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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 MONTHS ENDED 30 JUNE 2013

HIGHLIGHTS

Financial

- Total revenue increased 12.0% to HK\$19,214 million; Revenue excluding Mainland of China and international subsidiaries increased 13.4% to HK\$12,189 million
- Post-tax underlying profit

Recurrent business profit	HK\$ 3,804 million	up 8.0%
Property development profit	<u>HK\$ 447 million</u>	down 14.7%
	<u>HK\$ 4,251 million</u>	up 5.1%
- Reported profit after investment property revaluation of HK\$6,158 million, an increase of 6.4%
- Earnings per share on underlying profit of HK\$0.73
- Net assets increased 2.4% to HK\$146,583 million
- Net debt-to-equity ratio at 11.6%
- Cash and bank deposits totaled HK\$17,060 million with additional undrawn committed facilities of HK\$7,003 million available
- Interim dividend of HK\$0.25 per share declared

Operational

- Fare Adjustment Mechanism Review concluded successfully
- Total patronage from Hong Kong transport operations (excluding Intercity) increased 3.6% to 881 million
- Listening•Responding programme continued to drive service improvement and performance
- Tender for the Long Ping Station (South) site, where the Company acts as agent, awarded in June 2013

Growth

- All five Hong Kong railway projects made solid progress and remain on target
- Phase 1 of Beijing Metro Line 14 commenced operation on 5 May 2013
- Pre-sale for Shenzhen Metro Longhua Line depot site development expected by the end of 2014, subject to market conditions
- Awarded land use right for a site in Tianjin at a price of RMB2,075 million on 5 August 2013 through our 49% owned joint venture

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 2013 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (HK\$ MILLION)

	Half year ended 30 June	
	2013 (Unaudited)	2012 (Unaudited and restated)
Revenue from Hong Kong transport operations	7,258	6,914
Revenue from Hong Kong station commercial business	2,194	1,699
Revenue from Hong Kong property rental and management businesses	1,842	1,663
Revenue from Mainland of China and international subsidiaries	7,025	6,402
Revenue from other businesses	895	476
	<u>19,214</u>	<u>17,154</u>
Expenses relating to Hong Kong transport operations		
- Staff costs and related expenses	(1,916)	(1,854)
- Energy and utilities	(604)	(561)
- Operational rent and rates	(127)	(113)
- Stores and spares consumed	(232)	(226)
- Maintenance and related works	(518)	(484)
- Railway support services	(119)	(103)
- General and administration expenses	(187)	(179)
- Other expenses	(119)	(105)
	<u>(3,822)</u>	<u>(3,625)</u>
Expenses relating to Hong Kong station commercial business	(206)	(188)
Expenses relating to Hong Kong property rental and management businesses	(304)	(278)
Expenses relating to Mainland of China and international subsidiaries	(6,565)	(6,059)
Expenses relating to other businesses	(830)	(476)
Project study and business development expenses	(155)	(100)
	<u>(11,882)</u>	<u>(10,726)</u>
Operating expenses before depreciation, amortisation and variable annual payment		
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment	7,332	6,428
Profit on Hong Kong property developments	531	627
	<u>7,863</u>	<u>7,055</u>
Operating profit before depreciation, amortisation and variable annual payment		
Depreciation and amortisation	(1,641)	(1,613)
Variable annual payment	(589)	(402)
	<u>(2,230)</u>	<u>(2,015)</u>
Operating profit before interest and finance charges	5,633	5,040

	Half year ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited and restated)
Interest and finance charges	(435)	(432)
Investment property revaluation	1,907	1,740
Share of profit or loss of associates	51	299
Profit before taxation	7,156	6,647
Income tax	(900)	(781)
Profit for the period	6,256	5,866
Attributable to:		
- Equity shareholders of the Company	6,158	5,785
- Non-controlling interests	98	81
Profit for the period	6,256	5,866
Profit for the period attributable to equity shareholders of the Company:		
- Arising from underlying businesses before property developments	3,804	3,521
- Arising from property developments	447	524
- Arising from underlying businesses	4,251	4,045
- Arising from investment property revaluation	1,907	1,740
	6,158	5,785
Earnings per share:		
- Basic	HK\$1.06	HK\$1.00
- Diluted	HK\$1.06	HK\$1.00

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (HK\$ MILLION)

	Half year ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited and restated)
Profit for the period	6,256	5,866
Other comprehensive income for the period (after tax and reclassification adjustments):		
Items that will not be reclassified to profit or loss:		
- Surplus on revaluation of self-occupied land and buildings	255	119
- Effect of remeasurement of net liability of defined benefit plans	-	1,989
	255	2,108

	Half year ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited and restated)
Items that may be reclassified subsequently to profit or loss:		
- Exchange differences on translation of:		
- financial statements of overseas subsidiaries and associates	29	(49)
- non-controlling interests	(26)	(1)
- Cash flow hedges: net movement in hedging reserve	38	(1)
	<u>41</u>	<u>(51)</u>
	<u>296</u>	<u>2,057</u>
Total comprehensive income for the period	<u>6,552</u>	<u>7,923</u>
Attributable to:		
- Equity shareholders of the Company	6,480	7,843
- Non-controlling interests	72	80
Total comprehensive income for the period	<u>6,552</u>	<u>7,923</u>

CONSOLIDATED BALANCE SHEET (HK\$ MILLION)

	As at 30 June 2013	As at 31 December 2012
	(Unaudited)	(Audited and restated)
Assets		
Fixed assets		
- Investment properties	57,340	55,314
- Other property, plant and equipment	75,532	76,088
- Service concession assets	24,932	24,492
	<u>157,804</u>	<u>155,894</u>
Property management rights	31	31
Railway construction in progress	9,780	7,458
Property development in progress	10,803	10,430
Deferred expenditure	15	15
Interests in associates	4,273	4,258
Deferred tax assets	16	21
Investments in securities	471	393
Properties held for sale	2,041	3,016
Derivative financial assets	146	256
Stores and spares	1,263	1,220
Debtors, deposits and payments in advance	3,338	4,246
Amounts due from related parties	755	785
Cash, bank balances and deposits	17,060	18,664
	<u>207,796</u>	<u>206,687</u>

	As at 30 June 2013 (Unaudited)	As at 31 December 2012 (Audited and restated)
Liabilities		
Bank overdrafts	1	55
Short-term loans	-	300
Creditors and accrued charges	13,519	16,530
Current taxation	739	406
Contract retentions	1,005	948
Amounts due to related parties	1,123	1,061
Loans and other obligations	23,230	23,222
Obligations under service concession	10,671	10,690
Derivative financial liabilities	170	132
Loan from holders of non-controlling interests	140	157
Deferred income	881	488
Deferred tax liabilities	9,734	9,587
	61,213	63,576
Net assets	146,583	143,111
Capital and reserves		
Share capital, share premium and capital reserve	44,409	44,281
Other reserves	101,974	98,623
Total equity attributable to equity shareholders of the Company	146,383	142,904
Non-controlling interests	200	207
Total equity	146,583	143,111

Notes: -

1. INDEPENDENT REVIEW

The interim results for the half year ended 30 June 2013 are unaudited but have been reviewed 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"), by KPMG whose unmodified review report is included in the interim report to be sent to shareholders. The interim results have also been reviewed by the Group's Audit Committee.

2. BASIS OF PREPARATION

These unaudited consolidated accounts should be read in conjunction with the 2012 annual accounts. The HKICPA has issued a number of new issues and amendments to Hong Kong Financial Reporting Standards ("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:

- Amendments to HKAS 1, *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*
- HKFRS 10, *Consolidated Financial Statements*
- HKFRS 12, *Disclosure of Interests in Other Entities*
- HKFRS 13, *Fair Value Measurement*
- Revised HKAS 19, *Employee Benefits*

Except as described below, the adoption of the above developments have no material impact on the Group's interim report and therefore, the accounting policies adopted in the preparation of these accounts are consistent with those used in the 2012 annual accounts.

The amendments to HKAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in the interim financial report has been modified accordingly.

HKFRS 10 introduces a single control model to determine whether an investee should be consolidated. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013, including that with Octopus Holdings Limited ("OHL") and OHL's subsidiaries, which, previously described as the Group's non-controlled subsidiaries, are now changed to be described as the Group's associates in accordance with the definition stated in HKFRS 10 and continue to be accounted for using the equity method.

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance and contains extensive disclosure requirements about fair value measurements. The Group has provided the applicable disclosures in its interim financial report.

Revised HKAS 19 introduces a number of amendments to the accounting for defined benefit plans. Among them, Revised HKAS 19 eliminates the "corridor method" under which the recognition of actuarial gains and losses relating to defined benefit schemes could be deferred and recognised in profit or loss over the expected average remaining service lives of employees. Under the revised standard, all actuarial gains and losses are required to be recognised immediately in other comprehensive income. Revised HKAS 19 also changes the basis for determining income from plan assets from expected return to interest income calculated at the liability discount rate, and requires immediate recognition of past service cost, whether vested or not.

As a result of the adoption of Revised HKAS 19, the Group has changed its accounting policy with respect to defined benefit plans, for which the corridor method was previously adopted. This change in accounting policy has been adopted retrospectively by restating the balances as at 31 December 2012, and the result for the six months ended 30 June 2012 as follows:

HK\$ Million	As previously reported	Effect of adoption of Revised HKAS 19	As restated
Consolidated profit and loss account for the half year ended 30 June 2012			
Expenses relating to Hong Kong transport operations - Staff costs and related expenses	(1,763)	(91)	(1,854)
Income tax	(796)	15	(781)
Profit for the period	5,942	(76)	5,866
Basic and diluted earnings per share	HK\$1.01	(HK\$0.01)	HK\$1.00

HK\$ Million	As previously reported	Effect of adoption of Revised HKAS 19	As restated
Consolidated statement of comprehensive income for the half year ended 30 June 2012			
Effect of remeasurement of net liability of defined benefit plans	-	1,989	1,989
Total comprehensive income for the period	6,010	1,913	7,923
Consolidated balance sheet as at 31 December 2012			
Debtors, deposits and payments in advance	4,474	(228)	4,246
Creditors and accrued charges	15,119	1,411	16,530
Deferred tax liabilities	9,857	(270)	9,587
Other reserves - Retained profits	97,201	(1,369)	95,832

3. RETAINED PROFITS

The movements of the retained profits during the half year ended 30 June 2013 and the year ended 31 December 2012 were as follows:

HK\$ Million	
Balance as at 1 January 2013, as previously reported	97,201
Effect of adoption of Revised HKAS 19	(1,369)
Balance as at 1 January 2013, as restated	95,832
Profit for the period attributable to equity shareholders of the Company	6,158
Employee share options forfeited	1
Dividends declared and approved	(3,130)
Balance as at 30 June 2013	98,861
HK\$ Million	
Balance as at 1 January 2012, as previously reported	88,062
Effect of adoption of Revised HKAS 19	(2,556)
Balance as at 1 January 2012, as restated	85,506
Profit for the year attributable to equity shareholders of the Company, as restated	13,375
Other comprehensive income for the year, as restated	1,344
Employee share options forfeited	5
Dividends declared and approved	(4,398)
Balance as at 31 December 2012, as restated	95,832

4. PROFIT ON HONG KONG PROPERTY DEVELOPMENTS

Profit on Hong Kong property developments comprises:

HK\$ Million	Half year ended 30 June	
	2013	2012
Share of surplus from developments	490	627
Income from receipt of properties for investment purpose	44	-
Other overhead costs net of miscellaneous income	(3)	-
	<u>531</u>	<u>627</u>

5. INCOME TAX

HK\$ Million	Half year ended 30 June	
	2013	2012 (Restated)
Current tax		
- Provision for Hong Kong Profits Tax for the period	696	666
- Mainland of China and overseas tax for the period	105	87
	<u>801</u>	<u>753</u>
Deferred tax		
- Origination and reversal of temporary differences on:		
- tax losses	7	-
- depreciation allowances in excess of related depreciation	89	5
- provision and others	3	23
	<u>99</u>	<u>28</u>
Income tax in the consolidated profit and loss account	<u>900</u>	<u>781</u>
Share of income tax expense/(credit) of associates	<u>34</u>	<u>(18)</u>

Current tax provision for Hong Kong Profits Tax for the half year ended 30 June 2013 is calculated at 16.5% (2012: 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.

Provision for deferred tax on temporary differences arising in Hong Kong is calculated at the Hong Kong Profits Tax rate at 16.5% (2012: 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.

6. DIVIDEND

The Board has resolved to pay an interim dividend of HK\$0.25 per share. The interim dividend will be distributed in cash only on or about 27 September 2013 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 16 September 2013.

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2013 of HK\$6,158 million (2012: HK\$5,785 million as restated) and the weighted average number of ordinary shares in issue during the period of 5,795,654,610 (2012: 5,785,696,289).

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders for the half year ended 30 June 2013 of HK\$6,158 million (2012: HK\$5,785 million as restated) and the weighted average number of ordinary shares in issue during the period of 5,802,552,504 (2012: 5,788,779,216) after adjusting for the number of dilutive potential ordinary shares under the employee share option schemes.

Both basic and diluted earnings per share would have been HK\$0.73 (2012: HK\$0.70 as restated) if the calculation is based on profit attributable to equity shareholders of the Company arising from underlying businesses of HK\$4,251 million (2012: HK\$4,045 million as restated).

8. SEGMENTAL INFORMATION

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

(i) Hong Kong 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 the 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 business: 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 developments: Property development activities at locations near the railway systems in Hong Kong.

(v) Mainland of China and international affiliates: The operation and maintenance of mass transit railway systems including station commercial activities outside of Hong Kong and the letting of retail space, provision of estate management services and development of properties in the Mainland of China.

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

HK\$ Million	Turnover		Contribution to profit	
	Half year ended 30 June 2013	2012 (Restated)	Half year ended 30 June 2013	2012 (Restated)
Hong Kong transport operations	7,258	6,914	1,508	1,498
Hong Kong station commercial business	2,194	1,699	1,767	1,360
Hong Kong property rental and management businesses	1,842	1,663	1,533	1,381
Mainland of China and international affiliates	7,025	6,402	415	304
Other businesses	895	476	34	(30)
	19,214	17,154	5,257	4,513
Hong Kong property developments			531	627
Project study and business development expenses			(155)	(100)
			5,633	5,040
Interest and finance charges			(435)	(432)
Investment property revaluation			1,907	1,740
Share of profit or loss of associates			51	299
Income tax			(900)	(781)
			6,256	5,866

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	
	2013	2012
Hong Kong (place of domicile)	12,170	10,732
Australia	5,060	4,582
Mainland of China	302	260
Sweden	1,666	1,562
Other countries	16	18
	7,044	6,422
	19,214	17,154

9. DEBTORS AND CREDITORS

A As at 30 June 2013, the Group's debtors, deposits and payments in advance amounted to HK\$3,338 million (31 December 2012: HK\$4,246 million as restated), of which debtors accounted for HK\$2,617 million (31 December 2012: HK\$3,537 million). Receivables in respect of rentals, advertising and telecommunication activities are due within 50 days. Receivables in respect of income from railway subsidiaries outside of Hong Kong, 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 developments are due in accordance with the terms of the relevant development agreements or sale and purchase agreements. As at 30 June 2013, HK\$310 million (31 December 2012: HK\$164 million) were overdue, out of which HK\$53 million (31 December 2012: HK\$37 million) were overdue by more than 30 days.

B As at 30 June 2013, creditors and accrued charges amounted to HK\$13,519 million (31 December 2012: HK\$16,530 million as restated), including un-utilised government grant for the construction of the West Island Line of HK\$454 million (31 December 2012: HK\$1,461 million). The Group has no significant balances of trade creditors resulting from its provision of transportation services. As at 30 June 2013, HK\$3,586 million (31 December 2012: HK\$5,418 million) of creditors and accrued charges were due within 30 days or on demand whilst the remainder was not yet due.

10. PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Group's listed securities during the six months ended 30 June 2013.

11. CHARGE ON GROUP ASSETS

As at 30 June 2013, MTR Corporation (Shenzhen) Limited ("SZMTR"), an indirect wholly owned subsidiary of the Company in the Mainland of China, has pledged the fare and non-fare revenues and the benefits of insurance contracts in relation to Phase 2 of Shenzhen Metro Longhua Line as security for the RMB4,000 million bank loan facility granted to it.

As at 30 June 2013, Metro Trains Melbourne Pty. Ltd. ("MTM"), a 60% owned subsidiary of the Company in Australia, has pledged its bank deposits of the same amount as security for an AUD5.3 million bank loan facility granted to it.

Apart from the above, none of the other assets of the Group was charged or subject to any encumbrance as at 30 June 2013.

12. CORPORATE GOVERNANCE

During the six months' period ended 30 June 2013, the Company has complied with the Code Provisions set out in the Corporate Governance Code ("Code"), contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

As mentioned in the Company's 2012 Annual Report, although the new provisions in the Code on board diversity will only become effective on 1 September 2013, the Company has already taken steps to comply with it and adopted a new Board Diversity Policy ("Policy") in March 2013.

This Policy was taken into account by the Nominations Committee and the Board in the recent appointments of Professor Frederick Ma Si-hang, Mrs. Pamela Chan Wong Shui and Dr. Dorothy Chan Yuen Tak-fai as three new independent non-executive Directors of the Company (“INEDs”) effective from 4 July 2013.

The three new INEDs have experience in different sectors and add to the balance of skills, experience and diversity of perspectives on the Board, thereby enhancing its operation.

Following these appointments, the number of INEDs has increased from seven to 10 and INEDs now comprise two-thirds of the Company’s Board. This ratio exceeds the Listing Rule requirement to have independent non-executive directors representing at least one-third of the board. The number of female Board Members has also increased from two to four, representing approximately 27% of the Board.

The Nominations Committee also played an important role in the identification of the Company’s new Finance Director, Mr. Stephen Law Cheuk-kin, who was appointed with effect from 2 July 2013.

The Company’s Sustainability Report 2012, which was published in June 2013 and is available on the Company’s website, followed the internationally-recognised Global Reporting Initiative framework and, for the first time, included key performance indicators from the Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited.

The Company’s achievements in sustainability have won wide recognition. The Company now ranks as the leading Hong Kong company on the Hang Seng Corporate Sustainability Index. It also remains listed on the Dow Jones Sustainability Indices and the FTSE4Good Index, and is one of the 16 companies designated as a “New Sustainability Champion” by the World Economic Forum.

13. 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 late September 2013.

KEY STATISTICS

	Half year ended 30 June	
	2013	2012
Total passenger boardings in Hong Kong (in millions)		
- Domestic Service	713.3	687.5
- Cross-boundary Service	54.4	53.0
- Airport Express	6.4	6.1
- Light Rail and Bus	106.9	103.9
Average number of passengers (in thousands)		
- Domestic Service (weekday)	4,219	4,027
- Cross-boundary Service (daily)	300.7	291.0
- Airport Express (daily)	35.4	33.3
- Light Rail and Bus (weekday)	610.0	587.8

	Half year ended 30 June	
	2013	2012
Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payment as a percentage of turnover ("EBITDA margin"), as restated for 2012		
- Excluding Mainland of China and international subsidiaries	56.4%	56.6%
- Including Mainland of China and international subsidiaries	38.2%	37.5%

MANAGEMENT REVIEW AND OUTLOOK

I am pleased to report that, in the first six months of 2013, we achieved good financial results while our rail businesses continued to turn in impressive operational performances, supported by world-class safety standards. We continued to focus on investing in Hong Kong to enhance our service and grow our network, while expanding rapidly in other markets.

Our recurrent businesses in Hong Kong, comprising our transport operations, station commercial and property rental businesses, continued to perform well with an increase in passenger numbers as well as solid increases in retail rent reversions, particularly for our Duty Free Shops. Our property development business booked profits mainly from the sale of inventory units at The Riverpark. Contributions from the Company's railway subsidiaries outside of Hong Kong continued to increase.

In Hong Kong, we continued our strong focus on operations and maintenance activities designed to maintain our highly reliable train services. The high levels of service and safety we achieved as a result of these efforts has helped strengthen our Hong Kong corporate citizen reputation. Furthermore, we are building on the success of the Listening•Responding programme, introduced in 2012, to respond directly to passengers in areas where they say they would like to see us do more. Various initiatives have been introduced under this programme, such as enhancing train services to provide more convenient and comfortable journeys, improving barrier-free access to stations through additional wide gates and lifts, and helping our passengers to stay connected through improved smartphone apps and free Wi-Fi hotspots in all stations. We are encouraged by the feedback from passengers that they welcome the improvements we have made.

We continue to work ceaselessly to maintain high safety standards across all our operations in Hong Kong, the Mainland of China and overseas through benchmarking safety performance, learning lessons from railway incidents and actively sharing best practice through peer reviews. Our 2012 Staff Attitude Survey in Hong Kong shows that our staff recognise that upholding safety is our top priority.

We viewed with grave seriousness the Light Rail incident on 17 May 2013, when the wheels of a couple-set came off the tracks at a turn. An in-depth investigation was conducted immediately and we have implemented new safety enhancement measures. These include stepping up speed checks on Light Rail vehicles and more structured reminders to train captains on the importance of strictly adhering to safe driving practices. We will continue exploring other possible measures for safety enhancement.

In April 2013, we successfully concluded the review of the Fare Adjustment Mechanism ("FAM") with Government, arriving at an outcome that will ensure the Company's continued long-term sustainable development. The "win-win" outcome safeguards the

Company's interests while providing our passengers with lower fares than otherwise would have been in place.

Our growth strategy remains on track. Steady progress was made on our five railway extension projects in Hong Kong, and we remain on target to open the first of these lines, the West Island Line, next year. Looking beyond these five lines, the second stage of public consultation for Government's Review and Update of the Railway Development Strategy 2000 ("RDS-2U") has also been completed. We expect that Government's railway development roadmap will greatly enhance our railway growth potential beyond 2020. Outside of Hong Kong, Phase 1 of Beijing Metro Line 14 ("BJL14") commenced operations as our third rail line in Beijing. MTR Property Development (Shenzhen) Company Limited is also currently developing Shenzhen Metro Longhua Line Depot Site Phase 1 and pre-sale may take place by the end of 2014, depending on market conditions. More recently, on 5 August 2013, Tianjin TJ-Metro MTR Construction Company Limited, a joint venture between the Company and Tianjin Metro (Group) Company Limited, won the bidding for another site of 278,650 square metres, at Beiyunhe Station on Tianjin Metro Line 6 in Tianjin. The joint venture company will develop the site for residential and commercial use.

Total revenue for the first six months of 2013 rose 12.0% to HK\$19,214 million. Operating profit before Hong Kong property developments, depreciation, amortisation and variable annual payments also increased by 14.1% to HK\$7,332 million. Excluding our Mainland of China and international subsidiaries, revenue rose by 13.4% and operating profit by 12.9%, while operating margin decreased slightly by 0.2 percentage point to 56.4%. Profit from Hong Kong property developments was HK\$531 million compared to HK\$627 million in the first half of 2012, and was derived mainly from the sale of inventory units at The Riverpark at Che Kung Temple Station. Excluding investment properties revaluation, net profit from underlying businesses attributable to equity shareholders increased by 5.1% to HK\$4,251 million, representing earnings per share of HK\$0.73. Gain in revaluation of investment properties was HK\$1,907 million, as compared with HK\$1,740 million in the first half of 2012. As a result, net profit attributable to equity shareholders was HK\$6,158 million, equivalent to earnings per share of HK\$1.06 after such revaluation. Your Board has declared an interim dividend of HK\$0.25 per share.

Hong Kong Transport Operations

Total revenue in the first half of 2013 from our Hong Kong transport operations reached HK\$7,258 million, an increase of 5.0% over the first half of 2012. Operating costs of our Hong Kong transport operations increased by 5.4% to HK\$3,822 million, resulting in the operating profit for this business increasing 4.5% to HK\$3,436 million, with an operating margin of 47.3%.

Patronage

Total patronage from all of our rail and bus passenger services in Hong Kong rose by 3.6% to 883.1 million. Excluding the Intercity service, total patronage would have increased by 3.6% to 881.0 million.

For our Domestic Service (which comprises the Kwun Tong, Tsuen Wan, Island, Tung Chung, Tseung Kwan O, Disneyland Resort, East Rail (excluding the Cross-boundary Service), West Rail and Ma On Shan lines), total patronage reached 713.3 million, a 3.7% increase over the first half of 2012. The increase was driven by continued economic growth and inbound tourism, as well as our service enhancements.

The Cross-boundary Service to Lo Wu and Lok Ma Chau reported a 2.8% rise in patronage to 54.4 million in the six-month period.

Passenger traffic on the Airport Express increased by 5.7% as compared with the first half of 2012 to 6.4 million, supported by a rise in air travel and various promotions.

Passenger volume on Light Rail and Bus during the first six months of 2013 was 106.9 million, a 2.8% increase, while patronage on the Intercity service was 2.1 million, up 7.1%.

Average weekday patronage for all of our rail and bus passenger services in Hong Kong increased by 4.6% to 5.16 million during the first six months of 2013 (5.15 million if excluding the Intercity service). The Domestic Service accounted for the majority of this patronage, achieving a 4.7% increase to 4.22 million.

Market Share

The Company increased its overall share of the franchised public transport market in Hong Kong from 45.8% in the first six months of 2012 to 46.5% in the comparable period of 2013, which was mainly brought about by the increase in market share on our Domestic Service. Within this total, our share of cross-harbour traffic remained at around 66%. The Company's market share of Cross-boundary business for the first six months declined from 54.4% to 53.4%, while market share to and from the airport rose slightly to 21.8% from 21.7%.

Fare Revenue

In April 2013, we concluded the first of a series of five-yearly reviews of the FAM with Government, keeping the overall FAM formula and the direct drive mechanism intact but introducing an objective and transparent methodology to calculate the productivity factor. Under the revised FAM, the productivity factor was calculated to be 0.6% for the five years from 2013 to 2017, resulting in a fare adjustment this year of 2.7%. Without the revision, the adjustment would have been 3.2%, and thus passengers are enjoying fares which are lower than they otherwise would have been.

As part of the FAM review, additional concessions were offered to our passengers. These include an enhanced monthly pass programme called "Monthly Pass Extra" which provides an additional 25% discount for domestic journeys connecting to or from stations beyond those covered by monthly passes, as well as a new "Tung Chung - Nam Cheong Monthly Pass Extra". A new "MTR City Saver" ticket for frequent medium-distance travellers will also be introduced in 2014.

Passengers will also be able to directly share profits of the Company through a profit-related fare concession scheme. In addition, under the new Service Performance Arrangement we will offer concessions directly to passengers in cases where an operational fault on our network due to factors within the Company's control causes a lengthy service disruption. These two fare concessions will be given in the form of the "10% Same-Day Second-Trip Discount" promotion.

Total Hong Kong fare revenue in the first half of 2013 was HK\$7,188 million, a 4.9% increase over the same period of 2012. Within this total, the Domestic Service accounted for HK\$5,023 million or 69.9%. Average fare per passenger on our Domestic Service increased by 1.6% to HK\$7.04, mainly due to adjustments in fares, partly offset by fare concessions.

Fare revenue from the Cross-boundary Service for the first six months of 2013 was HK\$1,406 million, an increase of 4.1% over the first half of 2012. Fare revenue from the Airport Express was up 3.6% at HK\$401 million. Light Rail and Bus fare revenue during the first half of 2013 was HK\$289 million, a 3.6% increase over the same period of 2012, while fare revenue from the Intercity service was HK\$69 million, increasing by 7.8%.

Promotions and Concessions

We have designed promotions during the period to attract more patronage and create better value for passengers. We expanded our Tourist Ticket offerings, one of which offered the chance to win complimentary Hong Kong Disneyland admission tickets. To attract more Mainland visitors, a new "Holiday – Hong Kong" Travel e-Book was published promoting the convenience of the MTR network. We continued to offer special promotions for our MTR Club members including a "Bonus Points Scheme", exclusive experiences such as a chance to take a train cab ride and a look behind the scenes at the Operations Training Centre, as well as a 50% discount on the Airport Express for selected members.

Promotions for the Airport Express included an online "Buy 1 Get 1 Free" promotion with credit card companies and free rides for children using Octopus during festive seasons. "Ride to Rewards" members were invited to register for a lucky draw to win an entry to a unique wine tasting charity event held at the site of the decommissioned explosive storage magazine for the West Island Line project.

Service and Performance

During the first six months of 2013, our train service delivery and passenger journeys on time across the network were maintained at a world-class standard of 99.9%, which exceeds the targets set out in the Operating Agreement and our own more demanding Customer Service Pledges. This service excellence was recognised by numerous local and international awards. These include "The Best Public Transportation Service Award" in "Sing Tao Excellent Services Brand Award 2012", for the seventh year in a row, "Category Award of Infrastructure & Economic – Public Transportation" for the ninth consecutive year in the "Hong Kong Service Awards 2013" and "Utility Provider (Public Transport) category in Hong Kong" in the "Reader's Digest Trusted Brands Gold Award 2013". The service quality of the Airport Express has recently achieved international recognition with the "North Star Air Rail Link of the Year" award in the Global AirRail Awards 2013.

The Listening•Responding programme continued to drive improvements in services and performance in those areas where passengers have said they would like to see us do more. The positive response we have received from passengers to the changes we have made is very encouraging. Building on the success achieved in 2012, major initiatives in 2013 are focusing on providing more barrier-free access to stations, enhancing passenger communications and increasing train service frequency.

Making MTR journeys more convenient and comfortable, especially for senior citizens, persons with disabilities and those travelling with baby prams, is one priority. Work is underway to install additional 52 wide gates in 30 MTR stations in 2013, of which 13 were already in place by the end of June. A new external lift will be completed at Shek Kip Mei Station later this year and eight more lifts will open by 2015. By that time, all but three of the existing 83 full-time MTR stations will have at least one independent barrier-free access point. In addition, new Customer Service Centres that are brighter and more accessible to those with disabilities have replaced the existing service centres at 15 of our busiest stations.

To provide timely and user-friendly information to passengers, we have upgraded our flagship MTR Mobile app, thus making it easier for passengers to be updated instantly about changes in train services. Since July 2013, free Wi-Fi hotspots have become available at all 84 MTR stations to help passengers stay connected.

Following the addition of more than 1,200 weekly train trips in 2012, we have continued to enhance services in different sections of the rail network to provide passengers with more convenient and comfortable journeys. From 20 April 2013, train services on the East Rail Line were increased on Saturdays, while more couple-sets were deployed on the busier

Light Rail routes on weekends. An additional 75 weekly train trips will be added on different lines by the end of August 2013. This year, we also launched an initiative to make journeys quieter by installing inflatable door seals to trains. Three trains running on the Tseung Kwan O Line are now fitted with such seals and work will begin later this year to retrofit 90 train sets.

To provide better connectivity for passengers and enhance the general station ambiance, Fo Tan Station is currently undergoing a major refurbishment programme which includes joining the two currently separated concourses.

The Listening•Responding programme is an important pillar in our service offering and we will continue to explore new enhancement opportunities by listening and responding to views from users of our transport network.

To maintain good passenger safety performance, in addition to assistants in stations, we have increased both the number and the visibility of safety messages on trains and in stations. Safety promotion initiatives focusing on passenger behaviour on escalators have resulted in a notable reduction of escalator related accidents. We continue to instil a safety-first culture in our workforce, encouraging reporting of potential hazards and near-miss incidents for timely mitigation through various channels, including an internal mobile app.

To promote continuous improvement in safety, in February 2013 we engaged an external consultant to conduct an assessment of our Operations Division Safety Management System using the Railway Management Maturity Model developed by the Office of Rail Regulation in the UK. We achieved an excellent result, with our performance far better than the 2012 average for UK train operating companies.

We have also continued to explore energy saving initiatives to enhance productivity. An Energy Saving Competition was launched at the end 2012 and 31 proposals have been shortlisted for trial in 2013.

Hong Kong Station Commercial Businesses

Revenue from our Hong Kong station commercial businesses rose by 29.1% in the first half of 2013 to HK\$2,194 million. The increase was derived mainly from higher station retail revenue. Operating costs of our Hong Kong station commercial businesses increased by 9.6% to HK\$206 million, resulting in the operating profit for this business increasing 31.6% to HK\$1,988 million, with an operating margin of 90.6%.

Station retail revenue increased 39.9% to HK\$1,449 million. The increase was due to the significant rental increases at the Duty Free Shops at Lo Wu and Hung Hom stations under the new licence which commenced in January 2013, as well as higher rentals arising from trade mix refinements and favourable renewal rates in our station shops. As at 30 June 2013, the number of station shops was 1,329, spread across 55,946 square metres of retail space. Branding campaigns which reinforced the “Stylish Convenience” positioning of MTR Shops were launched to increase their appeal. To promote MTR Shops and stimulate spending, an “MTR Club Bonus Points Scheme” was launched, under which customers are rewarded with a “Bonus Points Card” instantly upon designated spending at participating MTR Shops.

Advertising revenue during the first six months of 2013 increased by 6.1% to HK\$454 million, with the number of advertising units rising by 224 to 44,875. Innovation in formats continued, with a “Supernova Zone”, which blends advertising panels with interactive

devices, installed in Hong Kong Station. The upper platform and Jardine Bazaar exits of Causeway Bay Station were also enhanced to improve their advertising potential.

Revenue from telecommunications in the first half of 2013 rose by 29.9% to HK\$217 million due mainly to incremental revenue from the launch of additional mobile phone services and capacity enhancement projects. Enhancement of 2G and 3G data capacity was completed at 14 more stations during the six months. By the end of June 2013, 4G mobile phone service was available at 66 stations.

Hong Kong Property and Other Businesses

During the first half of 2013, market sentiment in the Hong Kong property market continued to be dampened by the series of Government measures intended to stabilise prices and curb speculation. As a result, transaction volumes for sales of both residential and commercial property declined sharply. Average home prices remain supported by the prevailing low interest rates and only moderated slightly. Primary flat sales volume also shrank due to the delayed launch of new residential projects for sale after the Residential Properties (First-hand Sales) Ordinance took effect in late April 2013. Office leasing activities in Central remained subdued amid softer demand from traditional financial tenants, while the retail property market continued to be supported by domestic consumption and growth in inbound tourism.

Property Development in Hong Kong

Profit from Hong Kong property developments in the first half of 2013 was HK\$531 million. This mainly comprised the sale of inventory units at The Riverpark at Che Kung Temple Station, Lake Silver and Island Harbourview.

During the first half of 2013 sales for The Riverpark continued, with 93% of the 981 units sold as at 30 June 2013. The Certificate of Compliance for The Riverpark was issued in April 2013 and units are now being handed over to purchasers.

With regard to tendering activities, the Long Ping Station (South) site, where we act as agent for the relevant subsidiary of Kowloon-Canton Railway Corporation ("KCRC"), was tendered in May 2013. The site was awarded to a member company of Chinachem Group on 5 June 2013. In the meantime, we are examining the development packages for the Tai Wai Station, Tin Shui Wai Light Rail and LOHAS Park Package 4 sites with a view to putting these projects out to tender, depending on market conditions.

Progress continued to be made on future development sites. The Master Layout Plan for the Wong Chuk Hang site along the South Island Line (East) was approved by the Town Planning Board in February 2013.

In response to Government's request, we are exploring opportunities for other new developments along our railway lines in order to provide more housing supply.

Property Rental and Management Businesses in Hong Kong

Revenue from our Hong Kong property rental and property management businesses in the first half of 2013 rose by 10.8 % to HK\$1,842 million. Operating costs increased by 9.4% to HK\$304 million, resulting in operating profit increasing 11.0% to HK\$1,538 million, with an operating margin of 83.5%.

Total property rental income in Hong Kong was HK\$1,735 million, 10.7% higher than in the first six months of 2012. Our shopping mall portfolio achieved an average 15% increase in rental reversion for the period. At the end of June 2013, our shopping malls in Hong Kong

and the Company's 18 floors at Two International Finance Centre ("Two ifc") remained close to 100% let.

As at 30 June 2013, the Company's attributable share of investment properties in Hong Kong was 213,278 square metres of lettable floor area of retail properties, 40,969 square metres of lettable floor area of offices, and 14,282 square metres of property for other use.

Our retail portfolio again benefited from investments designed to improve the properties' attractiveness, efficiency and environmental performance. Many of our MTR shopping malls were installed with electric vehicle chargers. Our energy conservation initiatives, ranging from improved lighting to air conditioning improvements, were recognised in numerous awards. These include the Indoor Air Quality Certificate (Good Class) from the Environmental Protection Department, as well as the Gold Certificates for Elements and Maritime Square and Blue Certificates for Ocean Walk, Hanford Plaza and Citylink Plaza under the Quality Water Recognition Scheme for Buildings of the Water Supplies Department. Our MTR Malls also actively participated in the "Food Wise Charter" of the Food Wise Hong Kong Campaign and the "Energy Saving Charter 2013" organised by the Environmental Protection Department.

Hong Kong property management revenue in the first six months of 2013 rose by 12.6% to HK\$107 million. As at 30 June 2013, the number of residential units under our management in Hong Kong had risen by 3,177 to 89,443, with additional units from The Wings, The Riverpark and La Splendeur. The area of managed commercial space was 763,018 square metres. During the six months, our MTR properties also gained recognition, including three awards for The Palazzo in the "11th Quality Building Management Competition – Shatin District".

Other Businesses

The Ngong Ping cable car ("Ngong Ping 360") and associated theme village achieved a 75.9% increase in revenue in the first six months of 2013 to HK\$153 million. Visitor numbers for the period reached approximately 800,000 and reliability exceeded the target of 99.65%. Ngong Ping 360 completed a major haul rope replacement project in March 2013, which was part of the predictive maintenance regime designed to ensure system reliability. Ridership was supported by numerous promotional activities, including a Guinness World Record skipping event involving 46 local athletes.

Revenue from our consultancy business in the first half of 2013 was HK\$60 million, an increase of 36.4% over the same period of 2012. Consultancy services were provided to clients in Hong Kong, Australia, the Middle East and Macau.

Octopus continued to expand its presence in the retail sector and the Company's share of Octopus' net profit for the first half of 2013 was HK\$102 million, a 7.4% increase over 2012. By 30 June 2013, over 5,000 service providers in Hong Kong were using the Octopus service. Total Octopus cards and other stored-value Octopus products in circulation during the period were 23.3 million. Average daily transaction volume and value were 12.7 million and HK\$134.8 million respectively.

Income from project management services to Government, predominantly for entrustment works on the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link ("Express Rail Link") and Shatin to Central Link, was HK\$670 million in the first six months of 2013, an increase of 102.4% over the same period of 2012. Income from the entrustment works is booked on a cost recovery basis.

Mainland of China and International Businesses

Revenue in the first six months of 2013 from our railway subsidiaries outside of Hong Kong, namely Metro Trains Melbourne Pty. Ltd. ("MTM"), MTR Stockholm AB ("MTRS") and MTR Corporation (Shenzhen) Limited ("SZMTR"), was HK\$6,954 million. This represents an increase of 9.8% over the same period of 2012, and is mainly the result of increases in contracted revenue and, for SZMTR, higher passenger numbers. Operating costs were HK\$6,506 million, resulting in a 34.5% rise in operating profit to HK\$448 million and an operating profit margin of 6.4%.

Our associates outside of Hong Kong, Beijing MTR Corporation Limited, London Overground Rail Operations Ltd ("LOROL") and Tunnelbanan Teknik Stockholm AB ("TBT") maintained their good performance. After the commencement of operation of Hangzhou Metro Line 1 ("HZL1") on 24 November 2012, we have for the first time included the full half year results of our new 49% owned associate, Hangzhou MTR Corporation Limited ("HZMTR"), which incurred an operating loss higher than our original forecast, due mainly to lower than expected passenger numbers. Plans have been put into place to enhance patronage on this line. Our overall share of losses from these four associates for the first six months in 2013 was HK\$51 million.

Total passengers carried by our rail subsidiaries and associates outside of Hong Kong was approximately 652 million in the first half of 2013, against approximately 556.5 million in the first half of 2012.

Railway Businesses in the Mainland of China

In the Mainland of China, Beijing Metro Line 4 ("BJL4") and the Daxing Line continued to exceed service targets. Combined ridership in the first half of 2013 was 212.7 million passenger trips, with average weekday patronage of more than 1.2 million. The two lines have 35 stations and a combined length of 50 km.

In May 2013, Phase 1 of the BJL14 opened on schedule. The 12.4-km section of the new line has seven stations, running from Zhangguozhuang Station to Xiju Station in the south-western part of Beijing. The service performance has been satisfactory since the line opening, with average weekday patronage of 40,000.

Shenzhen Metro Longhua Line ("SZL4") operational performance also exceeded targets during the period. Ridership for the six months was 64 million, with average weekday patronage reaching 350,000. The line runs 20.5 km and has 15 stations.

HZL1, which has 31 stations covering 48 km, recorded a ridership of 34.5 million for the six months. Since commencement of operations in November 2012, HZL1's service performance has been good. Ridership of the line is below original forecast although its average weekday patronage has increased to over 300,000 after the recent opening of the Hangzhou East high speed rail station. We have launched initiatives to drive patronage growth.

Railway Businesses Overseas

In the UK, LOROL continued to gain recognition for its excellence in service delivery. The network now extends to 57 stations over 124 km. Ridership in the period was over 63 million, with weekday average exceeding 430,000. LOROL won several awards during the period, including "Golden Whistles Awards" in the areas of Operational Performance and Operational Safety from the Institution of Railway Operators in January 2013, as well as three awards in the annual London Transport Awards in March 2013, namely "London 2012 Transport Teams", "Frontline Employee of the Year" (joint winner) and "Rail Station of the Year" (highly commended). In recognition of LOROL's outstanding performance over the

past five years, Transport for London (“TfL”) has extended our franchise to operate and maintain the London Overground rail services from November 2014 to November 2016.

In Stockholm, MTRS’ services in the capital continued to exceed the contractual requirements. Ridership for the six months was about 166.4 million, with average weekday patronage reaching 1.2 million. The line consists of 100 stations and runs 110 km.

In Melbourne, patronage on MTM held steady. Ridership for the six months was 111.7 million, with average weekday patronage reaching 786,000. The line has 217 stations and runs 390 km. In February 2013, the safety related advertising campaign of MTM won the prestigious “Ad Campaign of the Year” and “Ad of the Year” awards at the AdNews Agency of the Year Awards.

Property Development, Rental and Management Businesses in the Mainland of China

MTR Property Development (Shenzhen) Company Limited is in the process of developing Shenzhen Metro Longhua Line Depot Site Phase 1. The total developable gross floor area of the site is approximately 206,167 square metres. Depending on market conditions, pre-sale can take place by the end of 2014.

We continue actively to pursue other rail plus property opportunities in the Mainland of China. On 5 August 2013, Tianjin TJ-Metro MTR Construction Company Limited, a joint venture company formed by a wholly-owned subsidiary of the Company (49%) and Tianjin Metro (Group) Company Limited (51%) won the bidding for the land use right for a site at Beiyunhe Station on Tianjin Metro Line 6 in Tianjin, at a price of RMB2,075 million. The total developable gross floor area of the site is approximately 278,650 square metres. The joint venture company will develop the site for residential and commercial use.

Revenue from our property rental and property management businesses in the Mainland of China increased by 6.0% to HK\$71 million for the six months of 2013. Our shopping mall in Beijing, Ginza Mall, achieved an occupancy rate of 100% at the end of June 2013.

The Company’s managed gross floor area in the Mainland of China remains unchanged at 233,000 square metres. This comprised AO City Fortune Centre in Beijing, with 22,000 square metres of commercial and 63,000 square metres of residential space, and the North Star Shopping Center and offices in Beijing with 148,000 square metres of commercial space.

Future Growth

The first six months of 2013 saw steady progress on our network expansion projects in Hong Kong, as well as in the Mainland of China.

Growth in Hong Kong

The 3-km West Island Line is an extension of the Island Line. As at 30 June 2013, the project was 74% complete and remains on schedule to open next year.

Civil construction works up to concourse level at all three new stations are complete. Kennedy Town Station was topped out in April 2013. The tunnels are lined and complete, with rail installed in both uptrack and downtrack tunnels. The new trackwork connection to the existing Sheung Wan Station and Island Line is complete. Works trains are now in full operation supporting the installation of services in the tunnels and the stations. Electrical and Mechanical (“E&M”) installation works, to fit out the stations and tunnels, are progressing well. Construction of the station entrances continues.

The 7-km South Island Line (East) will extend MTR services from Admiralty to the Southern District of Hong Kong Island, with a train depot located in Wong Chuk Hang. As at 30 June 2013, the project was 41% complete and is on target to open in 2015.

Excavation at the Admiralty Station extension site is under way to construct the new integrated station for the South Island Line (East) and Shatin to Central Link. A combination of open cut excavation and drill and blast tunnelling methods is being used and, overall, 25% of the excavation has been completed. Drill and blast excavation of the Nam Fung Tunnel is 40% complete to connect to the southern area of Hong Kong Island. The first viaduct section between the Nam Fung portal and Ocean Park Station is complete and noise barrier installation has commenced. The foundations, substructure and concourse levels of Ocean Park and Wong Chuk Hang stations are also complete. At the Wong Chuk Hang Depot, the substructure is 90% complete and superstructure works are well advanced. Structural works for the Aberdeen Channel Bridge have been completed, while tunnel and cavern excavation between Lei Tung and South Horizons stations is 90% complete. Procurement of the railway system E&M contracts has been completed and design works are in progress.

The 2.6-km Kwun Tong Line Extension will extend the Kwun Tong Line from its existing terminus at Yau Ma Tei Station to new stations in Ho Man Tin and Whampoa. As at 30 June 2013, the project was 44% complete and remains on schedule to open in 2015.

Site formation excavation at Ho Man Tin Station passed 80% completion and tunnel excavation between Yau Ma Tei and Whampoa stations was 28% complete by end June 2013. At Whampoa Station, cofferdam piling for both concourses is 90% complete.

The 26-km Express Rail Link, funded by Government, will provide high speed cross-boundary rail services connecting Hong Kong to Shenzhen, Guangzhou and the high speed rail network in the Mainland of China. Served by the West Kowloon Terminus, it is on schedule for completion in 2015. As at 30 June 2013, the project was 41% complete.

At the West Kowloon Terminus, access was given to E&M contractors from March 2013. Diaphragm wall panels for the approach tunnel at West Kowloon Terminus are complete, along with 17% of the Terminus concrete structure. Tunnel breakthrough was achieved at Kwai Chung and the last Tunnel Boring Machine ("TBM") was launched from Mai Po. By end June 2013, 78% of all tunnel and adit excavations had been achieved.

The 17-km Shatin to Central Link, funded by Government, has two sections and ten stations, including six interchange stations linking existing and future railway lines. The first phase is scheduled for completion in 2018 and the second phase in 2020.

During the period, 19 civil and ten E&M works contracts were awarded. Scoping and sequencing for the Hung Hom to Admiralty section is 50% complete. Civil works on the Tai Wai to Hung Hom section commenced and construction of TBM tunnel launching shafts at To Kwa Wan and Diamond Hill is progressing.

The number of railway construction sites underway in Hong Kong rose to about 180, with over 11,400 workers employed daily. Our safety programmes secured more awards, and events such as Safety Week, Worker Health and Well-being Month and a campaign to address heat stress helped raise awareness.

Separately, on our existing MTR network, accessibility to the system was improved with the new integrated entrance at Che Kung Temple Station connecting to the property development, The Riverpark, while construction of the Tsim Sha Tsui Station entrance A1 enhancement works is progressing. The Carnarvon Road Subway project linking Tsim Sha Tsui Station and the K11 Art Mall was authorised in March 2013.

Support for sustainable development of the railway network during the public engagement for RDS-2U was overwhelming. We are ready to collaborate with Government to continue with expansion of the rail network beyond 2020 for the benefit of the travelling public of Hong Kong.

Growth in the Mainland of China and Overseas

In Beijing, BJMTR initialled the Concession Agreement with the Beijing Municipal Government for BJL14 in November 2012. Under the RMB50 billion Public-Private-Partnership project, BJMTR is responsible for provision of E&M systems and rolling stock, as well as operation and maintenance of the line over a term of 30 years. The line runs for 47.3 km and has 37 stations, including ten interchange stations. Phase 1 commenced operation on 5 May 2013, while Phases 2 and 3 are targeted to open in 2014 and 2016 respectively.

The Company submitted a proposal for the construction and operating concession for Shenzhen Metro Line 6 ("SZL6") in April 2013 and we have been selected by the Shenzhen Development and Reform Commission as the potential foreign investor for the project.

In Australia, a consortium of which the Company is a member, was shortlisted to bid for the Operations, Trains and Systems Contract for the Sydney North West Rail Link in May 2013. If successful, this would be our first Public-Private-Partnership project overseas.

In the United Kingdom, we have been shortlisted to tender for both the Essex Thameside and Thameslink franchises. These tenders were suspended as part of an independent review of the UK's entire rail franchising process following a legal challenge relating to another franchise. The Department for Transport has announced that a revised Invitation to Tender for these two franchises will be issued to bidders later in the year. We were also shortlisted to tender for the Crossrail concession by TfL in June 2013.

Financial Review

The Group continued to deliver good financial performance in its recurrent businesses in the first half of 2013. Total revenue in the first half of 2013 increased by 12.0% to HK\$19,214 million. Driven by patronage growth in all services, revenue from Hong Kong transport operations rose by 5.0% to HK\$7,258 million. Revenue from Hong Kong station commercial businesses grew by 29.1% to HK\$2,194 million mainly due to the significant increase in rental rates from licence renewal of the Duty Free Shops at Lo Wu and Hung Hom stations effective on 1 January 2013. Hong Kong property rental and management income also increased by 10.8% to HK\$1,842 million as a result of positive rental reversion and the full-period contribution from PopCorn which opened in late March 2012. Income from other businesses rose significantly, by 88.0% to HK\$895 million, mainly due to the project management fee on the Shatin to Central Link booked on a cost recovery basis commencing in June 2012. Excluding all the project management fees, income from other businesses increased by 55.2%, mainly due to a lower comparative income from Ngong Ping 360 in 2012 as a result of the suspension of cable car services from late January to early April 2012. Outside of Hong Kong, revenue from the railway subsidiaries in Stockholm, Melbourne and Shenzhen, as well as property rental and management in the Mainland of China, increased by 9.7% to HK\$7,025 million, mainly attributable to the increase in income from the operations in Melbourne and Stockholm.

Total operating costs increased by 10.8% to HK\$11,882 million. Expenses relating to Hong Kong transport operations increased by 5.4%, slightly higher than the revenue growth, mainly due to above-inflation increases in the energy tariff rate and Government rent and rate charges, as well as additional maintenance and railway support expenditures for service enhancement under the Listening•Responding programme. Expense growth rates

in our Hong Kong station commercial businesses, Hong Kong property rental and management businesses and Mainland of China and international subsidiaries were below their corresponding revenue growth rates, at 9.6%, 9.4% and 8.4% respectively. As a result of booking the Shatin to Central Link project management on a cost recovery basis, expenses relating to other businesses increased by 74.4%. Excluding these project management costs, expense growth was 10.3%. Project study and business development expenses increased by 55.0% to HK\$155 million, mainly due to expenditure for railway franchise bids in Australia and the United Kingdom.

Operating profit before Hong Kong property development, depreciation, amortisation and variable annual payment ("EBITDA") increased by 14.1% to HK\$7,332 million, with operating margin improving from 37.5% in 2012 to 38.2%. Excluding subsidiaries outside of Hong Kong, EBITDA increased by 12.9% to HK\$6,872 million with a slight decrease in EBITDA margin from 56.6% in 2012 to 56.4%.

Hong Kong property development profit was 15.3% less than the same period last year at HK\$531 million, and was mainly derived from the sale of inventory from The Riverpark, Island Harbourview and Lake Silver, as well as receipt of sharing-in-kind assets at The Riverpark. Depreciation and amortisation increased slightly by 1.7% to HK\$1,641 million, while the variable annual payment increased substantially by 46.5% to HK\$589 million as the relevant revenue derived from KCRC's assets has reached the highest progressive charge rate of 35%. Profit before interest and finance charges was therefore 11.8% better than the same period last year at HK\$5,633 million.

Interest and finance charges increased by 0.7% to HK\$435 million. The increase in value of investment properties since the end of 2012 was HK\$1,907 million as compared to HK\$1,740 million for the same period last year. The share of profits of associates, including Octopus Holdings Limited and its subsidiaries as well as railway associates in the Mainland of China and overseas, decreased by 82.9% to HK\$51 million mainly due to the share of HK\$161 million of loss of HZMTR, as well as the lower profit from Beijing MTR Corporation Limited due to BJL14's pre-operating expenses and one-off adjustments made for BJL4 in 2012. Excluding these, the Group's share of profits of associates increased by 4.3% to HK\$243 million.

After deducting income tax of HK\$900 million and the non-controlling interests' share of profit of HK\$98 million, net profit attributable to shareholders of the Company was HK\$6,158 million, increasing by 6.4% as compared to the same period last year. Earnings per share therefore increased from HK\$1.00 to HK\$1.06. Excluding investment property revaluation, profit from underlying businesses attributable to shareholders increased by 5.1% to HK\$4,251 million, of which HK\$3,804 million, a 8.0% increase over the first half of 2012, was derived from recurrent businesses while HK\$447 million, a 14.7% reduction as compared to the same period last year, was derived from property developments. Earnings per share based on the underlying business profit increased from HK\$0.70 to HK\$0.73. The Board has declared an interim dividend of HK\$0.25 per share.

The Group's balance sheet strengthened further with net assets increasing by 2.4% from HK\$143,111 million as at 31 December 2012 to HK\$146,583 million as at 30 June 2013. Total assets increased by 0.5% to HK\$207,796 million as a result of the investment property revaluation gain, capitalisation of further construction of the South Island Line (East) and Kwun Tong Line Extension, as well as property development costs incurred for the Ho Man Tin and Wong Chuk Hang sites. These asset additions were partly offset by the decrease in cash balance, reductions in properties held for sale due to the sale of units in inventory and settlement of accounts receivable on property developments under debtors, deposits and payments in advance. Total liabilities decreased by 3.7% to HK\$61,213 million mainly due to the settlement of the land cost for the Shenzhen Metro Longhua Line Depot Site and the utilisation of the Government subsidy for the construction of the West Island Line under creditors and accrued charges. Total loan outstanding decreased from HK\$23,577 million

as at 31 December 2012 to HK\$23,231 million as at 30 June 2013. With the decrease in cash balance, the net debt-to-equity ratio increased from 11.0% as at 31 December 2012 to 11.6% as at 30 June 2013.

The Group continued to maintain a strong cash position during the first half of 2013. Excluding working capital movement, net cash inflow generated from operating activities increased by 14.3%, similar to the EBITDA growth, to HK\$7,369 million. Including working capital movement, receipt of government subsidy for the Shenzhen Metro Longhua Line operation and tax payment, net cash inflow from operating activities increased only slightly by 1.0% to HK\$8,056 million due to additional rental deposits collected in 2012 for the renewed Duty Free Shops licence. Cash received from property developments was HK\$2,422 million, mainly from the sale of units and reimbursement of land premium in respect of The Riverpark. Including dividends and loan repayment received from associates, net cash receipt in relation to the Shatin to Central Link entrustment works and other miscellaneous cash receipts, total cash inflow in the period was HK\$10,588 million. Total capital expenditure paid was HK\$7,652 million, comprising HK\$3,857 million for the construction of new railway extensions, HK\$1,400 million for asset additions of existing operations and HK\$2,395 million for property renovation and developments, which included RMB1,577 million in relation to the settlement of land cost for the Shenzhen Metro Longhua Line Depot Site. Including variable annual payment of HK\$883 million, net interest payment of HK\$288 million and dividend payment of HK\$3,209 million, total cash outflow in the period was HK\$12,032 million. As a result, the Group recorded a net cash outflow of HK\$1,444 million before financing activities. Including a net loan repayment of HK\$106 million, the Group's cash balance decreased by HK\$1,550 million to HK\$17,059 million.

Financing Activities

After hitting historical lows in 2012, US Treasury yields remained subdued in 2013 until the beginning of May when concerns over the tapering of the Federal Reserve's bond buying programme saw 10-year and 30-year yields rise from lows of 1.63% per annum and 2.82% per annum respectively to 2.49% per annum and 3.50% per annum on 30 June. With the rise in levels and volatility in Treasury yields, US dollar bond issuance activities significantly slowed in June. Short-term interest rates, however, were lower compared with the same period last year with the average 3-month USD-LIBOR and 3-month HKD-HIBOR falling to around 0.28% per annum and 0.38% per annum.

The Group took advantage of the near-historical low Treasury yields and HK dollar interest rates to issue two tranches of 30-year Hong Kong dollar fixed rate notes totalling HK\$700 million with a coupon rate of 3.25% per annum and a 30-year US dollar fixed rate note for US\$90 million with a coupon rate of 3.65% per annum. Totalling about HK\$1,400 million, these notes further lengthened the debt maturity profile and helped lock in attractive fixed rate long-term funding for the Group.

Despite continued economic uncertainties and regulatory issues, bank liquidity and appetite to lend improved significantly during the period. Loan pricing has dropped significantly from the highs in mid-2012 and banks were willing to lengthen maturity. As a strategy to diversify its funding sources, the Group arranged, on a bilateral basis, HK\$2,300 million of revolving term loan facilities during the first half of 2013, with 5 and 7-year maturities.

The liquidity position of the Group remained strong. At the end of June 2013, the Group had total cash and bank deposits balance of HK\$17,060 million, as well as total undrawn committed banking facilities of HK\$7,003 million, which will provide sufficient forward coverage of our funding needs well into the first half of 2014.

The Group's debt portfolio was prudently managed and remains well diversified in accordance with the Preferred Financing Model. At the end of June 2013, 31.1% of the Group's total debt outstanding had maturity of within 2 years, 32.3% between 2 and 5 years, and 36.6% beyond 5 years, with acceptable refinancing risk. Foreign exchange rate risk was well managed, with 97% of debt outstanding in HK dollars, hedged into HK dollars, or hedged by foreign currency cash flows from underlying businesses. Approximately 60.6% of debt outstanding was in fixed rate, indicating a moderate exposure to interest rate risk.

During the first half of 2013, the Group's weighted average borrowing cost increased slightly to 3.5% per annum from 3.3% per annum during the same period last year, mainly due to a higher level of fixed rate debt.

Human Resources

The Company, together with its controlled subsidiaries, employed 15,767 people in Hong Kong and 6,933 outside of Hong Kong as at 30 June 2013.

To meet the Company's manpower needs for business expansion and succession planning, we continued our efforts in staff recruitment and development. During the first six months of 2013, a total of 1,036 new hires were made, and 654 people were promoted internally. Different resourcing channels were used and various development schemes designed for graduate trainees, functional associates and apprentices are in place to attract and develop talent. Staff turnover remained low at 4.1%.

The Company was selected as the "Most Attractive Employer", according to a survey conducted in Hong Kong by the Randstad Group, one of the world's largest human resources service firms. The results echoed the findings of our 2012 Staff Attitude Survey, conducted in October last year, in which 88% of our staff agreed that they were proud to be a staff member of MTR, while 81% agreed that MTR was a good employer.

New batches of talent were identified under the Executive Associate Scheme and People Development Initiative for further development along the Integrated Leadership Pipeline. The Executive Continuous Learning Programme kept Executive Managers and Senior Managers abreast of the latest business best practices and management insights. Our first "Leaders Forum" was held in April 2013, with CEO-level executives from multinational companies in different industries sharing their insights.

Our long-standing programmes to promote MTR's culture of excellence, learning and caring continued. Under the Academy of Excellent Service, we established an "AES Channel", a "TV" channel broadcasting videos of service tips in stations. A mobile learning app called "ESpedia" is also in place to provide handy service-related information to staff.

More than 2,200 sessions of the "Enhanced Staff Communication Programme" were organised in the first half of 2013, with over 30,000 participants, to strengthen two-way communication between line managers and frontline staff. Forums for Executive Managers and CEO audio messages sent to their mobile phones were developed as new channels to enhance communication and interaction with senior management.

"Work Improvement Team" ("WIT") training to encourage collective innovation and continuous improvement continued. The WIT culture was further instilled in the Mainland of China with the formation of the Beijing WIT Steering Committee.

During the first six months of 2013, 3,075 courses were delivered providing 3.1 training days per Hong Kong employee. The Company's efforts in training and development

gained recognition globally, winning three awards in the American Society for Training and Development (ASTD) Award.

Community Engagement

The Company's commitment to corporate responsibility saw 93 community projects under the "More Time Reaching Community" Scheme take place during the first six months of the year involving over 2,100 volunteers. MTR has been a supporter of the Hong Kong Athletes Career & Education Programme which aims to give retired athletes job opportunities as well as life skills training.

With regard to our new railway projects under construction in Hong Kong, we continue to listen and respond to the opinions of the community through various channels. During the course of our construction works, we have maintained relationships with the community through numerous charity, environmental and volunteering activities, and have aimed to minimise disruption to traffic, pedestrians and residents. Of note was a charity fund raising event organised by the Company at the site of the decommissioned explosive storage magazine for the West Island Line project. Some 400 donors enjoyed the evening of wine and music, which raised HK\$1.24 million for The Community Chest to enhance its services to the needy.

Outlook

Uncertainties continue to hang over the global economy, and there have been signs of a slow-down in the economy of the Mainland of China in recent months from its outstanding growth in past years.

All of our recurrent businesses in and outside Hong Kong remain robust. However, these may, to some extent, be affected by changes in the global economy. Our businesses outside of Hong Kong should increase revenue further as these franchises mature and we will continue to pursue new opportunities as they arise.

As mentioned before, based on the existing construction programme, we do not expect booking of development profits from property projects under development in the second half of this year, but may have profit contribution from the sale of inventory units.

Looking forward, we expect the next projects for pre-sale will be The Austin (Austin Station Site C) and LOHAS Park Package 3, depending on market conditions.

In our property tendering activities, depending on market conditions, we may tender the development sites at Tai Wai Station, Tin Shui Wai Light Rail and LOHAS Park Package 4.

Finally, I would like to thank my fellow Board Members and all my MTR colleagues for their contributions during the past six months, which have set us on the right track for the full year. I welcome two new members of the Executive Committee, Mr Stephen Law, who joined us as our Finance Director on 2 July 2013, and also Ms May Wong, who was appointed as General Manager – Corporate Relations on 10 January, upon the retirement of Mrs Miranda Leung.

By Order of the Board
Jay H Walder
Chief Executive Officer

Hong Kong, 26 August 2013

The interim financial information set out above does not constitute the Group's interim consolidated accounts for the half year ended 30 June 2013, but is derived and represents an extract from those interim consolidated accounts.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 September 2013 to 16 September 2013 (both dates inclusive). During that period, no transfer of shares can be registered. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration no later than 4:30 p.m. on 9 September 2013. The 2013 interim dividend is expected to be paid, in cash in Hong Kong dollars, on or about 27 September 2013 to shareholders whose names appear on the Register of Members of the Company as at the close of business on 16 September 2013.

As at the date of this announcement:

Members of the Board: Dr. Raymond Ch'ien Kuo-fung (*Chairman*)**, Jay Herbert Walder (*Chief Executive Officer*), Pamela Chan Wong Shui*, Dr. Dorothy Chan Yuen Tak-fai*, Vincent Cheng Hoi-chuen*, Christine Fang Meng-sang*, Edward Ho Sing-tin*, Professor Frederick Ma Si-hang*, Alasdair George Morrison*, Ng Leung-sing*, Abraham Shek Lai-him*, T. Brian Stevenson*, Professor Chan Ka-keung, Ceajer (Secretary for Financial Services and the Treasury)**, Secretary for Transport and Housing (Professor Anthony Cheung Bing-leung)** and Commissioner for Transport (Ingrid Yeung Ho Poi-yan)**

Members of the Executive Directorate: Jay Herbert Walder, Lincoln Leong Kwok-kuen, Morris Cheung Siu-wa, Chew Tai Chong, Jacob Kam Chak-pui, Stephen Law Cheuk-kin, Gillian Elizabeth Meller, 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.