5.4% to HK$123,636 million
- Net debt to equity ratio improved to 10.9%
- Interim dividend of HK$0.25 per share, increased from HK$0.14 per share in 2010

Operational

- Total patronage from all Hong Kong passenger services increased 5.4% to 815.4 million
- Approximately 97% of the units in Phases 1 and 2 of Festival City at Tai Wai have been sold by 30 June 2011
- Project Agreements for the South Island Line (East) and the Kwun Tong Line Extension signed on 17 May 2011, with property development rights at Wong Chuk Hang and Ho Man Tin sites granted under the "Rail plus Property" model
- Entrustment Agreement for the advance works of the Shatin to Central Link signed on 17 May 2011
- Phase 2 of Shenzhen Metro Longhua Line commenced operation on 16 June 2011

CONTENT

Hong Kong Operating Network with Future Extensions

Properties Owned / Developed / Managed by the Corporation

01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Infinitus Plaza
12 Perfect Mount Gardens
13 New Jade Garden
14 Southorn Garden
15 Heng Fa Chuen / Heng Fa Villa / Paradise Mall
16 Park Towers
17 Felicity Garden
18 Tierra Verde / Maritime Square
19 Tung Chung Crescent / Citygate / Novotel Citygate / Seaview Crescent / Coastal Skyline / Caribbean Coast
20 Central Park / Island Harbourview / Park Avenue / Harbour Green / Bank of China Centre / HSBC Centre / Olympian City One / Olympian City Two
21 The Waterfront / Sorrento / The Harbourside / The Arch / Elements / The Cullinan / The Harbourview Place / W Hong Kong / International Commerce Centre / The Ritz-Carlton, Hong Kong
22 One International Finance Centre / Two International Finance Centre / IFC Mall / Four Seasons Hotel / Four Seasons Place
23 Central Heights / The Grandiose / The Edge
24 Residence Oasis / The Lane
25 No.8 Clear Water Bay Road / Choi Hung Park & Ride
26 Metro Town
27 Royal Ascot / Plaza Ascot
28 Pierhead Garden / Ocean Walk
29 Sun Tuen Mun Centre / Sun Tuen Mun Shopping Centre
30 Hanford Garden / Hanford Plaza
31 Citylink Plaza
32 MTR Hung Hom Building / Hung Hom Station Carpark
33 Trackside Villas
34 The Capitol / Le Prestige / Le Prime
35 The Palazzo
36 Lake Silver
37 Festival City (Phases 1 & 2)

Property Developments under Construction / Planning

23 Tseung Kwan O Station Area 56
34 LOHAS Park Package 2-10
37 Tai Wai Maintenance Centre (Phase 3)
38 Che Kung Temple Station
39 Tai Wai Station
40 Tin Shui Wai Light Rail (Tin Wing Road)
41 Austin Station Site C
42 Austin Station Site D
52 Wong Chuk Hang Station
53 Ho Man Tin Station

West Rail Line Property Development (As Government Agent)

43 Nam Cheong Station
44 Yuen Long Station
45 Tuen Mun Station
46 Tsuen Wan West Station
47 Long Ping Station
48 Tin Shui Wai Station
49 Kam Sheung Road Station
50 Pat Heung Maintenance Centre
51 Kwai Fong Site

Legend

- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Shenzhen Metro Network
- * Racing days only

Projects in Progress

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Kwun Tong Line Extension
- South Island Line (East)
- West Island Line

Extensions under Study

- Shatin to Central Link

Existing Network

- Airport Express
- Disneyland Resort Line
- East Rail Line
- Island Line
- Kwun Tong Line
- Light Rail
- Ma On Shan Line
- Tseung Kwan O Line
- Tsuen Wan Line
- Tung Chung Line
- West Rail Line

Potential Future Extensions

- North Island Link
- Northern Link
- South Island Line (West)


Shenzhen
Lo Wu
Lok Ma Chau
Sheung Shui
Kwu Tung
Fanling
Tai Wo
33 Tai Po Market
University
27
35
Fo Tan
Racecourse*
31
Sha Tin
Intercity Through
Train Route Map
Beijing
Shanghai
Beijing Line
Shanghai Line
Guangdong Line
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR
Yuen Long
44
Kam Sheung Road
49
50
New Territories
Ma On Shan
36 Wu Kai Sha
Heng On
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
38 Che Kung Temple
39
37
Tai Wai
Hin Keng
Tsuen Wan 05
Tai Wo Hau
Kwai Hing 07
Kwai Fong 06 51
Tsuen Wan West 46
Mei Foo
Lai King
Tsing Yi 18
Sunny Bay
Disneyland Resort
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
25 Choi Hung
Kowloon
Shek Kip Mei
Prince Edward
43
Nam Cheong
04 Mong Kok
Mong Kok East
Kowloon Bay 01
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Po Lam
24 Hang Hau
23 Tseung Kwan O
26 Tiu Keng Leng
34 LOHAS Park
Kai Tak
To Kwa Wan
Ma Tau Wai
53 Ho Man Tin
Yau Ma Tei
20 Olympic
41 42 Austin
Jordan
Whampoa
21 Kowloon
West Kowloon Terminus
Tsim Sha Tsui
East Tsim Sha Tsui
Hung Hom 32
22 Hong Kong
Tamar
Exhibition
10 Fortress Hill
Victoria Park
North Point
Quarry Bay
09
Tai Koo
17 Sai Wan Ho
12 Shau Kei Wan
15 Heng Fa Chuen
13 Chai Wan
Sai Ying Pun
Kennedy Town
Hong Kong University
11 Sheung Wan
02 Central
Central South
Admiralty 03 08
14 Wan Chai
Causeway Bay
16 Tin Hau
Hong Kong Island
Cyberport
Wah Fu
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang 52
Ocean Park

Chairman's Letter

"Our growth strategy in and outside of Hong Kong made further progress and a number of our expansion projects have entered important new stages of development."

Dear Shareholders and other Stakeholders,

I am pleased to report that the interim results of MTR Corporation for the six months ended 30 June 2011 continue to show strong momentum in all our businesses.

The buoyant economy supported our recurrent businesses in Hong Kong, with our transport business seeing a further rise in patronage and our station commercial operations putting in solid performances. Our investment properties saw positive rental reversions and we booked property development profits relating to our share of a shopping mall in Tseung Kwan O Area 56 as well as an initial amount of profit relating to Festival City at Tai Wai. Our growth strategy in and outside of Hong Kong made further progress and a number of our expansion projects have entered important new stages of development.

The modest increase in fares implemented under the agreed annual Fare Adjustment Mechanism in June 2010 also contributed to results. The fare adjustment last year was the first fare increase since 1997, whilst we had also reduced fares at the time of the Rail Merger back in 2007. This year's application of the mechanism on 19 June 2011 also led to a modest weighted average increase of 2.2% to applicable fares. Even after these fare adjustments, many of our fares today are no higher than they were in 1997. Despite such competitive fares, as part of our social responsibility, we offer a number of concessions to the elderly, children, students and passengers with disabilities. These concessions, together with various fare promotions in 2011, will add up to HK$1.7 billion returned to the community.

Financial Results

Revenue for the first six months of 2011 increased by 14.7% over the same period last year to HK$16,169 million. Within this, revenue from our recurring businesses excluding our railway subsidiaries outside of Hong Kong grew by 8.1%, leveraging off the strong economic growth in Hong Kong. Revenue from our railway subsidiaries outside of Hong Kong recorded a 27.2% growth, mainly due to additional revenue from our Melbourne franchise, exchange rate movements and the inclusion of revenue from our Shenzhen subsidiary. Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment increased 9.3%. However, due to the lower property development profits in the first half of 2011 compared to 2010, net profit attributable to equity shareholders (excluding the change in fair value of investment properties and the related deferred tax) was HK$4,369 million, a 23.6% reduction compared to the first half of 2010. Including investment property revaluation, our net profit attributable to equity shareholders was HK$8,050 million and earnings per share were HK$1.39. Your Board has declared an interim dividend of HK$0.25 per share.

Growth Strategy

Our five railway extension projects in Hong Kong passed important milestones during the period. Further progress was made in the construction of the West Island Line and the Express Rail Link (the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link). In May 2011, the Company entered into Project Agreements with Government for the design, construction, operation and financing of both the South Island Line (East) and the Kwun Tong Line Extension, and construction works started immediately for both projects. At the same time, an Entrustment Agreement for the design and construction for the Advance Works of the Shatin to Central Link was signed and construction works also started immediately.

In the Mainland of China, Beijing Metro Line 4 and the Daxing Line, which opened on 30 December 2010, have performed reliably and exceeded their operating performance and passenger number targets. In Shenzhen, we took over operation of Phase 1 of the Shenzhen Metro Longhua Line (SZL4) in July 2010 and average train service delivery and punctuality rates have also exceeded targets. The 16-km Phase 2 extension of SZL4 commenced passenger services on 16 June 2011.

Sustainability and Corporate Responsibility

The Company has been guided by a Corporate Sustainability Policy since 2002 and a Corporate Responsibility Policy since 2008. In March 2011, we supplemented these with the issue of a Corporate Biodiversity Policy, which commits us to safeguarding the environmental heritage against impacts from our operations. The new policy will coordinate the sustainable planning of our built environments and bring the climate change agenda to the front line of our rail and property businesses.

Our achievements in this area continue to attract international recognition. In March 2011, Sustainable Asset Management and PricewaterhouseCoopers again named our Company the Sector Leader in the global travel and tourism industry. We have retained our listing in FTSE4Good Index, Dow Jones Sustainability Indexes, and Hong Kong's Hang Seng Corporate Sustainability Index. We also remain the only Hong Kong company among the Global 100 Most Sustainable Corporations.

Underpinning our efforts to promote sustainable practices is the rigorous reporting we undertake. This is brought together in our annual Sustainability Report 2010, which was published in June 2011.

We have continued our efforts to reduce energy consumption and have begun introducing energy-efficient LED lighting on our trains and advertising panels. Waste is another area of environmental responsibility we have been tackling and in January 2011, three-colour recycling bins were introduced in all MTR and Airport Express stations. The bins make it easier for the nearly 4 million people travelling on our Hong Kong domestic heavy rail system and the Airport Express each day to achieve a low carbon lifestyle and reduce the waste going to Hong Kong landfills.

Community Care Action

Our Community Care Action programme focuses on four main areas: namely Youth, Community Outreach, Art & Culture and Green & Healthy Living.

As part of our youth programme, we have selected 100 Senior Secondary 2 (SS2) students out of 177 nominations for our 2011 "'Train' for life's journeys" programme, which started in July this year. The "'Friend' for life's journeys" Programme for secondary school students will enter its third year later this year. It continues to enable our young volunteers to act as mentors and share insights with students. The programme also helps students broaden their horizons and equip them with useful life skills through a wide range of activities. It attracts participation from more than 100 secondary school students every year.

Each year, we support staff volunteering initiatives under our "More Time Reaching Community" scheme. During the first six months of the year, 85 projects took place involving over 1,900 volunteers. We have also continued to lend strong support to the Community Chest by raising funds through Green Day and a variety of other activities.

Culture and heritage are important aspects of community life and we have programmes in place to support them, such as the "art in mtr" programme which incorporates elements of art into our network.

We continue to encourage passengers to stay fit and this message is reinforced every year by MTR HONG KONG Race Walking. In April 2011, the event was held for the seventh time, raising a record HK$1.33 million for the Hospital Authority's Health InfoWorld to support its work on disease prevention and health education.

Conclusion

Our aim is to make a sustainable contribution to the communities in which we operate that is both economic and social. I believe we have been achieving this goal and we will make every effort to continue to do so.

I would like to express my gratitude to my fellow directors for their counsel, our staff for their hard work and our stakeholders for their invaluable support.

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 August 2011

CEO's Review of Operations and Outlook

"The Company's recurrent businesses in Hong Kong saw higher revenue, as economic activity led to good patronage growth, higher rental reversions at our rental properties and station shops, and further gains for our advertising business."

Dear Shareholders and other Stakeholders,

I am pleased to report that the strong business momentum from last year continued in the first six months of 2011. We are also making good progress in our growth strategy.

The Company's recurrent businesses in Hong Kong saw higher revenue, as economic activity led to good patronage growth, higher rental reversions at our rental properties and station shops, and further gains for our advertising business. Revenue from passenger services was further supported by the upward adjustment of fares under the Fare Adjustment Mechanism. Property development profits during the period came mainly from the booking of our share of a shopping centre at Area 56 in Tseung Kwan O as well as certain guaranteed receipts from the developer relating to Festival City at Tai Wai. The Company's businesses outside of Hong Kong also contributed to our financial results.

A number of significant milestones were achieved in our growth strategy. In Hong Kong, the Company entered into Project Agreements with Government for the design, construction, operation and financing of both the South Island Line (East) and the Kwun Tong Line Extension in May 2011. At the same time, an Entrustment Agreement for the design and construction for the Advance Works of the Shatin to Central Link project was also signed. Construction works commenced immediately after these agreements were signed. The West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) continue to progress according to plan. In the Mainland of China, we began operations of Phase 2 of the Shenzhen Metro Longhua Line (SZL4) in June 2011.

Total revenue for the first half of 2011 rose by 14.7% to HK$16,169 million. Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment increased by 9.3% to HK$6,001 million. Excluding our railway subsidiaries outside of Hong Kong, revenue was 8.1% higher and operating profit was 8.9% higher, while operating margin improved by 0.5 percentage point to 57.6%. Property development profit in the first half of the year was HK$1,445 million compared to HK$3,705 million in the same period in 2010, when we booked significant profits from our share of Le Prestige at LOHAS Park Package 2. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders decreased by 23.6% to HK$4,369 million, representing earnings per share of HK$0.76. The decrease was due to the timing and magnitude of property development bookings this year compared with last year. Gain in revaluation of investment properties was HK$4,408 million pre-tax (HK$3,681 million post-tax) as compared with HK$1,101 million pre-tax for 2010. Therefore net profit attributable to equity shareholders was HK$8,050 million, equivalent to earnings per share of HK$1.39 after such revaluation. Your Board has declared an interim dividend of HK$0.25 per share.

HONG KONG PASSENGER SERVICES

"Total Hong Kong fare revenue was HK$6,392 million in the first half of 2011, an increase of 7.7% when compared with the first six months of 2010..."

Our Hong Kong fare revenue reached HK$6,392 million in the first half of 2011, an increase of 7.7% over the same period last year.

Patronage

Total patronage for all of our rail and bus passenger services in Hong Kong in the first six months of 2011 rose by 5.4% to 815.4 million.

On the back of economic growth and increased tourist arrivals in Hong Kong, our Domestic Service recorded total patronage of 658.4 million, a 5.6% increase over the same period last year. Our Domestic Service comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding Cross-boundary Service), West Rail and Ma On Shan lines.

The Cross-boundary Service at Lo Wu and Lok Ma Chau achieved patronage of 50.2 million in the first six months of 2011, 3.2% higher than the comparable period in 2010.

Passenger traffic on the Airport Express in the first half of 2011 increased by 11.4% to 5.6 million when compared with the same period last year, as air travel to and from Hong Kong continued its growth.

Passenger volume on Light Rail, Bus and Intercity was 101.2 million in the first six months of 2011, an increase of 5.1%.

Average Weekday Patronage

Average weekday patronage for all of our rail and bus passenger services in Hong Kong in the first half of 2011 rose by 5.2% to 4.7 million as compared to the same period last year, with the majority coming from our Domestic Service at 3.9 million, an increase of 5.3% over the first six months of 2010.

Market Share

Our overall share of the franchised public transport market in Hong Kong rose to 44.9% in the first five months of 2011 as compared with 43.7% for the same period of 2010. Within this total, our share of cross-harbour traffic increased to 65.7% from 64.6%. Our market share of Cross-boundary business in the first half of 2011 declined to 54.5% from 54.8% due to recently opened boundary crossings with Shenzhen. The Company's market share to and from the airport in the first half of 2011 rose to 21.9% from 21.6%.

Fare Revenue

Total Hong Kong fare revenue was HK$6,392 million in the first half of 2011, an increase of 7.7% when compared with the first six months of 2010, with Domestic Service revenue accounting for HK$4,447 million or 69.6% of the total. Average fare per passenger on our Domestic Service rose by 2.4% to HK$6.75, mainly due to changes in fares as well as trip mix.

Fare revenue of the Cross-boundary Service was HK$1,264 million for the first six months of 2011, a rise of 5.1% when compared with the same period last year. Fare revenue of the Airport Express was HK$360 million in the first half of 2011, an increase of 11.1% over the same period of 2010. For Light Rail, Bus and Intercity, fare revenue was HK$321 million in the first half of 2011, 9.9% higher than the same period last year.

Attracting Patronage

Promotions and various marketing campaigns were launched to attract additional patronage to the network. These included themed tickets to celebrate the Hong Kong Disneyland 5th Anniversary, Cross-boundary Travel Passes for tourists travelling for one to two days in Hong Kong, Through Train weekend packages for Intercity travellers and joint promotions with organisations in Guangzhou and Dongguan. Fare promotions were offered to selected travellers on the Airport Express, while the joint promotion with Asia Miles through online ticketing was extended for another year from March 2011. For the Cross-boundary Service, group travel promotions were launched.

In May 2011, we announced a number of concessions and promotions, which took effect from July 2011, such as the "Ride $100 for Free Ticket", new interchange discounts for outlying island ferry passengers and extension of the HK$2 Fare Promotion scheme for the elderly for another year.

Operations Performance in First Half 2011

Service performance item	Performance Requirement	Customer Service Pledge Target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
– Light Rail	98.5%	99.5%	**99.9%**
Passenger journeys on time			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.8%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥ 5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	500,000	**1,969,355**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**3,575,716**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**14,141**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.6%**
– Light Rail	N/A	99.0%	**99.7%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.6%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.9%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.8%**
– West Rail Line	98.0%	99.0%	**99.9%**
Passenger lift reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.0%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	90.0%	**99.9%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100.0%**
Northwest Transit Service Area Bus Service			
– Service delivery	N/A	99.0%	**99.9%**
– Cleanliness: washed daily	N/A	99.0%	**100.0%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

Our MTR Club Bonus Points scheme was well received, with over 53,000 new club members recruited as of 30 June 2011, bringing total club membership to 1,189,617.

Service Performance

We continued to exceed all the performance standards set by the Operating Agreement and our own more demanding Customer Service Pledges for the reporting period. Train service delivery, passenger journeys on time and train punctuality were at 99.7% or above. Cleanliness was at 99.9% or above.

Our dedication to service excellence was again widely recognised, with a collection of awards, including the Hong Kong Service Awards in the Public Transportation Category presented by East Week magazine, Sing Tao Excellent Services Brand Award 2010 in the Public Transportation Category presented by Sing Tao Daily, and Top Service Awards 2011 in the Public Transportation Category presented by Next Magazine.

Service Improvements

To enhance our service standards, we are committed to investing in improvements to our station environment and rolling stock.

During the period we started renovation works at Sha Tin Station and completed detailed design work for Fanling and Sheung Shui stations. For the safety and comfort of our passengers, automatic platform gates are being installed at above ground station platforms on the Kwun Tong, Tsuen Wan and Island lines. Furthermore, new toilets were added in Ngau Tau Kok and Quarry Bay stations while toilets in other stations were upgraded. Escalator refurbishment and the instalment of new platform seats continued.

To enhance connectivity and communications to our passengers, new Service Information Panels were installed at all interchange stations. The public address system on all Light Rail platforms was enhanced to notify passengers of train arrivals. A Free Internet Zone was put into service in the Hung Hom Station Through Train Departure Hall restricted area for free computer on-line access by passengers. The purchase of Guangzhou-Kowloon Through Train tickets was extended to MTR e-Instant Bonus terminals. Wi-Fi service was launched on Ktt train and the Hung Hom Station Through Train platform and Departure Hall.

To enhance station accessibility, the installation of external passenger lifts began at five stations. Braille maps were installed at six stations, and a full length tactile guide path was completed on the East Rail Line platforms of Kowloon Tong Station.

We began taking delivery of ten new metro trains in April 2011. These trains will be delivered progressively in 2011 and 2012, with the first new train entering service towards the end of this year. Most of the Mainland-operated diesel engines for Through Trains were replaced by environmentally friendly electric-powered locomotives. As part of a five year modernisation programme, the first modernised Light Rail vehicle entered passenger service on 31 January 2011.

Productivity

We continue to enhance productivity while maintaining service quality. During the six months, various energy saving initiatives were launched on West Rail, East Rail, Light Rail and Ma On Shan lines. Variable frequency drives for air conditioning systems and heat rejection window films have been installed as a pilot project at Olympic Station.

STATION COMMERCIAL AND RAIL RELATED BUSINESSES

"Revenue from our station commercial and rail related businesses increased by 11.4% over the first half of 2010 to HK$1,930 million."

Revenue from our station commercial and rail related businesses increased by 11.4% over the first half of 2010 to HK$1,930 million. This strong performance reflects a further upturn in the advertising business as well as good rental reversions at our station shops and an increase in floor area.

Station retail revenue in the period was HK$922 million. The 8.6% rise over the first half of last year came from an increase in the number of shops and higher rental rates as we continued to refine the trade mix. Revenue growth benefited further from higher turnover rent.

The number of station shops increased by 11 during the first half of 2011, bringing the total to 1,265 by the end of June. The total area of station retail space increased by 541 square metres from 53,880 square metres at the end of 2010 to 54,421 square metres at the end of June this year. In total, 17 new merchants were introduced to the portfolio.

Advertising revenue in the first half of 2011 was HK$382 million, 18.6% higher than the comparable period in 2010. Our launch of new sales packages and innovative advertising concepts was timely and captured the upturn in the advertising market. The number of advertising points in the network at 30 June 2011 stood at 44,876, of which 21,059 were in stations and 23,817 were in trains. During the six months, we introduced a new advertising concept, the "Power Station", in which all advertising space and formats at Tsim Sha Tsui Station were taken up by a single advertiser during the contract period.

Revenue from our telecommunications business in the first half of 2011 rose by 19.9% to HK$163 million, mainly due to the receipt of more one-off project administration fees from telecom projects, as well as additional revenue from 3G service. During the period, we facilitated telecom operators to improve 3G mobile data capacity at 15 prime stations and upgrade their equipment to strengthen their mobile phone service quality.

Revenue from external consultancy in the first half of 2011 was HK$46 million, a decrease of 23.3% over the first half of last year mainly due to substantial completion of the Delhi Airport Metro Express Line project.

PROPERTY AND OTHER BUSINESSES

"Profit from property development for the first six months of 2011 was HK$1,445 million... Revenue of our property rental, property management and other businesses in the first six months of 2011 was HK$1,676 million..."

The Hong Kong property market remained active, although some consolidation was seen in April after further mortgage tightening and the introduction by Government of measures to increase land supply. However, the market continued to benefit from prolonged low interest rates.

Central prime office and retail leasing again performed well as a result of increased numbers of Mainland shoppers and the expansion of activities in Hong Kong by Mainland companies and international financial institutions.

Property Development

Profit from property development for the first six months of 2011 was HK$1,445 million, which comprised our share of the shopping mall at Tseung Kwan O Area 56 and the guaranteed receipt from the developer, net of relevant costs, from Festival City at Tai Wai. Good results were achieved in the sale of flats of Phases 1 and 2 of Festival City, and by 30 June 2011, approximately 97% of the 2,728 units had been sold.

For West Rail development sites, where we only act as agent for Government, Master Layout Plans (MLPs) were approved by the Town Planning Board on 17 June 2011 for the Nam Cheong station and Tsuen Wan West (TW5) development projects, paving the way for tender invitation in the second half of the year. We also submitted a revised MLP for the West Rail site at Long Ping (North) in May 2011 and Town Planning Board's approval was given on 22 July 2011.

For the Wong Chuk Hang and Ho Man Tin development projects on the South Island Line (East) and Kwun Tong Line Extension respectively, broad development parameters have been confirmed with Government. Development of both sites will commence after railway construction is completed.

Property Rental, Property Management and Other Businesses

Revenue of our property rental, property management and other businesses in the first six months of 2011 was HK$1,676 million, a rise of 5.7% over the same period of 2010.

Property Development Packages Awarded and to be Completed

Location	Developers	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Period of package tenders	Expected completion date
Tseung Kwan O Station						
Area 56	Sun Hung Kai Properties Ltd.	Residential Hotel Retail Office Car park	80,000 58,130 20,000 5,000	360	Awarded in February 2007	By phases from 2011-2012
LOHAS Park Station						
Package Two (Le Prestige, Le Prime)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800	905	Awarded in January 2006	By phases from 2010-2012
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2013
Tai Wai Maintenance Centre						
Festival City	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	745	Awarded in April 2006	By phases from 2010-2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	232	Awarded in April 2008	2012
Austin Station						
Sites C and D	New World Development Co. Ltd. Wheelock Properties Limited	Residential Car park	119,116	592	Awarded in March 2010	2014
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail Car park	119,512 25,000	339	Awarded in August 2006	By phases from 2012-2013
Tsuen Wan West Station TW7#	Cheung Kong (Holdings) Ltd.	Residential Car park	113,064	433	Awarded in September 2008	2013

as agent for the Government of HKSAR

Property Development Packages to be Awarded Notes 1 and 2

Location	No. of packages envisaged	Type	Gross floor area *(sq. m.)*	Expected no. of parking spaces	Period of package tenders	Expected completion date
LOHAS Park Station	6 – 10	Residential Retail Car park	1,025,220 – 1,035,220 39,500 – 49,500	3,303 (max)	2012-2016	2020
Tai Wai Station	1	Residential Retail Car park	190,480 62,000	801	2011	2016-2017
Tin Shui Wai Light Rail (Tin Wing Road)	1	Residential Retail Car park	91,051 205	232	2011	2016
Wong Chuk Hang Station	3	Residential Retail Car park	357,500 47,000	866	2015-2020	2024
Ho Man Tin Station	2	Residential Car park	128,400	480	2015-2018	2021

Notes:

1. Property development packages for which we are acting as agent for the Government of HKSAR are not included.
2. These property development packages are subject to review in accordance with planning approval, land grant conditions and completion of statutory processes.

Total property rental income in Hong Kong and the Mainland of China increased by 6.5% to HK$1,465 million. For our retail shopping mall portfolio in Hong Kong, an average 15% increase in rental reversion was achieved in the period. At the end of June 2011, the occupancy of our 12 shopping malls in Hong Kong remained close to 100%, while the Company's 18 floors at Two International Finance Centre were fully leased out.

As at 30 June 2011, the Company's attributable share of investment properties in Hong Kong was 225,625 square metres of lettable floor area of retail properties, 41,000 square metres of lettable floor area of offices, and 11,202 square metres of property for other use.

We continued to invest in our retail properties. Repartitioning works for the retail floor of Citylink Plaza have entered their final phase, for completion by August 2011.

Effective marketing again underpinned the portfolio's performance, with Elements, Telford Plaza and the MTR Malls i-Catch iPhone App all securing a number of awards.

Property management revenue in the first six months of 2011 decreased by 10.4% to HK$95 million as we have adjusted our managers' remuneration to ensure that high quality services are provided at competitive prices. At the end of June 2011, the number of residential units under our management in Hong Kong had risen to 83,378, mainly through the addition of 1,360 units at Festival City Phase 1. Commercial space under management was virtually unchanged at 744,214 square metres.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island reported a 11.5% rise in revenue for the first six months of 2011 to HK$116 million. Visitor numbers for the period were 743,733 and premium Crystal Cabins rides accounted for nearly 32% of total rides. The cable car system maintained its reliability rate at over 99% during the six months. In March 2011, Ngong Ping 360 Limited passed the ISO9001 surveillance audit. The increased patronage was supported by a variety of promotional programmes, and the business again secured a number of service related awards.

Octopus

Octopus continued its expansion in the retail sector and by the end of June 2011, over 3,000 service providers in Hong Kong had adopted the Octopus service. Cards in circulation were 24.3 million, including active cards in circulation of 18.7 million, and average daily transaction volume and value reached 11.7 million and HK$112.7 million respectively. The Company's share of Octopus' net profit for the first half of 2011 was HK$81 million, an increase of 5.2% over the same period last year.

FUTURE GROWTH – HONG KONG

"Significant progress was made on the five major projects to expand our railway network in Hong Kong."

Significant progress was made on the five major projects to expand our railway network in Hong Kong. Three of these, namely the West Island Line, the South Island Line (East) and the Kwun Tong Line Extension, will be financed and owned by the Company. The remaining two, namely the Express Rail Link and the Shatin to Central Link, will be financed and owned by Government and the Company will be invited to operate and maintain these lines under the "Service Concession" model. In the design and implementation of each of these projects, we have drawn extensively on the views of local communities and incorporated many of their suggestions.

The 3-km West Island Line, which is an extension of the Island Line, is targeted to open in 2014, and will greatly reduce travel time from Kennedy Town to Sheung Wan. All civil works contracts and Electrical and Mechanical (E&M) contracts for this extension have been awarded. During the past six months, as part of the West Island Line works, the new David Trench Rehabilitation Centre was handed over to the Hospital Authority, while Phase 1 of the new Kennedy Town Swimming Pool was handed over to the Leisure and Cultural Services Department. Both facilities have therefore started providing services to the community. Drill and blast works for the tunnels, and excavation work on the future Sai Ying Pun, Hong Kong University and Kennedy Town stations, are in progress. To achieve financial viability, the West Island Line uses a capital grant model and the total amount of this grant, of HK$12,652 million, has already been received from Government.

In May 2011, the Company entered into Project Agreements with Government for the South Island Line (East) and the Kwun Tong Line Extension. These projects will use the "Rail plus Property" model to achieve financial viability, under which property development rights for a site in each of Wong Chuk Hang and Ho Man Tin respectively, have been granted to the Company.

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District with a train depot located in Wong Chuk Hang. The 2.6-km Kwun Tong Line Extension will run from Yau Ma Tei Station on the Kwun Tong Line to the new Whampoa Station via the new Ho Man Tin Station. Contracts were awarded for the major civil works on 18 May 2011 and construction works started immediately.

The Express Rail Link will use the "Service Concession" model and the Finance Committee of the Legislative Council (LegCo) approved funding of HK$66.9 billion for construction of both the railway and non-railway works on 16 January 2010. Out of this total, the Company will be paid a project management fee of HK$4,590 million and will be invited to operate the railway service on a concession basis upon completion. The operational arrangements and business model are under active discussion with Government and with Mainland entities.

The 26-km Express Rail Link will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the Mainland of China's high speed intercity passenger rail network. Services are expected to start in 2015.

Tunnel blasting commenced in Kwai Chung in February 2011, and the diaphragm walls and foundations at the West Kowloon Terminus were substantially completed in June 2011 to allow excavation work to begin.

The coordinated design process between the West Kowloon Terminus and the West Kowloon Cultural District started after the appointment of the West Kowloon Cultural District Authority's design consultant in April 2011.

The Shatin to Central Link will also adopt the "Service Concession" model and planning and design work has been funded by Government under an Entrustment Agreement signed in November 2008. On 18 February 2011, the Finance Committee of LegCo approved the advanced funding for the construction of the Shatin to Central Link's share of enhancements to Admiralty Station as well as the new Ho Man Tin Station. An Entrustment Agreement for the design and construction of such works was signed at the same time as the Project Agreements for the South Island Line (East) and the Kwun Tong Line Extension were concluded. The works include related construction for the expanded Admiralty Station and the new Ho Man Tin Station, the re-provisioning of the International Mail Centre from Hung Hom to Kowloon Bay and other ancillary works.

The Shatin to Central Link comprises two sections. An 11-km extension of the Ma On Shan Line will run from Tai Wai to Hung Hom, where it will connect with the West Rail Line to form an East West Corridor. A 6-km extension of the East Rail Line from Hung Hom to Hong Kong Island will become Hong Kong's fourth rail harbour crossing and form a North South Corridor. Detailed design of the Tai Wai to Hung Hom section is in progress and the scheme designs of system-wide E&M systems are in hand.

FUTURE GROWTH – MAINLAND OF CHINA AND OVERSEAS BUSINESSES

"Railway franchise revenue outside of Hong Kong from our three rail subsidiaries, namely MTM, MTRS and SZMTR, increased by 27.2% to HK$6,171 million as compared to the same period last year."

The Company's operating railway businesses outside of Hong Kong comprised our 49% interest in Beijing MTR Corporation Limited (BJMTR) and 100% interest in MTR Corporation (Shenzhen) Limited (SZMTR), both in the Mainland of China, our 60% interest in Metro Trains Melbourne Pty. Ltd. (MTM), our 100% interest in MTR Stockholm AB (MTRS), our 50% interest in Tunnelbanan Teknik Stockholm AB (TBT), the rolling stock maintenance company in Stockholm, and our 50% interest in London Overground Rail Operations Ltd (LOROL).

Railway franchise revenue outside of Hong Kong from our three rail subsidiaries, namely MTM, MTRS and SZMTR, increased by 27.2% to HK$6,171 million as compared to the same period last year. Operating costs rose by 27.6% to HK$5,925 million, resulting in an operating profit of HK$246 million, an increase of 18.8% over the same period last year, and an overall operating profit margin of 4.0%. The business model of MTM and MTRS, which are operation and maintenance franchises, requires only modest capital investment. Operating margins are typically much lower than for those rail projects requiring significant capital outlays. SZMTR, which commenced its full line operations on 16 June 2011, made an operating loss of HK$46 million, as expected, in the first half of 2011. BJMTR, LOROL and TBT are accounted for as associates, and contributed a total of HK$74 million in post-tax profit in the first half of 2011. BJMTR's profit contribution was one year ahead of our expectation.

Mainland of China

In the Mainland of China, Beijing Metro Line 4 (BJL4) and the Daxing Line, which opened on 30 December 2010, exceeded their performance and reliability targets. Total ridership for the first six months of 2011 for BJL4 and the Daxing Line were 147.9 million passenger trips and 27.2 million passenger trips respectively, with daily averages of approximately 817,000 and 150,000 respectively. The combined patronage for the integrated BJL4 and the Daxing Line, which eliminates the double counting of those passengers who travel on both BJL4 and the Daxing Line on the same trip, was 150.8 million in the first half of 2011 with a daily average of approximately 833,000 integrated trips.

In Shenzhen, SZMTR took over the operation of the 4.5-km Phase 1 of SZL4 on 1 July 2010. Operational performance has been good and average train service delivery and punctuality rates have exceeded targets. Total ridership for the first six months of 2011 was 13.5 million passenger trips, with a daily average of 74,557. The 16-km Phase 2 SZL4 was completed and opened on schedule on 16 June 2011.

We continue to await approval of the Hangzhou Metro Line 1 project by the National Development and Reform Commission.

Overseas

In the UK, the operations of LOROL continued to improve and it was rated as the UK's top performing train operating company for the year ending April 2011. The opening of another phase of the East London Line on 28 February 2011 enhanced the connectivity of the network.

The performance of MTRS in Stockholm was impacted by major temporary line closures, as part of the infrastructure works co-ordinated by the local authorities, and we adjusted staffing levels accordingly. To achieve the increasing performance targets stipulated in the concession contract, various initiatives are underway to identify and implement continuous improvements. The first phase of these initiatives has been implemented successfully and contributed to improved results.

In Melbourne, following changes to operational procedures and asset related enhancement measures, MTM's performance had improved and was above target in January 2011. However, predominately due to industrial relations issues involving train drivers, performance dropped below target between February and April 2011, before recovering in May and June 2011. Severe flooding in February 2011 also adversely affected signalling system performance on parts of the network. Sustained commitment to asset renewals and new projects works is helping to drive the increased reliability of the network, whilst introduction of a new train timetable in May is producing tangible reliability improvements.

FINANCIAL REVIEW

Continued business momentum led to good performance in the Group's recurrent businesses for the first half of 2011. Hong Kong fare revenue increased by 7.7% over the same period last year to HK$6,392 million due to strong patronage growth as well as fare changes in accordance with the Fare Adjustment Mechanism. Station commercial and rail related revenue increased by 11.4% to HK$1,930 million as our advertising and station commercial businesses leveraged off continued economic growth. Rental, management and other revenue rose by 5.7% to HK$1,676 million mainly due to positive rental reversions and higher turnover rents from retail tenants. Excluding railway subsidiaries outside of Hong Kong, total revenue grew by 8.1% to HK$9,998 million. Revenues from our railway subsidiaries in Mainland China, namely SZMTR, and internationally, in Stockholm and Melbourne, totalled HK$6,171 million, an increase of 27.2% over the same period last year. The Group's total revenue for the first half of 2011 therefore increased by 14.7% to HK$16,169 million.

Operating expenses before depreciation, amortisation and variable annual payment to the Kowloon-Canton Railway Corporation (KCRC) relating to the Rail Merger increased by 18.1% to HK$10,168 million. Expenses relating to Hong Kong fare revenue increased by 5.9%. This was less than the increase in applicable revenues as the impact of Statutory Minimum Wage requirement and increased maintenance expenditures were offset by effective cost control on staff and energy expenses. For station commercial and rail related businesses as well as property ownership, management and other businesses, operating expenses increased by 13.1% and 14.2% respectively.

This was mainly due to extra project management costs relating to the Express Rail Link, extra cost for Statutory Minimum Wage compliance and the increases in advertising agency fees and promotional expenses required to support revenue growth. Excluding railway subsidiaries outside of Hong Kong, operating expenses increased by 7.0%, less than the 8.1% increase in applicable revenues. This resulted in an 8.9% growth in operating profit (before taking into account non-Hong Kong railway subsidiaries) to HK$5,755 million, and a 0.5 percentage point improvement in operating margin to 57.6%. Including railway subsidiaries outside of Hong Kong, where revenue and operating expenses grew by 27.2% and 27.6% respectively, total operating profit from railway and related businesses increased by 9.3% to HK$6,001 million. The operating margin was 37.1%, a decrease of 1.8 percentage points compared with 38.9% recorded for the same period last year. The reduction was due to the increased contributions from the "asset-light" international railway subsidiaries, which have a lower margin than the Hong Kong business, as well as the initial operating loss of SZMTR.

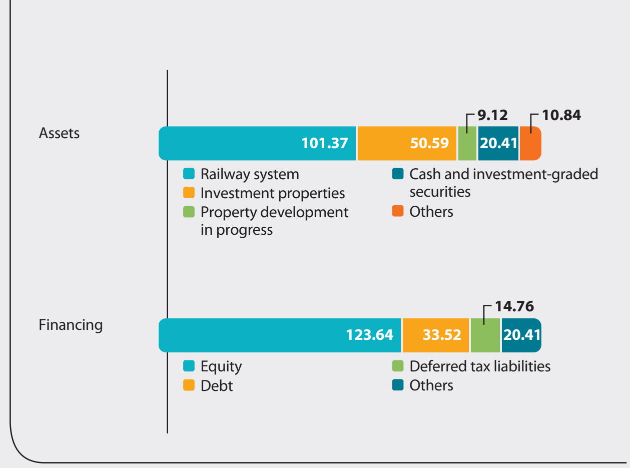
Property development profit for the first half of 2011 was HK$1,445 million, mainly coming from the share of the fair value of the shopping centre at Tseung Kwan O Area 56, a guaranteed non-refundable receipt from the developer, less related costs, for Festival City in Tai Wai, as well as profits from the sale of units in inventory primarily at The Palazzo in Fo Tan and Lake Silver in Wu Kai Sha. As property development profit bookings in the first half of this year were much lower than those in the first half of last year, due mainly to timing differences in profit bookings, operating profit before depreciation, amortisation and variable annual payment decreased by 19.0% to HK$7,446 million.

After deducting depreciation and amortisation charge of HK$1,611 million, which increased by 4.8% due to new assets commissioned including those from SZL4, and variable annual payment relating to the Rail Merger of HK$301 million, operating profit before interest and finance charges decreased by 27.7% to HK$5,534 million. With a reduction in our net debt position as well as a lower proportion of higher cost fixed rate debt in our debt portfolio, interest and finance charges decreased by 30.0% to HK$459 million, with the weighted average cost of borrowing decreasing from 4.4% to 3.1%. The increase in fair value of investment properties since the end of 2010 was HK$4,408 million pre-tax and HK$3,681 million post-tax.

Share of profits from non-controlled subsidiaries and associates increased by 89.0% to HK$155 million mainly due to higher profit contribution of HK$61 million from BJMTR. Octopus Holdings Limited, LOROL and TBT contributed profits of HK$81 million, HK$12 million and HK$1 million respectively. After deducting

Simplified Balance Sheet

As at 30 June 2011
(HK$ billion)

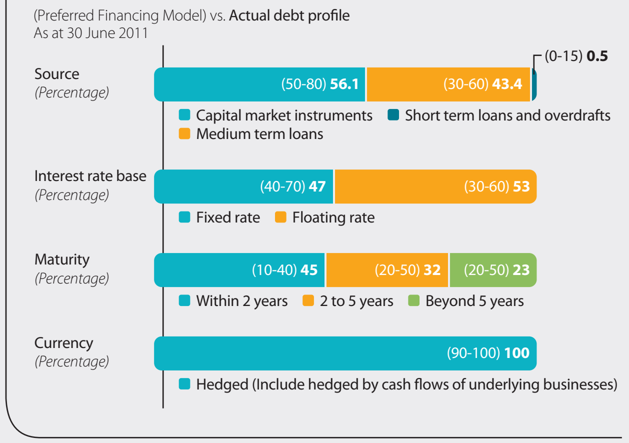


income tax of HK$1,502 million and the share of profit by non-controlling interests of HK$86 million, net profit attributable to shareholders for the first half of 2011 was HK$8,050 million, an increase of 21.3% over the same period last year. Reported earnings per share increased from HK$1.16 to HK$1.39. Excluding investment property revaluation and the related deferred tax, net profit decreased by 23.6% to HK$4,369 million, with earnings per share on the same basis decreasing by 24.0% to HK$0.76, due to lower property development profits. The Board has declared an interim dividend of HK$0.25 per share.

The Group's balance sheet has strengthened further, with net assets increasing by 5.4% from HK$117,293 million as at the end of 2010 to HK$123,636 million as at 30 June 2011. Total assets increased by 5.9% to HK$192,327 million mainly due to the investment property revaluation gain and further capital expenditure on SZL4, South Island Line (East) and the Kwun Tong Line Extension. During the half year, expenditures previously incurred for the South Island Line (East) and the Kwun Tong Line Extension were transferred from Deferred Expenditure to Railway Construction in Progress and Property Development in Progress upon signing of the respective project agreements. The remaining outstanding interest free loan to the property developer relating to Le Prestige was also repaid by the developer in the half year. Total liabilities increased by 6.7% to HK$68,691 million mainly due to the issue of Renminbi denominated notes (Dim Sum Bond) of RMB1 billion in June 2011 to finance part of the SZL4 construction project, the provisions for fixed and variable annual payments to KCRC as

Preferred Financing Model and Debt Profile

The Preferred Financing Model exemplifies the Company's prudent approach to debt management and helps ensure a well balanced debt portfolio.



well as the increase in tax liabilities for the profits earned during the period. These increases in liability were partially offset by the continued utilisation of the West Island Line Government grant as well as profit recognition from Deferred Income relating to Festival City. Total loans outstanding as at 30 June 2011 increased from HK$21,057 million to HK$22,628 million. The resulting debt-to-equity ratio decreased from 27.2% to 27.1% while the net debt-to-equity ratio decreased from 12.8% as at the end of 2010 to 10.9% as at 30 June 2011.

Our cash position remained strong in the first half of 2011. The Group generated HK$5,820 million of cash, a 3.9% increase over the same period last year, from our railway and related businesses after deducting cash tax payments. Other major cash receipts included HK$2,000 million for the settlement of the remaining loan balance from the property developer relating to Le Prestige and HK$1,018 million from property development activities. Total cash inflow during the first half of 2011 amounted to HK$8,904 million. Total cash outflow in the period was HK$7,296 million, comprising capital expenditures of HK$4,450 million mainly for Hong Kong operational railway assets, the new railway extensions in Hong Kong and SZL4, net interest payment of HK$248 million, dividend distribution of HK$2,325 million, variable annual payment of HK$45 million and various other payments of HK$228 million mainly relating to property developments. As a result, the Group generated net cash inflow of HK$1,608 million for the first half of 2011. Including net loan drawdown of HK$1,520 million mainly from the RMB1 billion Dim Sum Bond issued, the Group's cash, bank balances and deposits, net of bank overdrafts, increased by HK$3,128 million to HK$16,446 million as at 30 June 2011.

Financing Activities

Interest rates remained soft and trended slightly lower during the period as recovery in the U.S. appeared to stall and the Federal Reserve signalled its intention to maintain an accommodative monetary policy for an extended period of time.

On the Mainland, controlling inflation and property prices remained a top policy priority of the Central Government and the People's Bank of China continued to tighten monetary conditions by restricting loan growth and increasing reference lending rates. The resulting entry of Mainland and related borrowers seeking alternative debt capital in Hong Kong caused increased competition for funds, leading to a widening of credit spreads and higher overall borrowing costs.

During the period, the Renminbi offshore market in Hong Kong grew at a fast pace with total deposits soaring to RMB549 billion at the end of May, from RMB315 billion at year-end 2010, whilst Dim Sum Bond issuance increased to RMB77 billion, double the RMB39 billion issued in the whole of 2010. Despite this significant increase, the development of RMB investment products continued to lag behind growth in RMB deposits, sustaining the strong demand for Dim Sum Bonds and depressing their yields further.

The Group took advantage of these conditions and came to the market with a debut 2-year RMB1.0 billion issue in June 2011. Issued with a coupon of 0.625% per annum, the transaction was Hong Kong's first ever Dim Sum Bond issued by a quasi-Government entity and carried the lowest coupon compared with other Dim Sum Bond issuance of the same maturity. Proceeds from the issuance were remitted as shareholder's loan to SZMTR to finance the balance of the funding requirement of the SZL4 project.

As a result of the new bond issue and additional bank borrowings by SZMTR, consolidated debt increased from HK$21,057 million at year-end 2010 to HK$22,628 million at the end of June. Liquidity remained strong, however, with total cash and investment-grade securities amounting to HK$20,413 million as at 30 June 2011 which, together with projected cash flows, are expected to provide sufficient cover for the Group's cash requirements well into 2012.

Owing to continuing low interest rates and significant reduction of higher cost, fixed rate debts, the Group's average borrowing cost fell to 3.1% per annum, from 4.4% per annum during the first half of 2010.

HUMAN RESOURCES

"Our excellent services were recognised through prominent international awards and we have a number of staff motivational schemes in place to recognise and reward staff contributions."

Together with our controlled subsidiaries, we employ 14,135 people in Hong Kong and 6,631 outside of Hong Kong. In the first half of 2011, we recruited 540 new hires to support our business expansion. Competitive remuneration and promising career opportunities ensured that our overall turnover rate has remained at a low level of around 2.9%, despite the active employment market.

Our excellent services were recognised through prominent international awards and we have a number of staff motivational schemes in place to recognise and reward staff contributions. Dedicated development programmes continued to develop talent at different levels. We also continued our intake of Graduate Trainees and other Functional Associates to support business growth in Hong Kong and the Mainland of China.

A wide variety of training and motivational courses were held, with a total of 2,851 courses covering 2.8 trainee man-days per employee. Constant staff communication was conducted through various channels. To enhance dialogue with employees, over 2,500 sessions of the Enhanced Staff Communication Programme were organised involving more than 25,000 participants in the first half of 2011.

OUTLOOK

The global economic recovery remains fragile. With uncertainties in Europe and the U.S., we are cautious but still remain optimistic for the second half of 2011. With our businesses being sensitive to the local economy, continued economic growth in Hong Kong will benefit our transportation, advertising and rental businesses.

In our property development business, we currently expect to receive the Occupation Permit for the final phase, Phase 3, of Festival City at Tai Wai towards the end of the year. As enough units have now been sold in Phases 1 and 2 of this development to cover all development costs for this project, the receipt of the Occupation Permit will allow us to book profits for all phases of this development.

In our property tendering activity, depending on market conditions, we expect to tender the Nam Cheong Station, Tsuen Wan West (TW5), Tin Shui Wai Light Rail (Tin Wing Road) and Tai Wai Station sites over the next six months. The Nam Cheong Station and Tsuen Wan West sites are West Rail development sites where we only act as agent for Government.

Finally, I would like to take this opportunity to thank my fellow directors and all my colleagues for their hard work and dedication.

C K Chow, *Chief Executive Officer*
Hong Kong, 11 August 2011

Key Figures

	Half year ended 30 June 2011	Half year ended 30 June 2010	% Increase/ (Decrease)
Financial highlights *(HK$ million)*			
Revenue			
– Hong Kong fare	**6,392**	5,933	7.7
– Non-fare	**3,606**	3,317	8.7
– Railway subsidiaries outside of Hong Kong	**6,171**	4,852	27.2
Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment arising from the Rail Merger	**6,001**	5,491	9.3
Profit on property developments	**1,445**	3,705	(61.0)
Operating profit before depreciation, amortisation and variable annual payment arising from the Rail Merger	**7,446**	9,196	(19.0)
Profit attributable to equity shareholders	**8,050**	6,639	21.3
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**4,369**	5,720	(23.6)
Total assets	**192,327**	181,665^	5.9
Loans, other obligations and bank overdrafts	**22,628**	21,057^	7.5
Obligations under service concession	**10,733**	10,749^	(0.1)
Total equity attributable to equity shareholders	**123,455**	117,150^	5.4
Financial ratios			
Operating margin *(%)*	**37.1**	38.9	(1.8)% pts.
Operating margin (excluding railway subsidiaries outside of Hong Kong) *(%)*	**57.6**	57.1	0.5% pt.
Net debt-to-equity ratio* *(%)*	**10.9**	12.8^	(1.9)% pts.
Interest cover *(times)*	**13.4**	12.2	1.2 times
Share information			
Basic earnings per share *(HK$)*	**1.39**	1.16	19.8
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *(HK$)*	**0.76**	1.00	(24.0)
Dividend per share *(HK$)*	**0.25**	0.14	78.6
Share price at 30 June *(HK$)*	**27.60**	26.65	3.6
Market capitalisation at 30 June *(HK$ million)*	**159,636**	153,695	3.9
Operations highlights			
Total passenger boardings *(million)*			
– Domestic Service	**658.4**	623.5	5.6
– Cross-boundary Service	**50.2**	48.7	3.2
– Airport Express	**5.6**	5.1	11.4
– Light Rail	**78.2**	74.9	4.3
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**3,871**	3,677	5.3
– Cross-boundary Service *(daily)*	**277.5**	268.9	3.2
– Airport Express *(daily)*	**31.1**	28.0	11.4
– Light Rail *(weekday)*	**442.2**	425.5	3.9
Fare revenue per passenger *(HK$)*			
– Domestic Service	**6.75**	6.60	2.4
– Cross-boundary Service	**25.17**	24.70	1.9
– Airport Express	**63.84**	64.08	(0.4)
– Light Rail	**2.71**	2.63	2.7
Proportion of franchised public transport boardings (January to May) *(%)*	**44.9**	43.7	1.2% pts.

* Including obligations under service concession and loan from holders of non-controlling interests as components of debts and investments in bank medium term notes as a component of cash.

^ Figures as at 31 December 2010

Corporate Governance and Other Information

Corporate Governance Practices

The Company is committed to ensuring high standards of corporate governance in the interests of shareholders and devotes considerable effort to identifying and formalising best practices.

During the six months ended 30 June 2011, the Company has complied with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except Code Provision A.4.2 as described below.

At the 2011 Annual General Meeting on 6 May 2011 (the "2011 AGM") and in relation to the retirement by rotation of directors, the Company continued to comply with its articles of association (the "Articles of Association"), which require one third of the current Directors who are subject to Articles 87 and 88 must retire as directors (i.e. three out of the nine Directors (excluding two Directors appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Chapter 556 of the Laws of Hong Kong) (the "MTR Ordinance"))). The re-organisation in the Government of the Hong Kong Special Administrative Region of the People's Republic of China (the "HKSAR") and the Rail Merger of the Company with Kowloon-Canton Railway Corporation brought an increase in the number of Directors last elected/re-elected in the 2008 Annual General Meeting three years ago. For this reason, the Company has, for the first time, not met Code Provision A.4.2 (which requires every director to be subject to retirement by rotation at least once every three years) in 2011. The above was already disclosed in the Company's 2010 Annual Report.

A person may be appointed as a Member of the Board at any time either by the shareholders in general meeting or by the Board upon recommendation by the Nominations Committee of the Company. Directors who are appointed by the Board must retire at the first annual general meeting after their appointment. A Director who retires in this way is eligible for election at that annual general meeting, but is not taken into account when deciding which and how many Directors should retire by rotation. In either case, the Directors so elected and appointed are eligible for re-election and re-appointment. At each annual general meeting of the Company and as reported above, one third of the Directors (or, if the number of Directors is not divisible by three, such number as is nearest to and less than one third) must retire as Directors by rotation.

The Chief Executive of the HKSAR may, pursuant to Section 8 of the MTR Ordinance, appoint up to three persons as "additional Directors". Directors appointed in this way may not be removed from office except by the Chief Executive of the HKSAR. These Directors are not subject to any requirement to retire by rotation nor will they be counted in the calculation of the number of Directors who must retire by rotation. In all other respects, the "additional Directors" are treated for all purposes in the same way as other Directors.

The Board comprises 12 Members, consisting of one executive Director (the Chief Executive Officer) and 11 non-executive Directors, of whom seven are independent non-executive Directors. In this regard, the Company *well exceeds* the requirement of the Listing Rules which requires every board of directors of a listed issuer to have at least three independent non-executive directors.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board and the non-executive Chairman of the Company since 1998 and 2003 respectively, was re-appointed by the Government of the HKSAR (the "Government") in November 2009 as the non-executive Chairman with effect from December 2009 until December 2012.

As announced by the Company in December 2010, Mr. Chow Chung-kong will retire from the position of Chief Executive Officer and cease to be a Member of the Board and a Member of the Executive Directorate when his current contract as the Chief Executive Officer expires on 31 December 2011.

On 22 July 2011 and following a worldwide search for Mr. Chow's replacement, the Company announced the appointment of Mr. Jay Herbert Walder as Chief Executive Officer for an initial term of thirty months with effect from 1 January 2012. He will become both a Member of the Executive Directorate and a Member of the Board of Directors on the same date. To ensure a smooth transition, Mr. Walder will be appointed as CEO Designate on 1 November 2011. Mr. Walder will move to the Company from his current role as Chairman and Chief Executive Officer of the New York Metropolitan Transportation Authority, the largest passenger transportation authority in the United States.

At the 2011 AGM, Mr. Alasdair George Morrison who was appointed after the 2010 annual general meeting on 27 May 2010, retired from office pursuant to Article 85 of the Articles of Association, and was elected as a Member of the Board. Messrs. Edward Ho Sing-tin, Ng Leung-sing and Abraham Shek Lai-him retired from office by rotation pursuant to Articles 87 and 88 of the Articles of Association, and were re-elected as Members of the Board.

Mr. Andrew McCusker retired from the position of Operations Director and as a Member of the Executive Directorate, both effective from 1 January 2011. Dr. Jacob Kam Chak-pui was appointed as Operations Director and a Member of the Executive Directorate, both with effect from 1 January 2011.

Mr. Leonard Bryan Turk retired from the position of Legal Director & Secretary and as a Member of the Executive Directorate, both effective from 1 September 2011. Ms. Gillian Elizabeth Meller, formerly Deputy Legal Director, was appointed as Legal Director & Secretary and a Member of the Executive Directorate, both with effect from 1 September 2011.

Mr. Thomas Ho Hang-kwong, Property Director, will retire from that position and as a member of the Executive Directorate, both effective from 1 October 2011. Mr. David Tang Chi-fai, Deputy Property Director, will be appointed as Property Director and will become a Member of the Executive Directorate, both with effect from 1 October 2011.

Ms. Jeny Yeung Mei-chun, formerly General Manager – Marketing & Station Commercial, was appointed as Commercial Director and a Member of the Executive Directorate, both with effect from 1 September 2011.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules (the "Model Code"). After having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2011 with the Model Code. Senior managers, other nominated managers and staff who, because of their office in the Company, are likely to be in possession of unpublished price sensitive information, have been requested to comply with the provisions of the Model Code. In addition, every employee is bound by the Code of Conduct issued by the Company, amongst other things, to keep unpublished price sensitive information in strict confidence.

Audit Committee

The Audit Committee normally meets four times each year with the purpose of monitoring the integrity of the Group's financial statements and to consider the nature and scope of internal and external audit reviews. It also assesses the effectiveness of the systems of internal control.

Under its Terms of Reference, the Audit Committee consists of four non-executive Directors, at least three of whom are independent non-executive Directors. The Members of the Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the Commissioner for Transport (Mr. Joseph Lai Yee-tak), and Mr. Alasdair George Morrison. Mr. Stevenson, Mr. Ng and Mr. Morrison are independent non-executive Directors.

Remuneration Committee

The Remuneration Committee meets regularly to consider remuneration issues and its principal responsibilities include formulating a remuneration policy and practices that facilitate the employment of top quality personnel, recommending to the Board the remuneration of the Members of the Board who are non-executive Directors, determining the remuneration packages of the Members of the Board who are executive Directors and other Members of the Executive Directorate, and reviewing and approving performance-based remuneration by reference to the Company's goals and objectives.

Under its Terms of Reference, the Remuneration Committee consists of at least three non-executive Directors, and the majority of them are independent non-executive Directors. The Members of the Committee are Mr. Edward Ho Sing-tin (chairman), Mr. T. Brian Stevenson, Mr. Vincent Cheng Hoi-chuen, Professor Chan Ka-keung, Ceajer and Mr. Alasdair George Morrison. Mr. Ho, Mr. Stevenson, Mr. Cheng and Mr. Morrison are independent non-executive Directors.

Nominations Committee

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of Chief Executive Officer, Finance Director (the "FD") and Chief Operating Officer (the "COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the Chief Executive Officer, or any other candidates (provided that the Chief Executive Officer shall have the right to first agree to such other candidates).

Under its Terms of Reference, the Nominations Committee consists of seven non-executive Directors and the majority of them are independent non-executive Directors. The Members of the Committee are Mr. Edward Ho Sing-tin (chairman), Dr. Raymond Ch'ien Kuo-fung, Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Ng Leung-sing, Professor Chan Ka-keung, Ceajer and the Secretary for Transport and Housing (Ms. Eva Cheng). Mr. Ho, Ms. Fang, Mr. Shek and Mr. Ng are independent non-executive Directors.

Corporate Responsibility Committee

The Corporate Responsibility Committee normally meets two times a year. The duties of the Committee are to recommend corporate responsibility policy to the Board for approval, monitor and oversee the implementation of the Company's corporate responsibility policy and initiatives, identify emerging corporate responsibility issues arising from external trends, review annual Sustainability Report and recommend endorsement by the Board, and provide updates to the Board as required.

Under its Terms of Reference, the Corporate Responsibility Committee consists of at least three non-executive Directors, two of whom are independent non-executive Directors, and two Members of the Executive Directorate. The Members of the Committee are Dr. Raymond Ch'ien Kuo-fung (Chairman), Secretary for Transport and Housing (Ms. Eva Cheng), Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Vincent Cheng Hoi-chuen, Mr. Leonard Bryan Turk (Legal Director & Secretary) and Mr. Thomas Ho Hang-kwong (Property Director). Ms. Fang, Mr. Shek and Mr. Cheng are independent non-executive Directors.

Changes in Information of Directors

Pursuant to the requirements of Rule 13.51B(1) of the Listing Rules, Mr. Chow Chung-kong is a Steward of The Hong Kong Jockey Club since 4 March 2011. Mr. Vicent Cheng Hoi-chuen is an independent non-executive director of Hui Xian Asset Management Limited and CLP Holdings Limited since 4 April 2011 and 17 August 2011 respectively, and the Adviser to the Group Chief Executive of HSBC Holdings plc since 28 June 2011. Ms. Christine Fang Meng-sang is a member of the Hong Kong Housing Authority since 1 April 2011. Mr. Chew Tai Chong was elected a fellow of the Royal Academy of Engineering on 11 July 2011.

Mr. Vincent Cheng Hoi-chuen ceased as the chairman of HSBC Bank (China) Company Limited and HSBC Bank (Taiwan) Limited, and an executive director of HSBC Holdings plc., all effective from 28 May 2011. Ms. Christine Fang Meng-sang ceased as a member of the Sustainable Development Council effective from 1 March 2011. Mr. Alasdair George Morrison ceased as a member of the Operations Review Committee of the Independent Commission Against Corruption effective from 1 January 2011. Mr. Lincoln Leong Kwok-kuen ceased as a non-official member of the Family Council effective from 1 April 2011.

Internal Controls

The Board is responsible for the system of internal controls of the Company and its subsidiaries, setting appropriate policies and reviewing the effectiveness of such controls. Internal control is defined as a process effected by the Board, Management and other personnel, designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, and not absolute assurance of the following:

- effectiveness and efficiency of operations
- reliability of financial reporting
- compliance with applicable laws and regulations
- effectiveness of risk management functions

Pursuant to the Protocol adopted by the Board, the Board has delegated the day-to-day management of the Company's business to the Executive Committee, and focuses its attention on matters affecting the Company's overall strategic policies, finances and shareholders.

Supported by the Members of the Executive Committee, the Chief Executive Officer who chairs the Executive Committee is responsible to the Board for the conduct of the business of the Company. With the assistance of a number of committees in the day-to-day management and control of the various core businesses and functions of the Company and its subsidiaries, the Executive Committee is responsible for implementing the Board's policies on risk and control. In fulfilling its responsibilities, the Executive Committee identifies and evaluates the risks faced by the Company for consideration by the Board, and designs, operates and monitors a suitable system of internal controls which implements the policies adopted by the Board. The Executive Committee is accountable to the Board for monitoring the system of internal controls and providing assurance to the Board that it has done so. Additionally, all employees have responsibility for internal controls within their areas of accountability.

Various risk management strategies have been established by the Board as advised by the Executive Committee to identify, assess and reduce risks, including construction, business operations, finance, treasury, safety and enterprise risks as well as to ensure appropriate insurance coverage.

Risk Assessment and Management

The Company has established an Enterprise Risk Management ("ERM") framework for the strategic management of business risks to ensure continued and long term success of the Company. The framework covers all key business areas of the Company and provides a useful forum for communicating risk issues at different levels of the organization and thereby improves awareness and understanding of risk. The framework has been in operation since early 2006 and its application has been subject to continuous improvement through internal and external reviews. Structured cross-discipline processes and organizations are in place at corporate and divisional levels for risk identification, assessment, mitigation and monitoring. A standard risk rating system is employed across the Company to prioritise risks for mitigation, effective monitoring and reporting to the Executive Committee and the Board.

The operation of the ERM framework, which is overseen by the Enterprise Risk Committee (the "ERC"), is underpinned by line management taking direct risk management responsibilities as risk owners. Changes to existing and emerging risks are regularly reviewed by line management. The ERC reviews the operation of the ERM framework and key business risks every three months. The risk reviews cover the changes in business environments, the key internal and external risks facing the Company, and the risk perspectives of the Executive Committee, business managers and outside stakeholders. The ERC promotes a proactive risk culture by learning from risk events and failures.

Risk assessment is now part of the Company's everyday management processes. Risks associated with major changes and new businesses such as local and overseas railway construction, investment and consultancy projects are assessed at key stages and project milestones to support decision making and forward planning. The Enterprise Risk Management Department plays a central role in facilitating risk assessments and reviewing existing and emerging business risks facing the Company.

The Executive Committee reviews key enterprise risks half-yearly and the Board annually to ensure that such risks are under satisfactory control. The Executive Committee and the Board also offer direction in relation to the management of risks which are considered to be strategic in nature.

The Audit Committee also reviews annually the implementation of the ERM framework and the organization and processes that have been put in place to support it.

Control Activities and Processes

The Internal Audit Department plays a major role, independent of the Company's management, in assessing and monitoring the internal controls of the Company. The Head of Internal Audit reports to the Chief Executive Officer and has direct access to the Audit Committee. The Department has unrestricted access to information that allows it to review all aspects of the Company's risk management, control and governance processes.

On behalf of the Board, the Audit Committee evaluates the effectiveness of the Company's system of internal controls, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations and effectiveness of risk management functions.

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee its financial reporting and other accounting-related issues. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and Hong Kong Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment process and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance & Business Development Director who will conduct a formalized annual review and report to the Audit Committee for the review results. Confirmation of the process is also monitored by the Internal Audit Department. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate for the year ended 31 December 2010.

The Board has, through the Audit Committee, conducted the review of the effectiveness of the Company's system of internal controls for the year ended 31 December 2010, covering all material financial, operational and compliance controls, and risk management function, and concluded that adequate and effective internal controls were maintained to safeguard the shareholders' investment and the Company's assets. There were no significant control failings, weaknesses or significant areas of concern identified during the year 2010 which might affect shareholders.

Crisis Management Committee

To uphold the reputation of being one of the best companies in Hong Kong and in order to help ensure that the Company will respond to and recover from crises in an organised and effective manner, including timely communications with principal stakeholders such as shareholders, the Company established a Crisis Management Committee in 1995. The Committee comprises relevant Members of the Executive Directorate and Executive Managers, and its operation is governed by a Crisis Management Manual. The Committee conducts regular exercises to validate the crisis management organisation and arrangements and to provide practices for members.

Continuous Disclosure Obligations regarding Price Sensitive Information

The Company has developed a system with established policies, processes and procedures across all relevant Division(s) and Department(s) for complying with the disclosure obligations regarding price sensitive information. The system continues to be effective. Efforts to further enhance the system in the light of the business operation and development of the Company will continue.

Governance of Subsidiaries and Affiliate Companies

The Company has a number of subsidiaries and affiliate companies which operate independent businesses in Hong Kong, the Mainland of China and overseas. Notwithstanding these subsidiaries and affiliate companies are separate legal entities, the Company has implemented a management governance structure (the "Governance Structure") to ensure that it exercises an appropriate level of control and oversight as a shareholder of these subsidiaries and affiliate companies.

Pursuant to the Governance Structure, the Company exercises its control and oversight in a number of forms: imposition of internal controls, requirements for consent or consultation, reporting requirements and assurance. The management of each subsidiary or affiliate company is responsible for the adoption of management practices and policies that are appropriate to the business nature and local situation, taking into account the management governance requirements of the Company, and developing a corporate governance manual for the entity which reflects both such management practices and policies as well as the management governance requirements for approval by the relevant board of directors. Ongoing compliance with the manuals is reported by all subsidiaries and affiliate companies on a regular basis.

The Executive Committee reviews the Governance Structure and compliance by the subsidiaries and affiliate companies with it on an annual basis.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2011, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

	Number of Ordinary Shares held			Derivatives: Share Options	Derivatives: Other		
Member of the Board or the Executive Directorate	Personal* interests	Family† interests	Corporate interests	Personal* interests	Personal* interests	Total interests	Percentage of aggregate interests to total issued share capital
Raymond Ch'ien Kuo-fung	52,330	–	–	–	–	52,330	0.00090
Chow Chung-kong	–	–	–	2,130,000 (Note 1)	222,161 (Note 2)	2,352,161	0.04067
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	5,153	–	–	–	–	5,153	0.00009
William Chan Fu-keung	126,106	–	–	680,000 (Note 1)	–	806,106	0.01394
Chew Tai Chong	–	–	–	425,000 (Note 1)	–	425,000	0.00735
Thomas Ho Hang-kwong	151,239	2,541	–	637,500 (Note 1)	–	791,280	0.01368
Jacob Kam Chak-pui	2,283	–	–	425,000 (Note 1)	–	427,283	0.00739
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	(i) 417,500 (Note 4) (ii) 680,000 (Note 1)	–	1,143,500	0.01977
Leonard Bryan Turk	–	–	–	637,500 (Note 1)	–	637,500	0.01102

Notes

1 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the 2007 Share Option Scheme.

2 Chow Chung-kong has a derivative interest in respect of 222,161 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Chow's entitlement to receive an equivalent value in cash of 222,161 shares in the Company on completion of his existing contract (on 31 December 2011).

3 The 23,000 shares are held by Linsan Investment Ltd., a private limited company beneficially wholly owned by Lincoln Leong Kwok-kuen.

4 Further details of the above share options are set out in the table below showing details of the options to subscribe for ordinary shares granted under the New Joiners Share Option Scheme.

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to subscribe for Ordinary Shares granted under the New Joiners Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2011	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	417,500	–	–	–	–	9.75	417,500	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	108,200	–	–	–	108,200	9.75	–	29.16
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	5/10/2006	94,000	29/9/2007 – 29/9/2016	94,000	–	–	–	–	19.732	94,000	–
	12/5/2006	266,500	25/4/2007 – 25/4/2016	266,500	–	–	–	266,500	20.66	–	28.77
	15/5/2006	213,000	25/4/2007 – 25/4/2016	22,000	–	–	–	–	20.66	22,000	–

Notes

1 The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

2 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2011	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Chow Chung-kong	13/12/2007	720,000	10/12/2008 – 10/12/2014	720,000	–	–	–	–	27.60	720,000	–
	9/12/2008	470,000	8/12/2009 – 8/12/2015	470,000	–	–	–	–	18.30	470,000	–
	9/12/2009	470,000	8/12/2010 – 8/12/2016	470,000	–	–	–	–	26.85	470,000	–
	17/12/2010	470,000	16/12/2011 – 16/12/2017	470,000	–	–	–	–	28.84	470,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	28,500	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme *(continued)*

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2011	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	11/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	14/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	127,500	16/12/2011 – 16/12/2017	127,500	–	–	–	–	28.84	127,500	–
Jacob Kam Chak-pui	13/12/2007	75,000	10/12/2008 – 10/12/2014	75,000	–	–	–	–	27.60	75,000	–
	8/12/2008	65,000	8/12/2009 – 8/12/2015	65,000	–	–	–	–	18.30	65,000	–
	14/12/2009	65,000	8/12/2010 – 8/12/2016	65,000	–	–	–	–	26.85	65,000	–
	21/7/2010	50,000	28/6/2011 – 28/6/2017	50,000	–	17,000	–	–	27.73	50,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	170,000	16/12/2011 – 16/12/2017	170,000	–	–	–	–	28.84	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
	17/12/2010	127,500	16/12/2011 – 16/12/2017	127,500	–	–	–	–	28.84	127,500	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	2,220,000	10/12/2008 – 10/12/2014	1,778,000	–	–	–	65,000	27.60	1,713,000	28.15
	13/12/2007	840,000	10/12/2008 – 10/12/2014	840,000	–	–	–	–	27.60	840,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	872,000	–	–	–	–	27.60	872,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	343,000	–	–	–	40,000	27.60	303,000	29.20
	17/12/2007	835,000	10/12/2008 – 10/12/2014	751,000	–	–	–	–	27.60	751,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	288,000	–	–	–	–	27.60	288,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	80,000	–	–	–	–	27.60	80,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	15,000	–	–	–	–	27.60	15,000	–
	22/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	24/12/2007	118,000	10/12/2008 – 10/12/2014	118,000	–	–	–	–	27.60	118,000	–
	28/12/2007	35,000	10/12/2008 – 10/12/2014	35,000	–	–	–	–	27.60	35,000	–
	31/12/2007	130,000	10/12/2008 – 10/12/2014	130,000	–	–	–	–	27.60	130,000	–
	2/1/2008	75,000	10/12/2008 – 10/12/2014	48,000	–	–	–	–	27.60	48,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	–	27.60	40,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	125,000	–	–	–	30,000	27.60	95,000	28.90
	28/3/2008	255,000	26/3/2009 – 26/3/2015	204,000	–	75,000	5,000	–	26.52	199,000	–
	31/3/2008	379,000	26/3/2009 – 26/3/2015	349,000	–	117,000	–	6,000	26.52	343,000	28.95
	1/4/2008	261,000	26/3/2009 – 26/3/2015	249,000	–	79,000	–	–	26.52	249,000	–
	2/4/2008	296,000	26/3/2009 – 26/3/2015	276,000	–	84,000	–	–	26.52	276,000	–
	3/4/2008	171,000	26/3/2009 – 26/3/2015	159,000	–	52,000	–	19,000	26.52	140,000	28.50
	4/4/2008	23,000	26/3/2009 – 26/3/2015	23,000	–	7,000	–	–	26.52	23,000	–
	5/4/2008	17,000	26/3/2009 – 26/3/2015	17,000	–	5,000	–	–	26.52	17,000	–
	7/4/2008	390,000	26/3/2009 – 26/3/2015	342,000	–	110,000	12,000	–	26.52	330,000	–
	8/4/2008	174,000	26/3/2009 – 26/3/2015	116,000	–	40,000	–	6,000	26.52	110,000	29.35
	9/4/2008	85,000	26/3/2009 – 26/3/2015	85,000	–	26,000	–	–	26.52	85,000	–
	10/4/2008	58,000	26/3/2009 – 26/3/2015	58,000	–	18,000	–	–	26.52	58,000	–
	11/4/2008	134,000	26/3/2009 – 26/3/2015	117,000	–	36,000	–	–	26.52	117,000	–
	12/4/2008	48,000	26/3/2009 – 26/3/2015	48,000	–	15,000	–	–	26.52	48,000	–
	14/4/2008	40,000	26/3/2009 – 26/3/2015	40,000	–	12,000	–	–	26.52	40,000	–
	15/4/2008	34,000	26/3/2009 – 26/3/2015	34,000	–	10,000	–	–	26.52	34,000	–
	16/4/2008	57,000	26/3/2009 – 26/3/2015	40,000	–	12,000	–	–	26.52	40,000	–
	17/4/2008	147,000	26/3/2009 – 26/3/2015	124,000	–	38,000	–	–	26.52	124,000	–
	18/4/2008	32,000	26/3/2009 – 26/3/2015	15,000	–	5,000	–	–	26.52	15,000	–
	19/4/2008	25,000	26/3/2009 – 26/3/2015	25,000	–	8,000	–	–	26.52	25,000	–
	21/4/2008	66,000	26/3/2009 – 26/3/2015	66,000	–	20,000	–	–	26.52	66,000	–
	23/4/2008	34,000	26/3/2009 – 26/3/2015	19,000	–	6,000	–	–	26.52	19,000	–

Options to subscribe for Ordinary Shares granted under the 2007 Share Option Scheme *(continued)*

Executive Directorate and eligible employees	Date granted	No. of options granted	Period during which rights exercisable (day/month/year)	Options outstanding as at 1 January 2011	Options granted during the period	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2011	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	8/12/2008	90,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	9/12/2008	483,000	8/12/2009 – 8/12/2015	453,000	–	–	21,000	49,000	18.30	383,000	27.99
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	2,040,900	–	–	–	47,000	18.30	1,993,900	28.77
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	2,121,200	–	23,500	14,000	108,500	18.30	1,998,700	27.19
	12/12/2008	1,481,500	8/12/2009 – 8/12/2015	1,292,000	–	–	–	–	18.30	1,292,000	–
	13/12/2008	84,500	8/12/2009 – 8/12/2015	84,500	–	–	–	6,500	18.30	78,000	28.95
	14/12/2008	88,200	8/12/2009 – 8/12/2015	79,700	–	–	–	8,500	18.30	71,200	29.05
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	930,200	–	–	–	42,000	18.30	888,200	29.08
	16/12/2008	581,500	8/12/2009 – 8/12/2015	487,500	–	–	14,500	15,000	18.30	458,000	28.81
	17/12/2008	513,500	8/12/2009 – 8/12/2015	485,500	–	–	–	6,500	18.30	479,000	28.05
	18/12/2008	611,500	8/12/2009 – 8/12/2015	483,000	–	–	–	6,500	18.30	476,500	28.60
	19/12/2008	198,000	8/12/2009 – 8/12/2015	198,000	–	–	–	–	18.30	198,000	–
	20/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	22/12/2008	772,500	8/12/2009 – 8/12/2015	689,500	–	–	–	13,500	18.30	676,000	29.43
	23/12/2008	306,000	8/12/2009 – 8/12/2015	246,500	–	–	6,000	22,500	18.30	218,000	28.88
	24/12/2008	500,500	8/12/2009 – 8/12/2015	455,500	–	–	–	73,000	18.30	382,500	29.23
	25/12/2008	45,000	8/12/2009 – 8/12/2015	45,000	–	–	–	–	18.30	45,000	–
	29/12/2008	148,000	8/12/2009 – 8/12/2015	133,000	–	–	–	–	18.30	133,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	18/6/2009	170,000	12/6/2010 – 12/6/2016	90,000	–	30,000	–	–	24.50	90,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	30,000	–	15,000	–	–	24.50	30,000	–
	9/12/2009	200,000	8/12/2010 – 8/12/2016	115,000	–	–	–	–	26.85	115,000	–
	10/12/2009	2,171,000	8/12/2010 – 8/12/2016	2,074,000	–	–	13,000	–	26.85	2,061,000	–
	11/12/2009	2,362,000	8/12/2010 – 8/12/2016	2,322,000	–	–	–	–	26.85	2,322,000	–
	12/12/2009	610,000	8/12/2010 – 8/12/2016	610,000	–	–	–	–	26.85	610,000	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	12,500	–	–	–	–	26.85	12,500	–
	14/12/2009	2,273,000	8/12/2010 – 8/12/2016	2,209,000	–	–	–	–	26.85	2,209,000	–
	15/12/2009	2,838,000	8/12/2010 – 8/12/2016	2,804,000	–	22,000	80,500	45,500	26.85	2,678,000	28.24
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,491,000	–	–	55,000	22,000	26.85	1,414,000	29.20
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	975,000	–	–	–	–	26.85	975,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	380,500	–	–	–	–	26.85	380,500	–
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	520,000	–	–	12,500	6,500	26.85	501,000	29.85
	22/12/2009	256,000	8/12/2010 – 8/12/2016	237,000	–	–	–	–	26.85	237,000	–
	21/7/2010	305,000	28/6/2011 – 28/6/2017	305,000	–	94,000	25,000	–	27.73	280,000	–
	16/12/2010	194,000	16/12/2011 – 16/12/2017	194,000	–	–	–	–	28.84	194,000	–
	17/12/2010	4,062,000	16/12/2011 – 16/12/2017	4,062,000	–	–	85,000	–	28.84	3,977,000	–
	18/12/2010	673,000	16/12/2011 – 16/12/2017	673,000	–	–	–	–	28.84	673,000	–
	19/12/2010	174,000	16/12/2011 – 16/12/2017	174,000	–	–	–	–	28.84	174,000	–
	20/12/2010	4,854,500	16/12/2011 – 16/12/2017	4,854,500	–	5,500	30,000	–	28.84	4,824,500	–
	21/12/2010	3,020,000	16/12/2011 – 16/12/2017	3,020,000	–	–	–	–	28.84	3,020,000	–
	22/12/2010	975,000	16/12/2011 – 16/12/2017	975,000	–	–	–	–	28.84	975,000	–
	23/12/2010	189,000	16/12/2011 – 16/12/2017	189,000	–	–	–	–	28.84	189,000	–

Notes

1 The exercise price of the share options is determined upon the offer of grant of the options and which should not be less than the greatest of (a) the average closing price per share of the Company for the five business days immediately preceding the date of offer of such options; (b) the closing price per share of the Company on the date of offer of such options, which must be a business day; and (c) the nominal value per share of the Company.

2 The proportion of underlying shares in respect of which the above share options will vest is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before the first anniversary of the date of offer of the option (the "Offer Anniversary")	none
From the first Offer Anniversary to the date immediately before the second Offer Anniversary	one-third
From the second Offer Anniversary to the date immediately before the third Offer Anniversary	two-thirds
From the third Offer Anniversary and thereafter	all

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 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 2011.

Save as disclosed above:

A none of the Members of the Board or the Executive Directorate of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO); and

B during the six months ended 30 June 2011, no Member of the Board or the Executive Directorate nor any of their spouses or children under 18 years of age held any rights to subscribe for equity or debt securities of the Company nor had there been any exercises of any such rights by any of them,

as recorded in the register kept by the Company under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Substantial Shareholders' Interests

Set out below is the name of the party which was interested in 5% or more of the nominal value of the share capital of the Company and the number of shares in which it was interested as at 30 June 2011 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.67

The Company has been informed by the Government that, as at 30 June 2011, approximately 0.48% of the shares of the Company were held for the account of the Exchange Fund. The Exchange Fund is a fund established under the Exchange Fund Ordinance (Cap. 66 of the Laws of Hong Kong) under the control of the Financial Secretary.

Loan Agreements with Covenant Relating to Specific Performance of the Controlling Shareholder

As at 30 June 2011, the Group had borrowings of HK$19,014 million with maturities ranging from 2011 to 2020 and available uncommitted banking and other facilities of HK$11,027 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of the borrowings may be demanded and cancellation of the undrawn facilities may result.

Purchase, Sale or Redemption of Own Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2011.

Closure of Register of Members

The closure of the Register of Members of the Company is from 26 August 2011 to 1 September 2011 (both dates inclusive). During that period, no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 25 August 2011. The 2011 interim dividend is expected to be paid on or about 19 September 2011 to shareholders whose names appear on the Register of Members of the Company on 1 September 2011.

Consolidated Profit and Loss Account

in HK$ million	Note	**Half year ended 30 June 2011 (Unaudited)**	Half year ended 30 June 2010 (Unaudited)
Hong Kong fare revenue		**6,392**	5,933
Station commercial and rail related revenue		**1,930**	1,732
Rental, management and other revenue		**1,676**	1,585
Revenue from railway subsidiaries outside of Hong Kong	3	**6,171**	4,852
Other net income	4	**–**	–
		16,169	14,102
Expenses relating to Hong Kong fare revenue			
– Staff costs and related expenses		**(1,648)**	(1,583)
– Energy and utilities		**(513)**	(498)
– Operational rent and rates		**(101)**	(91)
– Stores and spares consumed		**(221)**	(184)
– Maintenance and related works		**(461)**	(423)
– Railway support services		**(71)**	(67)
– General and administration expenses		**(165)**	(146)
– Other expenses		**(87)**	(93)
		(3,267)	(3,085)
Expenses relating to station commercial and rail related businesses		**(500)**	(442)
Expenses relating to property ownership, management and other businesses		**(425)**	(372)
Expenses relating to railway subsidiaries outside of Hong Kong	3	**(5,925)**	(4,645)
Project study and business development expenses		**(51)**	(67)
Operating expenses before depreciation, amortisation and variable annual payment arising from the Rail Merger		**(10,168)**	(8,611)
Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment arising from the Rail Merger		**6,001**	5,491
Profit on property developments	5	**1,445**	3,705
Operating profit before depreciation, amortisation and variable annual payment arising from the Rail Merger		**7,446**	9,196
Depreciation and amortisation		**(1,611)**	(1,537)
Variable annual payment arising from the Rail Merger		**(301)**	–
Operating profit before interest and finance charges		**5,534**	7,659
Interest and finance charges		**(459)**	(656)
Change in fair value of investment properties		**4,408**	1,101
Share of profits of non-controlled subsidiaries and associates	6	**155**	82
Profit before taxation		**9,638**	8,186
Income tax	7	**(1,502)**	(1,482)
Profit for the period		**8,136**	6,704
Attributable to:			
– Equity shareholders of the Company		**8,050**	6,639
– Non-controlling interests		**86**	65
Profit for the period		**8,136**	6,704
Earnings per share:	9		
– Basic		**HK$1.39**	HK$1.16
– Diluted		**HK$1.39**	HK$1.16

The notes on pages 33 to 48 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 8.

Consolidated Statement of Comprehensive Income

in HK$ million	Note	**Half year ended 30 June 2011 (Unaudited)**	Half year ended 30 June 2010 (Unaudited)
Profit for the period		**8,136**	6,704
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**94**	(16)
– non-controlling interests		**10**	1
		104	(15)
Cash flow hedges: net movement in hedging reserve	11	**4**	(71)
Self-occupied land and buildings: net movement in fixed assets revaluation reserve	11	**411**	103
		519	17
Total comprehensive income for the period		**8,655**	6,721
Attributable to:			
– Equity shareholders of the Company		**8,559**	6,655
– Non-controlling interests		**96**	66
Total comprehensive income for the period		**8,655**	6,721

The notes on pages 33 to 48 form part of this interim financial report.

Consolidated Balance Sheet

in HK$ million	Note	**At 30 June 2011 (Unaudited)**	At 31 December 2010 (Audited)
Assets			
Fixed assets			
– Investment properties	12	**50,585**	45,314
– Other property, plant and equipment	13	**77,068**	77,276
– Service concession assets	14	**24,301**	21,467
		151,954	144,057
Property management rights		**31**	31
Railway construction in progress	15	**2,075**	–
Property development in progress	16	**9,121**	9,128
Deferred expenditure	17	**14**	1,079
Interests in non-controlled subsidiaries		**558**	541
Interests in associates		**914**	836
Deferred tax assets	27	**5**	9
Investments in securities	18	**3,960**	3,912
Staff housing loans		**4**	4
Properties held for sale	19	**1,323**	1,936
Derivative financial assets	20	**375**	375
Stores and spares		**1,090**	1,061
Debtors, deposits and payments in advance	21	**3,450**	3,057
Loan to a property developer	22	**–**	1,975
Amounts due from the Government and other related parties	23	**1,000**	330
Cash, bank balances and deposits		**16,453**	13,334
		192,327	181,665
Liabilities			
Bank overdrafts		**7**	16
Short-term loans		**100**	300
Creditors and accrued charges	24	**16,864**	15,491
Current taxation		**1,341**	1,018
Contract retentions		**451**	404
Amounts due to the Government and other related parties	23	**1,487**	892
Loans and other obligations	25	**22,521**	20,741
Obligations under service concession	26	**10,733**	10,749
Derivative financial liabilities	20	**141**	148
Loan from holders of non-controlling interests		**163**	154
Deferred income		**119**	605
Deferred tax liabilities	27	**14,764**	13,854
		68,691	64,372
Net assets		**123,636**	117,293
Capital and reserves			
Share capital, share premium and capital reserve	28	**44,046**	43,734
Other reserves	29	**79,409**	73,416
Total equity attributable to equity shareholders of the Company		**123,455**	117,150
Non-controlling interests		**181**	143
Total equity		**123,636**	117,293

The notes on pages 33 to 48 form part of this interim financial report.

Consolidated Statement of Changes in Equity

in HK$ million	Note	Share capital, share premium and capital reserve	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
30 June 2011 (unaudited)										
Balance as at 1 January 2011		**43,734**	**1,417**	**(78)**	**102**	**194**	**71,781**	**117,150**	**143**	**117,293**
Changes in equity for the half year ended 30 June 2011:										
– Profit for the period		**–**	**–**	**–**	**–**	**–**	**8,050**	**8,050**	**86**	**8,136**
– Other comprehensive income for the period		**–**	**411**	**4**	**–**	**94**	**–**	**509**	**10**	**519**
– Total comprehensive income for the period		**–**	**411**	**4**	**–**	**94**	**8,050**	**8,559**	**96**	**8,655**
– 2010 final dividend	8, 28	**288**	**–**	**–**	**–**	**–**	**(2,598)**	**(2,310)**	**–**	**(2,310)**
– Dividend paid/payable to holders of non-controlling interests		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(58)**	**(58)**
– Employee share-based payments		**–**	**–**	**–**	**36**	**–**	**–**	**36**	**–**	**36**
– Employee share options exercised	28	**24**	**–**	**–**	**(4)**	**–**	**–**	**20**	**–**	**20**
Balance as at 30 June 2011		**44,046**	**1,828**	**(74)**	**134**	**288**	**77,233**	**123,455**	**181**	**123,636**
31 December 2010 (audited)										
Balance as at 1 January 2010		42,497	1,132	(52)	52	53	62,705	106,387	66	106,453
Changes in equity for the half year ended 30 June 2010:										
– Profit for the period		–	–	–	–	–	6,639	6,639	65	6,704
– Other comprehensive income for the period		–	103	(71)	–	(16)	–	16	1	17
– Total comprehensive income for the period		–	103	(71)	–	(16)	6,639	6,655	66	6,721
– 2009 final dividend	8	1,087	–	–	–	–	(2,177)	(1,090)	–	(1,090)
– Employee share-based payments		–	–	–	28	–	–	28	–	28
– Employee share options exercised	28	28	–	–	(2)	–	–	26	–	26
Balance as at 30 June 2010		43,612	1,235	(123)	78	37	67,167	112,006	132	112,138
Changes in equity for the half year ended 31 December 2010:										
– Profit for the period		–	–	–	–	–	5,420	5,420	48	5,468
– Other comprehensive income for the period		–	182	45	–	157	–	384	15	399
– Total comprehensive income for the period		–	182	45	–	157	5,420	5,804	63	5,867
– 2010 interim dividend	8	81	–	–	–	–	(807)	(726)	–	(726)
– Dividend paid to holders of non-controlling interests		–	–	–	–	–	–	–	(52)	(52)
– Employee share-based payments		–	–	–	29	–	–	29	–	29
– Employee share options exercised		41	–	–	(4)	–	–	37	–	37
– Employee share options lapsed		–	–	–	(1)	–	1	–	–	–
Balance as at 31 December 2010		43,734	1,417	(78)	102	194	71,781	117,150	143	117,293

The notes on pages 33 to 48 form part of this interim financial report.

Consolidated Cash Flow Statement

in HK$ million	**Half year ended 30 June 2011 (Unaudited)**	Half year ended 30 June 2010 (Unaudited)
Cash flows from operating activities		
Operating profit from railway and related businesses before depreciation, amortisation and variable annual payment arising from the Rail Merger	**6,001**	5,491
Adjustments for:		
Decrease in provision for obsolete stock	**–**	(1)
Loss on disposal of fixed assets	**11**	10
Amortisation of deferred income from transfers of assets from customers	**(3)**	(3)
(Increase)/decrease in fair value of derivative instruments	**(5)**	9
Unrealised gain on revaluation of investment in securities	**(5)**	–
Employee share-based payment expenses	**37**	31
Exchange loss/(gain)	**2**	(16)
Operating profit from railway and related businesses before working capital changes	**6,038**	5,521
Increase in debtors, deposits and payments in advance	**(319)**	(351)
Increase in stores and spares	**(21)**	(46)
Increase in creditors and accrued charges	**476**	810
Cash generated from operations	**6,174**	5,934
Current tax paid		
Hong Kong Profits Tax paid	**(284)**	(330)
Overseas tax paid	**(70)**	(4)
Net cash generated from operating activities	**5,820**	5,600
Cash flows from investing activities		
Capital expenditure		
– Purchase of Hong Kong operational railway assets	**(1,153)**	(703)
– West Island Line Project	**(1,625)**	(1,466)
– South Island Line (East) Project	**(344)**	(176)
– Kwun Tong Line Extension Project	**(109)**	(84)
– Shenzhen Metro Longhua Line Project	**(645)**	(939)
– Property development projects	**(89)**	(4,138)
– Property renovation, fitting out works and other development projects	**(104)**	(109)
– Other capital projects	**(135)**	(132)
Net (payments)/receipts in respect of entrustment works of Shatin to Central Link and Express Rail Link	**(439)**	75
Variable annual payment arising from the Rail Merger	**(45)**	–
Receipts in respect of property development	**1,018**	2,097
Receipt of repayment relating to loan to a property developer	**2,000**	–
Receipt of Government grant for West Island Line Project	**–**	12,252
Increase in bank deposits with more than three months to maturity when placed	**(2,378)**	(7,406)
Purchase of investments in securities	**(91)**	(3,346)
Proceeds from sale of investments in securities	**48**	92
Proceeds from disposal of fixed assets	**3**	3
Settlement of repayment relating to loan from an associate	**(12)**	–
Dividend received from non-controlled subsidiaries	**63**	75
Principal repayments under Staff Housing Loan Scheme	**–**	2
Net cash used in investing activities	**(4,037)**	(3,903)
Cash flows from financing activities		
Proceeds from shares issued under share option schemes	**20**	26
Drawdown of loans	**731**	1,376
Proceeds from issuance of capital market instruments	**1,206**	–
Repayment of loans	**(417)**	(4,900)
Repayment of capital market instruments	**–**	(950)
Interest paid	**(320)**	(456)
Interest received	**78**	45
Finance charges paid	**(6)**	(11)
Dividends paid to equity shareholders of the Company	**(2,308)**	(1,089)
Dividends paid to holders of non-controlling interests	**(17)**	–
Net cash used in financing activities	**(1,033)**	(5,959)
Net increase/(decrease) in cash and cash equivalents	**750**	(4,262)
Cash and cash equivalents at 1 January	**3,708**	7,094
Cash and cash equivalents at 30 June	**4,458**	2,832
Analysis of the balances of cash and cash equivalents		
Cash, bank balances and deposits on the consolidated balance sheet	**16,453**	10,287
Bank deposits with more than three months to maturity when placed	**(11,988)**	(7,406)
Bank overdrafts	**(7)**	(49)
Cash and cash equivalents in the consolidated cash flow statement	**4,458**	2,832

The notes on pages 33 to 48 form part of this interim financial report.

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		Half year ended 30 June 2010	
	Principal amount	Net consideration received	Principal amount	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:

in HK$ million	Deferred tax arising from					
	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
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.

Review Report to the Board of Directors of MTR Corporation Limited

(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 28 to 48 which comprises the consolidated balance sheet of MTR Corporation Limited as of 30 June 2011 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review 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. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2011 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
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11 August 2011

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