Building on Strength

Interim Report 2009

Vision

We aim to be a globally recognised leader that connects and grows communities with caring service.

Mission

- Enhance customers' quality of life and anticipate their needs.
- Actively engage in communities we serve.
- Foster a company culture that staff can learn, grow and take pride in.
- Provide sustainable returns to investors.
- Set ourselves new standards through innovation and continuous improvement.
- Grow in Hong Kong, Mainland of China and capture opportunities in Europe by extending our core competencies.

Values

- Excellent Service
- Value Creation
- Mutual Respect
- Enterprising Spirit

Highlights

Financial

- Financial results resilient despite economic downturn, with revenue increasing 1.2% to HK$8,630 million and EBITDA increasing marginally to HK$4,799 million
- Property development profit of HK$2,147 million
- Profit from underlying businesses (i.e. net profit attributable to equity shareholders, excluding investment property revaluation and related deferred tax) increased 43% to HK$3,903 million
- Net profit attributable to equity shareholders (including investment property revaluation) of HK$4,498 million
- Net debt/equity ratio improved to 37.0%
- Interim dividend maintained at HK$0.14 per share

Operational

- Merger synergies ahead of schedule and on track to achieve HK$450 million per year within 2009
- Patronage of Domestic Service increased 0.3%; Cross-boundary and Airport Express decreased 0.4% and 11.5% respectively
- About 85% of the 2,169 units of Lake Silver have been sold while all 1,688 units of Phase A of Le Prestige have been sold
- Project Agreement signed for West Island Line
- Concession Agreements signed for Shenzhen Metro Line 4 as well as Shenyang Metro Lines 1 and 2
- Won tender for the Stockholm Metro franchise
- Selected as Preferred Bidder for Melbourne Train franchise
- LOHAS Park Station in Tseung Kwan O opened on 26 July 2009
- Kowloon Southern Link to open on 16 August 2009

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Operating Network with Future Extensions

Legend
- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- Cable Car Ngong Ping 360
- Shenzhen Metro Network
- * Racing days only

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

Extensions under Study
- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- Kwun Tong Line Extension
- Shatin to Central Link
- South Island Line (East)
- West Island Line

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




Properties Owned / Developed / Managed by the Corporation

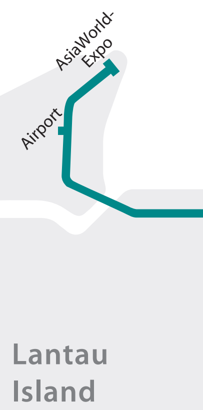
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Vicwood Plaza
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
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
35 The Palazzo

Property Developments under Construction / Planning

21 Kowloon Station Package 5, 6 & 7
23 Tseung Kwan O Station Area 56
34 LOHAS Park Package 2-10
36 Wu Kai Sha Station
37 Tai Wai Maintenance Centre
38 Che Kung Temple Station
39 Tai Wai Station
40 Tin Shui Wai Light Rail Terminus
41 Austin Station Site C
42 Austin Station Site D

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




Shenzhen
Lo Wu
Lok Ma Chau
Chau Tau
Sheung Shui
Fanling
Tai Wo
Tai Po Market
University
Racecourse*
Fo Tan
Sha Tin
New Territories
Yuen Long
Kam Sheung Road
Tsuen Wan West
Tsuen Wan
Tai Wo Hau
Kwai Hing
Kwai Fong
Lai King
Mei Foo
Lai Chi Kok
Cheung Sha Wan
Sham Shui Po
Prince Edward
Mong Kok
Yau Ma Tei
Jordan
Tsim Sha Tsui
Austin
Nam Cheong
Olympic
Kowloon
West Kowloon Terminus
Tsing Yi
Sunny Bay
Disneyland Resort
Tung Chung
Cable Car
Ngong Ping 360
Tai Wai
Hin Keng
Kowloon Tong
Lok Fu
Wong Tai Sin
Diamond Hill
Choi Hung
Kowloon Bay
Ngau Tau Kok
Kwun Tong
Lam Tin
Yau Tong
Tiu Keng Leng
Tseung Kwan O
Hang Hau
Po Lam
LOHAS Park
Heng On
Ma On Shan
Wu Kai Sha
Tai Shui Hang
Shek Mun
City One
Sha Tin Wai
Che Kung Temple
Shek Kip Mei
Kowloon
Mong Kok East
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin
Whampoa
Hung Hom
East Tsim Sha Tsui
Exhibition
Fortress Hill
North Point
Quarry Bay
Tai Koo
Sai Wan Ho
Shau Kei Wan
Heng Fa Chuen
Chai Wan
Tin Hau
Causeway Bay
Wan Chai
Admiralty
Central South
Central
Hong Kong
Tamar
Sheung Wan
Sai Ying Pun
Hong Kong University
Kennedy Town
Cyberport
Wah Fu
Aberdeen
Wong Chuk Hang
Ocean Park
Lei Tung
South Horizons
Hong Kong Island
Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR

Chairman's Letter

"Against a challenging economic background resulting from the global recession, we continued to deliver on our promises both in terms of steady financial performance as well as laying the foundations for future growth."

Dear Stakeholders,

I am pleased to report to you the interim results of MTR Corporation for the first six months of 2009.

Against a challenging economic background resulting from the global recession, we continued to deliver on our promises both in terms of steady financial performance as well as laying the foundations for future growth. Our recurrent businesses demonstrated their resilience in these tough economic times while our property business showed steady results. In future growth, our projects for extending the Hong Kong network and for expanding our operations in the Mainland of China and overseas made good progress.

Financial Results

We achieved satisfactory financial results for the half year, with revenue rising by 1.2% to HK$8,630 million. Excluding the change in fair value of investment properties and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 42.9% to HK$3,903 million mainly on the back of increased property development profits. Including investment property revaluation, our net profit attributable to equity shareholders was HK$4,498 million and earnings per share were HK$0.79. Your Board has declared an interim dividend of HK$0.14 per share.

Growth Strategy

Following various Government approvals, our growth strategy in Hong Kong takes another step forward. Our five strategic line extensions, namely the Shatin to Central Link, the Kwun Tong Line Extension to Whampoa, the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link to the Mainland of China, the South Island Line (East), and the West Island Line, made substantial progress during the period. In addition, the Kowloon Southern Link with the new Austin Station will open on 16 August 2009 while the LOHAS Park Station on the Tseung Kwan O Line opened on 26 July 2009.

Our Mainland of China and international businesses continued to progress, with Beijing Metro Line 4 targeted to open in the fourth quarter of 2009. Concession Agreements for the Shenzhen Metro Line 4 project and the Operations and Maintenance of Shenyang Metro Lines 1 and 2 were signed. We were also awarded the Stockholm Metro Concession in January and in June, our 60% owned subsidiary, Metro Trains Melbourne, was selected as the preferred bidder to operate Melbourne's metropolitan train network.

Sustainability and Corporate Responsibility

Sustainable development has become a priority for both governments and businesses around the world, especially in an era of climate change, increasingly interlinked economies and concerted global measures to develop clean technologies. We continue to deepen our commitment to fostering sustainable development and to contributing to the wellbeing of the communities that we serve.

As part of our corporate commitment to sustainable development, we established in 2008 the Corporate Responsibility Committee, a subcommittee of the Board, to integrate corporate responsibility practices into our overall business. The Committee held its first meeting in March 2009, with the Board approving the updated Corporate Responsibility Policy in May. Development of a management framework and initiatives in support of the policy's six tenets covering our customers, communities, staff, investors, business practices and the environment are being planned in an ongoing programme.

For energy reduction measures, we expanded the trial of environmentally friendly and energy-efficient High Brightness Light Emitting Diode (HB-LED) lights on board trains during the first half of the year. The new HB-LED system, consuming 30% less electricity and with improved reliability and lighting, was fitted in a Tsuen Wan Line train in February this year. The system will be tested for use in stations in August.

Several other initiatives on electricity management were undertaken during the period, such as temperature optimisation at stations, and optimisation of train speed and coasting. We also commenced discussions with the Clinton Climate Initiative for a project on energy efficiency to establish best practices for worldwide reference.

Our efforts to incorporate sustainable best practices into all our business decisions continued to attract international recognition. In March, we were again recognised as a Sustainability Leader within the global travel and tourism industry sector, winning a Bronze Class Award from Sustainable Asset Management. We also retained our listings on the internationally recognised Dow Jones Sustainability Indexes and FTSE4Good Index series. In April, we won the Silver Sectoral Award in the transport and logistics sector of the 2008 Hong Kong Awards for Environmental Excellence. In May, we were recognised for public disclosure of environmental, social and governance issues, ranking first among local companies and second among 50 listed companies in Asia in the league tables organised by Responsible Research.

In June, we published our eighth annual Sustainability Report 2008, *Engagement*, which focuses on stakeholder engagement as our business driver to ensure ongoing organisational development after the Rail Merger. A highlight of the report is "Bridging Generations" - a timeline showing how MTR Corporation has grown sustainably with Hong Kong over the last 40 years.

Providing a hygienic travelling environment to our passengers is of paramount importance to us. In the first part of the year, and in particular after the HKSAR Government raised the Influenza Pandemic Response level to "Emergency" in early May, we took decisive and timely measures to protect passengers against human swine influenza transmission. We enhanced the hygienic environment for passengers in all trains and stations and we educated staff and the general public on the potential dangers of contagion and on personal hygiene etiquette.

Community Initiatives

We continue to encourage our colleagues to take part in community service. During the first six months of the year, there were 69 volunteering community service projects under our "More Time Reaching Community" scheme involving around 1,000 volunteers. Seven of these activities were in support of Employee Volunteer Week, the Hong Kong campaign for promoting employee volunteering organised by Community Business. In April, the fifth MTR HONG KONG Race Walking event was held in Central and over HK$1 million was raised for the Hospital Authority Health InfoWorld to promote healthy living.

In a further initiative, we announced a new Half Fare Promotion Scheme for both the recipients under the Comprehensive Social Security Assistance Scheme aged between 12 and 64 with 100% disability, and the recipients of Disability Allowance in the same age group, to be implemented after the amendments to the Disability Discrimination Ordinance are passed. Our fare concessions for the elderly, children and students continued and we launched a major customer service campaign to promote the caring image of the Company.

Conclusion

The second half of the year will continue to be challenging for the local economy. The problems in the financial systems of the USA and Europe, and the dramatic fall in trade that has affected leading economic powers such as the USA and to some extent China, will take a considerable time to work their way through the global economy. There is no doubt that Hong Kong will continue to be affected by these negative factors, as well as by the ongoing human swine influenza pandemic.

However, despite these negative factors, our businesses remain robust and with the soundness of our Board governance, the excellence of our management and staff, the loyalty of our customers and the trust of our shareholders, I believe the Company will not only successfully weather this economic storm but will continue to prosper. As we build on our strong foundations in these challenging times, I would like to thank my fellow directors, our staff and all our stakeholders for their continued support. I would also like to welcome Mr Vincent Cheng Hoi-chuen who joined the Board in July 2009 as an independent non-executive Director of the Company.

Raymond K. F. Ch'ien

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 11 August 2009

CEO's Review of Operations and Outlook

"The Company's results for the first half of 2009 reflected the steady performance of our recurrent businesses as well as good results from property development."

Dear Stakeholders,

I am pleased to report MTR Corporation's results for the first six months of 2009. Despite the global recession and its negative impact on the Hong Kong economy, our recurrent businesses, comprising rail, station commercial and rail related businesses along with property rental and management, registered solid performance while our property development business remained resilient. The first half of 2009 also saw continued achievement of the Rail Merger synergies as well as accelerated momentum in our drive to grow our businesses both in Hong Kong and overseas.

In Hong Kong, we entered into a Project Agreement with the Hong Kong SAR Government on 13 July 2009 thus allowing for construction of West Island Line (WIL) to commence. Further progress was made on the design of the South Island Line (East) (SIL(E)) and Kwun Tong Line Extension (KTE), both of which will be invested, constructed and operated by the Company. Good progress was also made in the design of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) and the domestic Shatin to Central Link (SCL); these two lines will be funded by the Government. The new LOHAS Park Station on the Tseung Kwan O Line was opened for service on 26 July 2009 and operation of the Kowloon Southern Link with the new Austin Station will commence on 16 August 2009.

In the Mainland of China, we entered into the Concession Agreement for the Shenzhen Metro Line 4 project on 18 March 2009 as well as the Concession Agreement relating to the Operations and Maintenance of Shenyang Metro Lines 1 and 2 on 7 May 2009.

Internationally, in Stockholm, our wholly owned subsidiary was awarded an eight-year franchise in January to operate the Stockholm Metro starting from 2 November 2009, and in Melbourne, Metro Trains Melbourne (MTM), our 60% owned subsidiary, was chosen in June as the preferred bidder to operate the Melbourne metropolitan train network.

The Company's results for the first half of 2009 reflected the steady performance of our recurrent businesses as well as good results from property development. Under a recessionary environment, revenue increased by 1.2% to HK$8,630 million while operating profit from railway and related businesses before depreciation and amortisation increased marginally to HK$4,799 million. Property development profits were HK$2,147 million compared to HK$348 million in the same period of 2008 mainly due to the recognition of final profit split with the developer on The Harbourside at Kowloon Station as well as further recognition of profits from The Palazzo and The Capitol, arising from receipts of final stage payments on units previously sold. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 42.9% to HK$3,903 million. Change in fair value of investment properties was HK$712 million pre-tax (HK$595 million post-tax) compared with a much more significant property revaluation surplus of HK$2,080 million pre-tax in the first half of 2008. Therefore, net profit attributable to equity shareholders was HK$4,498 million, a decrease of 4.1% from the corresponding period in 2008, with reported earnings per share decreasing by 4.8% to HK$0.79. Your Board has declared an interim dividend of HK$0.14 per share.

Hong Kong Railway Operations

"Our overall share of the franchised public transport market rose to 42.0% in the first five months of 2009 . . ."

Patronage

For the first half of 2009, total patronage for all of our rail and bus passenger services (Integrated MTR System) increased by 0.7% to 726.4 million as compared to that of the same period last year.

Our Domestic Service, comprising 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, recorded total patronage of 586.7 million. This represents an increase of 0.3% when compared with patronage in the first half of 2008. However, beginning in May, we saw a reduction in patronage due to human swine influenza and the subsequent early closure of some schools. Average weekday patronage for the Domestic Service in the first half of 2009 was 3.47 million, which represents an increase of 0.7% over that in the same period last year.

For the Cross-boundary Service at Lo Wu and Lok Ma Chau, patronage was 45.8 million in the first half of 2009, representing a slight decrease of 0.4% compared to the same period in 2008.

Passengers using the Airport Express in the first half of 2009 fell more significantly by 11.5% to 4.6 million when compared with the same period last year, mainly due to the decrease in air passengers.

Passenger volume on Light Rail, Bus and Intercity was 89.3 million in the first half of 2009, an increase of 5.3% when compared with the same period last year.

Overall, average weekday patronage on the Integrated MTR System was 4.2 million in the first half of 2009.

In our network expansion, the LOHAS Park Station on the Tseung Kwan O Line opened on 26 July 2009. The Kowloon Southern Link, with the new Austin Station, will commence service on 16 August 2009, and will strategically connect the West Rail Line with the East Rail Line, by an interchange at Hung Hom Station.

Market Share

Our overall share of the franchised public transport market rose to 42.0% in the first five months of 2009 as compared to 41.6% in the same period last year. Within this total, our share of cross-harbour traffic rose to 63.4% from 62.6% whilst our market share in the Cross-boundary business declined to 55.4% from 56.6% due to continued strong competition.

Fare Revenue

Total fare revenue was HK$5,527 million in the first half of 2009, which represents a small decrease of 1.2% from the same period last year.

Fare revenue of the Domestic Service was HK$3,829 million in the first half of 2009, which represents a slight decrease of 0.5% from the same period in 2008 with average fare per passenger decreasing by a marginal 0.8% to HK$6.53 due to the extension of student half fares to the East Rail Line, West Rail Line and Ma On Shan Line starting from 28 September 2008.

In our Cross-boundary Service, average fare per passenger was HK$24.75 in the first half of 2009, a slight increase of 2.0% when compared with the same period in 2008, whilst for the Airport Express, average fare per passenger decreased by 3.3% to HK$62.56 mainly due to the change in passenger mix.

The first application of the Fare Adjustment Mechanism took place in the second quarter of 2009. In accordance with the agreed methodology, the calculated fare increase of 0.7%, based on the change in Composite Consumer Price Index and transport wage index in 2008, was below the trigger point for a fare adjustment of ±1.5%. Hence the calculated increase percentage of 0.7% will be carried forward to the Fare Adjustment Mechanism calculation in 2010.

Operations Performance in First Half 2009

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 & 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%**
– 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 & 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 & Disneyland Resort Line	98.0%	99.0%	**99.8%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.9%**
– 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 & Airport Express	N/A	500,000	**1,928,587**
– East Rail Line (including Ma On Shan Line) & West Rail Line	N/A	500,000	**2,838,006**
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) & West Rail Line*	N/A	8,000	**21,000**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & 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%	**99.9%**
– Light Rail	N/A	99.0%	**99.8%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line & Airport Express	97.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.6%**
– 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 & Airport Express	97.0%	99.0%	**99.8%**
– 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 & Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– 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 & Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.8%**
– West Rail Line	98.5%	99.5%	**99.8%**
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	**0.3**
– 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%	**99.8%**
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%	**99.7%**
– Cleanliness: washed daily	N/A	99.0%	**99.9%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**100.0%**

* East Rail Line (including Ma On Shan Line) and West Rail Line are included since 28 September 2008.

Service and Performance

We continue to exceed both the minimum performance levels as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges.

Service improvements in the first half of 2009 included an extensive programme of station area upgrades, the completion of public WiFi for Airport Express trains, and a continuing series of enhancements for access to the network for the disabled. In response to the serious threat to public health posed by human swine influenza pandemic, the Company implemented an extensive programme to educate both customers and staff about taking precautions and an Influenza Pandemic Command Team was established to implement a series of risk mitigation initiatives. Timely measures included increased sanitation and cleaning procedures, as well as the provision of personal protective equipment and dissemination of information through display systems at stations.

The winning of a number of prestigious awards once more reflected our ongoing commitment to service excellence. MTR Corporation won the Gold Award in The Hong Kong Association for Customer Service Excellence Limited's "Customer Service Excellence Award – Grand Award 2008". The Company also won the "Sing Tao Excellent Services Brand Award 2008 – Public Transportation Category" for the third consecutive year. Other awards included Next Magazine's "Top Service Award – Transportation Category" for the 11th year in a row, East Week Magazine's "Hong Kong Service Awards – Transportation Category" for the fifth consecutive year as well as the magazine's Corporate Social Responsibility Award for the second year, the Prime Award for Eco-Business presented by Prime Magazine for the second year and the "2008 Hong Kong Top Service Brand Award" jointly organised by the Hong Kong Brand Development Council and The Chinese Manufacturers' Association of Hong Kong.

Station Commercial and Rail Related Businesses

"Revenue for our station commercial and rail related businesses in the first half of 2009 was HK$1,653 million representing an increase of 0.5% over the same period in 2008."

Revenue for our station commercial and rail related businesses in the first half of 2009 was HK$1,653 million representing an increase of 0.5% over the same period in 2008.

Station retail revenue in the first half of 2009 was HK$793 million representing an increase of 2.5% over the same period in 2008. This increase was largely due to the repartition and renovation of shop areas in the Airport Express, Tung Chung Line and East Rail Line stations as well as an increase in shop rental rates on renewals or reletting in the first half of 2009. Renovation of 41 new shops was completed during the period at 11 stations along with seven new trades added. The total number of shops at 30 June 2009 was 1,209 with total station retail area of 51,726 square metres.

Advertising revenue in the first half of 2009 was HK$270 million representing a reduction of 22.0% when compared with the same period in 2008. This reduction was mainly due to decrease in advertising spending as a result of the poor economic environment. New advertising formats introduced in our system included 60 pairs of 65-inch High Definition plasma TVs installed at ten strategic stations in May. In total, there are now 21,152 advertising points in our stations, 24,629 in trains (including 4,545 Liquid Crystal Displays) and 66 exhibition and display sites in 42 stations.

Revenue from telecommunications services in the first half of 2009 was HK$132 million representing an increase of 2.3% when compared with the same period in 2008. In March, one of Hong Kong's leading telecom operators launched an advanced 2G/3G mobile network, enabling passengers to enjoy high data speed of up to 21Mbps in our railway system. Full 3G mobile phone coverage was also launched at four of the West Rail Line stations in June 2009 with the remaining stations along the line to be fully 3G enabled by the third quarter. A new source of revenue arose from the renting of our railway premises roof tops to house Global Positioning Systems and Microwave Antennae systems.

Revenue from external consultancy was HK$85 million during the first six months, an increase of 32.8% when compared with the same period in 2008.

Property and Other Businesses

"Profit from property development for the first six months of 2009 was HK$2,147 million, a significant increase over the HK$348 million recorded in the same period in 2008."

Overview

The Hong Kong property market saw some consolidation in the early months of the year. However, despite little improvement in the overall economy, the low interest rate environment and a recovery in confidence saw property activities pick up in the second quarter of 2009 with both prices and transaction volumes strengthening.

Property Development

Leveraging off the recovery in the property market, the pre-sale of Lake Silver at Wu Kai Sha was launched in May. Market response was positive and about 85% of the 2,169 units have now been sold. On 17 July 2009, pre-sale of Phase A of Le Prestige at LOHAS Park was launched with good response and all 1,688 units have been sold.

Profit from property development for the first six months of 2009 was HK$2,147 million, a significant increase over the HK$348 million recorded in the same period in 2008. As highlighted previously, recognition of property development profit in any period depends, partly, on the number of projects on which profits can be booked. In the first half of 2009 the major contributors to property development profit were the recognition of final profit split with the developer relating to The Harbourside, as well as additional profit bookings from The Palazzo and The Capitol following receipt of final stage payments from buyers of units in these developments.

Property Rental, Management and Other Businesses

Total revenue from property rental, property management and other businesses was HK$1,450 million, an increase of 12.4% over the same period in 2008.

Although the general demand for both office and retail space remained soft, our property rental income increased by 11.6% to HK$1,249 million, due mainly to the addition of Elements Phase 2 in November 2008 as well as an average increase in rental reversion of 4.6%. As of 30 June 2009, the occupancy rate of our shopping malls was 98% and our office premises were fully leased out.

Elements, our premium shopping centre in Hong Kong, won the Official Honouree distinction in the 13th Annual Webby Awards and the GOLD Direct Market Lotus Award in the Asia-Pacific Advertising Festival (AdFest) and continued to receive international recognition by winning the Cityscape Asia Real Estate Award in May 2009 as Best Commercial/Retail Development.

Property Development Packages Awarded and to be Completed

Location	Developers	Type	Gross floor area (sq. m.)	No. of parking spaces	Status	Expected completion date
Kowloon Station						
Package Five, Six and Seven (Elements, International Commerce Centre, The Cullinan, W Hong Kong, The Harbourview Place)	Sun Hung Kai Properties Ltd.	Retail Office Service apartment Hotel Residential Kindergarten Car park	82,750 231,778 72,472 95,000 21,300 1,045	1,683*	Awarded in September 2000	By phases from 2006-2010
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	2011
LOHAS Park Station						
Package Two (Le Prestige)	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	309,696 800	905	Awarded in January 2006	By phases from 2009-2011
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2012
Wu Kai Sha Station (Lake Silver)	Sino Land Co. Ltd.	Residential Retail Kindergarten Car park	168,650 3,000 1,000	309	Awarded in July 2005	2009
Tai Wai Maintenance Centre	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	711	Awarded in April 2006	By phases from 2009-2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	253	Awarded in April 2008	2012
Tuen Mun Station#	Sun Hung Kai Properties Ltd.	Residential Retail Car park	119,512 25,000	349	Awarded in August 2006	By phases from 2012-2013
Tsuen Wan West Station TW7#	Cheung Kong (Holdings) Ltd.	Residential Car park	113,064	444	Awarded in September 2008	2013

* The number of car parking spaces is subject to review

as development 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.)	2009-2015	2019
Tai Wai Station	1 – 2	Residential Retail Kindergarten Car park	190,480 62,000 1,110	713	Under review	Under review
Tin Shui Wai Light Rail Terminus	1	Residential Retail Car park	91,051 205	267	Under review	Under review
Austin Station, Site C & Site D	1	Residential Car park	119,116	285	2009	2013

Notes:

1 Property development packages for which we are acting as development 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.

Property management revenue in the first half of 2009 was HK$114 million, an increase of 10.7% over the same period in 2008. The number of residential units under our management totalled 77,280 at the end of June, while commercial space under management was 749,590 square metres.

Ginza Mall, which opened in January 2007, set a new benchmark for service and quality standards for shopping malls in Beijing. During the first half of 2009, the occupancy rate continued to be close to 100%. The mall was widely recognised by receiving various awards and honours. These included the Capital Safety and Security Pioneer Shopping Centre Award sponsored jointly by the Capital Safety and Security Office, the Beijing State-owned Assets Supervision and Administration Commission, the Beijing Police Bureau and the Beijing Industrial and Commerce Bureau.

As of 30 June 2009, the Company's investment properties included 222,189 square metres of lettable floor area of retail properties, 41,059 square metres of lettable floor area of offices and 10,402 square metres of real estate for other usage.

Octopus

Octopus continued its expansion in the retail sector by appointing new acquirers to recruit small to medium-sized retail merchants. By the end of June, there were over 2,500 Octopus service providers (including those serviced by Octopus-appointed acquirers) in Hong Kong. Cards in circulation was 19.5 million and average daily transaction volume and value were 10.7 million and HK$94.2 million respectively.

The Company's share of Octopus' net profit for the first half of 2009 was HK$68 million, a 12.8% decrease from the same period in 2008 due to lower international revenue contributions.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island contributed HK$87 million of revenue in the first six months of 2009, a 27.9% increase over the same period in 2008, with visitor numbers reaching more than 745,000 despite a significant decline of tourists to Hong Kong. In April, Ngong Ping 360 launched the Crystal Cabins, which were the world's first cable car cabins to be fitted with a full-width transparent bottom and which proved to be hugely popular with our guests. In the same month, Ngong Ping 360's Cable Car Operations Department received ISO 9001:2008 certification.

Hong Kong Network Expansion

"Rapid progress was made on the Kowloon Southern Link, which will strategically connect the existing East Rail Line with the West Rail Line . . ."

Hong Kong

Good progress was made in the first half of the year on the planning and construction for the Company's five new rail projects in Hong Kong, which together with the completed Kowloon Southern Link, will extend our network by approximately 60 kilometres.

Rapid progress was made on the Kowloon Southern Link, which will strategically connect the existing East Rail Line with the West Rail Line, forming a major East-West rail artery with an interchange at Hung Hom Station. All statutory inspections for the new Austin Station on the Kowloon Southern Link and other associated works have been completed and the extension will open for service on 16 August 2009.

Phase 2 of the Tseung Kwan O Line was completed in the second quarter of 2009 with the LOHAS Park Station opening on 26 July to coincide with occupancy of The Capitol at LOHAS Park. The opening marked the full completion of the Tseung Kwan O Line, bringing passenger rail service to a growing new community.

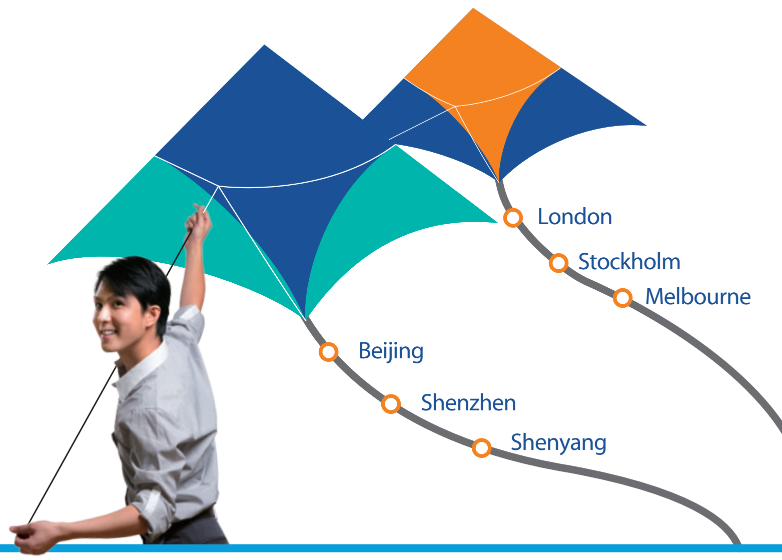
The WIL was gazetted under the Railways Ordinance in October 2007. Frequent dialogue with, and input from, local communities have since led to a design that is sensitive to both local heritage and urban renewal opportunities thus creating a "Community Railway". The WIL Project Agreement was signed between the Company and Government on 13 July 2009 whereby an amount of HK$12.252 billion would be granted to the Company for project construction works. Part of this project grant is subject to repayment to Government in the event that certain actual capital expenditure for the line is less than currently forecast. This project grant is in addition to an amount of HK$400 million, which was previously given by the Government to the Company on 19 February 2008 for detailed design of the WIL. These grants will enable the Company to earn an investment return within the range of 1% to 3% above our weighted average cost of capital. Construction has begun and WIL opening is expected in 2014.

The SIL(E) was gazetted on 24 July 2009, and detailed design has commenced with the line targeted to open in 2015.

The planning and design of other new railway projects continued with detailed design for the Express Rail Link and preliminary design of the SCL making good progress in the first half of 2009. Preliminary design of the KTE was completed in June, with gazettal and detailed design scheduled in the second half of the year.

Mainland and Overseas Expansion

"Our projects in the Mainland of China and overseas continued to make progress."



Our projects in the Mainland of China and overseas continued to make progress.

Mainland of China

In Beijing, the Public-Private-Partnership (PPP) company comprising MTR Corporation (49%), Beijing Infrastructure Investment Co. Ltd. (2%) and Beijing Capital Group (49%) is finalising construction work on the Beijing Metro Line 4 (BJL4) project in preparation for line opening in the fourth quarter of 2009. All track laying has been completed, while signalling testing and trial running of trains and station operations preparations continue.

In Shenzhen, the Concession Agreement for the Shenzhen Metro Line 4 (SZL4) project was signed in March with the Shenzhen Municipal Government. 82% of the overall civil works for SZL4 Phase 2 had been finished by the end of June and most of the Electrical and Mechanical contracts have been awarded. We are due to take over the operations of Phase 1 of SZL4 in the middle of 2010 with full line operations, including Phase 2, by the middle of 2011.

We also moved forward in our discussions with the Shenyang Municipal Government on the Operations and Maintenance of Shenyang Metro Lines 1 and 2 with the signing of the Concession Agreement in May together with a framework agreement on possible property development above stations on Lines 1 and 2.

Overseas

In the UK, our 50:50 joint venture, London Overground Rail Operations Ltd, continues to bring steady service improvements to the London Overground following takeover of the concession in November 2007.

In Sweden, our wholly owned subsidiary was selected as the operator under an eight-year concession for the Stockholm Metro system on 21 January 2009. Mobilisation is in progress to take over the concession in November after receiving assurance from the tendering authority in the face of a legal challenge, launched by the incumbent operator, against the tendering authority. In Australia, our subsidiary MTM, comprising MTR Corporation (60%), John Holland Melbourne Rail Franchise Pty Ltd (20%) and United Group Rail Services Ltd (20%), was selected as the preferred bidder to operate the Melbourne metropolitan train network for eight years with a possible extension for a further seven years. Negotiations continue with the aim to agree final franchise terms shortly and to start operating the franchise in December 2009.

Financial Review

The Group's financial performance for the first half of 2009 remained resilient despite the global economic downturn, with total revenue increasing by 1.2% to HK$8,630 million as compared to the same period last year. Total fare revenue decreased by 1.2% to HK$5,527 million, mainly attributable to the 11.5% drop in patronage on Airport Express and the extension of student concession fares to the ex-KCR system starting from September last year. Revenue from station commercial and rail related businesses increased by 0.5% to HK$1,653 million reflecting slight growth in most of these businesses except advertising, which was severely affected by the economic downturn and recorded a 22% drop in revenue. Property rental, management and other revenue rose by 12.4% to HK$1,450 million mainly due to the inclusion of rental revenue for Elements Phase 2, which opened in November 2008, as well as positive rental reversions.

Operating expenses before depreciation and amortisation for the first half of 2009 increased by 2.7% to HK$3,831 million when compared to the same period last year mainly due to increases in staff costs, maintenance costs and increases in stores and spares consumed. Further synergies from the Rail Merger were realised and are on track to achieve the estimated HK$450 million per year ahead of schedule within 2009. As a result, operating profit from railway and related businesses before depreciation and amortisation increased marginally by 0.1% to HK$4,799 million while operating margin decreased from 56.2% to 55.6%.

Property development profit for the first half of 2009 amounted to HK$2,147 million, mainly comprising recognition of final profit split with developer on The Harbourside and surplus proceeds from The Palazzo and The Capitol of which The Palazzo and The Capitol contributed HK$1,227 million. Operating profit before depreciation and amortisation increased 35.0% to HK$6,946 million as compared to the same period last year.

Depreciation and amortisation charges for the first half of 2009 decreased by 3.5% to HK$1,464 million mainly attributable to certain assets being fully depreciated by the end of last year. Merger related expenses, comprising post-merger integration expenses not eligible for capitalisation, decreased to HK$7 million. Net interest and finance charges decreased by 20.8% to HK$854 million mainly due to the lower costs of borrowing as well as reduced debt outstanding. The increase in fair value of investment properties since the end of 2008 amounted to HK$712 million pre-tax and HK$595 million post-tax compared with HK$2,080 million pre-tax and HK$1,737 million post-tax for the same period last year.

Including the share of profits of HK$74 million in total from Octopus Holdings Limited and London Overground Rail Operations Ltd, profit before tax for the first half of 2009 increased by 15.1% to HK$5,407 million. Income tax amounted to HK$910 million compared to HK$8 million last year; the low tax charge in 2008 was due to a one-off reduction in deferred tax liability, of HK$704 million, resulting from a reduction in Hong Kong Profits Tax rate from 17.5% to 16.5%. As a result, net profit attributable to shareholders for the first half of 2009 amounted to HK$4,498 million, a decrease of 4.1% from the same period last year. Reported earnings per share decreased from HK$0.83 to HK$0.79. Excluding investment property revaluation gains and the related deferred tax, net profit from underlying business increased by 42.9% to HK$3,903 million with earnings per share on the same basis increasing from HK$0.49 to HK$0.69. On a pre-tax basis, net profit from underlying business increased by 79.4% from HK$2,617 million to HK$4,696 million.

The Board has declared an interim dividend of HK$0.14 per share. As with previous dividend payments, a scrip dividend option will be offered to all shareholders except those with registered addresses in the United States of America or any of its territories or possessions. The Company's major shareholder, the Financial Secretary Incorporated (FSI), has agreed to receive its entitlement to dividends in the form of scrip to the extent necessary to ensure that a maximum of 50% of the Company's total dividend will be paid in cash.

The Group's balance sheet strengthened further with net assets of the Group increasing by 3.7% to HK$101,409 million as at 30 June 2009. Total assets increased by 0.2% to HK$159,708 million mainly attributable to investment property revaluation gains of HK$712 million together with capital expenditures incurred in the SZL4 Project and other new railway extensions, as well as capital improvement projects. Debtors, deposits and payments in advance decreased by HK$1,390 million mainly due to cash receipts from property development projects such as The Palazzo, The Capitol, Metro Town and Le Point. During the period, total borrowings of the Group decreased from HK$31,289 million to HK$27,880 million due to loan repayment from net cash generated in our businesses. As a result, net debt-to-equity ratio of the Group including obligations under the service concession as a component of debt decreased from 42.1% at 31 December 2008 to 37.0% at 30 June 2009.

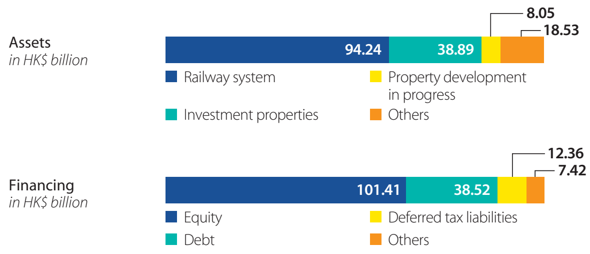
The Group's cash inflow generated from railway and related activities for the first half of 2009 increased by 2.1% to HK$4,771 million. After tax payment of HK$194 million, net cash inflow generated from operating activities for the half year was HK$4,577 million. Cash receipts from our property development business amounted to a further HK$2,523 million mainly from The Palazzo, The Capitol, Metro Town and Le Point. Including proceeds from net sales of investments in securities of HK$240 million and receipts of dividends of HK$40 million from Octopus Holdings Limited, cash inflow for the Group decreased by 11.8% to HK$7,380 million mainly due to a reduction in cash receipts from our property development business and the receipt of the government grant for the detailed design of the WIL Project of HK$400 million in February 2008. Cash outflow for capital expenditures during the period increased to HK$1,888 million from HK$1,429 million for the same period last year mainly due to an increase in purchases of operational railway assets. After deducting payments for property projects of HK$305 million, investment in Shenyang Metro Lines 1 and 2 associate of HK$55 million, net interest payment of HK$657 million, merger related expenditures of HK$12 million, dividend payment of HK$962 million and other working capital payments, net cash generated during the first half of 2009 amounted to HK$3,505 million, of which HK$3,277 million was used to reduce borrowings resulting in a net increase in cash and cash equivalents of HK$228 million.

Financing Activities

During the first half of 2009, financing conditions in both the capital and banking markets improved with increased liquidity, improved risk appetite, reduced credit spreads, and increased issuance volume, although new issuance remained skewed towards stronger, top rated credits.

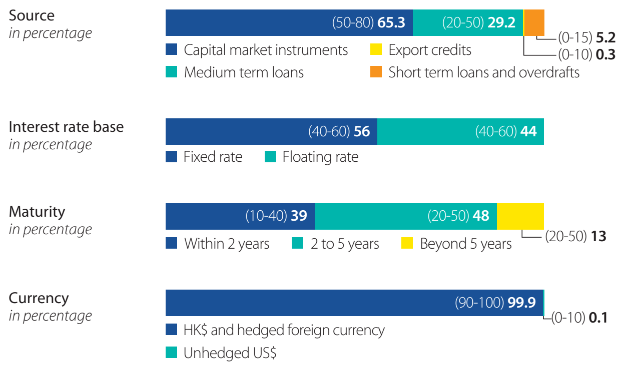
Simplified Balance Sheet

As at 30 June 2009



Preferred Financing Model and Debt Profile

(Preferred Financing Model) vs. **Actual debt profile**
As at 30 June 2009



With our strong cash flow and substantial undrawn banking facilities, we did not undertake any significant capital raising in the first half of 2009 although on an opportunistic basis, we issued HK$500 million of 5-year fixed rate medium term notes through private placement at very attractive rates.

In the Mainland of China, following the signing of the Concession Agreement for SZL4, the Group in May concluded a RMB 4.0 billion financing agreement for the project that comprises a RMB 3.6 billion 20-year term loan and other credit facilities.

As at the end of June 2009, the Group had total undrawn committed facilities of HK$7.8 billion (excluding the above-mentioned RMB credit facilities specifically for SZL4). Taking into account the strong cash flows from our businesses, it is estimated that these facilities will provide sufficient coverage for all the Group's funding needs through early 2011, including debt repayments and capital expenditures. In addition, after the period end, on 13 July 2009, the Company entered into the WIL Project Agreement whereby the Government will give to the Company a cash grant of HK$12.252 billion. On draw down of this grant, our liquidity will be further enhanced.

During the period, we continued to manage our debt financings in a prudent manner in accordance with the Preferred Financing Model to achieve a balanced portfolio with adequate risk diversification. As at the end of June 2009, the Group's debt maturity profile was well balanced with 39% of total outstanding debt repayable within 2 years, 48% between 2 and 5 years, and 13% beyond 5 years. More than 99% of the debt portfolio was either in or hedged into Hong Kong dollars, inclusive of foreign currency borrowings naturally hedged by assets or cash flows from overseas businesses. Approximately 56% of the debt outstanding was in fixed rate.

The Group's average borrowing cost during the period was 3.6%, a decrease from 4.7% during the same period last year as interest rates reduced.

Human Resources

"In these challenging economic times, we continue our focus to ensure a stable workforce, retaining and improving staff resources, and attracting the very best recruits to support our business growth."

The professionalism and dedication of our staff are key contributors to our continued success. In these challenging economic times, we continue our focus to ensure a stable workforce, retaining and improving staff resources, and attracting the very best recruits to support our business growth.

To cater for the increase in manpower requirements for the new extensions in Hong Kong, a high level human resources plan for Projects and Operations Divisions has been drawn up. Extensive communications on future manpower planning and career roadmaps for major job functions were conducted for all relevant staff to strengthen their commitment to career development through our integrated staff development programme.

In particular, to address the resourcing challenges arising from our offshore growth business, an integrated manpower resourcing mechanism was established along with the strengthening of growth business resource planning. In addition, we encouraged and facilitated more relocations of local staff to support different projects within the Mainland of China and overseas, such as engaging our Shanghai staff to help with our Delhi Project and the mobilisation of the Shenzhen staff to support BJL4's opening.

In order to develop management and leadership quality for the future of the Company, we maintained our major ongoing programmes such as our Executive Associate Scheme, while at the entrance level we continued to recruit top-notch, versatile graduates from the Mainland of China, Hong Kong and overseas universities into our graduate trainee and functional associate programmes.

To reinforce team spirit and enhance service performance, a broad range of training and staff development programmes was undertaken, with particular emphasis on strengthening the new Vision, Mission and Values culture across the Company. Strong emphasis was placed on improving customer service training, with a new "Caring Service Best Practice Manual" issued to frontline staff. Our efforts in training were given widespread recognition through the winning of several awards, including in June the Gold Prize in the Hong Kong Management Association's "2009 Award for Excellence in Training", which is a prestigious benchmark for exemplary training and development practices, and the VTC Outstanding Apprentice/Trainee Award in March for three graduated apprentices.

Outlook

Despite the financial markets having rebounded in the second quarter of 2009, the economic outlook remains challenging. Hence we take a cautious stance for the balance of 2009.

Although our rail business is defensive by nature, we began to see a patronage reduction in our Domestic Service towards the end of the first half; we expect this reduction to continue in the second half, impacted by the economic environment and the effect of human swine influenza. However the opening of the Kowloon Southern Link will help to mitigate the impact of this reduction. Under performance of the Airport Express business compared with the previous year is expected to continue.

In our station commercial and rail related businesses, we expect the poor economic environment to continue to impact our advertising business although the station retail and telecommunication businesses show resilience. I would highlight that in the second half of 2008, we received a one-off payment on termination of a telecom contract which will not be repeated in 2009.

In our property rental business we are beginning to see a slight increase in vacancies although rental reversions remain positive.

With the successful sales of apartments at Lake Silver in Wu Kai Sha, the timing of booking of our share of profits will depend only on the issuance of Occupation Permit, which was issued in mid-July 2009. The amount of profits booked is calculated after setting off the cost of acquisition of the related development rights from Kowloon-Canton Railway Corporation (KCRC). Our share of profits of Phase A (Towers 1, 2, 3 and 5) of Le Prestige at LOHAS Park will be accounted for as a "sharing in kind", and profit booking will be dependent only on the issuance of Occupation Permit, which is expected to be either at the end of 2009 or beginning of 2010. The total deemed interest on the interest free loan extended to the developer relating to Le Prestige will be set off against profits to be booked for our share of Phase A. We do not have any financial interest in the remaining phases of Le Prestige. Looking further forward in 2010, we would expect to receive Occupation Permit for the small retail centre in Area 56 Tseung Kwan O and, also as a "sharing in kind" project, would book profits relating to our share of the retail centre on issuance of the Occupation Permit.

Currently pre-sale consent for sale of units at Tai Wai Maintenance Centre is being processed. However even if sales are launched for this development later this year or in 2010 it is unlikely that enough units would be sold to allow profits to be booked until 2011.

In our property tendering activities, depending on market conditions, we may tender both Austin Station sites C and D, and the Nam Cheong Station site before the end of first quarter 2010. The Nam Cheong Station site is a West Rail Property Development site for which we only act as agent.

Given the economic uncertainties we remain focused on cost containment, minimising cash outflow and maintaining an adequate liquidity cushion.

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

C K Chow, *Chief Executive Officer*
Hong Kong, 11 August 2009

Key Figures

	Half-year ended 30 June 2009	Half-year ended 30 June 2008	% Increase/ (Decrease)
Financial Highlights *in HK$ million*			
Revenue			
– Fare	**5,527**	5,592	(1.2)
– Non-fare	**3,103**	2,935	5.7
Operating profit from railway and related businesses before depreciation and amortisation	**4,799**	4,796	0.1
Profit on property developments	**2,147**	348	517.0
Operating profit before depreciation and amortisation	**6,946**	5,144	35.0
Profit attributable to equity shareholders	**4,498**	4,689	(4.1)
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**3,903**	2,731	42.9
Total assets	**159,708**	159,338*	0.2
Loans, obligations and bank overdrafts	**27,880**	31,289*	(10.9)
Obligations under service concession	**10,641**	10,656*	(0.1)
Total equity attributable to equity shareholders	**101,389**	97,801*	3.7
Financial Ratios *in %*			
Operating margin	**55.6**	56.2	(0.6)% pt.
Net debt-to-equity ratio	**37.0**	42.1*	(5.1)% pts.
Interest cover *in times*	**6.9**	4.2	2.7 times
Share Information			
Basic earnings per share *in HK$*	**0.79**	0.83	(4.8)
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *in HK$*	**0.69**	0.49	40.8
Dividend per share *in HK$*	**0.14**	0.14	–
Share price at 30 June *in HK$*	**23.25**	24.55	(5.3)
Market capitalisation at 30 June *in HK$ million*	**132,795**	138,582	(4.2)
Operations Highlights			
Total passenger boardings			
– Domestic Service *in million*	**586.7**	585.2	0.3
– Cross-boundary Service *in million*	**45.8**	46.0	(0.4)
– Airport Express *in thousand*	**4,626**	5,230	(11.5)
– Light Rail *in million*	**69.8**	66.5	5.0
Average number of passengers *in thousand*			
– Domestic Service *weekday*	**3,465**	3,441	0.7
– Cross-boundary Service *daily*	**252.9**	252.8	0.04
– Airport Express *daily*	**25.6**	28.7	(10.8)
– Light Rail *weekday*	**396.1**	373.7	6.0
Fare revenue per passenger *in HK$*			
– Domestic Service	**6.53**	6.58	(0.8)
– Cross-boundary Service	**24.75**	24.27	2.0
– Airport Express	**62.56**	64.72	(3.3)
– Light Rail	**2.67**	2.87	(7.0)
Proportion of franchised public transport boardings (January to May) *in %*	**42.0**	41.6	0.4% pt.

* Figures as at 31 December 2008

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.

The Company has complied throughout the half-year ended 30 June 2009 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 that, with respect to Code Provision A.4.1, non-executive Directors of the Company are not appointed for a specific term but are subject (save for those appointed pursuant to Section 8 of the Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong) (the "MTR Ordinance")) to retirement by rotation and re-election at the Company's annual general meetings in accordance with Articles 87 and 88 of the Company's Articles of Association. As there are currently eight Directors subject to the requirement to retire by rotation, and one-third of them shall retire at each annual general meeting of the Company (subject to re-election by the shareholders), each of these Directors is effectively appointed for a term of approximately three years.

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 of 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, 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 Hong Kong Special Administrative Region of the People's Republic of China ("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.

Dr. Raymond Ch'ien Kuo-fung, a Member of the Board since 1998, was appointed by the Government of the HKSAR (the "Government") on 8 August 2007 as the non-executive Chairman of the Company for a term of 24 months with effect from the Rail Merger, which took effect from 2 December 2007. Dr. Ch'ien was first appointed as the non-executive Chairman of the Company with effect from 21 July 2003 for a term of three years, which was renewed in 2006 for a further term up to 31 July 2007. In July 2007, Dr. Ch'ien was re-appointed as the non-executive Chairman of the Company with effect from 1 August 2007 for a term up to 31 December 2007 or the day to be appointed by the Secretary for Transport and Housing by notice published in the Gazette under the Rail Merger Ordinance, whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and KCRC.

Mr. Chow Chung-kong, a Member of the Board and the Chief Executive Officer since 2003, was selected by the Government on 8 August 2007 as the Chief Executive Officer of the Company after the Rail Merger. On 1 June 2009, he was reappointed as the Chief Executive Officer for the period from 1 December 2009 to 31 December 2011. Mr. Chow was first appointed as the Chief Executive Officer of the Company with effect from 1 December 2003 for a term of three years. His contract was renewed for a further term of three years from 1 December 2006 to 30 November 2009.

At the 2009 Annual General Meeting on 4 June 2009 (the "2009 AGM"), Dr. Raymond Ch'ien Kuo-fung and Mr. T. Brian Stevenson retired from office by rotation pursuant to Articles 87 and 88 of the Articles of Association of the Company, and were re-elected as non-executive Director and independent non-executive Director respectively.

With effect from the conclusion of the 2009 AGM, Professor Cheung Yau-kai retired as an independent non-executive Director by rotation pursuant to Articles 87 and 88 of the Company's Articles of Association, and did not offer himself for re-election.

Mr. Vincent Cheng Hoi-chuen, Chairman of The Hongkong and Shanghai Banking Corporation Limited and Chairman of HSBC Bank (China) Company Limited, has been appointed as an independent non-executive Director of the Company with effect from 10 July 2009. Also, with effect from the same date, Mr. Cheng has been appointed as a member of both the Remuneration Committee and the Corporate Responsibility Committee of the Company.

Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")

The Company has adopted the Model Code. After having made specific enquiry, the Company confirms that, save as disclosed in the following paragraph, Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2009 with the Model Code set out in Appendix 10 to the Listing Rules. 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.

As reported in the Corporate Governance Report of the Company's 2008 Annual Report (page 102), an alternate director has reported in writing to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") that in January 2009, due to an oversight, he and his spouse disposed of an aggregate of 2,084 shares in the Company without having first notified in writing the Chairman of the Company and received a dated written acknowledgement from the Chairman in accordance with the Model Code. The report was made shortly after the dealings. He has also given the Company and the Stock Exchange a written confirmation that he did not possess any unpublished price sensitive information of the Company at the time of the dealings. With a view to ensuring compliance with the Model Code, the Company has reminded him in writing of his obligations under the Model Code.

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. The Terms of Reference of the Audit Committee were revised and approved by the Board in January 2009 in the light of the amendments to the Listing Rules, which became effective on 1 January 2009, to reflect the new oversight role of the Audit Committee in the review of the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget, as well as the removal of the requirement for a qualified accountant. The Terms of Reference were further revised and approved by the Board in March 2009 to permit the Secretary of the Committee shall either be the Company Secretary or his designate. The updated Terms of Reference are available on the Company's website.

All the Members of the Audit Committee are non-executive Directors, namely T. Brian Stevenson (chairman), Professor Cheung Yau-kai (up to the conclusion of the 2009 AGM), Ng Leung-sing and the Commissioner for Transport (Alan Wong Chi-kong). Mr. Stevenson and Mr. Ng are also independent non-executive Directors, while Professor Cheung was an independent non-executive Director before his retirement.

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.

All the Members of the Remuneration Committee are non-executive Directors, namely Edward Ho Sing-tin (chairman), T. Brian Stevenson and Professor Chan Ka-keung, Ceajer. Mr. Ho and Mr. Stevenson are also independent non-executive Directors. As mentioned above, Mr. Vincent Cheng Hoi-chuen has been appointed a member of the Committee with effect from 10 July 2009.

In the light of the appointment of Mr. Cheng as a member of the Committee, the Terms of Reference of the Remuneration Committee were revised and approved by the Board in July 2009, such that the Committee shall consist of at least three members with a majority of them being independent non-executive Directors, and that the quorum necessary for the transaction of the business of the Committee shall be three non-executive Directors of the Committee, a majority of whom shall be independent non-executive Directors. The updated Terms of Reference are available on the Company's website.

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 ("CEO"), Finance Director ("FD") and Chief Operating Officer ("COO") (provided that the COO position exists). For the positions of FD and COO, the Committee may consider candidates recommended by the CEO, or any other candidates (provided that the CEO shall have the right to first agree to such other candidates).

The Committee consists of seven non-executive Directors, four of whom are independent non-executive Directors. Members of the Nominations 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. Ng and Mr. Shek are also independent non-executive Directors.

Corporate Responsibility Committee

The duties of the Committee include monitoring and overseeing the implementation of the Company's corporate responsibility policy and initiatives, identifying emerging corporate responsibility issues arising from external trends and providing updates to the Board as required. The Committee normally meets two times a year.

Under its Terms of Reference, the Members shall consist of at least three non-executive Directors, two of whom shall be independent non-executive Directors, and two Members of the Executive Directorate. The Chairman of the Company is the chairman of the Committee. Members of the Committee include Dr. Raymond Ch'ien Kuo-fung (chairman), the Secretary for Transport and Housing (Ms. Eva Cheng), Ms. Christine Fang Meng-sang, Mr. Abraham Shek Lai-him, Mr. Leonard Bryan Turk (Legal Director & Secretary) and Mr. Thomas Ho Hang-kwong (Property Director). Mr. Vincent Cheng Hoi-chuen, who joined the Board on 10 July 2009 as an independent non-executive Director, has been appointed a member of the Committee with effect from the same date.

Changes in Information of Directors

Pursuant to the requirements of Rule 13.51B(1) of the Listing Rules, Dr. Raymond Ch'ien Kuo-fung stepped down as a non-executive director of Inchcape plc at its annual general meeting on 14 May 2009. Mr. Chow Chung-kong has been reappointed as the Chief Executive Officer of the Company (please refer to page 19). In addition, he is a Vice Chairman of The Hong Kong General Chamber of Commerce since 19 May 2009.

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. 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 enhanced through internal and external reviews. Structured cross-discipline processes and organizations are put in place at corporate and divisional levels for risk identification, assessment, mitigation and monitoring. A standard 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 ("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 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 everyday management processes. Risks associated with major changes and new businesses such as material local and overseas railway construction, investment businesses and consultancy projects are assessed at key stages and project milestones to support decision making. The Enterprise Risk Management Department plays a central role in facilitating risk assessments and reviewing existing and emerging business risks.

The Executive Committee reviews key enterprise risks half-yearly and the Board annually to ensure that such risks are under satisfactory control.

The Audit Committee also reviews annually the implementation and the ERM organization and processes that have been put in place.

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.

In keeping with best practices and prior to the coming into effect of the amendments to the Listing Rules on 1 January 2009 to reflect the role of the Audit Committee in overseeing the Management's review of the adequacy of staffing of the financial and reporting function, the Company has already built into its system an annual budgeting review, an effective recruitment process as well as a training and development programme for staff of the accounting and financial reporting function. All these enable the Board, through the Audit Committee, to review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

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 2008, 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 2008 which might affect shareholders.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2009, 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 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	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	51,230	–	–	–	–	51,230	0.00090
Chow Chung-kong	–	–	–	1,190,000 (Note 1)	418,017 (Note 2)	1,608,017	0.02815
T. Brian Stevenson	4,957	–	–	–	–	4,957	0.00009
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
Russell John Black	57,089	–	–	340,000 (Note 1)	–	397,089	0.00695
William Chan Fu-keung	46,960	–	–	(i) 217,500 (Note 3) (ii) 340,000 (Note 1)	–	604,460	0.01058
Thomas Ho Hang-kwong	385,463	2,541	–	340,000 (Note 1)	–	728,004	0.01275
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 4)	(i) 1,043,000 (Note 5) (ii) 340,000 (Note 1)	160,000 (Note 6)	1,589,000	0.02782
Andrew McCusker	–	–	–	340,000 (Note 1)	–	340,000	0.00595
Leonard Bryan Turk	–	–	–	340,000 (Note 1)	–	340,000	0.00595

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 418,017 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 418,017 shares in the Company on completion of his three-year contract (on 30 November 2009).

3 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 Pre-Global Offering Share Option Scheme.

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

5 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.

6 Lincoln Leong Kwok-kuen has a derivative interest in respect of 160,000 shares in the Company within the meaning of Part XV of the SFO. That derivative interest represents Mr. Leong's entitlement to receive an equivalent value in cash of 160,000 shares in the Company on 9 April 2010.

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to Subscribe for Ordinary Shares Granted Under the Pre-Global Offering 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 2009	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	217,500	–	–	–	8.44	217,500	–
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	3,388,000	–	–	277,000	8.44	3,111,000	19.37

Note:

All of the above share options were vested on 5 October 2003. The proportion of underlying shares in respect of which the share options have vested is as follows:

Date	Proportion of underlying shares in respect of which an option is vested
Before 5 October 2001	none
5 October 2001 to 4 October 2002	one-third
5 October 2002 to 4 October 2003	two-thirds
After 4 October 2003	all

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 2009	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$)	Options outstanding as at 30 June 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	1,043,000	–	–	–	–	9.75	1,043,000	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	202,200	–	–	–	5,000	9.75	197,200	19.64
	13/9/2005	94,000	9/9/2006 – 9/9/2015	49,000	–	–	–	–	15.97	49,000	–
	23/9/2005	213,000	9/9/2006 – 9/9/2015	213,000	–	–	–	–	15.97	213,000	–
	31/3/2006	94,000	20/3/2007 – 20/3/2016	94,000	–	31,000	–	–	18.05	94,000	–
	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	–	88,500	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	183,000	–	71,000	–	41,000	20.66	142,000	24.55
	22/3/2007	1,066,000	19/3/2008 – 19/3/2017	355,500	–	–	355,500	–	19.404	–	–

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 2009	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$)	Options outstanding as at 30 June 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
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	–
Russell John Black	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	–
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	–
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	–
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	–
Andrew McCusker	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	12/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	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	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	1,880,000	10/12/2008 – 10/12/2014	1,792,000	–	–	87,000	–	27.60	1,705,000	–
	13/12/2007	915,000	10/12/2008 – 10/12/2014	915,000	–	–	–	–	27.60	915,000	–
	14/12/2007	1,005,000	10/12/2008 – 10/12/2014	1,005,000	–	–	25,000	–	27.60	980,000	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	370,000	–	–	–	–	27.60	370,000	–
	17/12/2007	835,000	10/12/2008 – 10/12/2014	835,000	–	13,500	13,000	–	27.60	822,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	380,000	–	–	–	–	27.60	380,000	–
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	–	–	–	27.60	115,000	–
	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	45,000	–	–	–	–	27.60	45,000	–
	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	75,000	–	–	–	–	27.60	75,000	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	–	27.60	40,000	–
	4/1/2008	65,000	10/12/2008 – 10/12/2014	65,000	–	–	–	–	27.60	65,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	125,000	–	–	–	–	27.60	125,000	–
	28/3/2008	255,000	26/03/2009 – 26/03/2015	255,000	–	87,500	–	–	26.52	255,000	–
	31/3/2008	379,000	26/03/2009 – 26/03/2015	379,000	–	131,000	–	–	26.52	379,000	–
	1/4/2008	261,000	26/03/2009 – 26/03/2015	261,000	–	91,000	–	–	26.52	261,000	–
	2/4/2008	296,000	26/03/2009 – 26/03/2015	296,000	–	103,000	–	–	26.52	296,000	–
	3/4/2008	171,000	26/03/2009 – 26/03/2015	171,000	–	59,500	–	–	26.52	171,000	–
	4/4/2008	23,000	26/03/2009 – 26/03/2015	23,000	–	8,000	–	–	26.52	23,000	–
	5/4/2008	17,000	26/03/2009 – 26/03/2015	17,000	–	6,000	–	–	26.52	17,000	–
	7/4/2008	390,000	26/03/2009 – 26/03/2015	358,000	–	124,000	–	–	26.52	358,000	–
	8/4/2008	174,000	26/03/2009 – 26/03/2015	155,000	–	54,000	–	–	26.52	155,000	–
	9/4/2008	85,000	26/03/2009 – 26/03/2015	85,000	–	29,500	–	–	26.52	85,000	–
	10/4/2008	58,000	26/03/2009 – 26/03/2015	58,000	–	20,000	–	–	26.52	58,000	–
	11/4/2008	134,000	26/03/2009 – 26/03/2015	117,000	–	40,500	–	–	26.52	117,000	–
	12/4/2008	48,000	26/03/2009 – 26/03/2015	48,000	–	16,500	–	–	26.52	48,000	–
	14/4/2008	40,000	26/03/2009 – 26/03/2015	40,000	–	14,000	–	–	26.52	40,000	–
	15/4/2008	34,000	26/03/2009 – 26/03/2015	34,000	–	12,000	–	–	26.52	34,000	–
	16/4/2008	57,000	26/03/2009 – 26/03/2015	40,000	–	14,000	–	–	26.52	40,000	–
	17/4/2008	147,000	26/03/2009 – 26/03/2015	124,000	–	43,000	–	–	26.52	124,000	–
	18/4/2008	32,000	26/03/2009 – 26/03/2015	32,000	–	5,000	17,000	–	26.52	15,000	–
	19/4/2008	25,000	26/03/2009 – 26/03/2015	25,000	–	8,500	–	–	26.52	25,000	–
	20/4/2008	23,000	26/03/2009 – 26/03/2015	23,000	–	8,000	23,000	–	26.52	–	–

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 2009	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$)	Options outstanding as at 30 June 2009	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	21/4/2008	66,000	26/03/2009 – 26/03/2015	66,000	–	23,000	–	–	26.52	66,000	–
	23/4/2008	34,000	26/03/2009 – 26/03/2015	19,000	–	6,500	–	–	26.52	19,000	–
	8/12/2008	155,000	8/12/2009 – 8/12/2015	155,000	–	–	–	–	18.30	155,000	–
	9/12/2008	313,000	8/12/2009 – 8/12/2015	313,000	–	–	–	–	18.30	313,000	–
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	2,176,400	–	–	–	–	18.30	2,176,400	–
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	2,294,200	–	–	–	–	18.30	2,294,200	–
	12/12/2008	1,311,500	8/12/2009 – 8/12/2015	1,311,500	–	–	–	–	18.30	1,311,500	–
	13/12/2008	84,500	8/12/2009 – 8/12/2015	84,500	–	–	–	–	18.30	84,500	–
	14/12/2008	88,200	8/12/2009 – 8/12/2015	88,200	–	–	–	–	18.30	88,200	–
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	1,084,700	–	–	–	–	18.30	1,084,700	–
	16/12/2008	581,500	8/12/2009 – 8/12/2015	581,500	–	–	–	–	18.30	581,500	–
	17/12/2008	513,500	8/12/2009 – 8/12/2015	513,500	–	–	–	–	18.30	513,500	–
	18/12/2008	611,500	8/12/2009 – 8/12/2015	611,500	–	–	–	–	18.30	611,500	–
	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	772,500	–	–	–	–	18.30	772,500	–
	23/12/2008	306,000	8/12/2009 – 8/12/2015	306,000	–	–	–	–	18.30	306,000	–
	24/12/2008	500,500	8/12/2009 – 8/12/2015	500,500	–	–	–	–	18.30	500,500	–
	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	148,000	–	–	–	–	18.30	148,000	–
	30/12/2008	19,000	8/12/2009 – 8/12/2015	19,000	–	–	–	–	18.30	19,000	–
	18/6/2009	255,000	12/6/2010 – 12/6/2016	–	255,000	–	–	–	24.50	255,000	–

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

During the six months ended 30 June 2009, 255,000 options to subscribe for shares of the Company were granted to 4 employees under the 2007 Share Option Scheme. Pursuant to the terms of this Scheme, each grantee undertakes to pay HK$1.00, on demand, to the Company, in consideration for the grant of the options (the closing price per share immediately before the date of grant of the options is set out below). The share options granted are recognised on an accrued vesting basis in the accounts. The weighted average value per option granted, estimated at the respective date of grant using the Black-Scholes pricing model is as follows:

Date granted	Closing price per share immediately before the date of grant (HK$)	Estimated risk-free interest rate (%)	Expected life (Years)	Estimated Volatility	Expected dividend per share (HK$)	Weighted average value per option granted (HK$)
18/6/2009	23.65	1.56	3.5	0.31	0.45	5.27

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options and requires input of highly subjective assumptions, including the expected life and stock price volatility. Since the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

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 2009, 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 2009 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)	4,387,526,022	76.82

The Company has been informed by the Government that, as at 30 June 2009, approximately 0.59% 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 2009, the Group had borrowings of HK$25,958 million in aggregate with maturities ranging from 2009 to 2020 and undrawn committed and uncommitted banking and other facilities of HK$17,859 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 Securities

The Company redeemed its US$750 million global notes on 4 February 2009. Prior to redemption, the notes were listed on the Hong Kong Stock Exchange and the Luxembourg Stock Exchange.

Saved as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2009.

Closure of Register of Members

The Register of Members of the Company will be closed from 31 August 2009 to 4 September 2009 (both dates inclusive), during which 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 28 August 2009. The 2009 interim dividend is expected to be paid on or about 23 October 2009 to shareholders whose names appear on the Register of Members of the Company on 4 September 2009.

Consolidated Profit and Loss Account

in HK$ million	Note	**Half year ended 30 June 2009 (Unaudited)**	Half year ended 30 June 2008 (Unaudited)
Fare revenue		**5,527**	5,592
Station commercial and rail related revenue		**1,653**	1,645
Rental, management and other revenue		**1,450**	1,290
Turnover		**8,630**	8,527
Staff costs and related expenses		**(1,614)**	(1,536)
Energy and utilities		**(461)**	(473)
Operational rent and rates		**(91)**	(89)
Stores and spares consumed		**(184)**	(167)
Repairs and maintenance		**(403)**	(359)
Railway support services		**(60)**	(57)
Expenses relating to station commercial and rail related businesses		**(340)**	(388)
Expenses relating to property ownership, management and other businesses		**(369)**	(340)
Project study and business development expenses		**(95)**	(87)
General and administration expenses		**(126)**	(139)
Other expenses		**(88)**	(96)
Operating expenses before depreciation and amortisation		**(3,831)**	(3,731)
Operating profit from railway and related businesses before depreciation and amortisation		**4,799**	4,796
Profit on property developments	3	**2,147**	348
Operating profit before depreciation and amortisation		**6,946**	5,144
Depreciation and amortisation		**(1,464)**	(1,517)
Merger related expenses		**(7)**	(24)
Operating profit before interest and finance charges		**5,475**	3,603
Interest and finance charges		**(854)**	(1,078)
Change in fair value of investment properties		**712**	2,080
Share of profits of non-controlled subsidiaries and associates	4	**74**	91
Profit before taxation		**5,407**	4,696
Income tax	5	**(910)**	(8)
Profit for the period		**4,497**	4,688
Attributable to:			
– Equity shareholders of the Company		**4,498**	4,689
– Minority interests		**(1)**	(1)
Profit for the period		**4,497**	4,688
Earnings per share:	7		
– Basic		**HK$0.79**	HK$0.83
– Diluted		**HK$0.79**	HK$0.83

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 6.

Consolidated Statement of Comprehensive Income

in HK$ million	Note	Half year ended 30 June 2009 (Unaudited)	Half year ended 30 June 2008 (Unaudited)
Profit for the period		**4,497**	4,688
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(3)**	27
– minority interests		**–**	2
		(3)	29
Cash flow hedges: net movement in hedging reserve	9	**84**	34
Self-occupied land and buildings:			
– Net movement in fixed asset revaluation reserve	9	**(45)**	65
– Net movement in retained profits	9	**–**	42
		36	170
Total comprehensive income for the period		**4,533**	4,858
Attributable to:			
– Equity shareholders of the Company		**4,534**	4,857
– Minority interests		**(1)**	1
Total comprehensive income for the period		**4,533**	4,858

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

Consolidated Balance Sheet

in HK$ million	Note	At 30 June 2009 (Unaudited)	At 31 December 2008 (Audited)
Assets			
Fixed assets			
– Investment properties	10	**38,894**	37,737
– Other property, plant and equipment	11	**76,834**	77,804
– Service concession assets	12	**17,401**	15,463
		133,129	131,004
Property management rights		**33**	35
Railway construction in progress		**706**	658
Property development in progress	13	**8,052**	7,895
Deferred expenditure	14	**581**	1,988
Prepaid land lease payments		**560**	567
Interests in non-controlled subsidiaries		**409**	381
Interests in associates	15	**805**	743
Deferred tax assets	24	**14**	11
Investments in securities		**225**	471
Staff housing loans		**9**	10
Properties held for sale	16	**2,932**	2,228
Derivative financial assets	17	**383**	528
Stores and spares		**837**	690
Debtors, deposits and payments in advance	18	**5,800**	7,190
Loan to a property developer	19	**3,816**	3,720
Amounts due from the Government and other related parties	20	**420**	426
Cash and cash equivalents		**997**	793
		159,708	159,338
Liabilities			
Bank overdrafts		**35**	59
Short-term loans		**1,401**	1,646
Creditors, accrued charges and provisions	21	**4,470**	5,334
Current taxation		**1,037**	450
Contract retentions		**217**	224
Amounts due to the Government and a related party	20	**1,297**	882
Loans and other obligations	22	**26,444**	29,584
Obligations under service concession	23	**10,641**	10,656
Derivative financial liabilities	17	**265**	305
Deferred income		**132**	156
Deferred tax liabilities	24	**12,360**	12,220
		58,299	61,516
Net assets		**101,409**	97,822
Capital and reserves			
Share capital, share premium and capital reserve	25	**42,084**	41,119
Other reserves	26	**59,305**	56,682
Total equity attributable to equity shareholders of the Company		**101,389**	97,801
Minority interests		**20**	21
Total equity		**101,409**	97,822

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 asset 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	Minority interests	Total equity
30 June 2009 (unaudited)										
Balance as at 1 January 2009		**41,119**	**960**	**(154)**	**25**	**63**	**55,788**	**97,801**	**21**	**97,822**
Changes in equity for the half year ended 30 June 2009										
– 2008 final dividend	6, 25	**962**	**–**	**–**	**–**	**–**	**(1,925)**	**(963)**	**–**	**(963)**
– Employee share-based payments		**–**	**–**	**–**	**14**	**–**	**–**	**14**	**–**	**14**
– Employee share options exercised	25	**3**	**–**	**–**	**–**	**–**	**–**	**3**	**–**	**3**
– Employee share options lapsed		**–**	**–**	**–**	**(2)**	**–**	**2**	**–**	**–**	**–**
– Total comprehensive income for the period		**–**	**(45)**	**84**	**–**	**(3)**	**4,498**	**4,534**	**(1)**	**4,533**
Balance as at 30 June 2009		**42,084**	**915**	**(70)**	**37**	**60**	**58,363**	**101,389**	**20**	**101,409**
31 December 2008 (audited)										
Balance as at 1 January 2008		39,828	1,170	(25)	7	42	49,992	91,014	23	91,037
Changes in equity for the half year ended 30 June 2008										
– 2007 final dividend	6	868	–	–	–	–	(1,740)	(872)	–	(872)
– Employee share-based payments		–	–	–	9	–	–	9	–	9
– Employee share options exercised	25	23	–	–	(2)	–	–	21	–	21
– Total comprehensive income for the period		–	65	34	–	27	4,731	4,857	1	4,858
Balance as at 30 June 2008		40,719	1,235	9	14	69	52,983	95,029	24	95,053
Changes in equity for the half year ended 31 December 2008										
– 2008 interim dividend	6	394	–	–	–	–	(790)	(396)	–	(396)
– Employee share-based payments		–	–	–	11	–	–	11	–	11
– Employee share options exercised	25	6	–	–	–	–	–	6	–	6
– Total comprehensive income for the period		–	(275)	(163)	–	(6)	3,595	3,151	(3)	3,148
Balance as at 31 December 2008		41,119	960	(154)	25	63	55,788	97,801	21	97,822

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 2009 (Unaudited)		Half year ended 30 June 2008 (Unaudited)
Cash flows from operating activities				
Operating profit from railway and related businesses before depreciation and amortisation	4,799		4,796	
Adjustments for:				
Decrease in provision for obsolete stock	–		(7)	
Loss on disposal of fixed assets	9		8	
Amortisation of prepaid land lease payments	7		8	
Increase in fair value of derivative instruments	(6)		(22)	
Unrealised loss on revaluation of investment in securities	–		2	
Employee share-based payment expenses	19		12	
Exchange loss/(gain)	9		(5)	
Operating profit from railway and related businesses before working capital changes	4,837		4,792	
Decrease in debtors, deposits and payments in advance	118		140	
Increase in stores and spares	(147)		(34)	
Decrease in creditors, accrued charges and provisions	(37)		(226)	
Cash generated from operations	4,771		4,672	
Current tax paid				
Hong Kong Profits Tax paid	(192)		–	
Overseas tax paid	(2)		(3)	
Net cash generated from operating activities		4,577		4,669
Cash flows from investing activities				
Capital expenditure				
– Purchase of operational railway assets	(1,229)		(638)	
– LOHAS Park Station Project	(66)		(107)	
– West Island Line Project	(163)		(137)	
– South Island Line Project	(64)		(30)	
– Kwun Tong Line Extension Project	(44)		(2)	
– Shenzhen Metro Line 4 Project	(320)		(405)	
– Tseung Kwan O property development projects	(148)		(81)	
– East Rail/Light Rail/Kowloon Southern Link property development projects	(24)		(117)	
– Property renovation, fitting out works and other development projects	(133)		(303)	
– Other capital projects	(19)		(67)	
Net receipts/(payments) in respect of Shatin to Central Link and Express Rail Link	17		(43)	
Payments in respect of the Rail Merger	(12)		(204)	
Receipts in respect of property development	2,523		3,222	
Receipt of Government grant for West Island Line Project	–		400	
Purchase of investment in securities	(23)		(113)	
Proceeds from sale of investment in securities	263		56	
Loan repayments from non-controlled subsidiaries and associates	–		109	
Investment in associates	(55)		(515)	
Dividend received from non-controlled subsidiaries	40		23	
Principal repayments under Staff Housing Loan Scheme	1		4	
Net cash generated from investing activities		544		1,052
Cash flows from financing activities				
Proceeds from shares issued under share option schemes	3		21	
Drawdown of loans	6,652		3,891	
Proceeds from issuance of capital market instruments	500		1,250	
Repayment of loans	(4,318)		(8,324)	
Repayment of capital market instruments	(6,111)		(1,000)	
Interest paid	(650)		(630)	
Interest received	6		8	
Finance charges paid	(13)		(8)	
Dividends paid	(962)		(870)	
Net cash used in financing activities		(4,893)		(5,662)
Net increase in cash and cash equivalents		228		59
Cash and cash equivalents at 1 January		734		574
Cash and cash equivalents at 30 June		962		633
Analysis of the balances of cash and cash equivalents				
Cash and cash equivalents		997		660
Bank overdrafts		(35)		(27)
		962		633

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 2008 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2009 annual accounts. Details of these changes in accounting policies are set out in subsequent paragraphs.

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

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

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

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

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

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

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

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

1 Basis of Preparation *(continued)*

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

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

2 Rail Merger with Kowloon-Canton Railway Corporation

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

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance;
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted;
- Property Package Agreements whereby property assets comprising certain investment and own-used properties, property management rights and property development rights were acquired by the Company;
- Merger Framework Agreement setting out the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism whereby the extent to which fares may be adjusted is linked to certain public indices, the provision of a fare reduction starting from the Appointed Day and the guarantee of job security for front line staff employed at the time of the Rail Merger;
- Pursuant to the above and the vesting and novation of certain contracts, the Company assumed certain assets and liabilities of KCRC on the Appointed Day. The assumption of the liabilities of deposits refundable to third parties was subject to compensation by KCRC on the Appointed Day; and
- Other post-Appointed Day arrangements between the Company and KCRC such as the arrangements documented by the Kowloon Southern Link ("KSL") Project Management Agreement, the West Rail Agency Agreement and the Outsourcing Agreement.

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

3 Profit on Property Developments

Profit on property developments comprises:

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

4 Share of Profits of Non-controlled Subsidiaries and Associates

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

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

5 Income Tax

Income tax in the consolidated profit and loss account represents:

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

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

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

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

6 Dividends

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

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

7 Earnings Per Share

A Basic earnings per share

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

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

B Diluted earnings per share

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

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

7 Earnings Per Share *(continued)*

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

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

8 Segmental Information

The Group manages its businesses through the various business executive committees. On first-time adoption of HKFRS 8 "Operating Segments" and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments.

- Railway operations: The operation of an urban mass transit railway system within Hong Kong including the ex-KCRC system, an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway service, light rail and bus services in the north-west New Territories, intercity passenger services and freight business.
- Station commercial and rail related businesses: Commercial activities including letting of advertising, retail and car parking space at railway stations, bandwidth services on the railway telecommunication system and rail related subsidiaries' businesses.
- Hong Kong property rental and management: The letting of retail and car parking space in investment properties and the provision of estate management services in Hong Kong.
- Property developments: Property development at locations relating to the railway system.
- All others: Including operations relating to the Ngong Ping 360, railway consultancy services, rental and estate management services in Mainland of China and share of profits of non-controlled subsidiaries and associates.

8 Segmental Information *(continued)*

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

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

9 Other Comprehensive Income

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

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

10 Investment Properties

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

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

11 Other Property, Plant and Equipment

A Acquisitions and disposals

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

B Valuation

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

12 Service Concession Assets

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

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

13 Property Development in Progress

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

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

14 Deferred Expenditure

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

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

15 Interests in Associates

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

16 Properties Held for Sale

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

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

17 Derivative Financial Assets and Liabilities

Derivative financial assets and liabilities comprise:

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

18 Debtors, Deposits and Payments in Advance

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

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

(ii) Rentals, advertising and telecommunications service fees are billed monthly with due dates ranging from immediately due to 50 days. Tenants of the Group's investment properties and station kiosks are required to pay three months' rental deposit upon the signing of lease agreements.

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

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

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

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

The ageing of debtors is analysed as follows:

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

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

19 Loan to a Property Developer

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

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

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

20 Material Related Party Transactions

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

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

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

The amount due from the Government related to outstanding receivables and retention, as well as provision for contract claims recoverable from the Government, in connection with infrastructure works entrusted to the Company, reimbursable costs incurred by the Company for West Rail property developments and outstanding receivables in respect of the costs recoverable from the Government for the Shatin to Central Link and Express Rail Link projects. The amount due to the Government related to land costs in respect of the West Island Line project.

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

The amount due from KCRC related to KCRC's cost sharing of the Rail Merger integration works, payments to the Company in respect of the Outsourcing Agreement and KSL Project Management Agreement, costs on certain capital works recoverable from KCRC in accordance with the Merger Framework Agreement as well as certain reimbursable expenditures of KCRC settled by the Company on KCRC's behalf. The amount due to KCRC related to mandatory payments and relating interest payable to KCRC in respect of the East Rail Line / Light Rail / Kowloon Southern Link property development sites as well as the accrued portion of the fixed annual payment for the service concession.

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

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

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

20 Material Related Party Transactions *(continued)*

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

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

21 Creditors, Accrued Charges and Provisions

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

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

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

22 Loans and Other Obligations

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

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

The above notes were issued by a subsidiary, MTR Corporation (C.I.) Limited. The notes issued are unconditionally and irrevocably guaranteed by the Company, and are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of MTR Corporation (C.I.) Limited. The obligations of the Company under the guarantee are direct, unsecured, unconditional and unsubordinated to other unsecured and unsubordinated obligations of the Company. The net proceeds received from the issues were on lent to the Company for general working capital, refinancing or other corporate purposes.

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

23 Obligations under Service Concession

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

24 Deferred Tax Assets and Liabilities

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

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
30 June 2009 (Unaudited)						
At 1 January 2009	**8,323**	**3,822**	**105**	**(30)**	**(11)**	**12,209**
Charged/(credited) to consolidated profit and loss account	**(10)**	**117**	**22**	**–**	**–**	**129**
Charged/(credited) to reserves	**–**	**(9)**	**–**	**17**	**–**	**8**
At 30 June 2009	**8,313**	**3,930**	**127**	**(13)**	**(11)**	**12,346**
31 December 2008 (Audited)						
At 1 January 2008	8,809	4,126	215	(5)	(575)	12,570
Effect on deferred tax balances resulting from a change in tax rate	(503)	(235)	(12)	–	32	(718)
Charged/(credited) to consolidated profit and loss account	17	(24)	(98)	–	532	427
Charged/(credited) to reserves	–	(45)	–	(25)	–	(70)
At 31 December 2008	8,323	3,822	105	(30)	(11)	12,209

B Deferred tax assets and liabilities recognised amount to:

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

25 Share Capital, Share Premium and Capital Reserve

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

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

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

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

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

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

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

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

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

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

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

26 Other Reserves

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties, net of tax of HK$19,047 million (31 December 2008: HK$18,417 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2009, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$38,598 million (31 December 2008: HK$36,562 million).

27 Defined Benefit Retirement Plan Obligations

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

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

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

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

28 Capital Commitments

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

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

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

B The commitments under railway operations comprise the following:

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

28 Capital Commitments *(continued)*

C Investments in Mainland of China

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

In May 2005, the Group and the Shenzhen Municipal People's Government initialled the Project Concession Agreement to build Phase 2 of Shenzhen Metro Line 4 and to operate both Phases 1 and 2 of the metro line for a period of 30 years by MTR Corporation (Shenzhen) Limited, the Company's wholly owned subsidiary established in Shenzhen. On 18 March 2009, the Project Concession Agreement was signed. Total investment of the project is estimated at RMB6.0 billion (HK$6.8 billion) which will be financed by equity capital contributed by the Group of RMB2.4 billion (HK$2.7 billion) and the balance by bank loans in Renminbi. On 15 May 2009, a financing agreement with a bank in Mainland of China was signed for the provision of a financing package in the aggregate amount of RMB4.0 billion to the project. The financing package comprises a RMB3.6 billion 20-year loan and other credit facilities, and is secured by certain future revenues from and interest in insurance policies covering the project. Design and tendering as well as expanded trial section works are in progress. As at 30 June 2009, the Group had outstanding contract commitments totalling HK$1,433 million (31 December 2008: HK$859 million) related to the project.

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

D Investments in Europe and Australia

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

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

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

29 Post Balance Sheet Events

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

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

30 Approval of Interim Financial Report

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

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 2009 and the related consolidated profit and loss account, statement of comprehensive income, statement of changes in equity and 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 2009 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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Central, Hong Kong
11 August 2009

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