Notes to the unaudited interim financial report

1 Basis of preparation

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", 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 36. 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 requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2004 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 2004, on which the auditors have expressed an unqualified opinion on those accounts in their report dated 1 March 2005, are available from the Company's registered office.

With effect from 1 January 2005, all Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA have been converged with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"). As a result, the HKICPA has aligned HKFRSs with the requirements of IFRSs in all material respects from the same date. These interim accounts have been prepared in accordance with all HKFRSs applicable to the Company, its subsidiaries and associates (the "Group"), and changes in accounting policies from those adopted in the 2004 annual accounts are disclosed in note 2.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the issuance of the 2004 annual accounts.

2 Adoption of new Hong Kong Financial Reporting Standards

A The Group has adopted all HKFRSs (which include all HKASs, Interpretations issued by the Standing Interpretations Committee of IASB ("HK(SIC)-Ints") and Interpretations issued by the HKICPA ("HK-Ints")) issued up to 30 June 2005 pertinent to its operations. The applicable HKFRSs are set out below and the interim financial report for the half-year period ended 30 June 2004 has been restated in accordance with the relevant requirements except for HKAS 39 which is adopted prospectively as of 1 January 2005.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 34	Interim Financial Reporting
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 15	Operating Leases – Incentives
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HK(SIC)-Int 27	Evaluating the Substance of Transaction Involving the Legal Forms of a Lease
HK-Int 2	The Appropriate Accounting Policies for Hotel Properties
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

The adoption of the above new HKFRSs has the following impacts on the Group's accounting policies:

(i) The adoption of HKASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 20, 21, 23, 24, 27, 31, 33, 34, 36, 37, HKFRS 3, HK(SIC)-Ints 15, 27 and HK-Ints 3, 4 do not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 affects certain presentation and disclosure of the accounts;
- HKASs 2, 8, 16 and 27 affect certain disclosure of the accounts; and
- HKASs 7, 10, 11, 12, 14, 18, 19, 20, 21, 23, 24, 31, 33, 34, 36, 37, HKFRS 3, HK(SIC)-Ints 15, 27 and HK-Ints 3, 4 do not have any impact as the Group's accounting policies already comply with those standards.

(ii) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously accounted for as finance leases and were stated at cost or valuation less accumulated depreciation. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building according to their fair value at inception. A lease of land is an operating lease and a lease of building is a finance lease unless the two elements can not be allocated reliably, in which case the entire lease is classified as a finance lease. Pursuant to these requirements, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised over its unexpired lease term, whereas undistinguishable leasehold land and building is stated collectively at valuation less accumulated depreciation.

(iii) The adoption of HKASs 32 and 39 has resulted in a change in accounting policy for recognition, measurement and disclosure of financial instruments. Prior to 1 January 2005, derivatives of the Group were not recorded on the balance sheet based on the then prevailing accounting standards. In accordance with the provisions of HKAS 39, all derivatives have been recognised at their fair value on the balance sheet on 1 January 2005. Subject to meeting the requirements to qualify for hedge accounting, those underlying financial liabilities, such as loans that are designated as hedged items for fair value hedges, have been revalued at their fair values with corresponding adjustments made to their carrying amounts on the balance sheet. Depending on the type of hedging relationship, subsequent changes in fair value of derivatives and hedged items are to be charged to the profit and loss account or directly transferred to hedging reserve.

(iv) The adoption of HKAS 40 has resulted in a change in accounting policy for the Group's investment properties. In prior years, increases in the valuation of investment property were credited to the investment property revaluation reserve while decreases in the valuation of investment property were firstly set off against the surplus of the investment property revaluation reserve and thereafter charged to the profit and loss account. Following the adoption of HKAS 40, all changes in valuation of the investment property are to be recognised in the profit and loss account.

(v) The adoption of HKFRS 2 has resulted in a change in accounting policy for employee share options and other share-based payments. Prior to this, the provision of share options and share-based payments to employees did not result in a charge to profit and loss account. Following the adoption of HKFRS 2, the fair value of share options and share-based payments at grant date are amortised over the relevant vesting periods to the profit and loss account.

(vi) The adoption of HK(SIC)-Int 21 has resulted in a change in accounting policy for the deferred tax treatment on the Group's investment properties. Prior to 1 January 2005, deferred tax on changes in fair value of investment properties arising from revaluation was not provided on the basis that the recovery of the carrying amount would be through sale and was calculated at the tax rate applicable on eventual sale, which in Hong Kong is nil. Following the adoption of HK(SIC)-Int 21, the deferred tax arising from revaluation of the investment properties is required to be valued on the basis that the recovery of the carrying amount of the properties would be through use and calculated at the profits tax rate and is charged to the profit and loss account.

(vii) The adoption of HK-Int 2 has resulted in a change in accounting policy on depreciation of the Group's rails assets. In prior years, certain rails assets subject to continuous repair and maintenance had been carried at historical cost without depreciation as those assets are being maintained in their perfect working conditions, while the related repair and maintenance and replacement cost of which was charged to the profit and loss account as revenue expenses. Following the implementation of HK-Int 2, depreciation is provided on such rails assets and charged to the profit and loss account while rail replacement cost is capitalised and depreciated.

2 Adoption of new Hong Kong Financial Reporting Standards (continued)

B (i) Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current and prior periods presented), the Group has retrospectively restated the opening balances of the retained profits as at 1 January 2004 and 2005 to take into account the effects of changes in the above accounting policies, except for HKASs 32 and 39 and HK-Int 2 (notes 2B(ii) and (iii)) which are applied prospectively. The previously reported net profit for the six months ended 30 June 2004 and for the year ended 31 December 2004 have also been adjusted. These effects are summarised as follows:

	Effects of adopting				
in HK$ million	HKAS 17	HKAS 40	HKFRS 2	HK(SIC)-Int 21	Total
Effects on periods prior to 2004:					
Decrease in depreciation	98	–	–	–	98
Increase in land lease expense	(98)	–	–	–	(98)
Revaluation gain on investment properties	–	6,682	–	–	6,682
Increase in deferred tax	–	–	–	(1,169)	(1,169)
Increase in retained profits	–	6,682	–	(1,169)	5,513
Effects on 2004:					
(a) 6 months ended 30 June 2004					
Decrease in depreciation	7	–	–	–	7
Increase in land lease expense	(7)	–	–	–	(7)
Increase in staff costs and related expenses for share option schemes	–	–	(2)	–	(2)
	–	–	(2)	–	(2)
(b) 6 months ended 31 December 2004					
Decrease in depreciation	7	–	–	–	7
Increase in land lease expense	(7)	–	–	–	(7)
Revaluation gain on investment properties	–	2,486	–	–	2,486
Increase in deferred tax	–	–	–	(435)	(435)
Increase in staff costs and related expenses for share option schemes	–	–	(2)	–	(2)
	–	2,486	(2)	(435)	2,049
Increase in profit for the year ended 31 December 2004*	–	2,486	(4)	(435)	2,047
Increase in retained profits as at 31 December 2004	–	9,168	(4)	(1,604)	7,560

* *Restated profit for the year ended 31 December 2004 is HK$6,543 million, after taking into account the prior year adjustments of HK$2,047 million due to changes in accounting policies.*

(ii) Following the prospective adoption of HKAS 39 from 1 January 2005, the following adjustments were made on the same date:

- recognise derivatives at fair value on the balance sheet on 1 January 2005 and adjust the balance to retained profits (note 17), except for those qualified for effective cash flow hedges which are recognised in the hedging reserve directly; and
- revalue those financial assets or financial liabilities that should be valued at fair value and those that should be valued at amortised cost and adjust the balance to retained profits at 1 January 2005.

As a result of the adoption of HKAS 39, profit for the six months ended 30 June 2005 is estimated to be increased by approximately HK$29 million.

(iii) With regard to HK-Int 2, the Company has conducted an assessment of the financial implications of this new interpretation to its accounts and concluded that the impact was not significant and thus no prior period adjustment was considered necessary. The new accounting policy is to be applied prospectively.

Profit for the six months ended 30 June 2005 is estimated to be increased by approximately HK$1 million in this regard.

3 Profit on property developments

Profit on property developments includes cost of properties sold of HK$514 million *(2004: HK$283 million)*.

4 Change in fair value of investment properties

All of the Group's investment properties were revalued on 30 June 2005 by an independent firm of surveyors, DTZ Debenham Tie Leung, who have among their staff Members of The Hong Kong Institute of Surveyors, at open market value. The 2004 comparative figure was not provided as no property revaluation was conducted for the 2004 interim financial report. Prior to interim closing in 2004, an internal assessment conducted on all investment properties indicated that the potential change in fair value from their valuation as at 31 December 2003 was not material, hence no revaluation was considered necessary for the 2004 interim financial report.

A revaluation was conducted on all of the Group's investment properties at 31 December 2004 by the same firm of surveyors, DTZ Debenham Tie Leung, which resulted in a surplus of HK$2,486 million over the properties' 2003 year-end valuation. Such surplus was taken directly to investment property revaluation reserve in the 2004 annual accounts and the accumulated revaluation surplus was restated as retained profits on 1 January 2005 (note 2B(i)) upon adoption of HKAS 40 on the same date.

5 Share of profit/(loss) of non-controlled subsidiary and associate

Share of profit/(loss) of non-controlled subsidiary and associate comprises:

in HK$ million	**Half-year ended 30 June 2005 (Unaudited)**	Half-year ended 30 June 2004 (Unaudited)
Share of profit of non-controlled subsidiary	**29**	20
Share of loss of associate	**(10)**	–
	19	20

6 Income tax

Income tax in the consolidated profit and loss account represents:

in HK$ million	**Half-year ended 30 June 2005 (Unaudited)**	Half-year ended 30 June 2004 (Unaudited)
Current tax		
– overseas tax for the period	**8**	1
Deferred tax		
– origination and reversal of temporary differences on:		
– change in fair value of investment properties	**178**	–
– others	**303**	219
Share of non-controlled subsidiary's taxation	**4**	2
	493	222

No provision for current Hong Kong Profits Tax has been made in the consolidated profit and loss account in respect of the Company and its subsidiaries, as the Company and its subsidiaries either have substantial accumulated tax losses brought forward which are available for set off against current period's assessable profits or have sustained tax losses for the half-year period ended 30 June 2005. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

7 Dividends

in HK$ million	**Half-year ended 30 June 2005**	Half-year ended 30 June 2004
Dividend paid		
2004 final dividend of 28 cents *(2003: 28 cents)* per share approved and paid in 2005	**1,509**	1,481
Dividend declared		
Interim dividend declared after the balance sheet date of 14 cents *(2004: 14 cents)* per share	**764**	750

8 Earnings per share

The calculation of basic earnings per share is based on the profit for the half-year period ended 30 June 2005 attributable to shareholders of HK$2,606 million *(2004: HK$1,173 million, as restated)* and the weighted average number of ordinary shares of 5,394,737,292 in issue during the period *(2004: 5,293,223,376)*.

The calculation of diluted earnings per share is based on the profit for the half-year period ended 30 June 2005 attributable to shareholders of HK$2,606 million *(2004: HK$1,173 million, as restated)* and the weighted average number of ordinary shares of 5,400,498,206 in issue during the period *(2004: 5,299,525,136)* after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes calculated as follows:

	Half-year ended 30 June 2005	Half-year ended 30 June 2004
Weighted average number of ordinary shares used in calculating basic earnings per share	**5,394,737,292**	5,293,223,376
Number of ordinary shares deemed to be issued for no consideration	**5,760,914**	6,301,760
Weighted average number of ordinary shares used for calculating the diluted earnings per share	**5,400,498,206**	5,299,525,136

Both basic and diluted earnings per share would have been HK$0.33 *(2004: HK$0.22)* had changes in fair value of investment properties, net of deferred tax, been excluded in the calculation.

9 Segmental information

The Group's results of major business activities for the half-year ended 30 June 2005, with comparative figures for the half-year ended 30 June 2004, are summarised below:

in HK$ million	Railway operations	Station commercial and other businesses	Property ownership and management	Total railway operations and related activities	Property developments	Total
Half-year ended 30 June 2005 (Unaudited)						
Revenue	**2,988**	**754**	**643**	**4,385**	**–**	**4,385**
Operating expenses before depreciation	**(1,362)**	**(162)**	**(101)**	**(1,625)**	**–**	**(1,625)**
	1,626	**592**	**542**	**2,760**	**–**	**2,760**
Profit on property developments	**–**	**–**	**–**	**–**	**1,520**	**1,520**
Operating profit before depreciation	**1,626**	**592**	**542**	**2,760**	**1,520**	**4,280**
Depreciation	**(1,277)**	**(67)**	**(2)**	**(1,346)**	**–**	**(1,346)**
	349	**525**	**540**	**1,414**	**1,520**	**2,934**
Unallocated corporate expenses						**(235)**
Interest and finance charges						**(634)**
Change in fair value of investment properties						**1,015**
Share of profit/(loss) of non-controlled subsidiary and associate						**19**
Income tax						**(493)**
Profit for the period ended 30 June 2005						**2,606**
Half-year ended 30 June 2004 (Unaudited)						
Revenue	2,871	579	537	3,987	–	3,987
Operating expenses before depreciation	(1,383)	(128)	(94)	(1,605)	–	(1,605)
	1,488	451	443	2,382	–	2,382
Profit on property developments	–	–	–	–	1,153	1,153
Operating profit before depreciation	1,488	451	443	2,382	1,153	3,535
Depreciation	(1,175)	(56)	(2)	(1,233)	–	(1,233)
	313	395	441	1,149	1,153	2,302
Unallocated corporate expenses						(184)
Interest and finance charges						(743)
Share of profit of non-controlled subsidiary						20
Income tax						(222)
Profit for the period ended 30 June 2004, as restated						1,173

No geographical analysis is shown as substantially all the principal activities of the Group were carried out in Hong Kong throughout the reporting periods.

10 Investments in subsidiaries

The following new principal subsidiary company was established during the half-year ended 30 June 2005:

		Proportion of ownership interest				
Name of company	Issued and paid up ordinary/registered share capital	Group's effective interest	Held by the Company	Held by subsidiary	Place of incorporation and operation	Principal activities
MTR Beijing Line 4 Investment Company Limited	HK$1	100%	100%	–	Hong Kong	Investment holding

11 Derivative financial assets and liabilities

Derivative financial assets and liabilities as at 30 June 2005 comprise:

in HK$ million	Notional amount	Fair value
Derivative financial assets		
Foreign exchange forwards	228	5
Cross currency swaps	4,852	215
Interest rate swaps	9,472	305
	14,552	525
Derivative financial liabilities		
Foreign exchange forwards	133	8
Cross currency swaps	14,405	199
Interest rate swaps	2,350	26
	16,888	233

12 Debtors, deposits and payments in advance

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

i Rentals, advertising and telecommunications fees are billed monthly with due dates ranging from 7 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.

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

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

The ageing of debtors relating to the above activities is analysed as follows:

in HK$ million	**At 30 June 2005 (Unaudited)**	At 31 December 2004 (Audited)
Amount not yet due	**586**	690
Overdue by 30 days	**77**	106
Overdue by 60 days	**11**	20
Overdue by 90 days	**7**	6
Overdue by more than 90 days	**18**	70
Total debtors	**699**	892
Deposits and payments in advance	**296**	286
Prepaid pension costs	**99**	98
	1,094	1,276

13 Material related party transactions

The Financial Secretary Incorporated, which holds approximately 76.5% of the Company's issued share capital on trust for the Government of the Hong Kong SAR, 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.

The Group has had the following material transactions with Government and other related parties during the half-year ended 30 June 2005:

in HK$ million	Balance at 1 January 2005 (Audited)	Increase	**Balance at 30 June 2005 (Unaudited)**
Amounts due from related parties in respect of infrastructure entrustment works:			
– the Government	36	7	**43**
– the Housing Authority	10	–	**10**
– the Kowloon-Canton Railway Corporation	–	1	**1**
Amount due from non-controlled subsidiary	87	–	**87**
Loan to associate	–	10	**10**
	133	18	**151**
Amounts due to related parties in respect of railway project works entrusted to:			
– the Kowloon-Canton Railway Corporation	1	4	**5**
Amount due to associate	–	10	**10**
	1	14	**15**

During the period, the following dividends were paid to or waived by the Government:

in HK$ million	**Half-year ended 30 June 2005 (Unaudited)**	Half-year ended 30 June 2004 (Unaudited)
Cash dividend paid	**509**	420
Cash dividend waived	**–**	37
Shares allotted in respect of scrip dividends	**645**	673
	1,154	1,130

During the half-year ended 30 June 2005, the Group also had the following transactions with its non-controlled subsidiary, Octopus Cards Limited ("OCL"):

in HK$ million	**Half-year ended 30 June 2005 (Unaudited)**	Half-year ended 30 June 2004 (Unaudited)
Payment to OCL in respect of central clearing services	**26**	25
Fees received from OCL in respect of load agency services, card issuance and refund services and management services	**8**	9

14 Creditors, accrued charges and provisions

Creditors, accrued charges and provisions are mainly related to capital projects which are settled upon certification of work in progress and swap interest payable. The Group has no significant balances of trade creditors resulting from its provision of transportation services.

The analysis of creditors by due dates is as follows:

in HK$ million	**At 30 June 2005 (Unaudited)**	At 31 December 2004 (Audited)
Due within 30 days or on demand	**521**	563
Due after 30 days but within 60 days	**493**	509
Due after 60 days but within 90 days	**67**	106
Due after 90 days	**1,283**	1,356
	2,364	2,534
Rental and other refundable deposits	**379**	369
Accrued employee benefits	**135**	134
Total	**2,878**	3,037

15 Bonds and notes issued and redeemed

Bonds and notes issued by the Group during the half-years ended 30 June 2004 and 2005 comprise:

	Half-year ended 30 June 2005		Half-year ended 30 June 2004	
	Principal amount	Net consideration received	Principal amount	Net consideration received
in HK$ million	**(Unaudited)**		(Unaudited)	
Debt issuance programme notes	**1,000**	**993**	4,658	4,610

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. Under the same arrangement, additional notes with principal amount of HK$500 million issued by MTR Corporation (C.I.) Limited in June and settled in July 2005 were not included in the above figures.

During the period, the Group redeemed HK$1,450 million *(2004: HK$3,365 million)* unlisted Hong Kong dollar notes upon maturity.

16 Share capital, share premium and capital reserve

in HK$ million	**At 30 June 2005 (Unaudited)**	At 31 December 2004 (Audited)
Authorised:		
6,500,000,000 shares of HK$1.00 each	**6,500**	6,500
Issued and fully paid:		
5,456,304,922 shares *(2004: 5,389,999,974 shares)* of HK$1.00 each	**5,456**	5,390
Share premium	**4,414**	3,691
Capital reserve	**27,188**	27,188
	37,058	36,269

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.

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

	Number of shares	Option / scrip price *HK$*	Proceeds credited to Share capital account *HK$ million*	Proceeds credited to Share premium account *HK$ million*	Total *HK$ million*
Employee share options exercised					
– Pre-Global Offering Share Option Scheme	4,129,000	8.44	4	30	34
– New Joiners Share Option Scheme	54,500	9.75	–	1	1
Issued as 2004 final scrip dividends	62,121,448	12.14	62	692	754
	66,304,948		66	723	789

Key details of the Company's share option schemes during the half-year ended 30 June 2005 are summarised as follows:

	Pre-Global Offering Share Option Scheme	New Joiners Share Option Scheme
Exercise of previously vested share options	4,129,000	54,500
No. of share options lapsed/vested	–	–
No. of share options outstanding as at 30 June 2005	13,077,000	1,506,700

Details of the movements in respect of these share option schemes are set out under the Corporate Governance and Other Information section on page 15.

17 Other reserves

in HK$ million	Investment property revaluation reserve	Fixed asset revaluation reserve	Hedging reserve	Employee share-based capital reserve	Retained profits	Total
30 June 2005 (Unaudited)						
Balance as at 1 January 2005, as previously reported	**9,168**	**291**	**–**	**–**	**17,771**	**27,230**
Prior period adjustments on effects of changes in accounting policies (note 2)	**(9,168)**	**–**	**–**	**1**	**7,560**	**(1,607)**
	–	**291**	**–**	**1**	**25,331**	**25,623**
Effect of adoption of new accounting policy with respect to financial instruments (note 2)	**–**	**–**	**(66)**	**–**	**190**	**124**
Balance as at 1 January 2005, as restated	**–**	**291**	**(66)**	**1**	**25,521**	**25,747**
Effective portion of changes in fair value of cash flow hedges	**–**	**–**	**80**	**–**	**–**	**80**
Dividend paid	**–**	**–**	**–**	**–**	**(1,509)**	**(1,509)**
Surplus on revaluation, net of deferred tax	**–**	**231**	**–**	**–**	**–**	**231**
Employee share-based payments	**–**	**–**	**–**	**1**	**–**	**1**
Profit for the period	**–**	**–**	**–**	**–**	**2,606**	**2,606**
Balance as at 30 June 2005	**–**	**522**	**14**	**2**	**26,618**	**27,156**
31 December 2004 (Audited)						
Balance as at 1 January 2004, as previously reported	6,682	18	–	–	15,506	22,206
Prior period adjustments on effects of changes in accounting policies (note 2)	(6,682)	–	–	–	5,513	(1,169)
Balance as at 1 January 2004, as restated	–	18	–	–	21,019	21,037
Dividends paid	–	–	–	–	(2,231)	(2,231)
Surplus on revaluation, net of deferred tax	–	273	–	–	–	273
Employee share-based payments (note 2)	–	–	–	1	–	1
Profit for the year, as previously reported	–	–	–	–	4,496	4,496
Effects of changes in accounting policies (note 2)	–	–	–	–	2,047	2,047
Profit for the year, as restated	–	–	–	–	6,543	6,543
Balance as at 31 December 2004	–	291	–	1	25,331	25,623

The fixed asset revaluation reserve, hedging reserve and employee share-based capital reserve are not available for distribution to shareholders because they do not constitute realised profits. As at 30 June 2005, the total amount of reserves available for distribution to shareholders under the Hong Kong Companies Ordinance amounted to HK$26,374 million *(2004: HK$25,113 million, as restated)*.

18 Capital commitments

i Outstanding capital commitments as at 30 June 2005 not provided for in the accounts were as follows:

in HK$ million	Railway operations	Railway extension projects	Property development projects	Total
At 30 June 2005 (Unaudited)				
Authorised but not yet contracted for	**772**	**–**	**1,686**	**2,458**
Authorised and contracted for	**829**	**276**	**233**	**1,338**
	1,601	**276**	**1,919**	**3,796**
At 31 December 2004 (Audited)				
Authorised but not yet contracted for	518	–	1,762	2,280
Authorised and contracted for	927	558	213	1,698
	1,445	558	1,975	3,978

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

ii The commitments under railway operations comprise the following:

in HK$ million	Improvement and enhancement works	Acquisition of property, plant and equipment	Total
At 30 June 2005 (Unaudited)			
Authorised but not yet contracted for	**576**	**196**	**772**
Authorised and contracted for	**232**	**597**	**829**
	808	**793**	**1,601**
At 31 December 2004 (Audited)			
Authorised but not yet contracted for	388	130	518
Authorised and contracted for	232	695	927
	620	825	1,445

iii Commitments in respect of jointly controlled operations have been included in the commitments for Property Development Projects above and were as follows:

in HK$ million	**At 30 June 2005 (Unaudited)**	At 31 December 2004 (Audited)
Authorised but not yet contracted for	**1,686**	1,762
Authorised and contracted for	**221**	204
	1,907	1,966

19 Comparative figures

Certain comparative figures have been reclassified as a result of the adoption of new HKFRSs.

20 Approval of interim financial report

The interim financial report was approved by the Board on 2 August 2005.