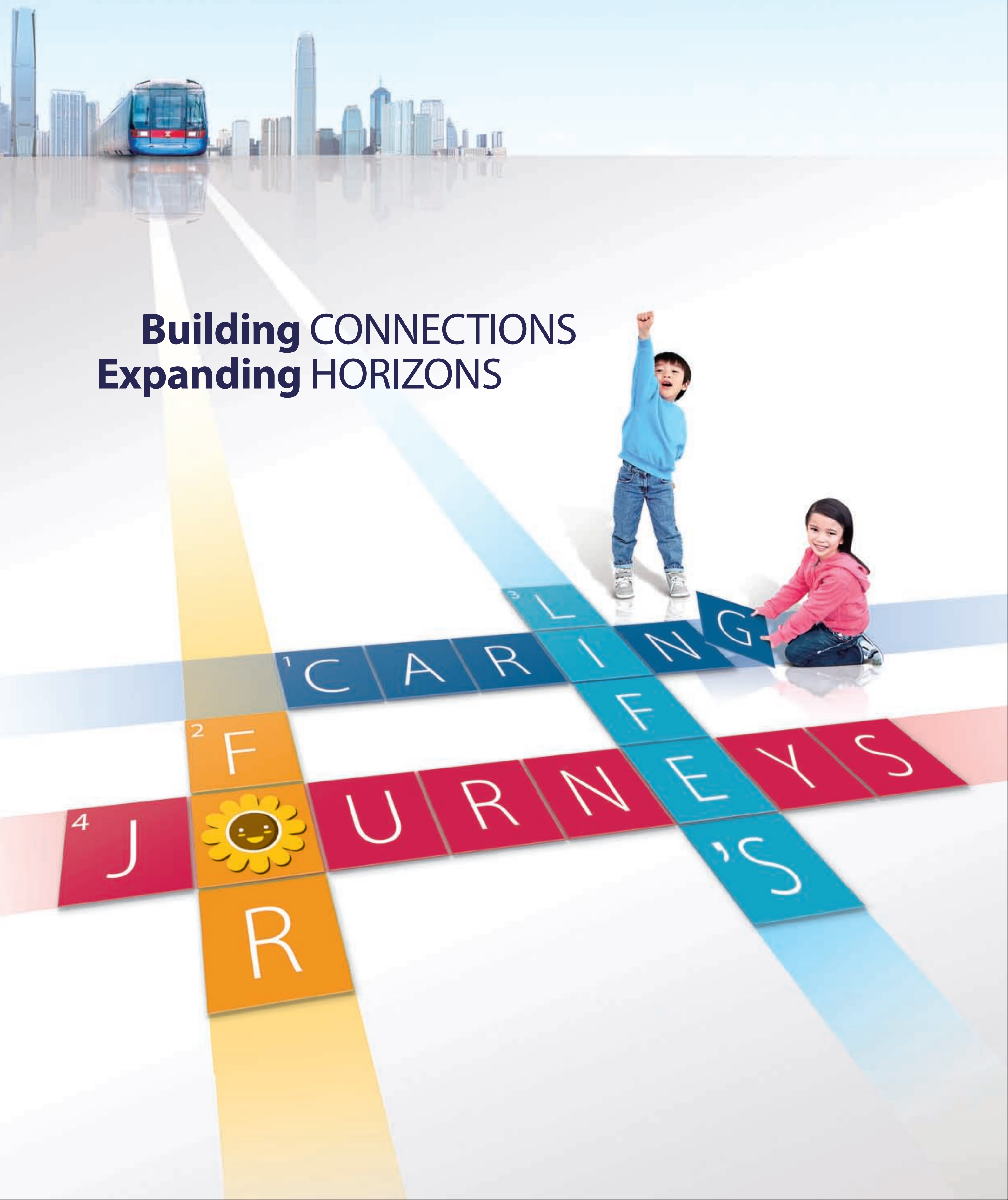
INTERIM REPORT 2010

MTR

Building CONNECTIONS
Expanding HORIZONS



10

Property and Other Businesses

7

Hong Kong Passenger Services

9

Station Commercial and Rail Related Businesses

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

- Revenue from Hong Kong recurrent businesses increased by 7.2% to HK$9,250 million
- Incremental revenue contribution from new railway franchises overseas of HK$4,852 million
- EBITDA margin, excluding railway franchises outside of Hong Kong, increased by 1.4% points to 57.1%
- Property development profit of HK$3,705 million
- Profit from underlying businesses (i.e. net profit attributable to equity shareholders, excluding investment property revaluation and related deferred tax) of HK$5,720 million
- Net profit attributable to equity shareholders, including investment property revaluation, of HK$6,639 million
- Net assets increased 5.3% to HK$112,138 million
- Net debt/equity ratio improved to 15.0%
- Interim dividend maintained at HK$0.14 per share

Operational

- Total patronage from all Hong Kong passenger services increased by 6.5% to 773.4 million
- Implementation of Fare Adjustment Mechanism on 13 June 2010
- Successful pre-sale of Festival City Phase 1 at Tai Wai Maintenance Centre with approximately 78% units sold
- Property tender of Austin Station sites C and D awarded
- Entrustment agreement for Express Rail Link construction signed
- Concession agreement for Hangzhou Metro Line 1 signed
- Shenzhen Metro Line 4 Phase 1 operation was taken over on 1 July 2010

Contents

Legend

- Station
- Interchange Station
- Proposed Station
- Proposed Interchange Station
- 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

Projects in Progress

- Guangzhou-Shenzhen-Hong Kong Express Rail Link
- West Island Line

Extensions under Study

- Kwun Tong Line Extension
- Shatin to Central Link
- South Island Line (East)

Potential Future Extensions

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

Properties Owned / Developed / Managed by the Corporation

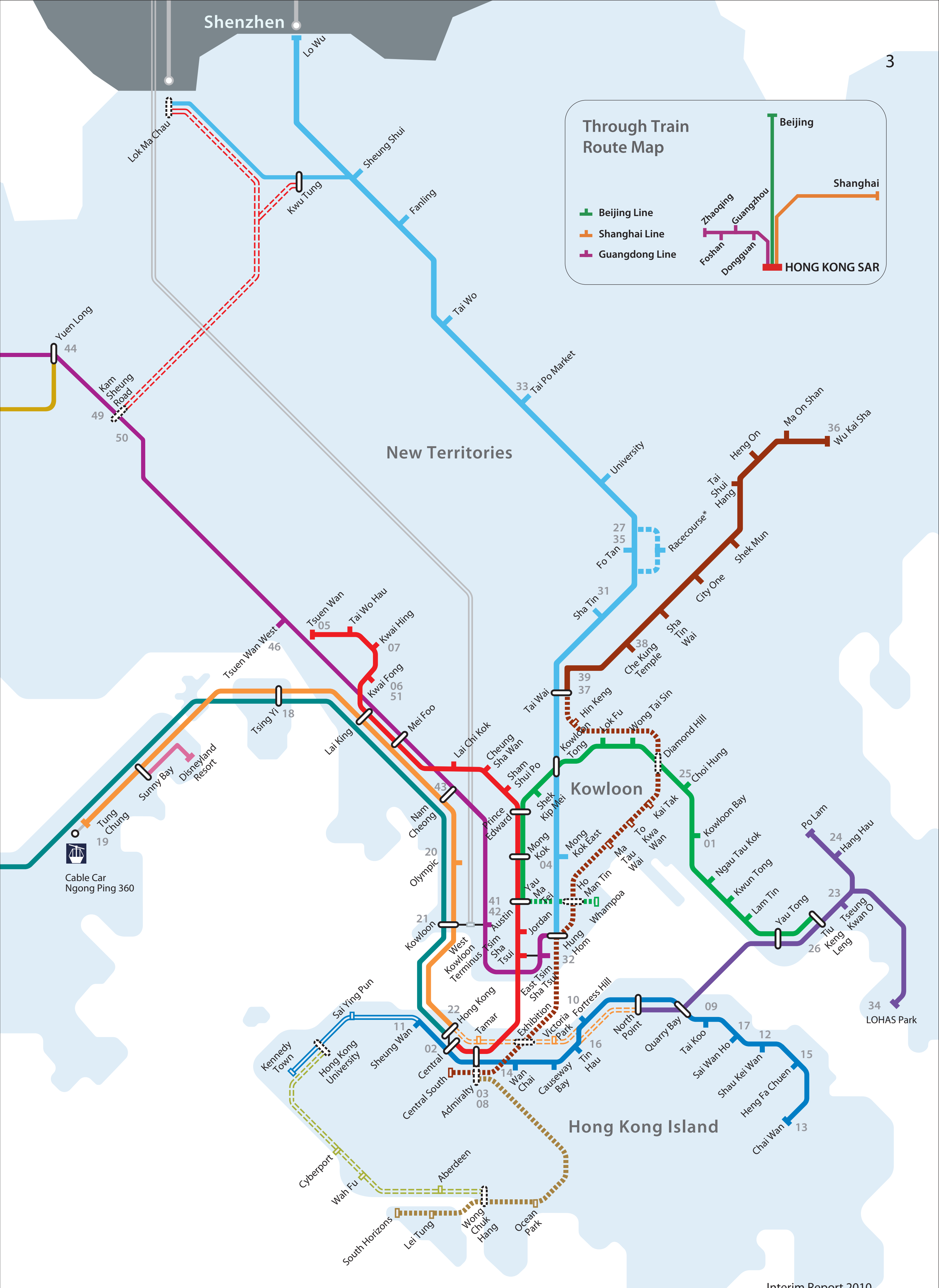
01 Telford Gardens / Telford Plaza I and II
02 World-wide House
03 Admiralty Centre
04 Argyle Centre
05 Luk Yeung Sun Chuen / Luk Yeung Galleria
06 New Kwai Fong Gardens
07 Sun Kwai Hing Gardens
08 Fairmont House
09 Kornhill / Kornhill Gardens
10 Fortress Metro Towers
11 Hongway Garden / Vicwood Plaza
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 / Le Prestige
35 The Palazzo
36 Lake Silver
37 Festival City (Phase 1)

Property Developments under Construction / Planning

23 Tseung Kwan O Station Area 56
34 LOHAS Park Package 2-10
37 Tai Wai Maintenance Centre (Phases 2 & 3)
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
Sheung Shui
Kwu Tung
Fanling
Tai Wo
Tai Po Market
University
Fo Tan
Racecourse*
Sha Tin
Tai Wai
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
Tsing Yi
Sunny Bay
Disneyland Resort
Tung Chung
Cable Car Ngong Ping 360
Nam Cheong
Olympic
Kowloon
West Kowloon Terminus
Austin
Prince Edward
Mong Kok
Yau Ma Tei
Jordan
Tsim Sha Tsui
East Tsim Sha Tsui
Hung Hom
Shek Kip Mei
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
Po Lam
Hang Hau
LOHAS Park
Kowloon
Mong Kok East
Kai Tak
To Kwa Wan
Ma Tau Wai
Ho Man Tin
Whampoa
Hin Keng
Che Kung Temple
Sha Tin Wai
City One
Shek Mun
Tai Shui Hang
Heng On
Ma On Shan
Wu Kai Sha
Kennedy Town
Hong Kong University
Sai Ying Pun
Sheung Wan
Central
Hong Kong
Tamar
Exhibition
Admiralty
Central South
Wan Chai
Causeway Bay
Victoria Park
Tin Hau
Fortress Hill
North Point
Quarry Bay
Tai Koo
Sai Wan Ho
Shau Kei Wan
Heng Fa Chuen
Chai Wan
Hong Kong Island
Cyberport
Wah Fu
Aberdeen
South Horizons
Lei Tung
Wong Chuk Hang
Ocean Park
Through Train Route Map
Beijing Line
Shanghai Line
Guangdong Line
Beijing
Shanghai
Zhaoqing
Guangzhou
Foshan
Dongguan
HONG KONG SAR

■ **Good financial performance in the period was aided by the recovery in the economy.** ■

Dear Shareholders and other Stakeholders,

I am pleased to report to you the interim results of MTR Corporation for the six months ended 30 June 2010, which show the Company's continued strong momentum.

Good financial performance in the period was aided by the recovery in the economy. Our recurrent businesses benefited from good patronage growth and strong results in both our station retail and property rental businesses, as well as a decent upturn in the economically sensitive advertising business. Our property development business recorded strong results, mainly from profits relating to Le Prestige at LOHAS Park as well as the disposal of unsold units of The Palazzo and Lake Silver. The first half of 2010 also incorporated the results of three Mainland of China and international franchises, namely Beijing Metro Line 4, Stockholm Metro and Melbourne Metropolitan Train.

Financial Results

We achieved good financial results for the half year, with revenue rising by 63.4% to HK$14,102 million, mainly due to the continued recovery in the Hong Kong economy and expansion outside Hong Kong. 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 46.6% to HK$5,720 million. Including investment property revaluation, our net profit attributable to equity shareholders was HK$6,639 million and earnings per share were HK$1.16. Your Board has declared an interim dividend of HK$0.14 per share.

Growth Strategy

The five new railway projects currently under design or construction in Hong Kong will extend our services to new districts and further integrate our network into that of the Mainland of China, including the rapidly expanding high speed rail network. This will underpin the competitiveness of Hong Kong, bring economic benefits to communities along the new railway lines and contribute to Government's efforts to improve the environment. We are making good progress in the construction of the West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link. The South Island Line (East), the Kwun Tong Line Extension and the Shatin to Central Link are in various stages of detailed design.

In the Mainland of China, we took over Phase 1 of Shenzhen Metro Line 4 on 1 July 2010, with Phase 2, which is in the advanced stages of construction, expected to commence operation in mid 2011. Beijing Metro Line 4 (BJL4) began passenger service in September 2009. An extension of BJL4, the Daxing Line, will be operated by our BJL4 Public-Private-Partnership (PPP) Company and will commence operations towards the end of this year. Our latest Mainland venture is the PPP project for the investment in, construction and operations of the Hangzhou Metro Line 1. We hold a 49% interest in the venture, which is in the process of securing Government approvals.

Sustainability and Corporate Responsibility

Sustainable development, which the Brundtland Commission defined as the ability to "meet the needs of the present without compromising the ability of future generations to meet their own needs", has for many years been at the heart of how we develop and manage our businesses.

The issues raised by sustainable development determine how we engage with our own staff, as well as our contractors, suppliers, and other stakeholders. Sustainable development extends to a concern for the well-being of the communities that we serve, including those outside Hong Kong. Our growth as a company therefore relies critically on our commitment to striving for the highest standards of corporate responsibility locally as well as internationally.

To this end, for the past 10 years, we have measured how we perform with respect to sustainability and reported this in a separate sustainability report. We apply the internationally recognised Global Reporting Initiative's GRI G3 Sustainability Reporting Guidelines and the AA1000 AccountAbility Principles of inclusivity, materiality and responsiveness in our sustainability reporting. We have commissioned PricewaterhouseCoopers Hong Kong to give an independent assurance report on selected quantitative data in the report.

In 2006, we issued a Climate Change Policy to guide our work in managing carbon emissions, not just in relation to our railway operations, but also our capital works projects and property management and development. We continue to make every effort to reduce energy consumption. For example, the electricity consumption per revenue car-km has been reduced from 5.94 kWh in 2005 to 4.86 kWh in 2009, a reduction of 18%. This has been achieved through various energy saving initiatives, such as replacement of motor-alternators with static inverters for our trains, and optimisation of station environmental control systems. In February 2010, we began the tendering process for a programme to install LED lighting in all 136 trains on the Kwun Tong, Tsuen Wan, Island, Tseung Kwan O and Tung Chung lines as well as the Airport Express. Since June 2010, two light poles powered by wind and solar energy have been installed on Finance Street near Two IFC to provide additional street level illumination at night time.

We are proud to be named in the "Sustainability Yearbook 2010", the world's most comprehensive publication on corporate sustainability performance, as the most sustainable company in the global travel and tourism industry. The Company was also the only Hong Kong company to make the "Global 100" list of the world's 100 most sustainable companies. Although not directly related to sustainability, the Company also won five top honours including "Hong Kong's Best Managed Company" in the annual Finance Asia awards this year.

We remain a constituent stock in the Dow Jones Sustainability World Index (DJSI World), Dow Jones Sustainability Asia Pacific Index (DJSI Asia/Pacific) and the FTSE4Good Index. In July 2010, MTR Corporation was selected as a constituent of the Hang Seng Corporate Sustainability Index – the first index of its kind in Hong Kong.

Community Initiatives

We fully recognise the interrelationship between our growth as a company and the well-being of the communities we serve. We have benefited from the full-scale community engagement programme we introduced for the planning and design of the West Island Line. We are now drawing on this experience to enhance the way we engage with the community on our other new projects, such as the Shatin to Central Link and the South Island Line (East).

Culture and heritage are among the most important aspects of community life and we have numerous programmes in place to support them. In the first half of 2010, our long running "art in mtr – art in station architecture" programme saw two artists from the Mainland of China add to the art made available to the public in our railway network. The young artist Feng Shu's artwork "Post Period of Insects" was installed in Tai Wai Station, while Jiang Shu's "Bauhinia Rider", symbolising Hong Kong's rise from fishing village to global financial centre, was installed in Lok Ma Chau Station.

To remind passengers of Hong Kong's past, one station in each of the 17 districts of Hong Kong was selected for the display of historic photographs of these districts. The photographs were contributed by members of the public, companies and other organisations as part of our continuing History Alive programme. Highlights of photographs from all 17 districts were put on display in Choi Hung Station. More permanent photographic displays for the new West Island Line will come from the "Our Memories of Western District Photographic Competition", which is part of the "MTR West Island Line Community Art Programme", a joint venture with the Central and Western District Council.

We continue to encourage our colleagues to take part in community service. During these first six months of the year, there were 90 volunteering community service projects under our "More Time Reaching Community" scheme involving over 1,700 volunteers.

The young and the elderly are a particular focus of our outreach programme. To help students broaden their horizons and equip them with useful life skills, a new community initiative "'Friend' for life's journeys" has been launched, in which 100 young staff members paired up with 100 secondary school students to act as their mentors. For the elderly, we launched the "Elderly Ambassadors" programme in February this year where Elderly Ambassadors, aged between 55 and 65, were recruited to provide assistance and show care to passengers in stations, especially the elderly. The initial trial at Sham Shui Po Station has been successful and the programme has been extended to Mei Foo Station, serving another district of Hong Kong with a relatively high proportion of elderly people.

In April 2010, the sixth MTR HONG KONG Race Walking event was held in Central and over HK$1.13 million was raised for the Hospital Authority's Health InfoWorld to support its work on disease prevention and health education.

Conclusion

To grow our businesses in a way that is sustainable requires above all a common commitment to our mission and values. Sound governance and a management team capable of bringing out the best in our more than 20,000 capable staff is what generates the results that earn the trust of staff, customers, shareholders and other stakeholders. I would like to thank my fellow directors, our staff and all our stakeholders for their enduring support as we move forward. I would also like to welcome Mr Alasdair George Morrison who joined the Board in July 2010 as an independent non-executive Director of the Company.

Raymond K.F. Chien

Dr. Raymond Ch'ien Kuo-fung, *Chairman*
Hong Kong, 12 August 2010

Our recurrent businesses in Hong Kong saw higher revenues, as an improving economy led to good patronage growth and higher rental reversions in our property investment and station retail businesses, together with a rebound in our advertising business.

Dear Shareholders and other Stakeholders,

I am pleased to report that all of our businesses performed strongly in the first six months of 2010. Our recurrent businesses in Hong Kong saw higher revenues, as an improving economy led to good patronage growth and higher rental reversions in our property investment and station retail businesses, together with a rebound in our advertising business. Adjustment of fares under the Fair Adjustment Mechanism, which was adopted as part of the Rail Merger in 2007, took place on 13 June 2010 resulting in an upward adjustment, on a weighted average basis, of 2.05%. This was the first upward adjustment of the rail fares since 1997. Our property development business achieved good results as the Hong Kong property market continued to benefit from the low interest rate environment.

The Company's businesses outside Hong Kong contributed to our financial results. In the Mainland of China, Beijing Metro Line 4 (BJL4), our Public-Private-Partnership (PPP) project in the capital city, opened for passenger service in September 2009. Operating performance has been very good and the line already carries over 600,000 passengers per day. Overseas, we continued to drive service improvements at London Overground in the UK, the Stockholm Metro in Sweden and the Melbourne metropolitan train network in Australia. Improvement programmes in asset management and operating practices are being introduced in these franchises with the objective to raise service standards.

Our growth strategy also remains on track. In Hong Kong, we are engaged in five new railway projects. This network expansion is extending our connections throughout Hong Kong and to the new high speed rail network in the Mainland of China. This will enhance connectivity for our passengers and so strengthen the Company's market position. During the first six months, we made considerable headway in the construction of the West Island Line and the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Express Rail Link) as well as in the detailed design for the South Island Line (East), Kwun Tong Line Extension and Shatin to Central Link.

In the Mainland of China, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a concession agreement with the Hangzhou Municipal Government under a PPP project for the investment in, construction and operation of the Hangzhou Metro Line 1 (HZL1), and we are in the process of securing Government approvals. In Beijing, our BJL4 PPP Company is making good headway in preparing for the opening of the Daxing extension of BJL4 towards the end of the year. In Shenzhen, we took over operations of Phase 1 of Shenzhen Metro Line 4 (SZL4) on 1 July whilst construction works are progressing well on Phase 2.

The Company's results for the first half of 2010 reflected the continued recovery in the Hong Kong economy as well as results from our new railway businesses outside Hong Kong. Revenue, which now includes revenue from our overseas railway franchises, increased by 63.4% to HK$14,102 million while operating profit from railway and related businesses before depreciation and amortisation increased by 14.3% to HK$5,491 million. Excluding our overseas railway subsidiaries, revenue increased by 7.2%, operating profit increased by 9.9% and operating margin improved by 1.4 percentage points to 57.1%. Property development profit was HK$3,705 million compared to HK$2,147 million in the same period in 2009 with development profits coming mainly from Le Prestige at LOHAS Park as well as the sale of unsold units in The Palazzo at Fo Tan and Lake Silver at Wu Kai Sha. Excluding investment properties revaluation and the related deferred tax, net profit from underlying businesses attributable to equity shareholders increased by 46.6% to HK$5,720 million, due to the strong results from our recurrent businesses and the higher property development profits recognised in the period. Gain in revaluation of investment properties was HK$1,101 million pre-tax (HK$919 million post-tax) compared with HK$712 million pre-tax in 2009. As a result, net profit attributable to equity shareholders was HK$6,639 million, an increase of 47.6% from 2009. Reported earnings per share were HK$1.00 before investment property revaluation and HK$1.16 after such revaluation. Your Board has declared an interim dividend of HK$0.14 per share.

Hong Kong Passenger Services

■ **Our overall share of the franchised public transport market in Hong Kong rose to 43.7% in the first five months of 2010...** ■

Our Hong Kong fare revenue, including both rail and bus passenger services, was HK$5,933 million in the first half of 2010, an increase of 7.3% over the same period of 2009.

Patronage

In the first six months of 2010, total patronage for all of our rail and bus passenger services in Hong Kong increased by 6.5% to 773.4 million as compared to 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 623.5 million, a 6.3% increase over the comparable period in 2009. This increase was due to the strong economic growth in Hong Kong as well as the opening of the LOHAS Park Station and the Kowloon Southern Link (including Austin Station) in the third quarter of last year.

The Cross-boundary Service at Lo Wu and Lok Ma Chau achieved patronage of 48.7 million in the first six months of 2010, representing an increase of 6.4%.

Passengers using the Airport Express in the first half of 2010 rose by 9.4% to 5.1 million, mainly due to a rebound in air travel that accompanied the economic recovery.

Passenger volume on Light Rail, Bus and Intercity was 96.1 million in the first six months of 2010, an increase of 7.7% compared with the same period of 2009.

Market Share

Our overall share of the franchised public transport market in Hong Kong rose to 43.7% in the first five months of 2010 as compared to 42.0% for the same period last year. Within this total, our share of cross-harbour traffic increased to 64.6% from 63.4%. As regards to the Cross-boundary business, our market share in the first half of 2010 declined to 54.8% from 55.4% in the same period in 2009 due to continued tough competition.

Fare Revenue

Of total Hong Kong fare revenue of HK$5,933 million in the first half of 2010, Domestic Service revenue accounted for HK$4,114 million, an increase of 7.4% when compared with the same period last year. Average fare per passenger on our Domestic Service increased by 1.1% to HK$6.60 mainly due to the opening of the Kowloon Southern Link that connects the West Rail Line with the East Rail Line, which has resulted in some passengers taking longer distance trips.

Fare revenue of the Cross-boundary Service was HK$1,203 million for the first six months of 2010, an increase of 6.2% when compared with the same period in 2009. Fare revenue of the Airport Express was HK$324 million in the first half of 2010, representing an increase of 12.1%.

On 13 June 2010, an adjustment was made to fares in accordance with the Fare Adjustment Mechanism, which was adopted as part of the Rail Merger in 2007. The weighted average adjustment of all applicable fares was +2.05%, calculated in accordance with the agreed methodology which is based on the change in the Composite Consumer Price Index and Transport Wage Index in 2009, plus the adjustment rate carried forward from 2009. For 83% of all passenger trips, the adjustment was 20 Hong Kong cents or less, including about 10% of passenger trips which experienced no change in fares.

Attracting Patronage

We launched a number of promotions designed to draw additional passengers to the network. These included a Valentine Promotion to promote leisure travel and MTR shop coupons for Octopus users who accumulated fares of HK$100 on weekdays. In May, we launched an iPhone application providing users with information for journey planning and facilities in our stations, which soon ranked as number one amongst App Store applications in Hong Kong. Enhanced fare promotions for the elderly were extended into 2011.

To attract more tourists to our network, a number of promotions were implemented throughout the period. A Tourist Ticket Value Pack was launched, providing tourists buying such tickets discount offers from six local major attractions or sightseeing services. A joint promotion with Asia Miles was launched in March to promote the purchase of Airport Express tickets

Operations Performance in First Half 2010

Service performance item	Performance Requirement	Customer Service Pledge target	**Actual Performance**
Train service delivery			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.5%	99.5%	**99.8%**
– 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 and Disneyland Resort Line	98.5%	99.5%	**99.9%**
– Airport Express	98.5%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.0%	**99.9%**
– West Rail Line	98.5%	99.0%	**99.9%**
Train punctuality			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line and Disneyland Resort Line	98.0%	99.0%	**99.7%**
– Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.7%**
– Light Rail	98.0%	99.0%	**99.9%**
Train reliability: train car-km per train failure causing delays ≥5 minutes			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	N/A	500,000	**2,449,986**
– East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	500,000	**2,090,911**
Ticket reliability: magnetic ticket transactions per ticket failure			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line, Airport Express, East Rail Line (including Ma On Shan Line) and West Rail Line	N/A	8,000	**36,524**
Add value machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– West Rail Line	98.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.6%**
Ticket machine reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.5%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.7%**
– West Rail Line	97.0%	99.0%	**99.7%**
– Light Rail	N/A	99.0%	**99.9%**
Ticket gate reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	97.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	97.0%	99.0%	**99.9%**
– West Rail Line	97.0%	99.0%	**99.8%**
Light Rail platform Octopus processor reliability	N/A	99.0%	**99.9%**
Escalator reliability			
– Kwun Tong Line, Tsuen Wan Line, Island Line, Tseung Kwan O Line, Tung Chung Line, Disneyland Resort Line and Airport Express	98.0%	99.0%	**99.9%**
– East Rail Line (including Ma On Shan Line)	98.0%	99.0%	**99.9%**
– 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 and Airport Express	98.5%	99.5%	**99.7%**
– East Rail Line (including Ma On Shan Line)	98.5%	99.5%	**99.9%**
– West Rail Line	98.5%	99.5%	**99.9%**
Temperature and ventilation			
– Trains, except Light Rail: to maintain a cool, pleasant and comfortable train environment generally at or below 26°C	N/A	97.0%	**99.9%**
– Light Rail: on-train air-conditioning failures per month	N/A	<3	**0**
– Stations: to maintain a cool, pleasant and comfortable environment generally at or below 27°C for platforms and 29°C for station concourses, except on very hot days	N/A	90.0%	**99.8%**
Cleanliness			
– Train compartment: cleaned daily	N/A	98.5%	**99.9%**
– Train exterior: washed every 2 days (on average)	N/A	99.0%	**100%**
Northwest Transit Service Area Bus Service			
– Service Delivery	N/A	99.0%	**99.8%**
– Cleanliness: washed daily	N/A	99.0%	**100%**
Passenger enquiry response time within 6 working days	N/A	99.0%	**99.9%**

and tourists passes through Online Ticketing. In addition, we partnered with Hong Kong Tourism Board to launch a "Hong Kong Child Goes Free" campaign targeted at travellers from the Mainland and other short haul destinations such as Korea, Japan and the Philippines. We also organised themed tours on our Intercity Through Trains together with local travel agencies and revamped the Intercity website. We are pleased that "Ktt", the Intercity train managed by the Company that runs between Hong Kong and Guangzhou, was appointed an official carrier for the Asian Games in Guangzhou which will take place in November this year.

We continue our work on improving service connectivity, including new entrances and walkways. The most notable addition during the first six months was at Tsim Sha Tsui Station, where the recent opening of the Middle Road Subway Extension and two new exits has enhanced connectivity to shops, businesses and points of interest in the area, allowing passengers comfortable all-weather access. The installation of wide gates was completed at Kwai Fong, Kwai Hing, Kowloon Tong, University, Racecourse and Sheung Shui stations.

Following the opening of the Kowloon Southern Link, connecting the West Rail Line to Hung Hom Station, six new Light Rail vehicles have entered service to cater for the increased demand on the light rail system feeding passengers into the West Rail Line. In anticipation of growing passenger demand for the Shanghai-Kowloon Through Train services arising from the Shanghai World Expo, one additional coach with 66 hard sleepers was added starting from May 2010.

Service and Performance

We continue to exceed all the performance standards as stipulated in the Operating Agreement and our own more stringent Customer Service Pledges. Train service delivery, passenger journeys on time and train punctuality were at 99.7% or above. Cleanliness targets were at or exceeded 99.9%.

The service excellence which the Company continually provides gained us a wide array of awards, including the Hong Kong Service Award in the Public Transportation Category presented by East Week magazine. The Company was also a category award winner in the Public Transportation Category of the Sing Tao Excellent Services Brand Award 2009 organised by Sing Tao Daily, and in the Top Service Awards 2010 organised by Next Magazine.

Station Commercial and Rail Related Businesses

■ Revenue from our station commercial and rail related businesses increased by 4.8% over the first half of 2009 to HK$1,732 million. ■

Revenue from our station commercial and rail related businesses increased by 4.8% over the first half of 2009 to HK$1,732 million. The increase was due mainly to a recovery in the advertising business as well as good rental reversions and increase in area for our station shops.

Station retail revenue in the first six months of 2010 was HK$849 million, 7.1% higher than the first half of 2009. The rise in revenue reflects the increase in the area and number of shops, together with increased rental rates resulting from a refinement of trade mix and favourable renewal rates.

During the six months, the total number of station shops increased by 18 from 1,228 at the end of 2009 to 1,246 at the end of June this year, as renovations were completed at Tsing Yi, Tsim Sha Tsui and Sheung Shui stations. The total area of station retail space increased by 684 square metres to 53,472 square metres following completion of the renovations.

Advertising revenue in the first half of 2010 was HK$322 million, an increase of 19.3% over the comparable period in 2009. However, this is still lower than the 2008 level. During the first half of the year, we revamped 587 advertising panels on the East Rail Line, modernising their appearance and enabling a higher quality of presentation.

Revenue from our telecommunications business in the first six months of 2010 rose by 3.0% to HK$136 million, due to incremental income from mobile networks at new stations, as well as rentals from new rooftop sites as operators expanded their network coverage. In May this year, the Company concluded an agreement with two telecom operators to participate in a 3G Capacity Enhancement Project to double 3G capacity in 15 stations in prime locations. To improve mobile phone services further, the Company signed an agreement in June 2010 with another telecom operator to upgrade all its 3G mobile phone equipment along the railway.

Revenue from external consultancy in the first half of 2010 was HK$60 million, a decrease of 29.4% over the first half of 2009, following completion of the Airport Authority Hong Kong Automatic People Mover Modification Works project in June last year.

Property and Other Businesses

The Hong Kong property market remained generally well supported for the first half of 2010, as interest rates remained low and market sentiment generally positive.

Property Development

Profit from property development for the first six months of 2010 was HK$3,705 million, with the major contribution coming from Le Prestige at LOHAS Park as well as the sale of certain units at The Palazzo in Fo Tan and Lake Silver in Wu Kai Sha.

Pre-sales commenced for Phase 1 of Festival City at Tai Wai Maintenance Centre on 26 March 2010 and saw a strong response from the market. Up to now, approximately 78% of the 1,360 units in Phase 1 have been sold.

Occupation Permits were issued during the first half of the year for the remaining projects at Kowloon Station, namely the International Commerce Centre (ICC), Ritz Carlton Hotel, the Observation Deck on level 100 of ICC and the final phase of Elements. In addition, Occupation Permits were issued for Le Prestige, Phase 2a of LOHAS Park in January 2010 and Festival City Phase 1 at Tai Wai Maintenance Centre in February 2010.

In our property tendering activity, we awarded Austin Station Sites C and D to Fast New Limited, a consortium formed by New World Development Company Limited and Wheelock Properties Limited, on 2 March 2010. We have contributed approximately HK$3.9 billion to this development as part of the land premium payments for the sites.

■ **The Hong Kong property market remained generally well supported for the first half of 2010, as interest rates remained low and market sentiment generally positive.** ■

Property Rental, Property Management and Other Businesses

The combined revenue of our property rental, property management and other businesses in the first six months of 2010 was HK$1,585 million, 9.3% higher than the same period last year.

Total property rental income in Hong Kong and the Mainland of China increased by 10.1% to HK$1,375 million. For our retail shopping mall portfolio in Hong Kong, an average 10% increase in rental reversion was achieved. At the end of June 2010, the occupancy of our 12 shopping malls in Hong Kong remained close to 100%, while the Company's 18 floors at Two International Finance Centre were fully leased out.

Property rentals and occupancy were supported by strong marketing efforts. Our shopping malls won a Gold Prime Award for Eco-Business 2010 given by Prime Magazine and the Business Environment Council, and a 2010 Outstanding Strategic

Property Development Packages Awarded and to be Completed

Location	Developers	Type	Gross floor area *(sq. m.)*	No. of parking spaces	Period of package tenders	Expected completion date
Tseung Kwan O Station						
Area 56	Sun Hung Kai Properties Ltd.	Residential Hotel Retail Office Car park	80,000 58,130 20,000 5,000	360	Awarded in February 2007	By phases from 2010 – 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 2010 – 2013
Package Three	Cheung Kong (Holdings) Ltd.	Residential Kindergarten Car park	128,544 1,000	350	Awarded in November 2007	2013
Tai Wai Maintenance Centre	Cheung Kong (Holdings) Ltd.	Residential Car park	313,955	745	Awarded in April 2006	By phases from 2010 – 2011
Che Kung Temple Station	New World Development Co. Ltd.	Residential Retail Kindergarten Car park	89,792 193 670	232	Awarded in April 2008	2012
Austin Station						
Sites C and D	New World Development Co. Ltd. and Wheelock Properties Limited	Residential Car park	119,116	450	Awarded in March 2010	2014
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

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)	2011-2015	2019
Tai Wai Station	1 – 2	Residential Retail Car park	190,480 62,000	801	Under review	Under review
Tin Shui Wai Light Rail Terminus	1	Residential Retail Car park	91,051 205	267	Under review	Under review

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.

Performance Award from "Capital" and "Capital Weekly" magazines.

Elements, our premium shopping mall in Hong Kong, continued to lead the market in innovative marketing campaigns. These included the Lang Lang Charity Concert in support of UNICEF and other various promotions. Elements was also listed among the top 30 in the Gunn Report, an independent report on creativity for advertising, and won The Best Creative Buy Award in METRO CREATIVE AWARDS 2010. Telford Plaza won a Hong Kong Service Award from East Week magazine.

Ginza Mall in Beijing, was 96% let at the end of June.

At the end of June 2010, the Company's attributable share of investment properties in Hong Kong was 225,374 square metres of lettable floor area of retail properties, 41,090 square metres of lettable floor area of offices, and 11,604 square metres of real estate for other usage.

Property management revenue in the first half of 2010 was HK$106 million. As at the end of June 2010, the number of residential units under our management in Hong Kong was 80,274, while commercial space under management was 742,816 square metres. Our managed property portfolio in the Mainland of China stood at 733,254 square metres.

Ngong Ping 360

The Ngong Ping cable car and associated theme village on Lantau Island achieved a 19.5% increase in revenue for the first six months of 2010 to HK$104 million, while visitor numbers rose to 0.78 million. These increases reflect the success of an active promotional programme. Demand for the Crystal Cabins continued to increase, with 26.3% of passengers opting for this ride. The cable car system achieved a reliability rate of over 99% during the six months. In April 2010, Ngong Ping 360 Limited received ISO 9001:2008 certification.

A new travel agency, "360 Holidays", which is a subsidiary of the Company, started its operations in March 2010. This travel agency provides a wide range of tour products for our customers including guided tours to the Giant Buddha, eco-tours to the Tai O Fishing Village, educational tours through the country park, and trips to the beaches of southern Lantau Island.

Awards garnered during the period included the Certificate of Quality Tourism Service Scheme award from the Hong Kong Tourism Board, the Environmental Performance Award Certificate of Merit given by the Business Environment Council, a Bronze Award for the Outstanding Customer Service Programme and a Gold Award for Internal Support Service from the Hong Kong Association for Customer Service Excellence.

Mainland of China and Overseas Businesses

■ **Railway franchise revenue outside Hong Kong from our two rail subsidiaries, namely MTM and MTRS, was HK$4,852 million.** ■

The Company's operating railway businesses outside Hong Kong in the first half of 2010 comprised our 49% interest in the BJL4 PPP Company in the Mainland of China, our 60% interest in Metro Trains Melbourne (MTM), our 100% interest in MTR Stockholm (MTRS), our 50% interest in Tunnelbanan Teknik Stockholm (TBT), the rolling stock maintenance company in Stockholm, and our 50% interest in London Overground Rail Operations Limited (LOROL).

Railway franchise revenue outside Hong Kong from our two rail subsidiaries, namely MTM and MTRS, was HK$4,852 million. Operating costs were HK$4,645 million, resulting in an operating profit of HK$207 million and an operating profit margin of 4.3%. The business models of MTM and MTRS, which are operation and maintenance franchises, require only modest capital investment and hence operating margins are typically lower than those rail projects requiring significant capital outlays. BJL4, LOROL and TBT are accounted for as associates, and contributed a total of HK$5 million in post-tax profit in the first half of 2010. Our share of the post-tax profits from LOROL was HK$11 million, while BJL4 and TBT made losses of HK$1 million and HK$5 million respectively. The BJL4 loss was expected as investment projects of this nature, with relatively large depreciation and interest cost, do not normally achieve profit in their early years.

Octopus

Octopus continued its expansion in the retail sector, thanks to the ongoing support of major acquirers, which has helped extend the Octopus payment service to more small-to medium-sized retailers. By the end of June 2010, over 3,000 service providers in Hong Kong have adopted the Octopus service.

Cards in circulation stood at 21.7 million and average daily transaction volume and value were 11.2 million and HK$102.4 million respectively. The Company's share of Octopus' net profit for the first half of 2010 was HK$77 million, an increase of 13.2% from the same period last year.

Future Growth

Hong Kong

The five major projects to extend our railway network in Hong Kong, namely the West Island Line, South Island Line (East), Kwun Tong Line Extension, Express Rail Link and Shatin to Central Link, all made solid progress during the period.

In designing the West Island Line, we have drawn extensively on the views of the local community, with the aim of preserving local heritage and creating opportunities for urban renewal. This 3-km extension of the Island Line is targeted to open in 2014, and will reduce travel time from Kennedy Town to Sheung Wan to eight minutes.

All civil works contracts for this project have been awarded. The re-provisioning works for the Kennedy Town Swimming Pool (Phase 1) and the David Trench Rehabilitation Centre are both half-way through their construction programmes.

Government published the gazette amendment for the 7-km South Island Line (East) railway scheme on 4 June 2010. The detailed design has been substantially completed and the Environmental Impact Assessment (EIA) Report was submitted to the Environmental Protection Department in June this year. The proposal to rezone the former Wong Chuk Hang Estate into a Comprehensive Development Area to facilitate integrated property development above the depot for the South Island Line (East) was agreed by the Town Planning Board in June 2010 and was exhibited on 16 July 2010 to seek public views. Discussions continue with Government on the Project Agreement for the South Island Line (East), including the financial terms of the project.

The 3-km Kwun Tong Line Extension will run from Yau Ma Tei Station on the Kwun Tong Line to Whampoa Station via Ho Man Tin Station which will become an interchange station with the Shatin to Central Link. The scheme was first gazetted on 27 November 2009, and an amendment of the scheme was

■ **The five major projects to extend our railway network in Hong Kong, namely the West Island Line, South Island Line (East), Kwun Tong Line Extension, Express Rail Link and Shatin to Central Link, all made solid progress during the period.** ■

gazetted on 25 June 2010. The detailed design is making good progress, following a further period of public consultation that began in January this year with the local communities, district councils and other stakeholders to integrate their needs into the design.

The Express Rail Link is a new 26-km line which will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the new high speed intercity rail network in the Mainland of China. The Hong Kong Government has entrusted the Company to design and build the line, but will fund the construction, and has also agreed to invite the Company to operate this service on a concessionary basis when completed. Services are expected to start in 2015. Construction on site has begun and 11 major civil contracts had been awarded as at the end of June 2010.

Work on the detailed design of the Shatin to Central Link began in January this year. This two-part project comprises an 11-km extension of the Ma On Shan Line from Tai Wai to Hung Hom. Here it will connect with the West Rail Line to form the East West Corridor and a 6-km extension of the East Rail Line from Hung Hom to Hong Kong Island, which will be Hong Kong's fourth rail harbour crossing to form the North South Corridor. To ensure that the needs of the community are addressed, further extensive consultations are being held.

Hong Kong Project Funding

The funding model for our new Hong Kong rail projects will take different forms, each appropriately designed for the project.

Under the capital grant model used for the West Island Line, an initial HK$400 million was received in 2008 from the Government and the balance of HK$12,252 million was received in March 2010.

The South Island Line (East) and Kwun Tong Line Extension projects will likely use our traditional "Rail plus Property" model. Discussions continue with Government on how the property developments should be taken forward to ensure project viability.

The Service Concession model will be adopted for the Express Rail Link and Shatin to Central Link. Under the Entrustment Agreement signed with Government in January 2010, we are responsible for the construction and commissioning of the Express Rail Link on the understanding that the Government will invite the Company to undertake the operations of the railway after its completion. The operational requirements and operational business model are under active discussion with the Government and Mainland entities.

Mainland China

In the Mainland of China, a concession agreement was signed in December 2009 for the operation and maintenance of the 22-km Daxing Line, the extension of BJL4 to the district of Daxing. Preparation works to commence operations are well advanced and we are on schedule for the opening of this extension by the end of 2010.

In Shenzhen, the concession agreement for the SZL4 project was signed in March 2009. We took over the operations of the 4.5-km Phase 1 of SZL4 on 1 July 2010. Most of the main line structures for Phase 2 of SZL4 have been substantially completed with 92% of the railway tracks laid. Production of the rolling stock is also well underway. Full line operation, encompassing Phase 2, is expected to commence in the middle of 2011.

On 4 March 2010, our subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, signed a concession agreement with the Hangzhou Municipal Government under a PPP project for the investment in, construction and operation of the 48-km HZL1 for a term of 25 years. This PPP project requires a total investment of RMB22 billion, 37% of which will be provided by a joint venture company in which MTR Corporation has an effective interest of 49% with the balance owned by a subsidiary of the Hangzhou Metro Group Company Limited. MTR Corporation's equity investment is estimated to be RMB2.2 billion.

Civil construction works by Hangzhou Metro Group Company Limited on HZL1 commenced in March 2007 and the line is expected to open in 2012.

Financial Review

The Group delivered good financial results for the first half of 2010, with strong growth in the Hong Kong recurrent businesses and incremental contributions from new rail businesses overseas. Hong Kong fare revenue increased by 7.3% to HK$5,933 million when compared with the same period last year as a result of patronage growth brought about by the economic rebound and the opening of the Kowloon Southern Link and LOHAS Park Station in the second half of 2009. Station commercial and rail related revenue increased by 4.8% to HK$1,732 million due to a recovery in the advertising business and good rental reversions as well as increased shop area for our station retail business. These increases were off-set by significantly lower revenues from project management of Kowloon Southern Link for Kowloon Canton Railway Corporation following the completion of that project in the second half of 2009. Rental, management and other revenue also increased by 9.3% to HK$1,585 million mainly due to positive rental reversions. As a result, total revenue from recurrent businesses increased by 7.2% to HK$9,250 million. Including revenues of HK$4,852 million from railway franchises outside Hong Kong from our two rail subsidiaries, namely MTRS and MTM, total Group revenue increased by 63.4% over the same period in 2009 to HK$14,102 million.

Operating expenses before depreciation and amortisation for the first half of 2010 increased by 125.2% to HK$8,611 million when compared with the same period last year. The significant increase was mainly due to expenses of HK$4,645 million relating to the two railway franchises outside Hong Kong. Excluding these overseas franchises, the increase in operating expenses would have been 3.7% mainly due to the incremental costs from operating the Kowloon Southern Link and LOHAS Park Station, which opened in the second half of 2009. As a result, operating profit from railway and related businesses before depreciation and amortisation increased by 14.3% to HK$5,491 million, and if the new overseas railway franchises are excluded, operating profit would have increased by 9.9% to HK$5,284 million. Operating margin excluding the overseas rail franchises increased by 1.4 percentage points to 57.1% whilst including such overseas franchises operating margins would be 38.9%. We have noted previously that the "asset light" overseas operation and maintenance franchises require little investment and hence have lower margins than rail systems requiring significant investment.

Property development profit for the first half of 2010 was HK$3,705 million mainly from the profits relating to Le Prestige at LOHAS Park and, to a lesser extent, profits from the sale of units in inventory at The Palazzo in Fo Tan and Lake Silver in Wu Kai Sha. As a result, operating profit before depreciation and amortisation increased by 32.3% to HK$9,196 million.

Depreciation and amortisation charge for the first half of 2010 increased by 4.5% to HK$1,537 million mainly due to the commencement of operation of LOHAS Park Station. Net interest and finance charges decreased by 23.2% to HK$656 million mainly due to reduced debt outstanding. The increase in fair value of investment properties since the end of 2009 was HK$1,101 million pre-tax and HK$919 million post-tax as compared with HK$712 million pre-tax and HK$595 million post-tax for the same period last year.

Share of profits from non-controlled subsidiaries and associates increased by 10.8% to HK$82 million mainly due to profit increases at Octopus Holdings Limited and LOROL, which contributed HK$77 million and HK$11 million respectively to the Group's profits during the first half of 2010. Beijing MTR Corporation Limited and TBT reported losses, with the Group sharing losses of HK$1 million and HK$5 million respectively. Income tax increased in line with the profit growth to HK$1,482 million. Net profit attributable to shareholders for the first half of 2010 was HK$6,639 million, an increase of 47.6% over the same period last year. Reported earnings per share increased from HK$0.79 to HK$1.16. Excluding investment property revaluation and the related deferred tax, net profit from underlying business increased by 46.6% to HK$5,720 million, with earnings per share on the same basis increasing from HK$0.69 to HK$1.00. On a pre-tax basis, net pre-tax profit from underlying business increased by 49.5% from HK$4,696 million to HK$7,020 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. As mentioned previously, subject to the financial condition of the Company, the Board intends to follow a progressive dividend policy.

The Group's balance sheet strengthened further, with net assets increasing by 5.3% from HK$106,453 million as at 31 December 2009 to HK$112,138 million as at 30 June 2010. Total assets decreased slightly by 0.8% to HK$175,008 million as a result of utilising surplus cash to reduce debt. During the period, fixed assets increased by 0.7% to HK$139,187 million mainly due to investment property revaluation gains and capital expenditure for SZL4. Property development in progress increased by 34.1% to HK$9,006 million mainly due to the contribution of land premium for Austin Station Sites C and D. Debtors, deposits and payments in advance increased by 83.3% to HK$4,451 million mainly due to receivables from property purchasers of Le Prestige at LOHAS Park. With the receipt of Government funding support of HK$12,252 million for the West Island Line in March 2010, the Group used some of the surplus cash to repay loans and placed the remaining cash balance in medium term notes and bank deposits. As a result, investment in securities increased from HK$227 million to HK$3,485 million while cash and cash equivalents increased by 44.6% to HK$10,287 million. Total borrowings decreased from HK$23,868 million to HK$19,597 million. The resulting net debt-to-equity ratio including obligations under the service concession as a component of debt decreased from 25.8% as at 31 December 2009 to 15.0% as at 30 June 2010.

The Group maintained a strong cash flow position during the first half of 2010 as a result of the receipt of HK$12,252 million of Government funding support for the West Island Line in March 2010 as well as growth in operating profits. During the period, net cash inflow generated from operating activities increased by 22.4% to HK$5,600 million when compared with the same period last year. Cash receipts from property development were HK$2,097 million mainly from The Palazzo and Festival City, as well as upfront payment in respect of Austin Station Sites C and D. Including dividend distribution from Octopus Holdings Limited, net cash receipts for the entrustment works of the Shatin to Central Link and the Express Rail Link as well as proceeds from fixed assets disposal totalling HK$153 million, total cash inflows during the first half of 2010 increased by 180.9% to HK$20,102 million. Total cash outflows during the period increased from HK$2,678 million for the same period last year to HK$8,198 million mainly due to land premium payment of HK$3,900 million for Austin Station Sites C and D and increase in expenditures for new railway extensions from HK$676 million to HK$2,797 million mainly for the West Island Line and SZL4. After deducting the dividend payment of HK$1,089 million, net cash inflow generated in the first half of 2010 was HK$10,815 million, of which HK$4,474 million was used to repay debt and HK$3,197 million was invested in bank floating rate notes.

Financing Activities

Financial markets conditions stabilised and market confidence continued to improve in the first half of 2010, supported by accommodative government fiscal and monetary policies and renewed economic growth. During the period, the Hong Kong market saw a number of sizeable syndicated loans and bond issues completed at favourable credit spreads on the back of strong liquidity and investor demand. Although market sentiment weakened slightly towards the end of the period due to concerns over sovereign risk in Europe and tightening credit conditions in the Mainland of China, liquidity has generally remained strong and the credit market highly accessible to top rated borrowers.

The Group had no funding requirements during the six months. We did not need to tap the debt markets during the period due to our strong operating cash flows and cash surplus. We used part of this surplus to pay down our debts and also cancelled a significant portion of our undrawn committed banking facilities that we no longer require.

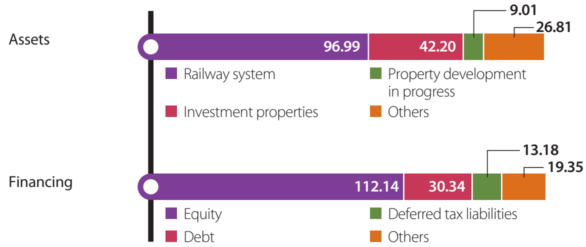
As a result, the Group's consolidated debt position has significantly improved from HK$23,868 million at the end of December 2009 to HK$19,597 million at the end of June, with total undrawn committed banking facilities of HK$7 billion (excluding the undrawn committed RMB project loan for SZL4). These undrawn committed facilities, together with the existing cash surplus and projected operating cash flows, are expected to be sufficient to cover all of the Group's cash requirement up to the early part of 2012, including debt repayment and capital expenditures.

During the period, we continued to manage our debt portfolio in a prudent manner in accordance with the Preferred Financing Model. As at the end of June 2010, 34% of debt outstanding will mature within 2 years, 46% between 2 and 5 years, and 20% beyond 5 years indicating a well balanced portfolio. Risk was well managed, with more than 99% of debt outstanding either borrowed in or hedged into HK dollars, or hedged by foreign currency cash flows from underlying businesses. Approximately 76% of our debt outstanding was at fixed rates.

The Group's average borrowing cost during the period was higher at 4.4%, compared with 3.6% during the same period last year due to a higher portion of debt being in fixed interest rate following prepayment of a substantial portion of our floating rate bank loans with surplus cash.

Simplified Balance Sheet

As at 30 June 2010
(HK$ billion)

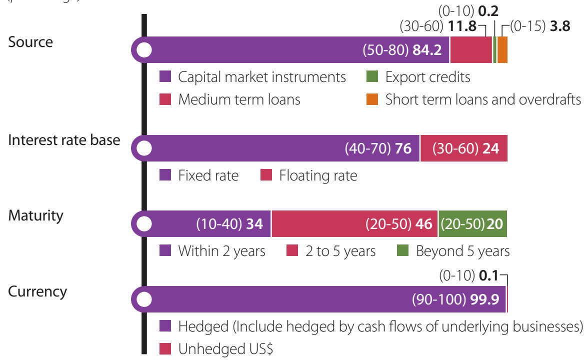


Preferred Financing Model and Debt Profile

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

(Preferred Financing Model) vs. **Actual debt profile**
As at 30 June 2010

(percentage)



Human Resources

The Company's continued success relies on our ability to employ, retain and motivate staff to achieve our strategic goals.

The Company's continued success relies on our ability to employ, retain and motivate staff to achieve our strategic goals. Given the anticipated business growth in Hong Kong, we have conducted a 5-year comprehensive manpower resourcing plan. There will be attractive promotion and career opportunities for our colleagues and for the local community.

To prepare our colleagues for career advancement, we have developed a number of initiatives such as the Integrated Staff Development Programme and Skill Progression Scheme to enhance their competence. Over 2,500 training courses were delivered across the Company covering approximately 45,000 trainee man-days during the first half of 2010. More high calibre young graduates and apprentices are being nurtured through comprehensive training in support of business growth.

To meet the manpower requirement of the Company's expansion projects, we have adopted pro-active resourcing strategies, such as the Employer Branding Programme, to early identify candidates in Hong Kong and overseas countries.

The Company has developed effective communication mechanisms over the years. We have further enhanced direct two-way communication by implementing "Enhanced Staff Communication" Programme in Operations Division starting from January 2010. Over 2,200 communication sessions involving more than 22,000 participants were conducted during the first half of 2010. Through this programme, we are able to identify and resolve any staff concerns at an early stage and at a personal level.

To groom the leaders of the future, we continue to provide career development opportunities to staff through the Executive Associate Scheme and the People Development Initiative. These schemes help identify and develop staff with the potential for higher level responsibilities.

Outlook

The first half of 2010 has seen a recovery from the financial crisis. While there are a number of uncertainties surrounding the developed economies, we are cautiously optimistic that the recovery in Hong Kong and the Mainland of China will continue for the remainder of the year.

Economic growth will benefit patronage in our Hong Kong rail system, although the rate of growth will moderate in the second half of 2010 due to the higher base of second half of 2009. Implementation of the fare increases under the Fare Adjustment Mechanism will have a positive impact on average fares.

Our station and property investment businesses should continue to benefit from the economic recovery.

In our Mainland of China and overseas businesses, we took over the operations of Phase 1 of SZL4 on 1 July this year. We do not expect SZL4 to make positive contributions to our operating profit until shortly after the opening of Phase 2 of SZL4, which is expected to be in 2011.

In our property development business, the Occupation Permit for the 20,000 square metres shopping centre in Area 56 in Tseung Kwan O may be issued at the end of 2010, depending on construction progress. Once issued, we can recognise development profit for our share of the project, based on assessed market value at that time. Apart from our share in this centre we have no other financial interest in the Area 56 development. As mentioned previously, although sales of Phase 1 of Festival City in the Tai Wai Maintenance Centre have progressed well, we do not expect to start profit recognition before 2011.

In our property tendering activity, depending on market conditions, we expect to tender the Tai Wai Station and Nam Cheong Station sites over the next six months. The Nam Cheong Station Site is a West Rail Development site where we only act as agent.

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

C K Chow, *Chief Executive Officer*
Hong Kong, 12 August 2010

	Half-year ended 30 June 2010	Half-year ended 30 June 2009	% Increase/ (Decrease)
Financial Highlights *(HK$ million)*			
Revenue			
– Hong Kong Fare	**5,933**	5,527	7.3
– Non-fare	**3,317**	3,103	6.9
– Railway franchises outside of Hong Kong	**4,852**	–	N/A
Operating profit from railway and related businesses before depreciation and amortisation	**5,491**	4,806	14.3
Profit on property developments	**3,705**	2,147	72.6
Operating profit before depreciation and amortisation	**9,196**	6,953	32.3
Profit attributable to equity shareholders	**6,639**	4,498	47.6
Profit attributable to equity shareholders (excluding change in fair value of investment properties and related deferred tax)	**5,720**	3,903	46.6
Total assets	**175,008**	176,494^	(0.8)
Loans, obligations and bank overdrafts	**19,597**	23,868^	(17.9)
Obligations under service concession	**10,609**	10,625^	(0.2)
Total equity attributable to equity shareholders	**112,006**	106,387^	5.3
Financial Ratios			
Operating margin *(%)*	**38.9**	55.7	(16.8)% pts.
Operating margin (excluding railway franchises outside of Hong Kong) *(%)*	**57.1**	55.7	1.4% pts.
Net debt-to-equity ratio *(%)**	**15.0**	25.8^	(10.8)% pts.
Interest cover *(times)*	**12.2**	6.9	5.3 times
Share Information			
Basic earnings per share *(HK$)*	**1.16**	0.79	46.8
Basic earnings per share (excluding change in fair value of investment properties and related deferred tax) *(HK$)*	**1.00**	0.69	44.9
Dividend per share *(HK$)*	**0.14**	0.14	–
Share price at 30 June *(HK$)*	**26.65**	23.25	14.6
Market capitalisation at 30 June *(HK$ million)*	**153,695**	132,795	15.7
Operations Highlights			
Total passenger boardings			
– Domestic Service *(million)*	**623.5**	586.7	6.3
– Cross-boundary Service *(million)*	**48.7**	45.8	6.4
– Airport Express *(thousand)*	**5,059**	4,626	9.4
– Light Rail *(million)*	**74.9**	69.8	7.4
Average number of passengers *(thousand)*			
– Domestic Service *(weekday)*	**3,677**	3,465	6.1
– Cross-boundary Service *(daily)*	**268.9**	252.9	6.4
– Airport Express *(daily)*	**28.0**	25.6	9.4
– Light Rail *(weekday)*	**425.5**	396.1	7.4
Fare revenue per passenger *(HK$)*			
– Domestic Service	**6.60**	6.53	1.1
– Cross-boundary Service	**24.70**	24.75	(0.2)
– Airport Express	**64.08**	62.56	2.4
– Light Rail	**2.63**	2.67	(1.4)
Proportion of franchised public transport boardings (January to May) *(%)*	**43.7**	42.0	1.7% pts.

* including obligations under service concession and loan from minority shareholders of a subsidiary as components of debt and investment in floating rate notes as component of cash.

^ Figures as at 31 December 2009

Corporate Governance Practices

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

During the six months ended 30 June 2010, the Company has fully complied with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

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 Mass Transit Railway Ordinance (Cap. 556 of the Laws of Hong Kong), 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 re-appointed by the Government of the HKSAR (the "Government") in November 2009 as the non-executive Chairman of the Company with effect from December 2009 until December 2012. 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 (Ordinance No. 11 of 2007), whichever was the earlier. The Rail Merger Ordinance relates to the Rail Merger between the Company and Kowloon-Canton Railway Corporation. On 8 August 2007, Dr. Ch'ien was re-appointed 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.

Mr. Chow Chung-kong, a Member of the Board and the Chief Executive Officer since 2003, was re-appointed on 1 June 2009 as the Chief Executive Officer of the Company 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. On 8 August 2007, Mr. Chow was selected by the Government as the Chief Executive Officer after the Rail Merger.

At the 2010 Annual General Meeting on 27 May 2010 (the "2010 AGM"), Mr. Vincent Cheng Hoi-chuen, who was appointed after the annual general meeting on 4 June 2009, retired from office at the 2010 AGM pursuant to Article 85 of the Articles of Association of the Company, and was elected as independent non-executive Director. Mr. Chow Chung-kong and Ms. Christine Fang Meng-sang retired from office by rotation pursuant to Articles 87 and 88 of the Articles of Association of the Company, and were re-elected as Members of the Board.

Mr. Allister George Morrison (also known as Alasdair George Morrison) has been appointed as an independent non-executive Director of the Company with effect from 9 July 2010. With effect from the same date, Mr. Morrison has also been appointed as a member of both the Audit Committee and the Remuneration Committee of the Company.

Mr. Andrew McCusker, Operations Director, will retire from that position and as a Member of the Executive Directorate, effective from 1 January 2011. Dr. Kam Chak-pui, Deputy Operations Director (with effect from 1 July 2010), will be appointed as Operations Director and will become a Member of the Executive Directorate, both with effect from 1 January 2011.

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

The Company has adopted the Model Code and after having made specific enquiry, the Company confirms that Members of the Board and the Executive Directorate complied throughout the half-year ended 30 June 2010 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.

Audit Committee

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

Under its Terms of Reference, the Audit Committee consists of four non-executive Directors, at least three of whom are independent non-executive Directors. The Members of the Audit Committee are Mr. T. Brian Stevenson (chairman), Mr. Ng Leung-sing, the Commissioner for Transport (Mr. Joseph Lai Yee-tak), and Mr. Alasdair George Morrison (effective from 9 July 2010). Mr. Stevenson, Mr. Ng and Mr. Morrison are independent non-executive Directors. Mr. Abraham Shek Lai-him stepped down as an Audit Committee member on 9 July 2010.

Remuneration Committee

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

Under its Terms of Reference, the Remuneration Committee consists of at least three non-executive Directors, and the majority of them are independent non-executive Directors. The Members of the Remuneration Committee are Mr. Edward Ho Sing-tin (chairman), Mr. T. Brian Stevenson, Mr. Vincent Cheng Hoi-chuen, Professor Chan Ka-keung, Ceajer and Mr. Alasdair George Morrison (effective from 9 July 2010). Mr. Ho, Mr. Stevenson, Mr. Cheng and Mr. Morrison are independent non-executive Directors.

Nominations Committee

The Nominations Committee nominates and recommends to the Board candidates for filling vacancies on the Board, and the positions of Chief Executive Officer ("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).

Under its Terms of Reference, the Nominations Committee consists of seven non-executive Directors and the majority of them are independent non-executive Directors. The Members of the 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. Shek and Mr. Ng are independent non-executive Directors.

Corporate Responsibility Committee

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

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

Changes in Information of Directors

Pursuant to the requirements of Rule 13.51B(1) of the Listing Rules, Dr. Raymond Ch'ien Kuo-fung stepped down as a Hong Kong member of the APEC Business Advisory Council effective from 1 January 2010. He was appointed as an independent non-executive director of China Resources Power Holdings Company Limited with effect from 22 April 2010. Mr. Chow Chung-kong is the Deputy Chairman of The Hong Kong General Chamber of Commerce since 31 May 2010. Mr. Vincent Cheng Hoi-chuen is chairman of HSBC Bank (Taiwan) Limited effective from 21 January 2010 and non-executive director of Swire Properties Limited effective from 14 April 2010.

Internal Controls

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

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

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

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

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

Risk Assessment and Management

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

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

Risk assessment is now part of the Company's everyday management processes. Risks associated with major changes and new businesses such as local and overseas railway construction, investment and consultancy projects are assessed at key stages and project milestones to support decision making. 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 of the ERM framework and the organization and processes that have been put in place to support it.

Control Activities and Processes

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

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

The Company is committed to recruit, train and develop a team of qualified and competent accountants in order to oversee its financial reporting and other accounting-related issues. A process to capture and update relevant laws, rules and regulations applicable to the reporting and accounting function is in place. Designated officers will ensure relevant standards and ordinances including Hong Kong Financial Reporting Standards, the Listing Rules and Hong Kong Companies Ordinance under their responsibility are complied with. Resources and provisions required to deliver accounting and financial reporting function are critically reviewed during the annual budgeting exercise. Company-wide recruitment process and staff development programmes are in place to address the competency, qualifications and experience required. Adherence to the process is confirmed on an annual basis by the designated officers to the Finance & Business Development Director who will conduct a formalized annual review and report to the Audit Committee for the review results. Confirmation of the process is also monitored by the Internal Audit Department. Based on the above, the Audit Committee considered the resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget were adequate for the year ended 31 December 2009.

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 2009, 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 2009 which might affect shareholders.

Board Members' and Executive Directorate's Interests in Shares

As at 30 June 2010, the interests or short positions of the Members of the Board and the Executive Directorate in the shares, underlying shares and debentures of the Company (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

Long Positions in Shares and Underlying Shares of the Company

				Derivatives			
	Number of Ordinary Shares held			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	51,499	–	–	–	–	51,499	0.00089
Chow Chung-kong	–	–	–	1,660,000 (Note 1)	222,161 (Note 2)	1,882,161	0.03264
Vincent Cheng Hoi-chuen	1,675	1,675	–	–	–	3,350	0.00006
Christine Fang Meng-sang	1,712	–	–	–	–	1,712	0.00003
T. Brian Stevenson	5,047	–	–	–	–	5,047	0.00009
William Chan Fu-keung	124,460	–	–	510,000 (Note 1)	–	634,460	0.01100
Chew Tai Chong	–	–	–	255,000 (Note 1)	–	255,000	0.00442
Thomas Ho Hang-kwong	148,110	2,541	–	510,000 (Note 1)	–	660,651	0.01146
Lincoln Leong Kwok-kuen	23,000	–	23,000 (Note 3)	(i) 417,500 (Note 4) (ii) 510,000 (Note 1)	–	973,500	0.01688
Andrew McCusker	–	–	–	453,000 (Note 1)	–	453,000	0.00785
Leonard Bryan Turk	–	–	–	510,000 (Note 1)	–	510,000	0.00884

Notes

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

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

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

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

* Interests as beneficial owner

† Interests of spouse or child under 18 as beneficial owner

Options to Subscribe for Ordinary Shares Granted under the 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 2010	Options vested during the period	Options lapsed during the period	Options exercised during the period	Exercise price per share of options (HK$)	Options outstanding as at 30 June 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
William Chan Fu-keung	20/9/2000	1,066,000	5/4/2001 – 11/9/2010	117,500	–	–	117,500	8.44	–	28.65
Other eligible employees	20/9/2000	41,409,000	5/4/2001 – 11/9/2010	2,830,500	–	–	1,421,500	8.44	1,409,000	27.66

Notes

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

Vesting of the share options may be accelerated to an earlier date in some circumstances. However, no such option shall vest and become exercisable before 5 April 2001, i.e. the date falling six months after the commencement of dealings in shares of the Company on the Stock Exchange on 5 October 2000.

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 2010	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$)	Options outstanding as at 30 June 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Lincoln Leong Kwok-kuen	1/8/2003	1,066,000	14/7/2004 – 14/7/2013	417,500	–	–	–	–	9.75	417,500	–
Other eligible employees	1/8/2003	495,200	14/7/2004 – 14/7/2013	139,200	–	–	–	31,000	9.75	108,200	28.51
	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	–	–	–	94,000	18.05	–	29.20
	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	–	–	–	–	20.66	266,500	–
	15/5/2006	213,000	25/4/2007 – 25/4/2016	92,000	–	–	–	70,000	20.66	22,000	28.64

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 2010	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$)	Options outstanding as at 30 June 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Chow Chung-kong	13/12/2007	720,000	10/12/2008 – 10/12/2014	720,000	–	–	–	–	27.60	720,000	–
	9/12/2008	470,000	8/12/2009 – 8/12/2015	470,000	–	–	–	–	18.30	470,000	–
	9/12/2009	470,000	8/12/2010 – 8/12/2016	470,000	–	–	–	–	26.85	470,000	–
William Chan Fu-keung	13/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
Chew Tai Chong	18/6/2009	85,000	12/6/2010 – 12/6/2016	85,000	–	28,500	–	–	24.50	85,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
Thomas Ho Hang-kwong	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	11/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	14/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
Lincoln Leong Kwok-kuen	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
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	–	–	–	57,000	18.30	113,000	26.80
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
Leonard Bryan Turk	12/12/2007	170,000	10/12/2008 – 10/12/2014	170,000	–	–	–	–	27.60	170,000	–
	9/12/2008	170,000	8/12/2009 – 8/12/2015	170,000	–	–	–	–	18.30	170,000	–
	10/12/2009	170,000	8/12/2010 – 8/12/2016	170,000	–	–	–	–	26.85	170,000	–
Other eligible employees	11/12/2007	45,000	10/12/2008 – 10/12/2014	45,000	–	–	–	–	27.60	45,000	–
	12/12/2007	2,050,000	10/12/2008 – 10/12/2014	1,736,000	–	–	–	–	27.60	1,736,000	–
	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	973,000	–	–	28,500	–	27.60	944,500	–
	15/12/2007	435,000	10/12/2008 – 10/12/2014	370,000	–	–	–	27,000	27.60	343,000	29.20
	17/12/2007	835,000	10/12/2008 – 10/12/2014	773,000	–	–	–	–	27.60	773,000	–
	18/12/2007	445,000	10/12/2008 – 10/12/2014	380,000	–	–	–	44,000	27.60	336,000	29.20
	19/12/2007	115,000	10/12/2008 – 10/12/2014	115,000	–	–	35,000	–	27.60	80,000	–
	20/12/2007	190,000	10/12/2008 – 10/12/2014	190,000	–	–	–	–	27.60	190,000	–
	21/12/2007	45,000	10/12/2008 – 10/12/2014	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	–

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 2010	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$)	Options outstanding as at 30 June 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	2/1/2008	75,000	10/12/2008 – 10/12/2014	75,000	–	–	13,500	–	27.60	61,500	–
	3/1/2008	40,000	10/12/2008 – 10/12/2014	40,000	–	–	–	–	27.60	40,000	–
	7/1/2008	125,000	10/12/2008 – 10/12/2014	125,000	–	–	–	–	27.60	125,000	–
	28/3/2008	255,000	26/03/2009 – 26/03/2015	255,000	–	87,500	–	7,000	26.52	248,000	29.55
	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	15,000	–	5,000	–	–	26.52	15,000	–
	19/4/2008	25,000	26/03/2009 – 26/03/2015	25,000	–	8,500	–	–	26.52	25,000	–
	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	110,000	–	–	–	–	18.30	110,000	–
	9/12/2008	483,000	8/12/2009 – 8/12/2015	483,000	–	–	16,500	13,500	18.30	453,000	27.46
	10/12/2008	2,176,400	8/12/2009 – 8/12/2015	2,161,400	–	–	–	30,000	18.30	2,131,400	28.70
	11/12/2008	2,294,200	8/12/2009 – 8/12/2015	2,294,200	–	–	–	21,500	18.30	2,272,700	28.46
	12/12/2008	1,311,500	8/12/2009 – 8/12/2015	1,305,000	–	–	–	70,000	18.30	1,235,000	27.70
	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	79,700	–	–	–	–	18.30	79,700	–
	15/12/2008	1,084,700	8/12/2009 – 8/12/2015	1,084,700	–	–	30,000	75,000	18.30	979,700	27.41
	16/12/2008	581,500	8/12/2009 – 8/12/2015	581,500	–	–	16,500	23,500	18.30	541,500	27.61
	17/12/2008	513,500	8/12/2009 – 8/12/2015	513,500	–	–	–	21,500	18.30	492,000	27.46
	18/12/2008	611,500	8/12/2009 – 8/12/2015	611,500	–	–	–	43,500	18.30	568,000	28.50
	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	–

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 2010	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$)	Options outstanding as at 30 June 2010	Weighted average closing price of shares immediately before the date(s) on which options were exercised (HK$)
Other eligible employees	22/12/2008	772,500	8/12/2009 – 8/12/2015	767,500	–	–	–	8,500	18.30	759,000	28.20
	23/12/2008	306,000	8/12/2009 – 8/12/2015	299,500	–	–	–	17,000	18.30	282,500	28.98
	24/12/2008	500,500	8/12/2009 – 8/12/2015	485,500	–	–	–	15,000	18.30	470,500	28.40
	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	170,000	12/6/2010 – 12/6/2016	170,000	–	57,000	–	–	24.50	170,000	–
	6/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/7/2009	45,000	12/6/2010 – 12/6/2016	45,000	–	15,000	–	–	24.50	45,000	–
	9/12/2009	200,000	8/12/2010 – 8/12/2016	200,000	–	–	–	–	26.85	200,000	–
	10/12/2009	2,001,000	8/12/2010 – 8/12/2016	2,001,000	–	–	15,000	–	26.85	1,986,000	–
	11/12/2009	2,362,000	8/12/2010 – 8/12/2016	2,362,000	–	–	–	–	26.85	2,362,000	–
	12/12/2009	610,000	8/12/2010 – 8/12/2016	610,000	–	–	–	–	26.85	610,000	–
	13/12/2009	19,000	8/12/2010 – 8/12/2016	19,000	–	–	–	–	26.85	19,000	–
	14/12/2009	2,338,000	8/12/2010 – 8/12/2016	2,338,000	–	–	45,000	–	26.85	2,293,000	–
	15/12/2009	2,838,000	8/12/2010 – 8/12/2016	2,838,000	–	–	19,000	–	26.85	2,819,000	–
	16/12/2009	1,550,000	8/12/2010 – 8/12/2016	1,550,000	–	–	19,000	–	26.85	1,531,000	–
	17/12/2009	1,000,000	8/12/2010 – 8/12/2016	1,000,000	–	–	25,000	–	26.85	975,000	–
	18/12/2009	389,000	8/12/2010 – 8/12/2016	389,000	–	–	–	–	26.85	389,000	–
	19/12/2009	70,000	8/12/2010 – 8/12/2016	70,000	–	–	–	–	26.85	70,000	–
	20/12/2009	75,000	8/12/2010 – 8/12/2016	75,000	–	–	–	–	26.85	75,000	–
	21/12/2009	520,000	8/12/2010 – 8/12/2016	520,000	–	–	–	–	26.85	520,000	–
	22/12/2009	256,000	8/12/2010 – 8/12/2016	256,000	–	–	–	–	26.85	256,000	–

Notes

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

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

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

On 28 June 2010, the Company offered to grant 355,000 share options under the Company's 2007 Share Option Scheme to certain eligible employees of the Company (the "Grantees"). Such offer to grant is subject to acceptance by the Grantees.

Save for the above offer, no options to subscribe for shares of the Company were granted to any persons under any of the Company's share option schemes during the six months ended 30 June 2010.

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 2010, 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 2010 as recorded in the register kept by the Company under section 336 of the SFO:

Name	No. of Ordinary Shares	Percentage of Ordinary Shares to total issued share capital
The Financial Secretary Incorporated (in trust on behalf of the Government)	4,434,552,207	76.89

The Company has been informed by the Government that, as at 30 June 2010, approximately 0.63% 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 2010, the Group had borrowings of HK$17,172.75 million with maturities ranging from 2010 to 2020 and undrawn committed and uncommitted banking and other facilities of HK$19,085.95 million, which were subject to the condition that the Government, being the Company's controlling shareholder, owns more than half in nominal value of the voting share capital of the Company during the lives of the borrowings and the undrawn facilities. Otherwise, immediate repayment of the borrowings may be demanded and cancellation of the undrawn facilities may result.

Purchase, Sale or Redemption of Own Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2010.

Closure of Register of Members

The Register of Members of the Company will be closed from 30 August 2010 to 3 September 2010 (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 27 August 2010. The 2010 interim dividend is expected to be paid on or about 22 October 2010 to shareholders whose names appear on the Register of Members of the Company on 3 September 2010.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

in HK$ million	Note	**Half year ended 30 June 2010 (Unaudited)**	Half year ended 30 June 2009 (Unaudited and restated)
Hong Kong fare revenue		**5,933**	5,527
Station commercial and rail related revenue		**1,732**	1,653
Rental, management and other revenue		**1,585**	1,450
Railway franchise revenue outside of Hong Kong	3	**4,852**	–
Other net income	4	**–**	–
		14,102	8,630
Staff costs and related expenses		**(1,583)**	(1,614)
Energy and utilities		**(498)**	(461)
Operational rent and rates		**(91)**	(91)
Stores and spares consumed		**(184)**	(184)
Repairs and maintenance		**(423)**	(403)
Railway support services		**(67)**	(60)
Expenses relating to station commercial and rail related businesses		**(442)**	(340)
Expenses relating to property ownership, management and other businesses		**(372)**	(369)
Expenses relating to railway franchise operations outside of Hong Kong	3	**(4,645)**	–
Project study and business development expenses		**(67)**	(95)
General and administration expenses		**(146)**	(126)
Other expenses		**(93)**	(81)
Operating expenses before depreciation and amortisation		**(8,611)**	(3,824)
Operating profit from railway and related businesses before depreciation and amortisation		**5,491**	4,806
Profit on property developments	5	**3,705**	2,147
Operating profit before depreciation and amortisation		**9,196**	6,953
Depreciation and amortisation		**(1,537)**	(1,471)
Merger related expenses		**–**	(7)
Operating profit before interest and finance charges		**7,659**	5,475
Interest and finance charges		**(656)**	(854)
Change in fair value of investment properties		**1,101**	712
Share of profits of non-controlled subsidiaries and associates	6	**82**	74
Profit before taxation		**8,186**	5,407
Income tax	7	**(1,482)**	(910)
Profit for the period		**6,704**	4,497
Attributable to:			
– Equity shareholders of the Company		**6,639**	4,498
– Non-controlling interests		**65**	(1)
Profit for the period		**6,704**	4,497
Earnings per share:	9		
– Basic		**HK$1.16**	HK$0.79
– Diluted		**HK$1.16**	HK$0.79

The notes on pages 33 to 47 form part of this interim financial report. Details of dividends payable to equity shareholders of the company are set out in note 8.

in HK$ million	Note	**Half year ended 30 June 2010 (Unaudited)**	Half year ended 30 June 2009 (Unaudited and restated)
Profit for the period		**6,704**	4,497
Other comprehensive income for the period (after taxation and reclassification adjustments):			
Exchange differences on translation of:			
– financial statements of overseas subsidiaries		**(16)**	(3)
– non-controlling interests		**1**	–
		(15)	(3)
Cash flow hedges: net movement in hedging reserve	11	**(71)**	84
Self-occupied land and buildings : net movement in fixed assets revaluation reserve	11	**103**	(45)
		17	36
Total comprehensive income for the period		**6,721**	4,533
Attributable to:			
– Equity shareholders of the Company		**6,655**	4,534
– Non-controlling interests		**66**	(1)
Total comprehensive income for the period		**6,721**	4,533

The notes on pages 33 to 47 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

in HK$ million	Note	At 30 June 2010 (Unaudited)	At 31 December 2009 (Audited and restated)
Assets			
Fixed assets			
– Investment properties	12	**42,201**	40,993
– Other property, plant and equipment	13	**77,197**	77,844
– Service concession assets	14	**19,789**	19,351
		139,187	138,188
Property management rights		**31**	31
Railway construction in progress	15A	**–**	–
Property development in progress	16	**9,006**	6,718
Deferred expenditure	17	**839**	558
Interests in non-controlled subsidiaries		**493**	490
Interests in associates		**824**	823
Deferred tax assets	27	**6**	12
Investments in securities	18	**3,485**	227
Staff housing loans		**5**	7
Properties held for sale	19	**2,552**	3,783
Derivative financial assets	20	**411**	370
Stores and spares		**1,088**	1,040
Debtors, deposits and payments in advance	21	**4,451**	2,428
Loan to a property developer	22	**1,966**	1,916
Amounts due from the Government and other related parties	23	**377**	12,788
Cash and cash equivalents		**10,287**	7,115
		175,008	176,494
Liabilities			
Bank overdrafts		**49**	21
Short-term loans		**672**	25
Creditors and accrued charges	24	**16,260**	20,497
Current taxation		**1,205**	430
Contract retentions		**386**	354
Amounts due to the Government and a related party	23	**1,153**	923
Loans and other obligations	25	**18,876**	23,822
Obligations under service concession	26	**10,609**	10,625
Derivative financial liabilities	20	**215**	237
Loan from minority shareholders of a subsidiary		**129**	136
Deferred income		**141**	167
Deferred tax liabilities	27	**13,175**	12,804
		62,870	70,041
Net assets		**112,138**	106,453
Capital and reserves			
Share capital, share premium and capital reserve	28	**43,612**	42,497
Other reserves	29	**68,394**	63,890
Total equity attributable to equity shareholders of the Company		**112,006**	106,387
Non-controlling interests		**132**	66
Total equity		**112,138**	106,453

The notes on pages 33 to 47 form part of this interim financial report.

in HK$ million	Note	Share capital, share premium and capital reserve	Other reserves: Fixed assets revaluation reserve	Other reserves: Hedging reserve	Other reserves: Employee share-based capital reserve	Other reserves: Exchange reserve	Retained profits	Total equity attributable to equity shareholders of the Company	Non-controlling interests	Total equity
30 June 2010 (unaudited)										
Balance as at 1 January 2010		**42,497**	**1,132**	**(52)**	**52**	**53**	**62,705**	**106,387**	**66**	**106,453**
Changes in equity for the half year ended 30 June 2010										
– 2009 final dividend	8, 28	**1,087**	**–**	**–**	**–**	**–**	**(2,177)**	**(1,090)**	**–**	**(1,090)**
– Employee share-based payments		**–**	**–**	**–**	**28**	**–**	**–**	**28**	**–**	**28**
– Employee share options exercised	28	**28**	**–**	**–**	**(2)**	**–**	**–**	**26**	**–**	**26**
– Total comprehensive income for the period		**–**	**103**	**(71)**	**–**	**(16)**	**6,639**	**6,655**	**66**	**6,721**
Balance as at 30 June 2010		**43,612**	**1,235**	**(123)**	**78**	**37**	**67,167**	**112,006**	**132**	**112,138**
31 December 2009 (audited)										
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	8	962	–	–	–	–	(1,925)	(963)	–	(963)
– Employee share-based payments		–	–	–	14	–	–	14	–	14
– Employee share options exercised	28	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
Changes in equity for the half year ended 31 December 2009										
– 2009 interim dividend	8	399	–	–	–	–	(800)	(401)	–	(401)
– Employee share-based payments		–	–	–	18	–	–	18	–	18
– Employee share options exercised		14	–	–	(2)	–	–	12	–	12
– Employee share options lapsed		–	–	–	(1)	–	1	–	–	–
– Increase in non-controlling interests arising from shares issued by a subsidiary		–	–	–	–	–	–	–	45	45
– Total comprehensive income for the period		–	217	18	–	(7)	5,141	5,369	1	5,370
Balance as at 31 December 2009		42,497	1,132	(52)	52	53	62,705	106,387	66	106,453

The notes on pages 33 to 47 form part of this interim financial report.

CONSOLIDATED CASH FLOW STATEMENT

in HK$ million	**Half year ended 30 June 2010 (Unaudited)**	Half year ended 30 June 2009 (Unaudited and restated)
Cash flows from operating activities		
Operating profit from railway and related businesses before depreciation and amortisation	**5,491**	4,806
Adjustments for:		
Decrease in provision for obsolete stock	**(1)**	–
Loss on disposal of fixed assets	**10**	9
Amortisation of deferred income from transfers of assets from customers	**(3)**	–
Decrease/(increase) in fair value of derivative instruments	**9**	(6)
Employee share-based payment expenses	**31**	19
Exchange (gain)/loss	**(16)**	9
Operating profit from railway and related businesses before working capital changes	**5,521**	4,837
(Increase)/decrease in debtors, deposits and payments in advance	**(351)**	118
Increase in stores and spares	**(46)**	(147)
Increase/(decrease) in creditors and accrued charges	**810**	(37)
Cash generated from operations	**5,934**	4,771
Current tax paid		
Hong Kong Profits Tax paid	**(330)**	(192)
Overseas tax paid	**(4)**	(2)
Net cash generated from operating activities	**5,600**	4,577
Cash flows from investing activities		
Capital expenditure		
– Purchase of Hong Kong operational railway assets	**(703)**	(1,229)
– LOHAS Park Station Project	**(14)**	(66)
– West Island Line Project	**(1,466)**	(163)
– South Island Line Project	**(176)**	(64)
– Kwun Tong Line Extension Project	**(84)**	(44)
– Shenzhen Metro Line 4 Project	**(939)**	(320)
– Tseung Kwan O property development projects	**(53)**	(148)
– East Rail/Light Rail/Kowloon Southern Link property development projects	**(4,085)**	(24)
– Property renovation, fitting out works and other development projects	**(109)**	(133)
– Other capital projects	**(118)**	(19)
Net receipts in respect of entrustment works of Shatin to Central Link and Express Rail Link	**75**	17
Payments in respect of the Rail Merger	**–**	(12)
Receipts in respect of property development	**2,097**	2,523
Receipt of Government funding support for West Island Line Project	**12,252**	–
Increase in bank deposits with more than three months to maturity when placed	**(7,406)**	–
Purchase of investments in securities	**(3,346)**	(23)
Proceeds from sale of investments in securities	**92**	263
Proceeds from disposal of fixed assets	**3**	–
Investment in associates	**–**	(55)
Dividend received from non-controlled subsidiaries	**75**	40
Principal repayments under Staff Housing Loan Scheme	**2**	1
Net cash (used in)/generated from investing activities	**(3,903)**	544
Cash flows from financing activities		
Proceeds from shares issued under share option schemes	**26**	3
Drawdown of loans	**1,376**	6,652
Proceeds from issuance of capital market instruments	**–**	500
Repayment of loans	**(4,900)**	(4,318)
Repayment of capital market instruments	**(950)**	(6,111)
Interest paid	**(456)**	(650)
Interest received	**45**	6
Finance charges paid	**(11)**	(13)
Dividends paid	**(1,089)**	(962)
Net cash used in financing activities	**(5,959)**	(4,893)
Net (decrease)/increase in cash and cash equivalents	**(4,262)**	228
Cash and cash equivalents at 1 January	**7,094**	734
Cash and cash equivalents at 30 June	**2,832**	962
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents on the consolidated balance sheet	**10,287**	997
Bank deposits with more than three months to maturity when placed	**(7,406)**	–
Bank overdrafts	**(49)**	(35)
Cash and cash equivalents in the consolidated cash flow statement	**2,832**	962

The notes on pages 33 to 47 form part of this 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 48. In addition, this interim financial report has been reviewed by the Company's Audit Committee.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2010 annual accounts. Details of these changes in accounting policies are set out in subsequent paragraphs.

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

This interim financial report contains the condensed consolidated accounts and selected explanatory notes, which include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in non-controlled subsidiaries and associates since the issuance of the 2009 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2009 included in the interim financial report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2009, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 9 March 2010, are available from the Company's registered office.

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

- Revised HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards*
- HKFRS 3 (revised 2008), *Business combinations*
- Amendments to HKAS 27, *Consolidated and separate financial statements*
- Amendments to HKAS 39, *Financial instruments: Recognition and measurement – Eligible hedged items*
- HK(IFRIC) 17, *Distribution of non-cash assets to owners*
- Improvements to HKFRSs (2009)
- Amendments to HKFRS 1, *First-time adoption of Hong Kong Financial Reporting Standards – Additional exemptions for first-time adopters*
- Amendments to HKFRS 2, *Share-based payment – Group cash-settled share-based payment transactions*

The "Improvements to HKFRSs (2009)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, only the amendment relating to HKAS 17, *Leases* has impact on the Group's interim report. As a result of the amendment to HKAS 17, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that its interests in leasehold land, which are registered and located in the Hong Kong Special Administrative Region and subject to the Government's land policy of renewal without payment of additional land premium, are no longer classified as operating leases. The Group considers that it is in a position economically similar to that of a purchaser and therefore such interests of leasehold land should be reclassified as finance leases. In accordance with the amendment to HKAS 17, this change in accounting policy has been applied retrospectively. Corresponding amounts of previous periods have been restated with the balance of prepaid land lease payments as at 31 December 2009 of HK$554 million (1 January 2009: HK$567 million) classified as other property, plant and equipment on the consolidated balance sheet and the related amortisation for the half year ended 30 June 2009 of HK$7 million re-classified from other expenses to depreciation and amortisation in the consolidated profit and loss account.

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

2 Rail Merger with Kowloon-Canton Railway Corporation ("KCRC")

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

- The expansion of the Company's existing franchise under the Mass Transit Railway Ordinance ("MTR Ordinance") to cover the construction, operation and regulation of railways in addition to the MTRC railway for an initial period of 50 years from the Appointed Day ("Franchise Period"), which may be extended pursuant to the provisions of the MTR Ordinance;
- The Service Concession Agreement ("SCA") pursuant to which KCRC granted the Company the right to access, use and operate the KCRC system for an initial term of 50 years (the "Concession Period"), which will be extended if the Franchise Period (as it relates to the KCRC railway) is extended. The SCA also sets out the basis on which the KCRC system will be returned at the end of the Concession Period. In accordance with the terms of the SCA, the Company paid an upfront lump sum to KCRC on the Appointed Day and is obliged to pay an annual fixed payment to KCRC for the duration of the Concession Period. Additionally, commencing after three years from the Appointed Day, the Company is obliged to pay an annual variable fee to KCRC based on the revenue generated from the KCRC system above certain thresholds;
- Under the SCA, the Company is responsible for the expenditure incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system (with any new assets acquired being classified as "additional concession property"). To the extent that such expenditure exceeds an agreed threshold ("Capex Threshold"), the Company will be reimbursed for any above threshold expenditure at the end of the Concession Period with such reimbursement to be on the basis of depreciated book value;
- In the event that the Concession Period is extended, the fixed annual payment and the variable annual payment will continue to be payable by the Company. On such extension, the Capex Threshold may also be adjusted; and
- Property Package Agreements and Merger Framework agreement setting out the acquisition of certain properties, property management rights and property development rights by the Company as well as the framework for the Rail Merger including the implementation of the Fare Adjustment Mechanism.

3 Railway Franchise Revenue and Expenses outside of Hong Kong

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

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

4 Other Net Income

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

5 Profit on Property Developments

Profit on property developments comprises:

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

6 Share of Profits of Non-controlled Subsidiaries and Associates

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

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

7 Income Tax

Income tax in the consolidated profit and loss account represents:

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

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2010 is calculated at 16.5% (2009: 16.5%) on the estimated assessable profits for the period. Current tax for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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

8 Dividends

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

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

9 Earnings Per Share

A Basic earnings per share

The calculation of basic earnings per share is based on the profit for the half year ended 30 June 2010 attributable to equity shareholders of HK$6,639 million (2009: HK$4,498 million) and the weighted average number of ordinary shares of 5,732,143,807 in issue during the period (2009: 5,665,191,375), calculated as follows:

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

B Diluted earnings per share

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

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

C Both basic and diluted earnings per share would have been HK$1.00 (2009: HK$0.69) if the calculation is based on profit from underlying businesses attributable to equity shareholders, i.e. excluding increase in fair value of investment properties net of related deferred tax, adjusted as follows:

in HK$ million	**Half year ended 30 June 2010**	Half year ended 30 June 2009
Profit attributable to equity shareholders	**6,639**	4,498
Change in fair value of investment properties	**(1,101)**	(712)
Deferred tax on change in fair value of investment properties		
– Effect of the change during the period (note 7)	**182**	117
Profit from underlying businesses attributable to equity shareholders	**5,720**	3,903

10 Segmental Information

The Group manages its businesses by the various business executive committees. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following six reportable segments:

(i) Hong Kong railway operations: The operation of an urban mass transit railway system within Hong Kong, an Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway service, light rail and bus services in the north-west New Territories, intercity passenger services and freight business.

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

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

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

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

(vi) All others: Including operations relating to the Ngong Ping 360, railway consultancy services, rental and estate management services in Mainland of China and share of profits of non-controlled subsidiaries and associates.

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

in HK$ million	Hong Kong railway operations	Hong Kong station commercial activities	Hong Kong property rental and management	Railway franchises outside of Hong Kong	All others	Property developments	Total
Half year ended 30 June 2010							
Revenue	**5,950**	**1,440**	**1,423**	**4,852**	**437**	**–**	**14,102**
Operating expenses before depreciation and amortisation	**(3,104)**	**(166)**	**(257)**	**(4,645)**	**(372)**	**–**	**(8,544)**
	2,846	**1,274**	**1,166**	**207**	**65**	**–**	**5,558**
Profit on property developments	**–**	**–**	**–**	**–**	**–**	**3,705**	**3,705**
Operating profit before depreciation and amortisation	**2,846**	**1,274**	**1,166**	**207**	**65**	**3,705**	**9,263**
Depreciation and amortisation	**(1,431)**	**(53)**	**(2)**	**(17)**	**(34)**	**–**	**(1,537)**
	1,415	**1,221**	**1,164**	**190**	**31**	**3,705**	**7,726**
Project studies and business development expenses							**(67)**
Operating profit before interest and finance charges							**7,659**
Interest and finance charges							**(656)**
Change in fair value of investment properties			**1,101**				**1,101**
Share of profits of non-controlled subsidiaries and associates				**5**	**77**		**82**
Income tax							**(1,482)**
Profit for the half year ended 30 June 2010							**6,704**
Half year ended 30 June 2009 (restated)							
Revenue	5,542	1,326	1,302	–	460	–	8,630
Operating expenses before depreciation and amortisation	(3,044)	(149)	(253)	–	(283)	–	(3,729)
	2,498	1,177	1,049	–	177	–	4,901
Profit on property developments	–	–	–	–	–	2,147	2,147
Operating profit before depreciation and amortisation	2,498	1,177	1,049	–	177	2,147	7,048
Depreciation and amortisation	(1,393)	(39)	(4)	–	(35)	–	(1,471)
	1,105	1,138	1,045	–	142	2,147	5,577
Project studies and business development expenses							(95)
Merger related expenses							(7)
Operating profit before interest and finance charges							5,475
Interest and finance charges							(854)
Change in fair value of investment properties			712				712
Share of profits of non-controlled subsidiaries and associates				6	68		74
Income tax							(910)
Profit for the half year ended 30 June 2009							4,497

10 Segmental Information *(continued)*

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

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

11 Other Comprehensive Income

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

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

12 Investment Properties

Investment properties carried at fair value were revalued at 30 June 2010 on an open market basis by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, a gain of HK$1,101 million (2009: HK$712 million), and deferred tax thereon of HK$182 million (2009: HK117 million) in respect of the investment properties, have been included in the consolidated profit and loss account.

13 Other Property, Plant and Equipment

A Acquisitions and disposals

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

B Valuation

Self-occupied office land and buildings carried at fair value were revalued at 30 June 2010 on an open market value basis by an independent firm of surveyors, Jones Lang LaSalle Limited, who have among their staff Members of the Hong Kong Institute of Surveyors. As a result, revaluation surplus of HK$103 million (2009: HK$45 million deficit), net of deferred tax, have been transferred to the fixed asset revaluation reserve (note 11).

14 Service Concession Assets

Service concession assets include the right to access, use and operate the KCRC system ("Initial Concession Property"), the expenditures incurred in relation to the maintenance, repair, replacement and upgrade of the KCRC system ("Additional Concession Property"), the costs incurred and eligible for capitalisation in respect of the construction of Shenzhen Line 4 Phase 2, as well as the costs incurred to prepare for the operation and maintenance of the Stockholm Metro in Sweden.

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

15 Railway Construction in Progress

A Railway projects owned by the Group

Railway construction in progress as at 30 June 2010 and 31 December 2009 consisted of the net costs capitalised for the West Island Line ("WIL") project. Pursuant to the Project Agreement, the Government provided HK$12,252 million to the Company in March 2010 (having already made HK$400 million available in February 2008 under a preliminary project agreement) as funding support for the project. This funding support is subject to a repayment mechanism whereby, within 24 months of commercial operations commencing on the WIL, the Company will pay to the Government amounts to reflect the excess of original estimation over actual costs incurred on certain capital expenditure, price escalation costs, land costs and the amount of contingency in relation to the railway and related works (together with interest). As at 30 June 2010, the costs incurred for the WIL has cumulated to HK$3,333 million (31 December 2009: HK$1,685 million), which was wholly offset by the Government funding support.

B Railway project construction activities managed by the Group

On 26 January 2010, the Company entered into an Entrustment Agreement with the Government for the construction and commissioning of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("XRL"). Pursuant to the Entrustment Agreement, the Company is only responsible for the construction and commissioning of the XRL and the Government is responsible as the owner of XRL to fund directly the total cost of such activities and pay to the Company HK$4,590 million in respect of the Company's management of the project. Such sum may be varied in accordance with the terms of the Entrustment Agreement but is subject to a maximum annual limit of HK$2,000 million and a total limit of HK$10 billion. In addition, the Government has agreed that the Company will be invited to undertake the operation of the XRL under the service concession approach. During the half year ended 30 June 2010, project management fee of HK$175 million (2009: nil) was recognised in the consolidated profit and loss account.

16 Property Development in Progress

Property development in progress comprises foundation, site enabling works and land costs incurred by the Company for property development projects as well as considerations paid and mandatory payments payable to KCRC for the property development rights acquired in the Rail Merger, net of payments received from developers. Movements of property development in progress during the half year ended 30 June 2010 and the year ended 31 December 2009 were as follows:

in HK$ million	Balance at 1 January	Expenditure	Offset against payments received from developers	Transfer out on project completion	Balance at 30 June/ 31 December
At 30 June 2010 (Unaudited)					
Airport Railway Property Projects	**–**	**11**	**(11)**	**–**	**–**
Tseung Kwan O Extension Property Projects	**2,245**	**216**	**(5)**	**(1,376)**	**1,080**
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	**4,473**	**3,963**	**(510)**	**–**	**7,926**
	6,718	**4,190**	**(526)**	**(1,376)**	**9,006**
At 31 December 2009 (Audited)					
Airport Railway Property Projects	–	7	(2)	(5)	–
Tseung Kwan O Extension Property Projects	2,081	177	(13)	–	2,245
East Rail Line/Light Rail/Kowloon Southern Link Property Projects	5,814	119	–	(1,460)	4,473
	7,895	303	(15)	(1,465)	6,718

17 Deferred Expenditure

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

18 Investments in Securities

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

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

19 Properties Held for Sale

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

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

20 Derivative Financial Assets and Liabilities

Derivative financial assets and liabilities comprise:

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

21 Debtors, Deposits and Payments in Advance

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

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

(ii) Franchise revenue in Melbourne is collected either weekly or monthly depending on its nature. The majority of the franchise revenue in Stockholm is collected in the transaction month with the remainder being collected in the following month.

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

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

(v) Consultancy service incomes are billed monthly, upon completion or on other basis stipulated in the consultancy contracts and are due within 30 days.

(vi) Debtors in relation to contracts and capital works entrusted to the Group, subject to any agreed retentions, are due within 30 days upon the certification of work in progress.

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

The ageing of debtors is analysed as follows:

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

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

22 Loan to a Property Developer

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

	At 30 June 2010 (Unaudited)		At 31 December 2009 (Audited)	
in HK$ million	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Interest-free loan to a property developer	**2,000**	**1,966**	2,000	1,916

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

23 Material Related Party Transactions

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

During the half year ended 30 June 2010, amounts due from/to the Government and other related parties in respect of material related party transactions with the Group are stated below:

in HK$ million	**At 30 June 2010 (Unaudited)**	At 31 December 2009 (Audited)
Amounts due from:		
– the Government	**144**	12,432
– KCRC	**102**	165
– non-controlled subsidiaries	**16**	15
– associates	**115**	176
	377	12,788
Amounts due to:		
– the Government	**25**	19
– KCRC	**1,128**	904
	1,153	923

As at 30 June 2010, the amount due from the Government related to outstanding receivables and retention, as well as provision for contract claims recoverable from the Government, in connection with infrastructure works entrusted to the Company, reimbursable costs incurred by the Company for West Rail property developments and outstanding receivables in respect of the costs recoverable from the Government for the Shatin to Central Link and XRL projects. Other than these items, the amount due from the Government as at 31 December 2009 also included HK$12,252 million of funding support for the construction of the WIL (note 15). The amount due to the Government related to land costs in respect of the WIL project.

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

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

in HK$ million	**Half year ended 30 June 2010**	Half year ended 30 June 2009
Cash dividends paid	**681**	656
Shares allotted in respect of scrip dividends	**991**	821
	1,672	1,477

The details of major related party transactions entered into by the Group with the Government in prior years which are still relevant for the current year and with KCRC in respect of the Rail Merger were described in the Company's audited accounts for the year ended 31 December 2009.

23 Material Related Party Transactions *(continued)*

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

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

24 Creditors and Accrued Charges

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

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

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

25 Loans and Other Obligations

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

in HK$ million	**Half year ended 30 June 2010** Principal amount	**Half year ended 30 June 2010** Net consideration received	Half year ended 30 June 2009 Principal amount	Half year ended 30 June 2009 Net consideration received
Debit issuance programme notes	**–**	**–**	500	500

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

During the half year ended 30 June 2010, the Group redeemed HK$950 million (2009: HK$300 million) of its unlisted debt securities and none (2009: US$750 million) of its listed debt securities.

26 Obligations under Service Concession

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

27 Deferred Tax Assets and Liabilities

A Movements of deferred tax assets and liabilities during the half year ended 30 June 2010 and the year ended 31 December 2009 were as follows:

	Deferred tax arising from					
in HK$ million	Depreciation allowances in excess of related depreciation	Revaluation of properties	Provision and other temporary differences	Cash flow hedges	Tax losses	Total
30 June 2010 (Unaudited)						
At 1 January 2010	**8,382**	**4,316**	**121**	**(10)**	**(17)**	**12,792**
Charged to consolidated profit and loss account	**166**	**182**	**18**	**–**	**4**	**370**
Charged/(credited) to reserves	**–**	**21**	**–**	**(14)**	**–**	**7**
At 30 June 2010	**8,548**	**4,519**	**139**	**(24)**	**(13)**	**13,169**
31 December 2009 (Audited)						
At 1 January 2009	8,323	3,822	105	(30)	(11)	12,209
Charged/(credited) to consolidated profit and loss account	59	460	16	–	(6)	529
Charged to reserves	–	34	–	20	–	54
At 31 December 2009	8,382	4,316	121	(10)	(17)	12,792

B Deferred tax assets and liabilities recognised amount to:

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

28 Share Capital, Share Premium and Capital Reserve

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

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

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

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

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

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

	Half year ended 30 June 2010			Half year ended 30 June 2009		
	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme	2007 Share Option Scheme
No. of previously vested share options exercised during the period	**1,539,000**	**195,000**	**474,000**	277,000	46,000	–
No. of share options granted during the period	**–**	**–**	**–**	–	–	255,000
No. of share options lapsed during the period	**–**	**–**	**263,000**	–	355,500	165,000
No. of share options vested during the period	**–**	**–**	**1,012,000**	–	190,500	918,000
No. of share options outstanding as at 30 June	**1,409,000**	**1,121,200**	**38,192,500**	3,328,500	2,098,700	23,483,000

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

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

29 Other Reserves

Apart from retained profits, the other reserves are not available for distribution to shareholders because they do not constitute realised profits. In addition, the Company considers the cumulative surpluses on revaluation of investment properties, net of tax of HK$21,665 million (31 December 2009: HK$20,755 million) included in retained profits are non-distributable as they also do not constitute realised profits. As at 30 June 2010, the Company considered that the total amount of reserves available for distribution to equity shareholders amounted to HK$44,477 million (31 December 2009: HK$41,165 million).

30 Capital Commitments

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

in HK$ million	Hong Kong railway operations	Hong Kong railway extension projects	Hong Kong property rental and development	Mainland of China and overseas projects	Total
At 30 June 2010 (Unaudited)					
Authorised but not yet contracted for	**1,515**	**–**	**142**	**24**	**1,681**
Authorised and contracted for	**1,842**	**7,723**	**256**	**2,308**	**12,129**
	3,357	**7,723**	**398**	**2,332**	**13,810**
At 31 December 2009 (Audited)					
Authorised but not yet contracted for	1,116	–	192	–	1,308
Authorised and contracted for	1,506	3,784	108	2,177	7,575
	2,622	3,784	300	2,177	8,883

B The commitments under Hong Kong railway operations comprise the following:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Additional concession property	Total
At 30 June 2010 (Unaudited)				
Authorised but not yet contracted for	**889**	**67**	**559**	**1,515**
Authorised and contracted for	**471**	**1,028**	**343**	**1,842**
	1,360	**1,095**	**902**	**3,357**
At 31 December 2009 (Audited)				
Authorised but not yet contracted for	632	34	450	1,116
Authorised and contracted for	385	930	191	1,506
	1,017	964	641	2,622

C Investments in Mainland of China

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

30 Capital Commitments *(continued)*

C Investments in Mainland of China *(continued)*

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

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

On 4 March 2010, the Company's wholly owned subsidiary, MTR Hangzhou Line 1 Investment Company Limited, together with a subsidiary of Hangzhou Metro Group Company Limited, entered into a Concession Agreement with Hangzhou Municipal Government for the investment, construction and operation of Hangzhou Line 1 for a term of 25 years. The project will be undertaken by a joint venture company to be formed by the Group and Hangzhou Metro Group Company Limited with equity interest of 49% and 51% respectively. The joint venture company will be funded by a combination of debt and equity with the Group's equity investment being approximately RMB2.2 billion (HK$2.5 billion). The Concession Agreement is subject to approval by relevant authorities in the Mainland of China.

D Investments in Europe and Australia

London Overground Rail Operations Ltd ("LOROL"), the 50/50 partnership between the Group and DB Regio (UK) Limited ("DB Regio"), was awarded the concession to operate the London Overground service in Greater London for seven years, starting from 11 November 2007, with an option for a two-year extension. With respect to the concession, LOROL has provided a performance bond of GBP15 million (HK$176 million) to Transport for London ("TfL"), which is jointly and severally indemnified by the Group and DB Regio through parent company guarantee and may be called by TfL if the concession is terminated early as a result of default. As provided in the concession agreement, this bond was reduced to GBP10.8 million (HK$127 million) in July 2010 due to the successful start of the East London Line operations. This new bond is guaranteed by Deutsche Bahn, the ultimate parent company of DB Regio, with the Company providing to Deutsche Bahn a counter indemnity that is further backed by a performance bond of GBP5.4 million (HK$63 million) for the Company's share of the guarantee. As at 30 June 2010, an unsecured debt of GBP2 million (HK$23 million) with interest rate at 2.5% per annum above the published Bank of England base rate from time to time was provided equally by the Group and DB Regio to LOROL (GBP1 million each), with final repayment date on the date of expiry or the earlier termination of the concession.

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

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

31 Approval of Interim Financial Report

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

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 47 which comprises the consolidated balance sheet of MTR Corporation Limited as of 30 June 2010 and the related consolidated profit and loss account, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

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

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2010 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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12 August 2010

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