PR070/18
9 August 2018

MTR CORPORATION LIMITED
香港鐵路有限公司

(the "Company")
(Incorporated in Hong Kong with limited liability)
(Stock code: 66)

ANNOUNCEMENT OF UNAUDITED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2018

HIGHLIGHTS

Financials

- Revenue from recurrent businesses	HK$26,373	million	up 13.9%
Revenue from Mainland of China property development	HK$nil	million	down HK$6,844 million
Total revenue of the Group	HK$26,373	million	down 12.1%
- Post-tax profit attributable to shareholders of the Company:			
Recurrent business profit	HK$4,483	million	up 0.1%
Underlying business profit	HK$4,648	million	down 20.5%
Profit after investment property revaluation	HK$7,083	million	down 5.3%

- Interim ordinary dividend of HK$0.25 per share declared (with scrip dividend alternative)

Hong Kong Business Operations

- Best on-time performance for January to June period since merger
- Revenue from Hong Kong station commercial and property rental businesses increased 11.3% and 3.4% respectively
- Yau Tong Ventilation Building site and Wong Chuk Hang Station Package 3 awarded in May and August 2018 respectively

Mainland of China & International Businesses

- Rail businesses mixed results with challenges encountered in Europe offset by good business performance in Australia and Mainland China
- O&M contract for Macau Light Rapid Transit Taipa Line awarded to the Group
- Bid submitted in July 2018 for the West Coast Partnership franchise in the UK

Outlook

- Arrangement for future operations of the Guangzhou-Shenzhen-Hong Kong High Speed Rail in final stage of negotiation
- Hong Kong businesses would benefit from continued solid economic growth
- Continued challenges in Europe expected. Other businesses outside of Hong Kong should perform in line with expectations
- Subject to market conditions, second property development package at Ho Man Tin Station and eleventh package of LOHAS Park to be tendered out over the next 6 months or so

The Directors of the Company are pleased to announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the half year ended 30 June 2018 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK$ MILLION)

	Half year ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Revenue from Hong Kong transport operations	**9,328**	8,957
Revenue from Hong Kong station commercial businesses	**3,075**	2,788
Revenue from Hong Kong property rental and management businesses	**2,517**	2,432
Revenue from Mainland of China and international railway, property rental and management subsidiaries	**10,453**	8,015
Revenue from other businesses	**1,000**	968
	26,373	23,160
Revenue from Mainland of China property development	**-**	6,844
	26,373	30,004
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	**(2,854)**	(2,530)
- Energy and utilities	**(759)**	(705)
- Operational rent and rates	**(127)**	(119)
- Stores and spares consumed	**(264)**	(252)
- Maintenance and related works	**(679)**	(665)
- Railway support services	**(144)**	(136)
- General and administration expenses	**(249)**	(223)
- Other expenses	**(151)**	(154)
	(5,227)	(4,784)
Expenses relating to Hong Kong station commercial businesses	**(268)**	(239)
Expenses relating to Hong Kong property rental and management businesses	**(381)**	(344)
Expenses relating to Mainland of China and international railway, property rental and management subsidiaries	**(10,043)**	(7,565)
Expenses relating to other businesses	**(919)**	(1,023)
Project study and business development expenses	**(214)**	(159)
	(17,052)	(14,114)
Expenses relating to Mainland of China property development	**(17)**	(4,658)
Operating expenses before depreciation, amortisation and variable annual payment	**(17,069)**	(18,772)
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment		
- Arising from recurrent businesses	**9,321**	9,046
- Arising from Mainland of China property development	**(17)**	2,186
	9,304	11,232

	Half year ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Profit on Hong Kong property development	**158**	622
Operating profit before depreciation, amortisation and variable annual payment	**9,462**	11,854
Depreciation and amortisation	**(2,461)**	(2,390)
Variable annual payment	**(999)**	(915)
Operating profit before interest and finance charges	**6,002**	8,549
Interest and finance charges	**(580)**	(403)
Investment property revaluation	**2,435**	1,632
Share of profit or loss of associates and joint venture	**286**	180
Profit before taxation	**8,143**	9,958
Income tax	**(972)**	(2,425)
Profit for the period	**7,171**	7,533
Attributable to:		
- Shareholders of the Company	**7,083**	7,480
- Non-controlling interests	**88**	53
Profit for the period	**7,171**	7,533
Profit for the period attributable to shareholders of the Company:		
- Arising from recurrent businesses	**4,483**	4,478
- Arising from property development	**165**	1,370
- Arising from underlying businesses	**4,648**	5,848
- Arising from investment property revaluation	**2,435**	1,632
	7,083	7,480
Earnings per share:		
- Basic	**HK$1.18**	HK$1.27
- Diluted	**HK$1.18**	HK$1.26

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK$ MILLION)

	Half year ended 30 June 2018 (Unaudited)	2017 (Unaudited)
Profit for the period	**7,171**	7,533
Other comprehensive income for the period (after taxation and reclassification adjustments):		
Item that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	**324**	85

	Half year ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of overseas subsidiaries, associates and joint venture	**(247)**	423
- non-controlling interests	**(6)**	20
- Cash flow hedges: net movement in hedging reserve	**136**	(314)
	(117)	129
	207	214
Total comprehensive income for the period	**7,378**	7,747
Attributable to:		
- Shareholders of the Company	**7,296**	7,674
- Non-controlling interests	**82**	73
Total comprehensive income for the period	**7,378**	7,747

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (HK$ MILLION)

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Assets		
Fixed assets		
- Investment properties	**79,739**	77,086
- Other property, plant and equipment	**102,602**	102,889
- Service concession assets	**30,096**	29,797
	212,437	209,772
Property management rights	**26**	26
Goodwill	**58**	63
Property development in progress	**15,024**	14,810
Deferred expenditure	**1,192**	710
Interests in associates and joint venture	**7,694**	6,838
Deferred tax assets	**73**	69
Investments in securities	**232**	443
Properties held for sale	**1,311**	1,347
Derivative financial assets	**189**	168
Stores and spares	**1,624**	1,540
Debtors and other receivables	**7,034**	7,058
Amounts due from related parties	**2,083**	2,570
Cash, bank balances and deposits	**13,837**	18,354
	262,814	263,768
Liabilities		
Bank overdrafts	**-**	4
Short-term loans	**3,961**	325
Creditors and other payables	**25,271**	28,166
Current taxation	**1,442**	1,080

	As at 30 June 2018 (Unaudited)	As at 31 December 2017 (Audited)
Amounts due to related parties	**5,597**	2,226
Loans and other obligations	**34,394**	41,714
Obligations under service concession	**10,439**	10,470
Derivative financial liabilities	**351**	451
Loan from holders of non-controlling interests	**144**	146
Deferred tax liabilities	**12,797**	12,760
	94,396	97,342
Net assets	**168,418**	166,426
Capital and reserves		
Share capital	**52,382**	52,307
Shares held for Executive Share Incentive Scheme	**(266)**	(173)
Other reserves	**116,126**	114,170
Total equity attributable to shareholders of the Company	**168,242**	166,304
Non-controlling interests	**176**	122
Total equity	**168,418**	166,426

Notes: -

1. REVIEW OF INTERIM FINANCIAL REPORT

The interim results set out in this preliminary announcement do not constitute the Group's interim financial report for the six month period ended 30 June 2018 but are extracted from that interim financial report.

The interim financial report for the half year ended 30 June 2018 is unaudited, but has been reviewed by the Group's auditor, 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"). The unmodified review report of KPMG is included in the interim report to be sent to shareholders. The interim financial report has also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

The preliminary announcement of the Company's interim results 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. It was authorised for issue on 9 August 2018.

The financial information relating to the financial year ended 31 December 2017 that is included in this preliminary announcement of the interim results as comparative information does not constitute the Company's statutory annual consolidated accounts for that financial year but is derived from those accounts. Further information relating to these statutory accounts required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

- The Company has delivered the accounts for the year ended 31 December 2017 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

- The Company's auditor, KPMG, has reported on the accounts for the year ended 31 December 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

The unaudited interim results should be read in conjunction with the 2017 annual accounts.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's accounts:

- HKFRS 9, *Financial Instruments*
- HKFRS 15, *Revenue from Contracts with Customers*
- Amendments to HKFRS 2, *Classification and Measurement of Shared-based Payment Transactions*
- Amendments to HKAS 40, *Investment Property: Transfers of Investment Properties*

The adoption of these new HKFRSs and amendments to HKFRSs does not have a significant impact on the financial results and the financial position of the Group.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The accounting policies adopted for the preparation of the interim financial report are the same as those adopted in the preparation of the 2017 annual accounts, except for the accounting policy changes that are expected to be reflected in the 2018 annual accounts. Details of any changes in accounting policies are set out in notes 1 (a) and (b) below as a result of the adoption of HKFRS 9 and HKFRS 15.

(a) HKFRS 9, *Financial Instruments*

HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of Financial Assets and Financial Liabilities

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale and financial assets measured at FVPL.

The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018.

HKFRS 9 largely retains the existing requirements in HKAS 39 for the classification and measurement of financial liabilities. Hence, the adoption of HKFRS 9 does not affect the carrying amounts of the Group's financial liabilities as at 1 January 2018.

The Group did not designate or de-designate any other financial assets or financial liabilities at FVPL at 1 January 2018.

(ii) Credit Losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit loss (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the "incurred loss" accounting model in HKAS 39. The ECL model applies to the Group's financial assets measured at amortised cost, but not to the Group's financial assets measured at fair value.

For the Group's debtors and other receivables, the loss allowance is measured at an amount equal to "lifetime ECLs" (which are the losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies). For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to "12-month ECLs" (which are losses that are expected to result from possible default events within the 12 months after the reporting date) unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to "lifetime ECLs".

There is no significant change in the amount of provision for impairment losses recognised as at 1 January 2018 as a result of the adoption of the ECL model.

(iii) Hedge Accounting

The Group has adopted the new general hedge accounting requirements in HKFRS 9. Depending on the complexity of the hedge, the new accounting requirements allow a more qualitative approach to assessing hedge effectiveness as compared to HKAS 39, and the assessment is forward looking. The adoption of HKFRS 9 does not have a significant impact on the Group's accounts in this regard.

(b) HKFRS 15, *Revenue from Contracts with Customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction Contracts*, which specified the accounting for construction contracts.

Previously under HKAS 18 and HKAS 11, revenue arising from provision of services and construction contracts was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had been passed to the customers.

Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

HKFRS 15 identifies certain situations in which control of the promised goods or services is regarded as being transferred over time, then the entity recognises revenue for the sale of that goods or services over time. If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has been passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue.

3. RETAINED PROFITS

The movements of the retained profits during the half year ended 30 June 2018 and the year ended 31 December 2017 are as follows:

HK$ Million	
Balance as at 1 January 2018	**110,697**
Profit for the period attributable to shareholders of the Company	**7,083**
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	**(11)**
Dividends declared and approved	**(5,228)**
Balance as at 30 June 2018	**112,541**

HK$ Million	
Balance as at 1 January 2017	99,392
Profit for the year attributable to shareholders of the Company	16,829
Other comprehensive income for the year	838
Vesting and forfeiture of award shares of Executive Share Incentive Scheme	2
Dividends declared and approved	(6,364)
Balance as at 31 December 2017	110,697

4. PRE-TAX PROFIT ON HONG KONG PROPERTY DEVELOPMENT

Pre-tax profit on Hong Kong property development comprises:

	Half year ended 30 June	
HK$ Million	**2018**	2017
Share of surplus from property development	**128**	359
Agency fee and other income from West Rail property development	**52**	286
Overhead and miscellaneous studies	**(22)**	(23)
	158	622

5. INCOME TAX

	Half year ended 30 June	
HK$ Million	**2018**	2017
Current tax		
- Hong Kong Profits Tax	**920**	944
- Mainland of China and overseas tax	**146**	1,523
	1,066	2,467
Less: Utilisation of government subsidy for Shenzhen Metro Longhua Line operation	**(32)**	(24)
	1,034	2,443
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	**4**	(5)
- depreciation allowances in excess of related depreciation	**(56)**	(1)

HK$ Million	Half year ended 30 June 2018	2017
- provisions and others	**(10)**	(12)
	(62)	(18)
Income tax in the consolidated profit and loss account	**972**	2,425
Share of income tax expense of associates and joint venture	**148**	107

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2018 is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period after deducting accumulated tax losses brought forward, if any. Current taxes for the Mainland of China and overseas subsidiaries are charged at the appropriate current rates of taxation ruling in the relevant countries.

The provision of Land Appreciation Tax is estimated according to the requirements set forth in the relevant Mainland of China tax laws and regulations. Land Appreciation Tax has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions. During the half year ended 30 June 2018, no Land Appreciation Tax (2017: HK$758 million) was charged to profit or loss.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2017: 16.5%), while those arising in the Mainland of China and overseas are calculated at the appropriate current rates of taxation ruling in the relevant countries.

Details of the tax reserve certificates purchased by the Company are set out in note 11A to this announcement.

6. DIVIDEND

The Board has resolved to pay an interim dividend of HK$0.25 per share and offer a scrip dividend option to all shareholders except for those with registered addresses in New Zealand or the United States of America or any of its territories or possessions. The interim dividend, with a scrip dividend option, is expected to be distributed on 12 October 2018 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 29 August 2018.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2018 of HK$7,083 million (2017: HK$7,480 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period amounting to 6,004,172,031 (2017: 5,903,027,438).

The calculation of diluted earnings per share is based on the profit attributable to shareholders for the half year ended 30 June 2018 of HK$7,083 million (2017: HK$7,480 million) and the weighted average number of ordinary shares in issue less shares held for Executive Share Incentive Scheme during the period after adjusting for the dilutive effect of the Company's share option scheme and Executive Share Incentive Scheme amounting to 6,014,207,193 (2017: 5,915,749,270).

Both basic and diluted earnings per share would have been HK$0.77 (2017: HK$0.99) if the calculation is based on profit attributable to shareholders of the Company arising from underlying businesses of HK$4,648 million (2017: HK$5,848 million).

8. SEGMENTAL INFORMATION

The Group's businesses consist of (i) recurrent businesses (comprising Hong Kong transport operations, Hong Kong station commercial businesses, Hong Kong property rental and management businesses, Mainland of China and international railway, property rental and management businesses and other businesses) and (ii) property development businesses (together with recurrent businesses referred to as underlying businesses).

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 reportable segments:

(i) Hong Kong transport operations: The provision of passenger operation and related services on the urban mass transit railway system in Hong Kong, the Airport Express serving both the Hong Kong International Airport and the AsiaWorld-Expo at Chek Lap Kok, cross-boundary railway connection with the border of Mainland of China at Lo Wu and Lok Ma Chau, light rail and bus feeder with railway system in the north-west New Territories and intercity railway transport with certain cities in the Mainland of China.

(ii) Hong Kong station commercial businesses: Commercial activities including the letting of advertising, retail and car parking space at railway stations, the provision of telecommunication and bandwidth services in railway premises and other commercial activities within the Hong Kong transport operations network.

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

(iv) Hong Kong property development: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland of China and international railway, property rental and management businesses: The construction, operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail spaces and provision of estate management services in the Mainland of China.

(vi) Mainland of China property development: Property development activities in the Mainland of China.

(vii) Other businesses: Businesses not directly relating to transport operations or properties such as Ngong Ping 360, which comprises cable car operation in Tung Chung and related businesses at the Ngong Ping Theme Village, railway consultancy business and the provision of project management services to the Government of the Hong Kong Special Administrative Region (the "HKSAR Government").

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

HK$ Million	Revenue Half year ended 30 June **2018**	2017	Contribution to profit Half year ended 30 June **2018**	2017
Hong Kong transport operations	**9,328**	8,957	**1,148**	1,320
Hong Kong station commercial businesses	**3,075**	2,788	**2,414**	2,202
Hong Kong property rental and management businesses	**2,517**	2,432	**2,128**	2,080
Mainland of China and international railway, property rental and management businesses	**10,453**	8,015	**339**	384
Mainland of China property development	**-**	6,844	**(19)**	2,186
Other businesses	**1,000**	968	**48**	(86)
	26,373	30,004	**6,058**	8,086
Hong Kong property development			**158**	622
Project study and business development expenses			**(214)**	(159)
			6,002	8,549
Interest and finance charges			**(580)**	(403)
Investment property revaluation			**2,435**	1,632
Share of profit or loss of associates and joint venture			**286**	180
Income tax			**(972)**	(2,425)
Profit for the period			**7,171**	7,533

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.

HK$ Million	Half year ended 30 June **2018**	2017
Hong Kong (place of domicile)	**15,891**	15,121
Australia	**6,622**	4,654
Mainland of China	**472**	7,240
Sweden	**2,485**	2,350
United Kingdom	**798**	546
Other countries	**105**	93
	10,482	14,883
	26,373	30,004

9. RAILWAY CONSTRUCTION IN PROGRESS

Island Line Extension Project

On 13 July 2009, the Company entered into a Project Agreement with the HKSAR Government for the financing, design, construction and operation of the extension of Island Line to the Western District and related services and facilities. Pursuant to the agreement, the HKSAR

Government provided a grant of HK$12.3 billion to the Company in March 2010 (having already made HK$0.4 billion available in February 2008 under a preliminary project agreement). This grant is subject to a repayment mechanism. Under a supplemental agreement signed in Junhe 2018, the Company and the HKSAR Government agreed to extend the timeframe for the repayment mechanism to not later than 31 March 2019.

10. OTHER RAILWAY CONSTRUCTION IN PROGRESS UNDER ENTRUSTMENT BY THE HKSAR GOVERNMENT

A HONG KONG SECTION OF THE GUANGZHOU-SHENZHEN-HONG KONG EXPRESS RAIL LINK ("XRL") PROJECT

a) XRL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the XRL (the "XRL Preliminary Entrustment Agreement"). Pursuant to the XRL Preliminary Entrustment Agreement, the HKSAR Government is obligated to pay the Company the Company's in-house design costs and certain on-costs, preliminary costs and staff costs.

b) XRL Entrustment Agreement: In 2009, the HKSAR Government decided that the Company should be asked to proceed with the construction, testing and commissioning of the XRL on the understanding that the Company would subsequently be invited to undertake the operation of the XRL under the service concession approach. On 26 January 2010, the HKSAR Government and the Company entered into another entrustment agreement for the construction, and commissioning of the XRL (the "XRL Entrustment Agreement"). Pursuant to the XRL Entrustment Agreement, the Company is responsible for carrying out or procuring the carrying out of the agreed activities for the planning, design, construction, testing and commissioning of the XRL and the HKSAR Government, as owner of XRL, is responsible for bearing and financing the full amount of the total cost of such activities (the "Entrustment Cost") and for paying to the Company a fee in accordance with an agreed payment schedule (the "Project Management Fee") (subsequent amendments to these arrangements are described below). As at 30 June 2018 and up to the date of the interim report, the Company has received payments from the HKSAR Government in accordance with the originally agreed payment schedule.

The HKSAR Government has the right to claim against the Company if the Company breaches the XRL Entrustment Agreement (including, if the Company breaches the warranties it gave in respect of its project management services) and, under the XRL Entrustment Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the XRL Entrustment Agreement or any breach of the XRL Entrustment Agreement by the Company. Under the XRL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the XRL Preliminary Entrustment Agreement and the XRL Entrustment Agreement (other than for death or personal injury) is subject to a cap equal to the Project Management Fee and any other fees that the Company receives under the XRL Entrustment Agreement and certain fees received by the Company under the XRL Preliminary Entrustment Agreement (the "Liability Cap"). Up to the date of the interim report, no claim has been received from the HKSAR Government.

In April 2014, the Company announced that the construction period for the XRL project needed to be extended, with the target opening of the line for passenger service revised to the end of 2017.

On 30 June 2015, the Company reported to the HKSAR Government that the Company estimated:

- the XRL being completed in the third quarter of 2018 (including programme contingency of six months) (the "XRL Revised Programme"); and

- the total project cost of HK$85.3 billion (including contingency), based on the XRL Revised Programme.

As a result of adjustments being made to certain elements of the Company's estimated project cost of 30 June 2015, the HKSAR Government and the Company reached agreement that the estimated project cost be reduced to HK$84.42 billion (the "Revised Cost Estimate").

c) XRL Agreement: On 30 November 2015, the HKSAR Government and the Company entered into an agreement (the "XRL Agreement") relating to the further funding and completion of the XRL. The XRL Agreement contains an integrated package of terms (subject to conditions as set out in note 10A(c)(vi) below) and provides that:

(i) The HKSAR Government will bear and finance the project cost up to HK$84.42 billion (which includes the original budgeted cost of HK$65 billion plus the agreed increase in the estimated project cost of HK$19.42 billion (the portion of the entrustment cost (up to HK$84.42 billion) that exceeds HK$65 billion being the "Current Cost Overrun"));

(ii) The Company will, if the project exceeds HK$84.42 billion, bear and finance the portion of the project cost which exceeds that sum (if any) (the "Further Cost Overrun") except for certain agreed excluded costs (namely, additional costs arising from changes in law, force majeure events or any suspension of construction contracts specified in the XRL Agreement);

(iii) The Company will pay a Special Dividend in cash of HK$4.40 in aggregate per share in two equal tranches (of HK$2.20 per share in cash in each tranche). The first tranche was paid on 13 July 2016 and the second tranche was paid on 12 July 2017;

(iv) The HKSAR Government reserves the right to refer to arbitration the question of the Company's liability for the Current Cost Overrun (if any) under the XRL Preliminary Entrustment Agreement and XRL Entrustment Agreement ("Entrustment Agreements") (including any question the HKSAR Government may have regarding the validity of the Liability Cap). The Entrustment Agreements contain dispute resolution mechanisms which include the right to refer a dispute to arbitration. Under the XRL Entrustment Agreement, the Liability Cap is equal to the Project Management Cost and any other fees that the Company receives under XRL Entrustment Agreement and certain fees received by the Company under the Preliminary Entrustment Agreement. Accordingly, the Liability Cap increases from up to HK$4.94 billion to up to HK$6.69 billion as the Project Management Cost is increased in accordance with the XRL Agreement (as it will be equal to the increased Project Management Cost under the XRL Entrustment Agreement of HK$6.34 billion plus the additional fees referred to above). If the arbitrator does not determine that the Liability Cap is invalid and determines that, but for the Liability Cap, the Company's liability under the Entrustment Agreements for the Current Cost Overrun would exceed the Liability Cap, the Company shall:

  - bear such amount as is awarded to the HKSAR Government up to the Liability Cap;

  - seek the approval of its independent shareholders, at another General Meeting (at which the FSI, the HKSAR Government and their Close Associates and Associates and the Exchange Fund will be required to abstain from voting), for the Company to bear the excess liability; and

  - if the approval of the independent shareholders (referred to immediately above) is obtained, pay the excess liability to the HKSAR Government. If such approval is not obtained, the Company will not make such payment to the HKSAR Government;

(v) Certain amendments are made to the XRL Entrustment Agreement to reflect the arrangements contained in the XRL Agreement, including an increase in Project Management Fee payable to the Company under XRL Entrustment Agreement to an aggregate of HK$6.34 billion (which reflects the estimate of the Company's expected internal costs in performing its obligations under XRL Entrustment Agreement in relation to XRL project) and to reflect the XRL Revised Programme;

(vi) The arrangements under the XRL Agreement (including the payment of the Special Dividend) were conditional on:

- independent shareholder approval (which was sought at the General Meeting held on 1 February 2016); and

- HKSAR Legislative Council approval in respect of the HKSAR Government's additional funding obligations.

The XRL Agreement (and the Special Dividend) was approved by the Company's independent shareholders at the General Meeting held on 1 February 2016 and became unconditional upon approval by the Legislative Council on 11 March 2016 of the HKSAR Government's additional funding obligations.

d) Future operations of XRL: The target opening date for the XRL is September 2018. The Company is in the final stage of discussions with the HKSAR Government regarding the arrangements for the future operations of the XRL.

e) The Company has not made any provision in its accounts in respect of:

(i) any possible liability of the Company for any Further Cost Overrun (if any), given the Company does not currently believe there is any need to revise further the XRL Revised Programme or the Revised Cost Estimate of HK$84.42 billion. The final project cost can only be ascertained upon finalisation of all contracts which may take several years after the commencement of commercial operations;

(ii) any possible liability of the Company that may be determined in accordance with any arbitration that may take place, (as more particularly described in note 10A(c)(iv) above), given that (a) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company or of any referral by the HKSAR Government to arbitration (which, as a result of the XRL Agreement, cannot take place until after commencement of commercial operations on the XRL) (as of 30 June 2018 and up to the date of the interim report); (b) the Company has the benefit of the Liability Cap; and (c) as a result of the XRL Agreement, the Company will not make any payment to the HKSAR Government in excess of the Liability Cap pursuant to a determination of the arbitrator without the approval of its independent shareholders; and

(iii) any possible insufficiency of the Project Management Fee to enable the Company to recover fully its internal costs incurred in performing its obligations in relation to the XRL project, given that the Company estimates that the increased Project Management Fee under XRL Agreement should be sufficient to cover such costs (based on current known circumstances),

and, where applicable, because the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any).

f) During the half year ended 30 June 2018, project management fee of HK$222 million (2017: HK$368 million) was recognised in the consolidated profit and loss account. As at 30 June 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,290 million (as at 31 December 2017: HK$6,068 million).

B SHATIN TO CENTRAL LINK ("SCL") PROJECT

a) SCL Preliminary Entrustment Agreement: On 24 November 2008, the HKSAR Government and the Company entered into an entrustment agreement for the design of and site investigation and procurement activities in relation to the SCL ("SCL Preliminary Entrustment Agreement"). Pursuant to the SCL Preliminary Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the design, site investigation and procurement activities while the HKSAR Government is responsible to fund directly the total cost of such activities.

b) SCL Advance Works Entrustment Agreement: On 17 May 2011, the Company entered into another entrustment agreement with the HKSAR Government for the financing, construction, procurement of services and equipment and other matters associated with certain enabling works in relation to the SCL ("SCL Advance Works Entrustment Agreement"). Pursuant to the SCL Advance Works Entrustment Agreement, the Company is responsible to carry out or procure the carrying out of the agreed works while the HKSAR Government is responsible to bear and pay to the Company all the work costs ("SCL Advance Works Costs").

In August 2015, the Company notified the HKSAR Government that the Company estimated that the cost for the works carried out under the SCL Advance Works Entrustment Agreement will exceed the original estimate of HK$7,350 million. In February 2016, the Company notified the HKSAR Government that the estimated exceedance would be HK$1,267 million (including contingency). In December 2016, the Company completed its review for the project cost estimate of the works under the SCL Advance Works Entrustment Agreement and notified the HKSAR Government of the Company's revised estimate for the entrustment cost for such works of HK$8,617.1 million. In January 2017, the HKSAR Government submitted to the Legislative Council Public Works Subcommittee the application for additional funding needed in excess of amounts retained by the HKSAR Government from the original funding. The additional funding of HK$848 million was approved by Legislative Council Finance Committee in June 2017.

c) SCL Entrustment Agreement: On 29 May 2012, the Company and the HKSAR Government entered into an entrustment agreement for the construction and commissioning of the SCL ("SCL Entrustment Agreement"). Pursuant to the SCL Entrustment Agreement, the HKSAR Government is responsible to bear all the work costs specified in the SCL Entrustment Agreement including costs to contractors and costs to the Company ("Interface Works Costs") except for certain costs of modification, upgrade or expansions of certain assets (including rolling stock, signalling, radio and main control systems) for which the Company is responsible under the existing service concession agreement with KCRC. The Company will contribute an amount in respect of the costs relating to such modifications, upgrades or expansions. This will predominantly be covered by the reduction in future maintenance capital expenditure which the Company would have otherwise incurred. The Company is responsible to carry out or procure the carrying out of the works specified in the SCL Preliminary Entrustment Agreement, the SCL Advance Works Entrustment Agreement and the SCL Entrustment Agreement (together, the "SCL Agreements") for a total project management fee of HK$7,893 million. As at 30 June 2018 and up to the date of the interim report, the Company has received payments of the project management fee from the HKSAR Government in accordance with the original agreed payment schedule.

The sum entrusted to the Company by the HKSAR Government for the main construction works under the SCL Entrustment Agreement is HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors, the SCL Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate was submitted to the HKSAR Government for review on 5 December 2017. Taking into account a number of factors, including issues such as archaeological finds, the HKSAR Government's requests for additional scope and late or incomplete handover of construction sites, the Company has increased the latest estimate by HK$16,501 million from HK$70,827 million to HK$87,328 million including an increase in the project management cost payable to the Company, which is subject to agreement and approval processes. Since submission of this latest estimate to the HKSAR Government, the Company has been liaising with the HKSAR Government to facilitate their review and verification process.

Towards the end of the first half of 2018, the Company has faced allegations concerning workmanship and timely reporting of certain construction matters relating to three stations of the SCL. The Company has taken immediate steps to investigate the issues, report the Company's findings to the HKSAR Government, identify any rectification work required and reserve the Company's position against relevant contractors and consultants. The Company will continue to take steps to address public concerns and provide reassurance as to the quality of the construction works. To address the allegations relating to the platform at the Hung Hom Station extension, the Company has engaged an independent third party to perform a safety test of this platform. Any significant adverse result from the verification of, or safety test on, the Hung Hom Station platform may potentially impact the latest estimate mentioned above. The Company will also co-operate fully with the Commission of Inquiry that has been set up by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. On 7 August 2018, the Company announced that the report submitted by the Company to the HKSAR Government on 15 June 2018 in relation to the platform slab at the Hung Hom Station extension contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to the HKSAR Government in due course.

The HKSAR Government has the right to claim against the Company if the Company breaches the SCL Agreements (including, if the Company breaches the warranties it gave in respect of its project management services) and, under each SCL Agreement, to be indemnified by the Company in relation to losses suffered by the HKSAR Government as a result of any negligence of the Company in performing its obligations under the relevant SCL Agreement or any breach thereof by the Company. Under the SCL Entrustment Agreement, the Company's total aggregate liability to the HKSAR Government arising out of or in connection with the SCL Agreements (other than for death or personal injury) is subject to a cap equal to the fees that the Company receives under the SCL Agreements. Up to the date of the interim report, no claim has been received from the HKSAR Government.

d) Given:

(i) the SCL Agreements provide that the HKSAR Government shall bear and finance the full amount of the relevant costs to the extent described above;

(ii) the Company has not received any notification from the HKSAR Government of any claim by the HKSAR Government against the Company in relation to any SCL Agreement (as of 30 June 2018 and up to the date of the interim report); and

(iii) where applicable, the Company is not able to measure with sufficient reliability the amount of the Company's obligation or liability (if any) arising from the matters described above,

no provision has been made in the Company's accounts in respect of SCL.

e) During the half year ended 30 June 2018, project management fee of HK$445 million (2017: HK$457 million) was recognised in the consolidated profit and loss account. As at 30 June 2018, the total project management fee recognised to date in the consolidated profit and loss account amounted to HK$6,025 million (as at 31 December 2017: HK$5,580 million).

Additionally, during the half year ended 30 June 2018, the SCL Advance Works Costs and the Interface Works Costs, both of which are payable by the HKSAR Government to the Company, were HK$196 million (2017: HK$596 million). As at 30 June 2018, the amount of the SCL Advance Works Costs and the Interface Works Costs which remained to be paid to the Company by the HKSAR Government was HK$1,229 million (31 December 2017: HK$1,318 million).

11. DEBTORS AND CREDITORS

A As at 30 June 2018, the Group's debtors and other receivables amounted to HK$7,034 million (31 December 2017: HK$7,058 million), of which debtors accounted for HK$2,709 million (31 December 2017: HK$2,806 million). Receivables in respect of rentals, advertising and telecommunication activities are due from immediately to 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong are due within 30 days or in the following month. Receivables relating to consultancy services and entrustment works are due within 30 days. Receivables under interest rate and currency swap agreements are due in accordance with the terms of the agreements. Receivables relating to property development are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 30 June 2018, HK$239 million (31 December 2017: HK$484 million) were overdue, out of which HK$95 million (31 December 2017: HK$125 million) were overdue by more than 30 days.

In the prior year, the Inland Revenue Department of Hong Kong ("IRD") issued notices of assessment/additional assessment for the years of assessment 2010/2011 to 2016/2017 following queries in connection with the tax deductibility of certain payments relating to the Rail Merger.

Based on the strength of advice from external senior counsel and tax advisor, the directors of the Company have determined to strongly contest the assessments raised by the IRD. The Company has lodged objections against these tax assessments and has applied to hold over the additional tax demanded. The IRD has agreed to the holdover of the additional tax demanded subject to the purchase of tax reserve certificates ("TRCs") amounting to HK$1,816 million during the year ended 31 December 2017. The purchase of TRCs does not prejudice the Company's tax position and the purchased TRCs were included in debtors and other receivables in the Group's consolidated statement of financial position. No additional tax provision has been made in respect of the above notices of assessment/additional assessment.

B As at 30 June 2018, creditors and other payables amounted to HK$25,271 million (31 December 2017: HK$28,166 million), of which creditors and accrued charges amounted to HK$20,874 million (31 December 2017: HK$24,687 million). As at 30 June 2018, HK$6,293 million (31 December 2017: HK$11,274 million) of creditors and accrued charges were due within 30 days or on demand whilst the remainder was not yet due.

12. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Group did not purchase, sell or redeem any of the Group's listed securities during the six month period ended 30 June 2018. However, the Trustee of the Executive Share Incentive Scheme, pursuant to the terms of the rules and the trust deed of the Executive Share Incentive Scheme, purchased on the Hong Kong Stock Exchange a total of 5,351,600 Ordinary Shares of the Company for a total consideration of approximately HK$239 million during the six month period ended 30 June 2018.

13. CHARGE ON GROUP ASSETS

As at 30 June 2018, MTR Corporation (Shenzhen) Limited, an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenue and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB2,139 million bank loan facility granted to it.

As at 30 June 2018, MTR Corporation (Sydney) NRT Pty Limited, an indirect wholly owned subsidiary of the Company in Australia, has pledged a bank deposit of AUD17 million as collateral for a bank guarantee of AUD17 million.

Saved as disclosed above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2018.

14. CORPORATE GOVERNANCE

During the six month period ended 30 June 2018, the Company has complied with the Code Provisions set out in the Corporate Governance Code, contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

15. PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.mtr.com.hk and the website of the Stock Exchange. The Interim Report will also be available at the Company's and the Stock Exchange's websites and will be despatched to shareholders of the Company in mid-September 2018.

KEY STATISTICS

	Half year ended 30 June	
	2018	2017
Total passenger boardings in Hong Kong (in millions)		
- Domestic Service	**816.1**	798.3
- Cross-boundary Service	**58.1**	54.8
- Airport Express	**8.5**	8.0
- Light Rail and Bus	**113.2**	112.5
Average number of passengers (in thousands)		
- Domestic Service (weekday)	**4,802**	4,700
- Cross-boundary Service (daily)	**320.8**	303.0
- Airport Express (daily)	**47.0**	44.2
- Light Rail and Bus (weekday)	**647.1**	642.6

	Half year ended 30 June	
	2018	2017
Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment as a percentage of total revenue ("EBITDA margin")		
- Excluding Mainland of China and international subsidiaries	**56.0%**	56.8%
- Including Mainland of China and international subsidiaries	**35.3%**	37.4%

MANAGEMENT REVIEW AND OUTLOOK

The first six months of 2018 saw solid financial results, as we continued to deliver on our three-pronged strategy to strengthen and grow our Hong Kong business, accelerate growth in our Mainland of China and international businesses, and enhance our corporate reputation. We are very proud that in February 2018, MTR was named the world's strongest transport brand by Brand Finance, the independent branded business valuation and strategy consultancy. Brand Finance noted that MTR is "one of the most efficient rapid transit systems on the planet" with a "focus on high-quality services".

The Hong Kong economy saw reasonable growth in the first six months of 2018, leading to our Hong Kong transport operations seeing patronage increase by 2.1% to 5.80 million passenger trips per weekday. Train frequency was increased, while both train service delivery and passenger journeys on-time in our heavy rail network were maintained at 99.9%. It was also MTR's best first half-year service performance in terms of passenger journeys on-time since the merger with the Kowloon-Canton Railway Corporation ("KCRC") in 2007. Our safety performance also remained world-class.

Hong Kong's retail sector continued its recovery in the first half of 2018, benefiting our station commercial and property rental businesses. Growth in these businesses was also supported by the new retail space on the seventh and eighth floors of Telford Plaza II and Maritime Square 2, both of which were opened in 2017, as well as the addition of 167 square metres of station shops in the first half of this year.

In the first six months of 2018, MTR's Hong Kong property development profit was mainly derived from sales of inventory units and car parking spaces, as well as agency fee income from West Rail property developments. Pre-sales for MALIBU (LOHAS Park Package 5) were launched in March 2018 and were very well received. Pre-sales also continued for the unsold units of Wings at Sea and Wings at Sea II (LOHAS Park Package 4). In our property tendering activities, we awarded the tender for the Yau Tong Ventilation Building site in May 2018, and we are very pleased to announce today the award of the third development package at Wong Chuk Hang Station.

Outside of Hong Kong, our rail businesses had mixed results, with challenges encountered by our Stockholm commuter rail and MTR Express businesses in Sweden, as well as the South Western Railway franchise in the UK. Our other rail businesses outside of Hong Kong performed in line with or above expectations. To grow our businesses outside Hong Kong, in Macau, we were awarded the operations and maintenance ("O&M") contract for the Macau Light Rapid Transit ("LRT") Taipa Line, while in the Mainland of China, we signed a Memorandum of Understanding ("MOU") to conduct joint studies for the integrated development of stations along Chengdu's metro lines as well as entered into an agreement to provide transit-oriented development ("TOD") technical assistance for a mixed use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province. In the UK, MTR Crossrail began operating rail services between London's Paddington Station and Heathrow Airport in May 2018, while in July 2018 we submitted our bid for the West Coast Partnership franchise.

In the near term, MTR's rail expansion in Hong Kong falls under "Rail Gen 2.0", our vision for the next generation of rail travel. Rail Gen 2.0 encompasses our remaining two new rail projects under construction, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and the Shatin to Central Link. These projects were respectively 99.9% and 86.0% complete by 30 June 2018.

Trial operations for the Guangzhou-Shenzhen-Hong Kong High Speed Rail (Hong Kong Section) ("High Speed Rail") service commenced in April 2018 and, following the enactment of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Co-location) Bill ("Co-location Bill") by the Legislative Council of the HKSAR ("LegCo") on 14 June 2018, we look forward to the opening of the new High Speed Rail service, in September 2018. We are in the final stage of discussions with Government regarding the arrangements for the future operations of this service.

The Shatin to Central Link continues to make progress, with all immersed tube tunnel units successfully installed in Victoria Harbour. We have faced allegations concerning workmanship and timely reporting on certain construction matters relating to three stations of this link. We have undertaken internal reviews to strengthen our project reporting and processes, and will co-operate fully with any Government investigation. On 7 August 2018, the Company announced that the report submitted by the Company to Government on 15 June 2018 in relation to the platform slab at Hung Hom Station extension of the Shatin to Central Link contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to Government in due course.

Rail Gen 2.0 also covers the major asset replacement programmes on our existing network, notably for trains and signalling systems, and these made further progress during the first six months of 2018. Government's strategy remains for rail to serve as the backbone of public transportation in Hong Kong and hence, seven new railway projects have been proposed under the Railway Development Strategy 2014 ("RDS 2014"). We have submitted proposals to Government for five of these projects, namely, the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line, the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line.

Construction is progressing on the remaining two shopping centres under development at LOHAS Park and Tai Wai. Under our just completed tender for Wong Chuk Hang Station Package 3, a third new shopping centre at that station will be added to our portfolio in the future. We are also continuing to explore the proposed property development above our Siu Ho Wan depot in Lantau. Meanwhile, we are seeking further opportunities to leverage our railway assets to provide more housing for Hong Kong.

Outside of Hong Kong, we continue to pursue rail franchise opportunities in the Mainland of China, the Nordic countries, the UK and Australia, and are examining potential rail-related property developments in these markets. In addition we are examining a rail project opportunity in Canada.

Total revenue for the first six months of 2018 decreased by 12.1% to HK$26,373 million when compared with the comparable period of 2017, as we recognised significant revenue and profits from the Tiara development in Shenzhen in the first half of 2017, which was not repeated in 2018. However excluding the Tiara property development, revenue for the period would have increased by 13.9%. Operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment increased by 3.0% to HK$9,321 million. Excluding the Company's Mainland of China and international railway, property development, rental and management subsidiaries, revenue grew by 5.1% and operating profit by 3.7%, with operating margin decreasing by 0.8 percentage point to 56.0%. Recurrent profit attributable to equity shareholders, being net profit before property development profits (from both Hong Kong and the Mainland of China) and investment properties revaluation, was virtually the same as last year at HK$4,483 million. Post-tax profit from property developments was HK$165 million. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders declined by 20.5% to HK$4,648 million, with the decrease mainly due to Tiara development profits booked in 2017. Gain in revaluation of investment properties was HK$2,435 million, as compared to HK$1,632 million in the first six months of 2017. As a result, net profit attributable to equity shareholders was HK$7,083 million, equivalent to earnings per share of HK$1.18 after revaluation. Your Board has declared an interim dividend of HK$0.25 per share, unchanged from last year.

HONG KONG BUSINESSES

Leveraging our proven "Rail plus Property" business model, MTR's businesses in Hong Kong are centred on our rail network and also include station commercial activities, property rental and property developments over and adjacent to stations and depots.

Transport Operations

Highlights

- Safety maintained at world-class levels with the number of reportable events reduced by 6%
- Best first half-year performance in terms of passenger journeys on-time since the merger with KCRC in 2007
- Maintained world-class 99.9% train service delivery and passenger journeys on-time
- Total patronage growth of 2.3%, with average weekday patronage reaching 5.80 million

HK$ million	Half year ended 30 June **2018**	2017	Inc./(Dec.) %
Hong Kong Transport Operations			
Fare revenue	**9,243**	8,878	4.1
Other rail-related income	**85**	79	7.6
Total Revenue	**9,328**	8,957	4.1
Operating profit before depreciation, amortisation and variable annual payment ("EBITDA")	**4,101**	4,173	(1.7)
Operating profit before interest and finance charges and after variable annual payment ("EBIT")	**1,148**	1,320	(13.0)
EBITDA Margin (in %)	**44.0%**	46.6%	(2.6)% pts.
EBIT Margin (in %)	**12.3%**	14.7%	(2.4)% pts.

Total revenue of the Hong Kong transport operations increased by 4.1% to HK$9,328 million in the first six months of 2018, mainly due to an increase in patronage that was driven by economic growth. EBITDA decreased by 1.7% to HK$4,101 million, mainly as a result of an increase in staff costs due to an accounting provision for annual lump-sum awards; in the prior year such provision was not made in the same period. With the increase in depreciation and amortisation charges brought about by new assets being commissioned, as well as the increase in variable annual payment, EBIT decreased by 13.0% to HK$1,148 million for the period.

Safety

Safety remains an absolute priority for MTR and in the first six months of 2018 the number of reportable events on the Hong Kong heavy rail and light rail networks fell by 6% when compared with the comparable period in 2017.

A new initiative, the interactive MTR Safety Experience Zone, was launched in March 2018 at Tsing Yi Station to give children safety tips and educate them to behave appropriately when travelling on our network. Other safety initiatives during the first six months of the year centred on the Light Rail network, escalators, platform gaps and elderly passengers.

Patronage and Revenue

Fare revenue from our Hong Kong transport operations is summarised below:

	Half year ended 30 June		
HK$ million	**2018**	2017	Inc./(Dec.) %
Fare Revenue			
Domestic Service	**6,531**	6,349	2.9
Cross-boundary Service	**1,723**	1,608	7.2
Airport Express	**559**	503	11.1
Light Rail and Bus	**358**	353	1.4
Intercity	**72**	65	10.8
Total Fare Revenue	**9,243**	8,878	4.1

In the first six months of 2018, total patronage of all of our rail and bus passenger services increased by 2.3%, to 997.8 million passenger trips. Average weekday patronage increased by 2.1% to 5.80 million.

For the Domestic Service (comprising the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail, Ma On Shan and South Island lines), total patronage for the period was 816.1 million, a 2.2% increase over the corresponding period of 2017. For the Cross-boundary Service to Lo Wu and Lok Ma Chau, patronage increased by 5.9% to 58.1 million, mainly due to a rebound in Mainland visitors. Patronage on the Airport Express rose by 6.1% to 8.5 million, supported by an increase in air passenger traffic.

Market Share

The Company's overall share of the franchised public transport market in Hong Kong in the first five months of 2018 was 49.2%, compared to 48.8% in the same period of 2017. Within this total, the share of cross-harbour traffic was 69.2%, compared to 69.3%. MTR's share of the cross-boundary business for the first five months of 2018 rose from 50.2% to 51.8%. Our market share to and from the airport rose from 21.3% to 21.7%.

Fare Adjustments, Promotions and Concessions

In accordance with the Fare Adjustment Mechanism ("FAM"), fares were adjusted for 2018/2019 by +3.14%, effective 30 June 2018. Fares were not adjusted in 2017/2018 as the adjustment rate fell below the threshold level of 1.5% and hence the adjustment was rolled over to this year and included within the 3.14% adjustment.

On 28 May 2018, we announced our 2018/2019 fare promotions package, bringing fare savings of over HK$500 million to customers including:

- 3% Rebate for every Octopus trip for six months to 1 January 2019
- no price adjustment for "MTR City Saver", "Monthly Pass Extra" and "Tuen Mun-Nam Cheong Day Pass" in 2018
- a HK$0.3 discount for Octopus passengers interchanging between MTR and Green Minibus routes, effective 3 June 2018
- extension of the "Early Bird Discount Promotion" programme to 31 May 2019

Together with HK$2.6 billion of on-going fare concessions that MTR offers annually to different sectors of the community, including the elderly, children, eligible students and persons with disabilities, as well as other interchange discounts, we will therefore be providing customers with over HK$3 billion worth of fare concessions over the 12-month period to June 2019.

Service Performance

Train service delivery and passenger journeys on-time in our heavy rail network in the first six months of 2018 continued to achieve world-class results at 99.9%. This exceeds both the targets in our Operating Agreement and our own, more stringent, Customer Service Pledges. The first six months of 2018 was also MTR's best first half-year performance in terms of passenger journeys on-time since the merger with KCRC in 2007. During the period, more than 1.05 million train trips were made on our heavy rail network and more than 0.54 million trips on our light rail network. The first six months of 2018 saw only two delays on the heavy rail network and no delays on the light rail network lasting 31 minutes or more which were caused by factors within our control.

To make our customers' journeys more comfortable, a new round of train service enhancements began on 23 April 2018. An extra 238 train trips per week were added to the Tsuen Wan, Kwun Tong and Island lines, increasing frequency during off-peak hours, particularly in the evening.

Despite overall excellent service performance, we take very seriously any delays that cause inconvenience to our customers. On the morning of 11 January 2018, train service was disrupted on the East Rail Line due to a signalling fault. A detailed investigation was carried out jointly with experts from the signalling equipment supplier to identify the cause of the incident and a report was submitted to Government on 12 March 2018. The investigation confirmed that the failure was due to a hidden software coding error. An independent consultant employed by the Company reviewed the investigation results and concurred with the cause of the incident and the recommended improvement measures. To prevent recurrence, we have implemented several measures to address the specific cause, including downloading a new software patch rectifying the software coding error. In addition, we are seeking to improve the effectiveness of the dispatch of free shuttle buses and queuing plans, as well as enhancing passenger information and education.

Station Commercial Businesses

Highlights
- Performance driven by higher rentals at Duty Free and other station shops
- Positive rental reversions in our station shops
- Advertising revenue benefited from positive market sentiment

The performance of the Hong Kong station commercial businesses in the first six months of 2018 is summarised below.

HK$ million	Half year ended 30 June **2018**	2017	Inc./(Dec.) %
Hong Kong Station Commercial Businesses			
Station retail rental revenue	**2,154**	1,935	11.3
Advertising revenue	**523**	479	9.2
Telecommunication income	**338**	315	7.3
Other station commercial income	**60**	59	1.7
Total Revenue	**3,075**	2,788	10.3
EBITDA	**2,807**	2,549	10.1
EBIT	**2,414**	2,202	9.6
EBITDA Margin (in %)	**91.3%**	91.4%	(0.1)% pt.
EBIT Margin (in %)	**78.5%**	79.0%	(0.5)% pt.

Total revenue of the Hong Kong station commercial businesses rose by 10.3% to HK$3,075 million in the first six months of 2018. We saw strong revenue growth in all our major station commercial businesses.

Our station retail rental revenue increased by 11.3% to HK$2,154 million, mainly due to higher rental at Duty Free Shops and favourable rental reversions at other station shops. As at 30 June 2018, there were 1,422 station shops, occupying 58,883 square metres of retail space, representing an increase of six shops and 167 square metres of lettable space when compared with 31 December 2017. The increases were due to the opening of two new shops at Tai Po Station and three new shops at Hung Hom Station, as well as the re-opening of a shop at Shek Mun Station which was previously closed for renovation.

Advertising revenue increased by 9.2% to HK$523 million in the first six months of 2018. This was mainly attributable to positive market sentiment, driven by growth in retail spending and tourism, with the overall advertising spend starting to recover in the last quarter of 2017. The number of advertising units in stations and trains increased to 47,055 by 30 June 2018. To continue to leverage off the digital trend and engage our customers, during the period two new digital zones were unveiled at Central and Mong Kok stations. A total of 240 advertising panels in stations were also revamped, resulting in a brighter and more contemporary look to enhance the attraction of our advertising.

Revenue from telecommunications in the first six months of 2018 rose by 7.3% to HK$338 million. A new Commercial Telecom System for operators allowing more capacity is being installed at 31 stations, of which works have been completed at nine stations by 30 June 2018.

<u>Property and Other Businesses</u>

Highlights

- Awarded Yau Tong Ventilation Building site and Wong Chuk Hang Station Package 3
- Rental revenue increased by 3.4% despite negative rental reversion of 2.2% in our shopping mall portfolio in Hong Kong
- Grand opening of Maritime Square 2 in February 2018 following soft opening in December 2017

In the commercial sector, Grade-A offices in Central continued to perform well. Vacancy rates remained low and demand from Mainland enterprises remained strong, with the finance and professional services sectors continuing to expand. However, high rents in Central led to more relocations of tenants occupying large spaces to districts such as Island East and Kowloon. The retail segment showed signs of recovery in 2018 as both consumer sentiment and visitor arrivals improved. Nonetheless, the sector continues to face a number of uncertainties, including the continuing growth of e-commerce.

The residential property market remained buoyant in the first half of 2018 with strong demand from buyers. New developments sold out quickly, facilitated by developers' incentives and financing offers. The secondary market regained momentum, with prices rising and sales volumes reaching a three-year high during the first quarter of 2018. The Mass Centa-City Leading Index, which monitors the secondary market, increased from 166.73 at the end of 2017 to 189.54 by 30 June 2018.

Property Rental and Management Businesses

The financial performance of our Hong Kong property rental and property management businesses is summarised as follows:

HK$ million	**Half year ended 30 June 2018**	2017	Inc./(Dec.) %
Hong Kong Property Rental and Property Management Businesses			
Revenue from Property Rental	**2,373**	2,296	3.4
Revenue from Property Management	**144**	136	5.9
Total Revenue	**2,517**	2,432	3.5
EBITDA	**2,136**	2,088	2.3
EBIT	**2,128**	2,080	2.3
EBITDA Margin (in %)	**84.9%**	85.9%	(1.0)% pt.
EBIT Margin (in %)	**84.5%**	85.5%	(1.0)% pt.

Property rental revenue increased by 3.4% to HK$2,373 million in the first six months of 2018, mainly due to rental increases in accordance with existing lease agreements and the opening of new retail space in the second half of 2017. Our shopping malls in Hong Kong recorded a 2.2% fall in rental reversion during the first six months of 2018, reflecting market adjustments from the peak rents achieved three years ago. As at 30 June 2018, our shopping malls in Hong Kong and the Company's 18 floors in Two International Finance Centre were 100% let.

As at 30 June 2018, the Company's attributable share of investment properties in Hong Kong was 218,083 square metres of lettable floor area of retail properties, 39,410 square metres of lettable floor area of offices and 17,764 square metres of property for other use. Following a soft opening in December 2017, the grand opening of Maritime Square 2 was held on 7 February 2018. All the shops were fully opened within the first quarter of 2018. We continued to upgrade Paradise Mall, targeting to complete the revamp by the second half of 2018.

Hong Kong property management revenue in the first six months of 2018 increased by 5.9% to HK$144 million. As at 30 June 2018, MTR managed over 96,000 residential units and over 772,000 square metres of commercial space.

During the period, our malls won a number of prizes from various organisations. Two International Finance Centre, The Cullinan and Sorrento also won property management awards during the period.

Property Development

Hong Kong property development profit was HK$158 million, mainly derived from sales of inventory units and car parking spaces, as well as agency fee income from West Rail property developments (including Ocean Supreme, Cullinan West, Cullinan West II and PARC CITY). This was HK$464 million lower than first six months in 2017, when higher agency fees and further surplus proceeds arising from the finalisation of development costs for certain completed property development projects were recognised.

Pre-sales for MALIBU (LOHAS Park Package 5) were launched in March 2018, generating a very enthusiastic response from buyers. As at 30 June 2018, about 97% of the 1,600 units had been sold. Pre-sales continued for Wings at Sea and Wings at Sea II (LOHAS Park Package 4), which were launched in September and October 2017 respectively. By 30 June 2018, about 97% of the 1,040 units of Wings at Sea and about 63% of the 1,132 units of Wings at Sea II had been sold. In July 2018, we received the pre-sale consent for LP6 (LOHAS Park Package 6). This development has 2,392 units and pre-sales are expected to commence shortly.

For West Rail property development projects where we act as agent for the relevant subsidiaries of KCRC, pre-sales continued for THE PAVILIA BAY (the Tsuen Wan West Station (TW6) site), Ocean Pride and Ocean Supreme (the Tsuen Wan West Station (TW5) Bayside site) and The Spectra (the Long Ping Station (North) site). These projects were substantially sold by 30 June 2018.

In our property tendering activities, the Yau Tong Ventilation Building site on the Tseung Kwan O Line was awarded to Top Oasis Limited, a consortium formed by Sino Land Company Limited and CSI Properties Limited in May 2018. Today, we awarded our third package at Wong Chuk Hang Station to a subsidiary of CK Asset Holdings Limited. As part of this tender we will retain the ownership of the 47,000 square metres gross floor area ("GFA") shopping centre at Wong Chuk Hang Station when the mall is completed.

Other Businesses

The Ngong Ping Cable Car and associated theme village ("Ngong Ping 360") benefited from the completion of the rope replacement programme which had impacted visitor numbers and revenue in the previous financial year. Hence revenue increased by 383.0% in the first six months of 2018 to HK$227 million, while visitor numbers for the period rose by 536% to about 0.88 million.

The Company's share of profit from Octopus Holdings Limited in the first six months of 2018 increased by 11.4% to HK$98 million. As at 30 June 2018, more than 13,000 service providers in Hong Kong accepted Octopus payments. Total cards and other stored-value Octopus products in circulation stood at 35.4 million, while average daily transaction volumes and value were 14.8 million and HK$204.4 million respectively.

HONG KONG BUSINESS GROWTH

Highlights

- Express Rail Link – 99.9% complete. Target commissioning remains September 2018
- Shatin to Central Link – 86.0% complete. The commissioning date of the Tai Wai to Hung Hom Section will depend, inter alia, on the verification of, and safety test on, the Hung Hom Station platform slab. Target completion remains 2021 for the Hung Hom to Admiralty Section
- RDS 2014: five proposals submitted to Government
- 14 MTR property development packages previously tendered out will provide over 20,000 residential units, with a total GFA of over 1.28 million square metres when completed

<u>Growing our Hong Kong Rail Business</u>

Our near term rail business growth in Hong Kong falls under Rail Gen 2.0. In addition to the two new rail projects under construction, it also covers major upgrades and replacements to the existing rail network, as well as initiatives to enhance customer experience through the use of technology. Beyond Rail Gen 2.0, Government has announced that rail will continue to be the backbone of public transportation in Hong Kong, with projects under RDS 2014 having the potential to increase Hong Kong's rail network by a further 35 km. In the longer term, Government's "Strategic Studies on Railways and Major Roads beyond 2030" may expand the rail network even further.

Rail Gen 2.0

New Rail Projects Managed by MTR

Our Hong Kong rail network currently extends to 230.9 km. The two railway projects under construction which are project managed by MTR, namely the Express Rail Link and the Shatin to Central Link, will add another 43 km route length to the overall Hong Kong rail network in the next few years.

<u>Express Rail Link</u>

The 26-km high-speed cross-boundary Express Rail Link will connect Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. It will be served by the approximately 400,000-square metre (usable floor area) Hong Kong West Kowloon Station, one of the largest underground high-speed rail stations in the world. MTR has been entrusted by Government to manage the construction of the Express Rail Link. As at the end of June 2018, the project was 99.9% complete.

A key milestone for the Express Rail Link was achieved when the main works were substantially completed in the first quarter of 2018. A ceremony to mark the occasion was held on 23 March 2018. At the ceremony, we unveiled the winning name in the High Speed Rail Train Naming Competition. Translated as "Vibrant Express", it best reflects Hong Kong's vibrancy and energy.

The structural works at Hong Kong West Kowloon Station are complete. Architectural Builder's Works and Finishes and Building Services works including the Customs, Immigration & Quarantine ("CIQ") and Mainland CIQ ("MCIQ") areas under the purview of the Company are substantially complete and in line with programme. However, the timely completion of all the MCIQ and CIQ facilities remains on the critical path. The Fire Services Department inspection for the Hong Kong West Kowloon Station was completed on 12 July 2018.

The trial operations of the High Speed Rail service began on 1 April 2018 and are now in full swing. The objectives of these trials are to identify any teething issues and to make improvements, particularly in the operations and integration of various systems such as rolling stock, signalling, power supply, rails, ticketing and fire services equipment, and to allow staff to become familiar with operational procedures. A number of drills and exercises simulating various operating scenarios are being carried out during the trial operation period.

The target opening date for the High Speed Rail service is September 2018. We are in the final stage of discussions with Government regarding the arrangements for the future operations of this service.

In accordance with the "Three-step Process" to implement the necessary CIQ arrangements, on 18 November 2017 the Government of the HKSAR and the People's Government of Guangdong Province signed the Co-operation Arrangement between the Mainland and the HKSAR on the Establishment of the Port at the Hong Kong West Kowloon Station for

Implementing Co-location Arrangement ("Co-operation Arrangement") to kick-start the work required to implement the future clearance procedures for travellers on the Express Rail Link. The Co-operation Arrangement was subsequently approved by the Standing Committee of the National People's Congress on 27 December 2017. The passage of the Co-location Bill by LegCo on 14 June 2018 marked the completion of the "Three-step Process" of the co-location arrangement and the Guangzhou-Shenzhen-Hong Kong Express Rail Link (Co-location) Ordinance was gazetted on 22 June 2018. The co-location arrangement will maximise service convenience for passengers and help realise the line's full transport, social and economic benefits.

Under the agreement with Government regarding the further funding arrangement for the Express Rail Link ("XRL Agreement"), Government will bear and finance the project cost up to HK$84.42 billion. If the project exceeds HK$84.42 billion, MTR will bear and finance any project costs exceeding HK$84.42 billion (if any) except in limited circumstances specified in the XRL Agreement.

Shatin to Central Link

The ten-station 17-km Shatin to Central Link, a project managed by MTR on behalf of Government, is a strategic railway that will extend the existing rail network and improve connectivity. The first phase is the 11-km Tai Wai to Hung Hom Section and the second phase is the 6-km Hung Hom to Admiralty Section. When the Tai Wai to Hung Hom Section is completed, it will extend the existing Ma On Shan Line from Tai Wai via six stations to the West Rail Line to form the "Tuen Ma Line". When the Hung Hom to Admiralty Section is completed, it will extend the existing East Rail Line across the harbour to Exhibition Centre Station and Admiralty Station through Hung Hom.

Upon completion, the Shatin to Central Link will connect several existing railway lines and enhance connectivity of the entire Hong Kong railway network. Travelling time will be reduced significantly between New Territories North, Kowloon and Hong Kong. Alternative routes will also become available so that customers will have more route choices, particularly in the busy cross-harbour section of the Tsuen Wan Line and the Tai Wai to Kowloon Tong section of the East Rail Line.

Overall, this project was 86.0% complete by 30 June 2018, with the Tai Wai to Hung Hom Section and Hung Hom to Admiralty Section, being 97.8% and 70.9% complete respectively.

In the Tai Wai to Hung Hom Section, structural works for all stations have been substantially completed. Test running covering the full length of the line between Hin Keng and Hung Hom stations commenced in June 2018 as planned.

At Hin Keng Station, building services works, electrical and mechanical ("E&M") works and the connecting elevated and at grade track works, have been completed. Relevant statutory inspections were also completed.

Structural works for both Sung Wong Toi and To Kwa Wan stations have been completed. Fitting-out, building services and E&M works for the station concourses and platforms are in full swing. For Kai Tak Station, fire services inspections have been completed and relevant statutory inspections are in progress.

At Hung Hom Station, construction of platform and structural works for the tunnel has been completed. Building services and E&M works inside the station are broadly on schedule.

For the Hung Hom to Admiralty Section, all 11 immersed tube cross-harbour tunnel units had been installed in Victoria Harbour as of April 2018.

At Exhibition Centre Station, the progress of the construction work has been affected by late site handover, incomplete entrusted works by other parties and unfavourable ground conditions. As at 30 June 2018, it was 64.2% complete. Excavation works are underway at the former Wan Chai Ferry Pier Public Transport Interchange and former Wan Chai Swimming Pool works sites. At the works site under the atrium of Hong Kong Convention and Exhibition Centre, tunnel excavation works continue, while structural works are being carried out progressively. At the former Harbour Road Sports Centre works site, foundation works for Exhibition Centre Station are in progress.

Two unexploded wartime ordnances were discovered at the work sites of the former Wan Chai Swimming Pool area on 27 January and 31 January 2018, and a third was discovered at the former Harbour Road Sports Centre on 10 May 2018. They were found by the contractor's staff during excavation works in accordance with established work procedures. We thank the Hong Kong Police, who dealt with these unexploded ordnances in a very professional and effective manner.

Admiralty Station is being transformed into a major interchange hub for the Shatin to Central Link, Island, Tsuen Wan and South Island lines. Internal structural works, architectural finishes and building services installation for the station extension are underway.

The existing signalling system of the East Rail Line is being replaced under the Shatin to Central Link scope of work. Dynamic testing of the new signalling system using East Rail Line trains and new trains during non-traffic hours is underway on the whole of the East Rail Line, with target completion in the second half of 2019.

Concerns relating to construction works at Hung Hom, To Kwa Wan and Exhibition Centre stations

The quality and safety of railway projects has always been the Company's top priority. We understand the public's concern relating to recently reported issues in relation to the Shatin to Central Link project and take these matters very seriously. Where concerns have been raised we have taken immediate steps to investigate the issues, report our findings to Government, identify any rectification work required and reserve our position against relevant contractors and consultants.

The Company has successfully delivered many railway projects which provide efficient and safe services to the Hong Kong public every day. This has been achieved on the basis of the Company's well tested project management system and the concerted efforts of MTR colleagues. Our colleagues continue to work hard to deliver the Shatin to Central Link project.

The Company will continue to take steps to address public concerns and provide reassurance as to the quality of the construction works. To address the allegations relating to the platform at the Hung Hom Station extension, we have engaged an independent third party to perform a safety test of this platform (the results of which will be submitted to Government and made public once available). We will also co-operate fully with the Commission of Inquiry that has been appointed by the HKSAR Chief Executive in Council to investigate matters relating to the diaphragm wall and the platform slab at the Hung Hom Station extension as well as, amongst others, the adequacy of the Company's project management and supervision systems. On 7 August 2018, the Company announced that the report submitted by the Company to Government on 15 June 2018 in relation to the platform slab at the Hung Hom Station extension of the Shatin to Central Link contained inaccuracies in respect of the construction methodology of the top side of the platform slab. The Company is investigating this issue and will provide updated information to Government in due course.

To provide additional assurances and confidence to the public, the Capital Works Committee of the Board will review the processes and procedures for the Shatin to Central Link within the Company's project management system, assisted by an external consultant. The Board has also directed the Company's management to strengthen its monitoring and supervision over all Shatin to Central Link contracts.

Programme for Delivery

As previously reported, the programme for the delivery of the Shatin to Central Link has been impacted by certain key external events. For the Tai Wai to Hung Hom Section, the discovery of archaeological relics in the Sung Wong Toi Station area led to an 11-month delay. However, with the hard work by the teams involved and the successful implementation of a number of delay recovery measures, the length of the delay has been reduced. However the commissioning date of the Tai Wai to Hung Hom Section will depend, inter alia, on the verification of, and safety test on, the Hung Hom Station platform slab highlighted above.

For the Hung Hom to Admiralty Section, we had previously reported a nine-month delay due to a number of external factors, including the late handover by a third party of construction sites for the new Exhibition Centre Station. However, the Hung Hom to Admiralty Section is still targeted for completion in 2021.

Funding

Government is responsible for funding the Shatin to Central Link and the sum entrusted to the Company by Government for the main construction works under the 2012 Entrustment Agreement for Construction and Commissioning of the Shatin to Central Link ("SCL Entrustment Agreement") was HK$70,827 million. The Company has previously announced that, due to the continuing challenges posed by external factors and difficulties similar to those encountered by most major infrastructure projects in Hong Kong, the Shatin to Central Link Cost to Complete ("CTC") would need to be revised upwards significantly.

The Company completed a detailed review of the estimated CTC for the main construction works under the SCL Entrustment Agreement and the latest estimate of HK$87,328 million was submitted to Government for review on 5 December 2017. Since submission of this estimate, which shows an increase of HK$16,501 million (or 23% of the cost of the main works), the Company has been liaising with Government to facilitate its review and verification process. Any significant adverse result from the verification of, or safety test on, the Hung Hom Station platform slab may potentially impact this latest estimated CTC. The Company has continued to exercise rigorous cost control with the objective of ensuring that construction costs are minimised so far as possible.

Major Asset Upgrades and Replacements on the Existing Network

Our investment in major asset upgrades and replacements in the Hong Kong rail network includes, amongst other projects, the purchase of new trains and light rail vehicles, and the replacement of signalling systems and air cooling systems.

A total of HK$6 billion is being spent on the purchase of 93 new, more comfortable 8-car trains for the replacement of those on the Kwun Tong, Tsuen Wan, Island and Tseung Kwan O lines. The first 8-car train was delivered to Hong Kong in January 2018, with the final batch of trains due to be delivered in 2023. The new trains will undergo stringent testing and commissioning in Hong Kong before being put into service. Test runs began in March 2018 on the Tung Chung Line during non-traffic hours.

To meet the increasing demand for our light rail services, we are replacing 30 light rail vehicles and purchasing ten additional vehicles, at a total cost of HK$745 million. Production commenced in early 2018, with the target delivery for the first batch of light rail vehicles at the end of 2018. The vehicles will enter passenger service progressively between 2019 and 2023.

The existing signalling systems on the Island, Kwun Tong, Tsuen Wan, Tseung Kwan O, Tung Chung and Disneyland Resort lines, as well as the Airport Express, are being replaced at a cost of HK$3.3 billion. Final installation works for the Tsuen Wan Line have been completed and dynamic tests, which cover the whole line, are underway. Although progress has been steady, there has been some delay in the implementation of this re-signalling project, with the new system targeted to commence operations in 2019. Steady progress is being made on installation and design of the new system on the Island and Kwun Tong lines. Overall programme completion for all lines is targeted in 2026. We are monitoring our overall programme closely, with the safety and reliability of the railway service being the top priority.

The programme to replace air coolers is progressing well. Installation works for the replacement of the first 29 air coolers in seven stations and two depots was completed in April 2018, and contractors are now preparing detailed design submissions for the next phase.

Under the Shatin to Central Link project, the original 28 7-car trains on the West Rail Line were all converted to 8-car trains by May 2018. This will enhance existing train services and serve the future Tuen Ma Line, creating a more comfortable travelling environment for passengers and increasing overall capacity by 14%.

Enhancing Customer Experience

Rail Gen 2.0 also aims to enhance our customers' experience through the application of new technologies that will help us provide more personalised services and smoother journeys for customers. To this end, we have launched a number of digital initiatives, including enhancements to the MTR Mobile app.

The MTR Mobile app, which has over one million active users per month, now offers a more personalised experience following the introduction in January 2018 of a "Chatbot" function which provides customers with route and exit information for their destination.

We have continued to roll out the new generation of Passenger Information Displays in all stations. These provide passengers with the latest train arrival times and other useful information.

Electronic payments have become increasingly popular, and a trial scheme to accept mobile payment at designated ticket machines at Lo Wu and Lok Ma Chau stations was launched in December 2017. It was extended to Tsim Sha Tsui, East Tsim Sha Tsui, Causeway Bay, Mong Kok East and Sha Tin stations during the first half of 2018. Customers can purchase Single Journey Tickets at these machines using four different mobile wallets, namely Alipay, AlipayHK, WeChat Pay and WeChat Pay HK.

To further enhance our customer experience, the Company plans to conduct a trial-run for QR code-based payments at existing Automatic Fare Collection ("AFC") gates, providing an additional payment option to passengers, especially tourists. The experience gained in the trial-run will be considered when we renew AFC assets in the future. The pre-qualification process for the tender for a service provider for QR code-based payments started in May 2018 and shortlisted tenderers were invited for tender submission in August 2018.

New Rail Projects beyond Rail Gen 2.0

Beyond the two rail projects under construction, Government has identified seven additional rail projects to be implemented under RDS 2014 and has invited us to submit proposals for five of these projects, namely the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station), the East Kowloon Line, the Tung Chung West Extension (and Tung Chung East Station) and the North Island Line.

As requested by Government we have provided supplementary information on the project proposals which we submitted for the Tuen Mun South Extension, the Northern Link (and Kwu Tung Station) and the East Kowloon Line. We also submitted the project proposal for the Tung Chung West Extension (and Tung Chung East Station) in January 2018. We are liaising closely with Government departments to resolve the technical, operational and financial issues for implementation of these future rail projects. Our proposal for the North Island Line was submitted in July 2018.

Major transport corridors to meet the longer term demand for public transport with rail as its backbone are also envisaged in Government's "Strategic Studies on Railways and Major Roads beyond 2030" ("RMR 2030+") with reference to the vision depicted in "Hong Kong 2030+: Towards a Planning Vision and Strategy Transcending 2030". The RMR 2030+, which is planned to commence later in 2018, will examine the strategic transport infrastructure network required to meet the transport needs beyond 2030. This will include the demand arising from the two strategic growth areas, namely the East Lantau Metropolis and New Territories North.

Expanding the Property Portfolio

The growth of our Hong Kong rail network presents further opportunities to develop residential and commercial properties.

Over the next few years, our investment properties portfolio in Hong Kong will expand considerably as we add 152,120 square metres GFA to our shopping centre portfolio, increasing attributable GFA by approximately 49%. Two projects are underway, namely the new LOHAS Park shopping centre and the Tai Wai shopping centre. Furthermore, under the tender for Wong Chuk Hang Station Package 3, which we have just awarded, we will retain the 47,000 square metres GFA shopping centre when that mall is completed.

The construction works for the LOHAS Park shopping centre were 40% complete as at 30 June 2018, while construction works for the Tai Wai shopping centre were 20% complete. The projects are targeted for completion by the end of 2020 and 2022 respectively.

In our residential property development, during the past four years or so, 14 MTR property development packages have been tendered out and are now in various stages of planning and construction. Over 20,000 residential units, with a total GFA of over 1.28 million square metres, will be completed in the next seven years or so.

To provide more private housing in Hong Kong, we are also seeking to develop property above certain existing rail facilities. The first of these is the development over our Yau Tong Ventilation Building, for which the tender was awarded in May 2018. Above our depot in Siu Ho Wan on Lantau Island around 14,000 residential units could be built, subject to the necessary zoning and other statutory approvals. The draft Siu Ho Wan Outline Zoning Plan was gazetted on 29 March 2018. At this preliminary stage there is no assurance that this project will be commercially viable.

MAINLAND OF CHINA AND INTERNATIONAL BUSINESSES

Highlights

- Awarded O&M contract for Macau LRT Taipa Line
- MOU signed with Chengdu Rail Transit Group on TOD projects
- Cooperation Agreement signed to provide TOD technical assistance for a mixed use property development adjacent to Chencun Station in the Shunde district of Foshan, Guangdong province
- MTR Crossrail started operation of the Paddington to Heathrow services
- Bid submitted for West Coast Partnership in the UK

Outside of Hong Kong, we are leveraging our expertise and experience to build a growing portfolio of railway-related businesses in the Mainland of China, Europe and Australia. Our railway businesses outside of Hong Kong carried an average of around 6.77 million passengers per weekday in the first six months of 2018.

Half Year Ended 30 June HK$' million	Mainland of China and International - Recurrent Businesses Mainland of China Railway, Property Rental and Property Management Businesses 2018	2017	Inc./ (Dec.) %	International Railway Businesses 2018	2017	Inc./ (Dec.) %	Total 2018	2017	Inc./ (Dec.) %
Subsidiaries									
Revenue	**451**	379	*19.0*	**10,002**	7,636	*31.0*	**10,453**	8,015	*30.4*
EBITDA	**111**	76	*46.1*	**299**	374	*(20.1)*	**410**	450	*(8.9)*
EBIT	**106**	72	*47.2*	**233**	312	*(25.3)*	**339**	384	*(11.7)*
EBIT (Net of Non-controlling Interests)	**106**	72	*47.2*	**145**	259	*(44.0)*	**251**	331	*(24.2)*
EBITDA Margin (in %)	**24.6%**	20.1%	*4.5 % pts*	**3.0%**	4.9%	*(1.9)% pts*	**3.9%**	5.6%	*(1.7)% pts*
EBIT Margin (in %)	**23.5%**	19.0%	*4.5 % pts*	**2.3%**	4.1%	*(1.8)% pts*	**3.2%**	4.8%	*(1.6)% pts*
Associates and Joint Venture									
Share of EBIT	**487**	336	*44.9*	**(41)**	(4)	*(925.0)*	**446**	332	*34.3*
Share of Net Profit/(Loss)	**224**	95	*135.8*	**(36)**	(2)	*(1,700.0)*	**188**	93	*102.2*
EBIT of Subsidiaries (Net of Non-controlling Interests) and Share of EBIT of Associates and Joint Venture	593	408	*45.3*	104	255	*(59.2)*	697	663	*5.1*

Half Year Ended 30 June HK$' million	Mainland of China - Property Development 2018	2017	Inc./ (Dec.) %
Subsidiaries			
Revenue	**-**	6,844	*(100.0)*
EBITDA	**(17)**	2,186	*n/a*
EBIT	**(19)**	2,186	*n/a*
EBITDA Margin (in %)	**n/a**	31.9%	*n/a*
EBIT Margin (in %)	**n/a**	31.9%	*n/a*
Associate			
Share of EBIT	**-**	(1)	*100.0*
Share of Net Profit/(Loss)	**-**	(1)	*100.0*

Half Year Ended 30 June HK$' million	Mainland of China and International - Recurrent Businesses and Property Development		
	2018	2017	*Inc./ (Dec.) %*
Profit for the Period attributable to Shareholders of the Company			
- Arising from Recurrent Businesses	**342**	363	*(5.8)*
- Arising from Mainland of China Property Development	**33**	851	*(96.1)*
Total	**375**	1,214	*(69.1)*
Number of passengers carried by our railway subsidiaries and associates outside of Hong Kong (in million)	**1,054**	909	*16.0*

In the Mainland of China, EBITDA for the first half of 2018 from our railway, property rental and property management subsidiaries increased by 46.1% to HK$111 million, mainly attributable to higher patronage of Shenzhen Metro Line 4 ("SZL4"). In our International businesses, EBITDA from our railway subsidiaries decreased by 20.1% to HK$299 million, mainly due to material losses incurred in our Stockholm commuter rail concession. This is partly offset by higher income from operations and project works in our Melbourne metropolitan rail service, as well as Sydney Metro Northwest ("SMNW"), for which the booking of project related profit started in the second half of 2017. Our share of profit from associates and joint venture increased by 102.2% to HK$188 million, mainly due to revenue improvement at Beijing MTR Corporation Limited ("BJMTR"). Excluding Mainland of China property development, our railway, property rental and management subsidiaries, and our associates and joint venture outside of Hong Kong contributed net after-tax profits of HK$342 million during the six months on an attributable basis, representing 7.6% of total recurrent profits.

Railway Businesses in the Mainland of China

Beijing

In Beijing, our 49% associate BJMTR operates four lines, namely Beijing Metro Line 4 ("BJL4"), the Daxing Line, Beijing Metro Line 14 ("BJL14") and Beijing Metro Line 16 ("BJL16"). On-time performance in the first six months of 2018 averaged 99.9% across the four lines.

For the period, the combined ridership of BJL4 and the Daxing Line was about 214 million passenger trips and average weekday patronage was more than 1.29 million, similar to the same period of 2017.

The first three phases of BJL14 recorded a combined 112 million passenger trips and average weekday patronage of about 717,000 in the first six months of 2018, an increase of 8% compared to the same period last year.

BJL16 is a Public Private Partnership ("PPP") project whose first phase, the 19.6-km Northern Section, commenced operation in December 2016. In the first six months of 2018 the line recorded 16 million passenger trips and average weekday patronage of about 99,000. Full line operation, which will mark the start of the operating concession, is targeted after 2019.

Shenzhen

SZL4, which is operated by MTR Corporation (Shenzhen) Limited ("MTR(SZ)"), achieved patronage growth of 10.2% to 109 million, with average weekday patronage rising to 605,000 in the first six months of 2018. On-time performance remained at 99.9%.

As noted previously, although patronage has continued to increase on SZL4, there has been no increase in fares since we started operating the line in 2010. Unlike our rail businesses in Beijing and Hangzhou, MTR(SZ) does not benefit from a shadow fare subsidy mechanism. We understand that discussions continue within the Shenzhen Municipal Government regarding fare adjustments. If appropriate fare adjustments are not implemented soon, the long-term financial viability of SZL4 is expected to be impacted.

Our consultancy subsidiary in Shenzhen entered into a project management agreement to supervise the construction of the Northern Extension of SZL4, which will be financed by the Shenzhen Municipal Government. The civil and E&M works are progressing according to programme, with the project targeted for completion by the end of 2020. MTR(SZ) is in discussion with the Shenzhen Municipal Government regarding the operational arrangements for this extension.

Hangzhou

Our 49% associate in Hangzhou, Hangzhou MTR Corporation Limited ("HZMTR"), operates Hangzhou Metro Line 1. Patronage on this line rose by 19.3% in the first six months of 2018 to 128 million, with average weekday patronage of 718,000. On-time train performance remained excellent, at 99.9%. Benefiting from continuous growth in patronage, in the first six months of 2018, share of profit from HZMTR amounted to HK$13 million, as compared to the loss of HK$29 million in the same period in 2017.

The 51.5 km Hangzhou Metro Line 5 ("HZL5"), another PPP project, which was awarded to our subsidiary in 2017, is an underground metro line running from Xiangzhanglu Station in Xiaoshan District to Lutinglu Station in Yuhang District, with a total of 38 stations. Tendering and construction works of the line are now in full swing.

Property Businesses in the Mainland of China

Tiara at Shenzhen Metro Longhua Line Depot Site Lot 1 has a total developable GFA of approximately 206,167 square metres, including a retail centre of about 10,000 square metres (GFA). Over 98% of the residential units were sold and handed over to buyers. Fitting out of the retail centre is underway and is on track to open in late 2018, subject to approval by the Shenzhen Municipal Government.

In March 2017, a framework agreement was signed with a subsidiary of Beijing Capital Land Limited for the disposal of our 49% interest in Tianjin TJ-Metro MTR Construction Company Limited, as well as the conditional future acquisition of an approximately 91,000 square metres GFA shopping centre to be developed on the Beiyunhe Station site. Relevant government approval was obtained in July 2017 for the disposal of our 49% interest and the Sale and Purchase Agreement for the shopping centre was signed on 26 January 2018.

The Company also manages self-developed and other third party properties in the Mainland of China which, as at 30 June 2018, had a total GFA of 390,000 square metres. Our shopping mall in Beijing, Ginza Mall, has completed a partial revamp and was 98% occupied as at 30 June 2018.

European Railway Businesses

United Kingdom

In London, MTR Corporation (Crossrail) Limited ("MTR Crossrail"), a wholly owned subsidiary of the Company, operates, under the "TfL Rail" brand, a 32.5-km, 14-station route between Liverpool Street Station and Shenfield being the first phase of the Crossrail operating concession. The second phase, providing services between Paddington Station and Heathrow Airport, commenced in May 2018. The TfL Rail service will be renamed the Elizabeth Line when the tunnel section through central London is completed and becomes operational. It will eventually extend to 118 km from Reading in the west and crossing to the east of London, serving 41 stations. New trains have been progressively introduced into operation since June 2017. Since taking over the concession in 2015, MTR Crossrail has been enhancing performance as measured by the Public Performance Measure Moving Annual Average on the routes that it operates, making TfL Rail one of the most reliable services in the UK.

Through our associate First MTR South Western Trains Ltd, as a 30% shareholder we have partnered with FirstGroup plc on the South Western Railway franchise. South Western Railway is one of the UK's largest rail networks, with a route length of 998 km serving 203 stations, covering London and south western England. Financial performance for the first half of 2018 has been impacted by a number of factors, including an industry-wide slowdown in growth in passenger numbers and underlying performance resulting primarily from a number of major incidents involving infrastructure that is under the control of a third party. An independent review was commissioned in April 2018 by the UK government, covering both South Western Railway and the related rail infrastructure, to see if all possible steps are being taken to improve performance and passenger experience. The Company has provided and will continue to provide support to the local operations through expertise sharing in order to achieve the promised service improvements.

Nordic Region

MTR is the largest rail operator in Sweden by passenger volume. We operate three key rail businesses in the country, namely Stockholm Metro, MTR Express and the Stockholm commuter rail.

In the first six months of 2018, Stockholm Metro delivered strong results, with high levels of operational performance and customer satisfaction. The total number of journeys for the first half of 2018 was 180 million and average weekday patronage was 1.3 million.

MTR Express (Sweden) AB is our wholly-owned subsidiary which operates the MTR Express intercity service between Stockholm and Gothenburg. The service was expanded to 110 trains per week in March 2018 and it continues to rank as the most punctual operator between the two cities. Although this has supported continued growth in passenger numbers, fare revenue has been below our original expectations and the line continued to be loss-making in the first six months of 2018.

Our wholly-owned subsidiary MTR Pendeltågen AB operates the Stockholm commuter rail service under a concession that runs for ten years to December 2026, with an option to extend for four more years. The concession includes the maintenance of rolling stock undertaken by Emtrain AB, a 50% owned associate together with EuroMaint Rail AB. Stockholm commuter rail serves the greater Stockholm area, with 53 stations and a total route length of 247 km.

The first half of 2018 was very challenging for MTR Pendeltågen AB, both operationally and financially. Issues relating to a nation-wide lack of drivers and train availability and maintenance, as well as a new, more complex timetable introduced in combination with poorly performing infrastructure which is under the control of a third party, led to an increase in operating costs as well as significant penalties relating to punctuality and customer satisfaction. As a result, a material loss was incurred in the first six months of 2018. We have taken immediate actions, including strengthening the local management team and providing support from Hong Kong. We are also implementing a turnaround plan to improve service levels and the financial position of the business, but it will likely remain in a loss making position for a number of years.

Australian Railway Businesses

In Melbourne, our 60% owned subsidiary Metro Trains Melbourne Pty. Ltd. ("MTM") operates the 390-km Melbourne metropolitan rail network. Operational performance was good in the first six months of 2018. Our stable track record over the term of the franchise led to the renewal of our concession for another seven years from November 2017, with options to extend for a maximum of three years. Under this renewed concession, we are committed to delivering even higher service levels in our railway operations and supporting the State Government in its infrastructure projects.

In Sydney, MTR is a member of a consortium which is responsible for the design, construction and financing, as well as the future operations and maintenance of the SMNW PPP project, which is the first stage of Sydney Metro. The 36-km SMNW line includes eight new metro stations and five existing stations upgraded to metro standards. All track laying work has been completed. Construction works for the depot and stations, as well as pre-operational planning, continue to progress in order to meet the target opening date in the first half of 2019. Train testing is underway.

Macau Railway Businesses

In Macau, our wholly owned subsidiary was awarded in April 2018 an MOP 5.88 billion (HK$5.71 billion) contract for O&M of Macau LRT Taipa Line. The contract covers an 80-month service period and includes the line's testing and trial run before opening, operation of train services, as well as maintenance of trains, the signalling system and other infrastructure. The 9.3-km Taipa Line will have 11 stations.

Growth Outside of Hong Kong

Mainland of China

We continue our co-operation with Beijing Infrastructure Investment Corporation Limited ("BIIC", one of the partners in BJMTR) and BJMTR in accordance with the previously signed Cooperation Framework Agreement to conduct joint preliminary studies on integrated property development above selected existing station and depot sites along BJL4 and the Daxing Line (including the Nanzhaolu Depot). This agreement was followed in January 2017 by a Letter of Intent ("LoI") with BIIC to extend our strategic co-operation to other, predominantly rail-related property development projects in Beijing in addition to investment in, construction and operation of other railway projects. In November 2017, the Company signed an LoI with the Daxing District People's Government of Beijing Municipality, BIIC and BJMTR for studies on the southward extension of the Beijing Daxing Line, Nanzhaolu Depot capacity expansion, and integrated property development above the depot. BJMTR is also seeking other opportunities in Beijing to expand its rail network.

In August 2017, we signed an LoI with Chengdu Rail Transit Group covering strategic cooperation on metro, metro related property development and metro operations management training. This was followed in May 2018 by the signing of an MOU to conduct joint TOD studies on the potential integrated development of stations along Chengdu's metro lines.

In Hangzhou, we are pursuing our third metro opportunity, as well as metro-related property development potentials.

In the Guangdong-Hong Kong-Macau Greater Bay Area, we will be providing TOD technical assistance to an associated company of Country Garden Group and Foshan Shunde District Metro Company Limited relating to a mixed use property development adjacent to Chencun

Station in the Shunde district of Foshan, Guangdong province, which has a total GFA of approximately 391,500 square metres. We will continue exploring similar opportunities in other cities in the Mainland of China.

International

In the UK, together with Guangshen Railway Company Limited (an associated company of China Railway Corporation), we were shortlisted to bid for the West Coast Partnership franchise in the UK. The franchisee will operate railway services on the West Coast Main Line from 2019 until 2031. It will also act as the "shadow operator" to advise High Speed Two ("HS2") Limited and Department for Transport ("DfT") on the preparation and operation of the initial HS2 services between London and Birmingham, scheduled to commence in 2026. It is intended that the operator would then run both operations as an integrated service under a management contract to 2031. The invitation to tender was announced by DfT in March 2018 and our bid was submitted in July 2018. The bid for the Wales and Borders rail franchise which we submitted in December 2017 was not successful. We continue to explore further rail franchise and PPP opportunities and potential property developments over and around rail stations in the UK.

In the Nordic region, we submitted our first tender in Norway in March 2018 for the Traffic Package South (Trafikkpakke Sør) Operating Concession in the south of the country. Our bid has not been shortlisted to proceed to the next bidding stage. We will continue to explore further rail franchise opportunities and potential property developments in the region.

In Australia, we continue to prepare our proposal for the Sydney Metro City and Southwest ("SMCSW") project, a 30-km extension of SMNW running through the central business district, is targeted to open in 2024. The SMCSW Consortium, formed by MTR and other participants in SMNW, submitted a non-binding initial proposal to Transport for New South Wales ("TfNSW") in March 2017 and a commitment deed was entered into with TfNSW in December 2017. This will allow the SMCSW Consortium to submit an updated proposal in late 2018 to deliver and integrate trains and systems, as well as to operate the SMCSW line.

In Canada, MTR pre-qualified as a bidder for the operation of the Toronto Regional Express Rail project in December 2017. The project, which would be MTR's first in North America, would transform the existing GO Transit diesel-rail commuter system into an electrified railway network covering the Greater Toronto and Hamilton area. The project has been revised to a design-build-finance-operate-maintain project, and, as a result, we are preparing the pre-qualification bid together with a partner. The short-list of bidders is expected to be announced by the end of 2018.

FINANCIAL REVIEW

Profit and Loss

In the first half of 2018, the Group's revenue from recurrent businesses increased by 13.9% to HK$26,373 million, mainly reflecting the increase in franchise payments under the renewed concession, higher fare revenue and project revenue of MTM in Australia, growth in passenger volume of our transport operations in Hong Kong, and increase in rental income of our station commercial and property rental businesses in Hong Kong. Significant revenue was derived from the Tiara property development in Shenzhen in the first half of 2017 which was not repeated in 2018. Hence, total revenue of the Group therefore decreased by 12.1% to HK$26,373 million.

Operating profit from recurrent businesses (being operating profit before Hong Kong and Mainland of China property development profits, depreciation, amortisation and variable annual payment) increased by 3.0% to HK$9,321 million. The increase was mainly due to higher operating profits from Hong Kong station commercial and property rental and management businesses, resulting from the rental income growth of our Duty Free Shops, station shops and shopping malls, as well as higher contributions from Ngong Ping 360 following the completion of its cable car rope replacement programme in 2017. The above increases were partly offset by lower operating profits from the Hong Kong Transport Operations, due to higher staff costs whilst the fare adjustment in 2017/2018 was rolled over to 2018/2019 in accordance with the FAM. Operating margin from recurrent businesses decreased by 3.8 percentage points to 35.3%, mainly due to higher contributions from our Mainland of China and international businesses where the O&M operations carry lower operating margin, and such lower operating margin was further diluted by the material operating losses in MTR Pendeltågen AB. Excluding the Mainland of China and international subsidiaries, operating margin from recurrent businesses decreased by 0.8 percentage point to 56.0% mainly due to higher staff costs in Hong Kong Transport Operations.

Hong Kong property development profit was HK$158 million, mainly derived from sales of inventory units and car parking spaces, as well as agency fee income from West Rail property developments (including Ocean Supreme, Cullinan West, Cullinan West II and PARC CITY).

Depreciation and amortisation charges increased by 3.0% to HK$2,461 million. Variable annual payment to KCRC increased by 9.2% to HK$999 million, being 17.3% of the relevant revenue subject to this payment.

After taking into account Hong Kong property development profits, depreciation, amortisation and variable annual payment, operating profit before interest and tax therefore decreased by 29.8% to HK$6,002 million due to the lack of property development profit booking from Mainland China.

Interest and finance charges were HK$580 million, representing an increase of 43.9% over the same period in 2017, due to increased borrowings and higher interest rates, as well as the absence of the exchange gain recorded in the previous period. Investment property revaluation gain amounted to HK$2,435 million, mainly reflecting a slight yield compression in certain of our shopping malls and higher reversionary rentals in offices. Our share of profit from Octopus Holdings Limited increased by 11.4% to HK$98 million. Our share of profit from other associates and joint venture was HK$188 million, an increase of 104.3%. The increase was mainly due to profit improvement from BJMTR.

Net profit attributable to shareholders, after deducting income tax of HK$972 million and profits shared by non-controlling interests of HK$88 million, decreased by 5.3% to HK$7,083 million in the first half of 2018. Earnings per share therefore decreased 7.1% from HK$1.27 to HK$1.18. Excluding investment property revaluation, which is a non-cash accounting adjustment, the underlying profit attributable to shareholders decreased by 20.5% to HK$4,648 million, with underlying earnings per share of HK$0.77. Within this total, our recurrent profit amounted to HK$4,483 million which was at a similar level to that in 2017, while post-tax property development profit decreased from HK$1,370 million to HK$165 million.

Statement of Financial Position

Our financial position remained strong. The Group's net assets increased by HK$1,992 million, from HK$166,426 million as at 31 December 2017 to HK$168,418 million as at 30 June 2018.

Total assets decreased slightly by HK$954 million to HK$262,814 million. This was mainly due to the decrease in cash balances after payment of the land premium in respect of Wong Chuk Hang Station Package 2 to Government, partly offset by the increase in fixed assets arising from revaluation gains on investment properties and renewal and upgrade works on our existing Hong Kong railway network.

Total liabilities decreased by HK$2,946 million to HK$94,396 million. This was mainly due to the decrease in creditors and other payables and the net repayment of borrowings, partly offset by the accrual for the 2017 final ordinary dividend.

The Group's net debt-to-equity ratio was 20.8% at 30 June 2018, a decrease of 2.9 percentage points from a pro-forma 23.7% as at 31 December 2017 (such pro-forma excluding cash received from the developer relating to the land premium payment for Wong Chuk Hang Station Package 2 which was paid to Government in 2018).

Cash Flow

Net cash generated from operating activities was HK$4,803 million in the first half of 2018, being mainly the cash inflow from operating profits net of the changes in working capital relating primarily to the settlement of land premium of Wong Chuk Hang Station Package 2 amounting to HK$5,214 million. Receipts from property developments were HK$1,089 million, mainly relating to the lump sum receipt from a developer and the agency fee received from West Rail property developments. Including other cash receipts of HK$271 million, net cash receipts amounted to HK$6,163 million in the first half of 2018. Net cash receipts were lower than those in the same period of 2017 by HK$3,448 million, mainly due to the settlement of land premium mentioned above.

Total capital expenditure was HK$3,497 million. This comprised HK$2,653 million for the purchase of assets for our Hong Kong existing railways and related operations, HK$233 million for the settlement of payables relating to the Hong Kong railway extension projects, HK$438 million for investment in Hong Kong property-related businesses and HK$173 million for investment in Mainland of China and overseas subsidiaries. Total capital expenditure was lower than that in the same period of 2017 by HK$583 million, due to higher payments in 2017 for the South Island Line and the Kwun Tong Line Extension.

The Group also paid HK$1,933 million in variable annual payment to KCRC in accordance with the Service Concession Agreement with KCRC. Taking into account the cash investment into the HZL5 joint venture of HK$585 million and other payments, total cash outflow amounted to HK$6,851 million in the first half of 2018.

Therefore, net cash outflow before financing amounted to HK$688 million. After net repayment of borrowings of HK$3,597 million and the effect of exchange rate changes on the cash position in foreign currencies, the Group's cash balance decreased by HK$4,517 million to HK$13,837 million at 30 June 2018.

Financing Activities

Global economic growth continued in the first half of 2018, with the US economy going into its ninth year of expansion, the third longest on record. Low unemployment and rising inflation rates in the US set the stage for the Federal Reserve to continue increasing interest rates in 2018. The Federal Funds Target Rate was raised by 25 basis points in each of March and June 2018 to a range of 1.75%-2.00% p.a.

US Treasury yields rose markedly across the curve during the early part of the year but the shape of the yield curve continued to flatten. 10-year and 30-year US treasury yields rose from 2.41% p.a. and 2.74% p.a. at the beginning of this year to 2.86% p.a. and 2.99% p.a. respectively as at 30 June 2018. HKD interest rates followed their US counterpart with 5-year and 15-year swap rates rising from 2.12% p.a. and 2.47% p.a. to 2.72% p.a. and 2.95% p.a. respectively during the period.

In the first half of 2018, the Group issued several HK dollar fixed rate notes through private placement, with amounts totalling HK$1.5 billion and maturities ranging from 1 to 30 years. These notes provided cost effective funding for the Group while diversifying the Group's debt maturity profile. Several bilateral banking facilities were also arranged to replace existing banking facilities at a lower overall interest cost.

On the back of the successful Green Bond Framework set up in 2016, a Green Finance Framework was developed in June to include green loans and other green financing instruments under the new framework. In the first half of 2018, three green bonds with an aggregated amount of HK$1.0 billion and one HK$2.5 billion green bilateral revolving credit facility were concluded.

Due to higher interest rates on floating rate borrowings and a higher proportion of fixed rate borrowings, the weighted average borrowing cost of the Group increased to 2.7% p.a. for the first half of 2018 from 2.5% p.a. for the same period last year.

The Company's credit rating remained strong, on par with the HKSAR Government at AA+ and Aa2 as rated by Standard and Poor's and Moody's respectively.

HUMAN RESOURCES

The Company, together with our subsidiaries, employed 18,070 people in Hong Kong and 11,873 people outside of Hong Kong as at 30 June 2018. Our associates employed an additional 15,030 people in and outside of Hong Kong.

People are our most valuable asset, and we always strive to nurture our talent in line with the growth of our business. To cater for current and future operational needs, we actively search for the best candidates and reach out to them through different social media channels and community recruitment initiatives. In support of business growth in Hong Kong and overseas, we inspire our colleagues to be global leaders through cross-functional and cross-geographical rotations in our business hubs in the Mainland of China, UK, Sweden and Australia. We conduct robust talent assessment programmes to evaluate talent potential and offer a variety of quality training programmes to help employees enhance their competencies and fulfil their potential. We also offer ample opportunities for personal growth and career development. During the first six months of 2018, an average of 4.3 training days were provided for each employee in Hong Kong. More than 40 colleagues were assigned to cross-functional or cross-geographical rotations during the period. We place strong emphasis on strengthening the MTR culture by advocating "Participative Communication", "Collaboration", "Effectiveness & Innovation" and "Agility to Change" as our core cultural focuses.

Our dedicated efforts to engage and nurture our employees are reflected in our stable workforce, with the staff turnover rate remaining low at 4.8% in Hong Kong during the first half of 2018. During the period, we received several awards that recognised our commitment to inspiring, engaging and developing our people. MTR was the first runner-up in the "Hong Kong's Most Attractive Employer 2018" organised by the Randstad Group, the sixth year in a row we have been included in the top five. We were a "Grand Award Recipient" in the Employees Retraining Board's "Manpower Developer Award Scheme", in recognition of our efforts and commitment to fostering a learning culture designed to nurture professionals for sustainable corporate development.

MTR ACADEMY

The MTR Academy ("MTRA") is showing good progress in its development as a railway management and engineering centre offering high quality programmes that bring MTR's rail expertise to the Mainland of China and "Belt and Road" countries. MTRA is also offering a number of accredited programmes and short courses to nurture the next generation of railway professionals for the community. During the first six months of 2018, over 500 participants from Hong Kong and overseas attended the programmes.

MTRA is increasing its presence globally. PT Mass Rapid Transit Jakarta ("PT MRT Jakarta") is seeking support for its development of Indonesia's first mass transit system. In February 2018, PT MRT Jakarta signed a consultancy agreement with MTRA to set up Jakarta Transport Academy. In April 2018, an MOU was signed with Far East Air Transport Incorporated University in the Philippines, covering collaboration on developing local railway talents. Further afield, in April 2018, an MOU was signed with the University of Birmingham in the UK to offer distance learning programmes to students in Hong Kong and other countries.

OUTLOOK

Global economic growth remains solid in 2018 and Hong Kong's economy has strengthened, especially in the retail and tourism sectors. However, concerns over rising US interest rates and geopolitical and global trade uncertainties remain.

In the second half of the year, subject to finalising with Government the arrangements for the future operations for the High Speed Rail service, we look forward to the opening of this service, which is targeted for September. Strong economic growth and the rebound in tourist arrivals should underpin a further increase in passenger volume in our Hong Kong transport business. Recent trends in our station commercial and property rental businesses are expected to continue in line with improving market conditions.

The booking of development profits for Wings at Sea and Wings at Sea II at LOHAS Park Package 4 will be subject to receipt of Occupation Permits, which is currently expected at the end of 2018. Subject to market conditions, we aim to tender out two more property development packages over the next six months or so, our second package at Ho Man Tin Station and our eleventh package at LOHAS Park.

Outside of Hong Kong, we expect continued challenges in our Stockholm commuter rail and MTR Express businesses in Sweden, as well as the South Western Railway franchise in the UK whilst our other businesses should see performance in line with expectations.

I take this opportunity to thank Mr Morris Cheung, who retired as President of MTRA on 17 July 2018, after more than 35 years of service at MTR and, in particular, for his work in establishing MTRA. Ms Margaret Cheng, Human Resources Director, has been appointed to oversee the operation of MTRA until a new President is in place. Dr Philco Wong has resigned as Projects Director effective 7 August 2018 after serving MTR for nearly seven years. Dr Jacob Kam, Managing Director – Operations and Mainland Business has assumed managerial oversight of the Projects Division until a new Projects Director is appointed.

I have notified, and the Board has agreed, that I will take early retirement from MTR, such retirement to be effective once a replacement Chief Executive Officer has been appointed and reported for duty. It has been a privilege working for MTR all these years and I cannot thank enough all my colleagues for their support, professionalism, dedication and hard work. They are truly the heroes of MTR.

By Order of the Board
Lincoln Leong Kwok-kuen
Chief Executive Officer

Hong Kong, 9 August 2018

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 August 2018 to 29 August 2018 (both dates inclusive) during which no transfer of shares in the Company will be effected. To qualify for the 2018 interim dividend, all completed transfer documents, accompanied by the relevant share certificates have to be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 23 August 2018 (Hong Kong time). The 2018 interim dividend, with a scrip dividend option (except for shareholders with registered addresses in New Zealand or the United States of America or any of its territories or possessions), is expected to be distributed on 12 October 2018 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 29 August 2018.

As at the date of this announcement:

Members of the Board: Professor Frederick Ma Si-hang *(Chairman)* **, Lincoln Leong Kwok-kuen *(Chief Executive Officer)*, Andrew Clifford Winawer Brandler*, Dr Pamela Chan Wong Shui*, Dr Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Anthony Chow Wing-kin*, Dr Eddy Fong Ching*, James Kwan Yuk-choi*, Lau Ping-cheung, Kaizer*, Rose Lee Wai-mun*, Lucia Li Li Ka-lai*, Abraham Shek Lai-him*, Benjamin Tang Kwok-bun*, Dr Allan Wong Chi-yun*, Johannes Zhou Yuan*, James Henry Lau Jr (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Frank Chan Fan)**, Permanent Secretary for Development (Works) (Hon Chi-keung)** and Commissioner for Transport (Mable Chan)**

Members of the Executive Directorate: Lincoln Leong Kwok-kuen, Jacob Kam Chak-pui, Margaret Cheng Wai-ching, Peter Ronald Ewen, Herbert Hui Leung-wah, Adi Lau Tin-shing, Gillian Elizabeth Meller, Linda So Ka-pik, David Tang Chi-fai and Jeny Yeung Mei-chun

* *independent non-executive Director*
** *non-executive Director*

This announcement is made in English and Chinese. In case of any inconsistency, the English version shall prevail.